Company Registered No: 04314962

LOMBARD BUSINESS LEASING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I J Isaac J P Thwaite
COMPANY SECRETARY:	NatWest Group Secretarial Services Limited (Formerly known as RBS Secretarial Services Limited)
REGISTERED OFFICE:	250 Bishopsgate London EC2M 4AA
INDEPENDENT AUDITOR:	Ernst & Young LLP The Paragon Counterslip Bristol BS1 6BX

Registered in England and Wales

STRATEGIC REPORT

The directors of Lombard Business Leasing Limited ("the Company") present their Strategic Report together with the audited financial statements for the year ended 31 December 2019.

ACTIVITIES AND BUSINESS REVIEW

Activity

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

The Company is a subsidiary of NatWest Group plc ('NatWest Group') (formerly known as The Royal Bank of Scotland Group plc (RBSG plc)) which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, Edinburgh, PO BOX 1000 EH12 1HQ, the Registrar of Companies or at www.natwestgroup.com.

Review of the year

Business review

The directors are satisfied with the Company's performance in the year. The Company will be guided by its shareholders in seeking further opportunities for growth. Post balance sheet events are described in note 20 to the financial statements.

Financial performance

The Company's financial performance is presented on pages 10 to 12.

Turnover grew by £2,504k (2018: £2,123k) and cost of sales decreased by £106k (2018: increased by £6,385k), depreciation increased by £913k (2018: decreased by £3,507k) and expenses increased by £512k (2018: £266k). After impairment provisions of £567k (2018: £5,778k), the profit for the year was £25,579k (2018: £17,884k), an increase of 43.21% over 2018.

No dividend was paid during the year (2018: nil). Since the balance sheet date a final dividend of £50,000k in respect of 2019 has been proposed and paid (see note 20).

At the end of the year, the balance sheet showed total assets of £1,108,889k (2018: £1,039,218k), including income-generating assets comprising finance lease receivables £774,541k (2018: £695,495k) and assets held for use in operating leases £303,017k (2018: £308,249k). Total shareholders' funds were £53,391k (2018: £27,812k).

Principal risks and uncertainties

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

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

The Company is mainly funded by facilities from Lombard North Central PLC. The majority of these are denominated in sterling which is the functional currency.

STRATEGIC REPORT

Principal risks and uncertainties (continued)

The Company's assets mainly comprise property, plant and equipment on which it has exposure to asset risk on the residual value. The Company also has lease receivables which would expose it to market, interest rate, currency, liquidity, credit risk, residual value and operational risk.

The principal risks associated with the Company are as follows:

Market risk

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

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

Interest rate risk

Finance lease receivables maybe based on fixed and/or floating rates. These are funded primarily through balances owed to group undertakings, which are due primarily on demand and a variable rate basis. The repricing maturity profile of the financial assets of the Company may be different to that of the associated borrowings and hence give potential exposure to interest rate risk.

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

Currency risk

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

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. Management focuses on risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

The Company manages its liquidity risk by having access to Group funding.

Credit risk

Credit risk management seeks to match the risk of credit failure to price of credit on granting a facility whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company.

The key principles of the group's Credit Risk Management Framework are set out below:

- Approval of all credit exposure is granted prior to any advance or extension of credit.
- An appropriate credit risk assessment of the customer and credit facilities is undertaken prior to approval of credit exposure. This includes a review of, amongst other things, the purpose of credit and sources of repayment, compliance with affordability tests, repayment history, capacity to repay, sensitivity to economic and market developments and risk-adjusted return.
- Credit risk authority is delegated by the Group Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination.
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.

Principal risks and uncertainties (continued)

Residual value risk

Residual value risk is the risk that the value of a lease asset at the end of the lease term is less than estimated at inception of the lease contract and thus the Company may be subject to losses on disposal of the lease asset. The Company manages this risk through an in-house residual value setting and forecasting process which governs minimum standards for management and mitigation of residual value risks. Residual values are established by reference to various sources of independent and proprietary knowledge. The Company monitors the asset risk exposure and its pricing level against current and expected future market development on a continuous basis and adjusts its residual values for new leases accordingly. Other methods of managing this risk include the use of buybacks, guarantees and split-risk arrangements and charging for asset impairment such as excess mileage or damages.

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 periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

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 and the company's reputation.

Board training and support on s.172 (1) duties

Directors are supported in the discharge of their duties by the Company Secretary. All directors receive guidance on their statutory duties, including Section 172(1), and were briefed on the reporting requirements introduced by the Companies (Miscellaneous Reporting) Regulations 2018 in advance of the effective date. The Company has introduced a new approach to board papers with greater focus on ensuring relevant stakeholder interests are clearly articulated.

Engagement with suppliers, customers and others

Customers are at the heart of everything the Company 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. Please refer to natwestgroup.com for the Modern Slavery Statement and details of the Supplier Code of Conduct, both of which apply to the Company.

The Company's key stakeholders are business customers of all sizes, from small family run businesses to large commercial enterprises, a panel of selected asset finance brokers, NatWest employees ("colleagues", being full time, part time, contractors and agency staff employed by NatWest Group) engaged on Company related work, 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 held by those stakeholders directly with the Company or its parent. The range of engagement methods used by directors to understand the various stakeholder views and interests include Net Promoter Scores, complaint volumes and the NatWest Our View survey.

STRATEGIC REPORT

How stakeholder interests have influenced decision making

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 Royal Bank of Scotland Group plc for further information on NatWest Group's approach to stakeholder engagement.

Going concern

These financial statements are prepared on a going concern basis, see note 1(a) on page 13.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare a Strategic Report, Directors' Report and financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework, and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that 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 strategic report, directors' report and financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

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

I J Isaac
Director
Date: 18 December 2020

DIRECTORS' REPORT

The Strategic Report includes the review of the year, risk report, directors' responsibilities statement, disclosure of information to auditors and note of post balance sheet events. Details of the board's engagement with customers, suppliers and others, and how these stakeholders' interests have influenced board decision making are set out on pages 4 and 5 of the Strategic Report which includes a section 172(1) statement.

CHANGE OF REGISTERED OFFICE

The Registered Office of the Company changed from 280 Bishopsgate, London, EC2M 4RB to 250 Bishopsgate, London, EC2M 4AA on 25 November 2019.

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 2019 to date the following changes have taken place:

	Appointed	Resigned
Directors		
J P Thwaite	4 October 2019	-
D G Harris	-	4 October 2019
A D Parry	-	4 October 2019
J A Pattara	-	4 October 2019

AUDITOR

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

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

I J Isaac
Director
Date: 18 December 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD BUSINESS LEASING LIMITED

Opinion

We have audited the financial statements of Lombard Business Leasing Limited ("the Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 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 20 of the financial statements, which describes the economic and social disruption the company is facing as a result of Covid-19, which is impacting financial markets and personnel available for work and being able to access offices. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD BUSINESS LEASING LIMITED

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD BUSINESS LEASING LIMITED

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Andrew Blackmore (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 18 December 2020

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

Income from continuing operations	Notes	2019 £'000	2018 £'000
Turnover	3	**124,342**	121,838
Cost of Sales		**(20,951)**	(21,057)
Depreciation of property, plant and equipment	8	**(61,800)**	(60,887)
Operating expenses	4	**(5,043)**	(4,531)
Impairment losses	5	**(567)**	(5,778)
Operating profit		**35,981**	29,585
Finance costs	6	**(6,840)**	(5,805)
Profit before tax		**29,141**	23,780
Tax charge	7	**(3,562)**	(5,896)
Profit and total comprehensive income for the year		**25,579**	17,884

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

BALANCE SHEET
as at 31 December 2019

	Notes	2019 £'000	2018 £'000
Non-current assets			
Property, plant and equipment	8	**303,017**	308,249
Finance lease receivables	9	**606,267**	491,130
Deferred tax assets	7	**9,282**	13,171
		918,566	812,550
Current assets			
Finance lease receivables	9	**168,274**	204,365
Trade and other receivables	11	**651**	601
Inventories	12	**963**	1,065
Prepayments, accrued income and other assets	13	**20,435**	20,637
		190,323	226,668
Total assets		**1,108,889**	1,039,218
Non-current liabilities			
Amount due to group companies	15	**4,446**	5,754
Current liabilities			
Amount due to group companies	15	**1,034,225**	981,207
Current tax liabilities		**8,532**	15,405
Trade and other payables	14	**-**	1
Accruals, deferred income and other liabilities	16	**8,295**	9,039
		1,051,052	1,005,652
Total liabilities		**1,055,498**	1,011,406
Equity			
Called up share capital	17	**-**	-
Profit and loss account		**53,391**	27,812
Total equity		**53,391**	27,812
Total liabilities and equity		**1,108,889**	1,039,218

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

The financial statements of the Company were approved by the Board of Directors on 18 December 2020 and signed on its behalf by:

I J Isaac
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share Capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	-	10,699	10,699
Implementation of IFRS 9 on 1 January 2018	-	(771)	(771)
Profit for the year	-	17,884	17,884
At 31 December 2018	-	27,812	27,812
Profit for the year	-	**25,579**	**25,579**
At 31 December 2019	-	**53,391**	**53,391**

Total comprehensive income for the year of £25,579k (2018: £17,884k) 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. 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 respect of certain assets;
  - cash-flow statement;
  - standards not yet effective;
  - related party transactions; and
  - disclosure requirements of IFRS 7 "Financial Instruments: Disclosure" and IFRS 13 "Fair value Measurement".

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc; these accounts are available to the public and can be obtained as set out in note 19.

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.

1. Accounting policies (continued)

b) Foreign currencies

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

c) Revenue recognition

Turnover comprises income from finance leases and operating leases and arises in the United Kingdom from continuing activities.

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review, if there is a reduction in the estimated unguaranteed residual value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

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

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

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

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

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as each service is performed. The price is usually fixed and always determinable.

Interest income or expense relates to financial instruments measured at amortised cost using the effective interest rate method. Negative effective interest accruing to financial assets is presented in interest payable.

d) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income except income tax on items recognised outside profit or loss which is credited or charged to other comprehensive income or to equity as appropriate.

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income, other comprehensive 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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

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

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

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

f) Impairment of property, plant and equipment
At each reporting date, the Company assesses whether there is any indication that its property, plant and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows. If the recoverable amount of the asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss.

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

h) 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.

Finance lease contracts are those which transfer substantially all the risks and rewards of ownership of an asset to a customer. All other contracts with customers to lease assets are classified as operating leases.

Finance lease receivables are measured at the net investment in the lease, comprising the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is recognised at a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Rental income from operating leases is recognised in other operating income on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

1. Accounting policies (continued)

i) Financial instruments

Financial instruments are classified either by product, by business model or by reference to the IFRS default classification.

Classification by product relies on specific designation criteria which are applicable to certain classes of financial assets or circumstances where accounting mismatches would otherwise arise. Classification by business model reflects how the Company manages its financial assets to generate cash flows. A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows; from selling those financial assets; or both.

The product classifications apply to financial assets that are either designated at fair value through profit or loss (DFV), or to equity investments designated as at fair value through other comprehensive income (FVOCI). In all other instances, fair value through profit or loss (MFVTPL) is the default classification and measurement category for financial assets.

Regular way purchases of financial assets classified as amortised cost, are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

All financial instruments are measured at fair value on initial recognition.

All liabilities not subsequently measured at fair value are measured at amortised cost.

All financial assets are held to collect the contractual cash flows that comprise solely payments of principal and interest and are measured at amortised cost.

j) Impairment of financial assets

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, issued financial guarantee and loan commitment is assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk rating, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change; and expected credit losses are rebased from 12 month to lifetime expectations.

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

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

k) 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. In accordance with their responsibilities for these financial statements, the estimates the directors consider most important to the portrayal of the Company's performance and financial condition are discussed below.

Loan impairment provisions
In 2019 the loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (j) sets out how the expected loss approach is applied. At 31 December 2019, gross finance lease receivable to customers totalled £780,560k (2018: gross loans and advances to customers totalled £703,470k) and customer finance lease receivable impairment provisions amounted to £6,019k (2018: customer loan impairment provisions amounted to £4,530k). A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan is advance. Such evidence includes changes in the credit rating of the borrower, the failure to make payments in accordance with the loan agreement; significant reductions in the value of any security, breach of limits or covenants; and observable data about relevant macroeconomic measures.

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

Leased assets
Judgement is required in the classification of a lease at inception and after any material amendment to assess whether substantially all the significant risks and rewards of ownership accrue to the lessor or the lessee.

3. Turnover

	2019 £'000	2018 £'000
Finance lease income	**25,106**	24,832
Operating lease rental income	**80,382**	74,195
Sale of former operating lease assets	**18,409**	22,189
Other revenue	**445**	622
	124,342	121,838

4. Operating expenses

	2019 £'000	2018 £'000
Commission payable	**309**	314
Management fees	**4,599**	4,385
Exchange losses/(gains)	**68**	(253)
Other charges	**67**	85
	5,043	4,531

4. Operating expenses (continued)

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

There was no charge in either the current or prior year's financial statements for auditor's remuneration as the fees of £55,000 (2018: £62,500) were charged in the financial statements of Lombard North Central PLC.

5. Impairment losses

The following impairment losses were recognised during the year:

	2019 £'000	2018 £'000
Finance leases	**280**	4,391
Property, plant and equipment	**287**	1,387
	567	5,778

6. Finance costs

	2019 £'000	2018 £'000
Interest on loans from group companies	**6,840**	5,805

7. Tax

	2019 £'000	2018 £'000
Current taxation:		
UK corporation tax charge for the year	**1,284**	3,893
(Over) / under provision in respect of prior periods	**(1,611)**	10,050
	(327)	13,943
Deferred taxation:		
Charge for the year	**4,323**	979
Over provision in respect of prior periods	**(434)**	(9,026)
	3,889	(8,047)
Tax charge for the year	**3,562**	5,896

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

	2019 £'000	2018 £'000
Expected tax charge	**5,537**	4,791
Non-deductible items	**70**	81
Adjustments in respect of prior periods	**(2,045)**	1,024
Actual tax charge for the year	**3,562**	5,896

NOTES TO THE FINANCIAL STATEMENTS

7. Tax (continued)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the rates substantively enacted at the balance sheet date standing at 19% from 1 April 2017 and 17% from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account these rates, as these were substantively enacted at the balance sheet date.

Since the balance sheet date, it was announced in the UK Government's Budget on 11 March 2020 that the reduction in the UK Corporation rate to 17% from 1 April 2020 will not proceed. Instead, the UK Corporation tax rate will remain at 19%. This change was substantively enacted on 17 March 2020 and is therefore a non adjusting post balance sheet event.

As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19% rate. The impact of the post balance sheet date change in tax rate is expected to result in an increase of £989,000 in the deferred tax asset recognised by the company at 31 December 2019. This will result in an increase to the company's reserves by the same amount.

Deferred tax

Net deferred tax asset comprises:

	Capital allowances £'000	IFRS 9 transition £'000	Other £'000	Total £'000
1 January 2018	(5,168)	-	207	(4,961)
Credit to equity	-	(163)	-	(163)
Credit to income	(8,192)	(17)	162	(8,047)
At 31 December 2018	(13,360)	(180)	369	(13,171)
Charge to income	4,078	180	(369)	3,889
At 31 December 2019	**(9,282)**	**-**	**-**	**(9,282)**

8. Property, plant and equipment

2019	**Assets held for use in operating leases £'000**
Cost	
1 January	**535,822**
Additions	**76,904**
Transfer to inventories	**(86,366)**
31 December	**526,360**
Accumulated depreciation and impairment	
1 January	**227,573**
Depreciation charge for the year	**61,800**
Impairment losses for the year	**287**
Transfer to inventories	**(66,317)**
31 December	**223,343**
Net book value	
At 31 December 2019	**303,017**
At 31 December 2018	308,249

No property, plant and equipment has been pledged as security for liabilities of the Company (2018: none).

NOTES TO THE FINANCIAL STATEMENTS

9. Finance lease receivables

	2019 £'000
Amounts included in income statement for finance leases	
Finance income on the net investment in leases	**25,106**

Amount receivable under finance leases	2019 £'000
Within 1 year	**161,665**
1 to 2 years	**212,337**
2 to 3 years	**129,303**
3 to 4 years	**86,110**
4 to 5 years	**41,881**
After 5 years	**83,042**
Lease payments total	**714,338**
Unguranteed residual values	**131,999**
Unearned finance income	**(66,841)**
Other	**1,064**
Present value of minimum lease payments	**780,560**
Impairments	**(6,019)**
Net investment in finance leases	**774,541**

2018	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
Future minimum lease payments	202,206	388,398	36,524	627,128
Unguaranteed residual values	22,597	83,500	14,622	120,719
Unearned finance income	(16,053)	(29,559)	(2,355)	(47,967)
Other	3,751	-	-	3,751
Present value of minimum lease payments receivable	212,501	442,339	48,791	703,631
Impairment provisions	(8,136)	-	-	(8,136)
Carrying value	204,365	442,339	48,791	695,495

	2019 £'000	2018 £'000
Due within one year	**168,274**	204,365
Due after more than one year	**606,267**	491,130
	774,541	695,495

The Company entered into new finance lease agreements totalling £268,523k (2018: £194,898k) during the year. The portfolio is due to mature fully within 17 years (2018: 9 years).

There were no other significant movements or changes to the carrying value balance other than collection of rentals and movement in impairments.

The average effective interest rate in relation to finance lease agreements approximates 2.83% (2018: 2.99%).

There were no contingent rentals recognised in income in the year (2018: none).

10. Operating lease arrangements

Nature of operating lease assets in the balance sheet:

	2019 £'000	2018 £'000
Transportation	**184,371**	178,199
Cars and light commercial vehicles	**2,743**	2,888
Production equipment	**54,637**	59,850
Trailers	**33,162**	43,995
Construction	**16,688**	12,043
Other	**11,416**	11,274
	303,017	308,249

The following table shows undiscounted lease receipts from operating leases:

	2019 £'000
Within 1 year	**71,672**
1 to 2 years	**58,684**
2 to 3 years	**44,651**
3 to 4 years	**29,945**
4 to 5 years	**12,960**
After 5 years	**9,993**
Total	**227,905**

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

	2018 £'000
Within 1 year	68,864
Between 1 and 5 years	160,246
After 5 years	12,482
Total	241,592

	2019 £'000
Amounts recognised in income statement for operating leases	
Lease income	**80,382**

11. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**651**	601

12. Inventories

	2019 £'000	2018 £'000
Former operating lease assets	**963**	1,065

Inventories comprise former operating lease assets which have been returned to the Company prior to sale.

NOTES TO THE FINANCIAL STATEMENTS

13. Prepayments, accrued income and other assets

	2019 £'000	2018 £'000
Prepayments	**25**	47
Accrued income	**726**	895
Value added tax receivable	**19,684**	19,695
	20,435	20,637

14. Trade and other payables

	2019 £'000	2018 £'000
Other payables	**-**	1

15. Amount due to group companies

	2019 £'000	2018 £'000
Amount due to Lombard North Central PLC	**1,032,577**	978,637
Amount due to group companies	**6,094**	8,324
	1,038,671	986,961
Current - on demand or within one year	**1,034,225**	981,207
Non - current:		
- between one and two years	**1,327**	1,309
- between two and five years	**2,914**	3,912
- after five years	**205**	533
	1,038,671	986,961

16. Accruals, deferred income and other liabilities

	2019 £'000	2018 £'000
Accruals	**928**	362
Deferred income	**7,367**	8,677
	8,295	9,039

17. Share capital

	2019 £	2018 £
Authorised:		
100 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid:		
Equity shares		
2 ordinary shares of £1 each	**2**	2

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

NOTES TO THE FINANCIAL STATEMENTS

18. Commitments and contingent liabilities

The Company, together with certain other subsidiaries of NatWest Holdings Limited, is party to a capital support deed (CSD) relevant to NatWest Group. Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the Company's available resources). The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

19. Related parties

UK Government

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

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of taxes including UK corporation tax and value added tax together with transactions undertaken in the normal course of business.

Group companies

At 31 December 2019

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

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

On 22 July 2020 The Royal Bank of Scotland Group plc changed its name to NatWest Group plc.

20. 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 1a 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.

A final dividend of £50,000k in respect of 2019 was proposed and the said dividend was paid on 28 February 2020.

In August 2020 a loss event occurred on one customer resulting in that customer entering administration in September 2020. The Company anticipates a shortfall in the recoverable value of finance lease receivables of approximately £4,000,000. This will be recognised in the 2020 income statement.