Company Registered No: 05771789

CARE HOMES 1 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S P Nixon K D Pereira. L E Roberts
COMPANY SECRETARY:	NatWest Markets Secretarial Services Limited
REGISTERED OFFICE:	250 Bishopsgate London England EC2M 4AA
INDEPENDENT AUDITOR:	Ernst & Young LLP Statutory Auditor 25 Churchill Place Canary Wharf London E14 5EY

Registered in England and Wales

DIRECTORS' REPORT

The directors of Care Homes 1 Limited ("the Company") present their annual report together with the audited financial statements for the year ended 31 December 2018.

ACTIVITIES AND BUSINESS REVIEW

The Directors' report has been prepared in accordance with the provisions available to companies entitled to the small companies exemption and therefore does not include a Strategic report.

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 part of The Royal Bank of Scotland Group plc ("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 Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at www.rbs.com.

Review of the year

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 on page 13 to 16.

The operating loss for the year was £108,579 (2017: profit of £15,415). The retained loss for the year was £108,579 (2017: profit of £15,415).

The directors do not recommend the payment of a dividend (2017: nil).

At the end of the year the Balance Sheet showed total assets of £118,428,761 (2017: £126,376,502) including income-generating assets comprising loans and receivables of £108,880,182 (2017: £111,846,675) together representing an decrease of 6.29%. Total shareholders' funds were £7,346,566 (2017: £11,220,242).

Principal risks and uncertainties

The Company seeks to minimise its exposure to financial risks other than 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 Group Asset and Liability Management Committee (Group ALCO).

DIRECTORS' REPORT

Principal risks and uncertainties (continued)

The principal risks associated with the company are as follows:

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.

Interest rate risk
Structural interest rate risk arises where assets and liabilities have different repricing maturities.

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

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.

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.

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.

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' REPORT

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 2018 to date the following changes have taken place:

Secretary	Appointed	Resigned
RBS Secretarial Services Limited	-	23 August 2018
NatWest Markets Secretarial Services Limited	23 August 2018	-

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. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard (FRS) 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 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 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.

To the best of our knowledge, the financial statements for the year ending 31 December 2018 for the issuer ("Care Homes 1 Limited") have been prepared in accordance Financial Reporting Standards 101 Reduced Disclosure Framework, and give a true and fair view of the assets, liabilities, financial position and profit of Care Homes 1 Limited. We can also confirm that the Directors' report includes a fair review of the development and performance of the business and the position of Care Homes 1 Limited, together with a description of the principal risks and uncertainties that it faces.

This statement addresses section 4.a. (i) of the circular issued by the Commission de Surveillance du Secteur Financier, Luxembourg.

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
- 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

AUDITOR

Ernst & Young LLP has expressed its willingness to continue in office as auditor.

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

The accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

L E Roberts

L E Roberts
Director
Date: 26 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 1 LIMITED

Opinion

We have audited the financial statements of Care Homes 1 Limited for the year ended 31 December 2018 which comprise Profit and loss account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 13 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Inappropriate valuation of derivatives, associated income and the related cash movement in cash flow hedging reserves • Inappropriate amortisation of the debt securities
Materiality	• Overall planning materiality of £1,184,288 which represents 1% of Total Assets

Key audit matters.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
Inappropriate valuation of derivatives, associated income and the related movement in cash flow hedging reserves The Company has securitisation debt which was assumed by the entity from a historical transaction when RBS acquired the Nursing Homes Property group of companies. The entity then entered into a floating rate deposit and a swap agreement with RBS that would enable the entity to meet the ongoing interest obligations and ultimate repayment obligations under the bonds. A derivative asset is recognised in the financial statements from this transaction. The valuation of the derivative instruments involves significant judgment which also poses risk of inappropriate revenue recognition and movements in the cashflow hedge reserves. The judgement in estimating fair value of the instrument can involve complex valuation models and significant fair value adjustments both of which may be reliant on data inputs where there is limited market observability.	As part of the RBS group audit, we performed trade life-cycle product walkthroughs to confirm our understanding of RBS's process and controls around revenue recognition relating to financial instruments with higher risk characteristics. We tested the design and operating effectiveness of the Group's controls over financial instrument valuations, including independent price verification, model approval/review, collateral management, and income statement analysis and reporting. We obtained the underlying trade contract and verified the existence and ownership of recorded derivatives as well as the underlying terms of the instruments and we engaged our derivative valuation experts to test the fair value of derivatives and the appropriate recording in the financial statements in accordance with the entity's accounting policies and FRS 101. With the support from our internal financial instrument valuation specialists, we performed an independent valuation of the interest rate derivative. We evaluated the hedging relationship and verified that all conditions for the cash flow hedging relationships are in accordance with the entity's accounting policies and the Financial Reporting Standards. We have also corroborated the revenue on the derivative in the year by independently recalculating the interest and further ensured that reserves carried forward from prior periods and movements in the	We concluded to those charged with governance that based on the procedures performed, we are satisfied that the derivative assets, associated interest income and the related cash flow hedge reserves as at 31 December 2018 are fairly stated. However, we note that there was a sub-LIBOR element of ineffectiveness identified that had been incorrectly recognised on designation of the cash flow hedge reserve. This resulted in a reclassification from the cash flow hedge reserve to retained earnings in the current year to correct the ineffectiveness in the reserve on designation of the hedge. This correction was not material and therefore did not require a restatement of 2017 balances.

	year are appropriate.	
Inappropriate amortisation of the debt securities In terms of IFRS 9, financial liabilities are initially measured at fair value and subsequently measured at amortised cost. The amortised cost of a financial instrument is defined as the amount at which it was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial instrument (or group of instruments) and of allocating the interest expense over the relevant period. Due to the complexity of the calculation, there is a risk that the amortisation using the effective interest rate method is incorrectly calculated, resulting in the closing balance of the debt security being incorrect as well as the interest recognised in the income statement.	During the RBS group audit, we tested the design and operating effectiveness of the Group's key controls over the debt securities. We performed the procedures below as part of our substantive procedures; We obtained the novation agreement when the entity assumed the liability as well as the original issuance documents (prospectus) to understand the terms of the agreements. We reviewed the amortisation of the instruments using the effective interest rate, including calculation and allocation of the finance costs to the appropriate periods to determine the amortised cost at year end. We reviewed the contracts for compliance with terms and tested whether the entity is meeting the agreed contractual obligations, including coupon payments. We noted that the entity is meeting its obligations in terms of the contract.	We concluded to those charged with governance that based on the procedures performed, we are satisfied that the debt securities are fairly stated and appropriate disclosures have been included in the financial statements.

An overview of the scope of our audit.

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We consider size, risk profile, the organisation of the company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

All audit work was performed directly by the audit engagement team, except for the valuation of the derivative asset at year end, which was valued by our valuation specialists as noted in key matters above.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £1,184,288 (2017: £112,000), which is 1% of Total Assets (2017: 1% of Equity). The reason for selecting this measure as the basis for our audit materiality is that NWM Plc fully owns and fund the entity and that the entity's assets are designed to fund the obligations arising on the bond issuance, which has been fully acquired by NWM Plc. We therefore consider that the assets are the primary focus to the users of the financial statements.

During the course of our audit, we reassessed initial materiality moving from an Equity-based measure to Total Assets. This was mainly driven by assessing the primary focus of the users of the financial statements, being NWM Plc directors, who are focused on the assets of the entity, as opposed to a relatively small share capital base.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Based on our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £592,144 (2017: £56,000). We had set performance materiality at this percentage due to audit differences identified in the prior year audit requiring adjustments to both balances in 2017 and prior year accounts.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with those charged with governance that we would report to them all uncorrected audit differences exceeding £59,214 (2017: £5,600), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and considering other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the directors' report set out on pages 2 to 5. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken during the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 1 LIMITED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud.

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Financial Reporting Standards (FRS) 101, the Companies Act 2006 and the Luxembourg Stock Exchange (CSSF) listing requirements.
- We understood how Care Homes 1 Limited is complying with those frameworks by making enquiries of management and those charged with governance and identifying the controls in place in order to comply;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of legal counsel and

executive management and focused testing, as referred to in the Key Audit Matters section above;

- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the RBS Group audit committee, we were appointed as auditors by the Audit Committee and signed an engagement letter on 3 July 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 December 2016 to 31 December 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

Use of our report

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.

Ernst & Young LLP

David Canning-Jones *(Senior statutory auditor)*
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

26th April 2019

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2018

Income from continuing operations	Notes	2018 £	2017 £
Revenue	3	5,034,586	5,296,054
Finance costs	5	(5,087,754)	(5,226,966)
Administrative expenses		(55,411)	(53,673)
Operating (Loss)/profit before tax		(108,579)	15,415
Tax charge	6	-	-
(Loss)/profit for the financial year		(108,579)	15,415

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	2018	2017
	£	£
(Loss)/profit for the financial year	**(108,579)**	15,415
Other comprehensive income: subject to reclassification		
Movement on cash flow hedges	**(4,726,917)**	(4,918,469)
Other comprehensive loss before tax	**(4,726,917)**	(4,918,469)
Tax credit	**961,820**	934,510
Other comprehensive loss after tax	**(3,765,097)**	(3,983,959)
Total comprehensive loss for the year	**(3,873,676)**	(3,968,544)

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

BALANCE SHEET
as at 31 December 2018

	Notes	2018 £	2017 £
Current assets			
Derivative financial instruments	11	**9,548,370**	14,527,153
Loans and receivable at amortised cost	7	**108,880,182**	111,846,675
Cash at bank	8	**209**	2,674
Total assets		**118,428,761**	126,376,502
Current liabilities			
Deferred tax liability	9	**1,589,023**	2,550,843
Accrued interest	10	**1,141,827**	1,174,299
		2,730,850	3,725,142
Non-current liabilities			
Debt securities in issue	10	**108,351,345**	111,431,118
Total liabilities		**111,082,195**	115,156,260
Equity			
Called up share capital	12	**10,000**	10,000
Cash flow hedge reserve		**6,774,257**	10,874,649
Profit and loss account		**562,309**	335,593
Total equity		**7,346,566**	11,220,242
Total liabilities and equity		**118,428,761**	126,376,502

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

The financial statements were approved by the Board of Directors on 26 April 2019 and signed on it's behalf by:

L E Roberts

L E Roberts
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share capital £	Cash flow hedge reserve £	Profit and loss account £	Total £
At 1 January 2017	10,000	14,858,608	320,178	15,188,786
Profit for the year	-	-	15,415	15,415
Loss on cash flow hedge	-	(4,918,469)	-	(4,918,469)
Deferred tax	-	934,510	-	934,510
At 31 December 2017	10,000	10,874,649	335,593	11,220,242
Reclassifcation from cash flow hedge reserve	-	**(335,295)**	**335,295**	**-**
Loss for the year	-	-	**(108,579)**	**(108,579)**
Loss on cash flow hedge	-	**(4,726,917)**	**-**	**(4,726,917)**
Deferred tax	-	**961,820**	**-**	**961,820**
At 31 December 2018	**10,000**	**6,774,257**	**562,309**	**7,346,566**

Since the preparation of the 2017 accounts, a review of the composition of the cash flow hedge reserve has revealed a small degree of ineffectiveness. While immaterial to the results of any previous period, the cumulative amount of £335,295 up to 31 December 2017 has been presented as a reclassification between the Cash flow hedge reserve and Retained earnings, with the current year impact shown in Note 3.

Total comprehensive loss for the year of £3,873,676 (2017: £3,968,544) was wholly attributable to the owners 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;
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework 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
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

The Company has early adopted all of the amendments to FRS 101 as a result of the Triennial review 2017 amendments with effect from 1st January 2018.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council.

The Company is a private limited company limited by shares which is incorporated in the UK and registered in England and Wales and the financial statements are presented:

- in accordance with the Companies Act 2006:
- in Sterling which is the functional currency of the Company: and
- with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
  - comparative information in respect of certain assets;
  - cash-flow statement;
  - standards not yet effective;
  - related party transactions; and
  - disclosure requirements of IFRS 7 "Financial Instruments: Disclosure and IFRS 13 "Fair value Measurement."

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 13.

The few changes to IFRS that were effective from 1 January 2018 have had no material effect on the Company's financial statements for the year ended 31 December 2018.

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 liability (or group of financial assets or liabilities) 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.

NOTES TO THE FINANCIAL STATEMENTS

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 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) Cash at bank
Cash at bank comprises interest bearing deposits held with banks.

e) Financial instruments
On initial recognition, financial instruments are measured at fair value. Subsequently they are measured as follows: designated at fair value through profit or loss; amortised cost, the default class for liabilities; fair value through profit or loss, the default class for assets; or financial assets may be designated as at fair value through other comprehensive income. Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

Amortised cost assets – have to meet both the following criteria:

- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

Amortised cost liabilities – all liabilities that are not subsequently measured at fair value are measured at cost.

An equity instrument may be designated irrevocably at fair value through other comprehensive income. Other assets designated at fair value through other comprehensive income – assets have to meet both the following criteria:
(a) the asset is held within a business model whose objective is both to hold assets to collect contractual cash flows and selling financial assets; and
(b) the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

Business model assessment – business models are assessed at portfolio level, being the level at which they are managed. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio. The criteria for classifying cash flows as solely principal and interest are assessed against the contractual terms of a facility, with attention to leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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 Profit and Loss Account.

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 11 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) Derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition in accordance with IFRS 9 "Financial Instruments".

A financial liability is removed from the balance sheet when the obligation is discharged, cancelled or expires.

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. In accordance with their responsibilities for these financial statements, the factors the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

Fair value - financial instruments
Derivative financial instruments are classified as at fair value through profit or loss and are recognised in the financial statements at fair value. Changes in fair value are recognised in profit or loss as they arise 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

	2018	2017
	£	£
Interest income	**730,624**	443,064
Interest rate swap income	**4,425,038**	4,852,990
Hedging ineffectiveness	**(121,076)**	-
	5,034,586	5,296,054

4. Operating expenses

The auditor's remuneration for statutory audit work of £7,000 (2017: £7,000) 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 (2017: £nil).

Directors' emoluments
The Company does not remunerate directors nor can remuneration from elsewhere in the group be apportioned meaningfully in respect of their services to the Company. There are no other staff.

5. Finance costs

	2018	2017
	£	£
Interest expense on debt securities in issue	**5,087,754**	5,226,966

6. Tax

	2018	2017
	£	£
Current tax:		
UK corporation tax charge for the year	**-**	-

The actual tax (credit)/charge differs from the expected tax (credit)/charge computed by applying the rate of UK corporation tax of 19% (2017: blended tax rate 19.25%) as follows:

	2018	2017
	£	£
(Loss)/profit on ordinary activities before tax	**(108,579)**	15,415
Expected tax (credit)/charge	**(20,630)**	2,967
Non-deductible items	**62,239**	16,282
Non taxable items from amortisation of premiums on debt securities issued	**(591,327)**	(571,422)
Group relief surrendered for nil consideration	**549,718**	552,173
Actual tax charge for the year	**-**	-

In recent years the UK Government has steadily reduced the rate of UK Corporation tax, with latest rates substantively enacted at the balance sheet date now standing at 19% from 1 April 2017 and 17% 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.

7. Loans and receivables

	2018	2017
	£	£
Amounts due from group company - immediate parent company	**108,880,182**	111,846,675

Loans and receivables consist of a £109m 6 months deposit with a residual maturity of less than 5 months (2017: £112m 6 months deposit with a residual maturity of less than 5 months).

8. Cash at bank

	2018	2017
	£	£
Cash at bank - group	**209**	2,674

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 2017	3,485,353
Release to equity	(934,510)
At 31 December 2017	2,550,843
Release to equity	**(961,820)**
At 31 December 2018	**1,589,023**

10. Debt securities in issue

	2018	2017
	£	£
Debt securities in issue	**108,351,345**	111,431,118
Accrued interest	**1,141,827**	1,174,299
	109,493,172	112,605,417

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, £60m Class A1 at 8.0% due in 2021, and £40m Class A2 at 8.5% due in 2021. As at the balance sheet date, the total fair value of the debt securities in issue was £115.8m (2017: £123.4m). These debt securities are listed on the Luxembourg Stock Exchange. Although the debt securities are listed, they are not actively traded and therefore the fair value has been determined based on a valuation model.

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.

11. 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 £108.4m (2017: £111.5m) 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 cash flows based on six month sterling LIBOR. The swap matures in April 2021 and at the balance sheet date had a fair value of £9.5m (2017: £14.5m). 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. The derivative counter-party is RBS.

NOTES TO THE FINANCIAL STATEMENTS

12. Share capital

	2018 £	2017 £
Authorised:		
10,000 Ordinary shares of £1 each	**10,000**	10,000
Allotted, called up and fully paid:		
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.

13. 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 companies
At 31 December 2018

The Company's immediate parent was:	Care Homes Holdings Limited
The smallest consolidated accounts including the company were prepared by:	NatWest Markets plc
The ultimate parent company was:	The Royal Bank of Scotland Group plc

Group undertakings
The amount of related party balances are shown in note 7, 8 and 11.

On 29 April 2018 The Royal Bank of Scotland plc changed its name to NatWest Markets plc.

All parent companies are incorporated in the UK. Copies of their accounts may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

Capital Support Deed
As a pre-requisite of ring-fencing, from 1 November 2018 the bank has left the RBS Group capital support deed and is now party to a new capital support deed comprising non ring-fenced bank UK entities. The new capital support deed has limited significance for NWM Plc as it is the only member bank and the other entities have modest capitalisations.