

Company Registered No: 05771789

CARE HOMES 1 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2017



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

S P Nixon
K D Pereira
L E Roberts

COMPANY SECRETARY:

RBS 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 2017.

CHANGE OF REGISTERED OFFICE

On 13 April 2017, the Registered Office of the Company changed from 135 Bishopsgate London, EC2M 3UR to 250 Bishopsgate London, EC2M 4AA.

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 profit for the year was £15,415 (2016: restated £32,687). The retained profit for the year was £15,415 (2016: restated £32,687).

The directors do not recommend the payment of a dividend (2016: nil).

At the end of the year the Balance Sheet showed total assets of £126,376,502 (2016: £134,252,590) including income-generating assets comprising loans and receivables of £111,846,675 (2016: £114,784,201) together representing an decrease of 5.87%. Total shareholders' funds were £11,220,242 (2016: restated £15,188,786).

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 RBS Asset and Liability Management Committee (RBS 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.

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. Management focuses on risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

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

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 2017 to date the following changes have taken place:

Directors	Appointed	Resigned
S J Caterer	-	31 January 2017
N J Nunn	-	31 March 2017
D A Duke	1 April 2017	8 November 2017
L E Roberts	6 April 2017	-
K D Pereira	8 November 2017	-
S P Nixon	8 November 2017	-

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 2017 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.

DIRECTORS' REPORT

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.

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.



K D Pereira
Director
25 April 2018

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 2017 which comprise Profit and loss account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 16 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 2017 and of its profit 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.

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.

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	<ul style="list-style-type: none">• Inappropriate valuation of derivatives and the related cash flow hedging reserves• Inappropriate amortisation of the debt securities
Materiality	<ul style="list-style-type: none">• Overall planning materiality of £134,600 (final materiality £112,000) which represents 1% of equity.

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

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
<p>Inappropriate valuation of derivatives and the related cash flow hedging reserves</p> <p>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.</p> <p>The valuation of the derivative instruments involves significant judgment which also poses risk of inappropriate revenue recognition through mis-marking.</p> <p>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.</p>	<p>As part of the RBS group audit, we performed trade life-cycle product walkthroughs to confirm our understanding of RBS's process and controls in the area of revenue recognition relating to financial instruments with higher risk characteristics.</p> <p>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.</p> <p>We performed further procedures as set out below in respect of the derivative instruments in the entity;</p> <p>We obtained the underlying hedge 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.</p>	<p>We concluded to those charged with governance that based on the procedures performed, we are satisfied that the derivative assets and the related cash flow hedge reserves as at 31 December 2017 are fairly stated.</p>

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

Risk	Our response to the risk	Key observations communicated to those charged with governance
	<p>The EY specialists' work included a detailed review of model documentation and use swaps linked to pre-payment behaviour, interest rate and use of internally developed EY challenger models to analyse and challenge judgements and assumptions applied in the model.</p> <p>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.</p> <p>We used the information obtained during the audit in determining whether management has identified appropriate indicators of impairment and ensured that reserves carried forward from prior periods are still appropriate.</p>	
<p>Inappropriate amortisation of the debt securities</p> <p>In terms of IAS 39, 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 of any difference between that initial amount and the maturity amount, and minus any loss allowance. 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 income or expense over the relevant period.</p>	<p>During the RBS group audit we tested the design and operating effectiveness of the Group's key controls over the debt securities.</p> <p>We performed the procedures below as part of our substantive procedures;</p> <p>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.</p>	<p>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 following the adjustments processed to correct the difference.</p>
Risk	Our response to the risk	Key observations

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

		communicated to those charged with governance
	<p>We reviewed the amortisation of the instruments including calculation and allocation of the finance costs to the appropriate periods to determine the amortised cost at year end. The company had previously estimated an effective interest rate using a straight line profile. We undertook refined calculations to assess the difference from the effective interest rate method defined by IFRS.</p> <p>We proposed adjustments to be made in the financial statements including the impact on the prior period balances as disclosed in note 16 to the financial statements.</p> <p>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.</p>	

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 take into account 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, with the exception of 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.

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

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 £134,600 (2016: £178,243), which is 1% (2016: 1%) of equity. The reason for selecting this measure as the basis for our audit materiality consideration is due to the fact that the entity has listed debt and the net assets (solvency) is of significant importance to investors.

Following the difference identified during the audit in respect of the amortisation of the debt, we reassessed initial materiality. The final materiality was £112,000 and adopting equity as the basis remained unchanged from our initial assessment above.

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.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2016: 50%) of our planning materiality, namely £100,950 (2016: £89,122). We had set performance materiality at this percentage due to our previous experience as auditors of the Company, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to the effective control environment and no audit differences resulting from our prior year work. However, following the identification of the difference above, we determined it appropriate to reduce performance materiality to 50%, therefore £56,000 being our final performance materiality.

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 in excess of £6,730 (2016: £8,900), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. As the planning materiality was reduced due to the difference identified, our reporting threshold naturally reduced to £5,600.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of 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, other than the financial statements and our auditor's report thereon. 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.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of 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.

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 and the part of the Directors' Remuneration Report to be audited 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.

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

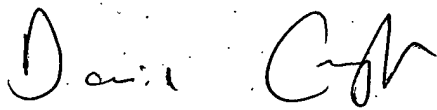
Our approach was as follows:

- 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 25 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2016 and 31 December 2017.
- 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.



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

26th April 2018

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

		2017	Restated 2016 ⁽¹⁾
Income from continuing operations	Notes	£	£
Revenue	3	5,296,054	5,446,273
Finance costs	5	(5,226,966)	(5,359,949)
Administrative expenses		(53,673)	(53,637)
Operating profit before tax		15,415	32,687
Tax charge	6	-	-
Profit for the financial year		15,415	32,687

⁽¹⁾ For details of restatement refer to note 16.

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

	2017 £	Restated 2016 ⁽¹⁾ £
Profit for the financial year	15,415	32,687
Items that will be reclassified subsequently to profit or loss:		
Movement on cash flow hedges	(4,918,469)	399,135
Other comprehensive (loss)/income before tax	(4,918,469)	399,135
Tax credit	934,510	103,612
Other comprehensive (loss)/income after tax	(3,983,959)	502,747
Total comprehensive (loss)/income for the year	(3,968,544)	535,434

⁽¹⁾ For details of restatement refer to note 16.

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

BALANCE SHEET

as at 31 December 2017

	Notes	2017 £	Restated 2016 ⁽¹⁾ £
Current assets			
Derivative financial instruments	12	14,527,153	19,465,358
Loans and receivables	7	111,846,675	114,784,201
Cash at bank	8	2,674	3,031
Total assets		126,376,502	134,252,590
Current liabilities			
Deferred tax liability	9	2,550,843	3,485,353
Accrued interest	10	1,174,299	1,205,318
		3,725,142	4,690,671
Non-current liabilities			
Debt securities in issue	10	111,431,118	114,373,133
Total liabilities		115,156,260	119,063,804
Equity			
Called up share capital	13	10,000	10,000
Cash flow hedge reserve		10,874,649	14,858,608
Profit and loss account		335,593	320,178
Total equity		11,220,242	15,188,786
Total liabilities and equity		126,376,502	134,252,590

⁽¹⁾ For details of restatement refer to note 16.

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

The financial statements were approved by the Board of Directors on 25th April 2018 and signed on it's behalf by:



K D Pereira
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Share capital £	Cash flow hedge reserve £	Profit and loss account £	Total £
At 1 January 2016	10,000	14,355,861	3,179,060	17,544,921
Adjustment	-	-	(2,891,569)	(2,891,569)
At 1 January 2016 (restated) ⁽¹⁾	10,000	14,355,861	287,491	14,653,352
Profit for the year	-	-	32,687	32,687
Profit on cash flow hedge	-	399,135	-	399,135
Deferred tax	-	103,612	-	103,612
At 31 December 2016 (restated) ⁽¹⁾	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

⁽¹⁾ For details of restatement refer to note 16.

Total comprehensive loss for the year of £3,968,544 (2016: restated income of £535,434) 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 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; and
 - related party transactions.

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 15.

The few changes to IFRS that were effective from 1 January 2017 have had no material effect on the Company's financial statements for the year ended 31 December 2017.

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.

Financial assets and financial liabilities held for trading or designated as at fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in profit or loss.

Fees in respect of services are recognised as the right to consideration accrues through the provisions of services to customers. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised.

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.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****c) Taxation (continued)**

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 assets

On initial recognition, financial assets are classified into held-for-trading; designated as at fair value through profit or loss; loans and receivables; or available-for-sale financial assets.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

f) Derivative financial instruments and hedging

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

Any resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges). Changes in fair values of derivative financial instruments which are designated and effective as hedges of cash flows are recognised directly in equity at each balance sheet date and the ineffective portion is recognised immediately in the 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 12 sets out details of the fair values of the derivative instrument used for hedging purposes. Movements in the hedging reserve in equity are shown in the Statement of Changes in Equity.

g) Financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

h) 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 IAS 39 "Financial Instruments : Recognition and Measurement".

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 recognised in the financial statements at fair value. Any gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. Revenue

	2017 £	2016 £
Interest income	443,064	676,546
Interest rate swap income	4,852,990	4,769,727
	<u>5,296,054</u>	<u>5,446,273</u>

4. Operating expenses

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by group companies and the accounts of The Royal Bank of Scotland Group plc which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees and pays a management fee for services provided by other group companies. 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.

The auditor's remuneration for statutory audit work of £7,000 (2016: £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 (2016: £nil).

5. Finance costs

	2017 £	Restated 2016 ⁽¹⁾ £
Interest expense on debt securities in issue	<u>5,226,966</u>	<u>5,359,949</u>

⁽¹⁾ For details of restatement refer to note 16.

NOTES TO THE FINANCIAL STATEMENTS

6. Tax

	2017	Restated 2016 ⁽¹⁾
	£	£

Current tax:

UK corporation tax charge for the year

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The actual tax charge/(credit) differs from the expected tax credit computed by applying the blended rate of UK corporation tax of 19.25% (2016: standard tax rate 20%) as follows:

	2017	Restated 2016 ⁽¹⁾
	£	£
Profit on ordinary activities before tax	15,415	32,687
Expected tax credit	2,967	6,537
Non taxable items from amortisation of premiums on debt securities issued	(571,422)	(568,462)
Transfer pricing adjustment	16,282	-
Group relief surrendered for nil consideration	552,173	561,925
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 20% with effect from 1 April 2015, 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.

⁽¹⁾ For details of restatement refer to note 16.

7. Loans and receivables

	2017	2016
	£	£
Amounts due from Group undertakings - immediate parent company	111,846,675	114,784,201

Loans and receivables consist of a £112m 6 months deposit with a residual maturity of less than 5 months (2016: £114m 6 months deposit with a residual maturity of less than 5 months).

8. Cash at bank

	2017	2016
	£	£
Cash at bank - Group	2,674	3,031

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 2016	3,588,965
Release to equity	(103,612)
At 31 December 2016	3,485,353
Release to equity	(934,510)
At 31 December 2017	2,550,843

NOTES TO THE FINANCIAL STATEMENTS

10. Debt securities in issue

	2017	Restated 2016 ⁽¹⁾
	£	£
Debt securities in issue	111,431,118	114,373,133
Accrued interest	1,174,299	1,205,318
	112,605,417	115,578,451

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 £123.4m (2016: £128.2m). These debt securities are listed on the Luxembourg Stock Exchange. The debt securities in issue fall within level 2 of the valuation hierarchy methodologies as set out on page 22. 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.

⁽¹⁾ For details of restatement refer to note 16.

11. Financial instruments

Categories of Financial instrument

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

	Hedging derivatives	Loans and receivables	At amortised cost	Non financial assets/ liabilities	Total
2017	£	£	£	£	£
Assets					
Derivative financial instruments	14,527,153	-	-	-	14,527,153
Loans and receivables	-	111,846,675	-	-	111,846,675
Cash at bank	-	2,674	-	-	2,674
	14,527,153	111,849,349	-	-	126,376,502
Liabilities					
Deferred tax	-	-	-	2,550,843	2,550,843
Accrued interest	-	-	1,174,299	-	1,174,299
Debt securities in issue	-	-	111,431,118	-	111,431,118
	-	-	112,605,417	2,550,843	115,156,260
Equity					11,220,242
					126,376,502

NOTES TO THE FINANCIAL STATEMENTS

11. Financial instruments (continued)

Restated 2016 ⁽¹⁾	Hedging derivatives £	Loans and receivables £	At amortised cost £	Non financial assets/ liabilities £	Total £
Assets					
Derivative financial instruments	19,465,358	-	-	-	19,465,358
Loans and receivables	-	114,784,201	-	-	114,784,201
Cash at bank	-	3,031	-	-	3,031
	19,465,358	114,787,232	-	-	134,252,590
Liabilities					
Deferred tax	-	-	-	3,485,353	3,485,353
Accrued interest	-	-	1,205,318	-	1,205,318
Debt securities in issue	-	-	114,373,133	-	114,373,133
	-	-	115,578,451	3,485,353	119,063,804
Equity					15,188,786
					134,252,590

⁽¹⁾ For details of restatement refer to note 16.

The directors consider that, with the exception of debt securities in issue (note 10), the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate to their fair values. Where the financial instruments are of short maturity, the carrying value is equal to the fair value.

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

Valuation hierarchy

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

	Level 1 £	Level 2 £	Level 3 £	Total £
2017				
Assets				
Derivative financial instruments	-	14,527,153	-	14,527,153
2016				
Assets				
Derivative financial instruments	-	19,465,358	-	19,465,358

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value.

Level 1: valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities

Level 2: valued by reference to observable market data, other than quoted market prices

Level 3: valuation is based on inputs other than observable market data.

NOTES TO THE FINANCIAL STATEMENTS

11. Financial instruments (continued)

The derivative financial instruments recorded at fair value for the Company are all considered Level 2 being valued using pricing models. Inputs for these models are usually observed directly in the market, or derived from observed prices.

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency and those instruments values using techniques include most government securities, investment-grade corporate bonds, certain bank and bridge loans, repos and reverse repos, less liquid equities, state and municipal obligations, most physical commodities, certain money market securities and loan commitments and most OTC derivatives.

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 profit for the year would have been £2,580 lower (2016: £2,304). 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

The table below provides details of credit exposures for those financial assets neither past due nor impaired:

	2017 £	2016 £
Group companies		
- Loans and receivables	111,846,675	114,784,201
- Cash at bank	2,674	3,031
Maximum credit exposure	111,849,349	114,787,232

Based on counterparty payment history the Company considers all the above financial assets to be of good credit quality.

Financial Liabilities

The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments

	0-3 months £'000	3-12 months £'000	1-3 years £'000	3-5 years £'000
2017				
Debt securities in issue	-	8,200	16,400	104,100
	0-3 months £'000	3-12 months £'000	1-3 years £'000	3-5 years £'000
2016				
Debt securities in issue	-	8,200	16,400	112,300

NOTES TO THE FINANCIAL STATEMENTS

12. Derivative financial instruments

The Company is party to an interest rate swap transaction to hedge exposure to variability in cash flows arising from its floating rate deposits. As at the balance sheet date, the contract had a nominal value of £111.5m (2016: £114.4m) 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 £14.5m (2016: £19.4m). The fair value of the interest rate swap at the reporting date is determined by discounting the future cash flows using the curves at the reporting date. This derivative is designated as a cash flow hedge of the Company's variable cash flows. The derivative counter-party is RBS.

13. Share capital

	2017 £	2016 £
Authorised:		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid:		
10,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

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

14. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings and loans from Group undertakings. The Company is a member of The Royal Bank of Scotland Group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the Company is governed by the Group's policy which is to maintain a strong capital base. The Company is separately regulated and has complied with the CSSF requirements throughout the year. As part of the governance of the Company the capital position is actively managed and regularly reviewed with necessary action taken as required.

15. Related parties

UK Government

The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. Its shareholding is managed by UK Financial Investments Limited, a company it wholly-owns and as a result, the UK Government and UK Government controlled bodies are related parties of the Company.

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of: taxes including UK corporation tax and value added tax; national insurance contributions; local authority rates; and regulatory fees and levies; together with banking transactions such as loans and deposits undertaken in the normal course of banker-customer relationships.

Group undertakings

The Company's immediate parent company is Care Homes Holdings Limited, a company incorporated in the UK and registered in England and Wales. At 31 December 2017, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in the UK and registered in Scotland. Copies of the consolidated financial statements may be obtained from Corporate Governance and Regulatory Affairs, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ. The amount of related party balances are shown in note 7, 8 and 12.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in the UK and heads the largest group in which the Company is consolidated. Copies of the consolidated financial statements may be obtained from Corporate Governance and Regulatory Affairs, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS

15. Related parties (continued)

Capital Support Deed

The Company, together with other members of The Royal Bank of Scotland Group plc, is party to a capital support deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Company may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

16. Restatement

As a result of adjusting for the difference in amortisation from straight line to the effective interest rate method for financial liabilities, 2016 comparative figures have been restated.

The following line items and notes 5, 6, 10 and 11 have been impacted by the restatement.

- Finance cost
- Debt securities in issue
- Profit & Loss account (equity)

The effects of restatement have been shown below:

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2016

	2016 previously reported £	Adjustment £	Restated 2016 £
Income from continuing operations			
Revenue	5,446,273	-	5,446,273
Finance costs	(5,616,054)	256,105	(5,359,949)
Administrative expenses	(53,637)	-	(53,637)
Operating (loss)/profit before tax	(223,418)	256,105	32,687
Tax charge	-	-	-
(Loss)/profit for the financial year	(223,418)	256,105	32,687

NOTES TO THE FINANCIAL STATEMENTS

16. Restatement (continued)

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 previously reported £	Adjustment £	Restated 2016 £
(Loss)/profit for the financial year	(223,418)	256,105	32,687
Items that will be reclassified subsequently to profit or loss:			
Movement on cash flow hedges	399,135	-	399,135
Other comprehensive income before tax	399,135	-	399,135
Tax credit	103,612	-	103,612
Other comprehensive income after tax	502,747	-	502,747
Total comprehensive income for the year	279,329	256,105	535,434

NOTES TO THE FINANCIAL STATEMENTS

16. Restatement (continued)

BALANCE SHEET

as at 31 December 2016

	2016 previously reported £	Adjustment £	Restated 2016 £
Current assets			
Derivative financial instruments	19,465,358	-	19,465,358
Loans and receivables	114,784,201	-	114,784,201
Cash at bank	3,031	-	3,031
Total assets	134,252,590	-	134,252,590
Current liabilities			
Deferred tax liability	3,485,353	-	3,485,353
Accrued interest	-	1,205,318	1,205,318
	3,485,353	1,205,318	4,690,671
Non-current liabilities			
Debt securities in issue	112,942,987	1,430,146	114,373,133
Total liabilities	116,428,340	2,635,464	119,063,804
Equity			
Called up share capital	10,000	-	10,000
Cash flow hedge reserve	14,858,608	-	14,858,608
Profit and loss account	2,955,642	(2,635,464)	320,178
Total equity	17,824,250	(2,635,464)	15,188,786
Total liabilities and equity	134,252,590	-	134,252,590

NOTES TO THE FINANCIAL STATEMENTS

16. Restatement (continued)

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share capital £	Cash flow hedge reserve £	Profit and loss account £	Total £
At 1 January 2016	10,000	14,355,861	3,179,060	17,544,921
Adjustment	-	-	(2,891,569)	(2,891,569)
At 1 January 2016 (restated)	10,000	14,355,861	287,491	14,653,352