

Company Registered No: 02162263

LOMBARD CORPORATE FINANCE (DECEMBER 3) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018



LOMBARD CORPORATE FINANCE (DECEMBER 3) LIMITED**02162263****CONTENTS****Page****OFFICERS AND PROFESSIONAL ADVISERS****1****DIRECTORS' REPORT****2****INDEPENDENT AUDITOR'S REPORT****5****STATEMENT OF COMPREHENSIVE INCOME****8****BALANCE SHEET****9****STATEMENT OF CHANGES IN EQUITY****10****NOTES TO THE FINANCIAL STATEMENTS****11**

LOMBARD CORPORATE FINANCE (DECEMBER 3) LIMITED

02162263

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

D G Harris
I A Ellis
S J Roulston
E Mayes

COMPANY SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

250 Bishopsgate
London
EC2M 4AA

INDEPENDENT AUDITOR:

Ernst & Young LLP
Statutory Auditor
The Paragon
Counterslip
Bristol
BS1 6BX

Registered in England

DIRECTORS' REPORT

The directors of Lombard Corporate Finance (December 3) Limited ("the Company") present their annual report together with the audited financial statements for the year ended 31 December 2018.

CHANGE OF REGISTERED OFFICE

On 12 April 2019, the Registered Office of the Company changed from The Quadrangle, The Promenade, Cheltenham GL50 1PX to 250 Bishopsgate, London EC2M 4AA.

ACTIVITIES AND BUSINESS REVIEW

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

Activity

The principal activity of the Company continues to be the provision of fixed asset finance usually involving individually structured facilities.

Review of the year**Business review**

The directors are satisfied with the Company's performance in the year. The Company will be guided by its shareholders in seeking further opportunities for growth.

Financial performance

The retained loss for the year was \$8,548,000 (2017: profit \$463,000) and this was transferred to reserves. No interim dividends were paid during the year.

Principal risks and uncertainties

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

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

The Company is funded by facilities from Royal Bank Leasing Limited. These are denominated in US Dollars which is the functional currency and carry no significant financial risk.

The principal risks associated with the Company are as follows:

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different re-pricing maturities.

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

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.

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.

DIRECTORS' REPORT

Principal risks and uncertainties (continued)

Credit risk (continued)

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

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

Liquidity risk

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

Market risk

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

Operational risk

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

Going concern

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

DIRECTORS AND SECRETARY

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

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

	Appointed	Resigned
Directors		
E Mayes	31 July 2017	6 March 2018
I A Ellis	6 March 2018	-
E Mayes (Re-appointed)	10 May 2019	-

DIRECTORS' REPORT**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

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



S J Roulston
Director
Date: 27 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD CORPORATE FINANCE (DECEMBER 3) LIMITED

Opinion

We have audited the financial statements of Lombard Corporate Finance (December 3) Limited ('the Company') for the year ended 31 December 2018 which comprise the Statement Of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD CORPORATE FINANCE (DECEMBER 3) LIMITED

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

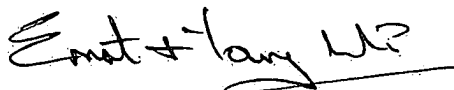
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LOMBARD CORPORATE FINANCE
(DECEMBER 3) 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', with a horizontal line underneath.

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor,
Bristol, United Kingdom
Date : 27 September 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

		2018	2017
Income from continuing operations	Notes	\$'000	\$'000
Turnover	3	11,390	8,337
Operating income	4	27	29
Operating expenses	5	(1,204)	(970)
Impairment Losses		(10,315)	-
Operating (loss)/profit		(102)	7,396
Finance income	6	187	172
Finance costs	7	(9,485)	(6,180)
(Loss)/profit before tax		(9,400)	1,388
Tax credit/(charge)	8	852	(925)
(Loss)/profit and total comprehensive (loss)/income for the year		(8,548)	463

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

BALANCE SHEET
as at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Non current assets			
Finance lease receivables	9	440,856	534,619
Current assets			
Finance lease receivables	9	23,327	54,125
Loans receivable	10	10,581	2,419
Trade and other receivables		7	-
Prepayments, accrued income and other assets	11	15	39
Cash		525	-
		<u>34,455</u>	<u>56,583</u>
Total assets		<u>475,311</u>	<u>591,202</u>
Current Liabilities			
Borrowings	12	30,560	35,654
Trade and other payables	13	2,203	3,775
Current tax liabilities		586	-
Accruals, deferred income and other liabilities	14	3,655	2,323
		<u>37,004</u>	<u>41,752</u>
Non current liabilities			
Borrowings	12	377,670	457,971
Deferred tax liability	8	77,268	89,626
		<u>454,938</u>	<u>547,597</u>
Total liabilities		<u>491,942</u>	<u>589,349</u>
Equity			
Called up share capital	15	-	-
Profit and loss account		(16,631)	1,853
Total equity		<u>(16,631)</u>	<u>1,853</u>
Total liabilities and equity		<u>475,311</u>	<u>591,202</u>

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

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



S J Roulston
Director

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

	Note	Share capital \$'000	Profit and loss account \$'000	Total \$'000
At 1 January 2017		-	1,390	1,390
Profit for the year		-	463	463
At 31 December 2017		-	1,853	1,853
Implementation of IFRS9 on 1 January 2018		-	(9,936)	(9,936)
(Loss) for the year		-	(8,548)	(8,548)
At 31 December 2018		-	(16,631)	(16,631)

Total comprehensive loss for the year of \$8,548,000 (2017: comprehensive profit of \$463,000) was wholly attributable to the owners of the Company.

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

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

These financial statements are prepared:

- on a going concern basis;
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the International Accounting Standard 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 has early adopted all of the amendments to FRS 101 as a result of the Triennial review 2017 amendments with effect from 1 January 2018. As a result, the company will no longer fall under the definition of Financial Institutions and therefore have obtained disclosure exemptions of IFRS 7 and IFRS 13 as mentioned below.

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 US Dollar 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 17.

Adoption of IFRS 9

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

IFRS 9 changed the classification categories from IAS 39. Loans and receivables were reclassified to amortised costs assets. There were no changes in the classification and measurement of financial liabilities.

The impact on the Company's equity at 1 January 2018 and the key movements in relation to the impact on classification and measurement were as follows:

	\$'000
Equity 31 December 2017 - under IAS 39	1,853
Expected credit losses – amortised cost assets	(11,722)
Tax	1,786
Equity 1 January 2018 - under IFRS 9	(8,083)

The adoption of IFRS 9 'Financial Instruments' has not changed the recognition of interest income or expense; the cost of impairment is now based on expected loss as set out in accounting policy g). There has been no restatement of profit or loss for comparative periods.

Other amendments to IFRS

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

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****b) Foreign currencies**

Transactions in foreign currencies are translated into US Dollars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars 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, loans and other services which 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.

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

Interest income or expense on financial instruments that are measured at amortised cost is determined using the effective interest rate method. The effective interest rate allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows. Negative effective interest accruing to financial assets is presented in interest payable.

IFRS requires rental income to be calculated using the interest rate at inception of the lease; variations from that rate are presented as contingent rentals.

d) Taxation

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

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

e) Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer; all other contracts with customers to lease assets are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

f) 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 the following criteria:

- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

Amortised cost liabilities – all liabilities that are not subsequently measured at fair value are measured at cost.

Reclassifications – financial liabilities cannot be reclassified. Financial assets are only reclassified where there has been a change in the business model.

Business model assessment – business models are assessed at portfolio level, being the level at which they are managed. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, and the ability to monitor sales of assets from a portfolio. The criteria for classifying cash flows as solely principal and interest are assessed against the contractual terms of a facility, with attention to leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest.

g) Impairment of financial instruments

At December 2018, under IFRS 9 each financial asset or portfolio of loans 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 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.

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

In 2017 under IAS 39 the Company assessed whether there was any objective evidence that a financial asset or group of financial assets classified as loans and receivables was impaired. A financial asset or portfolio of financial assets was impaired and an impairment loss incurred if there was objective evidence that an event or events since initial recognition of the asset had adversely affected the amount or timing of future cash flows from the asset.

h) 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, 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 factors the directors consider most important to the portrayal of the company's performance and financial condition are discussed below.

Leased assets

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

3. Turnover

	2018 \$'000	2017 \$'000
Finance lease income:		
Rent receivable	50,755	55,771
Amortisation	(26,771)	(28,745)
Contingent rental expense	(12,594)	(18,689)
	<u>11,390</u>	<u>8,337</u>

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

4. Operating income

	2018 \$'000	2017 \$'000
Fee Income	27	29
	<u>27</u>	<u>29</u>

5. Operating expenses

	2018 \$'000	2017 \$'000
Management fees	645	549
Audit fee	20	9
Exchange losses	1	-
Loss on disposal of finance lease	538	412
	<u>1,204</u>	<u>970</u>

During the year, leases amounting to net book value of \$74m were terminated which resulted in losses on disposal of \$538K.

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.

6. Finance income

	2018 \$'000	2017 \$'000
Interest on loans to group companies	<u>187</u>	<u>172</u>

NOTES TO THE FINANCIAL STATEMENTS

7. Finance costs

	2018 \$'000	2017 \$'000
Interest on loans from group companies	9,485	6,180

8. Tax

	2018 \$'000	2017 \$'000
Current tax:		
UK corporation tax charge for the year	9,693	7,698
Under provision in respect of prior periods	26	-
	9,719	7,698

Deferred tax:

Credit for the year	(11,233)	(6,773)
Under provision in respect of prior periods	662	-
	(10,571)	(6,773)
Tax (credit)/charge for the year	(852)	925

Where appropriate current tax consists of sums payable or receivable for group relief.

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

	2018 \$'000	2017 \$'000
Expected tax (credit)/ charge	(1,786)	267
Non-deductible items	246	115
Adjustments in respect of prior periods	688	-
Impact of rate change	-	543
Actual tax(credit)/ charge for the year	(852)	925

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

Deferred tax

Deferred tax liability comprises:

	Capital allowances \$'000	Other \$'000	Total \$'000
At 1 January 2017	96,331	68	96,399
Credit to profit and loss	(6,762)	(11)	(6,773)
At 31 December 2017	89,569	57	89,626
Credit to profit and loss	(10,526)	(45)	(10,571)
IFRS9 adoption opening adjustment	(1,787)	-	(1,787)
At 31 December 2018	77,256	12	77,268

NOTES TO THE FINANCIAL STATEMENTS

9. Finance lease receivables

	Within 1 year \$'000	Between 1 and 5 years \$'000	After 5 years \$'000	Total \$'000
2018				
Future minimum lease payments	46,216	206,432	398,905	651,553
Unearned finance income	(852)	(25,092)	(139,389)	(165,333)
Impairment provisions	(22,037)	-	-	(22,037)
Present value of minimum lease payments receivable	<u>23,327</u>	<u>181,340</u>	<u>259,516</u>	<u>464,183</u>
2017				
Future minimum lease payments	55,137	220,546	527,595	803,278
Unearned finance income	(1,012)	(26,974)	(186,548)	(214,534)
Present value of minimum lease payments receivable	<u>54,125</u>	<u>193,572</u>	<u>341,047</u>	<u>588,744</u>
			2018	2017
			\$'000	\$'000
Due within one year			23,327	54,125
Due after more than one year			440,856	534,619
			464,183	588,744

The Company has entered into finance lease arrangements for large ship deals. The average term of the finance leases entered into is 26 years (2017: 26 years).

The average effective interest rate in relation to finance lease agreements approximates 4.5% (2017: 4.6%).

10. Loans receivable

	2018 \$'000	2017 \$'000
Due within one year		
Amounts owed by Royal Bank Leasing Limited	<u>10,581</u>	2,419

11. Prepayments, accrued income and other assets

	2018 \$'000	2017 \$'000
Accrued income	14	7
Group relief receivable	-	32
Others	1	-
	<u>15</u>	<u>39</u>

NOTES TO THE FINANCIAL STATEMENTS

12. Borrowings

	2018 \$'000	2017 \$'000
Loans from parent Royal Bank Leasing Limited	408,230	493,625
	<u>408,230</u>	<u>493,625</u>
Current – on demand or within one year	30,560	35,654
Non-current:		
- between one and two years	40,000	25,879
- between two and five years	70,000	84,031
- after five years	267,670	348,061
	<u>377,670</u>	<u>457,971</u>

The Company had the following unsecured borrowing from Royal Bank Leasing Limited greater than five years: \$267,670,000 (2017: \$348,061,000) at a floating rate.

13. Trade and other payables

	2018 \$'000	2017 \$'000
Due within one year		
Other payables	<u>2,203</u>	<u>3,775</u>

14. Accruals, deferred income and other liabilities

	2018 \$'000	2017 \$'000
Accruals	3,473	2,112
Deferred income	182	211
	<u>3,655</u>	<u>2,323</u>

15. Share capital

	2018 \$	2017 \$
Authorised:		
1,000 Deferred ordinary shares of £1 each	1,719	1,719
1,000 Ordinary shares of \$1 each	1,000	1,000
	<u>2,719</u>	<u>2,719</u>
Allotted, called up and fully paid:		
100 Deferred ordinary shares of £1 each	179	179
100 Ordinary shares of \$1 each	100	100
	<u>279</u>	<u>279</u>

The deferred ordinary shares carry no dividend or voting rights and have no preferential rights to return of capital on winding up. The company may repurchase these shares at any time for an aggregate consideration of £1.

The value attributable to sterling share capital is based on the exchange rate prevailing at the date of issue.

Both classes of ordinary shares carry no right to fixed income.

NOTES TO THE FINANCIAL STATEMENTS

16. Commitments and contingent liabilities

Capital Support Deed

The Company, together with other members of The Royal Bank of Scotland Group plc companies, is party to a capital support deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the Company's available resources) (together with any amounts distributed to it by its subsidiaries pursuant to the CSD). 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.

17. Related parties

UK Government

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

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

Group companies

As at 31 December 2018

The Company's immediate parent was:	Royal Bank Leasing Limited
The smallest consolidated accounts including the company were prepared by:	National Westminster Bank plc
The ultimate parent company was:	The Royal Bank of Scotland Group plc

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