Company Registered No: 05039001

PATALEX IV PRODUCTIONS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 November 2013

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2013
of Patalex IV Production Limited ('the Company')

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer N T J Clibbens T D Crome A P Gadsby
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

DIRECTORS' REPORT

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

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

ACTIVITIES AND BUSINESS REVIEW

Activity
The principal activity of the Company continues to be the business of developing, making, producing, distributing, exhibiting (by any means now or hereafter becoming known) and otherwise exploiting cinematograph films and 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 21 to the financial statements.

Financial performance
The retained profit for the year was £4,009,000 (2012: retained profit £3,451,000) and this was transferred to reserves. An interim dividend of £6,600,000 was paid during the year (2012: £4,000,000).

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 15 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 15.

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 December 2012 to date the following changes have taken place:

	Appointed	Resigned
Directors		
J E Rogers		1 April 2014
P D J Sullivan		31 December 2013
R F Warren		1 April 2014
N T J Clibbens	1 April 2014	
T D Crome	1 April 2014	
A P Gadsby	1 April 2014	

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.

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.

AUDITOR

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

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

S J Caterer
Director
Date: 27 May 2014

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

We have audited the financial statements of Patalex IV Productions Limited ('the Company') for the year ended 30 November 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 21. 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 any 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 November 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 IV 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 29 May 2014

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 November 2013

Income from continuing operations	Notes	2013 £'000	2012 £'000
Revenue	3	4,781	5,241
Operating income	4	4	28
Operating expenses	5	(7)	(8)
Operating profit		4,778	5,261
Finance costs	6	(3,886)	(4,231)
Profit before tax		892	1,030
Tax credit	7	3,117	2,421
Profit and total comprehensive income for the year		4,009	3,451

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

BALANCE SHEET
as at 30 November 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-current assets			
Finance lease receivables	9	**88,547**	101,642
Current assets			
Finance lease receivables	9	**17,266**	16,444
Loan receivables	10	**-**	867
Prepayments, accrued income and other assets	11	**240**	231
		17,506	17,542
Total assets		**106,053**	119,184
Liabilities			
Current liabilities			
Borrowings	12	**12,827**	9,635
Accruals, deferred income and other liabilities	13	**330**	390
		13,157	10,025
Non-current liabilities			
Borrowings	12	**67,618**	75,306
Deferred tax liability	14	**24,401**	30,385
		92,019	105,691
Total liabilities		**105,176**	115,716
Equity			
Share capital	16	**-**	-
Retained earnings		**877**	3,468
Total equity		**877**	3,468
Total liabilities and equity		**106,053**	119,184

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

The financial statements were approved by the Board of Directors on 27 May 2014 and signed on its behalf by:

S J Caterer
Director

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

	Note	Share capital £'000	Retained earnings £'000	Total £'000
At 1 December 2011		-	4,017	4,017
Profit for the year		-	3,451	3,451
Dividends paid	8	-	(4,000)	(4,000)
At 30 November 2012		-	3,468	3,468
Profit for the year		-	**4,009**	**4,009**
Dividends paid	8	-	**(6,600)**	**(6,600)**
At 30 November 2013		-	**877**	**877**

Total comprehensive income for the year of £4,009,000 (2012: £3,451,000) 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 November 2013

	Note	2013 £'000	2012 £'000
Operating activities			
Profit for the year before tax		**892**	1,030
Adjustments for:			
Finance costs		**3,886**	4,231
Operating cash flows before movements in working capital		**4,778**	5,261
Decrease in finance lease receivables		**12,273**	11,000
Decrease in accruals, deferred income and other liabilities		**(5)**	(4)
Net cash from operating activities before tax		**17,046**	16,257
Tax/Group relief paid – immediate parent company		**(2,876)**	(2,764)
Net cash flows from operating activities		**14,170**	13,493
Cash flows from financing activities			
Repayment of borrowings – immediate parent company		**(4,496)**	(4,359)
Interest paid to group undertakings – immediate parent company		**(3,941)**	(4,267)
Dividends paid		**(6,600)**	(4,000)
Net cash flows used by financing activities		**(15,037)**	(12,626)
Net (decrease)/increase in cash and cash equivalents		**(867)**	867
Cash and cash equivalents at beginning of year		**867**	-
Cash and cash equivalents at end of year	**17**	**-**	867

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 December 2012 have had no material effect on the Company's financial statements for the year ended 30 November 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.

Other changes in accounting standards promulgated by the IASB are not expected to have a material effect on the Company's 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. 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 and after any material amendment 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	**16,322**	15,549
Amortisation	**(11,541)**	(10,308)
	4,781	5,241

On 26 October 2011, an intermediate parent company assumed responsibility for paying the rents in relation to one of the film leases, the rents of £16,322,000 (2012: £15,549,000) are included in rents receivable shown above.

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

4. Operating income

	2013 £'000	2012 £'000
Fee income	**4**	4
Other income	**-**	24
	4	28

5. Operating expenses

	2013 £'000	2012 £'000
Management fees – immediate parent company	**7**	8

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)	**7**	7

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Finance costs

	2013 £'000	2012 £'000
Interest on loans from group undertakings – immediate parent company	**3,886**	4,231

7. Tax

	2013 £'000	2012 £'000
Current taxation:		
UK corporation tax charge for the year	**2,867**	2,757
Deferred taxation:		
Credit for the year	**(2,659)**	(2,350)
Impact of tax rate changes	**(3,325)**	(2,828)
	(5,984)	(5,178)
Tax credit for the year	**(3,117)**	(2,421)

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 23.33% (2012: blended tax rate 24.7%) as follows:

	2013 £'000	2012 £'000
Expected tax charge	**208**	254
Reduction in deferred tax following change in rate of UK corporation tax	**(3,325)**	(2,675)
Actual tax credit for the year	**(3,117)**	(2,421)

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 20.2% in accordance with the rates enacted at the balance sheet date.

8. Ordinary dividends

	2013 £'000	2012 £'000
Interim dividend paid	**6,600**	4,000

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2013				
Future minimum lease payments	**17,907**	**81,039**	**22,854**	**121,800**
Unearned finance income	**(641)**	**(10,502)**	**(4,844)**	**(15,987)**
Present value of minimum lease payments receivable	**17,266**	**70,537**	**18,010**	**105,813**
2012				
Future minimum lease payments	17,054	77,180	44,620	138,854
Unearned finance income	(610)	(9,995)	(10,163)	(20,768)
Present value of minimum lease payments receivable	16,444	67,185	34,457	118,086

	2013 £'000	2012 £'000
Current	**17,266**	16,444
Non-current	**88,547**	101,642
	105,813	118,086

The Company has entered into finance leasing arrangements for a large film deal. The term of the finance lease is 16 years (2012: 16 years).

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

The outstanding balance of finance leases owed by the intermediate parent company is £105,813,000 (2012: £118,086,000). There are no remaining amounts owed by third parties (2012: £nil).

The average effective interest rate in relation to finance lease agreements approximates 4.1% (2012: 4.1%).

10. Loan receivables

	2013 £'000	2012 £'000
Current		
Deposits owed by group undertakings – immediate parent company	-	867

The fair value of loan receivables is considered not to be materially different to the carrying amounts in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Prepayments, accrued income and other assets

	2013 £'000	2012 £'000
Group relief receivable from group undertaking – immediate parent company	**240**	231

12. Borrowings

	2013 £'000	2012 £'000
Loans from group undertakings – immediate parent company	**80,445**	84,941
Current	**12,827**	9,635
Non-current	**67,618**	75,306
	80,445	84,941

13. Accruals, deferred income and other liabilities

	2013 £'000	2012 £'000
Accruals – immediate parent company	**319**	374
Deferred income	**11**	16
	330	390

14. 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 December 2011	35,498	65	35,563
Credit to income	(5,161)	(17)	(5,178)
At 30 November 2012	30,337	48	30,385
Credit to income	**(5,969)**	**(15)**	**(5,984)**
At 30 November 2013	**24,368**	**33**	**24,401**

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. 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.

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	**105,813**	**113,995**	118,086	130,532
Financial liabilities				
Borrowings	**80,445**	**88,356**	84,941	97,063

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.

(ii) Financial risk management

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

Market risk

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates, foreign currency and equity prices together with related parameters such as market volatilities.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Interest rate risk (continued)

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

2013	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	105,813	-	-	105,813
Financial liabilities				
Borrowings	79,190	1,255	-	80,445
Accruals and other liabilities	-	-	319	319
	79,190	1,255	319	80,764
Net financial assets/(liabilities)	26,623	(1,255)	(319)	25,049

2012	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	118,086	-	-	118,086
Loan receivables	-	867	-	867
	118,086	867	-	118,953
Financial liabilities				
Borrowings	84,941	-	-	84,941
Accruals and other liabilities	-	-	374	374
	84,941	-	374	85,315
Net financial assets/(liabilities)	33,145	867	(374)	33,638

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 decreased by £6,000 (2012: profit before tax for the year would have increased by £4,000. This is mainly due to the Company's exposure to interest rates on its variable rate balances. There would be no other material 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)

15. 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:

Sector	No. of counterparties	2013 £'000	2012 £'000
Group undertakings	1	**105,813**	118,086
Finance lease receivables		**105,813**	118,086
Group undertakings		-	867
Maximum credit exposure		**105,813**	118,953

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)

15. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

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

2013	**0 – 3 months £'000**	**4 – 12 months £'000**	**1 – 3 years £'000**	**4 – 5 years £'000**	**6 - 10 years £'000**
Borrowings	**2,114**	**14,227**	**31,282**	**34,466**	**11,100**
Accruals and other liabilities	**319**	**-**	**-**	**-**	**-**
	2,433	**14,227**	**31,282**	**34,466**	**11,100**

2012	**0 – 3 months £'000**	**4 – 12 months £'000**	**1 – 3 years £'000**	**4 – 5 years £'000**	**6 - 10 years £'000**
Borrowings	975	12,576	29,169	31,884	26,758
Accruals and other liabilities	374	-	-	-	-
	1,349	12,576	29,169	31,884	26,758

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 19 - 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.

16. Share capital

		2013 £	**2012 £**
Authorised:			
100	Ordinary shares of £1	**100**	100
Allotted, called up and fully paid:			
Equity shares			
2	Ordinary shares of £1	**2**	2

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

17. Cash and cash equivalents per cash flow statement

	2013 £'000	2012 £'000
Deposits with banks placed at within 3 months original maturity: (note 10)	-	867

18. 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.

19. 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.

20. 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 November 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 November 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)

20. 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 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.

21. 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.