Company Registered No: 00943038

THE ROYAL BANK OF SCOTLAND INVOICE DISCOUNTING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	P E Lord J A Pattara
COMPANY SECRETARY:	RBS Secretarial Services Limited
REGISTERED OFFICE:	250 Bishopsgate London EC2M 4AA
INDEPENDENT AUDITOR:	Ernst & Young LLP The Paragon Counterslip Bristol BS16BX

Registered in England and Wales

DIRECTORS' REPORT

The directors of The Royal Bank of Scotland Invoice Discounting Limited ("the Company") present their annual report together with the audited financial statements for the year ended 31 December 2016.

CHANGE OF REGISTERED OFFICE

On 22 September 2017, the Registered Office of the Company changed from Smith House, PO Box 50, Elmwood Avenue, Feltham, Middlesex, TW13 7QD to 250 Bishopsgate, London, EC2M 4AA.

ACTIVITIES AND BUSINESS REVIEW

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

Principal activity

The principal activity of the Company continues to be discounting of invoices.

Business review

The directors are satisfied with the Company's performance in the year. The Company will be guided by its shareholders.

FINANCIAL PERFORMANCE

The Company's financial performance is presented on page 8.

The operating profit before taxation for the year was £160k (2015: restated £524k). The profit for the year was £127k (2015: restated £418k).

A dividend of £1,800k was paid during the year (2015: £nil).

At the end of the year, total assets were £14,910k (2015: restated £22,461k). During November 2016 the directors of RBS Invoice Finance (Holdings) Limited approved a capital contribution of £13,300k to the Company in order to alleviate the net shareholder deficit position at 31 December 2015.

The Company's financial statements have been restated as a result of a number of the Company's clients signing new agreements with another group company, RBS Invoice Finance Limited, while the financials continued to be recognised in the Company. Full details are provided in note 16 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company seeks to minimise its exposure to financial risks.

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

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

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different repricing maturities.

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

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company.

The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company.

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

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

Details of these are described in note 11.

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. The Company has no material liquidity risk as it has access to group funding.

Market risk

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

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 Royal Bank of Scotland Group plc framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

GOING CONCERN

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the interim announcement of The Royal Bank of Scotland Group plc for the half-year ended 30 June 2017, approved on 4 August 2017 which were prepared on a going concern basis.

DIRECTORS' REPORT

DIRECTORS AND SECRETARY

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

From 1 January 2016 to date the following changes have taken place:

	Appointed	Resigned
Directors		
A Holden	-	1 July 2016
P E Lord	1 July 2016	-
J H Wood	23 August 2016	30 June 2017
A A G Rankin	-	7 September 2016
I D Cowie	-	31 October 2016
J A Pattara	26 July 2017	-

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

DIRECTORS' REPORT

INDEPENDENT AUDITOR

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

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

J. Pattara

J A Pattara
Director
Date: 27th September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INVOICE DISCOUNTING LIMITED

We have audited the financial statements of The Royal Bank of Scotland Invoice Discounting Limited ("the Company") for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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, based on the work undertaken in the course of the audit:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INVOICE DISCOUNTING LIMITED

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Directors' Report.

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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take the advantage of the small companies' exemptions in not preparing the Strategic Report.

Ernst & Young LLP

Andrew Blackmore, (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol, United Kingdom
29 September 2017

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2016

Income from continuing operations	Notes	2016 £'000	Restated[(1)] 2015 £'000
Turnover	3	547	703
Operating expenses	4	(339)	(144)
Operating profit		208	559
Interest payable	5	(48)	(35)
Operating profit before tax		160	524
Tax charge	6	(33)	(106)
Profit and total comprehensive income for the financial year		127	418

(1) For details of the restatements refer to note 16.

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

BALANCE SHEET
as at 31 December 2016

	Notes	2016 £'000	Restated [1] 2015 £'000
Current assets			
Trade and other receivables	8	13,814	21,448
Current tax assets		1,096	1,013
Total assets		14,910	22,461
Creditors: amounts falling due within one year			
Amounts due to group undertakings	9	14,777	26,365
Trade and other payables	10	505	8,095
		15,282	34,460
Total assets less current liabilities		(372)	(11,999)
Equity: capital and reserves			
Called up share capital	13	1	1
Capital contribution		13,300	-
Profit and loss account		(13,673)	(12,000)
Total shareholders' deficit		(372)	(11,999)
Total liabilities and shareholders' deficit		14,910	22,461

[1] For details of the restatements refer to note 16.

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

The financial statements were approved by the Board of Directors on 27 September 2017 and signed on its behalf by:

J. Patta

J A Pattara
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Note	Share capital £'000	Profit and loss account £'000	Capital contribution £'000	Total £'000
At 1 January 2015 as previously reported		1	(13,598)	-	(13,597)
Restatement [1]		-	1,180	-	1,180
At 1 January 2015 (Restated) [1]		1	(12,418)	-	(12,417)
Profit for the year		-	418	-	418
At 31 December 2015 (Restated) [1]		1	(12,000)	-	(11,999)
Profit for the year		-	**127**	-	**127**
Dividend paid	7	-	**(1,800)**	-	**(1,800)**
Capital contribution		-	-	**13,300**	**13,300**
At 31 December 2016		**1**	**(13,673)**	**13,300**	**(372)**

[1] For details of restatements refer to note 16.

Total comprehensive income for the year of £127k (2015: restated £418k) was wholly attributable to the equity holders of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) Preparation and presentation of financial statements
These financial statements are prepared:
- *on a going concern basis;*
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS); and
- on the historical cost basis.

The Company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council.

The Company is incorporated in the UK and registered in England and Wales and the financial statements are presented:
- in accordance with the Companies Act 2006:
- in Sterling which is the functional currency of the Company: and
- with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
  - cash-flow statement;
  - standards not yet effective; and
  - related party transactions.

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 15.

The few changes to IFRS that were effective from 1 January 2016 have had no material effect on the Company's Financial Statements for the year ended 31 December 2016.

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 the Profit and Loss Account.

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 is 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, which 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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

e) Financial assets
On initial recognition, financial assets are classified as 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 1(c)) less any impairment losses.

f) 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.

g) Financial liabilities
On initial recognition financial liabilities are classified as amortised cost.

All financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 1(c)).

h) Derecognition
A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been neither retained nor transferred, the Company assess whether or not it has retained control of the asset. If the Company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement; if the Company has not retained control of the asset it is derecognised.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. 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.

3. Turnover

	2016 £'000	Restated [1] 2015 £'000
Interest from clients	**297**	373
Service charges	**219**	308
Fee income	**26**	15
Payment charges	**5**	7
	547	703

[1] For details of the restatements refer to note 16.

4. Operating expenses

	2016 £'000	Restated [1] 2015 £'000
Bad debt charge	**160**	37
Management fees	**185**	108
Exchange gain	**(6)**	(1)
	339	144

[1] For details of the restatements refer to note 16.

Staff costs, number of employees and directors' emoluments
All staff and directors were employed by RBS Invoice Finance Limited and other group companies, the financial statements for which contain full disclosure of employee benefit expenses incurred in the year including share based payments and pensions. The directors of the Company do not receive remuneration for specific services provided to the Company (2015: £nil).

Management fees
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 RBS Invoice Finance Limited.

The auditor's remuneration for statutory audit work of £6,078 (2015: £6,078) was charged in the financial statements of RBS Invoice Finance Limited in the current and previous year. Remuneration paid to the auditor for non-audit work for the Company was £nil (2015: £nil).

5. Interest payable

	2016 £'000	Restated [1] 2015 £'000
Interest on amounts due to RBS Invoice Finance Limited	**48**	35

[1] For details of the restatements refer to note 16.

6. Tax

	2016 £'000	Restated [1] 2015 £'000
Current tax:		
UK corporation tax charge for the year	**33**	109
	33	109
Deferred tax:		
Credit for the year	**-**	(3)
Tax charge for the year	**33**	106

The actual tax charge differs from the expected tax charge computed by applying the rate of UK corporation tax of 20% (2015: blended tax rate 20.25%) as follows:

	2016 £'000	2015 £'000
Expected tax charge	**32**	106
Transfer pricing adjustment	**1**	-
Actual tax charge for the year	**33**	106

[1] For details of the restatements refer to note 16.

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

7. Ordinary dividends

	2016 £'000	2015 £'000
Interim dividends paid	**1,800**	-

At the time the dividend was paid, the directors reviewed the latest available financial information which showed sufficient distributable profits to pay the dividend. Subsequent to the dividend payment, accounting errors were discovered that required a restatement of the prior year financial statements resulting in a negative reserves position. As a result of these restatements there were insufficient profits available for distribution and the directors acknowledge that no further distributions can be made and subsequently injected additional capital into the business.

8. Trade and other receivables

	2016 £'000	Restated [1] 2015 £'000
Trade receivables	**13,814**	21,448
Trade receivables comprise:		
Assigned debts receivable	**24,228**	117,080
Less: Provision for bad debts	**(6)**	-
Less: Recourse debts due to clients on collection	**(10,408)**	(95,632)
	13,814	21,448

[1] For details of the restatements refer to note 16.

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.

9. Amounts due to group undertakings

	2016 £'000	Restated [1] 2015 £'000
Amounts due to RBS Invoice Finance Limited	**14,777**	26,365

[1] For details of the restatements refer to note 16.

10. Trade and other payables

	2016 £'000	Restated [1] 2015 £'000
Trade creditors	**505**	8,095

[1] For details of the restatements refer to note 16.

11. Financial instruments and risk management

(i) Categories of financial instrument

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.

2016	Loans and receivables £'000	At amortised cost £'000	Non financial assets/ liabilities £'000	Total £'000
Assets				
Trade and other receivables	13,814	-	-	13,814
Current tax assets	-	-	1,096	1,096
	13,814	-	1,096	14,910
Liabilities				
Amount due to group undertakings	-	14,777	-	14,777
Trade and other payables	-	505	-	505
	-	15,282	-	15,282
Equity				(372)
				14,910

11. Financial instruments and risk management (continued)

(i) Categories of financial instrument (continued)

Restated [1] 2015	Loans and receivables £'000	At amortised cost £'000	Non financial assets/ liabilities £'000	Total £'000
Assets				
Trade and other receivables	21,448	-	-	21,448
Current tax assets	-	-	1,013	1,013
	21,448	-	1,013	22,461
Liabilities				
Amounts due to group undertakings	-	26,365	-	26,365
Trade and other payables	-	8,095	-	8,095
	-	34,460	-	34,460
Equity				(11,999)
				22,461

[1] For details of the restatements refer to note 16.

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

(ii) Financial risk management

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

Interest rate risk

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

The Company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches. 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, there would be no material impact on the Company's profit before tax or 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 and 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.

	US Dollar £'000	**Euro £'000**
2016		
Profit before tax	**2**	**1**
2015		
Profit before tax	2	1

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

11. Financial instruments and risk management (continued)

(ii) Financial risk management (continued)

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company.

The objective of credit risk management is to enable the Company to achieve appropriate risk versus reward performance whilst maintaining credit risk exposure in line with approved appetite for the risk that customers will be unable to meet their obligations to the Company.

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

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

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

2016

Probability of default	**Trade and other receivables £'000**	**Total £'000**
<=1.076%	2,359	2,359
>1.076% and <=6.089%	11,437	11,437
Impaired	24	24
Impairment provision	(6)	(6)
	13,814	13,814

Restated [1]

2015

Probability of default	**Trade and other receivables £'000**	**Total £'000**
<=1.076%	3,036	3,036
>1.076% and <=6.089%	18,103	18,103
>6.089%	275	275
Impaired	34	34
Impairment provision	-	-
	21,448	21,448

[1] For details of the restatements refer to note 16.

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.

No assets were past due and impaired at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

11. Financial instruments and risk management (continued)

(ii) Financial 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.

12. Financial assets - impairments

The following table shows the movement in the provision for impairment of trade and other receivables.

	2016	2015
	£'000	£'000
At 1 January	-	(51)
Charge to Profit and Loss Account	**160**	37
Amounts written off	**(154)**	14
At 31 December	**6**	-

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 flow 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.

13. Share capital

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

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

NOTES TO THE FINANCIAL STATEMENTS

14. 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 Prudential Regulation Authority's capital requirements throughout the year.

15. Related parties

UK Government

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

The Company enters into transactions with these bodies on an arms' length basis; they consist solely of the payment of taxes including UK corporation tax.

Group undertakings

The Company's immediate parent company is RBS Invoice Finance (Holdings) Limited, a company incorporated in the UK. As at 31 December 2016, The Royal Bank of Scotland plc, a company incorporated in the UK heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in the UK. As at 31 December 2016, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated. Copies of the consolidated accounts may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

Capital support deed

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

16. Restatement

The Company's financial statements for the year ended 31 December 2015 have been restated to reflect the correction of overstated income, interest payable, management fee, trade receivables, amounts due to group undertakings and trade payables. The overstatement was the result of a number of the Company's clients signing new agreements with another group company, RBS Invoice Finance Limited, while the financials continued to be recognised in the Company. The restatement has had an impact on the financial position and the profit or loss of the Company. The effects of the restatement have been shown below:

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2015

Continuing operations	Previously reported 2015 £'000	Adjustment £'000	Restated 2015 £'000
Turnover	918	(215)	703
Operating expenses	(302)	158	(144)
Operating profit	616	(57)	559
Interest payable	(54)	19	(35)
Operating profit before tax	562	(38)	524
Tax charge	(114)	8	(106)
Profit and total comprehensive income for the financial year	448	(30)	418

BALANCE SHEET
as at 31 December 2015

	Previously Reported 2015 £'000	Adjustment £'000	Restated 2015 £'000
Current assets			
Trade and other receivables	25,466	(4,018)	21,448
Current tax assets	996	17	1,013
Total assets	26,462	(4,001)	22,461
Creditors: amounts falling due within one year			
Amounts due to group undertakings	30,622	(4,257)	26,365
Trade and other payables	8,989	(894)	8,095
	39,611	(5,151)	34,460
Total assets less current liabilities	(13,149)	1,150	(11,999)
Total liability	39,611	(5,151)	34,460
Equity: capital and reserves			
Called up share capital	1	-	1
Profit and loss account	(13,150)	1,150	(12,000)
Total shareholders' deficit	(13,149)	1,150	(11,999)
Total liabilities and shareholders' deficit	26,462	(4,001)	22,461

NOTES TO THE FINANCIAL STATEMENTS

17. Post balance sheet events

On 1 January 2017 The Royal Bank of Scotland plc transferred the share capital, 1,000,000 ordinary shares of £1, it held in RBS Invoice Finance (Holdings) Limited to National Westminster Bank plc.

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