

Company Registered No: 07001873

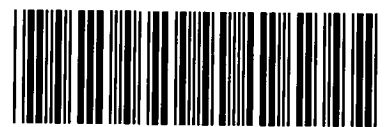
ARRAN SECURITISATION HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2013

**SFM Corporate Services Limited
35 Great St Helen's
London
EC3A 6AP**

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2013

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS: Helena Whitaker
SFM Directors Limited
SFM Directors (No.2) Limited

COMPANY SECRETARY: SFM Corporate Services Limited

REGISTERED OFFICE: 35 Great St Helen's
London
EC3A 6AP
United Kingdom

AUDITOR: Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Registered in England and Wales

DIRECTORS' REPORT

The Directors of Arran Securitisation Holdings Limited ("the Company") present their report and the audited financial statements for the year ended 31 December 2013.

ACTIVITIES AND BUSINESS REVIEW

In accordance with sections 381-383 of the Companies Act 2006 ("the Act"), the Company qualifies as a small company. The Directors' Report has therefore been prepared taking into consideration the entitlement to small companies exemptions provided in sections 414B (as incorporated into the Act by the Strategic Report and Directors' Report Regulations 2013) and 415A of the Act.

Activity

The principal activity of the Company continues to be an investment holding company. The investments in group undertakings were established primarily to raise finance through the securitisation of residential mortgage assets originated by The Royal Bank of Scotland plc ("RBS plc") and National Westminster Home Loans Limited ("NWHL"), a subsidiary of RBS plc. In October 2013, NWHL sold its mortgage assets and related securitised obligations to National Westminster Bank plc ("NW plc"), also a subsidiary of RBS plc. This transaction had no significant impact on the Company.

Review of the year**Business review**

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

Financial performance

The Company's financial performance is presented in the statement of comprehensive income on page 8. The operating loss before taxation for the year was £1,819 (2012: profit of £11,823).

The directors do not recommend the payment of any dividends (2012: £nil).

At the end of the year, the Balance Sheet showed total assets of £37,506 (2012: £37,508), which includes an investment in group undertakings of £37,505 (2012: £37,507) and total equity of £7,869 (2012: £9,688).

The Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the Company.

Principal risks and uncertainties

The principal risks to which the Company is exposed are liquidity risk and operational risk. These risks are further detailed in note 8 to the financial statements.

Going concern

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis.

DIRECTORS AND SECRETARY

The present directors and secretary who have served throughout the year and subsequently are listed on page 2.

DIRECTORS' REPORT**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 or loss for the financial year of the Company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the 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 are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

DIRECTORS' REPORT

DIRECTORS' INDEMNITIES

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the Directors' Report and the financial statements.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office. Accordingly, in accordance with Section 485 and 487 of the Companies Act 2006, Deloitte LLP are deemed reappointed as auditors of the Company.

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



Helena Whitaker
per pro SFM Directors Limited
As Director
Date: 26 June 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARRAN SECURITISATION HOLDINGS LIMITED

We have audited the financial statements of Arran Securitisation Holdings Limited ('the Company') for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications in 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 loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

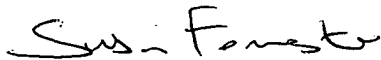
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARRAN SECURITISATION HOLDINGS 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; or
- directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption from preparing a Strategic Report or in preparing the Directors' Report.



Susan Forrester, CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom

26 June 2014

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

	Notes	2013 £	2012 £
Continuing operations			
Dividend income	6	-	14,002
Interest expense		(1,819)	(2,179)
(Loss)/profit before tax		(1,819)	11,823
Tax (credit)/charge	5	-	-
Total comprehensive (loss)/profit for the year		(1,819)	11,823

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

BALANCE SHEET
as at 31 December 2013

	Notes	2013 £	2012 £
Non-current assets			
Investments in group undertakings	6	37,505	37,507
Current assets			
Cash and cash equivalents		1	1
Total assets		37,506	37,508
Current liabilities			
Accruals, deferred income and other liabilities	7	29,637	27,820
Total liabilities		29,637	27,820
Equity			
Share capital	9	1	1
Retained earnings		7,868	9,687
Total equity		7,869	9,688
Total liabilities and equity		37,506	37,508

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

The financial statements were approved by the Board of directors on 26 June 2014 and signed on its behalf by:


Helena Whitaker
per pro SFM Directors Limited
As Director

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

	Share capital £	Retained earnings/ (losses) £	Total £
At 1 January 2012	1	(2,136)	(2,135)
Profit and total comprehensive income for the year	-	11,823	11,823
At 31 December 2012	1	9,687	9,688
Loss and total comprehensive loss for the year	-	(1,819)	(1,819)
At 31 December 2013	1	7,868	7,869

Total comprehensive loss for the year of £1,819 (2012: profit of £11,823) was wholly attributable to the owners of the Company.

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

CASH FLOW STATEMENT
for the year ended 31 December 2013

	Note	2013 £	2012 £
Operating activities			
(Loss)/profit for the year before taxation		(1,819)	11,823
Adjustments:			
Dividend received	6	-	(14,002)
Interest payable		1,819	2,179
Net cash flows from operating activities before tax		-	-
Tax paid		-	-
Net cash flows from operating activities		-	-
Cash flows from investing activities			
Dividend received		-	14,002
Disposal/(acquisition) of Group undertakings	6	2	(2)
Net cash flows from investing activities		2	14,000
Cash flows from financing activities			
Proceeds from loan		-	2
Repayment of loan		(2)	(12,502)
Repayment of interest on loan		-	(1,500)
Net cash flows used in financing activities		(2)	(14,000)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		1	1
Cash and cash equivalents at end of the year		1	1

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

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****a) Presentation and preparation of accounts**

The financial statements are prepared on a going concern basis (see the Directors' Report) and in accordance with IFRS 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 EU (together IFRS).

The financial statements have been prepared on the historical cost basis.

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

The Company is incorporated in the UK and registered in England and Wales.

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 ended 31 December 2013.

b) Consolidated financial statements

The financial statements contain information about Arran Securitisation Holdings Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company's investment in Group undertaking is included by full consolidation in the IFRS consolidated financial statements of The Royal Bank of Scotland Group plc ("RBS plc"), a public company registered in Scotland.

The Company is a holding company that holds investments in securitisation vehicles. These investments in Group undertakings are defined as special purpose entities in terms of IFRS 10 "Consolidated Financial Statements".

Even though RBS plc does not hold any of the voting rights in the Company's Investments in Group undertakings, the activities of the SPE are still conducted on behalf of RBS plc and it retains the majority of the residual ownership risks and benefits related to the SPE.

These financial statements present information about the Company as an individual entity. Control of the companies in which investments are held is vested in the Royal Bank of Scotland Group plc. As a result, consolidated financial statements are not prepared.

c) Investment in group undertaking

Investment in group undertaking is stated at cost less any impairment.

d) Accounting developments

No recent IASB announcement is expected to have a material effect on the Company's accounting policies or financial statements.

e) Foreign currencies

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.

f) 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 assets are recognised to the extent that it is probable that they will be recovered.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

g) Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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 the 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.

3. Staff costs, number of employees and directors' emoluments

The Company employed no staff during the year (2012: none). During the year under review the directors did not receive any remuneration from the Company in respect of qualifying services to the Company (2012: £nil).

4. Auditors' remuneration

Auditors' remuneration of £5,000 (2012: £5,000) is paid equally by the investments in group undertakings companies; Arran Residential Mortgages Funding 2010-1 Plc, Arran Residential Mortgages Funding 2012-1 Plc and Arran Residential Mortgages Funding 2012-2 Plc.

5. Tax

	2013 £	2012 £
Current taxation:		
UK corporation tax (credit)/charge for the year	-	-

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the small profits rate of UK corporation tax of 20% (2012: 20%) as follows:

	2013 £	2012 £
Operating (loss)/profit before tax	(1,819)	11,823
Expected tax (credit)/charge	(364)	2,365
Non taxable items	-	(2,800)
Effect of losses not utilised	364	435
Actual tax (credit)/charge for the year	-	-

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in group undertakings

Investments in group undertakings are carried at cost less impairment. Movements during the year were as follows:

	2013 £	2012 £
Cost and net book value		
At 1 January	37,507	37,505
Additions	-	2
Disposals	(2)	-
At 31 December	37,505	37,507

During the year, the Company has received dividend of £nil from its investment in group undertakings (2012: £14,002). Also, during the year the Company disposed of its investment in Arran Residential Mortgages Funding 2012-1 plc.

The investments in group undertakings of the Company are shown below. Their capital consists of the issued ordinary shares of £1 each.

Name of investment in group undertaking	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Arran Residential Mortgages Funding 2010-1 Plc*	United Kingdom	100%	100%	Raising finance from debt markets
Arran Residential Mortgages Funding 2011-1 Plc*	United Kingdom	100%	100%	Raising finance from debt markets
Arran Residential Mortgages Funding 2011-2 Plc*	United Kingdom	100%	100%	Raising finance from debt markets

*0.01% of the shares are held by SFM Nominees Limited as a nominee on trust for and on behalf of the Company.

7. Accruals, deferred income and other liabilities

	2013 £	2012 £
Loans from SFM Corporate Services Limited (see note 10)	25,003	25,005
Interest accrual on loans	4,634	2,815
	29,637	27,820

8. Risk management

The principal risks to which the Company's is exposed are liquidity risk, operational risk and interest rate risk. The Company has established a comprehensive framework for the management of these risks.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Operational risk

Operational risk losses occurs 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 Company manages these risks through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingent facilities to support operations in the event of disaster.

NOTES TO THE FINANCIAL STATEMENTS

8. Risk Management (continued)**Interest rate risk**

Interest rate risk arises where assets and liabilities have different re-pricing maturities.

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

As the Company is a holding company with no customers, it is not exposed to other risks such as market risk, currency risk or credit risk.

9. Share capital

	2013 £	2012 £
Allotted, called up and fully paid:		
Equity shares		
1 ordinary share of £1	1	1

The Company has one class of ordinary share which carries no right to fixed income.

10. Related parties**Group undertakings**

The entire share capital of the Company is held by SFM Corporate Services Limited ("SFMCS") under a declaration of trust for the benefit of certain charities. The directors consider SFMCS to be the ultimate parent undertaking. SFMCS is a wholly owned subsidiary of Structured Finance Management Limited ("SFM").

Copies of the financial statements of SFM, a company registered in England and Wales, may be obtained from 35 Great St Helen's, London, EC3A 6AP.

During the year fees of £3,705 (2012: £2,100) were paid to SFM in respect of corporate services fees provided to the group; these fees were borne by the Company's investments in group undertakings.

On 10 November 2010 SFMCS had provided a loan totalling £12,501.50, bearing interest at 6% per annum, to fund the acquisition of the Company's investment in Arran Residential Mortgages Funding 2011-1 Plc. This remains outstanding as at 31 December 2013.

On 1 September 2011 SFMCS had provided a loan totalling £12,501.50, bearing interest at 7.2% per annum, to fund the acquisition of the Company's investment in Arran Residential Mortgages Funding 2011-2 Plc. This remains outstanding as at 31 December 2013.

11. 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 to, or disclosure in the financial statements.