Company Registered No: SC058013

ROYAL BANK LEASING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2016

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	S J Caterer A P Johnson N J McDaid J H Wood
COMPANY SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	24/25 St Andrew Square Edinburgh EH2 1AF
INDEPENDENT AUDITOR:	Ernst & Young LLP Statutory Auditor The Paragon Counterslip Bristol BS1 6BX

Registered in Scotland

STRATEGIC REPORT

ACTIVITIES AND BUSINESS REVIEW

Activity
The principal activity of the Company continues to be the provision of fixed asset finance usually involving individually structured facilities to subsidiary companies. The Company also has an investment property.

The Company is a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at www.rbs.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 33 to the financial statements.

Financial Performance
The Company's financial performance is presented on pages 8 to 10.

Operating profit fell by £13,598,000 (2015: grew £53,479,000). Turnover fell by £347,000 (2015: £355,000) and finance costs fell by £5,183,000 (2015: £42,708,000). The loss for the year after tax was £51,548,000 (2015: profit of £10,373,000), a decrease of 597% over 2015.

The directors do not recommend payment of a dividend. (Interim dividend 2015: £50,000,000).

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

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

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

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 - see note 28.

Currency risk
The Company does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary operations and their currency funding. Exposures arising from changes in net foreign currency investments are subject to regular review. It is the Company's policy to match fund the structural foreign currency exposure arising from net asset value with borrowings in the same currency.

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.

STRATEGIC REPORT

Principal risk and uncertainties (continued)

Credit risk
The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance 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 Board and specifically granted in writing to all individuals involved in the granting of credit approval. In exercising credit authority, the individuals act independently of any related business revenue origination.
- All credit exposures, once approved, are effectively monitored and managed and reviewed periodically against approved limits. Lower quality exposures are subject to a greater frequency of analysis and assessment.

Liquidity risk
Liquidity risk arises where assets and liabilities have different contractual maturities.

Management focuses on risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations.

Market risk
Market risk is the potential for loss as a result of adverse changes in risk factors including interest rates and foreign currency 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 a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis.

STRATEGIC REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws 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
- directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

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

INDEPENDENT AUDITOR

The Royal Bank of Scotland Group plc has appointed Ernst & Young LLP as the Company's auditor for the year ending 30 September 2016.

A resolution to appoint Ernst & Young LLP as the Company's auditor was passed on 7 June 2016 at the meeting of the Board of Directors.

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

S J Caterer
Director
Date: 1 June 2017

DIRECTORS' REPORT

The Strategic report includes the review of the year, risk report and disclosure of information to auditors.

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 October 2015 to date the following changes have taken place:

Directors	Appointed	Resigned
T D Crome	-	28 June 2016
J H Wood	28 June 2016	-
N J McDaid	30 December 2016	-

Approved by Board of Directors and signed on its behalf.

S J Caterer
Director
Date: 1 June 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK LEASING LIMITED

We have audited the financial statements of Royal Bank Leasing Limited ('the Company') for the year ended 30 September 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework etc.
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BANK LEASING LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

Ernst + Young LLP

Richard Page (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Bristol, United Kingdom
8 June 2017

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 2016

Income from Continuing operations	Notes	2016 £'000	2015 £'000
Turnover	3	**3,821**	4,168
Cost of Sales		**(320)**	(641)
Operating income	4	**4,149**	7,231
Operating expenses	5	**(11,002)**	(9,451)
Impairment of investments in subsidiaries	6	**(8,802)**	-
Impairment of investment property	17	**(1,236)**	(1,099)
Operating (loss)/profit		**(13,390)**	208
Finance income	7	**138,571**	147,867
Other income	8	**10,231**	28,480
Other losses	9	**(48,834)**	(16,405)
Finance costs	10	**(147,031)**	(152,214)
(Loss)/profit on ordinary activities before tax		**(60,453)**	7,936
Tax credit	12	**8,905**	2,437
(Loss)/profit and total comprehensive (loss)/income for the year		**(51,548)**	10,373

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

BALANCE SHEET
as at 30 September 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Property, plant and equipment	14	-	1,300
Investments in subsidiaries	15	20,359	20,364
Investments in associates	16	-	-
Investment in property	17	14,370	15,606
Finance lease receivables	18	28,281	31,570
Loans receivable	20	3,939,273	4,153,541
Derivatives	23	5,413	5,941
		4,007,696	4,228,322
Current assets			
Finance lease receivables	18	6,812	6,736
Loans receivable	20	658,501	647,392
Trade and other receivables	21	415	282
Prepayments, accrued income and other assets	22	32,436	20,787
Derivatives	23	1,939	2
Cash at bank		32,733	29,634
		732,836	704,833
Total assets		4,740,532	4,933,155
Current Liabilities			
Borrowings	24	463,762	499,598
Trade and other payables	25	1,624	1,411
Accruals, deferred income and other liabilities	26	9,071	8,862
Derivatives	23	1,249	349
		475,706	510,220
Total assets less current liabilities		4,264,826	4,422,935
Creditors: amounts falling due after more than one year			
Borrowings	24	3,694,423	3,839,811
Deferred tax liability	27	21,254	22,569
Derivatives	23	486,843	446,701
		4,202,520	4,309,081
Total liabilities		4,678,226	4,819,301
Equity: capital and reserves			
Called up share capital	29	19,000	19,000
Profit and loss account		43,306	94,854
Total shareholders' fund		62,306	113,854
Total liabilities and shareholders' funds		4,740,532	4,933,155

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 1 June 2017 and signed on its behalf by:

S J Caterer
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2016

	Note	Share capital £'000	Retained Earnings £'000	Total Equity £'000
At 30 September 2014		19,000	134,481	153,481
Profit and total comprehensive income for the year		-	10,373	10,373
Dividends paid	29	-	(50,000)	(50,000)
At 30 September 2015		19,000	94,854	113,854
Loss and total comprehensive loss for the year		-	(51,548)	(51,548)
At 30 September 2016	29	**19,000**	**43,306**	**62,306**

Total comprehensive loss for the year of £51,548,000 (2015: comprehensive profit of £10,373,000) was wholly attributable to the equity holders of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Preparation and presentation of accounts

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 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 a historical cost basis except that the following assets and liabilities are stated at their fair value: available for sale financial instruments, derivative financial instruments and investment property.

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 Scotland 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:
  - o comparative information in respect of certain assets;
  - o cash-flow statement;
  - o standards not yet effective; and
  - o related party transactions.

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 32.

The few changes to IFRS that were effective from 1 October 2015 have had no material effect on the Company's financial statements for the year ended 30 September 2016.

b) Consolidated financial statements

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as in accordance with IFRS 10 the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland whose registered address is 36 St Andrew Square, Edinburgh, EH2 2YB.

c) Foreign currencies

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

d) Revenue recognition

Turnover comprises income from finance leases, operating leases, loans and other services 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 from operating leases is recognised in the profit and loss account on a straight-line basis over the lease term unless another systematic basis better represents the time pattern of the asset's use.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

d) Revenue recognition (continued)
Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those at fair value are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

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

Secondary period income is recognised in line with IAS 18 'Revenue' in the period which it occurs.

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

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

Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

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

The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. 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:

Other equipment – 4 to 15 years
Computer equipment – up to 5 years
Assets held for use in operating leases – over the term of the lease using the straight line method

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.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

g) Impairment of property, plant and equipment (continued)
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.

h) Investment property
Investment property, which is property held to earn rentals and/or capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of the investment property are included in profit or loss for the period in which they arise.

i) Investments in subsidiaries and associates
Investments in group undertakings are stated at cost less any impairment.

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

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

Operating lease assets are included within property, plant and equipment and depreciated over the useful life of the lease (see accounting policy f).

k) Derivatives
Derivative financial instruments are recognised initially, and subsequently measured, at fair value, with movements recognised in the profit and loss account. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

l) Hedge fair value
The Company enters into fair value hedge relationships which hedge the changes in fair value of a recognised asset or liability or firm commitment. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. Hedge relationships are formally documented at inception, which includes the identification of the hedged item and hedged instrument, the risk that is being hedged, and the process for monitoring hedge effectiveness. The gain or loss on the hedging instrument or derivative is recognised in profit or loss. The gain or loss on the hedged item attributable to the hedged risk is recognised in profit or loss and adjusts the carrying value of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting or if the hedge designation is revoked, and any cumulative adjustment is amortised to profit or loss over the remaining life of the hedged item.

m) Financial assets
On initial recognition, financial assets are classified into held-to-maturity investments held-for-trading; designated as at fair value through profit or loss; loans and receivables; or available-for-sale financial assets.

Loans and receivables
Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

n) Impairment of financial assets
The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale, finance leases or other loans and receivables is impaired.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

n) Impairment of financial assets (continued)
A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

o) Financial liabilities
On initial recognition financial liabilities are classified into held-for-trading; designated as at fair value through profit or loss; or amortised cost.

Other than derivatives, which are recognised and measured at fair value, all other financial liabilities are measured at amortised cost using the effective interest method.

p) 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 IAS 39 "Financial Instruments : Recognition and Measurement"

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

Residual values
The Company assesses objective evidence for impairment of residual values at each balance sheet date adjusting the deprecation recognised on operating leases 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.

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.

Fair value of derivative instruments
The Company holds both hedged and non-hedged derivative financial instruments. Where the Company has entered into fair value hedged relationships, the hedge changes the fair value of a recognised asset or liability. Principally, such hedges involve interest rate swaps hedging the interest rate risk in fixed rate loans. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

NOTES TO THE FINANCIAL STATEMENTS

3. Turnover

	2016 £'000	2015 £'000
Finance lease income:		
Rents receivable	7,153	9,792
Amortisation	(4,341)	(6,847)
Contingent rental expense	(1,551)	(1,689)
	1,261	1,256
Operating lease rental income	2,560	2,912
	3,821	4,168

The Company did not enter into any new leasing transactions during the year (2015: £nil).

4. Operating income

	2016 £'000	2015 £'000
Profit on disposal of finance leases	26	1
Management fees	3,456	4,802
Fee income	466	548
Other income	201	1,880
	4,149	7,231

5. Operating expenses

	2016 £'000	2015 £'000
Loss on disposal of investments in subsidiaries	412	-
Purchases	196	477
Exchange losses	6,550	3,291
Management charges	3,832	5,671
Other charges	12	12
	11,002	9,451

Staff costs, number of employees and directors' emoluments
All staff and directors were employed by group companies and the accounts of The Royal Bank of Scotland Group plc which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees and pays a management fee for services provided by other group companies. The Company does not remunerate directors nor can remuneration from elsewhere in the group be apportioned meaningfully in respect of their services to the Company.

Management recharge
Management charge costs of £3,832,000 (2015: £5,671,000) relate to the Company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by The Royal Bank of Scotland plc. Management fee income of £3,456,000 (2015: £4,802,000) relates to the Company's recharge of group resources to subsidiary and fellow subsidiary companies.

6. Impairment of investments in subsidiaries

The following impairment losses were recognised during the year:

	2016 £'000	2015 £'000
Royal Bank Operating Leasing Limited	13	-
Royal Scot Leasing Limited	995	-
RBSSAF 19 Limited	7,794	-
	8,802	-

During the year the Company made capital contributions satisfied by loan waivers to the subsidiaries noted above.

7. Finance income

	2016 £'000	2015 £'000
On loans receivable :		
From group undertakings	132,141	141,099
From jointly owned entities	6,430	6,768
	138,571	147,867

8. Other income

	2016 £'000	2015 £'000
Dividend income from subsidiaries	7,837	25,132
Gain from movement in fair value hedge ineffectiveness - group undertakings	2,394	3,348
	10,231	28,480

Breakdown in movement in fair value hedge ineffectiveness

	2016 £'000	2015 £'000
Movement in hedge items - group undertakings	(4,592)	(3,746)
Movement in hedge derivatives - group undertakings	6,986	7,094
	2,394	3,348

9. Other losses

	2016 £'000	2015 £'000
Loss from movement in fair value of non-hedge derivatives - group undertakings	48,834	16,405

10. Finance costs

	2016 £'000	2015 £'000
Interest on loans and derivatives from group undertakings	147,031	152,214

NOTES TO THE FINANCIAL STATEMENTS

11. (Loss)/profit on ordinary activities before tax

(Loss)/profit on ordinary activities before tax is stated after charging:

	2016 £'000	2015 £'000
Auditor's remuneration - audit services (included within the purchases shown in note 5)	25	25
Foreign exchange translation	6,550	3,291
	6,575	3,316

12. Tax

	2016 £'000	2015 £'000
Current taxation:		
UK corporation tax credit for the year	(7,587)	(18,867)
(Over)/under provision in respect of prior periods	(3)	195
	(7,590)	(18,672)
Deferred taxation:		
(Credit)/ charge for the year	(923)	15,412
Under provision in respect of prior periods	639	823
Impact of rate changes	(1,031)	-
	(1,315)	16,235
Tax credit for the year	(8,905)	(2,437)

The actual tax credit differs from the expected tax (credit)/charge computed by applying the blended rate of UK corporation tax of 20% (2015: blended rate 20.5%) as follows:

	2016 £'000	2015 £'000
Expected tax (credit)/charge	(12,090)	1,627
Unrecognised timing differences	1,483	(114)
Other non-deductible items	4,477	184
Non-taxable items	(2,380)	(5,152)
Adjustments in respect of prior periods	636	1,018
Reduction in deferred tax following change in the rate of UK corporate tax	(1,031)	-
Tax credit for the year	(8,905)	(2,437)

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted at the balance sheet date standing at 20% with effect from 1 April 2015, 19% from 1 April 2017 and 17% from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.

13. Ordinary dividends

	2016 £'000	2015 £'000
Interim dividend paid	-	50,000

No dividends have been approved/paid since 30 September 2016 to the date of approval of these accounts

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant and equipment

2016	Assets for hire under operating leases £'000	Computer and other equipment £'000	Total £'000
Cost			
1 October 2015	**6,650**	**131**	**6,781**
Additions	**164**	**-**	**164**
Reclassifications as finance lease	**(5,743)**	**-**	**(5,743)**
Disposals	**(717)**	**(58)**	**(775)**
30 September 2016	**354**	**73**	**427**
Accumulated depreciation and impairment			
1 October 2015	**5,350**	**131**	**5,481**
Depreciation charge	**320**	**-**	**320**
Reclassification as finance lease	**(4,599)**	**-**	**(4,599)**
Disposals	**(717)**	**(58)**	**(775)**
30 September 2016	**354**	**73**	**427**
Net book value			
At 30 September 2016	**-**	**-**	**-**
At 30 September 2015	1,300	-	1,300

Security

No property, plant and equipment has been pledged as security for liabilities of the Company (2015: none).

15. Investments in subsidiaries

Investments in group undertakings are carried at cost less impairment. Movements during the year were as follows:

	2016 £'000	2015 £'000
At 1 October	**20,364**	82,139
Additions	**8,802**	-
Disposals	**(7)**	(61,775)
Impairments	**(8,802)**	-
Exchange	**2**	-
At 30 September	**20,359**	20,364

15. Investments in subsidiaries (continued)

During the year the Company disposed of the following subsidiaries: RBSSAF (19) Limited, RBSSAF (22) Limited & RBSSAF (23) Limited.

During the year the Company made capital contributions, satisfied by loan waivers, to Royal Bank Operating Leasing Limited, Royal Scot Leasing Limited and RBSSAF (19) Limited.

The following subsidiaries were dissolved during the year : Lombard Corporate Finance (December 2) Limited, R.B. Leasing (Eden) Limited, Royal Bank Operating Leasing Limited, RBSSAF (3) Limited and RBSSAF (13) Limited.

During the year the Company reduced its investment in Lombard Corporate Finance (March 1) Limited by $9,999.

During the prior year the Company disposed of the subsidiary Lombard Corporate Finance (September 1) Limited for a profit before tax of £1,490,000, and the subsidiary R.B. Leasing (Shaftesbury) Limited was struck off after redeeming its £19,775,000 redeemable ordinary shares. The Company also reduced its investment in R.B. Leasing (Eden) Limited by £42,000,000.

The principal subsidiary undertakings of the Company are shown below. All subsidiaries are incorporated in the UK and registered in England and Wales except for Royal Scot Leasing Limited, Royal Bank of Scotland (Industrial Leasing) Limited and R.B. Leasing Company Limited which are registered in Scotland. All subsidiaries are owned 100% with 100% of the voting power held by the Company.

Name of subsidiary	Principal activity	Accounting reference date
Desertlands Entertainment Limited	Leasing	28 February
Lombard Corporate Finance (7) Limited	Leasing	31 March
Lombard Corporate (March 1) Limited	Leasing	31 March
R.B. Quadrangle Leasing Limited	Leasing	31 March
RBSSAF (2) Limited	Leasing	31 March
Royal Bank of Scotland (Industrial Leasing) Limited	Leasing	31 March
Sandford Leasing Limited	Leasing	31 March
Lombard Industrial Leasing Limited	Leasing	31 March
R.B. Leasing (April) Limited	Leasing	30 April
Helena Productions Limited	Film production & development	30 June
Lombard Corporate Finance (10) Limited	Leasing	30 June
Lombard Corporate Finance (11) Limited	Leasing	30 June
Lombard Corporate Finance (June 2) Limited	Leasing	30 June
P of A Productions Limited	Film production & development	30 June
Patalex III Productions Limited	Film production & development	30 June
Pittville Leasing Limited	Leasing	30 June
R.B. Capital Leasing Limited	Leasing	30 June
RBSSAF (4) Limited	Leasing	30 June
Winchcombe Finance Limited	Leasing	30 June
RBSSAF (16) Limited	Leasing	30 June
Lombard Corporate Finance (13) Limited	Leasing	30 September
Lombard Corporate Finance (14) Limited	Leasing	30 September

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in subsidiaries (continued)

Name of subsidiary	Principal activity	Accounting reference date
Lombard Corporate Finance (15) Limited	Leasing	30 September
Nanny McPhee Productions Limited	Film production & development	30 September
Patalex II Productions Limited	Film production & development	30 September
Price Productions Limited	Film production & development	30 September
R.B. Asset Value Limited	Provision of residual value guarantees	30 September
R.B. Leasing (September) Limited	Leasing and Hire Purchase	30 September
R.B. Leasing Company Limited	Leasing	30 September
RBSSAF (6) Limited	Leasing	30 September
RBSSAF (7) Limited	Leasing	30 September
RBSSAF (8) Limited	Leasing	30 September
Royal Scot Leasing Limited	Leasing	30 September
Lombard Leasing Company Limited	Leasing and Hire Purchase	30 September
Distant Planet Productions Limited	Film production & development	31 October
Patalex Productions Limited	Film production & development	31 October
Patalex V Productions Limited	Film production & development	31 October
Patalex IV Productions Limited	Film production & development	30 November
R.B. Equipment Leasing Limited	Leasing	30 November
RBSSAF (10) Limited	Leasing	30 November
Leckhampton Finance Limited	Leasing	31 December
Lombard Corporate Finance (6) Limited	Leasing	31 December
Lombard Corporate Finance (December 1) Limited	Leasing	31 December
Lombard Corporate Finance (December 3) Limited	Leasing	31 December
Lombard Lease Finance Limited	Leasing	31 December
Northern Isles Ferries Limited	Leasing	31 December
R.B. Leasing (Bluewater) Limited	Leasing	31 December
R.B. Leasing (December) Limited	Leasing	31 December
RBS Asset Finance Europe Limited	Leasing	31 December
RBSSAF (11) Limited	Leasing	31 December
RBSSAF (12) Limited	Leasing	31 December
RBSSAF (25) Limited	Leasing	31 December
RBSSAF (26) Limited	Leasing	31 December

The capital of subsidiary undertakings consists of ordinary and preference shares which are unlisted.

All subsidiaries have a registered address of The Quadrangle, The Promenade, Cheltenham, Gloucestershire, GL50 1PX, England except for Royal Scot Leasing Limited, Royal Bank of Scotland (Industrial Leasing) Limited and R.B. Leasing Company Limited whose registered address is 24/25 St Andrew Square, Edinburgh, EH2 1AF, Scotland.

16. Investments in associates

Associates of the Company, which have an accounting reference date of 31 December are :

Name of associate	Nature of business	Interest in ordinary share capital 2016 %	Interest in ordinary share capital 2015 %
Tay Valley Lighting (Leeds) Limited	Provision and maintenance of public street lighting	50	50
Tay Valley Lighting (Newcastle and North Tyneside) Limited	Provision and maintenance of public street lighting	50	50
Tay Valley Lighting (Stoke on Trent) Limited	Provision and maintenance of public street lighting	50	50

The companies' are all registered in England and Wales and the registered office is The Quadrangle, The Promenade, Cheltenham, Gloucestershire, GL50 1PX, England.

17. Investment property

	2016 £'000	2015 £'000
At 1 October	**15,606**	16,705
Impairment	**(1,236)**	(1,099)
Investment property at fair value	**14,370**	15,606

The fair value of the Company's investment property has been arrived at by reference to market evidence of transaction prices for similar properties. Investment properties of £10,934,000 (2015: £11,834,000) are categorised as level 2 (valued by reference to observable market data, other than quoted prices) and £3,436,000 (2015: £4,069,000) as level 3 (valuation is based on inputs other than observable market data) in accordance with IFRS 13 Fair Value Measurement. The independent valuation was done in 2016 and has been completed by an independent valuer with the appropriate qualifications (MRICS). The Company has pledged its investment property to secure general banking facilities granted to the Company. The property rental income earned by the Company from its investment property, which is leased out under operating leases, amounted to £2,209,000 (2015: £2,210,000).

18. Finance lease receivables

	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	Total £'000
2016				
Future minimum lease payments	**6,996**	**34,888**	**-**	**41,884**
Unearned finance income	**(184)**	**(6,607)**	**-**	**(6,791)**
Present value of minimum lease payments receivable	**6,812**	**28,281**	**-**	**35,093**
2015				
Future minimum lease payments	6,886	24,517	13,844	45,247
Unearned finance income	(150)	(3,507)	(3,284)	(6,941)
Present value of minimum lease payments receivable	6,736	21,010	10,560	38,306

	2016 £'000	2015 £'000
Due within one year	**6,812**	6,736
Due after more than one year	**28,281**	31,570
	35,093	38,306

The Company has entered into various finance leasing arrangements. The average term of the lease entered into is 17 years (2015: 16 years).

Unguaranteed residual values are estimated at £nil (2015: £nil).

The average effective interest rate in relation to finance lease agreements approximates 7.2% (2015: 5.5%).

19. Operating lease arrangement

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

	Within 1 year £'000	Between 1 and 5 years £'000	Total £'000
2016			
Land and building	**2,210**	**737**	**2,947**
2015			
Land and building	2,220	2,960	5,180
Equipment	173	-	173
	2,393	2,960	5,353

Company as lessor

The Company provides asset finance to its customers through acting as lessor.

20. Loans receivable

	2016 £'000	2015 £'000
Due within one year		
Amounts owed by group undertakings	**651,972**	641,121
Deposits owed by jointly controlled entities	**6,529**	6,271
	658,501	647,392
Due after more than one year		
Amounts owed by group undertakings	**3,839,388**	4,017,309
Deposits owed by jointly controlled entities	**99,885**	136,232
	3,939,273	4,153,541
Total	**4,597,774**	4,800,933

Included within loan receivables is £4,106,604,000 (2015: £4,310,679,000) owed from subsidiary companies, £384,756,000 (2015: £347,751,000) owed from the immediate parent company and £106,414,000 (2015: £142,503,000) owed from associated companies.

21. Trade and other receivables

	Due within one year	
	2016 £'000	2015 £'000
Trade receivables	**103**	136
Other receivables	**312**	146
	415	282

22. Prepayments, accrued income and other assets

	2016 £'000	2015 £'000
Accrued income	**2,353**	4,768
Group relief receivable	**30,083**	16,019
	32,436	20,787

23. Derivatives

The Company enters into various financial instruments (derivatives) as principal to manage foreign exchange and interest rate risk. Derivatives include swaps and forwards.

A swap is an arrangement to exchange cash flows in the future in accordance with a pre-arranged formula. In an interest rate swap, two counterparties agree to exchange periodic interest payments on a predetermined monetary principal, the notional amount.

At the year end, the notional principal amounts of the Company's derivatives were as follows:

23. Derivatives (continued)

Notional principal amounts

	2016 £'000	2015 £'000
Interest rate swaps	(2,193,471)	(2,421,615)

At the year-end, the derivatives carried at fair value by hierarchy were as follows:

Fair value	2016 Asset £'000	2016 Liability £'000	2015 Asset £'000	2015 Liability £'000
Interest rate swaps	3,616	(298,233)	3,976	(250,427)
Interest rate swaps in fair value hedge	3,736	(189,859)	1,967	(196,623)
Total	7,352	(488,092)	5,943	(447,050)

Maturity analysis	2016 Asset £'000	2016 Liability £'000	2015 Asset £'000	2015 Liability £'000
Current				
Interest rate swaps	1,601	(1,217)	2	(216)
Interest rate swaps in fair value hedge	338	(32)	-	(133)
	1,939	(1,249)	2	(349)
Non current				
Interest rate swaps	2,015	(297,016)	3,974	(250,210)
Interest rate swaps in fair value hedge	3,398	(189,827)	1,967	(196,491)
	5,413	(486,843)	5,941	(446,701)
	7,352	(488,092)	5,943	(447,050)

All derivatives are level 2 valuations, valued using techniques based significantly on observable market data. Instruments in this category are valued using:
(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
(b) valuation techniques where all the inputs that have a significant effect on the valuations are directly or indirectly based on observable market data.

23. Derivatives (continued)

Valuation hierarchy

There is a process to review and control the classification of financial instruments into the three level hierarchy established by IFRS 13. Some instruments may not easily fall into a level of the fair value hierarchy and judgment may be required as to which level the instrument is classified. Initial classification of a financial instrument is carried out by the Product Control team following the principles in IFRS 13. They base their judgment on information gathered during the IPV process for instruments which include the sourcing of independent prices and model inputs. The quality and completeness of the information gathered in the independent price verification (IPV) process gives an indication as to the liquidity and valuation uncertainty of an instrument. These initial classifications are reviewed and challenged by senior management. Particular attention is paid to instruments crossing from one level to another, new instrument classes or products, instruments that are generating significant profit and loss and instruments where valuation uncertainty is high.

Valuation techniques

Royal Bank Leasing Limited derives fair value of its instruments differently depending on whether the instrument is a non-modelled or a modelled product.

Modelled products

Modelled products are valued using a pricing model range in complexity from comparatively vanilla products such as interest rate swaps and options (e.g. interest rate caps and floors) through to more complex derivatives. The valuation of modelled products requires an appropriate model and inputs into this model. Sometimes models are also used to derive inputs (e.g. to construct volatility surfaces). Royal Bank Leasing Limited uses a number of modelling methodologies.

Inputs to valuation models

Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk. The principal inputs to these valuation techniques are as follows:

• Interest rates - these are principally benchmark interest rates such as the London Interbank Offered Rate (LIBOR), Overnight Index Swaps rate (OIS) and other quoted interest rates in the swap, bond and futures markets.

• Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. The sources of independent data are reviewed for quality and are applied in the IPV processes using a formalised input quality hierarchy. These adjustments reflect Royal Bank Leasing Limited's assessment of factors that market participants would consider in setting a price.

Furthermore, on an ongoing basis, Royal Bank Leasing Limited assesses the appropriateness of any model used. To the extent that the price determined by internal models does not represent the fair value of the instrument, for instance in highly stressed market conditions, Royal Bank Leasing Limited makes adjustments to the model valuation to calibrate to other available pricing sources.

24. Borrowings

	2016 £'000	2015 £'000
Loans from group undertakings	**4,158,185**	4,339,409
Current – on demand or within one year	**463,762**	499,598
Non-current:		
- between one and two years	**249,871**	328,101
- between two and five years	**1,334,398**	1,411,840
- after five years	**2,110,154**	2,099,870
	3,694,423	3,839,811

The Company has the following unsecured borrowing from group undertakings greater than five years:

£55,030,000 (2015: £124,692,000) is at fixed rates varying from 1.59% to 2.29% (2015: 1.0286% to 6.625%)
£2,055,124,000 (2015: £1,975,178,000) is at a floating rate.

The repayment profile of the borrowings is disclosed in note 28 (ii).

25. Trade and other payables

	Due within one year 2016 £'000	2015 £'000
Value added tax payable	**331**	301
Other payables	**1,293**	1,110
	1,624	1,411

26. Accruals, deferred income and other liabilities

	2016 £'000	2015 £'000
Accruals	**4,501**	4,611
Deferred income	**2,965**	2,646
Other liabilities	**1,605**	1,605
	9,071	8,862

27. Deferred tax

Deferred tax liability comprises:

	Capital allowances £'000	Derivatives £'000	Other £'000	Total £'000
At 1 October 2014	6,068	211	55	6,334
(Credit)/charge to profit and loss account	(386)	16,522	99	16,235
At 30 September 2015	5,682	16,733	154	22,569
Charge/(credit) to profit and loss account	**598**	**(1,903)**	**(10)**	**(1,315)**
At 30 September 2016	**6,280**	**14,830**	**144**	**21,254**

28. Financial instruments and risk management

(i) Fair value of financial instruments not carries at fair value

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate to their fair values. Where the financial instruments are of short maturity, the carrying value is equal to the fair value.

Where the interest rate on finance lease receivables, loan receivables and borrowings have been fixed by way of an interest rate swap in the parent company, which is not in a hedge relationship the fair value has been calculated by adjusting the carrying value of the associated mark to market arising on the swap.

Lessee credit risk position is an input into the fair value of finance lease receivables calculation as disclosed.

The fair value of the borrowings is estimated by discounting future expected cash flows using current interest rates and making adjustments for own credit risk in the current year.

	2016	**2016**	2015	2015
	Carrying value	**Fair value**	Carrying value	Fair value
	£'000	**£'000**	£'000	£'000
Financial assets				
Finance lease receivables	**35,093**	**33,866**	38,306	37,084
Loans receivable	**4,597,774**	**4,833,319**	4,800,933	4,968,101
Financial liabilities				
Borrowings	**4,158,185**	**3,781,014**	4,339,409	4,060,404

The financial assets and liabilities detailed in the table above fall within level 2 of the valuation methodologies, as set out below:

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value

Level 1: valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities
Level 2: valued by reference to observable market data, other than quoted market prices
Level 3: valuation is based on inputs other than observable market data

(ii) Financial risk management
The principal risks associated with the Company's businesses 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.

Finance lease receivables may be based on fixed and/or floating rates. These are funded primarily through balances owed to group undertakings. The re-pricing 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.

This information is presented consistently with the information that management use to manage the risk.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial instruments and risk management (continued)

ii) Financial risk management (continued)

Interest rate risk (continued)

The interest profile of the Company's assets and liabilities is as follows:

2016	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	509	34,584	-	35,093
Loans receivable	2,847,810	1,736,513	13,451	4,597,774
Trade and other receivables	-	-	103	103
Prepayments, accrued income and other assets	-	-	2,353	2,353
Derivatives	-	-	7,352	7,352
Cash	-	32,733	-	32,733
	2,848,319	1,803,830	23,259	4,675,408
Financial liabilities				
Borrowings	2,570,647	1,587,538	-	4,158,185
Trade and other payables	-	-	628	628
Accruals and other liabilities	-	-	4,352	4,352
Derivatives	-	-	488,092	488,092
	2,570,647	1,587,538	493,072	4,651,257
Net financial assets/(liabilities)	277,672	216,292	(469,813)	24,151

28. Financial instruments and risk management (continued)

ii) Financial risk management (continued)

Interest rate risk (continued)

2015	Fixed rate £'000	Variable rate £'000	Non-interest earning £'000	Total £'000
Financial assets				
Finance leases	1,777	36,529	-	38,306
Loans receivable	3,122,951	1,663,633	14,349	4,800,933
Trade and other receivables	-	-	136	136
Prepayments, accrued income and other assets	-	-	4,768	4,768
Derivatives	-	-	5,943	5,943
Cash	-	29,634	-	29,634
	3,124,728	1,729,796	25,196	4,879,720
Financial liabilities				
Borrowings	2,783,415	1,555,994	-	4,339,409
Trade and other payables	-	-	688	688
Accruals and other liabilities	-	-	4,023	4,023
Derivatives	-	-	447,050	447,050
	2,783,415	1,555,994	451,761	4,791,170
Net financial assets/(liabilities)	341,313	173,802	(426,565)	88,550

Assuming that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year, had interest rates been 0.5% higher and all other variables held constant, the Company's loss before tax for the year would have decreased by £1,028,000 (2015: profit before tax for the year would have increased by £1,049,000). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings, loans receivable, and cash balances. There would be no other impact on equity.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial instruments and risk management (continued)

ii) Financial risk management (continued)

Currency risk

The Company is mainly exposed to Euro and US dollar currencies.

The sensitivity analysis below has been determined based on the foreign currency exposure at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

The following table details the impact on the Company's (loss)/profit before tax for the year and net assets if the rate of Sterling against foreign currencies had been 10% higher and all other variables were held constant.

	Assets		Liabilities	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Euro	**19,227**	39,861	**20,800**	33,030
US Dollar	**880,081**	830,431	**926,095**	854,032

	Euro Currency impact £'000	US dollar Currency impact £'000
2016		
Reduction in loss before tax	**143**	**4,183**
2015		
(Reduction)/increase in profit before tax	(621)	2,146

The impact on (loss)/profit before tax is mainly due to the Company's gap between its foreign currency lending and its foreign currency borrowings. There would be no other impact on equity.

Credit risk

The table below provides details of credit exposures for those financial assets neither past due nor impaired:

Sector	No. of counterparties	**2016 £'000**	2015 £'000
Finance lease receivables- Transport and Infrastructure	6 (2015: 6)	**35,093**	38,306
Group undertakings		**4,524,093**	4,688,064
Amounts due from jointly controlled entities		**106,414**	142,503
Other		**2,353**	4,904
Other - group undertakings		**7,352**	5,943
		4,675,305	4,879,720
Amounts past due			
Less than one month		**84**	-
One to two months		**19**	-
		103	-
Maximum credit exposure		**4,675,408**	4,879,720

Based on counterparty payment history the Company considers all the above financial assets to be of good credit quality.

NOTES TO THE FINANCIAL STATEMENTS

28. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Financial liabilities
The following table shows by contractual maturity the undiscounted cash flows payable from the balance sheet date including future interest payments:

2016	0-3 months £'000	3-12 months £'000	1 - 3 years £'000	3-5 years £'000	5 - 10 years £'000	10-20 years £'000
Borrowings	**304,191**	**182,043**	**912,379**	**765,928**	**1,435,294**	**819,591**
Gross deriviatives	**17,842**	**77,110**	**182,066**	**98,741**	**67,474**	**69,723**
Trade and other payables	**628**	**-**	**-**	**-**	**-**	**-**
Accruals and other liabilities	**4,352**	**-**	**-**	**-**	**-**	**-**
	327,013	**259,153**	**1,094,445**	**864,669**	**1,502,768**	**889,314**

2015	0-3 months £'000	3-12 months £'000	1 - 3 years £'000	3-5 years £'000	5 - 10 years £'000	5 - 10 years £'000
Borrowings	243,022	283,767	629,640	1,287,329	1,449,148	936,819
Gross derivatives	19,576	82,285	201,920	137,523	107,683	77,580
Trade and other payables	688	-	-	-	-	-
Accruals and other liabilities	4,023	-	-	-	-	-
	267,309	366,052	831,560	1,424,852	1,556,831	1,014,399

29. Share capital

	2016 £'000	2015 £'000
Authorised:		
22,000,000 Ordinary shares of £1 each	**22,000**	22,000
Allotted, called up and fully paid:		
Equity shares		
19,000,000 ordinary shares of £1 each	**19,000**	19,000

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

30. Capital Resources

The Company's capital consists of equity compromising issued share capital, retained earnings and loans from group undertakings. The Company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the Company is governed by the group's policy which is to maintain a strong capital base: it is not separately regulated. The group has complied with the Prudential Regulation Authority's capital requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

31. Commitments and contingent liabilities

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). 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.

32. 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 Financial 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 undertakings

The Company's immediate parent company is The Royal Bank of Scotland plc, a company incorporated in the UK. As at 30 September 2016, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in the UK and heads the largest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

33. Post balance sheet events

The following subsidiaries have been dissolved since the year end R.B. Leasing (Bluewater) Limited, Lombard Corporate Finance (March 1) Limited, R. B. Asset Value Limited, RBSSAF (10) Limited and RBSSAF (16) Limited.

Since the year end, the Company has received a number of dividends from its subsidiaries in their functional currencies totalling: GBP £50,805,000, USD $22,900,000 and EUR €500,000.

During March 2017 the investment in associates in Tay Valley Lighting (Leeds) Limited, Tay Valley Lighting (Newcastle and North Tyneside) Limited and Tay Valley Lighting (Stoke on Trent) Limited were sold for £3 and loans to associated companies of £104,546,000 were transferred to another RBS Group plc company resulting in a profit before tax of £369,000.

On 16th May 2017, the Company sold its investment property for a consideration of £14,228,000.

There are no other significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.