Company Registration No: 05771789

CARE HOMES 1 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
P.O. Box 1000
Edinburgh
EH12 1HQ

CONTENTS **Page**

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	H Henderson-Cleland T J Pettit S C Taylor A E Tobin
SECRETARY:	R E Fletcher
REGISTERED OFFICE:	135 Bishopsgate London EC2M 3UR
AUDITORS:	Deloitte LLP London

Registered in England and Wales.

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company is investment business.

The Company is a subsidiary of The Royal Bank of Scotland Group plc ('RBSG') which provides it with access to suitable central resources including finance, risk, and human resources. In making investment decisions, the Company has regard to the risk appetite and philosophy set by the board of the RBSG. 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 Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's web site at rbs.com.

Review of the year

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.

The Company's financial performance is presented in the Income Statement on Page 7. The profit after taxation for the year amounted to £653,961 (2007: £739,608). The directors do not recommend the payment of a dividend (2007: nil).

At the end of the year, the financial position showed total assets of £149,422,354 and equity of £11,705,132.

The Company's exposure to financial risks are disclosed in Note 14.

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2008, approved on 25 February 2009, which were prepared 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 2008 to date the following changes have taken place:

Director	Appointed	Resigned
H W Ashwin	22 July 2008	27 March 2009
C B Higgins	-	20 June 2008
S C Taylor	27 March 2009	-

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which 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 1985 and 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 AUDITORS

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

(1) so far as he/she is aware there is no relevant audit information of which the Company's auditors are unaware, and
(2) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below.

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is RBSG's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

DIRECTORS' REPORT (CONTINUED)

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors.

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

....

A E Tobin
Director
28 April 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARE HOMES 1 LIMITED

We have audited the financial statements of Care Homes 1 Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the accounting policies and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities .
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the directors' report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CARE HOMES 1 LIMITED (Continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
28 April 2009

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Year ended 31/12/08 £	Year ended 31/12/07 £
Revenue	4	8,078,851	7,668,445
Other operating expenses	4	(1,748,863)	(1,245,644)
Finance costs	5	(5,605,683)	(5,612,843)
Administrative expenses		(70,344)	(70,350)
Profit before taxation		**653,961**	**739,608**
Taxation	6	-	-
Profit for the year		**653,961**	**739,608**

The results above arose wholly from continuing operations.

The notes on pages 11 to 19 form an integral part of the financial statements.

CARE HOMES 1 LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	As at 31/12/08 £	As at 31/12/07 £
Current assets			
Derivative financial instruments	12	13,741,185	-
Cash and cash equivalents	7	135,681,169	137,568,635
Total assets		**149,422,354**	**137,568,635**
Current liabilities			
Derivative financial instruments	12	-	(2,341,743)
Accruals and deferred income		(77,364)	(71,989)
Non-current liabilities			
Deferred taxation	13	(3,982,979)	-
Debt securities	11	(133,656,879)	(136,239,045)
Total assets / (liabilities)		**(137,717,222)**	**(138,652,777)**
Net liabilities		**11,705,132**	**(1,084,142)**
Equity			
Share capital	8	10,000	10,000
Hedge reserve		10,241,947	(1,893,366)
Retained earnings		1,453,185	799,224
Total equity		**11,705,132**	**(1,084,142)**

The notes on pages 11 to 19 form an integral part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 28 April 2009.

Signed on its behalf by:

A E Tobin
Director

CARE HOMES 1 LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital £	Hedge reserve £	Retained earnings £	Total £
Balance at 1 January 2007	**10,000**	**(2,048,161)**	**59,616**	**(1,978,545)**
Gain on cash flow hedge	-	154,795	-	154,795
Net gain recognised directly in equity	-	154,795	-	154,795
Profit for the year	-	-	739,608	739,608
Total recognised income and expenses	-	154,795	739,608	894,403
Balance at 1 January 2008	**10,000**	**(1,893,366)**	**799,224**	**(1,084,142)**
Gain on cash flow hedge	-	16,118,292	-	16,118,292
Deferred taxation	-	(3,982,979)	-	(3,982,979)
Net gain recognised directly in equity	-	12,135,313	-	12,135,313
Profit for the year	-	-	653,961	653,961
Total recognised income and expenses	-	12,135,313	653,961	12,789,274
Balance at 31 December 2008	**10,000**	**10,241,947**	**1,453,185**	**11,705,132**

CARE HOMES 1 LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Year ended 31/12/08 £	Year ended 31/12/07 £
Net cash flow from operating activities	9	**(1,887,466)**	**(1,393,962)**
Net cash flow for the year		**(1,887,466)**	**(1,393,962)**
Cash and cash equivalents at beginning of year		137,568,635	138,962,597
Cash and cash equivalents at end of year	7	**135,681,169**	**137,568,635**

The notes on pages 11 to 19 form an integral part of the financial statements.

1. Accounting policies

a) Basis of preparation

The financial statements, which should be read in conjunction with the Directors' Report, have been prepared on a going concern basis and in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets and liabilities. There is no material difference between the fair value and the carrying value of assets and liabilities accounted for at amortised cost.

Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 12 *Service Concession Arrangements;* and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* The adoption of these Interpretations has not led to any changes in the financial statements of the Company.

At the date of approval of these financial statements, although the following Standards and Interpretations were in issue, they were not effective and the Company has not chosen to adopt them early:

IFRS 1 (Amended)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amended)	Share-based Payment
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 (Amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The directors anticipate that the adoption of these Standards and Interpretations in future periods should not have a material impact on the financial statements of the Company when the relevant standards come into effect.

b) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are 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. Cash is recognised when received and cash equivalents are recognised when the investments are made.

c) Financial liabilities and finance costs

Financial liabilities are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Accounting policies (continued)

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

Changes in fair values of derivative financial instruments which are designated and effective as hedges of cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement.

e) Taxation
Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the RBS Group, and in relation to goodwill.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

2. Directors and employees

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

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

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

3. Profit before taxation

Audit fees of £5,000 (2007: £5,000) are borne by The Royal Bank of Scotland plc.

4. Revenue

	Year ended 31/12/08 £	Year ended 31/12/07 £
Interest income	8,078,851	7,668,445
Other operating expenses		
Interest rate swaps	(1,748,863)	(1,245,644)
	6,329,988	**6,422,801**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Finance costs

	Year ended 31/12/08 £	Year ended 31/12/07 £
Interest expense on debt securities in issue	**5,605,683**	**5,612,843**

6. Taxation

	Year ended 31/12/08 £	Year ended 31/12/07 £
Tax expense:		
UK corporation tax	-	-

The tax expense for the year can be reconciled to the profit in the income statement as follows:

	Year ended 31/12/08 £	Year ended 31/12/07 £
Profit before taxation	653,961	739,608
Tax charge thereon	186,361	221,882
Non-taxable income from amortisation of premiums on debt securities issued	(736,997)	(773,742)
Thin capitalisation adjustment	60,133	303,053
Intra Group settlement for nil consideration	490,503	248,807
UK corporation tax charge	-	-

The Company is resident in the United Kingdom for tax purposes. The Company's corporation tax liability is determined using the standard corporation tax rates in the United Kingdom of 30% for the period 1 January 2008 to 31 March 2008 and 28% for the period 1 April 2008 to 31 December 2008 (2007: 30%).

With effect from incorporation the Company has agreed, in the wider interests of The Royal Bank of Scotland Group, to surrender any tax losses to other group companies for nil consideration and as part of this agreement will also receive tax losses from other group companies for nil consideration.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Cash and cash equivalents

	As at 31/12/08 £	As at 31/12/07 £
Loans to group undertakings	135,636,006	137,568,157
Cash at bank	45,163	478
	135,681,169	**137,568,635**

8. Share capital

Authorised	**Number of Shares**	**As at 31/12/08 £**	**As at 31/12/07 £**
Ordinary Shares of £1 each	10,000	**10,000**	**10,000**

Allotted, called up and fully paid	**Number of Shares**	**As at 31/12/08 £**	**As at 31/12/07 £**
Ordinary Shares of £1 each	10,000	**10,000**	**10,000**

9. Reconciliation of profit to operating cash flows

	Year ended 31/12/08 £	Year ended 31/12/07 £
Profit before taxation	653,961	739,608
Decrease in operating assets (adjusted for movement in fair value of derivative recognised directly in equity)	483,742	-
Decrease in operating liabilities (adjusted for movement in fair value of derivative recognised directly in equity)	(3,025,169)	(2,133,570)
Net cash flow from operating activities	**(1,887,466)**	**(1,393,962)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Parent Companies

The Company's immediate parent company is Care Homes Holdings Limited.

The Company's ultimate parent company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

On 1 December 2008, the UK Government, through HM Treasury, acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited, a company wholly-owned by the UK Government.

11. Debt securities in issue

On 4 December 2006 Care Homes 1 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, £60million Class A1 at 8.0 per cent due in 2021, and £40million Class A2 at 8.5 per cent due in 2021.

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.

12. Derivative financial instruments

The Company is party to an interest rate swap transaction to hedge exposure to variability in cashflows arising from its floating rate deposits. As at the balance sheet date, the contract had a nominal value of £133.7m (2007: £135.6m) which amortises over time in line with the asset it hedges. The swap entitles the Company to receive fixed cash flows (based on a rate of 4.8049%) in exchange for variable cashflows based on 6 month sterling LIBOR. The swap matures in April 2021 and at the balance sheet date had a fair value of £13.7m (2007: £(2.3)m). This derivative is designated as a cashflow hedge of the Company's variable cashflows.

13. Deferred tax

Deferred tax on Derivative financial instruments	£
Balance at 1 January 2008	-
Charge to Equity (Hedge reserve)	3,982,979
Balance at 31 December 2008	**3,982,979**

Deferred taxation has been provided for at the current standard corporation tax rate of 28%.

14. Capital and financial risk management

Capital management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors its capital structure and sets the amount of capital after considering the cost of capital, the risks associated with the capital and with regard to the risk appetite and capital management objectives of The Royal Bank of Scotland Group ("RBSG"). In undertaking the management of capital, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce any debt.

The adjusted net equity managed at 31 December 2008 and at 31 December 2007 was as follows:

	As at 31/12/08 £	**As at 31/12/07 £**
Total assets	149,422,354	137,568,635
Less:		
Total liabilities	(137,717,222)	(138,652,777)
Adjusted net equity	**11,705,132**	**(1,084,142)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. Capital and financial risk management (continued)

Financial risk management

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

Market risk

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

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

The main component of market risk that the Company faces is interest rate risk. The Company manages interest rate risk by monitoring consistency in 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 £488 lower (2007: £744 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.

Credit risk

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

The Company's exposure to credit risk is not considered to be significant as a major component of its credit exposures are with related parties (Note 15). As at 31 December 2008 there were no outstanding or impaired loans due to the Company.

14. Capital and financial risk management (continued)

Liquidity risk

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

Liquidity risk is mitigated by the routine monitoring of key management information.

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted net cash outflows.

As at 31 December 2008

	Less than 1 month and on demand £000s	1-3 months £000s	3 months to 1 year £000s	1–5 years £000s	5+ years £000s
Debt securities	-	-	8,200	32,800	161,500

As at 31 December 2007

	Less than 1 month and on demand £000s	1-3 months £000s	3 months to 1 year £000s	1–5 years £000s	5+ years £000s
Debt securities	-	-	8,200	32,800	169,700

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Related party transactions

During the year, the Company was party to various transactions with The Royal Bank of Scotland plc. These transactions were entered into on an arms length basis unless stated otherwise and in respect of the surrender of tax losses (see Note 6). The income statement impact and outstanding balances arising from these transactions as at 31 December 2008 are set out below:

The Royal Bank of Scotland plc	**Year ended 31/12/08 £**	**Year ended 31/12/07 £**
Income statement impact:		
- Interest income	8,078,851	7,668,445
- Other operating expenses	(1,748,863)	(1,245,644)
- Finance costs	(5,605,683)	(5,612,843)
- Administrative expenses	(70,344)	(70,350)
	653,961	**739,608**

	As at 31/12/08 £	**As at 31/12/07 £**
Amounts owed to Company:		
- Derivative financial instruments	13,741,185	-
- Unsecured loans	135,636,006	137,568,157
	149,377,191	**137,568,157**

Amounts owed to the Company consisted of a £133.7m 6 month GBP LIBOR loan with a residual maturity of less than 5 months.

	As at 31/12/08 £	**As at 31/12/07 £**
Amounts owed by the Company:		
- Issued debt securities	133,656,879	136,239,045
- Derivative financial instruments	-	2,341,743
- Accrued fees	32,443	71,989
	133,689,322	**138,652,777**

The debt securities in issue have a combined nominal value of £100m, with an effective interest rate of 5.61% and a maturity of April 2021.