# Annual Report and Financial Statements

of

# JCB Finance Limited

## Year Ended 31st December 2019

Registered Office
The Mill
High Street
Rocester
Staffordshire
ST14 5JW
Registration No: 972265

JCB FINANCE LIMITED

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**JCB FINANCE LIMITED**

**Directors and Other Information**

| | |
|---|---|
| Directors | J D B Workman (Chairman)<br>D T Brown (appointed 3 July 2020)<br>D S Dolbear (resigned 3 July 2020)<br>J C Hall<br>M Hargreaves (resigned 20 April 2020)<br>R J Heidreich<br>I J Isaac<br>P R Jennings<br>J A Pattara<br>D G Powell<br>R A M Winter (appointed 14 May 2020) |
| Company Secretary | R J Heidreich |
| Auditors | Ernst & Young LLP<br>Bristol<br>United Kingdom<br>BS1 6BX |
| Bankers | National Westminster Bank Plc<br>41 Greengate Street<br>Stafford<br>ST16 2JD |
| Solicitors | Addleshaw Goddard<br>101 Barbirolli Square<br>Manchester<br>M2 3AB |
| Registered Office | The Mill<br>High Street<br>Rocester<br>Staffordshire<br>ST14 5JW |
| Company Registration Number | 00972265 |

**Activity**
The principal activity of the company continues to be the provision of instalment credit and leasing facilities. The company is a subsidiary of the NatWest Group plc which provides the company with guidance and access to all central resources it needs and helps to determine policy 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 NatWest Group plc review these matters on a group basis. Copies can be obtained from Corporate Governance and Regulatory Affairs, NatWest Group plc, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at natwestgroup.com.

**Business review and outlook**
The directors are satisfied with the company's performance in the year, having recorded a satisfactory profit. The trade and assets of the 2 subsidiary companies, JCB Finance (Leasing) Limited and Landpower Leasing Limited were transferred at book value to the Company on 1 November 2019. On 13 December 2019 interim dividends of £6m and £13m respectively were paid by the subsidiary entities to JCB Finance Limited.

The company will be guided by its shareholders in seeking further opportunities for growth.

**Financial performance**
The profit on ordinary activities before taxation during the year was £35,938,278 (31 December 2018: £18,867,006). The tax expense for the year was £3,288,357 (31 December 2018: £3,522,778), which resulted in a profit of £32,649,921 being transferred to reserves (31 December 2018: £15,344,228). The Company paid dividends totalling £20,000,000 during the year (2018: £20,000,000).

The amount financed under all forms of agreements entered into during the year was £1,058,377,614 (2018: £978,686,135). Pension costs were increased by £4.04m in the year (2018: £Nil) due to the amendment of a historic Defined Benefit scheme rule change.

**Principal risks and uncertainties**
The company seeks to minimise its exposure to external financial risks. Further information on financial risk management policies and exposures is disclosed in note 23 of the financial statements. It also has exposure to asset risk on the residual value of property, plant and equipment, which is further explained in note 1.

**Directors duties and engagement with stakeholders**
*Section 172(1) statement:*
Section 172(1) of the Companies Act 2006 (Section 172) is one of the statutory duties that directors have and requires them to promote the success of the Company for the benefit of shareholders as a whole while taking into account the interests of other stakeholders and, in so doing, have regard to the matters set out in Section 172(1)(a) to (f). These include the long term consequences of decisions, colleague interests, the need to foster the Company's business relationships with suppliers, customers and others; the impact on community and the environment; the Company's reputation and the need to act fairly as between members.

The Company's key stakeholders are business customers of all sizes, from small family run businesses to large commercial enterprises, the JCB Dealer network, JCB Finance employees (being full time and part time staff), and suppliers who support the Company in the provision of elements of its products and services. These key stakeholders have been identified by virtue of contracts and relationships held by those stakeholders directly with the Company. The range of engagement methods used by directors to understand the various stakeholder views and interests include Net Promoter Scores, complaint volumes, staff surveys and open lines of communication with the Dealer network at all levels within the business.

Directors are supported in the discharge of their duties by the Company Secretary. All Directors are aware of their statutory duties, including Section 172 and are aware of the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018.

*Engagement with suppliers, customers and others*
Customers are at the heart of everything JCB Finance does and the Board recognises the key role suppliers play in ensuring the Company delivers a reliable service to customers. The Company is also committed to managing the wider social, environmental and economic impacts of its operations which includes the way it deals with its customers and manages sustainability issues in its supply chain. Refer to jcb-finance.com for the Company's Modern Slavery Statement.

*Engaging employees*
JCB Finance adopts a pro-active approach to employee engagement. The management structure provides open channels for employee communication and feedback, and confidential employee surveys are used to ensure employee views are taken into account in decision making.

*How stakeholder interests have influenced decision making*
The Company recognises the importance of engaging with stakeholders to help inform strategy and Board decision making. Relevant stakeholder interests, including those of employees, are taken into account by the Board when it takes decisions. All decisions taken by the Board during the financial year were routine in nature but took account of relevant stakeholder interests, as appropriate. Please refer to the Annual Report and Accounts of the NatWest Group plc for further information on its approach to stakeholder engagement

RHeldreich

**R J Heldreich**
**COMPANY SECRETARY**
**9 September 2020**

## JCB FINANCE LIMITED

## Directors' Report

## For the year ended 31 December 2019

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. The Strategic Report includes the review of the year and risk report.

**Directors and Company Secretary**
The Directors and Company Secretary, who served during the year and subsequently, are listed below:

J D B Workman
D T Brown (appointed 3 July 2020)
D S Dolbear (resigned 3 July 2020)
J C Hall
M Hargreaves (resigned 20 April 2020)
R J Heidreich
I J Isaac
P R Jennings
J A Pattara
D G Powell
R A M Winter (appointed 14 May 2020)

**Directors' Responsibilities Statement**
The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare 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. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, International Accounting Standard 1 requires that directors:

• select suitable accounting policies and then apply them consistently;
• make judgments 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 enable them to ensure that the Strategic Report, the Directors' Report and the financial statements comply with 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
- the director has 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.

**Policy and Practice on Payment of Creditors**

The company follows the policy and practice on payment of trade creditors determined by the NatWest Group plc, which is committed to maintaining a sound commercial relationship with its suppliers. Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment year as may be agreed.

Trade creditors of the Company at the year end were equivalent to 12 days purchases based on the average daily amount invoiced to the Company during this year (2018: 6 days).

**Going Concern**

These financial statements are prepared on a going concern basis, see note 1(a) on page 12.

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

R J Heidreich
COMPANY SECRETARY
9 September 2020

## Independent Auditor's Report to the Members of JCB Finance Limited

**Opinion**

We have audited the financial statements of JCB Finance Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

• give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of matter – Effects of Covid-19**

We draw attention to Notes 1(a) and 27 of the financial statements, which describes the economic disruption the company is facing as a result of Covid-19, which is impacting current business operations and financial markets. Our opinion is not modified in respect of this matter.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter 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 directors' report have been prepared in accordance with applicable legal requirements.

**JCB FINANCE LIMITED**

**Income Statement**

**For the year ended 31 December 2019**

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Continuing operations** | | £ | £ |
| Revenue | 2 | 79,790,445 | 68,901,271 |
| Other operating income | | 148,113 | 117,958 |
| Other net operating charges | 3 | ( 51,146,146) | ( 41,218,165) |
| **Operating profit** | | 28,792,412 | 27,801,064 |
| Other income | 4 | 19,000,000 | - |
| Finance costs | 5 | ( 11,854,134) | ( 8,934,058) |
| **PROFIT BEFORE TAXATION** | | 35,938,278 | 18,867,006 |
| Tax expense on profit on ordinary activities | 9 | ( 3,288,357) | ( 3,522,778) |
| **PROFIT FOR THE YEAR** | 10 | 32,649,921 | 15,344,228 |

## JCB FINANCE LIMITED

### Statement of Comprehensive Income

### For the year ended 31 December 2019

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Profit for the year | 32,649,921 | 15,344,228 |
| *Items that will not be reclassified subsequently to profit or loss:* | | |
| Movement in defined benefit pension scheme | ( 1,080,000) | 180,000 |
| Tax on movement in defined benefit pension scheme | 183,600 | ( 34,200) |
| Other comprehensive income for the year net of tax | ( 896,400) | 145,800 |
| Total comprehensive income for the year | 31,753,521 | 15,490,028 |

### Statements of Changes in Equity

### As at 31 December 2019

| | Share Capital | Retained Earnings | Total Equity |
|---|---|---|---|
| | £ | £ | £ |
| At 1 January 2018 | 100,000 | 13,041,548 | 13,141,548 |
| *Profit for the year* | - | 15,344,228 | 15,344,228 |
| Other comprehensive income for the year | - | 145,800 | 145,800 |
| Dividends paid (£200 per share) | - | (20,000,000) | (20,000,000) |
| At 31 December 2018 | 100,000 | 8,531,576 | 8,631,576 |
| At 1 January 2019 | 100,000 | 8,531,576 | 8,631,576 |
| Profit for the year | - | 32,649,921 | 32,649,921 |
| Other comprehensive income for the year | - | (896,400) | (896,400) |
| Dividends paid (£200 per share) | - | (20,000,000) | (20,000,000) |
| At 31 December 2019 | 100,000 | 20,285,097 | 20,385,097 |

JCB FINANCE LIMITED

Balance Sheet

At 31 December 2019

Company Registration Number: 00972265

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | £ | £ |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | 108,335,111 | 88,505,135 |
| *Finance lease receivables* | 20 | 489,277,265 | 423,792,375 |
| Deferred tax asset | 18 | 12,735 | - |
| Investment in subsidiaries | 12 | 50,350 | 50,350 |
| | | 597,675,461 | 512,347,860 |
| **CURRENT ASSETS** | | | |
| Amounts owed by subsidiary undertakings | 13 | | 14,534,774 |
| Net investment in loan receivables | 14 | 74,311,643 | 80,298,778 |
| Finance lease receivables | 20 | 332,987,952 | 298,673,459 |
| Trade and other receivables | 15 | 10,433,486 | 9,580,253 |
| Inventories | 24 | 411,875 | 569,757 |
| *Retirement benefit scheme* | 8 | 2,320,000 | 7,240,000 |
| Cash at bank and in hand | | 369 | 254 |
| | | 420,485,325 | 410,875,275 |
| **TOTAL ASSETS** | | 1,018,140,786 | 923,223,135 |
| **CURRENT LIABILITIES** | | | |
| Amounts owed to group undertakings | 16 | (508,107,905) | (486,443,241) |
| *Trade and other payables* | 17 | (21,347,784) | (15,364,340) |
| | | (529,455,689) | (501,807,581) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 488,685,097 | 421,415,554 |
| **NON-CURRENT LIABILITIES** | | | |
| Amounts owed to group undertakings | 16 | (468,300,000) | (409,500,000) |
| Deferred tax liabilities | 18 | - | (3,283,078) |
| **TOTAL LIABILITIES** | | (997,765,689) | (914,591,559) |
| **NET ASSETS** | | 20,385,097 | 8,631,576 |
| **EQUITY** | | | |
| Share capital | 19 | 100,000 | 100,000 |
| Reserves | | 20,285,097 | 8,531,576 |
| **TOTAL EQUITY** | | 20,385,097 | 8,631,576 |

These financial statements were approved by the Board of Directors on *9 September 2020* and signed on its behalf by:

J D B WORKMAN
DIRECTOR

R A M WINTER
DIRECTOR

**1. Accounting Policies**

**(a) Preparation and presentation of accounts**

*These financial statements are prepared:*

• on a going concern basis. In the first quarter of 2020, the World Health Organisation declared the Covid-19 outbreak to be a pandemic. Many governments, including the UK, have taken stringent measures to contain and/or delay the spread of the virus. Actions taken in response to the spread of Covid-19 have resulted in severe disruption to business operations and a significant increase in economic uncertainty, with more volatile asset prices and currency exchange rates, and a marked decline in long-term interest rates in developed economies.

NatWest Holdings Group (the "Group") has a well-developed business continuity plan which includes pandemic response, enabling the Group to quickly adapt to these unprecedented circumstances and continue as viable business.

There remains significant uncertainty regarding the developments of the pandemic and the future economic recovery. The most likely expected financial impact is in respect of the Company's profitability, assets, operations and liquidity, which management continues to monitor.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have prepared the financial statements on a going concern basis. This conclusion is based on the director's assessment of the Company's financial position, including the parental letter of support provided by the immediate parent company. The directors, in relying on this support, have considered the immediate parent company's ability to provide this support with no issues noted

• Under Financial Reporting Standard (FRS) 101 *Reduced Disclosure Framework* in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS); and

• on the historical cost basis

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

The Company is incorporated in the UK and registered in England and Wales and the financial statements are presented:

• in accordance with the Companies Act 2006
• in sterling, which is the functional currency of the Company; and
• with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
  - comparative information in relation to 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 NatWest Group plc, these accounts are available to the public and can be obtained as set out in note 26.

The classification of transactions and balances included within the financial statements has been reviewed in the current period to enhance the understanding of the financial statements to its users. Where transactions and balances have been presented differently in the current period, the prior year classification has been updated to ensure consistency with the current period classification.

**(b) Adoption of new and revised Standards**

The changes to IFRS that were effective from 1 January 2019 have had no material effect on the Company's Financial Statements for the year ended 31 December 2019.

**(c) Consolidated financial statements**

The financial statements contain information about JCB Finance 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 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 NatWest Group plc, a public company registered in Scotland whose registered address is 36 St Andrews Square, Edinburgh, EH2 2YB.

**(d) Revenue recognition**

Revenue from instalment credit agreements, finance and operating leases are recognised in accordance with the Company's policies (see (e) and (h) below). Sales proceeds received on the disposal of end of lease assets are recognised in revenue in the year in which the sale occurs, with the book value of the asset being charged to other net operating charges. Revenue arises in the United Kingdom from continuing activities.

**1. Accounting Policies (continued)**

**(e) Leases**

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

During the year the Company reclassified Hire Purchase agreement receivable balances in the Balance Sheet from Net Investment in Loan Receivables to Finance Lease Receivables and also reclassified amounts due to other counterparties to Other Creditors from Net Investment in Loan Receivables. The only affected financial statement lines are as follows:

| | 2018 as previously submitted | Reclassification | 2018 as restated |
|---|---|---|---|
| | £ | £ | £ |
| Net investment in loan receivables | 765,917,111 | (685,620,333) | 80,296,778 |
| Finance lease receivables | 34,648,895 | 687,816,939 | 722,465,834 |
| Other creditors | (1,763,321) | (2,196,606) | (3,959,927) |
| | | - | |

**As lessor**

Leases are classified as finance leases if they transfer substantially all the risks and rewards of the ownership of the asset to the customer. All other leases are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the leases being the minimum lease payments and any unguaranteed residual value discounted at the effective interest rate in the lease. Finance lease income is allocated to accounting years so as to give constant periodic rate of return before tax on the net investment.

Rental income from operating leases is credited to the income statement on a straight line accruals basis over the term of the lease. Operating lease assets are included within property, plant and equipment.

Unguaranteed residual values are subject to regular review to identify potential impairment. For Finance Leases, if there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

**As a lessee**

On entering a new lease contract, the Company recognises a right of use asset and a lease liability to pay future rentals. The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

**(f) Impairment of financial assets**

At each balance sheet date each financial asset measured at amortised cost is assessed for impairment. Loss allowances are forward looking, based on 12-month expected credit losses where there has not been a significant increase in credit risk, otherwise allowances are based on lifetime expected credit losses.

Lifetime expected credit losses are estimated at customer level based on an assessment of the present value of estimated recoveries. 12-month expected losses are based on prior experience through the economic cycle and economic conditions forecast for key markets served by the Company. The costs of loss allowances on assets held at amortised cost are presented as impairments in the income statement.

**(g) Financial Instruments**

On initial recognition financial instruments are measured at fair value. Subsequently they are measured at amortised cost.

Amortised cost assets have to meet both of 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.

**(h) Instalment credit agreements, invoice discounting facilities and stocking loans**

These financial assets are measured at amortised cost. Charges are apportioned using the Effective Interest Rate method. Stocking loans are short term agreements to fund dealer stocking commitments. Invoice discounting facilities are short term arrangements with dealers to fund periods of customer trade credit.

**(i) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged to the income statement on a straight-line basis so as to write them down to their estimated residual value over their estimated useful lives. Estimated residual values are re-assessed on an annual basis.

| | Estimated useful life |
|---|---|
| Operating Leases | Term of contract |
| Motor Cars | 4 years |
| Office Equipment | 3 - 10 years |

**(j) Amounts owed to group undertakings**

Initially measured at fair value and subsequently at amortised cost. Finance costs charged on borrowings from group undertakings are recognised in the income statement in the year in which they are incurred.

**(k) Trade and other receivables**

Trade and other receivables are initially measured at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

1. **Accounting Policies (continued)**

**(l) Trade and other payables**

Trade and other payables are initially measured at fair value and subsequently at amortised cost.

**(m) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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 taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**(n) Pension schemes**

The Company provides post-retirement benefits in the form of pensions to eligible employees. The cost of defined benefit pension schemes to the company is assessed by independent professionally qualified actuaries and recognised on a systemic basis over employees' service lives. For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to other net operating charges. Actuarial gains and losses are recognised in full in the year in which they occur and presented in other comprehensive income.

Contributions to defined contribution pension schemes are recognised in profit or loss when payable.

During the year the Company has participated in one defined benefit pension scheme, the JCB Finance Ltd Pension Scheme, and one defined contribution scheme which is operated by Royal London.

**1. Accounting Policies (continued)**

**(n) Pension schemes (continued)**

**The JCB Finance Limited Pension Scheme**

Employer normal contributions to the scheme for the year were £620,000 (2018: £610,000) and the agreed weighted average contribution rate was 38.4% (2018: 38.4%).

**JCB Finance Limited Stakeholder Pension Plan (Royal London)**

This is a defined contribution scheme, the assets and liabilities of which are held independently from the Company.

Contributions to the scheme for the year were £320,048 (2018: £289,333) and the agreed contribution rate was 15% (2018: 15%).

**(o) Inventories**

The assets held in stock represent end of lease equipment which is held for disposal rather than continuing use within the business. Assets are shown at the lower of carrying value and fair value less estimated costs to sell.

**(p) Other net operating charges**

Other net operating charges include individually assessed provisions made against advances for which recovery is considered to be doubtful, and management charges payable which are accounted for on an accruals basis.

**(q) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and on-demand deposits. Cash and cash equivalents are shown net of bank overdrafts, which are included within trade and other payables on the balance sheet.

**(r) Critical Accounting judgements 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:

- provisions for bad and doubtful debts (judgment & estimate, notes 14 and 20)
- impairment of unguaranteed residual values (estimates, notes 11 and 20)

The Company's policy for provisions and impairment of unguaranteed residual values is noted above.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **2. Revenue** | | |
| Income from loans and receivables | 3,149,972 | 3,021,823 |
| Finance leases | 34,836,644 | 30,205,518 |
| Operating leases | 25,077,993 | 19,745,566 |
| Sale of equipment | 16,725,836 | 15,928,364 |
| | 79,790,445 | 68,901,271 |
| **3. Other net operating charges** | | |
| Operating expenses | 13,630,513 | 8,345,419 |
| Commission payable | 716,358 | 575,532 |
| Bad debt charge | 344,028 | 151,222 |
| Fixed asset depreciation | 374,515 | 451,372 |
| Operating lease depreciation | 19,686,133 | 16,192,975 |
| Carrying value of equipment sold | 16,394,599 | 15,501,645 |
| | 51,146,146 | 41,218,165 |
| **4. Other Income** | | |
| Dividend income from subsidiaries | 19,000,000 | - |
| **5. Finance costs** | | |
| Interest on loans and payables: | | |
| The NatWest Group plc | 11,854,134 | 8,934,058 |

**6. Staff numbers and costs**

| | 2019 | 2018 |
|---|---|---|
| The average number of persons (including directors) employed by the Company during the year was as follows: | No. | No. |
| Salaried staff | 102 | 102 |

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| The aggregate payroll cost of these persons was as follows: | | |
| Wages and salaries | 5,512,671 | 5,247,473 |
| Social security costs | 698,230 | 671,186 |
| Other pension costs | 4,802,735 | 798,157 |
| | 11,013,636 | 6,716,816 |

Other pension costs includes £320,048 in relation to defined contribution arrangements (2018: £289,333). Other pension costs have increased in 2019 due to £4,040,000 (2018: £Nil) of past service cost relating to the amendment of a historic Defined Benefit scheme rule change.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **7. Emoluments of directors** | | |
| Remuneration | 745,234 | 687,799 |
| Pension contributions | 149,145 | 146,147 |
| | 894,379 | 833,946 |

Retirement benefits are accruing to 3 directors under defined benefit schemes (2018: 3).

| | 2019 | 2018 |
|---|---|---|
| **Emoluments of the highest paid director** | | |
| Remuneration | 244,843 | 224,730 |
| Pension contributions | 49,848 | 48,871 |
| | 294,691 | 273,601 |

**8. Retirement benefit schemes**

The Company operates a pension scheme (the JCB Finance Limited Pension Scheme) which is a defined benefit scheme, the assets of which are held in a separately administered pension fund. The Scheme is established under, and governed by, a Trust Deed and Rules and is regulated by the Pensions Regulator. The Scheme is managed by a Board of Trustees.

The latest full actuarial valuation was carried out as at 31 December 2018 and an interim valuation has been carried out as at 31 December 2019. The Scheme has been closed to new members since 2008. The employer contribution rates have been agreed between the Trustees and the Company up to 31 December 2021 at an average of 42.5% of pensionable salary amounting to £0.7m per annum. In addition, shortfall contributions of £0.4m per annum will be paid in each calendar year from 2020 to 2024 inclusive. The next full actuarial valuation will be performed as at 31 December 2021 and contribution rates for the next 3 years will then be agreed between the Trustees and the Company which are not expected to materially differ from current levels.

The total pension cost for the Company is assessed in accordance with the advice of qualified actuaries, and amounted to £4,460,000 (2018: £500,000).

As at 31 December 2019 there was a gross surplus of funds as calculated under IAS 19, "Retirement benefits", by the independent qualified actuaries of £2,320,000 (2018: £7,240,000). This is represented by scheme assets with a market value of £42,600,000 (2018: £36,880,000) net of scheme liabilities with a present value of £40,280,000 (2018: £29,620,000). The surplus is recognised under IFRIC 14 on the basis that the Scheme rules contain the provision for any surplus to be paid back to the employer upon winding up of the Scheme. The weighted average duration of the Defined Benefit obligation is 22 years (2018 - 23 years)

The actuarial valuation was carried out using the projected unit method with principal assumptions as follows:

| | 2019 | 2018 |
|---|---|---|
| Rate of increase in salaries following year | 1.75% | 1.75% |
| Rate of increase in salaries thereafter | 1.75% | 1.75% |
| Rate of increase in pensions in payment | 2.75% | 2.90% |
| Discount rate | 2.05% | 2.90% |
| Inflation assumption (RPI) | 2.90% | 3.15% |

The defined benefit obligation is highly sensitive to changes in the above assumptions, and a sensitivity analyses is provided on the following page. The sensitivity analyses have been determined based on a method that extrapolates the impact on the fair value of plan liabilities as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the fair value of plan liabilities as it is unlikely that changes in assumptions would occur in isolation of one another.

The market value of the assets and liabilities of the scheme, the expected average rates of return and the effect on the company's reserves were as follows:

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Equities | 14,460,000 | 17,860,000 |
| Bonds | 27,990,000 | 18,870,000 |
| Cash | 150,000 | 130,000 |
| Total market value of assets | 42,600,000 | 36,860,000 |
| Actuarial value of liability | (40,280,000) | (29,620,000) |
| Gross pension surplus | 2,320,000 | 7,240,000 |

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **8. Retirement benefits schemes (continued)** | £ | £ | £ | £ |
| **Movements in pension scheme surplus during the year:** | | | | |
| **Fair value of plan assets:** | | | | |
| Opening balance | 36,860,000 | | 38,180,000 | |
| Interest income on scheme assets | 1,070,000 | | 980,000 | |
| Return on scheme assets above discount rate | 4,450,000 | | (2,490,000) | |
| Employer contributions | 620,000 | | 610,000 | |
| Employee contributions | 50,000 | | 40,000 | |
| Benefits paid | (450,000) | | (460,000) | |
| Closing balance | | 42,600,000 | | 36,860,000 |
| **Fair value of plan liabilities:** | | | | |
| Opening balance | (29,620,000) | | (31,230,000) | |
| Current service cost | (640,000) | | (690,000) | |
| Past service cost | (4,040,000) | | - | |
| Interest cost on the defined benefit obligation | (850,000) | | (790,000) | |
| Employee contributions | (50,000) | | (40,000) | |
| Experience gains (losses) | (640,000) | | 190,000 | |
| Changes in actuarial financial assumptions | (5,290,000) | | 2,280,000 | |
| Changes in actuarial demographic assumptions | 400,000 | | 200,000 | |
| Benefits paid | 450,000 | | 460,000 | |
| Closing balance | | (40,280,000) | | (29,620,000) |
| Gross surplus | | 2,320,000 | | 7,240,000 |

| | 2019 | 2018 |
|---|---|---|
| **Sensitivity analysis:** | | |
| *Effect on fair value of plan liabilities:* | | |
| Increase in Discount rate by 50 basis points | -10% | -10% |
| Decrease in Discount rate by 50 basis points | +12% | +12% |
| Increase in CPI by 25 basis points | +2% | +3% |
| Decrease in CPI by 25 basis points | -2% | -2% |
| Increase of 1 year in Life Expectancy of Scheme participants | +5% | +4% |

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **9. Tax expense on profit on ordinary activities** | | |
| Current tax - UK corporation tax - group relief payable | 4,220,315 | 3,328,296 |
| Current tax - adjustment in relation to prior year | 58,360 | 13,805 |
| Current tax expense for the year | 4,278,675 | 3,342,101 |
| Deferred tax charge for the current year | (953,464) | 183,013 |
| Deferred tax - adjustment in relation to prior year | (36,854) | (2,336) |
| Deferred tax charge (credit) for the year | (990,318) | 180,677 |
| Tax expense for the year | 3,288,357 | 3,522,778 |
| Profit on ordinary activities before tax | 35,938,278 | 18,867,006 |
| Expected expense at 19% (2018: 19%) | 6,828,273 | 3,584,731 |
| Permanently disallowable expenditure | 138,024 | 122,328 |
| Non-taxable items | (3,610,000) | - |
| Adjustments in relation to prior year | 21,506 | 11,469 |
| Effect of change in UK tax rate | (89,446) | (195,750) |
| | 3,288,357 | 3,522,778 |

| | 2019 | 2018 |
|---|---|---|
| **10. Profit for the year** | | |
| Profit for the year has been arrived at after charging / (crediting): | | |
| Profit on disposal of property, plant and equipment | (371,258) | (457,625) |
| Fees payable to the Company's auditor for the audit of financial statements | 85,600 | 85,600 |
| Fees payable to the Company's auditor for the audit of subsidiary companies annual accounts | 14,000 | 14,000 |

The audit fee is borne by the Company's immediate parent undertaking. The amount noted above has been allocated to this company. No remuneration was paid to the auditors for non-audit services.

## 11. Property, plant and equipment

| | | Operating Leases £ | Motor Cars £ | Office Equipment £ | Total £ |
|---|---|---|---|---|---|
| Cost | At 1 January 2019 | 116,586,125 | 902,810 | 1,650,646 | 119,139,581 |
| | Additions | 46,703,120 | 407,566 | 63,704 | 47,174,390 |
| | Transfer from group company | 31,352,398 | - | - | 31,352,398 |
| | Disposals | - | (376,305) | (5,781) | (382,086) |
| | Transfer to inventories | (30,024,397) | - | - | (30,024,397) |
| | At 31 December 2019 | 164,617,246 | 934,071 | 1,708,569 | 167,259,886 |
| Depreciation | At 1 January 2019 | 28,847,829 | 368,736 | 1,417,881 | 30,634,446 |
| | Charge for year | 19,686,133 | 241,983 | 132,533 | 20,060,649 |
| | Transfer from group company | 21,820,189 | - | - | 21,820,189 |
| | Disposals | - | (241,911) | (5,088) | (246,999) |
| | Transfer to inventories | (13,343,509) | - | - | (13,343,509) |
| | At 31 December 2019 | 57,010,642 | 368,808 | 1,545,326 | 58,924,776 |
| Net book value at 31 December 2019 | | 107,606,605 | 565,263 | 163,243 | 108,335,111 |
| Cost | At 1 January 2018 | 93,291,300 | 937,145 | 1,652,539 | 95,880,984 |
| | Additions | 49,613,844 | 207,632 | 28,109 | 49,849,585 |
| | Disposals | - | (241,967) | (30,002) | (271,969) |
| | Transfer to inventories | (26,319,019) | - | - | (26,319,019) |
| | At 31 December 2018 | 116,586,125 | 902,810 | 1,650,646 | 119,139,581 |
| Depreciation | At 1 January 2018 | 23,454,129 | 268,794 | 1,223,771 | 24,946,694 |
| | Charge for year | 16,192,975 | 227,877 | 223,495 | 16,644,347 |
| | Disposals | - | (127,935) | (29,385) | (157,320) |
| | Transfer to inventories | (10,799,275) | - | - | (10,799,275) |
| | At 31 December 2018 | 28,847,829 | 368,736 | 1,417,881 | 30,634,446 |
| Net book value at 31 December 2018 | | 87,738,296 | 534,074 | 232,765 | 88,505,135 |

## 12. Investment in subsidiaries

| | Subsidiary Undertakings £ |
|---|---|
| Cost at beginning and end of year | 50,350 |

Details of the investments in which the Company holds more than 10% of the nominal value of any class of share capital are as follows:

| Name of Company | Country of Registration | Reg. No. | Holding | % Held | Nature of Business |
|---|---|---|---|---|---|
| JCB Finance (Leasing) Limited | England & Wales | 02211998 | Ordinary shares | 100% | Commercial leasing |
| Landpower Leasing Limited | England & Wales | 02579121 | Ordinary shares | 100% | Commercial leasing |

The registered office of both subsidiaries is The Mill, High Street, Rocester, Staffordshire ST14 5JW.
As noted on page 4 the trade and assets of both subsidiaries was transferred at book value to JCB Finance Limited on 1/11/2019.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **13. Amounts owed by subsidiary undertakings** | | |
| Amounts falling due within one year | - | 14,534,774 |
| **14. Net investment in loan receivables** | | |
| Amounts falling due within one year: | | |
| Invoice discounting facilities | 2,396,959 | 9,848,036 |
| Stocking loans | 71,914,684 | 70,448,742 |
| | 74,311,643 | 80,296,778 |
| **15. Trade and other receivables** | | |
| Amounts falling due within one year: | | |
| Other taxation recoverable | - | 1,430,950 |
| Other receivables | 10,433,486 | 8,129,303 |
| | 10,433,486 | 9,560,253 |
| **16. Amounts owed to group undertakings** | | |
| Amounts falling due within one year: | | |
| Owed to subsidiary undertakings | 1,832,465 | - |
| Parent company loans bearing interest at fixed and variable rates | 506,275,440 | 486,443,241 |
| | 508,107,905 | 486,443,241 |
| Amounts falling after one year: | | |
| Parent company loans bearing interest at fixed rates | | |
| 2 - 5 years | 468,300,000 | 406,500,000 |
| Over 5 years | - | 3,000,000 |
| | 468,300,000 | 409,500,000 |

The fair value of amount owed to group undertakings is considered not to be materially different to the carrying amount in the balance sheet.

## 17. Trade and other payables

| | 2019 £ | 2018 £ |
|---|---|---|
| Amounts falling due within one year: | | |
| Bank overdraft | 1,162,521 | 2,806,096 |
| Group relief payable | 4,220,315 | 3,328,296 |
| Trade creditors | 121,663 | 63,757 |
| Rentals received in advance | 8,082,418 | 5,206,264 |
| Other taxation | 628,714 | - |
| Other creditors | 7,132,153 | 3,959,927 |
| | 21,347,784 | 15,364,340 |

## 18. Deferred taxation

| | 2019 £ | 2018 £ |
|---|---|---|
| (a) The deferred tax liability provided in the financial statements is made up as follows: | | |
| Accelerated capital allowances | ( 407,135) | 1,980,778 |
| Pensions | 394,400 | 1,303,200 |
| | ( 12,735) | 3,283,978 |

| | 2019 £ | 2018 £ |
|---|---|---|
| (b) The movements on the balance for deferred taxation are as follows: | | |
| Opening balance | 3,283,978 | 3,069,101 |
| Recognised in statement of changes in comprehensive income | ( 183,600) | 34,200 |
| Transfer from group company | ( 2,122,795) | - |
| Recognised in income statement | ( 990,318) | 180,677 |
| Closing balance | ( 12,735) | 3,283,978 |

Deferred income taxes are calculated on temporary differences under the liability method using the tax rates expected to apply when the liability is settled or the asset is realised. The Finance Act 2016 was substantively enacted on 15 September 2016 and provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account these rates, as these were substantively enacted at the balance sheet date.

Since the balance sheet date, it was announced in the UK Government's Budget on 11 March 2020 that the reduction in the UK Corporation rate to 17% from 1 April 2020 will not proceed. Instead, the UK Corporation tax rate will remain at 19%. This change was substantively enacted on 17 March 2020 and is therefore a non adjusting post balance sheet event. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19% rate. The impact of the post balance sheet date change in tax rate is not expected to be material

## 19. Share capital

| | 2019 £ | 2018 £ |
|---|---|---|
| Authorised: | | |
| 500,000 ordinary shares of £1 each | 500,000 | 500,000 |
| Allotted, called up and fully paid: | | |
| 100,000 ordinary shares of £1 each | 100,000 | 100,000 |

## 20. Finance lease receivables

| | 2019 |
|---|---|
| | £ |
| Amounts included in the income statement for finance leases: | |
| Finance income on net investment in leases | 34,717,755 |
| Income relating to variable lease payments not included in measurement of net investment in leases | 106,994 |
| Selling profit | 11,895 |
| | 34,836,644 |

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Amounts receivable under finance leases | | |
| Within 1 year | 342,918,608 | 312,456,825 |
| 1 to 2 years | 241,846,072 | 209,622,873 |
| 2 to 3 years | 152,556,235 | 134,713,944 |
| 3 to 4 years | 70,189,295 | 61,813,418 |
| 4 to 5 years | 25,552,477 | 22,366,099 |
| After 5 years | 8,968,504 | 5,339,933 |
| Lease payments total | 842,031,191 | 746,313,092 |
| Unguaranteed residual values | 1,123,696 | 615,086 |
| Unearned income | (20,106,633) | (23,905,776) |
| Present value of lease payments | 823,048,253 | 723,022,402 |
| Impairments | (783,036) | (556,568) |
| Net investment in finance leases | 822,265,217 | 722,465,834 |
| Due within one year | 332,987,952 | 298,673,459 |
| Due after more than one year | 489,277,265 | 423,792,375 |
| | 822,265,217 | 722,465,834 |

The fair value of finance lease receivables is considered not to be materially different to the carrying amounts in the balance sheet. Finance lease receivables include Hire Purchase receivables as well as lease agreements where substantially all risks and rewards of ownership are transferred to the customer. On 1 November 2019 the Company acquired portfolios of finance leases from its subsidiaries JCB Finance (Leasing) Limited and Landpower Leasing Limited at book value.

The Company entered into new finance lease agreements totalling £506,980,149 (2018: £454,457,038) during the year. There were no other significant movements or changes to the carrying value balance other than collection of rentals and movement in impairments.

## 21. Operating lease receivables

The following table shows undiscounted lease receipts from operating leases:

| | 2019 | 2018 |
|---|---|---|
| Within 1 year | 24,177,358 | 22,295,877 |
| 1 to 2 years | 17,334,638 | 15,017,752 |
| 2 to 3 years | 10,495,427 | 8,412,787 |
| 3 to 4 years | 3,917,681 | 4,491,195 |
| 4 to 5 years | 706,788 | 819,938 |
| After 5 years | 164,607 | 274,307 |
| | 56,796,499 | 51,311,856 |

**22. Commitments and contingencies**

The NatWest Group has agreed to compensate UK members for any adjustments in respect of UK:UK Transfer Pricing that may arise under paragraph 1A of Schedule 28 AA, Income and Corporation Taxes Act 1988.

There were no capital commitments at either year end.

**23. Financial instruments and risk management**

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital, reserves and retained earnings. The Company is a member of the NatWest Group of companies which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the Group to ensure that the Company can continue as a going concern and to ensure that the Group complies with these regulatory disciplines.

**Accounting policies**

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1.

***Categories of financial instruments***

The carrying value of each category of financial instruments, as defined in IFRS 9, is disclosed in the following table:

| | 2019 | 2018 |
|---|---|---|
| Financial assets | £ | £ |
| Finance lease receivables | 822,265,217 | 722,465,834 |
| Loan receivables | 74,311,643 | 80,296,778 |
| Other financial assets | 10,433,855 | 24,095,281 |
| | 907,010,715 | 826,857,893 |
| Financial liabilities | | |
| Amortised cost | 468,300,000 | 895,943,241 |

The fair value of financial assets and liabilities is considered not to be materially different to the carrying amounts in the balance sheet.

**Risk management**

The Company uses a comprehensive framework for managing risks established by the JCB Finance Group and the NatWest Group.

**23. Financial instruments and risk management (continued)**

The risks associated with the Company's business are as follows:

**Liquidity risk**

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost. It is the Company policy to ensure that sufficient liquid assets are available at all times to meet the Company's obligations. On a day to day basis liquidity is managed through an intercompany loan with the Company's immediate parent undertaking. The maturity analysis of financial liabilities are disclosed in notes 15, 16 & 22.

**Market risk**

Market risk is the risk that changes in market conditions, other than interest and foreign exchange rates, will have an adverse impact on the Company's financial condition or results.

**Interest rate risk and sensitivity analysis**

Structural interest rate risk arises where assets and liabilities have different repricing maturities. Receivables are funded by loans from parent companies. This funding is repayable on a variety of dates which fundamentally match the repricing profile of the assets of the Company. If interest rates had been 0.5% higher and all other variables were held constant, the Company's profit for the year would have increased by £71,690 (2018: increase £583).

**Currency risk**

The Company has no currency risk as all transactions and balances are denominated in Sterling.

**Credit risk**

Credit risk is the risk that companies, financial institutions and other counterparties will be unable to meet their obligations to the Company. Credit risk principally arises from the Company's lending activities. The Company carries out a variety of credit checks on proposals, and has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Analysis of credit quality by credit grade:

| | 2019 | 2018 |
|---|---|---|
| Total receivables (see following page for definitions) | £ | £ |
| - AQ 1 to 3 | 894,193,579 | 799,311,101 |
| - AQ 4 | 960,016 | 417,749 |
| - AQ 5 | 1,423,265 | 837,156 |
| | 896,576,860 | 800,566,006 |

The impairment movement in the year is as follows:

| | 2019 | 2018 |
|---|---|---|
| At 1 January 2019 | 556,568 | 423,786 |
| Additional charges made during the year | 344,028 | 151,222 |
| Amounts utilised or recovered | (117,560) | (18,440) |
| At 31 December 2019 | 783,036 | 556,568 |

**23. Financial Instruments and risk management (continued)**

**Credit Risk (continued)**

The analysis of credit quality by quality grade represents the maximum exposure to credit risk excluding past due and non accruing loans. Assets are graded according to the following:

| Asset quality grade | Number of instalments past due | Probability of default (PD) |
|---|---|---|
| AQ1 | Up to date | < = 0.2% |
| AQ2 | No more than one | > 0.2% and <= 0.6% |
| AQ3 | One to two | > 0.6% and <= 1.5% |
| AQ4 | Two to three | > 1.5% and <= 5.0% |
| AQ5 | More than three or legal proceedings taken | > 5.0% |

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| Analysis of assets accruing past due but not impaired: | | |
| No more than one payment | 7,171,295 | 6,210,177 |
| One to two payments | 2,536,614 | 2,809,633 |
| Two to three payments | 939,595 | 366,204 |
| More than 3 payments or legal proceedings taken | 1,117,410 | 297,748 |
| | 11,764,914 | 9,683,762 |
| Analysis of impaired assets accruing past due: | | |
| No more than one payment | 1,176,227 | 161,687 |
| One to two payments | 196,111 | 130,942 |
| Two to three payments | 20,421 | 51,545 |
| More than 3 payments or legal proceedings taken | 305,855 | 539,408 |
| | 1,698,614 | 883,582 |

**Asset risk**

The Company leases assets to customers under a range of agreements including Hire Purchase agreements, finance leases and operating leases. Where the Company retains an interest in the underlying asset (principally on operating lease agreements), residual values are set and regularly monitored by the Company's Residual Value Working Group. Assets are leased subject to contractual limits on usage over the duration of the lease and any excess usage is charged to the customer. Where possible lessor risk is reduced through the use of buy back agreements.

**Operational risk**

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

As a Regulated business, the Company must also comply with the complex regulatory environment within which it operates. The Company maintains a regulatory monitoring activity to understand future requirements and how these may impact on the Company.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| **24. Inventories** | | |
| Used equipment | 411,875 | 569,757 |

The assets above represent end of lease equipment which is held for disposal rather than continuing use within the business. Assets are shown at the lower of carrying value and fair value less estimated costs to sell.

**25. Related party transactions**

*The Company's immediate parent and ultimate controlling party is described in note 26.*

The Company has balances with intermediate parent companies, bearing interest at fixed and variable rates. Lombard North Central plc owns 75% of the issued share capital of the company. National Westminster Bank plc is a wholly owned subsidiary of the Company's ultimate parent company, NatWest Group plc. The balances payable at the year end are disclosed below, whilst interest payable is disclosed in Note 4.

| | 2019 | 2018 |
|---|---|---|
| | £ | £ |
| National Westminster Bank plc | 974,575,439 | 895,943,241 |

The company maintains a bank account with National Westminster Bank plc which had an overdrawn balance at the year end of £1,162,521 (2018: overdrawn balance £2,806,096)

There is an outstanding amount of group relief payable of £4,220,315 (2018: £3,328,296) due to the NatWest Group plc.

**26. Ultimate parent undertaking**

The Company's ultimate parent Company is the NatWest Group plc which is incorporated in Great Britain and registered in Scotland.

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of the NatWest Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government

The largest group into which these financial statements are consolidated is the NatWest Group plc, a company incorporated in Great Britain and registered in Scotland. The smallest Group into which these financial statements are consolidated is National Westminster Bank plc which is incorporated in Great Britain and registered in England. The company's immediate parent company is Lombard North Central plc (this changed during the year following an internal reorganisation and was previously Lombard and Ulster Limited). Copies of the consolidated financial statements of these groups can be obtained from:

Corporate Governance and Regulatory Affairs
NatWest Group plc
Gogarburn
PO Box 1000
Edinburgh
EH12 1HQ

Companies' Registry
Companies House
Crown Way
Cardiff.
CF14 3UZ.

**27. Post Balance Sheet Events**

The directors consider Covid-19 to be a non-adjusting post balance sheet event and as such no adjustments have been made to the measurement of assets and liabilities as at 31 December 2019. Refer to note 1(a) for the directors' assessment of the impact on the Company. While there remains significant uncertainty regarding the developments of Covid-19 and the future economic recovery, a precise estimate of its financial effect, cannot be made at the date of issue of the financial statements. There could be an impact on profitability, assets, operations, liquidity and the directors continue to monitor this, however, at this stage do not consider there to be any material issues for the Company.