Company Registered No: 00662221

# RBS INVOICE FINANCE LIMITED

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2012

WEDNESDAY

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A24 25/09/2013 #18
COMPANIES HOUSE

RBS Secretariat
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh
EH12 1HQ

**RBS INVOICE FINANCE LIMITED** **00662221**

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## OFFICERS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| **DIRECTORS** | M Bardrick<br>I D Cowie<br>M J Morrin<br>A A G Rankin<br>O D Watts |
| **SECRETARY:** | RBS Secretarial Services Limited |
| **REGISTERED OFFICE** | Smith House<br>PO Box 50<br>Elmwood Avenue<br>Feltham<br>Middlesex<br>TW13 7QD |
| **AUDITOR:** | Deloitte LLP<br>London |

**Registered in England and Wales**

# DIRECTORS' REPORT

The directors of RBS Invoice Finance Limited ("the Company") present their report together with the audited financial statements for the year ended 31 December 2012 The financial statements are prepared in accordance with applicable law and Financial Reporting Standard 101 Reduced Disclosure framework

## ACTIVITIES AND BUSINESS REVIEW

### Principal activity

The principal activity of the Company continues to be the discounting and factoring of domestic and export debts

The Company is a subsidiary of The Royal Bank of Scotland Group plc ("the RBS Group") 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 RBS Group review these matters on a group basis Copies can be obtained from RBS Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the group's website at www rbs com

### 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 Company's financial performance is presented in the Statement of Comprehensive Income on page 8 The profit before taxation for the year was £113,689k (2011 £114,317k) The retained profit for the year was £85,666k (2011 £83,838k)

Dividends of £44,000k and £45,000k were paid on 28 June 2012 and 21 December 2012 respectively (2011 £98,000k)

At the end of the year total assets were £4,239,417k (2011 £3,968,008k)

### Principal risks and uncertainties

The Company's financial risk management objectives and policies regarding the use of financial instruments are set out in note 19 to these financial statements

The Company seeks to minimise its exposure to financial risks The major risks associated with the Company's business are interest rate, currency, credit, liquidity and operational 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 Group Asset and Liability Management Committee (GALCO)

### 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

## DIRECTORS' REPORT (continued)

### DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 2

From 1 January 2012 to date the following changes have taken place

| | Appointed | Resigned |
|---|---|---|
| **Director** | | |
| R W McFarlane | - | 18 April 2012 |
| J Wood | | 15 August 2013 |
| **Secretary** | | |
| R E Fletcher | - | 27 April 2012 |
| RBS Secretarial Services Limited | 27 April 2012 | - |

### 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 Directors' Report and financial statements for each financial year Under that law, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, 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 Financial Reporting Standard 101 has been followed, and
- make an assessment of the Company's ability to continue as a going concern

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

### DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

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

## DIRECTORS' REPORT (continued)

### AUDITOR

Deloitte LLP has expressed its willingness to continue in office as auditor

Approved by the Board of Directors and signed on its behalf

O D Watts
Director
Date 10/09/13

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS INVOICE FINANCE LIMITED

We have audited the financial statements of RBS Invoice Finance Limited ('the Company') for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and 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 to identify material inconsistencies with the audited financial statements 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 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure framework, and
- 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**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



Russell Davis, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor,
London, United Kingdom
Date 10 September 2013

## STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2012**

| Continuing operations | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| Revenue | 3 | **226,097** | 219,186 |
| Other income | 4 | **401** | 481 |
| Operating expenses | 5 | **(92,013)** | (85,972) |
| **Operating profit** | | **134,485** | 133,695 |
| Interest receivable | | **17,722** | 17,652 |
| Interest payable | | **(38,518)** | (37,030) |
| **Profit before tax** | | **113,689** | 114,317 |
| Tax charge | 7 | **(28,023)** | (30,479) |
| **Profit and total comprehensive income for the year** | | **85,666** | 83,838 |

The accompanying notes on pages 11 to 27 form an integral part of these financial statements

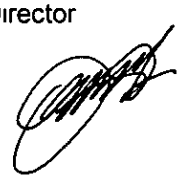
## BALANCE SHEET
**as at 31 December 2012**

| | Note | 2012 £'000 | 2011 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 9,18 | **10,018** | 11,304 |
| Property, plant and equipment | 10,18 | **430** | 926 |
| Amounts due from group undertakings | 11,18 | **114,000** | 154,000 |
| Deferred tax asset | 12,18 | **1,119** | 1,702 |
| | | **125,567** | 167,932 |
| **Current assets** | | | |
| Trade and other receivables | 13,18 | **3,726,627** | 3,481,897 |
| Amounts due from group undertakings | 11,18 | **385,877** | 316,936 |
| Derivatives | 14,18 | **-** | 10 |
| Cash at bank | 18 | **1,346** | 1,233 |
| | | **4,113,850** | 3,800,076 |
| **Total assets** | | **4,239,417** | 3,968,008 |
| **Creditors: amounts falling due within one year** | | | |
| Amounts due to group undertakings | 16,18 | **3,497,810** | 3,218,987 |
| Trade and other payables | 15,18 | **704,790** | 704,380 |
| Current tax liabilities | | **27,452** | 31,588 |
| Obligations under finance leases | 17,18 | **166** | 410 |
| Derivatives | 14,18 | **35** | - |
| | | **4,230,253** | 3,955,365 |
| **Creditors. amounts falling due after one year** | | | |
| Obligations under finance leases | 17 | **67** | 212 |
| **Total liabilities** | | **4,230,320** | 3,955,577 |
| **Equity: capital and reserves** | | | |
| Called up share capital | 21 | **1,000** | 1,000 |
| Profit and loss account | | **8,097** | 11,431 |
| **Total shareholders' funds** | | **9,097** | 12,431 |
| **Total liabilities and shareholders' funds** | | **4,239,417** | 3,968,008 |

The accompanying notes on pages 11 to 27 form an integral part of these financial statements

The financial statements were approved by the Board of Directors on 6 September 2013 and signed on its behalf by

O D Watts
Director



## STATEMENT OF CHANGES IN EQUITY
**for the year ended 31 December 2012**

| | Share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|
| **At 1 January 2011** | 1,000 | 25,593 | 26,593 |
| Profit for the year | - | 83,838 | 83,838 |
| Dividends paid | - | (98,000) | (98,000) |
| **At 31 December 2011** | 1,000 | 11,431 | 12,431 |
| Profit for the year | | 85,666 | 85,666 |
| Dividends paid | | (89,000) | (89,000) |
| **At 31 December 2012** | **1,000** | **8,097** | **9,097** |

Total comprehensive income for the year of £85,666k (2011 £83,838k) was wholly attributable to the equity holders of the Company

The accompanying notes on pages 11 to 27 form an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

#### a) Preparation and presentation of financial statements

The financial statements are prepared on a going concern basis and in accordance with 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 European Union (EU) (together IFRS) and under Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council

Accordingly, in the year ended 31 December 2012 the Company has undergone transition from reporting under IFRS adopted by the EU to FRS 101 as issued by the Financial Reporting Council which the Company has adopted early The transition is not considered to have had a material effect on the financial statements

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, standards not yet effective and related party transactions Where required, equivalent disclosures are given in the group accounts of the RBS Group, these accounts are available to the public and can be obtained as set out in note 24

The accounts are prepared on the historical cost basis

The Company's financial statements are presented in Sterling which is the functional currency of the Company

The Company is incorporated in Great Britain and registered in England and Wales The Company's accounts are presented in accordance with the Companies Act 2006

**Adoption of new and revised standards**
There are a number of changes to IFRS that were effective from 1 January 2012 They have had no material effect on the Company's financial statements for the year ended 31 December 2012

#### b) Foreign currencies

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

#### c) Revenue recognition

Revenue arises in the UK from continuing activities and represents discount, service and other charges to clients and services to other group companies Revenue is measured at the fair value of consideration received or receivable and is recognised when the services are delivered

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss 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 The effective interest rate is the rate that exactly discounts estimated future cash flows to 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. Accounting policies (continued)

#### d) Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income

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

#### e) Property, plant and equipment

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

Depreciation is charged to profit or loss on a straight-line basis so as to write-off the depreciable amount of property, plant and over their estimated useful lives

The depreciable amount is the cost of an asset less its residual value Estimated useful lives are as follows

| | | |
|---|---|---|
| Motor vehicles | – | 4 years |
| Computer and office equipment | – | 3 to 5 years |
| Office furniture and fittings | – | 6 to 7 years |

The residual value and useful life of property, plant and equipment are reviewed at each Balance Sheet date and updated for any charges to previous estimates

#### f) Intangible assets

Intangible assets acquired by the Company are stated at cost less accumulated amortisation and impairment losses Amortisation is charged to the profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation The estimated useful economic lives are as follows

Computer software - 3-5 years

Expenditure on internally generated goodwill and brands is written-off as incurred Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established These costs include payroll, the costs of materials and services, and directly attributable overheads Capitalisation of cost ceases when the software is capable of operating as intended During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1 Accounting policies (continued)

**g) Impairment of intangible assets and property, plant and equipment**

At each reporting date, the Company assesses whether there is any indication that its intangible assets or 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

**h) Financial assets**

On initial recognition, financial assets are classified into designated as at fair value through profit or loss and loans and receivables

**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 (see accounting policy c) less any impairment losses

**Designated as at fair value through profit or loss**
Financial assets may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency, or (b) applies to a group of financial assets, financial liabilities or both, that the company manages and evaluates on a fair value basis, or (c) relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract

Financial assets that the company designates on initial recognition as being fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value Gains and losses on financial assets that are designated as at fair value are recognised in profit or loss as they arise

**i) 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 loans and receivables is impaired 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

**j) Financial liabilities**

On initial recognition financial liabilities are classified into designated as at fair value through profit or loss and amortised cost

**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 (see accounting policy c)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 1. Accounting policies (continued)

#### k) Derecognition and offset

A financial asset is derecognised when the asset has expired or when the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to the another entity

A financial liability is removed from the Balance Sheet when the obligation is discharged, or cancelled, or expires

Financial assets and financial liabilities are offset and the net amount presented in the Balance Sheet when, and only when, the company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

#### l) Derivatives

Derivative financial instruments are recognised initially, and subsequently measured, at fair value 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 Gains and losses arising from changes in the fair value of derivatives are recognised as they arise in the profit or loss

#### m) Finance leases

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation

Lease payments are apportioned between finance expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs Contingent rentals are recognised as expenses in the periods in which they are incurred

### 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, International Accounting Standard 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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 2 Critical accounting policies and key sources of estimation uncertainty (continued)

**Loan impairment provisions**

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate

At 31 December 2012, gross trade receivables totalled £5,823,730k (2011 £5,599,723k) and customer loan impairment provisions amounted to £33,191k (2011 £33,380k)

### 3. Revenue

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Interest from clients | **88,825** | 85,748 |
| Service charges | **106,270** | 103,868 |
| Arrangement and termination fees | **21,579** | 20,134 |
| Payment charges | **5,271** | 5,475 |
| Other client charges | **4,152** | 3,961 |
| | **226,097** | 219,186 |

### 4 Other income

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Foreign exchange gains | **446** | 424 |
| Derivative (losses)/gains | **(45)** | 57 |
| | **401** | 481 |

### 5. Operating expenses

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Staff costs | | |
| Wages and salaries | **40,719** | 43,532 |
| Social security costs | **4,216** | 4,542 |
| Pension costs | **5,991** | 6,127 |
| | **50,926** | 54,201 |
| Commission payable | **768** | 713 |
| Depreciation on property, plant and equipment | **609** | 866 |
| Amortisation on intangible assets | **2,295** | 918 |
| Bad debt charge | **18,877** | 10,514 |
| Management fees | **(4,377)** | (4,980) |
| Management charges payable | **11,317** | 10,161 |
| Debt collection charges | **421** | 826 |
| Other charges | **11,177** | 12,753 |
| | **92,013** | 85,972 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 5. Operating expenses (continued)

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

| | 2012 | 2011 |
|---|---|---|
| Front Office | **377** | 370 |
| Support | **435** | 498 |
| Central functions | **111** | 106 |
| Other | **12** | 10 |
| | **935** | 984 |

| Auditors' remuneration | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Statutory audit work | **35** | 36 |

Other than the amounts disclosed above, no additional remuneration was payable to the auditors for any other services

**Pension Costs**
The employees of the Company are members of an externally funded, defined benefit pension scheme operated by the RBS Group The most recent actuarial valuation is dated 31 December 2012 Full details of the actuarial report and the scheme are given in the financial statements of the RBS Group

**Management recharge**

Management charges 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

Expenses of £4,377k (2011 £4,980k) were incurred by the Company and then recharged to other members of the group by way of management charges

### 6 Directors' emoluments

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Emoluments for the provision of directors services:** | | |
| Emoluments | **1,725** | 1,373 |
| Pension contributions | **46** | 97 |
| | **1,771** | 1,476 |

Executive directors participate in an annual bonus scheme Bonuses are generated on the basis of achievement against specific targets, which include corporate performance objectives and key strategic objectives Some of the directors are also directors of other companies within the group The emoluments of those directors are charged to the company for which they perform their main duties, and therefore the disclosed charge represents the charge for the directors whose main duties are performed in relation to the Company

The total emoluments of the highest paid director were £556,881 (2011 £512,179)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7. Tax

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Current taxation | | |
| UK corporation tax charge for the year | **27,430** | 30,112 |
| Under provision in respect of prior periods | **10** | 2 |
| | **27,440** | 30,114 |
| Deferred taxation | | |
| Charge for the year | **571** | 365 |
| Under provision in respect of prior periods | **12** | - |
| | **583** | 365 |
| Tax charge for the year | **28,023** | 30,479 |

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 24 5% (2011 blended tax rate 26 5%) as follows

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Expected tax charge | **27,851** | 30,287 |
| Non-deductible items | **43** | 49 |
| Reduction in deferred tax liability following change in rate of UK corporation tax | **107** | 141 |
| Adjustments in respect of prior periods | **22** | 2 |
| Actual tax charge for the year | **28,023** | 30,479 |

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest enacted rate standing at 23% with effect from 1 April 2013 Further reductions of the rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015 were announced on 5 December 2012 and 20 March 2013 respectively, but not substantively enacted at the balance sheet date Accordingly, the closing deferred tax assets and liabilities have been calculated at 23%

### 8. Ordinary dividends

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Interim dividends paid | **89,000** | 98,000 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. Intangible assets

| 2012 | Capitalised software completed £'000 | Capitalised software in development £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2012 | 7,164 | 5,816 | **12,980** |
| Additions | 464 | 545 | **1,009** |
| 31 December 2012 | 7,628 | 6,361 | **13,989** |
| **Accumulated amortisation and impairment** | | | |
| 1 January 2012 | 1,676 | - | **1,676** |
| Amortisation charge for the year | 2,295 | - | **2,295** |
| 31 December 2012 | 3,971 | - | **3,971** |
| **Net book value** | | | |
| 31 December 2012 | **3,657** | **6,361** | **10,018** |

| 2011 | Capitalised software completed £'000 | Capitalised software in development £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| 1 January 2011 | 2,505 | 3,984 | 6,489 |
| Additions | 4,659 | 1,832 | 6,491 |
| 31 December 2011 | 7,164 | 5,816 | 12,980 |
| **Accumulated amortisation and impairment** | | | |
| 1 January 2011 | 758 | - | 758 |
| Amortisation charge for the year | 918 | - | 918 |
| 31 December 2011 | 1,676 | - | 1,676 |
| **Net book value** | | | |
| 31 December 2011 | 5,488 | 5,816 | 11,304 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 10 Property, plant and equipment

| 2012 | Fixtures, fittings and equipment £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| 1 January 2012 | 8,671 | **8,671** |
| Additions | 113 | **113** |
| Disposals | (1) | **(1)** |
| 31 December 2012 | 8,783 | **8,783** |
| **Accumulated depreciation and impairment** | | |
| 1 January 2012 | 7,745 | **7,745** |
| Depreciation charge for the year | 609 | **609** |
| Disposals | (1) | **(1)** |
| 31 December 2012 | 8,353 | **8,353** |
| **Net book value** | | |
| 31 December 2012 | 430 | **430** |

| 2011 | Fixtures, fittings and equipment £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| 1 January 2011 | 8,273 | 8,273 |
| Additions | 640 | 640 |
| Disposals | (242) | (242) |
| 31 December 2011 | 8,671 | 8,671 |
| **Accumulated depreciation and impairment** | | |
| 1 January 2011 | 6,921 | 6,921 |
| Depreciation charge for the year | 866 | 866 |
| Disposals | (42) | (42) |
| 31 December 2011 | 7,745 | 7,745 |
| **Net book value** | | |
| 31 December 2011 | 926 | 926 |

**Leased plant and machinery**

At 31 December 2012 the net carrying amount of plant and machinery leased from third parties was £234k (2011 £657k) The leased equipment secures lease obligations (see note 18)

**Security**

No property, plant and equipment has been pledged as security for liabilities of the Company (2011 none)

### 11. Amounts due from group undertakings

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Current** | | |
| Amounts due from fellow group companies | **385,877** | 316,936 |
| **Non-current** | | |
| Amounts due from fellow group companies | **114,000** | 154,000 |
| **Total** | **499,877** | 470,936 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 12. Deferred tax

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

| | Capital allowances £'000 | IFRS transition £'000 | Bonus provisions £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 January 2011** | 910 | 736 | 421 | 2,067 |
| Charge to income | (119) | (191) | (55) | (365) |
| **At 31 December 2011** | 791 | 545 | 366 | 1,702 |
| Charge to income | (172) | (169) | (242) | (583) |
| **At 31 December 2012** | **619** | **376** | **124** | **1,119** |

### 13. Trade and other receivables

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Due within one year** | | |
| Trade receivables | **3,725,507** | 3,481,143 |
| Other receivables | **7** | 63 |
| Prepayments and accrued income | **1,113** | 691 |
| | **3,726,627** | 3,481,897 |
| Trade receivables comprise | | |
| Assigned debts receivable | **5,790,539** | 5,566,343 |
| Less recourse debts due to clients on collection | **(2,065,032)** | (2,085,200) |
| | **3,725,507** | 3,481,143 |

The assets and liabilities in the recourse business are offset as the arrangements with the clients allow the Company to settle the liabilities simultaneously without any conditions attached

### 14. Derivatives

The Company enters into 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 currency swap transactions, interest payment obligations are exchanged on assets and liabilities denominated in different currencies, the exchange of principal may be notional or actual A forward contract is a contract to buy (or sell) a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14 Derivatives (continued)

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

| Notional principal amounts | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Exchange rate contracts | **5,524** | 5,524 |

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Fair value** | | |
| Current (liability)/asset | **(35)** | 10 |

Derivatives are valued by reference to observable market data, other than quoted market prices

### 15 Trade and other payables

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Due within one year** | | |
| Trade creditors | **690,629** | 683,733 |
| Other payables | **2,790** | 8,436 |
| Value added tax payable | **6,310** | 6,331 |
| Accruals and deferred income | **5,061** | 5,880 |
| | **704,790** | 704,380 |

### 16 Amounts due to group undertakings

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Current liabilities** | | |
| RBS Invoice Finance (Holdings) Limited | **28,320** | 33,666 |
| Fellow group companies | **3,469,490** | 3,185,321 |
| | **3,497,810** | 3,218,987 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 17. Obligations under finance leases

| | Year in which payment is expected | | | |
|---|---|---|---|---|
| | Within 1 year £'000 | Between 1 and 5 years £'000 | After 5 years £'000 | Total £'000 |
| **2012** | | | | |
| Future minimum lease payments | **177** | **69** | **-** | **246** |
| Unearned finance income | **(11)** | **(2)** | **-** | **(13)** |
| Net carrying value | **166** | **67** | **-** | **233** |
| **2011** | | | | |
| Future minimum lease payments | 431 | 220 | - | 651 |
| Unearned finance income | (21) | (8) | - | (29) |
| Net carrying value | 410 | 212 | - | 622 |

The Company's obligations under finance leases are secured by the lessor's rights over the leased assets

### 18. Financial instruments

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 "Financial Instruments, Recognition and Measurement" Assets and liabilities outside the scope of IAS 39 are shown separately

| 2012 | Designated as at fair value through profit or loss £'000 | Loans and receivables £'000 | At amortised cost £'000 | Finance leases £'000 | Non financial assets/ liabilities £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Intangible assets | - | - | - | - | 10,018 | **10,018** |
| Property, plant and equipment | - | - | - | - | 430 | **430** |
| Amounts due from group undertakings | - | 499,877 | - | - | - | **499,877** |
| Deferred tax asset | - | - | - | - | 1,119 | **1,119** |
| Trade and other receivables | - | 3,725,507 | - | - | 1,120 | **3,726,627** |
| Cash at bank | - | 1,346 | - | - | - | **1,346** |
| | - | 4,226,730 | - | - | 12,687 | **4,239,417** |
| **Liabilities** | | | | | | |
| Amounts due to group undertakings | - | - | 3,497,810 | - | - | **3,497,810** |
| Trade and other payables | - | - | 690,629 | - | 14,161 | **704,790** |
| Current tax liability | - | - | - | - | 27,452 | **27,452** |
| Obligations under finance leases | - | - | - | 233 | - | **233** |
| Derivatives | 35 | - | - | - | - | **35** |
| | 35 | - | 4,188,439 | 233 | 41,613 | **4,230,320** |
| **Equity** | | | | | | **9,097** |
| | | | | | | **4,239,417** |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 18. Financial instruments (continued)

| 2011 | Designated as at fair value through profit or loss £'000 | Loans and receivables £'000 | At amortised cost £'000 | Finance leases £'000 | Non financial assets/ liabilities £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Intangible assets | - | - | - | - | 11,304 | 11,304 |
| Property, plant and equipment | - | - | - | - | 926 | 926 |
| Amounts due from group undertakings | - | 470,936 | - | - | - | 470,936 |
| Deferred tax asset | - | - | - | - | 1,702 | 1,702 |
| Trade and other receivables | - | 3,481,143 | - | - | 754 | 3,481,897 |
| Derivatives | 10 | - | - | - | - | 10 |
| Cash at bank | - | 1,233 | - | - | - | 1,233 |
| | 10 | 3,953,312 | - | - | 14,686 | 3,968,008 |
| **Liabilities** | | | | | | |
| Amounts due to group undertakings | - | - | 3,218,987 | - | - | 3,218,987 |
| Trade and other payables | - | - | 683,733 | - | 20,647 | 704,380 |
| Current tax liability | - | - | - | - | 31,588 | 31,588 |
| Obligations under finance leases | - | - | - | 622 | - | 622 |
| | - | - | 3,902,720 | 622 | 52,235 | 3,955,577 |
| **Equity** | | | | | | 12,431 |
| | | | | | | 3,968,008 |

There are no material differences between the carrying value and fair value of the Company's financial instruments

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. Risk management

The principal risks associated with the Company's businesses are as follows

**Interest rate risk**

Interest rate risk arises where assets and liabilities have different repricing maturities

The matching of the repricing maturity characteristics of the Company's assets and liabilities is achieved through hedges transacted within another group company This results in the Company having exposure to interest rate risk, though this would be offset elsewhere within the group

The sensitivity analysis below has been determined based on the exposure to interest rates 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

If interest rates had been 0 5% higher and all other variables were held constant, the Company's profit before tax for the year would have decreased by £15,560 (2011 decrease of £14,510k) This is mainly due to the Company's exposure to interest rates on its variable rate borrowings There would be no other material impact on equity

**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

The Company is mainly exposed to the US Dollar currency

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 currencies to which the Company is mainly exposed and the impact on the Company's profit before tax if the rate of Sterling against foreign currencies had been 10% higher and all other variables were held constant

| | Currency £'000 |
|---|---|
| **2012** | |
| Profit before tax | **66** |
| **2011** | |
| Profit before tax | 69 |

The impact on 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 material impact on equity

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. Risk management (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 dictated 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

The following table provides an analysis of the credit quality of third party financial assets and commitments based on the probability of default

**2012**

| | **Amounts owed by group undertakings £'000** | **Derivatives £'000** | **Cash £'000** | **Trade and other receivables £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Probability of default | | | | | |
| <=1 5% | **499,877** | **-** | **1,346** | **2,828,263** | **3,329,486** |
| >1 5% and <=5% | **-** | **-** | **-** | **727,577** | **727,577** |
| >5% | **-** | **-** | **-** | **73,584** | **73,584** |
| Accruing past due | **-** | **-** | **-** | **47,264** | **47,264** |
| Impaired loans | **-** | **-** | **-** | **82,010** | **82,010** |
| Impairment provision | **-** | **-** | **-** | **(33,191)** | **(33,191)** |
| | **499,877** | **-** | **1,346** | **3,725,507** | **4,226,730** |

**2011**

| | **Amounts owed by group undertakings £'000** | **Derivatives £'000** | **Cash £'000** | **Trade and other receivables £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Probability of default | | | | | |
| <=1 5% | 470,936 | 10 | 1,233 | 2,668,224 | 3,140,403 |
| >1 5% and <=5% | - | - | - | 686,407 | 686,407 |
| >5% | - | - | - | 69,420 | 69,420 |
| Accruing past due | - | - | - | 13,643 | 13,643 |
| Impaired loans | - | - | - | 76,829 | 76,829 |
| Impairment provision | - | - | - | (33,380) | (33,380) |
| | 470,936 | 10 | 1,233 | 3,481,143 | 3,953,322 |

Probability of default is the likelihood that a customer will fail to make full and final repayment of credit obligations over a one year time horizon

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 19. Risk management (continued)

**Liquidity risk**

The Company has no material liquidity risk as it has access to group funding

**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

### 20 Financial assets - impairments

The following table shows the movement in the provision for impairment of finance lease, trade and other receivables

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **At 1 January** | **(33,380)** | (52,263) |
| Charge to income | **(18,877)** | (10,514) |
| Amounts written off | **19,066** | 29,397 |
| **At 31 December** | **(33,191)** | (33,380) |

The following table shows the analysis of impaired latent, individually and collectively assessed trade and other receivables

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost £'000 | Provision £'000 | Net book value £'000 | Cost £'000 | Provision £'000 | Net book value £'000 |
| Trade and other receivables | 82,010 | (33,191) | 48,819 | 76,829 | (33,380) | 43,449 |

The following assets were past due at the balance sheet date but not considered impaired

| | 1 – 29 days £'000 | 30 – 59 days £'000 | 60 – 89 days £'000 | More than 90 days £'000 | Total £'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Trade and other receivables | **34,255** | **12,860** | **149** | **-** | **47,264** |
| **2011** | | | | | |
| Trade and other receivables | 8,193 | 4,350 | 1,100 | - | 13,643 |

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 21. Share capital

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Authorised: | | |
| 1,000,000 Ordinary shares of £1 | **1,000** | 1,000 |
| Allotted, called up and fully paid | | |
| Equity shares | | |
| 1,000,000 Ordinary shares of £1 | **1,000** | 1,000 |

The Company has one class of Ordinary Shares which carry no right to fixed income

### 22. Capital resources

The Company's capital consists of equity comprising issued share capital and retained earnings The Company is a member of the RBS 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 Financial Services Authority's capital requirements throughout the year

### 23 Commitments and contingent liabilities

The Company, together with other members of the RBS Group, 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

As at 31 December 2012, the Company has an outstanding letter of credit of £2 4million (2011 £nil)

### 24. Related parties

The UK Government through HM Treasury is the ultimate controlling party of the RBS Group 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

Transactions between the Company, the UK Government and UK Government controlled bodies consisted solely of corporation tax and value added tax

### Group undertakings

The Company's immediate parent company is RBS Invoice Finance (Holdings) Limited, a company incorporated in Great Britain and registered in England and Wales As at 31 December 2012 The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in Great Britain and registered in Scotland Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

The Company's ultimate holding company is the RBS Group, a company incorporated in Great Britain and registered in Scotland As at 31 December 2012, the RBS Group heads the largest group in which the Company is consolidated Copies of the consolidated accounts may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ