Company Registered No: 00309713

ROYSCOT TRUST PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

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ROYSCOT TRUST PLC 00309713

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	D G Harris I J Isaac A D Parry J A Pattara
COMPANY SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	280 Bishopsgate London EC2M 4RB
INDEPENDENT AUDITOR:	Ernst & Young LLP Statutory Auditor The Paragon Counterslip Bristol BS1 6BX

Registered in England and Wales

DIRECTORS' REPORT

ACTIVITIES AND BUSINESS REVIEW

This Directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption and therefore does not include a Strategic report.

Activity
The principal activity of the Company continues to be the provision of credit finance by way of leasing.

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 7 to 9.

Turnover grew by £32k (2017: £230k), operating expenses decreased by £136k (2017: £179k) and other income decreased by £164k (2017: increased by £114k). After impairment reversal of £15k (2017: loss of £1k), the profit for the year was £993k (2017: £975k), an increase of 1.85% over 2017.

No dividend (2017: £593k) was paid during the year.

At the end of the year, the balance sheet showed total assets were £35,283k (2017: £24,458k), including income-generating assets comprising finance lease receivables of £4,090k (2017: £2,831k) and assets held for use in operating leases of £28,192k (2017: £20,883k).Total shareholders' funds were £1,671k (2017: £868k).

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 and interest rate and liquidity. This 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 lease receivables which would expose it to market, interest rate, currency and credit risk. It also has exposure to asset risk on the residual value of property, plant and equipment.

The principal risks associated with the company are as follows:

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

Interest rate risk
Structural interest rate risk arises where assets and liabilities have different repricing maturities.

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

Currency risk
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.

DIRECTORS' REPORT

***Principal risks and uncertainties* (continued)**

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 Group 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.

Residual value risk
Residual value risk is the risk that the value of a lease asset at the end of the lease term is less than estimated at inception of the lease contract and thus the Company may be subject to losses on disposal of a leasing asset. The Company manages this risk on an on going basis.

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 made such enquiries as they considered appropriate and having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

DIRECTORS AND SECRETARY

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

From 1 January 2018 to date the following changes have taken place:

	Appointed	Resigned
Directors		
J P Thwaite	-	11 October 2018
D G Harris	11 October 2018	-
I J Isaac	11 October 2018	-
A D Parry	11 October 2018	-

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare a Directors' report and financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework, and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether FRS 101 has been followed; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

INDEPENDENT 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:

J Patta

J A Pattara
Director
Date: 27 June 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYSCOT TRUST PLC

Opinion

We have audited the financial statements of RoyScot Trust plc ('the Company') for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 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.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYSCOT TRUST PLC

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; and
- the directors were not entitled to take advantage of the small companies' exemption in preparing the Directors' Report and from the requirements to prepare a Strategic Report.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
□
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Andrew R. Blackmore

Andrew Blackmore (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
27 June 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

Income from continuing operations	Note	2018 £'000	2017 £'000
Turnover	3	**8,702**	8,670
Cost of sales		**(2,743)**	(792)
Depreciation of property, plant and equipment	10	**(4,780)**	(6,793)
Operating expenses	4	**(70)**	(206)
Impairment reversals/(losses)	5	**15**	(1)
Operating profit		**1,124**	878
Finance costs	6	**(131)**	(67)
Other income	7	**-**	164
Profit before tax		**993**	975
Tax charge	8	**(190)**	(157)
Profit and total comprehensive income for the year		**803**	818

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

BALANCE SHEET
as at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	10	**28,192**	20,883
Finance lease receivables	12	**2,733**	1,880
Deferred tax assets	8	**6**	8
		30,931	22,771
Current assets			
Finance lease receivables	12	**1,357**	951
Trade and other receivables	14	**178**	325
Inventories	15	**1,063**	-
Prepayments, accrued income and other assets	16	**1,754**	411
		4,352	1,687
Total assets		**35,283**	24,458
Current liabilities			
Borrowings from group companies	17	**33,238**	23,409
Accruals, deferred income and other liabilities	18	**374**	181
		33,612	23,590
Total liabilities		**33,612**	23,590
Equity			
Called up share capital	19	**50**	50
Profit and loss account		**1,621**	818
Total equity		**1,671**	868
Total liabilities and equity		**35,283**	24,458

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

The financial statements of the Company were approved by the Board of Directors on 27 June 2019 signed on its behalf by:

J.Patta

J A Pattara
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Note	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2017		50	593	643
Profit for the year		-	818	818
Dividends paid	9	-	(593)	(593)
At 31 December 2017		50	818	868
Profit for the year		**-**	**803**	**803**
At 31 December 2018		**50**	**1,621**	**1,671**

Total comprehensive income for the year of £803k (2017: £818k) was wholly attributable to the equity holders of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Preparation and presentation of financial statements
These financial statements are prepared:
- on a going concern basis;
- under 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 1st 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 England and Wales and the financial statements are presented:
- in accordance with the Companies Act 2006:
- in sterling which is the functional currency of the Company: and
- with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
    - comparative information in respect of certain assets;
    - cash-flow statement;
    - standards not yet effective;
    - related party transactions; and
    - disclosure requirements of IFRS 7 "Financial Instruments: Disclosure" and IFRS 13 "Fair value Measurement".

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 20.

Adoption of IFRS 9

The Company's accounting policies have changed on the adoption of IFRS 9 'Financial Instruments' with effect from 1 January 2018. There has been no restatement of prior years and no material impact to the Company's equity at 1 January 2018.

Other changes to IFRS that were effective from 1 January 2018 have had no material effect on the Company's financial statements for the year ended 31 December 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 the Statement of comprehensive Income.

d) Revenue recognition
Revenue from finance leases and operating leases is recognised in accordance with the Company's policies on leases (see below). Revenue 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

d) Revenue recognition (continued)

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.

Rental income during the secondary period is recognised in line with IFRS 15 'Revenue' in the period which arises.

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

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

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 and fair value through other comprehensive income 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.

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

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 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) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for separately.

The depreciable amount is the cost of an asset less its residual value. Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives.

Estimated useful lives are as follows:

Assets held for use in operating leases – over the term of the lease

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

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

g) Impairment of property, plant and equipment
At each reporting date, the Company assesses whether there is any indication that its property, plant and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any.

h) Inventories
Operating lease assets that are routinely marketed for sale at the end of their leases are reclassified as inventories and are held at lower of their carrying amount or net realisable value. Proceeds from sales are reported as revenue. On disposal the book value of assets that are classified as inventories is charged to cost of sales.

i) 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.

Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives (see accounting policy 1(f)).

j) Financial instruments
On initial recognition, financial instruments are measured at fair value. Subsequently they are measured as follows: designated at fair value through profit or loss; amortised cost, the default class for liabilities; fair value through profit or loss, the default class for assets; or financial assets may be designated as at fair value through other comprehensive income. Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

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.

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, manager's remuneration 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 each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitments are 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

k) Impairment of financial assets

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

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

The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement. Financial assets are presented gross of allowances except where the asset has been wholly or partially written off.

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 factors the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

Loan impairment provisions

In 2018 the loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (k) sets out how the expected loss approach is 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.

Residual values

The Company assesses objective evidence for impairment of residual values at each balance sheet date adjusting the depreciation recognised on operating leases amount accordingly. An impairment loss is incurred and measured as the shortfall between the carrying value of the residual interest and the discounted value of the estimated future cash flows, including cash flows from guarantors. Unguaranteed residual values are subject to regular review, if there is a reduction in the finance lease receivables estimated unguaranteed residual value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

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	2017
	£'000	£'000
Finance lease income	**117**	154
Operating lease rental income	**5,687**	7,707
Sale of operating lease assets	**2,542**	794
Other revenue	**356**	15
	8,702	8,670

NOTES TO THE FINANCIAL STATEMENTS

4. Operating expenses

	2018 £'000	2017 £'000
Commission payable	**4**	13
Management fees	**115**	55
Exchange (gain)/ losses	**(49)**	17
Legal and professional fees	**-**	121
	70	206

Management fees
Management fees include the costs of staff and directors borne by other members of the group, none of which can be apportioned meaningfully in respect of services to the Company. These are re-charged on an annual basis by Lombard North Central PLC.

Auditor's remuneration
There was no charge in either the current or prior year's financial statements for auditor's remuneration as the fees of £5,000 (2017: £5,000) were charged in the financial statements of Lombard North Central PLC.

5. Impairment reversals/(losses)

	2018 £'000	2017 £'000
Finance leases	**15**	-
Investment in subsidiaries (Note 11)	**-**	(1)
	15	(1)

6. Finance costs

	2018 £'000	2017 £'000
Interest on loans from group companies	**131**	67

7. Other income

	2018 £'000	2017 £'000
Dividend income from subsidiaries	**-**	164

8. Tax

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax charge for the year	**188**	155
Deferred tax:		
Charge for the year	**2**	2
Tax charge for the year	**190**	157

The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 19% (2017: blended tax rate 19.25%) as follows:

	2018 £'000	2017 £'000
Expected tax charge	**189**	188
Non deductible items	**1**	1
Non taxable items	**-**	(32)
Actual tax charge for the year	**190**	157

8. Tax (continued)

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

Deferred tax

The following are the major tax assets recognised by the Company and the movements thereon.

	Capital allowances £'000
At 1 January 2017	10
Charge to income	(2)
At 31 December 2017	8
Charge to income	**(2)**
At 31 December 2018	**6**

9. Ordinary dividends

	2018 £'000	2017 £'000
Final dividend paid	-	593

10. Property, plant and equipment

2018	**Assets held for use in operating leases £'000**
Cost	
At 1 January 2018	41,756
Additions	15,881
Transfer to inventories	(15,517)
At 31 December 2018	**42,120**
Accumulated depreciation and impairment	
At 1 January 2018	20,873
Depreciation charge for the year	4,780
Transfer to inventories	(11,725)
At 31 December 2018	**13,928**
Net book value	
At 31 December 2018	**28,192**
At 31 December 2017	20,883

Security

No property, plant and equipment has been pledged as security for liabilities of the Company (2017: none).

11. Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment. The carrying value was as follows:

	2018 £'000	2017 £'000
At 1 January	-	1
Impairment losses	-	(1)
At 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

11. Investments in subsidiaries (continued)

The subsidiary undertakings of the Company, which had an accounting reference date of 31 December, unless otherwise indicated, were:

Name of subsidiary	Note	Country of incorporation and operations	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Emperor Holdings Limited	(2)	England and Wales	100	100	Dormant Company
RoyScot Leasing Limited*	(1)	England and Wales	100	100	Dormant Company
RoyScot Limited	(1)	England and Wales	100	100	Non-trading

Accounting reference date: * 30 September

(1) The registered office is 280 Bishopsgate, London, EC2M 4RB
(2) The registered office is 1 Princes Street, London, EC2R 8PB

During the year all subsidiaries of the Company were dissolved generating a loss of £1.

12. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	Total £'000
2018			
Future minimum lease payments	**1,426**	**2,132**	**3,558**
Unguaranteed residual values	**32**	**709**	**741**
Unearned finance income	**(103)**	**(108)**	**(211)**
Other	**14**	**-**	**14**
Present value of minimum lease payments receivable	**1,369**	**2,733**	**4,102**
Impairment provisions	**(12)**	**-**	**(12)**
Carrying value	**1,357**	**2,733**	**4,090**
2017			
Future minimum lease payments	975	1,383	2,358
Unguaranteed residual values	20	567	587
Unearned finance income	(70)	(70)	(140)
Other	42	-	42
Present value of minimum lease payments receivable	967	1,880	2,847
Impairment provisions	(16)	-	(16)
Carrying value	951	1,880	2,831

	2018 £'000	2017 £'000
Due within one year	**1,357**	951
Due after more than one year	**2,733**	1,880
	4,090	2,831

NOTES TO THE FINANCIAL STATEMENTS

12. Finance lease receivables (continued)

The Company entered into new finance lease agreements totalling £2,495k (2017: £880k) during the year and the portfolio is due to mature fully within 5 years (2017: 5 years).

The average effective interest rate in relation to finance lease agreements approximates 3.06% (2017: 3.04%).

There were no contingent rentals recognised in income in the year (2017: none).

13. Operating lease arrangements

At the balance sheet date, the Company had contracted with customers for the following future minimum lease rentals receivable under non-cancellable operating leases:

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2018	**6,322**	**11,167**	**631**	**18,120**
2017	4,977	7,001	868	12,846

Nature of operating lease assets in the balance sheet:

	2018 £'000	2017 £'000
Transportation	**19,074**	6,166
Cars and light commercial vehicles	**4,442**	2,650
Production equipment	**2,073**	3,574
Trailers	**1,028**	3,495
Other	**1,575**	4,998
	28,192	20,883

14. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	**178**	325

15. Inventories

	2018 £'000	2017 £'000
Former operating lease assets	**1,063**	-

16. Prepayments, accrued income and other assets

	2018 £'000	2017 £'000
Value added tax recoverable	**1,624**	405
Prepayments	**15**	6
Accrued income	**115**	-
	1,754	411

NOTES TO THE FINANCIAL STATEMENTS

17. Borrowings from group companies

	2018 £'000	2017 £'000
Amounts due to group companies	**33,238**	23,409

18. Accruals, deferred income and other liabilities

	2018 £'000	2017 £'000
Deferred income	**222**	20
Corporation tax payable	**152**	40
Accruals	**-**	121
	374	181

19. Share capital

	2018 £'000	2017 £'000
Authorised:		
200,000 ordinary shares of 25p	**50**	50
Allotted, called up and fully paid:		
Equity shares		
200,000 ordinary shares of 25p	**50**	50

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

20. 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; together with transactions undertaken in the normal course of business.

Group Companies

At 31 December 2018

The Company's immediate parent was:	Lombard North Central PLC
The smallest consolidated accounts including the company were prepared by:	National Westminster Bank Plc
The ultimate parent company was:	The Royal Bank of Scotland Group plc

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