Company Registered No: SC058013

ROYAL BANK LEASING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2019

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	L Conner I A Ellis E M Mayes
COMPANY SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	24/25 St Andrew Square Edinburgh EH2 1AF
INDEPENDENT AUDITOR:	Ernst &Young LLP The Paragon Counterslip Bristol BS1 6BX

Registered in Scotland

STRATEGIC REPORT

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company continues to be the provision of fixed asset finance usually involving individually structured facilities to subsidiary companies.

The Company is a subsidiary of NatWest Group plc (formerly known as The Royal Bank of Scotland Group plc (RBSG plc)) 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 Legal, Governance and Regulatory Affairs, RBS Gogarburn, Edinburgh, PO Box 1000 EH12 1HQ, the Registrar of Companies or at www.natwestgroup.com.

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 25 to the financial statements.

Financial Performance

The Company's financial performance is presented on pages 9 to 11.

Turnover decreased by £425k (2018: £774k) and operating expenses decreased by £170k (2018: £1,985k). After impairment of investments in subsidiaries of £883k (2018: £23,232k), the retained profit for the year was £29,592k (2018: £79,594k), a decrease of 63% over 2018.

The main driver of the P&L change is the sale of subsidiaries during 2018 and the associated changes in funding. There is a reduction in both loan receivables and borrowings therefore reduction in both finance income and costs. The reduction in finance income is partially offset by break gain for interest rate swaps on instruments linked to the subsidiaries and finance leases sold to Lombard Corporate Finance (11) Limited.

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

At the end of the year, total assets were £1,633,955k (2018: £1,794,554k), including income generating assets comprising finance lease receivables £19,794k (2018: £25,579k), investment in subsidiaries £23,071k (2018: £18,954k), and loans receivables £1,526,914k (2018: £1,724,309k) and a decrease of 9% in total assets over 2018.

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 interest rate, credit, liquidity, market, and operational risk. 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 Lombard North Central Plc. These are denominated in sterling which is the functional currency and carry no significant financial risk.

The Company's assets mainly comprise financial lease receivables, investment in subsidiaries, loans receivable, trade and other receivables which would expose it to interest, credit, liquidity and operational risk except that the counterparties are group companies and credit risk is not considered significant.

STRATEGIC REPORT

Principal risk and uncertainties (continued)

The principal risks associated with the Company are as follows:

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 repricing 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.

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.

The principal market risk to which the Company is exposed is interest rate risk.

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 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 12.

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 Strategic Report, 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.

STRATEGIC REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT (continued)

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 Strategic Report, 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.

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

L Conner

Director L Conner
Date: 30th July 2020

DIRECTORS' REPORT

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

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 October 2018 to date the following changes have taken place:

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

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:

Director L Conner
Date: 30th July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK LEASING LIMITED

Opinion

We have audited the financial statements of Royal Bank Leasing Limited ('the Company') for the year ended 30 September 2019 which comprise the Statement Of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 25, including 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 state of the Company's affairs as at 30 September 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 25 of the financial statements, which describes the economic and social disruption the Company is facing as a result of Covid-19, which is impacting financial markets and personnel available for work and being able to access offices. 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.

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; 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 Strategic Report.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 and 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 ROYAL BANK LEASING 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.

Ernst & Young LLP

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 3 August 2020

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2019

Income from continuing operations	Notes	2019 £'000	2018 £'000
Turnover	3	709	1,134
Operating income	4	214	26,619
Operating expenses	5	(534)	(704)
Impairment of investments in subsidiaries	6	(883)	(23,232)
Impairment reversal of losses	7	53	-
Operating (loss)/profit		**(441)**	3,817
Finance income	8	73,723	79,323
Other income	9	572	113,188
Other losses	10	(20,292)	-
Finance costs	11	(23,828)	(104,796)
Profit on ordinary activities before tax		**29,734**	91,532
Tax charge	12	(142)	(11,938)
Profit and total comprehensive income for the year		**29,592**	79,594

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

BALANCE SHEET
as at 30 September 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Investments in subsidiaries	13	23,071	18,954
Finance lease receivables	14	13,282	18,776
Loans receivable	15	40,188	1,234,575
Derivatives	16	791	452
		77,332	1,272,757
Current assets			
Finance lease receivables	14	6,512	6,803
Loans receivable	15	1,486,726	489,734
Trade and other receivables	17	39,920	13
Prepayments, accrued income and other assets	18	2,351	1,249
Cash at bank		21,114	23,998
		1,556,623	521,797
Total assets		1,633,955	1,794,554
Current liabilities			
Borrowings	19	114,652	174,220
Trade and other payables	20	40,168	370
Current tax liabilites		-	34,765
Accruals, deferred income and other liabilities	21	3,917	5,938
		158,737	215,293
Non-current liabilities			
Borrowings	19	1,096,659	1,211,537
Deferred tax liability	12	7,987	9,656
Derivatives	16	74,148	90,883
		1,178,794	1,312,076
Total liabilities		1,337,531	1,527,369
Equity			
Called up share capital	22	19,000	19,000
Profit and loss account		277,424	248,185
Total equity		296,424	267,185
Total liabilities and equity		1,633,955	1,794,554

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

The financial statements of the Company were approved by the Board of Directors on30th July 2020and signed on its behalf by:

Director : L Conner

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2019

	Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 October 2017	19,000	168,591	187,591
Profit for the year	-	79,594	79,594
At 30 September 2018	**19,000**	**248,185**	**267,185**
Implementation of IFRS9 on 1 October 2018	**-**	**(353)**	**(353)**
Profit for the year	**-**	**29,592**	**29,592**
At 30 September 2019	**19,000**	**277,424**	**296,424**

Total comprehensive income for the year of £29,592k (2018: £79,594k) 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 accounts
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.

  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 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 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.

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

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

The Company is incorporated in the UK and registered in Scotland 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 24.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Adoption of IFRS 9
The Company's accounting policies have changed on the adoption of IFRS 9 'Financial Instruments' with effect from 1 October 2018. There has been no restatement of prior years.

IFRS 9 changed the classification categories from IAS 39. Loans and receivables were reclassified to amortised cost assets. There were no changes in the classification and measurement of financial liabilities.

The impact on the Company's equity at 1 October 2018 and the key movements in relation to the impact on classification and measurement were as follows:

	£'000
Equity 30 September 2018 - under IAS 39	248,185
Expected credit losses – amortised cost assets	(353)
Equity 1 October 2018 - under IFRS 9	247,832

The adoption of IFRS 9 'Financial Instruments' has not changed the recognition of interest income or expense; the cost of impairment is now based on expected loss as set out in accounting policy 1(k). There has been no restatement of profit or loss for comparative periods.

Other amendments to IFRS
Other changes to IFRS that were effective from 1 October 2018 have had no material effect on the Company's financial statements for the year ended 30 September 2019.

b) Consolidated financial statements
The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as in accordance with IFRS 10 the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland whose registered address is 36 St Andrew Square, Edinburgh, EH2 2YB.

c) Foreign currencies
Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are reported in profit or loss.

d) Revenue recognition
Turnover comprises income from finance leases, operating leases, loans and other services and arises in the UK 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.

Rental income during the primary period of operating leases is recognised in the income statement on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use.

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

1. Accounting policies (continued)

d) Revenue recognition (continued)

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 each service is performed. The price is usually fixed and always determinable.

Interest income or expense on financial instruments that are measured at amortised cost is determined using the effective interest rate method. The effective interest rate allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Negative effective interest accruing to financial assets is presented in interest payable.

Dividend income is recognised when the paying company is obliged to make the payment.

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.

e) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income 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 a 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.

f) Investments in group companies

Investments in group companies are stated at cost less any impairment.

g) Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer; all other contracts with customers to lease assets are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

h) Derivatives

Derivative financial instruments are recognised initially, and subsequently measured, at fair value, with movements recognised in the 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.

1. Accounting policies (continued)

i) Hedge fair value
The Company enters into fair value hedge relationships which hedge the changes in fair value of a recognised asset or liability or firm commitment. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. Hedge relationships are formally documented at inception, which includes the identification of the hedged item and hedged instrument, the risk that is being hedged, and the process for monitoring hedge effectiveness. The gain or loss on the hedging instrument or derivative is recognised in profit or loss.

The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and adjusts the carrying value of the hedged item.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting or if the hedge designation is revoked, and any cumulative adjustment is amortised to profit or loss over the remaining life of the hedged item.

j) Financial instruments
On initial recognition, financial instruments are measured at fair value. Subsequently they are measured at amortised cost.

Amortised cost assets – have to meet both the following criteria:
- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

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

Reclassifications – financial liabilities cannot be reclassified. Financial assets are only reclassified where there has been a change in the business model.

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

k) Impairment of financial assets
At September 2019, under IFRS 9 each financial asset or portfolio of loans measured at amortised cost 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. Financial assets are presented gross of allowances except where the asset has been wholly or partially written off.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

k) Impairment of financial assets (continued)
In 2018 under IAS 39 the Company assessed whether there was any objective evidence that a financial asset or group of financial assets classified as loans and receivables was impaired. A financial asset or portfolio of financial assets was impaired and an impairment loss incurred if there was objective evidence that an event or events since initial recognition of the asset had adversely affected the amount or timing of future cash flows from the asset.

l) 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 or 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 estimates the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

Fair value of derivative instruments
The Company holds both hedged and non-hedged derivative financial instruments. Where the Company has entered into fair value hedged relationships, the hedge changes the fair value of a recognised asset or liability. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

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
In the financial year the loan impairment provisions were established in accordance with IFRS 9. Accounting policy 1(k) 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.

3. Turnover

	2019	2018
	£'000	£'000
Finance lease income:		
Rents receivable	**6,851**	6,803
Amortisation	**(5,465)**	(4,958)
Contingent rental expense	**(873)**	(1,103)
	513	742
Operating lease rental income	**196**	392
	709	1,134

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

NOTES TO THE FINANCIAL STATEMENTS

4. Operating income

	2019 £'000	2018 £'000
Profit on disposal of finance lease	-	4,114
Profit on disposal of investments in subsidiaries	-	21,480
Fee income	214	259
Management fees	-	760
Other income	-	6
	214	26,619

5. Operating expenses

	2019 £'000	2018 £'000
Loss on disposal of investments in subsidiaries	-	13
Audit fees	63	(5)
Legal and professional charges	25	113
Exchange losses/(gain)	199	(238)
Management fees	129	492
Other charges	118	329
	534	704

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.

Management charge fees of £129k (2018: £492k) 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 of investments in subsidiaries

	2019 £'000	2018 £'000
R.B. Leasing Company Limited	-	4,082
RBSSAF (8) Limited	883	-
Lombard Corporate Finance (11) Limited	-	19,150
	883	23,232

7. Impairment losses

	2,019 £'000	2,018 £'000
Reversal of impairment losses on finance leases	(53)	-

8. Finance income

	2019 £'000	2018 £'000
On loans receivable from group companies	28,348	79,323
Break gains	45,375	-
	73,723	79,323

Of the break gain £39.9m is due from subsidiary, RBSSAF (2) Limited following early termination of funding linked to leases sold to fellow subsidiary Lombard Corporate Finance (11) Limited.

The remainder of the break gain, £5.5m was paid by fellow subsidiary Lombard Corporate Finance (11) Limited following transfer of funding for subsidiaries it purchased from the Company.

NOTES TO THE FINANCIAL STATEMENTS

9. Other income

	2019 £'000	2018 £'000
Dividend income from subsidiaries	546	2,304
Gain from movement in fair value of non-hedge derivatives - group companies	-	109,524
Gain from movement in fair value hedge ineffectiveness - group companies	26	1,360
	572	113,188

Breakdown in movement in fair value hedge ineffectiveness	2019 £'000	2018 £'000
Movement in hedge items - group companies	2,415	(96,931)
Movement in hedge derivatives - group companies	(2,389)	98,291
	26	1,360

10. Other losses

	2019 £'000	2018 £'000
Loss from movement in fair value of non-hedge derivatives - group companies	20,292	-

11. Finance costs

	2019 £'000	2018 £'000
Interest on loans and derivatives from group companies	23,828	104,796

12. Tax

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax charge for the year	6,598	21,023
Over provision in respect of prior periods	(4,861)	(4,266)
	1,737	16,757
Deferred taxation:		
Credit for the year	(1,596)	(4,142)
Under/(over) provision in respect of prior periods	1	(677)
	(1,595)	(4,819)
Tax charge for the year	142	11,938

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

	2019 £'000	2018 £'000
Expected tax charge	5,649	17,391
Unrecognised timing differences	-	(200)
Other non-deductible items	264	4,708
Non-taxable items	(624)	(5,018)
Adjustments in respect of prior periods	(4,860)	(4,943)
Reduction in deferred tax following change in tax rates	(287)	-
Actual tax charge for the year	142	11,938

NOTES TO THE FINANCIAL STATEMENTS

12. Tax (continued)

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 expected to result in an increase of £557,000 in the deferred tax liability recognised by the company as at 30 September 2019. This will result in a reduction to the company's reserves by the same amount.

Deferred tax

Deferred tax liability comprises:

	Capital allowances £'000	**Derivative £'000**	**Other £'000**	**Total £'000**
1 October 2017	5,214	9,138	123	14,475
Credit to profit and loss	(1,412)	(3,291)	(116)	(4,819)
At 30 September 2018	3,802	5,847	7	9,656
IFRS 9 adjustment - adjustment to reserves	(74)	-	-	(74)
Credit to profit and loss	**(922)**	**(669)**	**(4)**	**(1,595)**
At 30 September 2019	**2,806**	**5,178**	**3**	**7,987**

13. Investments in subsidiaries

	2019 £'000	2018 £'000
At 1 October	**18,954**	15,178
Additions	**5,000**	7,796
Disposals	**-**	(62)
Impairments	**(883)**	(4,082)
Exchange	**-**	124
At 30 September	**23,071**	18,954

During the year the Company made capital contributions of £5,000,000 to RBSSAF (8) limited, an impairment review was performed indicating an impairment of £883,000 this has been recognised in 2019 accounts. RBSSAF (8) Limited is expected to be wound up within 12 months of signing its final accounts.

The subsidiary undertakings of the Company are shown below. All subsidiaries are incorporated in the UK and registered in England and Wales except for Royal Scot Leasing Limited and Royal Bank of Scotland (Industrial Leasing) Limited which are registered in Scotland. All subsidiaries are owned 100% with 100% of the voting power held by the Company.

13. Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Accounting reference date
R.B. Leasing (September) Limited	Leasing and Hire Purchase	30 September
Lombard Leasing Company Limited	Leasing and Hire Purchase	30 September
RBSSAF (7) Limited	Leasing	30 September
RBSSAF (8) Limited	Leasing	30 September
Royal Scot Leasing Limited	Leasing	30 September
Lombard Corporate Finance (December 1) Limited	Leasing	31 December
Lombard Corporate Finance (December 3) Limited	Leasing	31 December
Lombard Lease Finance Limited	Leasing	31 December
Northern Isles Ferries Limited	Leasing	31 December
RBS Asset Finance Europe Limited	Leasing	31 December
RBSSAF (25) Limited	Leasing	31 December
R.B. Leasing (March) Limited	Leasing	31 March
R.B. Quadrangle Leasing Limited	Leasing	31 March
RBSSAF (2) Limited	Leasing	31 March
Royal Bank of Scotland (Industrial Leasing) Limited	Leasing	31 March
Lombard Industrial Leasing Limited	Leasing	31 March
Lombard Corporate Finance (June 2) Limited	Leasing	30 June
Pittville Leasing Limited	Leasing	30 June
R.B. Capital Leasing Limited	Leasing	30 June

The capital of subsidiary companies consists of ordinary and preference shares which are unlisted.

At 30 September 2018 all subsidiaries had a registered address of The Quadrangle, The Promenade, Cheltenham, Gloucestershire, GL50 1PX, England except for Royal Scot Leasing Limited and Royal Bank of Scotland (Industrial Leasing) Limited whose registered address is 24/25 St Andrew Square, Edinburgh, EH2 1AF, Scotland.[1]

(1) Those entities with a registered address at The Quadrangle, The Promenade, Cheltenham, Gloucestershire, GL50 1PX, England changed their registered address to 250 Bishopsgate, London, EC2M 4AA, England on 12 April 2019.

(2) Leckhampton Finance Limited was struck off on 17 September 2019.

14. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	Total £'000
2019			
Future minimum lease payments	**7,035**	**14,036**	**21,071**
Unearned finance income	**(149)**	**(754)**	**(903)**
Impairment provisions	**(374)**	**-**	**(374)**
Present value of minimum lease payments receivable	**6,512**	**13,282**	**19,794**
2018			
Future minimum lease payments	6,975	21,072	28,047
Unearned finance income	(172)	(2,296)	(2,468)
Present value of minimum lease payments receivable	6,803	18,776	25,579

Analysed as:	2019 £'000	2018 £'000
Due within one year	**6,512**	6,803
Due after more than one year	**13,282**	18,776
	19,794	25,579

NOTES TO THE FINANCIAL STATEMENTS

14. Finance lease receivables (continued)

The Company has entered into various finance leasing arrangements. The average term of the lease entered into is 26 years (2018: 26 years).

Unguaranteed residual values are estimated at nil (2018: nil).

The average effective interest rate in relation to finance lease agreements approximates 6.5% (2018: 6.5%).

15. Loans receivable

	2019 £'000	2018 £'000
Due within one year		
Amounts owed by subsidiaries	**1,149,006**	140,515
Amounts owed by intermediate parent NatWest Bank Plc	**337,720**	349,219
	1,486,726	489,734
Due after more than one year		
Amounts owed by intermediate parent NatWest Bank Plc	**40,188**	1,234,575
	1,526,914	1,724,309

16. Derivatives

The Company enters into various financial instruments (derivatives) as principal to manage foreign exchange and interest rate risk. Derivatives include swaps and forwards.

A swap is an arrangement to exchange cash flows in the future in accordance with a pre-arranged formula. In an interest rate swap, two counterparties agree to exchange periodic interest payments on a predetermined monetary principal, the notional amount.

At the year end, the notional principal amounts of the Company's derivatives were as follows:

Notional principal amounts	2019 £'000	2018 £'000
Interest rate swaps	**(101,564)**	(144,155)

At the year-end, the derivatives carried at fair value were as follows:

	Asset 2019 £'000	Liability 2019 £'000	Asset 2018 £'000	Liability 2018 £'000
Fair Value				
Interest rate swap	**791**	**(62,718)**	332	(81,711)
Interest rate swap fair value hedge	**-**	**(11,430)**	120	(9,172)
Total	**791**	**(74,148)**	452	(90,883)
Maturity analysis				
Non current				
Interest rate swaps	**791**	**(62,718)**	332	(81,711)
Interest rate swaps in FV hedge	**-**	**(11,430)**	120	(9,172)
	791	**(74,148)**	452	(90,883)

All derivatives are level 2 valuations, valued using techniques based significantly on observable market data. Instruments in this category are valued using:

a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

b) Valuation techniques where all the inputs that have a significant effect on the valuations are directly or indirectly based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

17. Trade and other receivables

	2019 £'000	2018 £'000
Due within one year		
Trade receivables	**20**	10
Due from RBSSAF (2) Limited	**39,900**	-
Other receivables	**-**	3
	39,920	13

18. Prepayments, accrued income and other assets

	2019 £'000	2018 £'000
Accrued income	**2,224**	1,193
Prepayments	**-**	4
Group relief receivable from group companies	**127**	-
Other	**-**	52
	2,351	1,249

19. Borrowings

	2019 £'000	2018 £'000
Loans from intermediate parent NatWest Bank Plc	**1,162,738**	1,299,045
Loans from subsidiaries	**48,573**	86,712
	1,211,311	1,385,757
Current - on demand or within one year	**114,652**	174,220
Non-current:		
- between one and two years	**62,638**	62,978
- between two and five years	**153,249**	246,407
- After five years	**880,772**	902,152
	1,096,659	1,211,537

The Company has the following unsecured borrowing from group companies greater than five years:

- During this year, there is no fixed rate borrowing (2018: nil).
- £880,772k (2018: £902,152k) is at a floating rate.

20. Trade and other payables

	2019 £'000	2018 £'000
Due within one year		
Other payables	**268**	370
Due to Lombard Corporate Finance (11) Limited	**39,900**	-
	40,168	370

21. Accruals, deferred income and other liabilities

	2019 £'000	2018 £'000
Accruals	**3,101**	4,934
Deferred income	**816**	1,004
	3,917	5,938

22. Share capital

	2019 £'000	2018 £'000
Authorised:		
22,000,000 Ordinary shares of £1 each	**22,000**	22,000
Allotted, called up and fully paid:		
Equity shares		
19,000,000 Ordinary shares of £1 each	**19,000**	19,000

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

23. Commitments and contingent liabilities

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.

24. 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 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.

Group companies

At 30 September 2019

The Company's immediate parent was:	Lombard North Central Plc
The smallest consolidated accounts including the Company were prepared by:	Lombard North Central 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.

NOTES TO THE FINANCIAL STATEMENTS

25. 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 30 September 2019. 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.