

Company Registered No: 02392350

PATALEX II PRODUCTIONS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2013

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

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2013

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

**S J Caterer
J E Rogers
R F Warren**

SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

**The Quadrangle
The Promenade
Cheltenham
GL50 1PX**

AUDITOR:

**Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS1 6GD**

Registered in England and Wales

The directors present their report and the audited financial statements for the year ended 30 September 2013

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions available to companies entitled to the small companies exemption

Activity

The principal activity of the Company is to carry on the business of developing, making, producing, distributing, exhibiting (by means now or hereafter becoming known) and otherwise exploiting cinematograph films, video and sound recordings, manufacturing, buying, selling and otherwise dealing in cinematograph films, video recordings and any material on which video or sound recordings can be made and all types of equipment capable of being used in connection with the manufacture or processing of cinematograph films or such material for the production, exhibition or playing of cinematograph films or video or sound recordings

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 RBS Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at www.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 18 to the financial statements.

Financial performance

The retained profit for the year was £591,000 (2012 retained profit £506,000) and this was transferred to reserves. The directors do not recommend payment of a dividend (2012 interim dividend of £1,000,000).

Principal risks and uncertainties

The Company is funded by facilities from Royal Bank Leasing Limited.

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 12 to these financial statements.

The Company seeks to minimise its exposure to external financial risks other than equity and credit risk; further information on financial risk management policies and exposures is disclosed in notes 1 and 12.

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' REPORT (continued)**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 October 2012 to date the following changes have taken place

	Appointed	Resigned
Director		
P D J Sullivan		31 December 2013
Secretary		
RBS Secretarial Services Limited	31 October 2012	
C J Down		31 October 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 strategic report, 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.

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

DIRECTORS' REPORT (continued)

AUDITOR

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

Approved by the Board of Directors and signed on its behalf

A handwritten signature in black ink, appearing to read 'J E Rogers', is written over the printed name.

J E Rogers

Director

Date 28 February 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PATALEX II PRODUCTIONS LIMITED

We have audited the financial statements of Patalex II Productions Limited ('the Company') for the year ended 30 September 2013 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 18. 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 and to identify and information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 30 September 2013 and of its profit 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 PATALEX II
PRODUCTIONS 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, or
- the directors were not entitled to take advantage of the small companies exemption from preparing a Strategic Report or in preparing the Directors' Report

Mark Taylor

Mark Taylor FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Bristol, United Kingdom

Date *3 March 2014*

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2013

Income from continuing operations	Notes	2013 £'000	2012 £'000
Revenue	3	681	747
Operating expenses	4	(8)	(8)
Operating profit		673	739
Finance costs	5	(550)	(606)
Profit before tax		123	133
Tax credit	6	468	373
Profit and total comprehensive income for the year		591	506

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 30 September 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Finance lease receivables	8	13,479	15,495
Current assets			
Finance lease receivables	8	2,606	2,482
Cash		2,572	-
		5,178	2,482
Total assets		18,657	17,977
Liabilities			
Current liabilities			
Borrowings	9	3,975	1,419
Current tax liabilities		341	330
Accruals, deferred income and other liabilities	10	30	32
		4,346	1,781
Non-current liabilities			
Borrowings	9	8,972	10,534
Deferred tax liability	11	3,755	4,669
		12,727	15,203
Total liabilities		17,073	16,984
Equity			
Share capital	13	-	-
Retained earnings		1,584	993
Total equity		1,584	993
Total liabilities and equity		18,657	17,977

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 28 February 2014 and signed on its behalf by


J E Rogers
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2013

	Note	Share capital £'000	Retained earnings £'000	Total £'000
At 1 October 2011		-	1,487	1,487
Profit for the year		-	506	506
Dividends paid	7	-	(1,000)	(1,000)
At 30 September 2012		-	993	993
Profit for the year		-	591	591
At 30 September 2013		-	1,584	1,584

Total comprehensive income for the year of £591,000 (2012 £506,000) was wholly attributable to the owners of the Company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 30 September 2013

	Note	2013 £'000	2012 £'000
Operating activities			
Profit for the year before tax		123	133
Adjustments for:			
Finance costs		550	606
Operating cash flows before movements in working capital		<u>673</u>	<u>739</u>
Decrease in finance lease receivables		1,892	1,702
Increase in accruals, deferred income and other liabilities		-	1
Net cash from operating activities before tax		<u>2,565</u>	<u>2,442</u>
Tax/Group relief paid – immediate parent company		(435)	(426)
Net cash flows from operating activities		<u>2,130</u>	<u>2,016</u>
Cash flows from financing activities			
Proceeds from borrowings – immediate parent company		994	-
Repayment of borrowings – immediate parent company		-	(1,275)
Interest paid to group undertakings – immediate parent company		(552)	(608)
Dividends paid		-	(1,000)
Net cash flows from/(used by) financing activities		<u>442</u>	<u>(2,883)</u>
Net increase/(decrease) in cash and cash equivalents		2,572	(867)
Cash and cash equivalents at beginning of year		-	867
Cash and cash equivalents at end of year	14	<u>2,572</u>	<u>-</u>

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

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

The Company is incorporated in the UK and registered in England and Wales. The Company's accounts are presented in accordance with the Companies Act 2006

Adoption of new and revised standards

Changes to IFRS that were effective from 1 October 2012 have had no material effect on the Company's financial statements for the year ended 30 September 2013

b) Revenue recognition

Revenue comprises income from finance leases and loans and other services and arises in the United Kingdom from continuing activities

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review. If there is a reduction in the estimated unguaranteed residual value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

c) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****c) Taxation (continued)**

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 a 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.

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.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

e) 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

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. 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.

f) 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.

g) 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 other financial liabilities are measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****h) Derecognition**

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition

A financial liability is removed from the balance sheet when the obligation is discharged, cancelled, or expires

i) 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

j) Accounting developments

The following IFRSs and amendments to IFRS have an effective date of 1 January 2013

IFRS 13 'Fair Value Measurement' sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements. Implementation of IFRS 13 will not have a material effect on the Company's financial statements

'Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)' amended IFRS 7 to require disclosures about the effects and potential effects on an entity's financial position of offsetting financial assets and financial liabilities and related arrangements

Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those items that are subject to subsequent reclassification

'Annual Improvements 2009-2011 Cycle' makes a number of minor changes to IFRSs. These will not have a material effect on the Company's financial statements

Effective after 2013

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)'. The amendments add application guidance to IAS 32 to address inconsistencies identified in applying some of the standard's criteria for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after 1 January 2014 and must be applied retrospectively.

The Company is reviewing these amendments to determine their effect on the company's financial reporting.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1. Accounting policies (continued)****j) Accounting developments (continued)**

In November 2009, the IASB issued IFRS 9 'Financial Instruments' 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 2011, 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. 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 results of IASB's reconsideration of IFRS 9's classification and measurement requirements and the outcome of the other phases in the development of IFRS 9.

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. 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.

Leased assets

Judgement is required in the classification of a lease at inception to assess whether substantially all the significant risks and rewards of ownership accrue to the lessor or lessee.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Revenue

	2013 £'000	2012 £'000
Finance lease income		
Rents receivable	2,456	2,339
Amortisation	(1,775)	(1,592)
	<u>681</u>	<u>747</u>

On 13 September 2011, an intermediate parent company assumed responsibility for paying the rents in relation to the film lease, the rents of £2,456,000 (2012 £2,339,000) are included in rents receivable above

The Company did not enter into any new leasing transactions during the year (2012 £nil)

4. Operating expenses

	2013 £'000	2012 £'000
Management fees – immediate parent company	<u>8</u>	<u>8</u>

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by The Royal Bank of Scotland plc, 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.

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 Royal Bank Leasing Limited.

Auditor's remuneration	2013 £'000	2012 £'000
Auditor's remuneration – audit services (included within the management fee shown above)	<u>7</u>	<u>7</u>

5. Finance costs

	2013 £'000	2012 £'000
Interest on loans from group undertakings – immediate parent company	<u>550</u>	<u>606</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax

	2013 £'000	2012 £'000
Current taxation		
UK corporation tax charge for the year	446	431
Deferred taxation		
Credit for the year	(417)	(374)
Impact of tax rate changes	(497)	(430)
	(914)	(804)
Tax credit for the year	(468)	(373)

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

The actual tax credit differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 23.5% (2012 blended tax rate of 25%) as follows

	2013 £'000	2012 £'000
Expected tax charge	29	33
Reduction in deferred tax following change in rate of UK corporation tax	(497)	(406)
Actual tax credit for the year	(468)	(373)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in July 2013 now standing at 21% with effect from 1 April 2014 and 20% from 1 April 2015. The closing deferred tax assets and liabilities have been calculated at 20.3% in accordance with the rates enacted at the balance sheet date.

7. Ordinary dividends

	2013 £'000	2012 £'000
Interim dividend paid	-	1,000

No dividends have been approved or paid since 30 September 2013 to the date of approval of these accounts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2013				
Future minimum lease payments	2,701	12,222	3,447	18,370
Unearned finance income	(95)	(1,500)	(690)	(2,285)
Present value of minimum lease payments receivable	<u>2,606</u>	<u>10,722</u>	<u>2,757</u>	<u>16,085</u>
2012				
Future minimum lease payments	2,572	11,640	6,730	20,942
Unearned finance income	(90)	(1,428)	(1,447)	(2,965)
Present value of minimum lease payments receivable	<u>2,482</u>	<u>10,212</u>	<u>5,283</u>	<u>17,977</u>
			2013 £'000	2012 £'000
Current			2,606	2,482
Non-current			13,479	15,495
			<u>16,085</u>	<u>17,977</u>

The Company has entered into finance leasing arrangements for a large film deal. The term of the finance lease entered into is 17 years (2012: 17 years).

Unguaranteed residual values are estimated at £nil (2012: £nil).

The outstanding balance of finance leases owed by the intermediate parent company is £16,085,000 (2012: £17,977,000).

The average effective interest rate in relation to finance lease agreements approximates 3.8% (2012: 3.8%).

9. Borrowings

	2013 £'000	2012 £'000
Loans from group undertakings – immediate parent company	<u>12,947</u>	11,953
Current	3,975	1,419
Non-current	<u>8,972</u>	10,534
	<u>12,947</u>	<u>11,953</u>

10. Accruals, deferred income and other liabilities

	2013 £'000	2012 £'000
Accruals – immediate parent company	<u>30</u>	32

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Deferred tax

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

	Capital allowances £'000	Other £'000	Total £'000
At 1 October 2011	5,434	39	5,473
Credit to income	(793)	(11)	(804)
At 30 September 2012	4,641	28	4,669
Credit to income	(905)	(9)	(914)
At 30 September 2013	3,736	19	3,755

12. Financial instruments and risk management

(i) Fair value

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate to their fair values. Where the financial instruments are of short maturity, the carrying value is equal to the fair value.

Where the interest rates on the finance lease and the borrowings have been fixed by way of an interest rate swap in the parent company, the fair value has been calculated by adjusting the carrying value by the associated mark to market arising on the swap.

The fair value of loans and receivables is estimated by discounting expected future cash flows using current interest rates and making adjustments for credit.

All financial assets are classed as finance lease receivables or loans and receivables. All financial liabilities are classed as amortised cost.

	2013 Carrying value £'000	2013 Fair value £'000	2012 Carrying value £'000	2012 Fair value £'000
Financial assets				
Finance lease receivables	16,085	17,260	17,977	19,752
Financial liabilities				
Borrowings	12,947	14,101	11,953	13,728

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments and risk management (continued)

(ii) Financial risk management

The principal risks associated with the Company's businesses are as follows

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different re-pricing maturities

The Company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches

The interest profile of the Company's assets and liabilities is as follows

	Fixed rate £'000	Variable rate £'000	Non- interest earning £'000	Total £'000
2013				
Financial assets				
Finance leases	16,085	-	-	16,085
Cash	-	2,572	-	2,572
	<u>16,085</u>	<u>2,572</u>	<u>-</u>	<u>18,657</u>
Financial liabilities				
Borrowings	10,540	2,407	-	12,947
Accruals and other liabilities	-	-	30	30
	<u>10,540</u>	<u>2,407</u>	<u>30</u>	<u>12,977</u>
Net financial assets/(liabilities)	<u>5,545</u>	<u>165</u>	<u>(30)</u>	<u>5,680</u>
	Fixed rate £'000	Variable rate £'000	Non- interest earning £'000	Total £'000
2012				
Financial assets				
Finance leases	17,977	-	-	17,977
Financial liabilities				
Borrowings	11,951	2	-	11,953
Accruals and other liabilities	-	-	32	32
	<u>11,951</u>	<u>2</u>	<u>32</u>	<u>11,985</u>
Net financial assets/(liabilities)	<u>6,026</u>	<u>(2)</u>	<u>(32)</u>	<u>5,992</u>

Assuming that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year, had interest rates been 0.5% higher and all other variables held constant, the Company's profit before tax for the year would have increased by £1,000 (2012 profit before tax for the year would not have been materially affected). This is mainly due to the Company's exposure to interest rates on its variable rate cash and borrowings. There would be no other impact on equity.

Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

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

Maximum credit exposure and neither past due nor impaired

<u>Sector</u>	<u>No of counterparties</u>	2013 £'000	2012 £'000
Group undertakings	1	16,085	17,977
Finance lease receivables		16,085	17,977
Group undertakings		2,572	-
Maximum credit exposure		18,657	17,977

Based on counterparty payment history the Company considers all the above financial assets to be of good credit quality

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities

Management focuses on both overall balance sheet structure and the control, within prudent limits, of risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. It is undertaken within limits and other policy parameters set by Group Asset and Liability Management Committee (GALCO)

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Liquidity risk (continued)

Financial liabilities

The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments

	0 – 3 months £'000	4 – 12 months £'000	1 – 3 years £'000	4 – 5 years £'000	6 – 10 years £'000
2013					
Borrowings	2,529	1,937	4,401	4,809	1,039
Accruals and other liabilities	30	-	-	-	-
	<u>2,559</u>	<u>1,937</u>	<u>4,401</u>	<u>4,809</u>	<u>1,039</u>
2012					
Borrowings	139	1,832	4,210	4,600	3,491
Accruals and other liabilities	32	-	-	-	-
	<u>171</u>	<u>1,832</u>	<u>4,210</u>	<u>4,600</u>	<u>3,491</u>

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 16 - commitments and contingent liabilities)

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.

13. Share capital

	2013 £	2012 £
Authorised		
1,000 Ordinary shares of £1	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
Equity shares		
2 Ordinary shares of £1	<u>2</u>	<u>2</u>

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**14. Cash and cash equivalents per cash flow statement**

	2013 £'000	2012 £'000
Cash held with group undertaking – intermediate parent company	<u>2,572</u>	-

15. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings and loans from group undertakings. 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 Prudential Regulation Authority's capital requirements throughout the year.

16. Commitments and contingent liabilities

The Company, together with other members of the RBS 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). 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.

17. Related parties**UK Government**

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly-owns and as a result, the UK Government and UK Government controlled bodies are 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 Royal Bank Leasing Limited, a company incorporated in the UK. As at 30 September 2013, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from RBS Secretariat, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in the UK. As at 30 September 2013, 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 RBS Secretariat, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS (continued)**17. Related parties (continued)****Group undertakings (continued)**

Amounts due to or from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of amounts owed by related parties.

Key management

The Company is a subsidiary of The Royal Bank of Scotland Group plc whose policy is for companies to bear the costs of their full time staff. The time and costs of executives and other staff who are primarily employed by the group are not specifically recharged. However, the group recharges subsidiaries for management fees which include an allocation of certain staff and administrative support costs.

In the Company and the group, key management comprise directors of the Company and members of the Group Executive Management Committee. The emoluments of the directors of the Company are met by the group.

The directors of the Company do not receive remuneration for specific services provided to the Company.

18. Post balance sheet events

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