

Company Registered No: SC058013

ROYAL BANK LEASING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2018

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ROYAL BANK LEASING LIMITED

SC058013

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

I A Ellis
D G Harris
E Mayes
S J Roulston

COMPANY SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

24/25 St Andrew Square
Edinburgh
EH2 1AF

INDEPENDENT AUDITOR:

Ernst & Young LLP
Statutory Auditor
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 The Royal Bank of Scotland Group 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 Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, PO Box 1000 EH12 1HQ, the Registrar of Companies or through the group's website at www.rbs.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.

Financial Performance

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

Operating profit declined by £21,459,000 (2017: grew by £38,666,000). Turnover fell by £774,000 (2017: £1,913,000) and finance costs fell by £93,620,000 (2017: grew by £51,385,000). The profit for the year after tax was £79,594,000 (2017: Profit of £125,285,000), a decrease by 36% over 2017.

The main driver of the P&L change is due to the restructure of the Company's investment in subsidiaries to enable ring-fencing within The Royal Bank of Scotland Group plc. The re-organisation resulted in capital injections to fellow subsidiaries with subsequent write offs together with a gain on the sale of subsidiary Lombard Corporate Finance (11) Limited. Additionally the change to the funding structure of the Company has resulted in lower finance income and costs.

The directors do not recommend payment of a dividend.

Principal risks and uncertainties

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

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

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

The principal risks associated with the Company are as follows:

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.

STRATEGIC REPORT**Principal risk and uncertainties (continued)****Currency risk**

The Company does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary operations and their currency funding. Exposures arising from changes in net foreign currency investments are subject to regular review. It is the Company's policy to match fund the structural foreign currency exposure arising from net asset value with borrowings in the same currency.

The Company undertakes certain transactions denominated in foreign currencies, hence exchange rate fluctuations arise. The Company's policy is normally to match foreign currency receivables with borrowings in the same currency.

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; and
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.

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.

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 RBS 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

The directors, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

STRATEGIC REPORT**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

Company law requires the directors to prepare a 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. 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:



E Mayes
Director
Date: 28 June 2019

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.

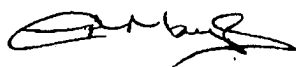
From 1 October 2017 to date the following changes have taken place:

Directors	Appointed	Resigned
I A Ellis	6 March 2018	-
E Mayes	-	6 March 2018
C W Green	23 January 2018	23 March 2018
L R Morse	-	23 January 2018
E Mayes (Re-appointment)	10 May 2019	-

AUDITOR

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

Approved by Board of Directors and signed on its behalf.



Director: E Mayes
Date: 28 June 2019

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 2018 which comprise the Statement Of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24, 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 (United Kingdom Generally Accepted Accounting Practice), including FRS101 Reduced Disclosure Framework.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2018 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.

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 ROYAL BANK LEASING 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 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement 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 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.



Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol, United Kingdom
28 June 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 September 2018

		2018 £'000	2017 £'000
Income from continuing operations	Notes		
Turnover	3	1,134	1,908
Operating income	4	26,619	31,462
Operating expenses	5	(704)	(2,689)
Impairment of investments in subsidiaries	6	(23,232)	(5,405)
Operating profit		3,817	25,276
Finance income	7	79,323	138,716
Other income	8	113,188	174,939
Finance costs	9	(104,796)	(198,416)
Profit on ordinary activities before tax		91,532	140,515
Tax charge	10	(11,938)	(15,230)
Profit and total comprehensive income for the year		79,594	125,285

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

BALANCE SHEET

as at 30 September 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investments in subsidiaries	11	18,954	15,178
Finance lease receivables	13	18,776	23,761
Loans receivable	14	1,234,575	3,432,074
Derivatives	17	452	4,341
		1,272,757	3,475,354
Current assets			
Finance lease receivables	13	6,803	6,720
Loans receivable	14	489,734	654,835
Trade and other receivables	15	13	1,707
Prepayments, accrued income and other assets	16	1,249	535
Cash at bank		23,998	54,039
		521,797	717,836
Total assets		1,794,554	4,193,190
Current Liabilities			
Borrowings	18	174,220	357,800
Trade and other payables	19	370	793
Current tax liabilities		34,765	10,551
Accruals, deferred income and other liabilities	20	5,938	14,930
Derivatives	17	-	1
		215,293	384,075
Non-current liabilities			
Borrowings	18	1,211,537	3,297,426
Deferred tax liability		9,656	14,475
Derivatives	17	90,883	309,623
		1,312,076	3,621,524
Total liabilities		1,527,369	4,005,599
Equity			
Called up share capital	21	19,000	19,000
Profit and loss account		248,185	168,591
Total equity		267,185	187,591
Total liabilities and equity		1,794,554	4,193,190

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 28 June 2019 and signed on its behalf by:



E Mayes
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2018

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 October 2016	19,000	43,306	62,306
Profit and total comprehensive income for the year	-	125,285	125,285
At 30 September 2017	19,000	168,591	187,591
Profit and total comprehensive income for the year	-	79,594	79,594
At 30 September 2018	19,000	248,185	267,185

Total comprehensive income for the year of £79,594,000 (2017: comprehensive income of £125,285,000) 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 accounts**

These financial statements are prepared:

- on a going concern basis;
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS); and
- on the historical cost basis;

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 January 2018.

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

The Company is 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; and
 - related party transactions.
- 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 23.

There were no changes to IFRS that were effective from 1 October 2017 which had a material effect on the Company's Financial Statements for the year ended 30 September 2018

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 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.

Rental income from operating leases is recognised in the profit and loss account on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use.

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

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

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

e) 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 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) Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss for the period in which they arise.

g) Investments in subsidiaries and associates

Investments in group subsidiaries and associates are stated at cost less any impairment.

h) 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.

i) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

j) 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.

k) Financial assets

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

Loans and receivables

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

l) Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired.

A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

m) Financial liabilities

On initial recognition financial liabilities are classified into amortised cost.

Other than derivatives, which are recognised and measured at fair value, all other financial liabilities are measured at amortised cost using the effective interest method.

n) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition in accordance with IAS 39 "Financial Instruments : Recognition and Measurement"

A financial liability is removed from the balance sheet when the obligation is discharged, 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 factors the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

NOTES TO THE FINANCIAL STATEMENTS

2. Critical accounting policies and key sources of estimation uncertainty (continued)

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.

3. Turnover

	2018 £'000	2017 £'000
Finance lease income:		
Rents receivable	6,803	6,921
Amortisation	(4,958)	(5,244)
Contingent rental expense	(1,103)	(1,441)
	742	236
Operating lease rental income	392	1,672
	1,134	1,908

The Company did not enter into any new leasing transactions during the year (2017: £nil).

4. Operating income

	2018 £'000	2017 £'000
Profit on disposal of finance leases	4,114	29,896
Profit on disposal of investments in subsidiaries ⁽¹⁾	21,480	-
Fee income	259	376
Management fees	760	1,098
Other income	6	92
	26,619	31,462

(1) Subsidiaries disposed of during the year – Lombard Corporate Finance (11) Ltd gain of £21,377,713; R B Equipment Leasing Ltd gain of £51,326 and R.B. Leasing (December) Ltd gain of £ 50,614.

5. Operating expenses

	2018 £'000	2017 £'000
Loss on disposal of investments in subsidiaries ⁽¹⁾	13	4
Audit fees ⁽²⁾	(5)	101
Legal and professional charges	113	13
Exchange (gain)/losses	(238)	1,132
Management fees	492	1,424
Other charges	329	15
	704	2,689

(1) Subsidiaries disposed of during the year – R B Leasing Company Ltd loss of £12,917.

(2) Credit in 2018 due to £138,000 release of over accrual from 2016 and 2017 audit fees, partially offset by current year charge of £133,000.

NOTES TO THE FINANCIAL STATEMENTS

5. Operating expenses (continued)

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 £492,000 (2017: £1,424,000) relate to the Company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by The Royal Bank of Scotland plc. Management fee income of £760,000 (2017: £1,098,000) relates to the Company's recharge of group resources to subsidiary and fellow subsidiary companies.

6. Impairment of investments in subsidiaries

The following impairment losses were recognised during the year:

	2018 £'000	2017 £'000
RBSSAF 26 Limited	-	4,064
RB Quadrangle Limited	-	1,341
R.B. Leasing Company Limited	4,082	-
Lombard Corporate Finance(11) Limited	19,150	-
	23,232	5,405

The Company issued loan waivers to the subsidiaries noted above.

7. Finance income

	2018 £'000	2017 £'000
On loans receivable :		
From group companies	79,323	135,706
From jointly owned entities	-	3,010
	79,323	138,716

8. Other income

	2018 £'000	2017 £'000
Dividend income from subsidiaries	2,304	69,760
Gain from movement in fair value of non-hedge derivatives - held with group companies	109,524	100,739
Gain from movement in fair value hedge ineffectiveness - held with group companies	1,360	4,440
	113,188	174,939

Breakdown in movement in fair value hedge ineffectiveness

	2018 £'000	2017 £'000
Movement in hedge items - held with group companies	(96,931)	(70,318)
Movement in hedge derivatives - held with group companies	98,291	74,758
	1,360	4,440

9. Finance costs

	2018 £'000	2017 £'000
Interest on loans and derivatives from group companies	104,796	198,416

NOTES TO THE FINANCIAL STATEMENTS

10. Tax

	2018 £'000	2017 £'000
Current taxation:		
UK corporation tax charge for the year	21,023	21,918
(Over)/under provision in respect of prior periods	(4,266)	91
	<u>16,757</u>	<u>22,009</u>
Deferred taxation:		
Credit for the year	(4,142)	(6,781)
(Over)/under provision in respect of prior periods	(677)	2
	<u>(4,819)</u>	<u>(6,779)</u>
Tax charge for the year	<u>11,938</u>	<u>15,230</u>

The actual tax credit differs from the expected tax charge/(credit) computed by applying the standard rate of UK corporation tax of 19% (2017: the blended tax rate 19.5%) as follows:

	2018 £'000	2017 £'000
Expected tax charge	17,391	27,401
Unrecognised timing differences	(200)	2,080
Other non-deductible items	4,708	3,078
Non-taxable items	(5,018)	(17,176)
Adjustments in respect of prior periods	(4,943)	93
Impact of rate changes	-	(246)
Tax charge for the year	<u>11,938</u>	<u>15,230</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted at the balance sheet date standing at 19% from 1 April 2017, 17% from 1 April 2020. The closing deferred tax liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.

Deferred tax

Deferred tax liability comprises:

	Capital allowances £'000	Derivatives £'000	Other £'000	Total £'000
At 1 October 2016	6,280	14,830	144	21,254
Credit to profit and loss account	(1,066)	(5,692)	(21)	(6,779)
At 30 September 2017	5,214	9,138	123	14,475
Credit to profit and loss account	(1,412)	(3,291)	(116)	(4,819)
At 30 September 2018	<u>3,802</u>	<u>5,847</u>	<u>7</u>	<u>9,656</u>

NOTES TO THE FINANCIAL STATEMENTS

11. Investments in subsidiaries

Investments in group companies are carried at cost less impairment. Movements during the year were as follows:

	2018 £'000	2017 £'000
At 1 October	15,178	20,359
Additions	26,946	-
Disposals	(62)	(2)
Impairments	(23,232)	(5,405)
Exchange	124	226
At 30 September	18,954	15,178

During the year the Company sold R.B. Leasing Company Limited, RBSSAF(26) Limited, R.B. Equipment Leasing Limited, R.B. Leasing(December) Limited, Lombard Corporate Finance(10) Limited, Lombard Corporate Finance(11) Limited, Lombard Corporate Finance(14) Limited, RBSSAF (4) Limited, RBSSAF (11) Limited.

During the year company made capital contributions satisfied by loan waivers to RB Leasing Company Limited, Lombard Corporate Finance(11) Limited and RBSSAF (26) Limited.

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.

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
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
RBSSAF (7) Limited	Leasing	30 September
RBSSAF (8) Limited	Leasing	30 September
Royal Scot Leasing Limited	Leasing	30 September
Leckhampton Finance Limited	Leasing	31 December
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

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.

NOTES TO THE FINANCIAL STATEMENTS

12 Investment property

	2018 £'000	2017 £'000
At 1 October	-	14,370
Disposals	-	(14,370)
Investment property at fair value	-	-

13. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	Total £'000
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
2017			
Future minimum lease payments	6,901	27,986	34,887
Unearned finance income	(181)	(4,225)	(4,406)
Present value of minimum lease payments receivable	6,720	23,761	30,481

	2018 £'000	2017 £'000
Due within one year	6,803	6,720
Due after more than one year	18,776	23,761
	25,579	30,481

The Company has entered into various finance leasing arrangements. The average term of the lease entered into is 26 years (2017: 26 years).

Unguaranteed residual values are estimated at £nil.

The average effective interest rate in relation to finance lease agreements approximates 6.5% (2017: 6.9%).

14. Loans receivable

	2018 £'000	2017 £'000
Due within one year		
Amounts owed by subsidiaries	140,515	317,030
Amounts owed by parent NatWest Markets Plc	349,219	337,805
	489,734	654,835
Due after more than one year		
Amounts owed by parent NatWest Markets Plc	1,234,575	3,432,074
Total	1,724,309	4,086,909

15. Trade and other receivables

	Due within one year	
	2018 £'000	2017 £'000
Trade receivables	10	-
Value Added Tax recoverable	-	9
Other receivables	3	1,698
	13	1,707

NOTES TO THE FINANCIAL STATEMENTS

16. Prepayments, accrued income and other assets

	2018 £'000	2017 £'000
Accrued income	1,193	502
Prepayments	4	33
Other	52	-
	1,249	535

17. 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

	2018 £'000	2017 £'000
Interest rate swaps	(144,155)	(1,796,626)

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

Fair value	Asset 2018 £'000	Liability 2018 £'000	Asset 2017 £'000	Liability 2017 £'000
Interest rate swaps	332	(81,711)	1,645	(196,039)
Interest rate swaps in fair value hedge	120	(9,172)	2,696	(113,585)
Total	452	(90,883)	4,341	(309,624)

Maturity analysis	2018 Asset £'000	2018 Liability £'000	2017 Asset £'000	2017 Liability £'000
Current				
Interest rate swaps	-	-	-	(1)
	-	-	-	(1)
Non current				
Interest rate swaps	332	(81,711)	1,645	(196,038)
Interest rate swaps in fair value hedge	120	(9,172)	2,696	(113,585)
	452	(90,883)	4,341	(309,623)

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

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

18. Borrowings

	2018 £'000	2017 £'000
Loans from parent NatWest Markets Plc	1,299,045	3,561,366
Loans from subsidiaries	86,712	93,860
	1,385,757	3,655,226
Current – on demand or within one year	174,220	357,800
Non-current:		
- between one and two years	62,978	607,568
- between two and five years	246,407	1,317,518
- after five years	902,152	1,372,340
	1,211,537	3,297,426

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

- During this year zero fixed rate borrowing (2017: £35,740,000 is at fixed rates varying from 1.59% to 2.29%).
- £902,151,943 (2017: £1,336,600,000) is at a floating rate.

19. Trade and other payables

	Due within one year	
	2018 £'000	2017 £'000
Value Added Tax payable	-	240
Other payables	370	553
	370	793

20. Accruals, deferred income and other liabilities

	2018 £'000	2017 £'000
Accruals	4,934	12,813
Deferred income	1,004	2,117
	5,938	14,930

21. Share capital

	2018 £'000	2017 £'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 shares which carries no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS

22. Commitments and contingent liabilities

The Company, together with other members of The Royal Bank of Scotland Group plc companies, is party to a capital support deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's 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.

23. Related parties**UK Government**

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

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of taxes including UK corporation tax and Value Added Tax.

Group companies

At 30 September 2018

The Company's immediate parent was:	NatWest Markets Plc
The smallest consolidated accounts including the company were prepared at 31 December 2018 by:	NatWest Markets 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 Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

24. Post balance sheet events

Subsequent to the year end, in anticipation of government ring-fencing legislation, on 1 October 2018 the intermediate parent company became Lombard North Central Plc. National Westminster Bank plc will going forwards be the smallest consolidated accounts in which the Company will appear; being the immediate parent of Lombard North Central Plc. There were no changes to the ultimate parent company.