

**Company Registered No: 05771783**

**CARE HOMES 2 LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2015**

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**CARE HOMES 2 LIMITED**

**05771783**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:**

S J Caterer  
N J Nunn

**SECRETARY:**

RBS Secretarial Services Limited

**REGISTERED OFFICE:**

135 Bishopsgate  
London  
United Kingdom  
EC2M 3UR

**INDEPENDENT AUDITOR:**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
2 New Street Square  
London  
United Kingdom  
EC4A 3BZ

**Registered in England and Wales**

**STRATEGIC REPORT**

The directors of Care Homes 2 Limited ("the Company") present their annual report together with the audited financial statements for the year ended 31 December 2015.

**ACTIVITIES AND BUSINESS REVIEW****Principal activity**

The principal activity of the Company continues to be that of an investment business.

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("RBS") 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 Group review these matters on a group basis. Copies can be obtained from Corporate Governance and Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at [www.rbs.com](http://www.rbs.com).

**Business review**

The directors are satisfied with the Company's performance in 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 Profit and Loss Account on page 8.

The operating loss before taxation for the year was £12,630 (2014: profit £164,032). The retained loss for the year was £12,630 (2014: profit £164,032).

At the end of the year total assets were £352,138,496 (2014: £363,833,998).

**Dividends**

The directors do not recommend the payment of a dividend (2014:nil).

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Company seeks to minimise its exposure to financial risks.

Management focuses on both the overall balance sheet structure and the control, within prudent limits, of risk arising from mismatches, including currency, maturity, interest rate and liquidity. It is undertaken within limits and other policy parameters set by the RBS Asset and Liability Management Committee (RBS ALCO).

**Operational risk**

Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key mitigating processes and controls include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of these processes and controls is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

**Liquidity risk**

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

Management focuses on risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

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

## STRATEGIC REPORT

## PRINCIPAL RISKS AND UNCERTAINTIES (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 bank'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 delegated 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; and
- 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.

The Company's exposure to credit risk is not considered to be significant as all significant portion of the credit exposures are with RBS companies.

**Market risk**

Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates and equity prices 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.

**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 £3,217 lower (2014: £2,804 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.

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



N J Nunn  
Director

Date: 4 August 2016

**DIRECTORS' REPORT**

The Strategic Report includes the activities and business review, financial performance and principal risks and uncertainties report.

**GOING CONCERN**

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

**DIRECTORS AND SECRETARY**

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 January 2015 to date there have been no change to the directors and secretary of the Company.

**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare a Strategic Report, Directors' Report and financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and 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 of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has been followed; 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 Strategic Report, 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 directors 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.

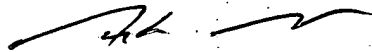
**DIRECTORS' REPORT**

**INDEPENDENT AUDITOR**

The Royal Bank of Scotland Group plc has appointed Ernst & Young LLP as auditor for the year ending 31 December 2016.

A resolution to appoint Ernst and Young LLP as the Company's auditor will be proposed at the forthcoming meeting of the Board of Directors.

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



N J Nunn

Director

Date: 4 August 2016

## **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 2015 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

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 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance Financial Reporting Standard 101 Reduced Disclosure Framework; 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 Strategic Report and 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 CARE HOMES 2 LIMITED**

### **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.

*Alan Chaudhuri*

**Alan Chaudhuri** (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor,  
London, United Kingdom

*4 August 2016*

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2015

		<b>2015</b>	<b>2014</b>
		<b>£</b>	<b>£</b>
<b>Continuing operations</b>	<b>Notes</b>		
Revenue	3	<b>13,200,634</b>	13,336,826
Finance costs	5	<b>(13,159,204)</b>	(13,118,734)
Administrative expenses		<b>(54,060)</b>	(54,060)
<b>Operating (loss)/profit before tax</b>		<b>(12,630)</b>	164,032
Tax charge	6	-	-
<b>(Loss)/profit for the financial year</b>		<b>(12,630)</b>	164,032

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

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2015**

	2015 £	2014 £
<b>(Loss)/profit for the financial year</b>	<b>(12,630)</b>	164,032
<b>Items that will be reclassified subsequently to profit or loss:</b>		
Movement on cash flow hedges	<b>(8,589,536)</b>	21,655,604
<b>Other comprehensive (loss)/income before tax</b>	<b>(8,589,536)</b>	21,655,604
Tax credit/(charge)	<b>1,717,907</b>	(4,331,121)
<b>Other comprehensive (loss)/income after tax</b>	<b>(6,871,629)</b>	17,324,483
<b>Total comprehensive (loss)/income for the year</b>	<b>(6,884,259)</b>	17,488,515

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

**BALANCE SHEET**  
as at 31 December 2015

	Notes	2015 0	2014 0
<b>Current assets</b>			
Derivative financial instruments	12	58,051,006	66,739,479
Loans and receivables	7	294,086,270	297,093,317
Cash at bank	8	1,220	1,202
<b>Total assets</b>		<b>352,138,496</b>	<b>363,833,998</b>
<b>Creditors: amounts falling due within one year</b>			
Deferred tax liability	9	10,747,463	12,465,370
<b>Creditors: amounts falling due after more than one year</b>			
Debt securities in issue	10	293,519,268	296,612,604
<b>Total liabilities</b>		<b>304,266,731</b>	<b>309,077,974</b>
<b>Equity: capital and reserves</b>			
Called-up share capital	13	10,000	10,000
Cash flow hedge reserve		42,989,849	49,861,478
Profit and loss account		4,871,916	4,884,546
<b>Total shareholders' funds</b>		<b>47,871,765</b>	<b>54,756,024</b>
<b>Total liabilities and shareholders' funds</b>		<b>352,138,496</b>	<b>363,833,998</b>

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

The financial statements of the Company were approved by the Board of Directors on 4 August 2016 signed on its behalf by:



N J Nunn  
Director

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2015

	Share capital £	Cash flow hedge reserve £	Profit and loss account £	Total £
<b>At 1 January 2014</b>	10,000	32,536,995	4,720,514	37,267,509
Profit for the year	-	-	164,032	164,032
Profit on cash flow hedge	-	21,655,604	-	21,655,604
Deferred tax	-	(4,331,121)	-	(4,331,121)
<b>At 31 December 2014</b>	10,000	49,861,478	4,884,546	54,756,024
Loss for the year	-	-	(12,630)	(12,630)
Loss on cash flow hedge	-	(8,589,536)	-	(8,589,536)
Deferred tax	-	1,717,907	-	1,717,907
<b>At 31 December 2015</b>	<b>10,000</b>	<b>42,989,849</b>	<b>4,871,916</b>	<b>47,871,765</b>

Total comprehensive loss for the year of £6,884,259 (2014: income of £17,488,515) was wholly attributable to the equity holders of the Company.

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

**NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****a) Preparation and presentation of financial statements**

These financial statements are prepared on a going concern basis and have been prepared in accordance with the recognition and measurement principles of 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 (together IFRS) and under FRS 101. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a Cash-flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group financial statements of The Royal Bank of Scotland Group plc, these financial statements are available to the public and can be obtained as set out in note 15.

The financial statements are prepared on the historical cost basis except loans and receivables, derivative financial instruments and debt securities in issue that are stated at their fair value. Financial assets which are hedged are adjusted for changes in the fair value of the hedge.

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 financial statements are presented in accordance with the Companies Act 2006.

The few of changes to IFRS that were effective from 1 January 2015 have had no material effect on the Company's financial statements for the year ended 31 December 2015.

**b) 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 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 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.

**c) Taxation**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies (continued)****d) Cash at bank**

Cash at bank comprises interest bearing deposits held with banks.

**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 plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 1(b)) less any impairment losses.

**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**

On initial recognition financial liabilities are recognised at fair value and are subsequently measured at amortised cost using the effective interest method (see accounting policy 1(b)).

**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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. Revenue

	2015 £	2014 £
Interest income	1,733,013	1,554,177
Interest rate swap income	11,467,621	11,782,649
	<b>13,200,634</b>	<b>13,336,826</b>

## 4. Staff costs, number of employees and directors' emoluments

All staff and directors were employed by group companies and the financial statements of The Royal Bank of Scotland Group plc which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees. The directors of the Company do not receive remuneration for specific services provided to the Company.

The auditor's remuneration for statutory audit work of £8,104 (2014: £8,000) for the Company was borne by The Royal Bank of Scotland plc. Remuneration paid to the auditor for non-audit work for the Company was £nil (2014:£nil).

## 5. Finance costs

	2015 £	2014 £
Interest expense on debt securities in issue	16,272,735	16,232,265
Bond amortisation	(3,113,531)	(3,113,531)
	<b>13,159,204</b>	<b>13,118,734</b>

## 6. Tax

	2015 £	2014 £
<b>Current tax:</b>		
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 20.25% (2014: 21.49%) as follows:

	2015 £	2014 £
(Loss)/profit on ordinary activities before tax	(12,630)	164,032
Expected tax charge	(2,557)	35,256
Non taxable items from amortisation of premiums on debt securities issued	(630,383)	(669,196)
Group relief surrendered for nil consideration	632,940	633,940
Actual tax charge for the year	-	-

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted on 26 October 2015 now standing at 20% with effect from 1 April 2015, 19% from 1 April 2017 and 18% with effect from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.



## NOTES TO THE FINANCIAL STATEMENTS

## 7. Loans and receivables.

	2015 £	2014 £
Amounts due from Group undertakings - immediate parent company	<b>294,086,270</b>	297,093,317

Loans and receivables consist of a £294m 6 month deposit with a residual maturity of less than 5 months (2014: £297m 6 month deposit with a residual maturity of less than 5 months).

## 8. Cash at bank

	2015 £	2014 £
Cash at bank - Group	<b>1,220</b>	1,202

## 9. Deferred tax

The following represents the deferred tax liabilities recognised by the Company, and the movements thereon.

	Cash flow hedge reserve £
At 1 January 2014	8,134,249
Charge to equity	4,331,121
At 31 December 2014	12,465,370
Release to equity	(1,717,907)
<b>At 31 December 2015</b>	<b>10,747,463</b>

## 10. Debt securities in issue

	2015 £	2014 £
Debt securities in issue	<b>315,658,102</b>	315,637,908
Amortisation to date	<b>(28,277,686)</b>	(25,164,155)
Accrued interest	<b>6,138,852</b>	6,138,851
	<b>293,519,268</b>	296,612,604

On 4 December 2006 Care Homes 2 Limited became an obligor in respect of certain debt securities by means of a novation from NHP Group.

Each of these debt securities is denominated in sterling and carries a fixed rate of interest as follows, £180million Class A1 at 5.75% due in 2023, £60million Class M at 6.65% due in 2025 and £25million Class B at 7.65% due in 2025. As at the balance sheet date, the total fair value of the debt securities in issue was £315.2m (2014: £365.9m). These debt securities are listed on Luxembourg Stock Exchange. The debt securities in issue fall within level 2 of the valuation hierarchy methodologies as set out on page 17.

The consideration received on novation was equal to the fair value of these obligations as at the date of novation and was paid in cash by the NHP Group.

## NOTES TO THE FINANCIAL STATEMENTS

## 11. Financial instruments

## Categories of Financial instrument

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

2015	Hedging derivatives £	Loans and receivables £	At Amortised cost £	Non financial assets/ liabilities £	Total £
<b>Assets</b>					
Derivative financial instruments	58,051,006	-	-	-	58,051,006
Loans and receivables	-	294,086,270	-	-	294,086,270
Cash at bank	-	1,220	-	-	1,220
	<b>58,051,006</b>	<b>294,087,490</b>	<b>-</b>	<b>-</b>	<b>352,138,496</b>
<b>Liabilities</b>					
Deferred tax	-	-	-	10,747,463	10,747,463
Debt securities in issue	-	-	293,519,268	-	293,519,268
	<b>-</b>	<b>-</b>	<b>293,519,268</b>	<b>10,747,463</b>	<b>304,266,731</b>
<b>Equity</b>					<b>47,871,765</b>
					<b>352,138,496</b>

2014	Hedging derivatives £	Loans and receivables £	At Amortised cost £	Non financial assets/ liabilities £	Total £
<b>Assets</b>					
Derivative financial instruments	66,739,479	-	-	-	66,739,479
Loans and receivables	-	297,093,317	-	-	297,093,317
Cash at bank	-	1,202	-	-	1,202
	<b>66,739,479</b>	<b>297,094,519</b>	<b>-</b>	<b>-</b>	<b>363,833,998</b>
<b>Liabilities</b>					
Deferred tax	-	-	-	12,465,370	12,465,370
Debt securities in issue	-	-	296,612,604	-	296,612,604
	<b>-</b>	<b>-</b>	<b>296,612,604</b>	<b>12,465,370</b>	<b>309,077,974</b>
<b>Equity</b>					<b>54,756,024</b>
					<b>363,833,998</b>

The directors consider that, with the exception of debt securities in issue (note 10), 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.

The company's cash at bank and loans and receivables are short term (having a maturity of six months or less); consequently carrying amount approximates fair value.

## NOTES TO THE FINANCIAL STATEMENTS

## 11. Financial instruments (continued)

## Valuation hierarchy

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

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>2015</b>				
<b>Assets</b>				
Derivative financial instruments	-	58,051,006	-	58,051,006

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>2014</b>				
<b>Assets</b>				
Derivative financial instruments	-	66,739,479	-	66,739,479

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

	0 - 3 months £'000	3 - 12 months £'000	1 - 3 years £'000	3 - 5 years £'000	5-10 years £'000
<b>2015</b>					
Debt securities in issue	8,126	8,126	32,505	32,505	305,631
	0 - 3 months	3 - 12 months	1 - 3 years	3 - 5 years	5-10 years
<b>2014</b>	£'000	£'000	£'000	£'000	£'000
Debt securities in issue	8,126	8,126	32,505	32,505	235,446

## 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 £293.1m (2014: £296.2m) 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 six month sterling LIBOR. The swap matures in February 2023 and at the balance sheet date had a fair value of £58.01m (2014: £66.7m). 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 13. Share capital

	2015	2014
Equity Shares	£	£
<b>Authorised:</b>		
10,000 Ordinary shares of £1 each	10,000	10,000
<b>Allotted, called-up and fully paid:</b>		
10,000 Ordinary shares of £1 each	10,000	10,000

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

## 14. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings, loans from Group undertakings and subordinated loans. 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 RBS's policy which is to maintain a strong capital base: it is not separately regulated.

## 15. 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; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as 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 2015 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 financial statements may be obtained from Corporate Governance and 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 31 December 2015, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated. Copies of the consolidated financial statements may be obtained from Corporate Governance and Secretariat The Royal Bank of Scotland plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

**Capital Support Deed**

The Company, together with other members of The Royal Bank of Scotland Group plc, 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.