Company Registered No: SC044073

KUC PROPERTIES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2011

Group Secretariat
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh
EH12 1HQ

KUC PROPERTIES LIMITED SC044073

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I F Nicol J M Rowney B I M Turnbull
SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	24/25 St Andrew Square Edinburgh EH2 1AF
AUDITOR:	Deloitte LLP London

Registered in Scotland.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2011.

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the company continues to be the assessment and execution of opportunities to acquire, develop and dispose of properties and investments.

The company is a subsidiary of The Royal Bank of Scotland Group plc which provides the company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at rbs.com.

Review of the year

Business review

The directors are satisfied with the company's performance in the year. The company will be guided by its shareholders in seeking further opportunities for growth. Post balance sheet events are described in note 29 to the financial statements.

Financial performance

The company's financial performance is presented in the statement of comprehensive income.

Revenue fell by £1,599,943 (2010: rose by £1,697,141) and after cost of sales of £nil (2010: £1,483,860) the gross profit for the year was £4,254,217 (2010: £4,370,300). The loss for the year was £2,725,303 (2010: £2,738,631) due mainly to the fair value losses of £1,992,370 (2010: £3,148,670) and impairments of £4,596,594 (2010: £5,067,267).

No dividend was paid during the year (2010: £nil) and no dividend in respect of 2011 is proposed (2010: £nil).

At the end of the year, the balance sheet showed total assets of £96,926,767 (2010: £105,906,512), including income-generating assets comprising investment property of £46,558,001 (2010: £46,738,001) representing a decrease of 0.4% and development property of £5,523,408 (2010: £5,523,408).

Principal risks and uncertainties

The company is funded by facilities from The Royal Bank of Scotland plc.

The company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 24 to these financial statements.

In addition the key sources of estimation uncertainty are set out in note 2.

DIRECTORS' REPORT (continued)

Review of the year (continued)

Going concern

The directors, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2.

From 1 January 2011 to date the following changes have taken place:

	Appointed	Resigned
Directors		
A Buchan		23 March 2011
S C Sanders		23 March 2011
I F Nicol	31 March 2011	
Secretary		
R E Fletcher		27 April 2012
RBS Secretarial Services Limited	27 April 2012	

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors at the date of approval of this report confirms that:

- so far as they are aware there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company follows the policy and practice on payment of trade creditors determined by The Royal Bank of Scotland Group plc, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor.

Approved by the Board of Directors and signed on behalf of the Board

Ian Nicol

I F Nicol
Director
Date: 27 September 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KUC PROPERTIES LIMITED

We have audited the financial statements of KUC Properties Limited ('the company') for the year ended 31 December 2011 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KUC PROPERTIES LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Russell Davis

Russell Davis FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
28 September 2012

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Notes	2011	2010
Continuing operations		£	£
Revenue	3	4,254,217	5,854,160
Cost of sales		-	(1,483,860)
Gross profit		4,254,217	4,370,300
Fair value losses		(1,992,370)	(3,148,670)
Other operating income	4	2,520,327	3,024,033
Impairment losses	5	(4,596,594)	(5,067,267)
Administrative expenses	6	(1,545,329)	(1,247,936)
Operating loss		(1,359,749)	(2,069,540)
Interest receivable	7	387,338	282,000
Interest payable	8	(2,805,893)	(1,652,357)
Loss before tax	9	(3,778,304)	(3,439,897)
Tax credit	10	1,053,001	701,266
Loss and total comprehensive loss for the year		(2,725,303)	(2,738,631)

The accompanying notes form an integral part of these financial statements.

KUC PROPERTIES LIMITED **SC044073**

BALANCE SHEET
as at 31 December 2011

	Notes	2011 £	2010 £
Non-current assets			
Investment property	**12**	46,558,001	46,738,001
Investments in group undertakings and joint ventures	**13**	1,500,692	2,500,740
Loans and advances	**14**	4,790,316	5,530,808
		52,849,009	54,769,549
Current assets			
Development property	**15**	5,523,408	5,523,408
Trade and other receivables	**16**	483,927	178,078
Amounts due from group undertakings	**17**	9,462,861	9,949,272
Loans and advances	**14**	5,712,976	12,391,113
Prepayments, accrued income and other assets	**18**	6,918,131	6,740,402
Cash	**19**	15,976,455	16,354,690
		44,077,758	51,136,963
Total assets		96,926,767	105,906,512
Current liabilities			
Trade and other payables	**20**	-	1,071,427
Amounts due to group undertakings	**21**	5,261,437	17,381,653
Accruals, deferred income and other liabilities	**22**	13,139,562	13,533,136
Overdrafts		18,350,780	19,448,858
		36,751,779	51,435,074
Non-current liabilities			
Amounts due to group undertakings	**21**	36,412,878	41,160,928
Deferred tax liability	**23**	-	5,661
		36,412,878	41,166,589
Total liabilities		73,164,657	92,601,663
Equity			
Share capital	**25**	200	200
Retained earnings		23,761,910	13,304,649
Total equity		23,762,110	13,304,849
Total liabilities and equity		96,926,767	105,906,512

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 September 2012 and signed on its behalf by:

I F Nicol
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Share capital £	Retained earnings £	Total £
At 1 January 2010	200	10,042,194	10,042,394
Loss for the year	-	(2,738,631)	(2,738,631)
Capital contribution	-	6,001,086	6,001,086
At 31 December 2010	200	13,304,649	13,304,849
Loss for the year	-	(2,725,303)	(2,725,303)
Capital contribution	-	13,182,564	13,182,564
At 31 December 2011	200	23,761,910	23,762,110

Total comprehensive loss for the year of £2,725,303 (2010: £2,738,631) was wholly attributable to the owners of the company.

The capital contributions arose from intercompany loans that were waived.

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2011

	Notes	2011	2010
		£	£
Operating activities			
Loss before taxation		(3,778,304)	(3,439,897)
Adjustments for:			
Fair value losses		1,992,370	3,148,670
Profit on disposal of investments	4	(3,442)	(1,927,867)
Loss on disposal of investment property	4	10,605	-
Impairment losses	5	4,596,594	5,067,267
Dividend income from investments	4	(1,959,000)	(751,500)
Interest receivable	7	(387,338)	(282,000)
Interest payable	8	2,805,893	1,652,357
Operating cash flows before movements in working capital		3,277,378	3,467,030
Decrease in development property		-	1,461,000
Increase in trade and other receivables		(305,849)	(73,751)
Decrease/(increase) in amounts due from group undertakings		486,411	(269,877)
Decrease in loans and advances		3,824,318	4,352,992
Decrease/(increase) in prepayments, accrued income and other assets		595,638	(4,366,919)
Decrease in trade and other payables		(1,071,427)	(827,197)
Decrease in amounts due to group undertakings		(16,868,266)	(31,689,483)
(Decrease)/increase in accruals, deferred income and other liabilities		(2,416,041)	4,169,414
Net cash used in operating activities before tax		(12,477,838)	(23,776,791)
Tax received		273,973	2,617,693
Net cash used in operating activities		(12,203,865)	(21,159,098)
Cash flows from investing activities			
Proceeds from disposal of investment property		169,395	-
Proceeds from disposal of investments		4,234	1,928,374
Investment in group undertakings and joint ventures	13	(3,027)	(62,377)
Dividends received		1,959,000	751,500
Net cash flows from investing activities		2,129,602	2,617,497
Cash flows from financing activities			
Capital contribution		13,182,564	6,001,086
Interest received		387,338	282,000
Interest paid		(2,775,796)	(1,603,078)
Net cash flows from financing activities		10,794,106	4,680,008
Net increase/(decrease) in cash and cash equivalents		719,843	(13,861,593)
Cash and cash equivalents at beginning of year		(3,094,168)	10,767,425
Cash and cash equivalents at end of year	19	(2,374,325)	(3,094,168)

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of accounts

The accounts are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

The accounts are prepared on the historical cost basis except as noted in the following accounting policies.

The company's financial statements are presented in sterling which is the functional currency of the company.

The company is incorporated in Great Britain and registered in Scotland. The company's accounts are presented in accordance with the Companies Act 2006.

Adoption of new and revised standards

There are a number of changes to IFRS that were effective from 1 January 2011. They have had no material effect on the company's financial statements for the year ended 31 December 2011.

b) Consolidated financial statements

The financial statements contain information about KUC Properties Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under IAS 27 Consolidated and Separate Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland.

c) Revenue recognition

Revenue, arising in the UK from continuing activities, is measured at the fair value of the consideration received or receivable and represents amounts receivable from rentals earned and development properties sold in the normal course of business, net of discounts, VAT and other sales-related taxes. Sale of development properties are recognised when legal title has passed to the purchaser.

Rental income, excluding charges for services such as insurance and maintenance, is recognised on a straight-line basis over the lease term even if the payments are not made on that basis, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished or unless there is significant doubt that it can be collected. Lease incentives granted are recognised as an integral part of the total rental income.

Gains and losses on realisation of investments are recognised in profit or loss on the date of disposal.

Dividend income is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

d) Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

e) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

f) Investment property

Investment property comprises freehold and leasehold properties that are held to earn rentals or for capital appreciation or both. It is not depreciated but is stated at fair value based on current prices for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in profit or loss.

g) Investments

Investments in group undertakings, joint ventures and other investments are stated at cost less any impairment.

h) Impairment of investments

The company assesses at each balance sheet date whether its equity investments are impaired. A primary indicator of impairment of the equity investments is the inability of the joint ventures and subsidiaries to generate cash flow for repayment of the loans granted to them by the company. The method by which the recoverable amount is ascertained is fair value less costs to sell.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

i) Development property

Development property is stated at the lower of cost and net realisable value. Cost comprises direct cost of land and buildings, materials and where applicable direct labour and those overheads that have been incurred in bringing the development properties to their present location and condition. Cost is calculated at the actual amount paid or accrued. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling. The properties are available-for-sale or to be developed.

j) Impairment of development property

At each reporting date, the company assesses whether there is any indication that its development property is impaired. If any such indication exists, the company estimates the recoverable amount of the asset and the impairment loss if any.

k) Provisions

The company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

l) Financial assets

On initial recognition, financial assets are classified into held-to-maturity investments; held-for-trading; designated as at fair value through profit or loss; loans and receivables; or available-for-sale financial assets.

Loans and receivables

Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

All financial assets are classified as loans and receivables unless otherwise indicated.

m) Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

n) Financial liabilities

On initial recognition financial liabilities are classified into held-for-trading; designated as at fair value through profit or loss; or amortised cost.

Amortised cost

Other than derivatives, which are recognised and measured at fair value, all financial liabilities are measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

o) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

p) Accounting developments

The IASB issued IFRS 9 'Financial Instruments' in November 2009 simplifying the classification and measurement requirements in IAS 39 in respect of financial assets. The standard reduces the measurement categories for financial assets to two: fair value and amortised cost. A financial asset is classified on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. Only assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on principal and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost. All other financial assets are measured at fair value. Changes in the value of financial assets measured at fair value are generally taken to profit or loss.

In October 2010, IFRS 9 was updated to include requirements in respect of the classification and measurement of liabilities. These do not differ markedly from those in IAS 39 except for the treatment of changes in the fair value of financial liabilities that are designated as at fair value through profit or loss attributable to own credit; these must be presented in other comprehensive income.

In December 2010, the IASB issued amendments to IFRS 9 and to IFRS 7 'Financial Instruments: Disclosures' delaying the effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 and introducing revised transitional arrangements including additional transition disclosures. If an entity implements IFRS 9 in 2012 the amendments permit it either to restate comparative periods or to provide the additional disclosures. The additional transition disclosures must be given if implementation takes place after 2012.

IFRS 9 makes major changes to the framework for the classification and measurement of financial instruments and will have a significant effect on the company's financial statements. The company is assessing the effect of IFRS 9 which will depend on the outcome of the other phases of the IASB's IAS 39 replacement project and on the outcome the IASB's tentative decision at its December 2011 meeting to reconsider the following topics:

- additional application guidance to clarify how the instrument characteristics test was intended to be applied.
- bifurcation of financial assets, after considering any additional guidance for the instrument characteristics test.
- expanded use of other comprehensive income or a third business model for some debt instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

p) Accounting developments

In May 2011, the IASB issued six new or revised standards:

IFRS 10 'Consolidated Financial Statements' which replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 'Separate Financial Statements' which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 'Joint Arrangements', which supersedes IAS 31' Interests in Joint Ventures', distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 'Investments in Associates and Joint Ventures' covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 'Disclosure of Interests in Other Entities' covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 'Fair Value Measurement' which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

The standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The company is reviewing the standards to determine their effect on the company's financial reporting.

No other recent IASB announcement is expected to have a material effect on the company's accounting policies or financial statements.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the company's Financial Statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Critical accounting policies and key sources of estimation uncertainty (continued)

The judgements and assumptions involved in the company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

Investment property

Investment property is stated at fair value on the balance sheet based on valuations by an independent registered valuer or by appropriately qualified staff who hold recognised professional qualifications and have recent post-qualification experience in the location and category of the properties concerned. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Development property

The recoverable amount of development property, which is not yet subject to a customer contract, depends on the assessment of the market value on completion of the development.

Loan impairment provisions

The company's loan impairment provisions are established to recognise incurred impairment losses in amounts due from joint ventures and other investments carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

3. Revenue

	2011	2010
	£	£
Rental income	4,254,217	4,393,160
Sale of development property	-	1,461,000
	4,254,217	5,854,160

4. Other operating income

	2011	2010
	£	£
Dividend income from group undertakings and joint ventures	1,959,000	751,500
Profit on disposal of investments in group undertakings and joint ventures	3,442	1,927,867
Loss on disposal of investment property	(10,605)	-
Management fees receivable	568,490	344,666
	2,520,327	3,024,033

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Impairment losses

The following impairment losses were charged to income during the year:

	2011	2010
	£	£
Impairment losses on investments (note 13)	991,288	161,150
Impairment losses on loans and advances	3,605,306	4,906,117
	4,596,594	5,067,267

6. Administrative expenses

	2011	2010
	£	£
Legal and professional fees	146,349	151,571
Management charges	313,543	284,800
Rental expenses	314,927	360,755
Property management fees	315,705	43,822
Repairs and maintenance	187,020	346,250
Bad and doubtful debts	132,910	109,464
Clawback credits	-	(254,896)
Other	134,875	206,170
	1,545,329	1,247,936

Management recharge

Management charges relate to the company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by The Royal Bank of Scotland plc ("RBS")

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBS, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The company has no employees and pays a management charge for services provided by other group companies. The directors of the company do not receive remuneration for specific services provided to the company.

7. Interest receivable

	2011	2010
	£	£
Interest receivable from group undertakings	387,306	282,000
Other interest receivable	32	-
	387,338	282,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Interest payable

	2011	2010
	£	£
Interest payable to group undertakings	2,805,893	1,652,357
Other interest payable	-	-
	2,805,893	1,652,357

9. Loss before tax

Loss before tax is stated after charging:

	2011	2010
	£	£
Auditor's remuneration – audit services	15,000	-

In the previous year audit fees and non audit fees are charged as a group service to the Royal Bank of Scotland plc without specific allocation to the company.

10. Tax

	2011	2010
	£	£
Current taxation:		
UK corporation tax credit for the year	(890,896)	(192,291)
(Over)/under provision in respect of prior periods	(156,444)	78,432
	(1,047,340)	(113,859)
Deferred taxation:		
Credit for the year	(5,661)	(585,321)
Over provision in respect of prior periods	-	(2,086)
	(5,661)	(587,407)
Tax credit for the year	(1,053,001)	(701,266)

Where appropriate current tax consists of sums payable or receivable for group relief.

The actual tax credit differs from the expected tax credit computed by applying the blended rate of UK corporation tax of 26.5% (2010: standard tax rate 28%) as follows:

	2011	2010
	£	£
Expected tax credit	(1,001,249)	(963,171)
Other non-deductible items	629,488	1,017,258
Non-taxable items	(524,796)	(831,488)
Reduction in deferred tax following change in rate of UK corporation tax	-	(211)
Adjustments in respect of prior periods		76,346
Actual tax credit for the year	(1,053,001)	(701,266)

The changes to tax rates and capital allowances proposed in the Budgets on 22 June 2010, 23 March 2011 and 21 March 2012 are not expected to have a material effect on the company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Operating lease arrangements

At the balance sheet date, the company had contracted with customers for the following future minimum lease rentals payable under non-cancellable operating leases:

	Within 1 year £	Between 1 and 5 years £	After 5 years £	Total £
2011	3,803,239	3,924,415	2,906,119	10,633,733
2010	4,047,686	8,388,743	3,623,010	16,059,439

Nature of operating lease assets in the balance sheet:	**2011** £	2010 £
Investment property	46,558,001	46,738,001
Development property	5,523,408	5,523,408
	52,081,409	52,261,409

Amounts recognised as income and expense	**2011** £	2010 £
Company as lessor		
Operating lease rentals received	4,153,292	4,393,160

12. Investment property

	2011 £	2010 £
At 1 January	46,738,001	51,432,001
Change in fair value	-	(4,694,000)
Disposals	(180,000)	-
At 31 December	46,558,001	46,738,001

The investment properties have been valued at 31 December 2011 by an independent registered valuer or by appropriately qualified staff who hold recognised professional qualifications and have recent post-qualification experience in the location and category of the properties concerned. The directors confirm the value of the properties shown in the accounts approximates to the open market value of the properties. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Investment property has been pledged as security for the liabilities of the company. At the balance sheet date there was no contractual obligation to sell any of the properties.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Investments

	2011	2010
	£	£
Investments in group undertakings	100	151
Investments in joint ventures	292,283	1,292,280
Other investments	1,208,309	1,208,309
	1,500,692	2,500,740

Group undertakings

Investments in group undertakings are carried at cost less impairment. Movements during the year were as follows:

	2011	2010
	£	£
At 1 January	151	152
Disposals	(51)	(1)
At 31 December	100	151

The subsidiary undertakings of the company are shown below:

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Property Ventures (B&M) Limited	Scotland	100	100	Holding company

Joint ventures

Investments in joint ventures are carried at cost less impairment. Movements during the year were as follows:

	2011	2010
	£	£
At 1 January	1,292,280	2,964,812
Additions	3,027	62,377
Disposals	(11,736)	(365,450)
Impairments	(991,288)	(161,150)
Transfers to other investments	-	(1,208,309)
At 31 December	292,283	1,292,280

Other investments

Other investments in group undertakings are carried at cost less impairment and not at fair value (see note 24). Movements during the year were as follows:

	2011	2010
	£	£
At 1 January	1,208,309	-
Transfers from investments in joint ventures	-	1,208,309
At 31 December	1,208,309	1,208,309

Other investments represent investments in companies previously held as joint ventures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Loans and advances

	2011	2010
	£	£
Non-current	4,790,316	5,530,808
Current	5,712,976	12,391,113
	10,503,292	17,921,921

During the year the carrying value of loans and advances was impaired by £3,605,306 (2010: £4,906,117). (Note 5)
The average effective interest rate over these amounts ranges from 0% to 5.5% (2010: 0% to 5.5%).

15. Development property

	2011	2010
	£	£
At 1 January	5,523,408	6,984,408
Disposals	-	(1,461,000)
At 31 December	5,523,408	5,523,408

16. Trade and other receivables

	2011	2010
	£	£
Trade receivables	483,927	178,078

17. Amounts due from group undertakings

	2011	2010
	£	£
The Royal Bank of Scotland plc	9,000,000	9,000,000
Fellow subsidiaries	462,861	949,272
	9,462,861	9,949,272

The average effective interest rate over these amounts approximates 0.8 % (2010: 0.7%).

18. Prepayments, accrued income and other assets

	2011	2010
	£	£
Prepayments	-	85,875
Accrued income	316,104	633,029
Group relief receivable	890,464	117,097
Property management receivables	5,711,563	5,904,401
	6,918,131	6,740,402

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Cash and cash equivalents

	2011	2010
	£	£
Cash	15,976,455	16,354,690
Overdrafts:		
Amounts owed to group banks	(18,350,780)	(19,448,858)
Cash and cash equivalents per cash flow statement	(2,374,325)	(3,094,168)

20. Trade and other payables

	2011	2010
	£	£
Trade payables	-	1,071,427

21. Amounts due to group undertakings

	2011	2010
	£	£
The Royal Bank of Scotland plc	41,674,315	58,542,581
Amounts falling due within one year	5,261,437	17,381,653
Amounts falling due after more than one year	36,412,878	41,160,928
	41,674,315	58,542,581

The company's purchase of investment property is funded by three fixed rate loans and other variable rate loans. Two fixed rate loans of £22,400,000 and £2,000,000 are both repayable on 30 April 2013, and a fixed rate loan of £9,000,000 is repayable on 5 January 2020. Interest on the £22,400,000 loan was 7.93% during the year (2010: 7.21%) and on the £2,000,000 loan interest was 9.83% (2010: 9.26%). Interest on the fixed rate loan of £9,000,000 was 5.57% (2010: 5.57%).

The average effective interest rate over the remaining loans ranges from LIBOR to LIBOR + 5% (2010: LIBOR to LIBOR + 5%).

22. Accruals, deferred income and other liabilities

	2011	2010
	£	£
Accruals	486,043	442,018
Deferred income	994,833	549,106
Value added tax	73,088	522,007
Property management payables	10,862,105	9,342,054
Other liabilities	723,493	2,677,951
	13,139,562	13,533,136

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Deferred tax

The following are the major tax liabilities recognised by the company, and the movements thereon:

	Total
	£
At 1 January 2010	593,068
Credit to income	(587,407)
At 31 December 2010	5,661
Credit to income	(5,661)
At 31 December 2011	-

24. Financial instruments and risk management

i) Categories of financial instrument

The following tables analyse the company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement". Assets and liabilities outside the scope of IAS 39 are shown separately.

2011	Loans and receivables	Available-for-sale investments	Non financial assets/ liabilities	Total
	£	£	£	£
Assets				
Investment property	-	-	46,558,001	46,558,001
Investments	-	1,208,309	292,383	1,500,692
Loans and advances	10,503,292	-	-	10,503,292
Development property	-	-	5,523,408	5,523,408
Trade and other receivables	483,927	-	-	483,927
Amounts due from group undertakings	9,462,861	-	-	9,462,861
Prepayments, accrued income and other assets	-	-	6,918,131	6,918,131
Cash	15,976,455	-	-	15,976,455
	36,426,535	1,208,309	59,291,923	96,926,767

	Amortised cost	Non financial assets/ liabilities	Total
	£	£	£
Liabilities			
Amounts due to group undertakings	41,674,315	-	41,674,315
Deferred tax liability	-	-	-
Accruals, deferred income and other liabilities	-	13,139,562	13,139,562
Overdrafts	18,350,780	-	18,350,780
	60,025,095	13,139,562	73,164,657
Equity			23,762,110
			96,926,767

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 Financial instruments and risk management (continued)

i) Categories of financial instrument (continued)

2010	Loans and receivables	Available-for-sale investments	Non financial assets/ liabilities	Total
	£	£	£	£
Assets				
Investment property	-	-	46,738,001	46,738,001
Investments	-	1,208,309	1,292,431	2,500,740
Loans and advances	·17,921,921	-	-	17,921,921
Development property	-	-	5,523,408	5,523,408
Trade and other receivables	178,078	-	-	178,078
Amounts due from group undertakings	9,949,272	-	-	9,949,272
Prepayments, accrued income and other assets	-	-	6,740,402	6,740,402
Cash	16,354,690	-	-	16,354,690
	44,403,961	1,208,309	60,294,242	105,906,512

	Amortised cost	Non financial assets/ liabilities	Total
	£	£	£
Liabilities			
Amounts due to group undertakings	58,542,581	-	58,542,581
Deferred tax liability	-	5,661	5,661
Trade and other payables	1,071,427	-	1,071,427
Accruals, deferred income and other liabilities	1,959,121	11,574,015	13,533,136
Overdrafts	19,448,858	-	19,448,858
	81,021,987	11,579,676	92,601,663
Equity			13,304,849
			105,906,512

Fair value

The fair value has not been disclosed for available-for-sale investments because their fair value cannot be measured reliably as there is no quoted market price in an active market. There is no current intention to dispose of these financial instruments.

The fair value of other financial instruments that are not carried at fair value on the balance sheet is considered not to be materially different to the carrying amounts.

Financial liabilities

The company's intra-group liabilities may in certain circumstances become repayable on demand pursuant to the terms of the capital support deed (see note 27 commitments and contingent liabilities).

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments and risk management (continued)

ii) Financial risk management

The principal risks associated with the company are as follows:

Interest rate risk

Interest rate risk arises where assets and liabilities have different re-pricing maturities.

The financial assets of the company are funded primarily through balances owed to group undertakings. The re-pricing maturity profile of the financial assets of the company may be different to that of the associated borrowings and hence give potential exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the company's loss before tax for the year would have increased by £175,243 (2010: loss before tax for the year would have increased by £263,184). This is mainly due to the company's exposure to interest rates on its variable rate balances. There would be no other impact on equity.

The third party trade payables do not have any significant interest rate risk as the company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc as detailed in the directors' report.

Currency risk

The company has no currency risk as all transactions and balances are denominated in sterling.

Credit risk

The objective of credit risk management is to enable the company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the company.

The key principles of the Group's Credit Risk Management Framework are set out below:

- Approval of all credit exposure is granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return.
- Credit risk authority is dictated by the Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination.
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments and risk management (continued)

ii) Financial risk management (continued)

Credit quality

The following table provides an analysis of the credit quality of third party financial assets and commitments based on the probability of default.

2011	Amounts due on loans and advances £	Trade and other receivables £	Total £
Probability of default			
Less than 0.05%	-	-	-
1.1%-2.2%	6,894,876	-	6,894,876
2.2%-17.2%	4,439,734	-	4,439,734
More than 17.2%	2,627,475	-	2,627,475
Non-accrual	13,765,074	104,327	13,869,403
Impairment	(17,223,867)	(104,327)	(17,328,196)
	10,503,292	-	10,503,292

2010	Amounts due on loans and advances £	Trade and other receivables £	Total £
Probability of default			
Less than 0.05%	-	178,078	178,078
1.1%-2.2%	8,382,229	-	8,382,229
2.2%-17.2%	2,903,106	-	2,903,106
More than 17.2%	19,604,909	-	19,604,909
Non-accrual	13,765,074	104,327	13,869,403
Impairment	(26,733,397)	(104,327)	(26,837,726)
	17,921,921	178,078	18,099,999

Amounts owed on loans and advances of £4,511,226 (2010: £3,665,266) were past due at the balance date. These amounts have not been called but instead the relevant loan facilities have been extended.

Amounts owed on loans and advances of £21,040,177 (2010: £37,663,600) were considered to be impaired at the balance sheet date and an impairment provision is held against them of £17,223,867 (2010: £26,733,397).

Other receivables of £104,327 (2010: £104,327) were considered to be impaired at the balance sheet date and an impairment provision is held against them of £104,327 (2010: £104,327).

NOTES TO THE FINANCIAL STATEMENTS (continued)

24. Financial instruments and risk management (continued)

ii) Financial risk management (continued)

Impairments

The following table shows the movement in the provision for impairment of amounts due on loans and advances.

	2011 £	2010 £
At 1 January	26,733,397	20,994,266
Charge to income	3,605,306	4,906,117
Amounts written off	(13,177,306)	-
Unwind of discount	2,470	873,014
Recoveries of amounts previously written off	-	(40,000)
At 31 December	17,223,867	26,733,397

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities.

The company has no material liquidity risk as it has access to group funding

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The company also maintains contingency facilities to support operations in the event of disasters.

25. Share capital

	2011 £	2010 £
Authorised:		
200 ordinary shares of £1	200	200
Allotted, called up and fully paid:		
Equity shares		
200 ordinary shares of £1		
	200	200

The company has one class of ordinary shares which carry no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. Capital resources

The company's capital consists of equity comprising issued share capital and retained earnings. The company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the company is governed by the group's policy which is to maintain a strong capital base: it is not separately regulated. The group has complied with the FSA's capital requirements throughout the year.

27. Commitments and contingent liabilities

The company, together with other members of the RBSG group, is party to a capital support deed (CSD). Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources) together with any amounts distributed to it by its subsidiaries pursuant to the CSD. The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources.

28. Related parties

UK Government

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the company.

The company enters into transactions with these bodies on an arms' length basis; they include the payment of taxes including UK corporation tax and value added tax.

Group Undertakings

The company's immediate parent company is KUC Holdings Limited, a company incorporated in Great Britain and registered in Scotland. As at 31 December 2011 The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. As at 31 December 2011, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated. Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Related parties (continued)

Net interest receivable/(payable)	**2011**	2010
	£	£
The Royal Bank of Scotland plc	(2,730,647)	(1,567,791)
Joint ventures	51,789	201,996
	(2,678,858)	(1,365,795)

Net amounts receivable/(payable)	2011	2010
	£	£
The Royal Bank of Scotland plc	(35,492,403)	(53,065,280)
Joint ventures	3,673,682	11,735,879
Fellow subsidiaries	462,861	949,278
	(31,355,860)	(40,380,129)

Loans of £13,182,564 (2010: £6,001,086) from The Royal Bank of Scotland plc were waived in the year and recognised as capital contributions.

29. Post balance sheet events

On 29 August 2012 the company disposed of investment property of £32.5m for a total consideration of £40.2m. Associated loans of £25.9m together with other liabilities were settled realising a net gain on disposal of £4.9m.

There have been no other significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.