

Amending

Company Registered No: 05771783

CARE HOMES 2 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2013

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

THURSDAY



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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2013

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CARE HOMES 2 LIMITED

05771783

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S J Caterer
N Nunn
J E Rogers

SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE.

135 Bishopsgate
London
EC2M 3UR

AUDITOR

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

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 2013

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption and therefore does not include a strategic report

Principal activity

The principal activity of the Company continues to be that of an 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 Profit and Loss Account on page 8. The operating profit after tax for the year was £297,708 (2012: £464,907). The retained profit for the year was £297,708 (2012: £464,907).

At the end of the year total assets were £345,148,139 (2012: £381,478,562).

Dividends

The directors do not recommend the payment of a dividend (2012: £nil).

Preparation and presentation of financial statements

As explained in the note 1, in the year ended 31 December 2013 the Company has changed from reporting under IFRS adopted by the European Union to FRS 101 as issued by the Financial Reporting Council which the Company has adopted early. This change has not had a material effect on the financial statements.

Principal risks and uncertainties

The Company seeks to minimise its exposure to financial risks other than equity and credit risk.

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 Group Asset and Liability Management Committee (GALCO).

The principal risks associated with the Company are as follows:

DIRECTORS' REPORT (continued)**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 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 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 the credit exposures are with Group companies. At 31 December 2013 there were no outstanding or impaired loans due to the Company (2012: £nil)

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities

The expected maturity of the Company's material liabilities are shown in note 12

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 £2,408 lower (2012: £2,027 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

DIRECTORS' REPORT (continued)**Going concern**

The directors, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and having considered the Company's strong cash position, 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 2013 to date the following changes have taken place

Directors	Appointed	Resigned
A R Rodriguez	-	30 September 2013
A E Tobin	-	30 September 2013
I R Luke	-	01 November 2013
S J Caterer	30 September 2013	-
N Nunn	30 September 2013	-
J E Rogers	30 September 2013	-

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 Financial Reporting Standards 101 Reduced Disclosure Framework, 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 for the financial year of the Company. 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 Financial Reporting Standard 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 the directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO AUDITOR

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

- 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

AUDITOR

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

Approved by the Board of Directors and signed on its behalf



S Caterer
Director

Date 4 July 2014

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 2013 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 17. 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 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 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 2013 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

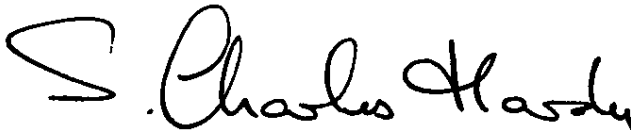
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 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
- the directors were not entitled to take advantage of the small companies exemption from preparing a Strategic Report or in preparing the Directors' Report



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

4 July 2014



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2013

		2013	2012
	Notes	£	£
Income from continuing operations			
Revenue	3	1,620,657	3,266,663
Other operating income	3	11,846,478	10,362,461
Finance costs	4	(13,118,734)	(13,110,149)
Administrative expenses		(50,693)	(54,068)
Operating profit before tax		297,708	464,907
 Tax charge	 6	 -	 -
Profit for the financial year		297,708	464,907

The accompanying notes form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	2013 £	2012 £
Profit for the year	297,708	464,907
Other comprehensive (loss)/income		
Cash flow hedges	(33,490,969)	10,132,908
Other comprehensive (loss)/income before tax	(33,490,969)	10,132,908
Tax credit/(charge)	8,923,060	(890,785)
Other comprehensive (loss)/income after tax	(24,567,909)	9,242,123
Total comprehensive (loss)/income for the year	(24,270,201)	9,707,030

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2013

	Notes	2013 £	2012 £
Current assets			
Derivative financial instruments	12,13	45,242,021	78,359,230
Loans and receivables	7	299,904,908	303,118,121
Cash at bank	8	1,210	1,211
Total assets		345,148,139	381,478,562
 Creditors amounts falling due within one year			
Accruals, deferred income and other liabilities	9	-	3,452
 Creditors amounts falling due after more than one year			
Deferred tax liability	10	8,134,249	17,057,309
Debt securities in issue	11,12	299,746,381	302,880,091
Total liabilities		307,880,630	319,940,852
 Equity capital and reserves			
Called up share capital	14	10,000	10,000
Cash flow hedge reserve		32,536,995	57,104,904
Profit and loss account		4,720,514	4,422,806
Total shareholders' funds		37,267,509	61,537,710
 Total liabilities and shareholders' funds		345,148,139	381,478,562

The accompanying notes form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 4 July 2014 and signed on its behalf by



S Caterer
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	Share capital £	Cash flow hedge reserve £	Profit and loss account £	Total £
At 1 January 2012	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	464,907	9,707,030
At 31 December 2012	10,000	57,104,904	4,422,806	61,537,710
Profit for the year	-	-	297,708	297,708
Other comprehensive income for the year.				
Loss on cash flow hedge	-	(33,490,969)	-	(33,490,969)
Deferred taxation	-	8,923,060	-	8,923,060
Total comprehensive loss for the year	-	(24,567,909)	297,708	(24,270,201)
At 31 December 2013	10,000	32,536,995	4,720,514	37,267,509

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

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 IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS) and under Financial Reporting Standard 101 (Reduced Disclosure Framework). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

Accordingly, in the year ended 31 December 2013 the Company has changed from reporting under IFRS adopted by the European Union to FRS 101 as issued by the Financial Reporting Council which the Company has adopted early. This change is not considered to have had a material effect on the financial statements.

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 accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 16.

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 2013. They have had no material effect on the Company's financial statements for the year 31 December 2013.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)**1 Accounting policies (continued)****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 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) 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 (b))

e) 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 13 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

f) 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 (b))

g) Cash and cash equivalents

Cash and cash equivalents comprise 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)**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

	2013 £	2012 £
Interest income	1,620,657	3,266,663
Other operating income		
Interest rate swaps	11,846,478	10,362,461
Total income	13,467,135	13,629,124

4 Finance costs

	2013 £	2012 £
Interest expense on debt securities in issue	16,232,265	16,232,210
Bond amortisation	(3,113,531)	(3,122,061)
	13,118,734	13,110,149

5. Operating expenses

All staff and directors were employed by RBSG companies and RBSG, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share-based payments and pensions. The Company had no employees during the year (2012: none). The directors of the Company do not receive remuneration for specific services provided to the Company.

The auditor's remuneration of £8,000 for statutory audit work for the Company was borne by The Royal Bank of Scotland plc (2012: £8,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Tax

	2013 £	2012 £
Current taxation		
UK corporation tax charge for the year	-	-
The actual tax charge/(credit) differs from the expected tax charge/(credit) computed by applying the blended UK corporation tax rate of 23.25% (2012 - 24.5%) as follows		
	2013 £	2012 £
Operating profit before tax	297,708	464,907
Expected tax charge	69,207	113,890
Non-taxable income from amortisation of premiums on debt securities issued	(723,789)	(764,820)
Group relief surrendered for nil consideration	654,582	650,930
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 in July 2013 now standing at 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The closing deferred tax assets and liabilities have been calculated at 20% in accordance with the rates enacted at the balance sheet date.

7 Loans and receivables

	2013 £	2012 £
Amounts due from Group undertakings – immediate parent company	299,904,908	303,118,121

8 Cash at bank

	2013 £	2012 £
Cash at bank - Group	1,210	1,211

9 Accruals, deferred income and other liabilities

	2013 £	2012 £
Accrued fees payable	-	3,452

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Deferred tax

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

	Cash flow hedge reserve £
At 1 January 2012	16,166,524
Charge to equity	890,785
At 31 December 2012	17,057,309
Credit to equity	(8,923,060)
At 31 December 2013	<u>8,134,249</u>

The closing deferred tax liabilities have been recognised at a rate of 20%

11 Debt securities in issue

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, £180 million Class A1 at 5.75 per cent due in 2023, £60 million Class M at 6.65 per cent due in 2023 and £25 million Class B at 7.65 percent due in 2023. As at the balance sheet date, the total fair value of the debt securities in issue was £347.5m (2011: £368.5m)

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

	2013 £	2012 £
Debt securities in issue (principal)	315,658,153	315,678,332
Amortisation until balance sheet date	(22,050,624)	(18,937,093)
Accrued interest	6,138,852	6,138,852
	<u>299,746,381</u>	<u>302,880,091</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Financial instruments

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.

	Hedging derivatives	Loans and receivables	At amortised cost	Non financial assets/ liabilities	Total
2013	£	£	£	£	£
Assets					
Derivative financial instruments	45,242,021	-	-	-	45,242,021
Loans and receivables	-	299,904,908	-	-	299,904,908
Cash at bank	-	1,210	-	-	1,210
	<u>45,242,021</u>	<u>299,906,128</u>	<u>-</u>	<u>-</u>	<u>345,148,139</u>
Liabilities					
Deferred tax liability	-	-	-	8,134,249	8,134,249
Debt securities in issue	-	-	299,746,381	-	299,746,381
	<u>-</u>	<u>-</u>	<u>299,746,381</u>	<u>8,134,249</u>	<u>307,880,630</u>
Shareholders' funds					<u>37,267,509</u>
					<u>345,148,139</u>
	Hedging derivatives	Loans and receivables	At amortised cost	Non financial assets/ liabilities	Total
2012	£	£	£	£	£
Assets					
Derivative financial instruments	78,359,230	-	-	-	78,359,230
Loans and receivables	-	303,118,121	-	-	303,118,121
Cash at bank	-	1,211	-	-	1,211
	<u>78,359,230</u>	<u>303,119,332</u>	<u>-</u>	<u>-</u>	<u>381,478,562</u>
Liabilities					
Accruals, deferred income and other liabilities	-	-	-	3,452	3,452
Deferred tax liability	-	-	-	17,057,309	17,057,309
Debt securities in issue	-	-	302,880,091	-	302,880,091
	<u>-</u>	<u>-</u>	<u>302,880,091</u>	<u>17,060,761</u>	<u>319,940,852</u>
Shareholders' funds					<u>61,537,710</u>
					<u>381,478,562</u>

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 11), the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS (continued)**12 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

2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets:				
Derivative financial instruments	-	45,242	-	45,242
2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Derivative financial instruments	-	78,359	-	78,359

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

2013	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	256,874
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

NOTES TO THE FINANCIAL STATEMENTS (continued)**13. 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 £299.1m (2012: £301.9m) 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 £45.2m (2012: £78.4m). 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.

14. Share capital

	2013 £	2012 £
Equity shares		
Authorised		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

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 Prudential Regulation Authority'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, 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. As at 31 December 2013, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in the UK. Copies of the consolidated accounts may be obtained from RBS Secretariat, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The Company's ultimate holding company, The Royal Bank of Scotland Group plc which is incorporated in the UK, heads the largest 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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16 Related parties (continued)**Capital Support Deed**

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

17. 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 additional disclosure in the financial statements.