

Company Registered No: 01829405

LOMBARD LEASE FINANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
For the year ended 31 December 2019

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

L Conner
I A Ellis
E M Mayes

COMPANY SECRETARY:

NatWest Group Secretarial Services Limited (Previously known
as RBS Secretarial Services Limited)

REGISTERED OFFICE:

250 Bishopsgate
London
England
EC2M 4AA

INDEPENDENT AUDITOR:

Ernst & Young LLP
Statutory Auditor
The Paragon
Counterslip
Bristol
BS1 6BX

Registered in England and Wales

DIRECTORS' REPORT

ACTIVITIES AND BUSINESS REVIEW

This Directors' Report has been prepared in accordance with the provisions applicable 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 the provision of fixed asset finance usually involving individually structured facilities.

Review of the year

Business review

The directors are satisfied with the Company's performance in the year. The Company will be guided by its shareholders in seeking further opportunities for growth. Post balance sheet events are described in note 21 to the financial statements.

Financial Performance

The retained profit for the year was £1,062,000 (2018: loss of £1,930,000) and this was transferred to reserves. The directors do not recommend payment of an ordinary dividend (2018: nil).

Principal risks and uncertainties

The Company seeks to minimise its exposure to financial risks other than credit risk.

Management focuses on both the overall balance sheet structure and the control, within prudent limits, of risk arising from mismatches, including currency, maturity, interest rate and liquidity. It is undertaken within limits and other policy parameters set by the Group Asset and Liability Management Committee (Group ALCO).

The Company is funded by facilities from Royal Bank Leasing Limited. These are denominated in Sterling which is the functional currency and carry no significant financial risk.

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

Interest rate risk

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

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

Credit risk

Credit risk management seeks to match the risk of credit failure to price of credit on granting a facility 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.
- 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.

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.

DIRECTORS' REPORT

Principal risk and uncertainties (continued)

Market risk

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

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the NatWest group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

Going concern

These financial statements are prepared on a going concern basis, see note 1(a) on page 11.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year and subsequently except where noted below, are listed on page 1.

From 1 January 2019 to date the following changes have taken place:

Directors	Appointed	Resigned
E M Mayes	10 May 2019	-
D Harris	-	1 November 2019
S J Roulston	-	18 November 2019
L Conner	18 November 2019	-

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare a Directors' report and financial statements for each financial year. 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 year. 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 the Directors' Report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

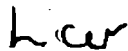
- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that 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:



L. Conner
Director

Date: 27 October 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD LEASE FINANCE LIMITED

Opinion

We have audited the financial statements of Lombard Lease Finance Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 21 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 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 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 Notes 1(a) and 21 of the financial statements, which describes the economic disruption the Company is facing as a result of Covid-19, which is impacting current business operations and financial markets. 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD LEASE FINANCE LIMITED

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 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 are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirements 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.

Auditor's responsibilities for the audit of the financial statements

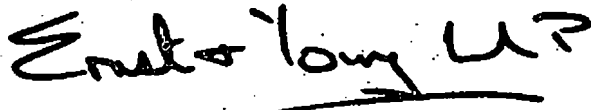
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD LEASE FINANCE LIMITED

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.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP' with a stylized flourish at the end.

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol, United Kingdom
Date: 30 October 2020

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

		2019	2018
	Notes	£'000	£'000
Income from continuing operations			
Turnover	3	1,851	4,174
Operating Income	4	281	71
Operating expenses	5	(27)	(11,121)
Impairment reversal of losses/(losses)	6	5	(7)
Operating profit/(loss)		2,110	(6,883)
Finance Income	7	114	360
Finance costs	8	(1,847)	(4,127)
Profit/(loss) before tax		377	(10,650)
Tax credit	9	685	8,720
Profit/(loss) and total comprehensive income/(loss) for the year		1,062	(1,930)

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

BALANCE SHEET
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Finance lease receivables	10	175,306	176,316
		175,306	176,316
Current assets			
Finance lease receivables	10	9,936	24,544
Loans receivable	11	16,073	16,814
Trade and other receivables	12	11	2,803
Prepayments, accrued income and other assets	13	1,284	-
Cash at bank		59	885
		27,363	45,046
Total assets		202,669	221,362
Current Liabilities			
Borrowings	14	2,605	17,000
Trade and other payables	15	5,374	8,175
Current tax liabilities		-	1,354
Accruals, deferred income and other liabilities	16	334	612
		8,313	27,141
Non-current liabilities			
Borrowings	14	156,865	158,173
Deferred tax liability	9	19,118	18,737
Preference shares	17	14,980	14,980
		190,963	191,890
Total liabilities		199,276	219,031
Equity			
Called up share capital	18	1	1
Profit and loss account		3,392	2,330
Total equity		3,393	2,331
Total liabilities and equity		202,669	221,362

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

The financial statements of the Company were approved by the Board of Directors on 27 October 2020 and signed on its behalf by:



L Conner
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	1	4,262	4,263
Implementation of IFRS 9	-	(2)	(2)
Loss for the year	-	(1,930)	(1,930)
At 31 December 2018	1	2,330	2,331
Profit for the year	-	1,062	1,062
At 31 December 2019	1	3,392	3,393

Total comprehensive profit for the year of £1,062,000 (2018: comprehensive loss of £1,930,000) 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. 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 Holdings 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, liquidity, which management continues to monitor.

In assessing going concern, a Covid-19 impact analysis was performed across the NatWest 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 a historical cost basis.

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 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 20.

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.

b) Revenue recognition

Turnover comprises income from finance leases, loans and other services which arises in the United Kingdom from continuing activities.

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review, if there is a reduction in the estimated unguaranteed residual value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Revenue from the sale of rental assets is recognised on transfer of ownership.

Fee income in respect of lending arrangements is considered integral to the yield and is included in the effective interest rate on these arrangements.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****b) Revenue recognition (continued)**

Interest income or expense relates to financial instruments measured at amortised cost and debt instruments classified as fair value through other comprehensive income 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.

IFRS requires rental income to be calculated using the interest rate at inception of the lease; variations from that rate are presented as contingent rentals.

c) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the profit and loss account except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

d) Leases

The Company has adopted IFRS 16 'Leases' with effect from 1 January 2019, replacing IAS 17 'Leases'. The Company has applied IFRS 16 on a modified retrospective basis.

As lessor

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Loans to customers include finance lease receivables measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Interest receivable includes finance lease income recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

e) Derivatives

Derivative financial instruments are recognised initially, and subsequently measured, at fair value, with movements recognised in profit and loss account. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

f) 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, or to equity investments designated as at fair value through other comprehensive income. In all other instances, fair value through profit or loss is the default classification and measurement category for financial assets.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****f) Financial instruments (continued)**

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. Certain financial assets managed under a business model of both to collect contractual cash flows comprising solely of payments of principal and interest, and to sell, are measured at fair value through other comprehensive income.

g) Impairment of financial assets

At December 2019 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.

On restructuring a financial asset without causing derecognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or property. Where the Company's interest in equity shares following the exchange is such that the Company controls an entity, that entity is consolidated.

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Allowances in respect financial guarantees and loan commitments are presented in administrative expenses. Contingent liabilities are presented gross of allowances except where the asset has been wholly or partially written off.

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 IFRS 9 "Financial Instruments".

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

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. In accordance with their responsibilities for these financial statements, the factors the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

Leased assets

Judgement is required in the classification of a lease at inception and after any material amendment to assess whether substantially all the significant risks and rewards of ownership accrue to the lessor or the lessee.

Loan impairment provisions

At December 2019, the loan impairment provisions were established in accordance with IFRS 9. Accounting policy 1(g) sets out how the expected loss approach was applied. A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan is advanced. Such evidence includes changes in the credit rating of the borrower, the failure to make payments in accordance with the loan agreement; significant reductions in the value of any security, breach of limits or covenants; and observable data about relevant macroeconomic measures.

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover

	2019 £'000	2018 £'000
Finance lease income:		
Rent receivables	14,683	15,052
Amortisation	(5,514)	(3,574)
Contingent rental expense	(7,318)	(7,304)
	<u>1,851</u>	<u>4,174</u>

The Company did not enter into any new leasing transactions during the year (2018: nil).

4. Operating Income

	2019 £'000	2018 £'000
Profit on disposal of leases	-	47
Fee income	12	14
Management Fees	269	-
Other income	-	10
	<u>281</u>	<u>71</u>

Management fees are a net credit of £269k made up of charge for 2019 of £113k and release of over accrual from 2017 and 2018 of £382k. The change in estimate is due to the basis of management fees recharges being updated during the year.

5. Operating expenses

	2019 £'000	2018 £'000
Loss on disposal of financial lease	-	10,712
Legal & professional fee	-	11
Audit fees	15	15
Management fees	-	239
Other charges	12	144
	<u>27</u>	<u>11,121</u>

Management fees include the costs of staff and directors borne by other members of the group, none of which can be apportioned meaningfully in respect of services to the Company.

6. Impairment reversal of losses/(losses)

	2019 £'000	2018 £'000
Impairment reversal of losses/(losses) on finance leases	<u>5</u>	<u>(7)</u>

7. Finance income

	2019 £'000	2018 £'000
On loans receivable from group companies	114	98
Fair value gains	-	262
	<u>114</u>	<u>360</u>

The fair value gain in 2018 represents movement in valuation of derivative.

8. Finance costs

	2019 £'000	2018 £'000
Interest on loans from group companies	1,398	3,678
Preference dividend	449	449
	<u>1,847</u>	<u>4,127</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Tax

	2019 £'000	2018 £'000
Current taxation:		
UK corporation tax (credit)/charge for the year	(260)	941
Over provision in respect of prior periods	(806)	(43)
	<u>(1,066)</u>	<u>898</u>
Deferred taxation:		
Charge/(credit) for the year	381	(11,024)
Under provision in respect of prior periods	-	1,406
	<u>381</u>	<u>(9,618)</u>
Tax credit for the year	<u>(685)</u>	<u>(8,720)</u>

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax of 19% (2018:19%) as follows:

	2019 £'000	2018 £'000
Expected tax charge/(credit)	72	(2,023)
Non-deductible items	78	266
Adjustments in respect of prior periods	(806)	1,363
Increase in deferred tax liability following change in rate of UK Corporation Tax	10	-
Non taxable adjustments on transfer of trade	-	(8,252)
Unrecognised timing difference - initial recognition unwind	(39)	(74)
Actual tax credit for the year	<u>(685)</u>	<u>(8,720)</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the 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 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 estimated as giving rise to a tax charge of £2,249,000, which will be recognised in the accounts for 2020.

Net deferred tax asset comprises:

	Capital allowances £'000	Other £'000	Total £'000
1 January 2018	28,538	(183)	28,355
Charge/(credit) to comprehensive income	(9,801)	183	(9,618)
At 31 December 2018	18,737	-	18,737
Charge to comprehensive income	381	-	381
At 31 December 2019	<u>19,118</u>	<u>-</u>	<u>19,118</u>

Unrecognised deferred tax asset

A deferred tax asset has not been recognised in respect of capital losses £703,000 (2018: £703,000). The capital losses do not expire under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

10. Finance lease receivables

	2019 £'000
Amounts included in income statement for finance leases	
Finance income on the net investment in leases	9,169
Income relating to variable lease payments not included in measurement to net investment in lease	(7,318)
	<u>1,851</u>

	2019 £'000
Amount receivable under finance leases	
Within 1 year	10,069
1 to 2 years	10,535
2 to 3 years	10,859
3 to 4 years	10,880
4 to 5 years	150,758
After 5 years	36,454
Lease payments total	<u>229,555</u>
Unearned income	(44,309)
Present value of lease payments	<u>185,246</u>
Impairments	(4)
Net investment in finance leases	<u>185,242</u>

	Within 1 Year	Between 1 and 5 years	After 5 Years	Total
2018				
Future minimum lease payments	24,801	42,317	186,835	253,953
Unearned finance income	(248)	(5,318)	(47,518)	(53,084)
Impairment provisions	(9)	-	-	(9)
Present value of minimum lease payments receivable	<u>24,544</u>	<u>36,999</u>	<u>139,317</u>	<u>200,860</u>

	2019 £'000	2018 £'000
Due within one year	9,936	24,544
Due after more than one year	175,306	176,316
	<u>185,242</u>	<u>200,860</u>

The Company entered into finance lease agreements for equipment. One finance lease was disposed of in January 2019 which had an average term of 24 years. The remaining leases have an average term of 25 years (2018: 25 years).

Unguaranteed residual values are estimated at nil (2017: nil).

The average effective interest rate in relation to finance lease agreements approximates 5.0% (2018: 6.1%).

11. Loans receivable

	2019 £'000	2018 £'000
Due within one year		
Amounts owned by parent Royal Bank Leasing Limited	16,073	16,814
	<u>16,073</u>	<u>16,814</u>

12. Trade and other receivables

	2019 £'000	2018 £'000
Due within one year		
Amount receivable from parent Royal Bank Leasing Limited	-	790
Value Added Tax receivables	11	2,013
	<u>11</u>	<u>2,803</u>

NOTES TO THE FINANCIAL STATEMENTS

13. Prepayments, accrued income and other assets

	2019 £'000	2018 £'000
Accrued income	4	-
Group relief receivable	1,280	-
	<u>1,284</u>	<u>-</u>

14. Borrowings

	2019 £'000	2018 £'000
Loan from parent Royal Bank Leasing Limited	<u>159,470</u>	<u>175,173</u>
Current - on demand or within one year	<u>2,605</u>	<u>17,000</u>
Non-current		
-between one and two years	1,741	1,599
-between two and five years	125,445	6,665
-after 5 years	<u>29,679</u>	<u>149,909</u>
	<u>156,865</u>	<u>158,173</u>

The Company has the following unsecured borrowing from Group companies greater than five years:
Floating rate borrowing: £29,679,000 (2018: £149,909,000).

15. Trade and other payables

	2019 £'000	2018 £'000
Value Added Tax payable	37	2,075
Other payables	5,337	5,266
Payment due to Lombard Corporate Finance (11) Limited	-	834
	<u>5,374</u>	<u>8,175</u>

16. Accruals, deferred income and other liabilities

	2019 £'000	2018 £'000
Accruals	294	549
Deferred income	40	63
	<u>334</u>	<u>612</u>

17. Preference shares

	2019 £'000	2018 £'000
Due after one year:		
Preference shares due after five years	<u>14,980</u>	<u>14,980</u>

Upon winding up of the Company, preference shareholders will receive the right to a fixed part of the capital or otherwise to participate in the distribution of the Company's assets. The preference shares do carry the right to a fixed dividend but do not carry any voting rights. The Company has authorised 20,000,000 redeemable cumulative 3% preference shares of £1 classified as liabilities, of which 14,980,000 are issued and fully paid.

18. Share capital

	2019 £'000	2018 £'000
Authorised:		
1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>
Allotted, called up and fully paid:		
Equity shares		
1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>

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

NOTES TO THE FINANCIAL STATEMENTS

19. Capital support deed

The Company, together with certain other subsidiaries of NatWest Holdings Limited, is party to a capital support deed (CSD) relevant to NatWest 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). 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.

20. Related parties**UK Government**

The UK Government through HM Treasury is the ultimate controlling party of NatWest 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.

Group companies

As at 31 December 2019

The Company's immediate parent was:	Royal Bank Leasing Limited
The smallest consolidated accounts including the Company were prepared by:	National Westminster Bank plc
The ultimate parent Company was:	The Royal Bank of Scotland Group plc

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

On 22 July 2020, The Royal Bank of Scotland Group plc changed its name to NatWest Group plc.

21. 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 2019. Refer to note 1a for the director's assessment of the impact on the Company's prospects. While there remains significant uncertainty regarding the developments of Covid-19 and the future economic recovery, a precise estimate of its full financial effect, cannot be made at the date of issue of the financial statements.

The directors have assessed that the key sensitivity is in relation to the measurement of expected credit losses (ECL) on financial assets. In June 2020 the directors updated their assessment of the forward-looking macroeconomic variables used in the calculation of ECL to reflect the deterioration in the economic outlook since December 2019. This had the effect of increasing the average probability of default of financial lease receivables from 0.05% to 0.88% and a resultant £384k increase in impairment provisions from £4k at 31 December 2019 to £388k as at 30 June 2020.

As a result of the pandemic there could be an further impacts on profitability, assets, operations, liquidity and the directors continue to monitor this, however, at this stage do not consider there to be any additional material issues for the Company.