Company Registered No: 05771783

CARE HOMES 2 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I R Luke A E Tobin A R Rodriguez
SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	135 Bishopsgate London EC2M 3UR
AUDITOR:	Deloitte LLP Hill House 1 Little New Street London EC4A 3TR

Registered in England and Wales

DIRECTORS' REPORT

The directors of Care Homes 2 Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2012

ACTIVITIES AND BUSINESS REVIEW

Principal activity

The principal activity of the Company continues to be investment business

The directors do not anticipate any material change in either the type or level of activities of the Company

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("RBSG" or "the Group") 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

Business review

The directors are satisfied with the development of the Company's activities during the year The Company does not currently expect to make any further significant investments in the foreseeable future

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 6 The operating profit after taxation for the year was £464,907 (2011 £577,029)

At the end of the year total assets were £381,478,562 (2011 £374,023,097)

Dividends

The directors do not recommend the payment of a dividend (2011 £nil)

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 notes 11 and 13 to these financial statements

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 In making this assessment, the directors have considered the Company's strong cash position

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 1

From 1 January 2012 to date the following changes have taken place

Directors	Appointed	Resigned
H Henderson-Cleland	-	4 April 2012

Secretary	Appointed	Resigned
RBS Secretarial Services Limited	27 April 2012	-
R E Fletcher	-	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 (IFRS) 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 and loss for the financial year as far as concern members 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 IFRS 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

- in so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- they have 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 their willingness to continue in office as auditor

Approved by the Board of Directors and signed on its behalf

I R Luke
Director
Date 19th June 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 LIMITED

We have audited the financial statements of Care Homes 2 Limited ('the Company') for the year ended 31 December 2012 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 17 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 Statements, 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 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRS 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

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

S. Charles Hardy

Simon Hardy, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom
19 June 2013

CARE HOMES 2 LIMITED 05771783

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

Continuing operations	Notes	2012 £	2011 £
Revenue	3	**3,266,663**	3,023,515
Other operating income	3	**10,362,461**	10,686,601
Finance costs	4	**(13,110,149)**	(13,117,736)
Administrative expenses		**(54,068)**	(15,351)
Operating profit before tax		**464,907**	577,029
Taxation	6	**-**	-
Profit for the year		**464,907**	577,029
Other comprehensive income			
Cash flow hedges		**10,132,908**	37,148,006
Other comprehensive income before tax		**10,132,908**	37,148,006
Tax charge		**(890,785)**	(8,841,370)
Other comprehensive income after tax		**9,242,123**	28,306,636
Total comprehensive income for the year		**9,707,030**	28,883,665

The accompanying notes form an integral part of these financial statements

CARE HOMES 2 LIMITED 05771783

BALANCE SHEET
As at 31 December 2012

	Notes	2012 £	2011 £
Non-current assets			
Derivative financial instruments	11,12	**78,359,230**	68,051,713
Current assets			
Loans and receivables	7	**303,118,121**	305,965,635
Cash at bank	7	**1,211**	5,749
Total assets		**381,478,562**	374,023,097
Current liabilities			
Accruals, deferred income and other liabilities	8	**3,452**	3,452
Non-current liabilities			
Deferred tax liability	9	**17,057,309**	16,166,524
Debt securities in issue	10,11	**302,880,091**	306,022,441
Total liabilities		**319,940,852**	322,192,417
Equity			
Share capital	14	**10,000**	10,000
Cash flow hedge reserve		**57,104,904**	47,862,781
Retained earnings		**4,422,806**	3,957,899
Total equity		**61,537,710**	51,830,680
Total liabilities and equity		**381,478,562**	374,023,097

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 19 June 2013 and signed on its behalf by

T R Luke
Director

CARE HOMES 2 LIMITED **05771783**

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital £	Cash flow hedge reserve £	Retained earnings £	Total £
At 1 January 2011	10,000	19,556,145	3,380,870	22,947,015
Profit for the year	-	-	577,029	577,029
Other comprehensive income for the year:				
Profit on cash flow hedge	-	37,148,006	-	37,148,006
Deferred taxation	-	(8,841,370)	-	(8,841,370)
Total comprehensive income for the year	-	28,306,636	577,029	28,883,665
At 31 December 2011	10,000	47,862,781	3,957,899	51,830,680
Profit for the year	-	-	**464,907**	**464,907**
Other comprehensive income for the year:				
Profit on cash flow hedge	-	**10,132,908**	-	**10,132,908**
Deferred taxation	-	**(890,785)**	-	**(890,785)**
Total comprehensive income for the year	-	**9,242,123**	-	**9,242,123**
At 31 December 2012	**10,000**	**57,104,904**	**4,422,806**	**61,537,710**

The total comprehensive income for the year was fully attributable to the ordinary shareholders of the Company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
For the year ended 31 December 2012

	Note	2012 £	2011 £
Operating activities			
Profit for the year before tax		**464,907**	577,029
Operating cash flows before movements in working capital		**464,907**	577,029
(Decrease)/increase in derivative accrual		**(174,609)**	180,218
Decrease in accruals and deferred income		**-**	(128,709)
Decrease in debt securities		**(3,142,350)**	(3,134,747)
Total movement in working capital		**(3,316,959)**	(3,083,238)
Net cash used in operating activities		**(2,852,052)**	(2,506,209)
Net decrease in cash and cash equivalents		**(2,852,052)**	(2,506,209)
Cash and cash equivalents at 1 January		**305,971,384**	308,477,593
Cash and cash equivalents at 31 December	7	**303,119,332**	305,971,384

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of financial statements

The financial statements 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 financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value Financial assets which are hedged are adjusted for changes in the fair value of the hedge

The Company is incorporated in the UK and registered in England and Wales The Company's financial statements 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 2012 They have had no material effect on the Company's financial statements for the year 31 December 2012

b) Foreign currencies

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

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date

c) Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss 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 and of allocating the interest income or interest expense over the expected life of the asset or liability The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs All contractual terms of a financial instrument are considered when estimating future cash flows

Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in profit or loss as they arise

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered The price is usually fixed and always determinable Fees charged for managing investments are recognised as revenue as the services are provided Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

d) 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 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.

e) Financial assets
On initial recognition, financial assets are classified into loans and receivables and designated hedges at fair value

Loans and receivables
Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method (see accounting policy (c))

f) Derivative financial instruments and hedging
The Company uses derivative financial instruments to manage interest rate risk Such contracts are initially recognised and subsequently measured at fair value

Any resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship

The Company designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges) Changes in fair values of derivative financial instruments which are designated and effective as hedges of cash flows are recognised directly in equity at each balance sheet date and the ineffective portion is recognised immediately in the income statement

At the inception of the hedge relationship, the Company documented the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the hedge transaction Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item

Note 12 sets out details of the fair values of the derivative instrument used for hedging purposes Movements in the hedging reserve in equity are shown in the Statement of Changes in Equity

g) Financial liabilities
All financial liabilities are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method (see accounting policy (c))

h) 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

i) 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 however these will not 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, and
- expanded use of other comprehensive income or a third business model for some debt instruments

'Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)' was published by the IASB in October 2010 This replaces IFRS 7's existing derecognition disclosure requirements with disclosures about (a) transferred assets that are not derecognised in their entirety and (b) transferred assets that are derecognised in their entirety but where an entity has continuing involvement in the transferred asset The amendments are effective for annual periods beginning on or after 1 July 2011

The IASB issued an amendment to IAS 12 'Income Taxes' in December 2010 to clarify that recognition of deferred tax should have regard to the expected manner of recovery or settlement of the asset or liability The amendment and consequential withdrawal of SIC 21 'Deferred Tax Recovery of Underlying Assets', effective for annual periods beginning on or after 1 January 2012, is not expected to have a material effect on the Company

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1 Accounting policies (continued)

i) Accounting developments (continued)
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

In June 2011, the IASB issued amendments to two standards

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 that are subject to subsequent reclassification The amendments are effective for annual periods beginning on or after 1 July 2012 Earlier application is permitted

Amendments IAS 19 'Employee Benefits' require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach', interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate, and all past service costs to be recognised immediately when a scheme is curtailed or amended The amendments are effective for annual periods beginning on or after 1 January 2013 Earlier application is permitted

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

In December 2011, the IASB issued 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' and 'Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)' The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively

The IASB issued "Annual Improvements to IFRSs 2009-2011 Cycle" in May 2012 implementing minor changes to IFRSs, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording The revisions are effective for annual accounting periods beginning on or after 1 January 2013 and are not expected to have a material effect on the Company

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Board 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

Fair value - financial instruments

Derivative financial instruments are recognised in the financial statements at fair value Any gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship Significant estimates and assumptions are made in respect of the derivative financial instruments These are explained in accounting policy (f)

3. Revenue

	2012	2011
	£	£
Interest income	**3,266,663**	3,023,515
Other operating income		
Interest rate swaps	**10,362,461**	10,686,601
Total income	**13,629,124**	13,710,116

4. Finance costs

	2012	2011
	£	£
Interest expense on debt securities in issue	**16,232,210**	16,231,268
Bond amortisation	**(3,122,061)**	(3,113,532)
	13,110,149	13,117,736

5. Operating expenses

None of the directors received any emoluments from the Company for their services to the Company during the current year or the prior year

None of the directors had any material interest in any contract of significance in relation to the business of the Company during the current year or the prior year

The Company did not have any employees in the current year or the prior year

The auditor's remuneration for statutory audit work for the Company totalling £8,000 (2011 £7,000) was borne by The Royal Bank of Scotland Plc Remuneration paid to the auditor for non-audit work for the Company was £nil (2011 £nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Taxation

	2012 £	2011 £
Current taxation:		
UK corporation tax charge for the year	-	-

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 24 5% (2011 26 5%) as follows

	2012 £	2011 £
Operating profit before tax:	**464,907**	577,029
Expected tax charge	**113,890**	152,873
Non-taxable income from amortisation of premiums on debt securitises issued	**(764,820)**	(824,873)
Group relief surrendered for nil consideration	**650,930**	672,000
Actual tax charge for the year	-	-

The blended tax rate used in the above calculation is an approximate

Due to the increase in the hedge reserve, no thin capitalisation adjustment is provided during the current year

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest enacted rate standing at 23% with effect from 1 April 2013 Further reductions of the rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were announced on 5 December 2012 and 20 March 2013 respectively, but not substantively enacted at the balance sheet date Accordingly, the closing deferred tax assets and liabilities have been calculated at 23%

In the wider interests of the Group, the Company has agreed to surrender any tax losses to other Group companies and a part of this agreement may claim losses from other Group companies for £nil consideration

7 Cash and cash equivalents per Cash Flow Statement

	2012 £	2011 £
Short-term deposits with Group undertakings – immediate parent company	**303,118,121**	305,965,635
Demand deposits with banks - Group	**1,211**	5,749
	303,119,332	305,971,384

8. Accruals, deferred income and other liabilities

	2012 £	2011 £
Accrued fees payable	**3,452**	3,452

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. Deferred tax liability

The followıng represents the deferred tax lıabılıtıes recognısed by the Company, and the movements thereon

	Cash flow hedge reserve £
At 1 January 2011	7,325,154
Charge to equıty	8,841,370
At 31 December 2011	**16,166,524**
Charge to equıty	**890,785**
At 31 December 2012	**17,057,309**

The closıng deferred tax lıabılıtıes have been recognısed at a rate of 23%

10 Debt securities in issue

On 4 December 2006 Care Homes 2 Lımıted became an oblıgor ın respect of certaın debt securıtıes by means of a novatıon from NHP Group

Each of these debt securıtıes ıs denomınated ın sterlıng and carrıes a fixed rate of ınterest as follows, £180mıllıon Class A1 at 5 75 per cent due ın 2023, £60mıllıon Class M at 6 65 per cent due ın 2023 and £25 mıllıon Class B at 7 65 percent due ın 2023 As at the balance sheet date, the total faır value of the debt securıtıes in ıssue was £356 0m (2011 £368 5m)

The consıderatıon receıved on novatıon was equal to the faır value of these oblıgatıons as at the date of novatıon and was paıd ın cash by the NHP Group

	2012 £	2011 £
Debt securıtıes ın ıssue (prıncıpal)	**315,678,332**	315,698,621
Amortısatıon untıl balance sheet date	**(18,937,093)**	(15,815,032)
Accrued ınterest	**6,138,852**	6,138,852
	302,880,091	306,022,441

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Financial instruments

Financial assets are classified as loans and receivables and derivative financial instruments in designated hedge relationships All financial liabilities are classified as financial liabilities at amortised cost

The directors consider that, with the exception of debt securities in issue (note 10), the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values

Valuation hierarchy

The following tables show the financial instruments carried at fair value by hierarchy – level 1, level 2 and level 3

2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets:				
Derivative financial instruments	-	**78,359**	-	**78,359**

2011	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivative financial instruments	-	68,052	-	68,052

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value

Level 1 valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities
Level 2 valued by reference to observable market data, other than quoted market prices
Level 3 valuation is based on inputs other than observable market data

The derivative financial instruments recorded at fair value for the Company are all considered Level 2 being valued using pricing models Inputs for these models are usually observed directly in the market, or derived from observed prices

Financial liabilities

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

2012	**0 - 3 months £'000**	**3 - 12 months £'000**	**1 - 3 years £'000**	**3 – 5 years £'000**	**5-10 years £'000**	**10-20 years £'000**
Debt securities	**8,126**	**8,126**	**32,505**	**32,505**	**81,263**	**273,126**

2011	0 - 3 months £'000	3 - 12 months £'000	1 - 3 years £'000	3 – 5 years £'000	5-10 years £'000	10-20 years £'000
Debt securities	8,126	8,126	32,505	32,505	81,263	289,379

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Derivative financial instruments

The Company is party to an interest rate swap transaction to hedge exposure to variability in cash flows arising from its floating rate deposits As at the balance sheet date, the contract had a nominal value of £301 9m (2011 £304 6m) which amortises over time in line with the asset it hedges The swap entitles the Company to receive fixed cash flows (based on a rate of 4 6055%) in exchange for variable cash flows based on 6 month sterling LIBOR The swap matures in February 2023 and at the balance sheet date had a fair value of £78 4m (2011 £68 1m) The fair value of the interest rate swap at the reporting date is determined by discounting the future cash flows using the curves at the reporting date This derivative is designated as a cash flow hedge of the Company's variable cash flows

13. Risk management

The Company is exposed to financial risk through its financial assets and liabilities The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due The most important components of financial risk are credit risk, liquidity risk and market risk

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

Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of debtors to meet their obligations

The Company's exposure to credit risk is not considered to be significant as a major component of its credit exposures are with related parties (note 16) As at 31 December 2012 there were no outstanding or impaired loans due to the Company (2011 £nil)

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)

The expected maturity of the Company's material liabilities are shown in note 11

Market risk

Market risk is the risk of loss as a result of adverse changes in market prices and foreign currency together with related parameters such as market volatilities

The Company is exposed to market risk as a result of the assets and liabilities contained within the Company's balance sheet There has been no change to the nature of the Company's exposure to market risks or the manner in which it manages and measures the risk

The main component of market risk that the Company faces is interest rate risk The Company manages interest rate risk by monitoring the interest rate profile of its assets and liabilities

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Risk management (continued)

Market risk – sensitivity analysis

The sensitivity analysis below has been determined based on the Company's assets and liabilities present in the balance sheet as at the balance sheet date and by reference to a movement in market interest rates reasonably possible in the Company's next financial reporting period

If interest rates for the current year had been 100 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year would have been £2,027 lower (2011 £1,605 lower) This would have mainly resulted from lower interest income on variable rate assets and lower interest expense on derivative financial instruments

The converse is equally true if interest rates had been 100 basis points higher

Currency risk

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

14. Share capital

Equity shares	2012 £	2011 £
Authorised		
10,000 ordinary shares of £1	**10,000**	10,000
Allotted, called up and fully paid		
10,000 ordinary shares of £1	**10,000**	10,000

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

15 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

16. 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 arm's length basis They include the payment of taxes including UK corporation tax and value added tax, national insurance contributions, local authority rates, regulatory fees and levies, together with banking loans and deposits undertaken in the normal course of banker-customer relationships

Group undertakings

The Company's immediate parent company is Care Homes Holdings Limited a company incorporated in the UK and registered in England and Wales As at 31 December 2012, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in the UK and registered in Scotland Copies of the consolidated accounts may be obtained from RBS Secretariat, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Related parties (continued)

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in the UK and registered in Scotland As at 31 December 2012, 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, PO Box 1000, Edinburgh EH12 1HQ

The Company was party to various transactions with The Royal Bank of Scotland plc These transactions were entered into on an arm's length basis unless stated otherwise and include the surrender of tax losses (see note 6) The income statement impact and outstanding balances arising from these transactions as at 31 December 2012 are set out below

The Royal Bank of Scotland plc	**2012**	2011
	£	£
Statement of Comprehensive Income impact:		
Interest income	**3,266,663**	3,023,515
Other operating income	**10,362,461**	10,686,601
Finance costs	**(13,110,149)**	(13,117,736)
Administrative expenses	**(54,068)**	(15,351)
	464,907	557,029

The Royal Bank of Scotland plc	**2012**	2011
	£	£
Amounts owed to the Company:		
Derivative financial instruments	**78,359,230**	68,051,713
Short-term deposits	**303,118,121**	305,965,635
Cash at bank	**1,211**	5,749
	381,478,562	374,023,097

Amounts owed to the Company consisted of a £302 2m 6 month GBP LIBOR deposit with a residual maturity of less than 2 months (2011 £304 8m 6 month GBP LIBOR deposit with a residual maturity of less than 2 months)

The Royal Bank of Scotland plc	**2012**	2011
	£	£
Amounts owed by the Company:		
Issued debt securities	**302,880,146**	306,022,441
Accrued fees	**3,452**	3,452
	302,883,598	306,025,893

The debt securities in issue have a combined nominal value of £265m, with an effective interest rate of 4 95% and a maturity of February 2023

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Related parties (continued)

Capital Support Deed
The Company, together with other members of the 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, immediate 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. Post balance sheet events

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