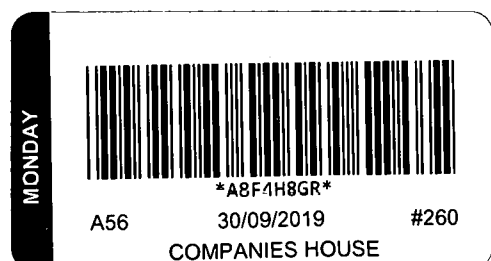


**Company Registered No: 02717209**

**RBS AA HOLDINGS (UK) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**



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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS:** S Kirkby  
R J Lawrence  
M E J Waymark

**COMPANY SECRETARY:** J A Ferguson

**REGISTERED OFFICE:** 250 Bishopsgate  
London  
EC2M 4AA

**INDEPENDENT AUDITOR:** Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

**Registered in England and Wales**

**STRATEGIC REPORT****ACTIVITIES AND BUSINESS REVIEW****Principal activity**

The principal activity of RBS AA Holdings (UK) Limited ("the Company") continues to be an investment holding company.

The directors do not anticipate any material change in either the type or the level of activities of the Company.

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, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at [www.rbs.com](http://www.rbs.com).

**Business review**

It is the intention of the directors that the Company will continue its current activities. The Company will be guided by its immediate parent company in seeking further opportunities.

The UK ring-fencing legislation requiring the separation of essential banking services from investment banking services took effect on 1 January 2019. To enable The Royal Bank of Scotland Group plc to comply with these requirements, a number of subsidiary and equity investments have been sold to and by the Company. The Company is located outside the ring-fenced bank.

**FINANCIAL PERFORMANCE**

The Company's financial performance is presented on pages 8 to 11.

After impairment reversals of £10,112k (2017: impairment provisions of £409,945k), the profit before taxation for the year was £67,130k (2017: £138,365k). The retained profit for the year was £62,375k (2017: £126,016k).

The directors do not recommend the payment of a dividend (2017: nil).

At the end of the year, the Balance Sheet total assets were £917,030k (2017: £879,021k), including investment in group companies of £595,057k (2017: £147,108k). Total shareholders' funds were £906,744k (2017: £777,666k).

**PRINCIPAL RISKS AND UNCERTAINTIES**

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

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

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

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

**STRATEGIC REPORT****PRINCIPAL RISKS AND UNCERTAINTIES (continued)****Interest rate risk**

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

The financial liabilities of the Company consist of amounts due to group companies and third party trade payables. The amounts due to group companies do not have any significant interest rate risk as they are due primarily on demand.

**Credit risk**

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

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

**Currency risk**

Currency risk is hedged using foreign exchange swaps and the position is reviewed regularly.

**Liquidity risk**

Liquidity risk arises where assets and liabilities have different contractual maturities. Management focuses on risk arising from the illiquid nature of the investments made by the Company and its subsidiaries, the need for additional funding for investing activities as well as from undrawn commitments and other contingent obligations. The Company manages its liquidity risk by having access to group funding. The most significant downstream funding requirement exists in respect of RBS SME Investments Limited.

**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.

The Company has no material market risk as the exposure is with group companies.

**Operational risk**

Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key mitigating processes and controls include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of these processes and controls is facilitated and overseen by operational risk teams; with internal audit providing independent evaluation of the control framework.

**GOING CONCERN**

The directors, having made enquiries of the parent company, have 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 101 Reduced Disclosure Framework (FRS 101) 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:

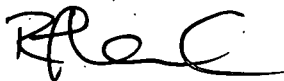
- so far as they are aware there is no relevant audit information of which the Company's auditor is unaware; and
- directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

**DIRECTORS' INDEMNITIES**

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the Directors' Report and financial statements.

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



R J Lawrence

Director

Date: 27 September 2019

**DIRECTORS' REPORT**

The directors of the Company present their annual report together with the audited financial statements for the year ended 31 December 2018. The Strategic Report includes the review of the year, disclosure of information to auditor, directors' indemnities and principal risks and uncertainties report.

**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 following changes have taken place:

<b>Directors</b>	<b>Appointed</b>	<b>Resigned</b>
R J Fisher	-	01 January 2018
M Waymark	21 May 2018	-
J R F J Fox	-	16 August 2018
S Kirkby	16 August 2018	-
<b>Secretary</b>		
M Adderton	21 May 2018	31 January 2019
RBS Secretarial Services Limited	-	21 May 2018
J Ferguson	11 December 2018	-

**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:



R J Lawrence  
Director  
Date: 27 September 2019

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS AA HOLDINGS (UK) LIMITED

### Opinion

We have audited the financial statements of RBS AA Holdings (UK) Limited (the Company) for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 18, 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 set out on pages 2 to 5, 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 RBS AA HOLDINGS (UK) 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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the 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 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.

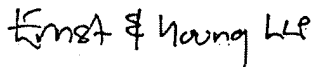
### **Auditor's responsibilities for the audit of the financial statements**

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.



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### **Simon Michaelson (Senior Statutory Auditor)**

for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London, United Kingdom  
Date: 27 September 2019

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Income from continuing operations</b>			
Interest receivable		3,259	2,016
Interest payable		(8)	(143)
<b>Net interest income</b>	<b>3</b>	<b>3,251</b>	<b>1,873</b>
Other operating income	<b>4</b>	<b>54,770</b>	550,405
Foreign exchange loss		(971)	(3,939)
<b>Non interest income</b>		<b>53,799</b>	<b>546,466</b>
<b>Total income</b>		<b>57,050</b>	<b>548,339</b>
Operating expenses	<b>5</b>	(32)	(29)
<b>Operating profit before impairment losses</b>		<b>57,018</b>	<b>548,310</b>
Impairment reversals/ (provisions) on fixed-assets investments		10,112	(409,945)
<b>Profit on ordinary activities before tax</b>		<b>67,130</b>	<b>138,365</b>
Tax charge	<b>6</b>	(4,755)	(12,349)
<b>Profit for the financial year</b>		<b>62,375</b>	<b>126,016</b>

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

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
for the year ended 31 December 2018

	2018 £'000	2017 £'000
<b>Profit for the financial year</b>	<b>62,375</b>	126,016
<b>Other comprehensive income subject to reclassification:</b>		
Unrealised gain/(loss) on investment in securities	2,716	(116)
Realised gain on investment in securities	14,014	-
<b>Other comprehensive income/(loss) before tax</b>	<b>16,730</b>	(116)
<b>Tax (charge)/credit</b>	<b>(3,761)</b>	21
<b>Other comprehensive income/(loss) after tax</b>	<b>12,969</b>	(95)
<b>Total comprehensive income for the financial year</b>	<b>75,344</b>	125,921

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

**BALANCE SHEET**  
 as at 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Investments in group companies	7	595,057	147,108
Investments in associates	8	8,500	-
Investments in securities	9	23,581	21,913
		<u>627,138</u>	<u>169,021</u>
<b>Current assets</b>			
Amounts due from group companies	10	246,525	706,876
Prepayments, accrued income and other assets	11	43,367	2,390
Derivatives	12	-	734
		<u>289,892</u>	<u>710,000</u>
<b>Total assets</b>		<u>917,030</u>	<u>879,021</u>
<b>Current liabilities</b>			
Amounts due to group companies	13	416	72,604
Derivatives	12	1,647	-
Accruals, deferred income and other liabilities	14	65	8,928
Current tax liabilities		5,439	18,400
		<u>7,567</u>	<u>99,932</u>
Total assets less current liabilities		<u>909,463</u>	<u>779,089</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	15	2,719	1,423
		<u>2,719</u>	<u>1,423</u>
<b>Total liabilities</b>		<u>10,286</u>	<u>101,355</u>
<b>Equity</b>			
Called up share capital	16	324,000	324,000
Loans forgiven		131,308	131,308
Capital redemption reserve		7,948	7,948
Fair value through other comprehensive income/available-for-sale reserve		2,200	7,935
Profit and loss account		441,288	306,475
<b>Total equity</b>		<u>906,744</u>	<u>777,666</u>
<b>Total liabilities and equity</b>		<u>917,030</u>	<u>879,021</u>

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

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



R J Lawrence  
Director

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

	Share capital £'000	Capital reserve <sup>(1)</sup> £'000	Capital redemption reserve £'000	Fair value through other comprehensive income/ AFS reserve £'000	Profit and loss account £'000	Total £'000
<b>At 1 January 2017</b>	324,000	131,308	7,948	8,030	180,459	651,745
Profit for the financial year	-	-	-	-	126,016	126,016
Unrealised loss on investment in securities	-	-	-	(116)	-	(116)
Deferred tax on investment in securities	-	-	-	21	-	21
<b>At 31 December 2017</b>	324,000	131,308	7,948	7,935	306,475	777,666
Implementation of IFRS 9 on 1 January 2018	-	-	-	-	(18)	(18)
Profit for the financial year	-	-	-	-	62,375	62,375
Capital injection	-	-	-	-	50,000	50,000
Transfer of gain on disposal of investment in securities at FVOCI to retained earnings	-	-	-	(9,797)	9,797	-
Transfer of tax element on disposal of investment in securities at FVOCI to retained earnings	-	-	-	1,862	(1,862)	-
Realised Gain on investment in securities during the year	-	-	-	-	4,216	4,216
Tax liability on realised gain	-	-	-	-	(1,382)	(1,382)
Contributed investment in group company	-	-	-	-	11,687	11,687
Unrealised gain on investment in securities	-	-	-	2,716	-	2,716
Deferred tax on investment in securities	-	-	-	(516)	-	(516)
<b>At 31 December 2018</b>	<b>324,000</b>	<b>131,308</b>	<b>7,948</b>	<b>2,200</b>	<b>441,288</b>	<b>906,744</b>

<sup>1)</sup> Capital reserve relates to a loan forgiven by RBS Bank NV during 2009.

Total comprehensive income for the year of £75,344k (2017: £125,921k) was wholly attributable to the owners of the Company.

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

**NOTES TO THE FINANCIAL STATEMENTS****1. Accounting policies****a) Preparation and presentation of financial statements**

These financial statements are prepared:

- on a going concern basis;
- 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 except that the following assets and liabilities are stated at their fair value: fair value through other comprehensive income and derivative financial instruments.

The Company has 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:
  - 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 17.

The 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 RBS AA Holdings (UK) Limited 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 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, 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies (continued)

**d) Revenue recognition**

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.

**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 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 in group companies**

Investments in group companies are stated at cost less any impairment. Impairment is recorded when the carrying value exceeds the net asset value of such investments. The Company does not consider fair value of such investments to be materially different from their net asset value.

**g) Financial instruments**

On initial recognition, financial instruments are measured at fair value. Subsequently they are classified according to the classification criteria as per IFRS9.

*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.

*Assets designated at fair value through other comprehensive income* – An equity instrument may be designated irrevocably at fair value through other comprehensive income.

*Fair value* - the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

*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.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies (continued)

## h) 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 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.

## i) 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.

## j) 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.

## 2. Critical accounting policies and key sources of estimation uncertainty

There are no particular judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be significant to the portrayal of its financial condition.

## 3. Net interest income

	2018 £'000	2017 £'000
Interest receivable from group companies	3,259	2,016
<b>Interest receivable</b>	<b>3,259</b>	<b>2,016</b>
Interest payable on borrowings	(8)	(143)
<b>Interest payable</b>	<b>(8)</b>	<b>(143)</b>
<b>Net interest income</b>	<b>3,251</b>	<b>1,873</b>

## 4. Other operating income

	2018 £'000	2017 £'000
Profit on sale of available-for-sale investments	-	113,420
Loss on sale of investment in subsidiaries	-	(7,222)
Deferred consideration on Vocalink Holding Limited	41,387	-
Dividend income from investment in equity shares	139	2,477
Dividend income from investments in group companies	13,244	441,730
	<b>54,770</b>	<b>550,405</b>

Movement in dividend income is as part of normal business activity of the Company.



## NOTES TO THE FINANCIAL STATEMENTS

## 5. Operating expenses

	2018	2017
	£'000	£'000
Other operating expenses	<u>32</u>	<u>29</u>

The Company does not remunerate directors nor can remuneration from elsewhere in the group be apportioned meaningfully in respect of their services to the Company. There are no other staff.

The auditor's remuneration for statutory audit work of the Company was £30k (2017: £18k) borne by the Company.

## 6. Tax

	2018	2017
	£'000	£'000
<b>Current tax:</b>		
UK corporation tax charge for the year	453	18,281
Over provision in respect of prior periods	<u>1,660</u>	<u>(3,600)</u>
	<u>2,113</u>	<u>14,681</u>
<b>Deferred tax:</b>		
Charge/(credit) for the year	2,642	(2,191)
Over provision in respect of prior periods	-	(141)
	<u>2,642</u>	<u>(2,332)</u>
<b>Tax charge for the year</b>	<u><b>4,755</b></u>	<u><b>12,349</b></u>

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

	2018	2017
	£'000	£'000
Profit before tax for the year	<u>67,130</u>	<u>138,365</u>
Expected tax charge for the year	12,755	26,632
Non-deductible items	148	58,461
Non-taxable items	(9,808)	(85,495)
Chargeable gains	-	16,486
Reduction in deferred tax following change in rate of UK corporation tax	-	6
Adjustments in respect of prior periods	<u>1,660</u>	<u>(3,741)</u>
<b>Actual tax charge for the year</b>	<u><b>4,755</b></u>	<u><b>12,349</b></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 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.

## NOTES TO THE FINANCIAL STATEMENTS

## 7. Investments in group companies

	2018 £'000	2017 £'000
<b>Cost</b>		
At 1 January	6,613,997	6,476,091
Foreign exchange adjustment on investments	-	(10,092)
Acquisitions during the year	438,658	148,140
Disposals during the year	(31,687)	(142)
Dissolved during the year	(4,349,084)	-
<b>At 31 December</b>	<b>2,671,884</b>	<b>6,613,997</b>
<b>Provisions</b>		
At 1 January	6,466,889	6,056,944
Addition during the year	(10,112)	409,945
Reversals on entities disposed	(30,866)	-
Reversals on entities dissolved	(4,349,084)	-
<b>At 31 December</b>	<b>2,076,827</b>	<b>6,466,889</b>
Net book value		
<b>At 31 December</b>	<b>595,057</b>	<b>147,108</b>

During the year the Company invested in the following group companies:

	£'000
RBS Management Services (UK) Limited	11,687
RBS Holdings III (Australia) Pty Limited	7,275
RBS SME Investments Ltd	360,678
NatWest Ventures Investments Limited	2,218
Ursvik Entré Holding AB (previously Stockmakaren Holding AB)	46,507
RBSG International Holdings Ltd	129
Ulster Bank Ireland Holdings	10,164
	<b>438,658</b>

During the year the Company disposed off the following investments in group companies:

	£'000
RBS Management Services (UK) Limited	(11,687)
RBS Equities Holdings (UK) Limited	(20,000)
	<b>(31,687)</b>

During the year the Company impaired the following investments in group companies:

	£'000
RBS HG (UK) Limited	5,280
RBS Management Services (UK) Limited	(10,865)
RBS Holdings III (Australia) Pty Ltd*	(11,772)
RBS Investments Holdings (UK) Limited	(388)
The Royal Bank of Scotland Berhad	(437)
NatWest Ventures Investments Limited	(1,279)
RBS Asia Financial Services Limited*	29,573
	<b>10,112</b>

\*Subsequent to the year-end, the subsidiary was sold to NatWest Markets plc and hence an impairment (charge) / reversal is recognised during the year based on the final selling price.

## NOTES TO THE FINANCIAL STATEMENTS

## 7. Investments in group undertakings (continued)

Details of investments in direct group companies are as follows:

Principal investments in direct group companies	Activity	Percentage of Activity owned	Place of Registration
RBS HG (UK) Limited	Investment Holding Company	100%	England and Wales
SIG1 Holdings Limited	Investment Holding Company	100%	Scotland
Lothbury Insurance Company Limited	Insurance Company	100%	Guernsey
The Royal Bank of Scotland Berhad	Banking	100%	Malaysia
RBS AA Holdings (Netherlands) B.V.	Investment Holding Company	100%	Netherlands
RBS Holdings III (Australia) Pty Ltd.	Investment Holding Company	100%	Australia
RBS Asia Financial Services Limited	Investment Holding Company	100%	Hong Kong
Ursvik Entré Holding AB	Lending	100%	Sweden
RBSG International Holdings Ltd	Investment Holding Company	100%	Scotland
Ulster Bank (Ireland) Holdings Unlimited Company	Investment Holding Company	100%	Ireland
RBS SME Investments Ltd	Investment Holding Company	100%	England and Wales
NatWest Ventures Investments Limited	Investment Holding Company	100%	England and Wales
NatWest Innovation Services Inc.	Service Company	100%	Delaware
ITB2 Limited	Finance Intermediation Company	100%	Scotland

Dormant group companies and nominee companies are excluded from the list above on the grounds of immateriality.

## 8. Investments in associates

	2018 £'000	2017 £'000
At 1 January	-	-
Acquisitions during the year	8,500	-
<b>At 31 December</b>	<b>8,500</b>	-

During the year the Company invested in the following entities:

	£'000
Loot Financial Services Limited	5,000
Vizolution Limited	3,500
	<b>8,500</b>

## 9. Investment in securities

	2018 £'000	2017 £'000
At 1 January	21,913	96,828
Acquisitions	18,240	2,359
Foreign exchange movements	1,084	1,686
Disposals	(24,181)	(79,035)
Unrealised gains	2,735	75
Realised gains	3,790	-
<b>At 31 December</b>	<b>23,581</b>	<b>21,913</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 9. Investment in securities (continued)

	2018 £'000	2017 £'000
Investment in securities consists of:		
Equity shares	19,636	20,063
Preference shares	3,945	1,850
	<u>23,581</u>	<u>21,913</u>

In August 2018, the company sold its entire 580,853 ordinary shares in Markit Group Holdings Limited for a total cash consideration of USD31m.

## 10. Amounts due from group companies

	2018 £'000	2017 £'000
Subsidiaries	39,909	-
Others		
- NatWest Markets Plc	206,616	-
- The Royal Bank of Scotland plc	-	706,876
	<u>246,525</u>	<u>706,876</u>

## 11. Prepayments, accrued income and other assets

	2018 £'000	2017 £'000
Deferred consideration on Vocalink Holdings Limited	41,387	-
Other assets	1,980	2,390
	<u>43,367</u>	<u>2,390</u>

## 12. Derivatives

2018	Notional amounts £'000	Assets £'000	Liabilities £'000
<b>Exchange rate contracts:</b>			
Currency swaps	103,043	-	1,647

2017	Notional amounts £'000	Assets £'000	Liabilities £'000
<b>Exchange rate contracts:</b>			
Currency swaps	44,289	734	-

## 13. Amounts due to group companies

	2018 £'000	2017 £'000
Amount due to group companies		
Due within one year	416	72,604

## 14. Accruals, deferred income and other liabilities

	2018 £'000	2017 £'000
Accruals	65	27
Other liabilities	-	8,901
	<u>65</u>	<u>8,928</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 15. Deferred tax

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

	Gain Held over in RBS Bank N.V London Branch £'000	Fair value through other comprehensive income £'000	Deferred gains £'000	Capital allowances £'000	Total £'000
<b>At 1 January 2017</b>	2,729	1,883	-	(835)	3,777
Charge/(credit) to income	(2,483)	-	-	150	(2,333)
Credit to equity	-	(21)	-	-	(21)
<b>At 31 December 2017</b>	246	1,862	-	(685)	1,423
Charge/(credit) to income	(246)	-	2,765	123	2,642
Charge/(credit) to equity	-	(1,346)	-	-	(1,346)
<b>At 31 December 2018</b>	-	516	2,765	(562)	2,719
				2018 £'000	2017 £'000
Deferred tax liabilities				2,719	1,423

## 16. Share capital

	2018 £'000	2017 £'000
<b>Authorised:</b>		
500,000,000 Ordinary Shares of £1 each	500,000	500,000
300,000,000 Redeemable Ordinary Shares of £1 each	300,000	300,000
	<b>800,000</b>	<b>800,000</b>
	2018 £'000	2017 £'000
<b>Allotted, called up and fully paid:</b>		
324,000,000 allotted, called-up and fully paid Ordinary Shares of £1 each	324,000	324,000

## 17. 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 UK corporation tax which is separately disclosed in note 6.

**NOTES TO THE FINANCIAL STATEMENTS****17. Related parties (continued)****Group companies**

At 31 December 2018

The Company's immediate parent was:	The Royal Bank of Scotland Group plc
The smallest consolidated accounts including the company were prepared by:	The Royal Bank of Scotland Group 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.

**18. Post balance sheet events**

The Company does not have post balance sheet events that require disclosure.