Company Registered No: 05771783

CARE HOMES 2 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

CARE HOMES 2 LIMITED 05771783

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	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

STRATEGIC REPORT

ACTIVITIES AND BUSINESS REVIEW

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.

The RBS Group comprises The Royal Bank of Scotland Group plc and its subsidiaries.

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 11 to 14.

The operating loss for the year was £20,868 (2018: £279,220). The comprehensive loss for the year was £3,661,449 (2018: £9,928,685).

Turnover increased by £21,830 (2018: decrease of £481,501) and expenses decreased by £ 145,496 (2018: £157,403). After release of impairment provisions of £118,519 (2018: £27,493), the loss for the year was £20,868 (2018: £279,220).

The directors do not recommend the payment of a dividend (2018: nil).

At the end of the year, the balance sheet showed total assets of £316,344,703 (2018: £325,152,019) including income-generating assets comprising loans and receivables of £280,471,678 (2018: £284,121,763) together representing a decrease of 1.28%. Total shareholders' funds were £27,037,901 (2018: £30,699,350).

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 NatWest Markets Group Asset and Liability Management Committee (NWM ALCO).

The Company is funded by facilities from NatWest Markets Plc. These are denominated in sterling which is the functional currency and carry no significant financial risk.

The Company's assets mainly comprise derivative financial instruments and loans and receivables which would expose it to interest, credit, liquidity and market risk except that the counterparties are group companies and credit risk is not considered significant.

The principal risks associated with the company are as follows:

STRATEGIC REPORT

Principal risks and uncertainties (continued)

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

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company.

All material loans receivable are with group companies. Although credit risk arises this is not considered to be significant and no amounts are past due.

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 principal market risk to which the Company is exposed to is interest rate risk, and is mitigated by monitoring the interest rate profile of its assets and liabilities.

Going concern

These financial statements are prepared on a going concern basis, see note 1(a) on page 15.

Director's duties

Section 172(1) of the Companies Act 2006 (Section 172) is one of the statutory duties that directors have and requires them to promote the success of the Company for the benefit of shareholders as a whole while taking into account the interests of other stakeholders and, in so doing, have regard to the matters set out in Section 172(1)(a) to (f). These include the long term consequences of decisions, colleague interests, the need to foster the Company's business relationships with suppliers, customers and others; the impact on community and the environment and the Company's reputation.

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties, including Section 172(1), and were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018 in advance of the effective date. RBS Group has introduced a new approach to board and committee papers with greater focus on ensuring relevant stakeholder interests are clearly articulated and guidance on documenting decisions has been refreshed to ensure these are recorded in a consistent manner across RBS Group.

STRATEGIC REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare a Directors' Report and financial statements for each financial year. 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.

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.

K. Pereira

K D Pereira

Director

Date: 29 June 2020

DIRECTORS' REPORT

The Strategic Report includes the review of the year, risk report and disclosure of information to auditors.

AUDITOR

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

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

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 2019 to date the following changes have taken place:

Directors	**Appointed**	**Resigned**
S P Nixon	-	26 April 2019

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

K. Pereira

K D Pereira

Director

Date: 29 June 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 LIMITED

Opinion

We have audited the financial statements of Care Homes 2 Limited ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 15, 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 2019 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 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.

Emphasis of Matter – *Effects of COVID-19*

We draw attention to Note 1(a) and 15 of the financial statements, which describes the economic uncertainties as a result of Covid-19 and the disruption to business operations. Our opinion is not modified in respect of this matter.

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
Materiality	• Overall planning materiality of £3,163,386 which represents 1% of Total Assets

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 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
Inappropriate valuation of derivatives, associated income and the related movement in cash flow hedging reserves As per Note 9 to the financial statements, the Company has £279m securitisation debt which was assumed by the entity from a historical transaction when NatWest Markets Plc acquired the Nursing Homes Property group of companies. The entity then entered into a floating rate deposit and a swap agreement with NatWest Markets Plc 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. 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 the one recorded derivative 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	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 2019 are fairly stated

	carried forward from prior periods and movements in the year are appropriate.	

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 £3,163,386 (2018: £3,252,783), which is 1% of Total Assets (2018: 1% of Total Assets). The reason for selecting this measure as the basis for our audit materiality is that NatWest Markets Plc fully owns and funds 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 NatWest Markets Plc. We therefore consider that the assets are the primary focus to the users of the financial statements.

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% (2018: 50%) of our planning materiality, namely £1,581,724 (2018: £1,626,391). We have set performance materiality at this percentage due to audit differences identified in the prior year audit requiring adjustments to the 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 £158,172 (2018: £162,639), 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 LIMITED

Other information

The other information comprises the information included in the annual report, 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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have 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 strategic report or 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;
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CARE HOMES 2 LIMITED
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.

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.

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 L.L.P.

Jean-Philippe Faillat (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 30 June 2020

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2019

Income from continuing operations	**Notes**	**2019 £**	2018 £
Turnover	**3**	**12,450,013**	12,428,183
Interest payable	**4**	**(12,534,762)**	(12,680,480)
Operating expenses		**(54,638)**	(54,416)
Operating loss before impairment		**(139,387)**	(306,713)
Impairment release	**7**	**118,519**	27,493
Operating loss before tax		**(20,868)**	(279,220)
Tax credit/(charge)	**6**	**-**	-
Loss for the financial year		**(20,868)**	(279,220)

The accompanying notes from pages 15 to 22 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019	2018
	£	£
Loss for the financial year	**20,868**	(279,220)
Other comprehensive loss subject to reclassification		
Movement on cash flow hedges	**(5,068,709)**	(12,215,953)
Other comprehensive loss before tax	**(5,068,709)**	(12,215,953)
Tax credit	**1,428,128**	2,566,428
Other comprehensive loss after tax	**(3,640,581)**	(9,649,465)
Total comprehensive loss for the year	**(3,661,449)**	(9,928,685)

The accompanying notes from pages 15 to 22 form an integral part of these financial statements.

BALANCE SHEET
as at 31 December 2019

	Notes	2019 £	2018 £
Current assets			
Amounts due from group companies	7	**280,471,678**	284,121,763
Derivative financial instruments	11	**35,872,208**	41,029,401
Cash at bank	8	**817**	855
Total assets		**316,344,703**	325,152,019
Current Liabilities			
Accruals, deferred income and other liabilities	10	**4,671,345**	4,733,005
		4,671,345	4,733,005
Non-current Liabilities			
Debt securities in issue	9	**279,209,612**	282,865,691
Deferred tax liabilities		**5,425,845**	6,853,973
Total liabilities		**289,306,802**	294,452,669
Equity			
Called up share capital	12	**10,000**	10,000
Cash flow hedge reserve		**25,578,985**	29,219,566
Profit & loss account		**1,448,916**	1,469,784
Total equity		**27,037,901**	30,699,350
Total liabilities and equity		**316,344,703**	325,152,019

The accompanying notes from pages 15 to 22 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 June 2020 and signed on it's behalf by:

K D Pereira

Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Share capital	Cash flow hedge reserve	Retained earnings	Total
	£	£	£	£
At 1 January 2018	10,000	40,160,914	610,867	40,781,781
Reclassification from cash flow hedge reserve	-	(1,291,883)	1,291,883	-
ECL provision adjustment for previous years	-	-	(153,746)	(153,746)
Loss for the year	-		(279,220)	(279,220)
Loss on Cash Flow hedge	-	(12,215,953)	-	(12,215,953)
Deferred tax credit	-	2,566,488	-	2,566,488
At 1 January 2019	10,000	29,219,566	1,469,784	30,699,350
Loss for the year	-	-	**(20,868)**	**(20,868)**
Loss on Cash Flow hedge	-	**(5,068,709)**	-	**(5,068,709)**
Deferred tax credit	-	**1,428,128**	-	**1,428,128**
Balance as at 31 December 2019	**10,000**	**25,578,985**	**1,448,916**	**27,037,901**

Total comprehensive loss for the year of £3,661,449 (2018: £9,928,685) was wholly attributable to the owners of the Company.

The accompanying notes from pages 15 to 22 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. In the first quarter of 2020, the World Health Organisation declared the Covid-19 outbreak to be a pandemic. Many governments, including the UK, have taken stringent measures to contain and/or delay the spread of the virus. Actions taken in response to the spread of Covid-19 have resulted in severe disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates, and a marked decline in long-term interest rates in developed economies.
  The NatWest Markets Group (the "Group") has a well-developed business continuity plan which includes pandemic response, enabling the Group to quickly adapt to these unprecedented circumstances and continue as viable business.
  There remains significant uncertainty regarding the developments of the pandemic and the future economic recovery. The most likely expected financial impact is in respect of the Company's profitability, assets, operations and liquidity which management continues to monitor.
  In assessing going concern, a Covid-19 impact analysis was performed across the RBS Group. The directors have also considered the uncertainties associated with Covid-19 including the different ways in which this could impact the cash flows, capital, solvency and liquidity position of the Company and any mitigations management have within their control to implement. Based on this assessment, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have prepared the financial statements 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 International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS); and
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: fair value through other comprehensive income and 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;
  - 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 changes to IFRS that were effective from 1 January 2019 have had no material effect on the Company's financial statements for the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

b) Revenue recognition

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through OCI using the effective interest rate method, the effective part of any related accounting hedging instruments and finance lease income recognised at a constant periodic rate of return before tax on the net investment. Negative effective interest accruing to financial assets is presented in interest payable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. 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.

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, other comprehensive 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) Financial instruments

Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how the Company manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows; from selling those financial assets; or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets

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.

All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

Most financial assets are held to collect the contractual cash flows that comprise solely payments of principal and interest and are measured at amortised cost. Amounts due from group companies and debt securities in issue are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

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

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

The Company designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges). Changes in fair values of derivative financial instruments which are designated and effective as hedges of cash flows are recognised directly in equity at each balance sheet date and the ineffective portion is recognised immediately in the 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.

Hedge relationships are formally designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and measurement. 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.

f) Impairment of financial assets
At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are rebased from 12 month to lifetime expectations.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Financial instruments classified as fair value through other comprehensive income are recognised in the Financial Statements at fair value. Unrealised gains and losses are recognised directly in equity unless an impairment loss is recognised.

Financial instruments classified as designated as at fair value through profit or loss 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.

3. Turnover

	2019	2018
	£	£
Interest income from group companies	2,211,995	1,699,349
Interest rate swap income	10,380,928	11,055,646
Hedging ineffectiveness	(142,910)	(326,812)
	12,450,013	12,428,183

4. Interest payable

	2019	2018
	£	£
Interest expense on debt securities in issue	12,534,762	12,680,480

5. Operating expenses

The auditor's remuneration for statutory audit work of £24,000 (2018: £8,104) for the Company was borne by NatWest Markets Plc. Remuneration paid to the auditor for non-audit work for the Company was £nil (2018: £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 members of staff.

NOTES TO THE FINANCIAL STATEMENTS

6. Taxation

	2019	2018
	£	£
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% (2018: 19%) as follows:

	2019	2018
	£	£
Profit/ (loss) on ordinary activities before tax	**20,868**	(279,220)
Expected tax charge/ (credit)	**(3,965)**	(53,052)
Non-Deductible items	**40,116**	14,296
Non taxable items from amortisation of premiums on debt securities issued	**(427,544)**	(683,907)
Non taxable movement on intercompany provision	**(22,519)**	-
Group relief surrendered for nil consideration	**413,912**	722,663
Actual tax credit/(charge)	-	-

In recent years the UK Govemment has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted at the balance sheet date 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 these rates, as these were substantively enacted at the balance sheet date.

Since the balance sheet date, it was announced in the UK Government's Budget on 11 March 2020 that the reduction in the UK Corporation tax rate to 17% from 1 April 2020 will not proceed. Instead, the UK Corporation tax rate will remain at 19%. This change was substantively enacted on 17 March 2020 and is therefore a non adjusting post balance sheet event.

As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19% rate. The impact of the post balance sheet date change in tax rate is expected to result in an increase of £465k in the deferred tax liability recognised in respect of the company's cash flow hedging reserve as at 31 December 2019. This will result in a reduction in the cash flow hedging reserve by the same amount.

Deferred tax

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

	Cash flow hedge reserve
	£
At 1 January 2018	9,420,461
Release to equity	(2,566,488)
At 31 December 2018	6,853,973
Release to equity	(1,428,128)
At 31 December 2019	**5,425,845**

NOTES TO THE FINANCIAL STATEMENTS

7. Amounts due from group companies

	2019	2018
	£	£
Due within one year:		
Amount due from Group company - NWM Plc	**280,479,412**	284,248,016
IFRS 9 impairment provision	**(7,734)**	(126,253)
	280,471,678	284,121,763

Loans and receivables consist of a £280m (2018: £284 m) 6 months deposit with a residual maturity of less than 5 months.

The valuation of the loan includes an ECL provision, as per IFRS9 requirements, implemented in 2018. The provision referring to 2019 is £7,734 (2018: £126,253); release of excess provison which gives a P&L income in 2019 of £118,519.

8. Cash at bank

	2019	2018
	£	£
Cash at bank - NatWest Market Plc	**817**	855

9. Debt securities in issue

	2019	2018
	£	£
Due after more than one year:		
Debt securities in issue	**279,209,612**	282,865,691

On 4 December 2006 Care Homes 2 Limited became an obligor in respect of certain debt securities by means of a novation from NHP Group.

Each of these debt securities is denominated in sterling and carries a fixed rate of interest as follows, £180million Class A1 at 5.75% due in 2023, £60million Class M at 6.65% due in 2025 and £25million Class B at 7.65% due in 2025. These debt securities are listed on 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 debt securities Class M and Class B may be subject to early redemption. They may be redeemed in full or in part at their Principal Amount Outstanding on the A note final redemption date (15 February 2023) or on any subsequent Interest Payment Date after the A note final redemption date. The Management intends to exercise this early redemption option.

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.

10. Accruals, deferred income and other liabilities

	2019	2018
	£	£
Accrued interest	**4,671,345**	4,733,005

NOTES TO THE FINANCIAL STATEMENTS

11. Derivative financial instruments

The Company is party to interest rate swap transactions to hedge exposure to variability in cash flows arising from its floating rate deposits. As at the balance sheet date, the contracts had a nominal value of £279m (2018: £283m) which amortizes over time in line with the asset it hedges. The swaps entitle the Company to receive fixed cash flows (based on a rate of 4.6055%) in exchange for variable cash flows based on six month sterling LIBOR. The swaps mature in February 2023 and at the balance sheet date had a fair value of £35.87m (2018: £41.03m). The fair value of the interest rate swaps 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 NWM plc.

12. Share capital

	2019	2018
	£	£
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 Government 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 loans and deposits undertaken in the normal course of banker-customer relationships

Group companies

At 31 December 2019

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 notes 7, 8, 9, 10 and 11.

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

On 14 February 2020 the ultimate parent company, The Royal Bank of Scotland Group plc, announced its intention to rename to NatWest Group plc later in 2020.

NOTES TO THE FINANCIAL STATEMENTS

14. Contingent liabilities

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

15. Post balance sheet events

The directors consider Covid-19 to be a non-adjusting post balance sheet event and as such no adjustments have been made to the measurement of assets and liabilities as at 31 December 2020. Refer to note 1a for the director's assessment of the impact on the Company. While there remains significant uncertainty regarding the developments of Covid-19 and the future economic recovery, a precise estimate of its financial effect, cannot be made at the date of issue of the financial statements. There could be an impact on profitability, assets, operations, liquidity and the directors continue to monitor this, however, at this stage do not consider there to be any material issues for the Company.