Company Registered No: 00662221

RBS INVOICE FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2010

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	I D Cowie R W McFarlane N P Mills M J Morrin A A G Rankin O D Watts J H Wood
SECRETARY:	R E Fletcher
REGISTERED OFFICE:	Smith House PO Box 50 Elmwood Avenue Feltham Middlesex TW13 7QD
AUDITOR:	Deloitte LLP London

Registered in England and Wales

DIRECTORS' REPORT

The dırectors present theır report and the audıted fınancıal statements for the year ended 31 December 2010

ACTIVITIES AND BUSINESS REVIEW

Activity

The prıncıpal actıvıty of the company contınues to be the dıscountıng and factorıng of domestıc and export debts

The company ıs a subsıdıary of The Royal Bank of Scotland Group plc whıch provıdes the company wıth dırectıon and access to all central resources ıt needs and determınes polıcıes ın all key areas such as fınance, rısk, human resources or envıronment For thıs reason, the dırectors belıeve that performance ındıcators specıfıc to the company are not necessary or approprıate for an understandıng of the development, performance or posıtıon of the busıness The annual reports of The Royal Bank of Scotland Group plc revıew these matters on a group basıs Copıes can be obtaıned from Group Secretarıat, RBS Gogarburn, Edınburgh, EH12 1HQ, the Regıstrar of Companıes or through the group's websıte at rbs com

Review of the year

Business review

The dırectors are satısfıed wıth the company's performance ın the year. The company wıll be guıded by ıts shareholders ın seekıng further opportunıtıes for growth Post balance sheet events are descrıbed ın note 24 to the fınancıal statements

Financial performance

The company's fınancıal performance ıs presented ın the statement of comprehensıve ıncome

Income grew by £14,011,000 (2009. £117,321,000 decrease) and expenses fell by £42,150,000 (2009 £1,692,000 ıncrease) The profıt for the year was £74,361,000 (2009 £27,651,000), an ıncrease of 169% compared to 2009

Dıvıdends of £18,000,000 and £60,000,000 were paıd on the 27 June 2010 and 22 December 2010 respectıvely (2009 £35,000,000)

At the end of the year, the balance sheet showed total assets of £3,667,181,000 (2009 £3,344,707,000) ıncludıng ıncome-generatıng assets compromısıng trade receıvables of £3,143,021,000 (2009 £2,648,398,000) Total equıty was £25,635,000 (2009 £29,274,000)

Principal risks and uncertainties

The company ıs funded by facılıtıes from The Royal Bank of Scotland plc

The company's fınancıal rısk management objectıves and polıcıes regardıng the use of fınancıal ınstruments are set out ın note 19 to these fınancıal statements

Going concern

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis They considered the accounts of The Royal Bank of Scotland Group plc for the year ended 31 December 2010, approved on 23 February 2011 which were prepared on a going concern basis

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 2010 to date the following changes have taken place

Directors	Appointed	Resigned
M K Mitchell	19 April 2010	29 November 2010
O D Watts	19 April 2010	
I Wright	19 April 2010	26 January 2011
A D Barnard		19 April 2010
J S Hunter		4 May 2011

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 and the directors have elected to prepare them in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss for the financial year of the company In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance, 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 Royal Bank of Scotland Group plc, which is committed to maintaining a sound commercial relationship with its suppliers Consequently, the policy is to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay them within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed

AUDITOR

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

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

O D Watts
Director
Date 24 JUN 2011

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 2010 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 24 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS INVOICE FINANCE LIMITED (continued)

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

Mark Rhys, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

28th June 2011

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

Continuing operations	Notes	2010 £'000	2009 £'000
Revenue	3	199,350	185,339
Operating expenses	4	(77,674)	(119,824)
Operating profit		121,676	65,515
Other gains and losses		(37)	1,339
Finance costs	5	(16,441)	(28,379)
Profit before tax		105,198	38,475
Tax charge	7	(30,837)	(10,824)
Profit and total comprehensive income for the year		74,361	27,651

The accompanying notes form an integral part of these financial statements

RBS INVOICE FINANCE LIMITED 00662221

BALANCE SHEET
as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Non-current assets			
Property, plant and equipment	9	5,759	3,368
Amounts owed by group undertakings	10	154,000	164,000
Deferred tax asset	11	2,174	2,531
		161,933	169,899
Current assets			
Amounts owed by group undertakings	10	355,722	518,813
Trade and other receivables	12	3,143,650	2,649,432
Cash	13	5,876	6,563
		3,505,248	3,174,808
Total assets		3,667,181	3,344,707
Current liabilities			
Borrowings from group undertakings	14	3,050,945	2,810,210
Trade and other payables	15	589,925	504,697
Obligations under finance leases	16	347	231
Derivatives	17	47	10
		3,641,264	3,315,148
Non-current liabilities			
Obligations under finance leases	16	282	285
Total liabilities		3,641,546	3,315,433
Equity			
Share capital	20	1,000	1,000
Retained earnings		24,635	28,274
Total equity		25,635	29,274
Total liabilities and equity		3,667,181	3,344,707

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

The financial statements were approved by the Board of directors on 24 JUN 2011 and signed on its behalf by

O D Watts
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2009	1,000	35,623	36,623
Profit for the year	-	27,651	27,651
Dividends paid (note 8)	-	(35,000)	(35,000)
At 31 December 2009	1,000	28,274	29,274
Profit for the year	-	74,361	74,361
Dividends paid (note 8)	-	(78,000)	(78,000)
At 31 December 2010	**1,000**	**24,635**	**25,635**

Total comprehensive income for the year of £74,361,000 (2009: £27,651,000) was wholly attributable to the owners of the company

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENT
for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Profit for the year before tax		**105,198**	38,475
Adjustments for:			
Depreciation	4	**2,671**	1,373
Foreign exchange gains	4	**(392)**	(2,447)
Finance costs	5	**16,441**	28,379
Operating cash flows before movements in working capital		**123,918**	65,780
(Increase)/decrease in trade and other receivables		**(494,218)**	251,475
Decrease/(increase) in amounts owed by group undertakings		**173,091**	(682,813)
Increase in trade and other payables		**64,172**	36,237
Increase in amounts owed to group undertakings		**241,127**	409,805
Movement in fair value of derivative financial instruments		**37**	(1,339)
Net cash from operating activities before tax		**108,127**	79,145
Interest paid		**(16,434)**	(28,368)
Tax paid		**(9,424)**	(10,865)
Net cash flows from operating activities		**82,269**	39,912
Cash flows from investing activities			
Purchases of property, plant and equipment	9	**(5,062)**	(3,520)
Net cash flows from investing activities		**(5,062)**	(3,520)
Cash flows from financing activities			
Proceeds from new loans		**564**	530
Repayment of finance lease liabilities		**(451)**	(416)
Interest paid		**(7)**	(11)
Dividends paid	8	**(78,000)**	(35,000)
Net cash flows from financing activities		**(77,894)**	(34,897)
Net (decrease)/increase in cash and cash equivalents		**(687)**	1,495
Cash and cash equivalents at beginning of year		**6,563**	5,068
Cash and cash equivalents at end of year	13	**5,876**	6,563

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Presentation of accounts

The accounts 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)

The company is incorporated in the UK and registered in England and Wales

The accounts are prepared on the historical cost basis except as noted in the following accounting policies

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 2010 They have had no material effect on the company's financial statements for the year ended 31 December 2010

b) Foreign currencies

The company's financial statements are presented in sterling which is the functional currency of the company

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 Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at the foreign exchange rates ruling at the dates the values are determined

c) Revenue recognition

Revenue arises in the United Kingdom 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, available-for-sale or held-to-maturity 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

d) Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered

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

f) Impairment of property, plant and equipment

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

g) Derivatives

Derivative financial instruments are recognised initially, and subsequently measured, at fair value, with movements recognised in income 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

h) Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

h) Financial assets continued)

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

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 held-to-maturity, available-for-sale or 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 held-for-trading, designated as at fair value through profit or loss, or 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

k) Derecognition and offset

A financial asset is derecognised when it has been transferred and the transfer qualifies for derecognition

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) Obligations under finance leases

Assets held under finance leases are recognised as assets at the present value of the minimum lease payments 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 charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged directly to profit or loss

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

m) Cash and cash equivalents

Cash and cash equivalents comprises cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value

n) Accounting developments

The International Accounting Standards Board (IASB) issued *'Improvements to IFRS'* in May 2010 implementing minor changes to IFRS, making non-urgent but necessary amendments to standards, primarily to remove inconsistency and to clarify wording The revisions are effective for annual periods beginning on or after 1 July 2010 and are not expected to have a material effect on the company

The IASB issued IFRS 9 'Financial Instruments' in October 2010 simplifying the classification and measurement requirements in IAS 39 'Financial Instruments Recognition and Measurement' in respect of financial assets and liabilities The standard reduces the measurement categories for financial assets to two fair value and amortised cost while keeping categories for liabilities broadly the same Only financial assets with contractual terms that give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets in order to collect contractual cash flows are classified as amortised cost All other financial assets are measured at fair value with changes in value generally taken to profit or loss The IASB will add impairment and hedging requirements to the standard before it becomes effective for annual periods beginning on or after 1 January 2013, early application is permitted

This standard makes major changes to the framework for the classification and measurement of financial assets and will have an effect on the company's Financial Statements The company is assessing the effect which also depends on the outcome of the other phases of IASB's IAS 39 replacement project

The IASB issued 'Disclosures - Transfers of Financial Assets' (Amendments to IFRS 7) in October 2010 to extend the standard's disclosure requirements about derecognition to align with US GAAP The revisions are effective for annual periods beginning on or after 1 July 2011 and will not affect the financial position or reported performance of the company

The International Financial Reporting Interpretations Committee issued interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' in December 2009. The interpretation clarifies that the profit or loss on extinguishing liabilities by issuing equity instruments should be measured by reference to fair value, preferably of the equity instruments The interpretation, effective for the company for annual periods beginning on or after 1 January 2011, is not expected to have a material effect on the company

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

o) Retirement benefits

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

There is no contractual agreement or policy on the way that the cost of The Royal Bank of Scotland Group defined benefit pension schemes and healthcare plans are allocated to the company It therefore accounts for the charges it incurs as payments to a defined contribution scheme

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

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

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 2010, gross loans and advances to customers totalled £5,305,174,000 (2009 £4,308,693,000) and customer loan impairment provisions amounted to £52,262,000 (2009 £112,724,000)

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Revenue

	2010 £'000	2009 £'000
Interest from clients	**77,876**	66,426
Interest from group companies	**2,030**	5,715
Service charges	**95,765**	86,111
Arrangement and termination fees	**17,320**	20,665
Payment charges	**5,754**	5,929
Other client charges	**605**	493
	199,350	185,339

4. Operating expenses

	2010 £'000	2009 £'000
Staff costs		
Wages and salaries	**41,540**	37,188
Social security costs	**4,025**	3,274
Pension costs	**6,257**	6,352
	51,822	46,814
Commission payable	**1,575**	1,690
Depreciation on property, plant and equipment	**2,671**	1,373
Bad debt charge	**4,040**	60,926
Exchange gains	**(392)**	(2,447)
Management fees	**(5,586)**	(7,634)
Management charges payable	**11,010**	10,503
Debt collection charges	**2,271**	2,771
Other charges	**10,263**	5,828
	77,674	119,824

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

	2010	2009
Front Office	**375**	393
Support	**514**	524
Central functions	**111**	101
Other	**11**	15
	1,011	1,033

Directors' emoluments	2010 £'000	2009 £'000
Directors' fees, salaries and other benefits, excluding pension contributions	**1,139**	938
Performance related bonuses	**236**	-
	1,375	938
Pension contributions for 7 directors (2009 7) in respect of defined benefit schemes	**146**	141

4. Operating expenses (continued)

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 this company

The total emoluments of the highest paid director were £421,774 (2009 £356,552) At 31 December 2010, the accrued pension of the highest paid director was £nil (2009 £nil)

Expenses of £5,586,000 (2009: £7,634,000) were incurred by the Company and then recharged to other members of the group by way of management charges

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

5. Finance costs

	2010	2009
	£'000	£'000
Interest on loans from group undertakings	**16,434**	28,368
Finance charges in respect of finance leases payable	**7**	11
	16,441	28,379

6. Profit before tax

Profit before tax is stated after charging

	2010	2009
	£'000	£'000
Auditor's remuneration – audit services	**36**	36

7. Tax

	2010	2009
	£'000	£'000
Current taxation		
UK corporation tax charge for the year	**29,274**	9,433
Under provision in respect of prior periods	**1,206**	1,189
	30,480	10,622
Deferred taxation		
Charge for the year	**348**	1,382
Under/(over) provision in respect of prior periods	**9**	(1,180)
	357	202
Tax charge for the year	**30,837**	10,824

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Tax (continued)

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% (2009 standard tax rate 28%) as follows

	2010	2009
	£'000	£'000
Expected tax charge	**29,455**	10,773
Non-deductible items	**86**	42
Reduction in deferred tax following change in rate of UK corporation tax	**81**	-
Adjustments in respect of prior periods	**1,215**	9
Actual tax charge for the year	**30,837**	10,824

In the Budget on 22 June 2010, the UK Government proposed, amongst other things, to reduce the rate of Corporation Tax in four annual decrements of 1% with effect from 1 April 2011 The first decrement from 28% to 27% was enacted in the Finance (No 2) Act 2010 on 27 July 2010 In conjunction, reductions to the rate of capital allowances have also been proposed, to take effect from 1 April 2012 Together as a result of these changes, existing temporary differences may unwind in periods subject to the reduced tax rate giving rise to a reduction of the deferred tax asset Accordingly, the closing deferred tax assets have been calculated at the rate of 27% An additional 1% decrement, also effective from 1 April 2011, was announced by the UK Government in the Budget on 23 March 2011 The impact of this further change is estimated as giving rise to a tax charge of £81,000, which will be recognised in the accounts for 2011

8. Ordinary dividends

	2010	2009
	£'000	£'000
Interim dividends paid	**78,000**	35,000

9. Property, plant and equipment

	Fixtures, fittings and equipment £'000	Vehicles £'000	Total £'000
2010			
Cost			
1 January 2010	**21,954**	**507**	**22,461**
Additions	**5,062**	**-**	**5,062**
Disposals	**(12,254)**	**(507)**	**(12,761)**
31 December 2010	**14,762**	**-**	**14,762**
Accumulated depreciation and impairment			
1 January 2010	**18,586**	**507**	**19,093**
Depreciation charge for the year	**2,671**	**-**	**2,671**
Disposals	**(12,254)**	**(507)**	**(12,761)**
31 December 2010	**9,003**	**-**	**9,003**
2009			
Cost			
1 January 2009	18,434	507	18,941
Additions	3,520	-	3,520
31 December 2009	21,954	507	22,461
Accumulated depreciation and impairment			
1 January 2009	17,213	507	17,720
Depreciation charge for the year	1,373	-	1,373
31 December 2009	18,586	507	19,093
Net book value			
31 December 2010	**5,759**	**-**	**5,759**
31 December 2009	3,368	-	3,368

Leased plant and machinery

At 31 December 2010 the net carrying amount of plant and machinery leased from third parties was £657,000 (2009 £546,000) The leased equipment secures lease obligations (see note 16).

Security

No property, plant and equipment has been pledged as security for liabilities of the company (2009: none)

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Amounts owed by group undertakings

	2010 £'000	2009 £'000 Reclassified See note 23
Non-current		
Amounts owed by group undertakings	**154,000**	164,000
Current		
Amounts owed by group undertakings	**355,722**	518,813
Total	**509,722**	682,813

11. 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 2009	865	1,068	800	2,733
Credit/(charge) to income	189	(153)	(238)	(202)
At 31 December 2009	1,054	915	562	2,531
Charge to income	**(37)**	**(179)**	**(141)**	**(357)**
At 31 December 2010	**1,017**	**736**	**421**	**2,174**

The Finance Act 2010 has reduced the corporation tax rate from 28% to 27% with effect from 1 April 2011 As a consequence the closing deferred tax assets have been recognised at an effective rate of 27 0%

12. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**3,143,021**	2,648,398
Other receivables	**83**	586
Prepayments and accrued income	**546**	448
	3,143,650	2,649,432
Trade receivables comprise:		
Assigned debts receivable	**5,252,912**	4,195,969
Less recourse debts due to clients on collection	**(2,109,891)**	(1,547,571)
	3,143,021	2,648,398

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. Cash and cash equivalents

	2010 £'000	2009 £'000
Cash amounts held with group undertakings	**5,876**	6,563
Cash and cash equivalents per cash flow statement	**5,876**	6,563

14. Borrowings from group undertakings

	2010 £'000	2009 £'000 Reclassified See note 23
Current liabilities		
Amounts due within 1 year	**174,000**	194,000
Amounts repayable on demand	**2,876,945**	2,616,210
	3,050,945	2,810,210

15. Trade and other payables

	2010 £'000	2009 £'000
Current liabilities		
Trade creditors	**523,172**	458,237
Other payables	**23,151**	28,001
Corporation tax payable	**30,489**	9,433
Value added tax payable	**4,990**	777
Accruals and deferred income	**8,123**	8,249
	589,925	504,697

16. 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
2010				
Future minimum lease payments	**350**	**283**	**-**	**633**
Unearned finance income	**(3)**	**(1)**	**-**	**(4)**
Net carrying value	**347**	**282**	**-**	**629**
2009				
Future minimum lease payments	234	285	-	519
Unearned finance income	(3)	-	-	(3)
Net carrying value	231	285	-	516

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. 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 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

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

Notional principal amounts	**2010**	2009
	£'000	£'000
Exchange rate contracts	**1,531**	1,830

	2010	2009
	£'000	£'000
Fair value		
Current liability	**47**	10

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

18. Retirement benefits schemes

The group sponsors a number of pension schemes in the UK and overseas, predominately defined benefit schemes, whose assets are independent of the group's finances The group's defined benefit schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years. Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money-purchase basis. Since October 2006 The Royal Bank of Scotland Group Pension Fund ("Main Scheme") has been closed to new entrants.

The group also provides other post-retirement benefits, principally through subscriptions to private healthcare schemes in the UK and unfunded post retirement plan benefits

The group recognises the costs of these benefits in the income statement over the average remaining future service lives of the eligible employees

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Retirement benefits schemes (continued)

Interim valuations of the Main Scheme under IAS 19 'Employee Benefits' were prepared to 31 December with the support of independent actuaries, using the following assumptions

Principal actuarial assumptions	**2010 %**	2009 %	2008 %
Discount rate	**5.5**	5 9	6 5
Expected return on plan assets (weighted average)	**6.7**	6 8	7.1
Rate of increase in salaries (per annum)	**1.8**	1 8	4 0
Rate of increase in pensions payment (per annum)	**3.3**	3 5	2 7
Inflation assumption (per annum)	**3.3**	3 5	2 7

Major classes of plan assets as a percentage of total plan assets	**2010 %**	2009 %	2008 %
Quoted equities	**25.9**	38 9	52 9
Private equity	**5.4**	5 1	6 5
Index-linked bonds	**27.0**	23 7	18 0
Government fixed interest bonds	**-**	-	1 2
Corporate and other bonds	**26.2**	19 7	18 5
Hedge funds	**3.2**	3 6	-
Property	**3.4**	3 5	3 7
Derivatives	**0.9**	-	(1 8)
Cash and other assets	**7.8**	5 3	1 0
Equity exposure of equity futures	**25.6**	10 6	-
Cash exposure of equity futures	**(25.4)**	(10 4)	-
Total fair value of assets	**100.0**	100 0	100 0

Long-term rates of return on the major classes of assets	**2010 %**	2009 %	2008 %
Quoted equities	**7.7**	8 0	8.4
Private equity	**7.7**	8 0	8 4
Index-linked bonds	**4.2**	4 5	3.9
Government fixed interest bonds	**-**	-	3 9
Corporate and other bonds	**5.5**	5.9	6.1
Hedge funds	**6.0**	6.2	-
Property	**6.7**	6 2	6 1
Derivatives	**0.0**	-	2 5
Cash and other assets	**4.0**	4 2	2 5
Equity exposure of equity futures	**7.7**	8 0	-
Cash exposure of equity futures	**4.0**	4 2	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Retirement benefits schemes (continued)

Post-retirement mortality assumptions	**2010 (years)**	2009 (years)	2008 (years)
Longevity at age 60 for current pensioners			
Males	**27.2**	27.1	26 1
Females	**29.6**	29 5	26 9
Longevity at age 60 for future pensioners			
Males	**29.3**	29 2	28 1
Females	**30.8**	30 8	28 2

Movement in the Main Scheme deficit during the year:

	2010 Fair value of plan assets £m	**2010 Present value of defined benefit obligations £m**	**2010 Net £m**	2009 Fair value of plan assets £m	2009 Present value of defined benefit obligations £m	2009 Net £m
At 1 January	**16,603**	**18,675**	**2,072**	14,804	15,594	790
Income statement						
Expected return	**1,114**	**-**	**(1,114)**	1,029	-	(1,029)
Interest cost	**-**	**1,091**	**1,091**	-	999	999
Current service cost	**-**	**345**	**345**	-	300	300
Past service cost	**-**	**76**	**76**	-	15	15
Gains on curtailments	**-**	**-**	**-**	-	(1,947)	(1,947)
	1,114	**1,512**	**398**	1,029	(633)	(1,662)
Statement of comprehensive income						
Actuarial gains and losses	**1,718**	**1,674**	**(44)**	993	4,473	3,480
Contributions by employers	**444**	**-**	**(444)**	536	-	(536)
Contributions by plan participants and other scheme members	**-**	**-**	**-**	2	2	-
Benefits paid	**(716)**	**(716)**	**-**	(741)	(741)	-
Expenses included in service cost	**(53)**	**(53)**	**-**	(20)	(20)	-
At 31 December	**19,110**	**21,092**	**1,982**	16,603	18,675	2,072

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Retirement benefits schemes (continued)

History of experience gains and losses

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Fair value of plan assets	**19,110**	16,603	14,804	18,575	17,374
Present value of defined benefit obligations	**21,092**	18,675	15,594	18,099	19,004
Net deficit/(surplus)	**1,982**	2,072	790	(476)	1,630
Experience (losses)/gains on plan liabilities	**(858)**	135	(55)	(256)	(4)
Experience gains/(losses) on plan assets	**1,718**	993	(4,784)	163	552
Actual return/(loss) on pension schemes assets	**2,832**	2,022	(3,513)	1,345	1,574

Curtailment gains of £1,947m were recognised in 2009 arising from changes to pension benefits in the Main Scheme due to the capping of future salary increases that will count for pension purposes to the lower of 2% or the rate of inflation in any year

The group expects to contribute £333m to the Main Scheme in 2011

The amount of accrued contributions at 31 December 2010 in the company in respect of the Main Scheme was £nil (2009 £nil)

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management

(i) Categories of 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

2010	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						
Property, plant and equipment	-	-	-	-	5,759	5,759
Amounts owed by group undertakings	-	509,722	-	-	-	509,722
Deferred tax asset	-	-	-	-	2,174	2,174
Trade and other receivables	-	3,143,021	-	-	629	3,143,650
Cash	-	5,876	-	-	-	5,876
	-	3,658,619	-	-	8,562	3,667,181
Liabilities						
Borrowings from group undertakings	-	-	3,050,945	-	-	3,050,945
Trade and other payables	-	-	523,172	-	66,753	589,925
Obligations under finance leases	-	-	-	629	-	629
Derivatives	47	-	-	-	-	47
	47	-	3,574,117	629	66,753	3,641,546
Equity						25,635
						3,667,181

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and risk management (continued)

2009	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						
Property, plant and equipment	-	-	-	-	3,368	3,368
Amounts owed by group undertakings	-	682,813	-	-	-	682,813
Deferred tax asset	-	-	-	-	2,531	2,531
Trade and other receivables	-	2,648,398	-	-	1,034	2,649,432
Cash	-	6,563	-	-	-	6,563
	-	3,337,774	-	-	6,933	3,344,707
Liabilities						
Borrowings from group undertakings	-	-	2,810,210	-	-	2,810,210
Trade and other payables	-	-	458,237	-	46,460	504,697
Obligations under finance leases	-	-	-	516	-	516
Derivatives	10	-	-	-	-	10
	10	-	3,268,447	516	46,460	3,315,433
Equity						29,274
						3,344,707

19. Financial instruments and risk management (continued)

(ii) Financial 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 increased by £2,268,000 (2009 profit before tax for the year would have increased by £2,638,000) 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 Euro 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

	Euro Currency £'000
2010	
Profit before tax	**4,325**
2009	
Profit before tax	2,768

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. Financial instruments and 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

Credit quality

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

2010

	Amounts owed by group undertakings £'000	Cash £'000	Trade and other receivables £'000	Total £'000
Probability of default				
<=1 5%	509,722	5,876	2,304,648	2,820,246
>1 5% and <=5%	-	-	684,700	684,700
>5%	-	-	123,608	123,608
Accruing past due	-	-	17,502	17,502
Non –Accrual	-	-	64,826	64,826
Impairment	-	-	(52,263)	(52,263)
	509,722	5,876	3,143,021	3,658,619

19. Financial instruments and risk management (continued)

2009

	Amounts owed by group undertakings £'000	Cash £'000	Trade and other receivables £'000	Total £'000
Probabılıty of default				
<=1 5%	682,813	6,563	1,310,238	1,999,614
>1 5% and <=5%	-	-	896,629	896,629
>5%	-	-	414,843	414,843
Accruıng past due	-	-	21,564	21,564
Non –Accrual	-	-	117,848	117,848
Impaırment	-	-	(112,724)	(112,724)
	682,813	6,563	2,648,398	3,337,774

Probabılıty of default ıs the lıkelıhood that a customer wıll faıl to make full and fınal repayment of credıt oblıgatıons over a one year tıme horızon

The followıng assets were past due at the balance sheet date but not consıdered ımpaıred

	1 – 29 days £'000	30 – 59 days £'000	60 – 89 days £'000	More than 90 days £'000	Total £'000
2010					
Trade and other receıvables	**13,912**	**2,098**	**1,492**	**-**	**17,502**
2009					
Trade and other receıvables	15,905	3,199	2,460	-	21,564

The company has no sıgnıfıcant concentratıon of credıt rısk, wıth exposure spread over a large number of counterpartıes and customers

Liquıdity risk

The contractual maturıty of all fınancıal lıabılıtıes ıs wıthın one year of the balance sheet date

The company has no materıal lıquıdıty rısk as ıt has access to group fundıng

Operational risk

Operatıonal rısk ıs the rısk of unexpected losses attrıbutable to human error, systems faılures, fraud or ınadequate ınternal fınancıal controls and procedures The Company manages thıs rısk, ın lıne wıth the RBS group framework, through systems and procedures to monıtor transactıons and posıtıons, the documentatıon of transactıons and perıodıc revıew by ınternal audıt. The Company also maıntaıns contıngency facılıtıes to support operatıons ın the event of dısasters.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Share capital

	2010 £'000	2009 £'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

21. Capital resources

The company's capital consists of equity comprising issued share capital and retained earnings 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 FSA's capital requirements throughout the year

22. Related parties

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly-owned by the UK Government As a result, the UK Government and UK Government controlled bodies became related parties of the company

The company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland Its immediate parent company is RBS Invoice Finance (Holdings) Limited which is incorporated in Great Britain and registered in England and Wales

As at 31 December 2010, The Royal Bank of Scotland Group plc heads the largest group in which the company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the company is consolidated Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ

Related party transactions with UK Government bodies

Transactions between the company, the UK Government and UK Government controlled bodies consisted solely of corporation tax and Value Added Tax

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. Related parties (continued)

Related party transactions with group undertakings

The tables below detail transactions and balances with group undertakings

		2010 £'000	2009 £'000
Net interest paid			
Fellow subsidiaries		**16,441**	28,379
Net amounts receivable			
Fellow subsidiaries	- Gross amounts receivable	**514,063**	687,154
	- Provision for bad debts	**(4,341)**	(4,341)
	- net amounts receivable	**509,722**	682,813
Net amounts payable			
Fellow subsidiaries		**(3,012,763)**	(2,810,115)
Immediate parent		**(38,811)**	(611)
Bad debt charge			
Fellow subsidiaries		**-**	4,341

23. Reclassification of comparatives

In order to be consistent with the presentation in the current period comparative balances have been reclassified to gross amounts owed by/to fellow group undertakings

There are no changes to profit or equity as a result

24. Post balance sheet events

On 15 June 2011, the company, together with other members of the RBSG group, became party to a capital support deed (CSD) Under the terms of the CSD, the company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares The amount of this obligation is limited to the company's immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the company's available resources) together with any amounts distributed to it by its subsidiaries pursuant to the CSD The CSD also provides that, in certain circumstances, funding received by the company from other parties to the CSD becomes immediately repayable, such repayment being limited to the company's available resources There are no other events since the balance sheet date that require modifications to or disclosure in the financial statements