

Company Registered No: 06838433

RBS SME INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2015

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CONTENTS**Page**

OFFICERS AND PROFESSIONAL ADVISERS

1

STRATEGIC REPORT

2

DIRECTORS' REPORT

5

INDEPENDENT AUDITOR'S REPORT

6

PROFIT AND LOSS ACCOUNT

8

STATEMENT OF COMPREHENSIVE INCOME

9

BALANCE SHEET

10

STATEMENT OF CHANGES IN EQUITY

11

NOTES TO THE FINANCIAL STATEMENTS

12

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

T J D Boag
L R Morse
S M Thomson

SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

1 Princes Street
London
EC2R 8PB
England

INDEPENDENT AUDITOR:

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

Registered in England and Wales

STRATEGIC REPORT

The directors of RBS SME Investments Limited ("the Company") present their annual report together with the audited financial statements for the financial year ended 31 December 2015.

ACTIVITIES AND BUSINESS REVIEW**Principal activity**

The principal activity of the Company is to manage investments.

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

Review of the year**Business review**

The Company's principle investments comprise debt and equity participations in collective investment schemes in unquoted businesses and for that purpose it assumes obligations as a limited partner in limited partnerships. The Company's investment strategy will be guided by its immediate parent company. Post balance sheet events are described in note 14 to the financial statements.

The Company has investments in three separate funds: Capital for Enterprise, Scottish Loan Fund and Business Growth Fund.

Capital for Enterprise

Capital for Enterprise has a portfolio of seven companies (2014: eleven companies), having exited from four further investments during the year (2014: nine). Realised losses of £3,896k (2014: £7,179k) were realised from the exit of two of the investments and realised profits of £934k from the exit of two of the investments (2014: £1,883k from exit of four of the investments).

The Company invested an additional £26k (2014: £58k) in Capital for Enterprise during the year resulting in a total gross investment of £5,752k (2014: £5,726k). After distributions from the fund, along with total valuation impairments of £1,158k (2014: £1,160k), the carrying value of investments at 31 December 2015 is £967k (2014: £1,230k).

Further, Capital for Enterprise has decided to carry out the liquidate, this requires agreement by investors who in aggregate hold more than 50% of total commitments. The extension of the Capital for Enterprise Fund granted by the investors has expired on 23 March 2016.

Scottish Loan Fund

This fund supports small and medium sized businesses in Scotland by providing debt finance. During the year, the Company invested a further £2,599k (2014: £1,070k) in the Scottish Loan Fund ("SLF") and received distributions of £1,102k (2014: £386k).

As at 31 December 2015, SLF had a portfolio of nineteen active (2014: fourteen). Scottish businesses having invested in a further nine and exited from four during the year. These businesses cover a wide range of sectors including Engineering, Oil & Gas, Telecoms and Manufacturing. All investments were valued at cost.

Business Growth Fund

During the year ended 31 December 2015, the Company invested £58,500k (2014: £54,000k) in the Business Growth Fund ("BGF"), with a further investment of £45,250k up to the date of signing. BGF made a profit of £10,347k during the year (2014: £2,871k) with the Company earning its share of the profit amounting to £2,481k (2014: £2,289k).

STRATEGIC REPORT**Business Growth Fund (continued)**

As at 31 December 2015, there was an unrealised loss against the value of thirty one (2014: eighteen) investments totalling £96,387k (2014: £41,470k) and an unrealised gain against nineteen investments (2014: eleven) totalling £73,441k (2014: £29,946k). The fair value of the remaining fifty one investments was equal to their cost.

FINANCIAL PERFORMANCE

The Company's financial performance is presented on pages 8 to 11.

The operating profit before taxation for the year was £2,719,687 (2014: loss of £3,782,615). The retained profit for the year was £3,088,492 (2014: loss of £3,548,189).

At the end of the year total assets were £174,165,361 (2014: £108,795,309).

Dividends

The directors do not recommend the payment of a dividend (2014: £nil).

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 currency, maturity, interest rate and liquidity. It is undertaken within limits and other policy parameters set by the RBS Asset and Liability Management Committee (RBS ALCO).

The Company is funded by facilities from The Royal Bank of Scotland Group plc.

The Company's assets mainly comprise interest in associate, equity shares and cash at bank which would expose it to interest rate, credit and market risk.

Interest rate risk

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

The financial liabilities of the Company consist of amounts due to group undertakings, borrowings and third party payables. The amounts due to group undertakings and borrowings do not have any significant interest rate risk as they have different repricing maturities and being carried at fixed rate of interest. The third party payables do not have any significant interest rate risk as the Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc.

Credit risk

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

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

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

STRATEGIC REPORT**PRINCIPAL RISKS AND UNCERTAINTIES (continued)****Market risk**

Market risk is defined as the risk of 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.

Going forward, part of the investment process will be to ensure that this concentration is reduced as more investments are acquired. The portfolios include investments in unquoted companies, resulting in exposure to a higher degree of risk than if investments were entirely in quoted or listed assets. Some of this risk can be mitigated by maintaining a diverse portfolio across various business sectors and asset classes.

The principal market risks to which the Company is exposed is in relation to fluctuation in the value of equity shares.

Liquidity risk

The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group undertakings.

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 financial statements of The Royal Bank of Scotland Group plc for the half-year ended 30 June 2016, approved on 4 August 2016, which were prepared on a going concern basis.

DIRECTORS' RESPONSIBILITIES STATEMENT

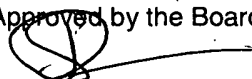
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

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



S M Thomson

Director

Date: 30 September 2016

DIRECTORS' REPORT

The Strategic Report includes the review of the year.

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 2015 to date the following changes have taken place:

	Appointed	Resigned
Directors		
M Jenkins	3 July 2015	20 June 2016
O D Watts	-	6 July 2015
S M Thomson	25 July 2016	-
Secretary		
R Beattie	-	30 January 2015
RBS Secretarial Services Limited	16 February 2015	-

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 directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.


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

INDEPENDENT AUDITOR

The Royal Bank of Scotland Group plc has appointed Ernst & Young LLP as auditor for the year ending 31 December 2016.

A resolution to appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming meeting of the Board of Directors.

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



S M Thomson
Director
Date: 30 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS SME INVESTMENTS LIMITED

We have audited the financial statements of RBS SME Investments Limited ("the Company") for the year ended 31 December 2015 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

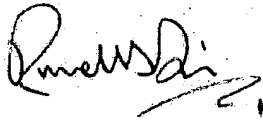
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS SME INVESTMENTS LIMITED

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Russell Davis, FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor,

London, United Kingdom

30 September 2016

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2015

		2015	2014
	Notes	£	£
Income from continuing operations			
Interest receivable		-	2,016
Interest payable		(1,954,237)	(1,186,298)
Net interest expense		(1,954,237)	(1,184,282)
Operating expenses	3	(333,873)	(309,621)
Operating loss before loss of associate		(2,288,110)	(1,493,903)
Reversal of impairment/(impairment losses)	8	5,007,797	(2,288,712)
Profit/(loss) on ordinary activities before tax		2,719,687	(3,782,615)
Tax credit	4	368,805	234,426
Profit/(loss) for the financial year		3,088,492	(3,548,189)

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2015

	2015 £	2014 £
Profit/(loss) for the financial year	3,088,492	(3,548,189)
Other comprehensive income		
Fair value adjustment for investments	496,029	228,044
Total comprehensive income/(loss) for the financial year	3,584,521	(3,320,145)

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

BALANCE SHEET

as at 31 December 2015

	Notes	2015 £	2014 £
Fixed assets			
Interest in associate	8, 9	168,224,016	104,716,220
Investments	5, 9	5,572,539	3,844,664
Amounts due from Group undertakings	9	1	1
		173,796,556	108,560,885
Current assets			
Current tax asset	9	368,805	234,424
Total assets		174,165,361	108,795,309
Creditors: amounts falling due within one year			
Borrowings	6, 9	33,885,041	22,020,044
Bank overdraft	9	2,277,493	200,451
Amounts due to Group undertakings	9	498,533	333,604
Accruals	7, 9	14,423	297,026
		36,675,490	22,851,125
Total assets less current liabilities		137,489,871	85,944,184
Creditors: amounts falling due after more than one year			
Borrowings	6, 9	132,264,189	84,303,023
Total liabilities		168,939,679	107,154,148
Net assets		5,225,682	1,641,161
Equity: capital and reserves			
Called up share capital	10	3	3
Share premium account		11,999,998	11,999,998
Available-for-sale reserve		1,083,062	587,033
Profit and loss account		(7,857,381)	(10,945,873)
Total shareholder's funds	9	5,225,682	1,641,161
Total liabilities and shareholder's funds		174,165,361	108,795,309

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

The financial statements of the Company were approved by the Board of Directors on 30 September 2016 and signed on its behalf by:



S M Thomson
Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

	Share capital £	Share premium account £	Available- for-sale reserve £	Profit and loss account £	Total £
At 1 January 2014	3	11,999,998	358,989	(7,397,684)	4,961,306
Available-for-sale investments	-	-	228,044	-	228,044
Loss for the year	-	-	-	(3,548,189)	(3,548,189)
At 31 December 2014	3	11,999,998	587,033	(10,945,873)	1,641,161
Available-for-sale investments	-	-	496,029	-	496,029
Profit for the year	-	-	-	3,088,492	3,088,492
At 31 December 2015	3	11,999,998	1,083,062	(7,857,381)	5,225,682

Total comprehensive income for the year of £3,584,521 (2014: loss of £3,320,145) 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 and have been prepared in accordance with applicable International Financial Reporting Standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the EU (together IFRS) and under Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash-flow statement, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the group financial statements of The Royal Bank of Scotland plc, these financial statements are available to the public and can be obtained as set out in note 13.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair value: financial instruments that are classified as available for sale. Historic cost is generally based on the fair value of the consideration given in exchange for the assets. The principal policies adopted are set out below.

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

The Company is incorporated in the UK and registered in England and Wales. The Company's financial statements are presented in accordance with the Companies Act 2006.

The changes to IFRS that were effective from 1 January 2015 have had no material effect on the Company's financial statement for the year ended 31 December 2015.

b) Revenue recognition

Interest expenses on financial liabilities are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability (or group of financial liabilities) and of allocating the interest expense over the expected life of the 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, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

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

c) 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.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)**c) Taxation (continued)**

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

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or 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.

d) Interest in associate

Interest in associate is stated at cost less any impairment.

e) Financial assets

On initial recognition, financial assets are classified into loans and receivables or available-for-sale.

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. 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(b)) less any impairment losses.

Available-for-sale

Financial assets that are not classified as loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Equity investments are initially recognised at cost and are subsequently re-valued in accordance with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines.

Impairment losses are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy 1(b)). Other changes in the fair value of available-for-sale financial assets are reported in other comprehensive income until disposal, when the cumulative gain or loss is reclassified from equity to profit or loss.

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 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 into amortised cost.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies (continued)

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.

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

i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand 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 changes in value.

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.

Fair value - financial instruments

Financial instruments classified as available-for-sale are recognised in the financial statements at fair value. Unrealised gains and losses on available-for sale financial assets are recognised directly in equity unless an impairment loss is recognised.

Financial instruments classified as designated as at fair value through profit or loss are recognised in the financial statements at fair value. Changes in fair value are recognised in profit or loss as they arise.

Details of financial instruments carried at fair value are given in note 9 of the financial statements.

3. Operating expenses

	2015 £	2014 £
Management fees	219,354	295,221
Auditor's remuneration - audit services	14,400	14,400
Irrecoverable VAT	100,119	-
	333,873	309,621

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by The Royal Bank of Scotland Group plc, the accounts for which contain full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees and pays a management charge for services provided by other group companies. The directors of the Company do not receive remuneration for specific services provided to the Company.

The auditor's remuneration for statutory audit work for the Company was borne by the Company. No remuneration was paid to the auditor for non-audit work (2014: £nil).

NOTES TO THE FINANCIAL STATEMENTS

4. Tax

	2015 £	2014 £
Current tax:		
UK corporation tax credit for the year	<u>(368,805)</u>	<u>(234,426)</u>

The actual tax credit differs from the expected tax credit computed by applying the blended rate of UK corporation tax of 20.25% (2014: 21.5%) as follows:

	2015 £	2014 £
Profit/(loss) on ordinary activities before tax	2,719,687	(3,782,615)
Expected tax credit	550,643	(813,003)
Partnership profit	94,459	86,660
Non-deductible items	<u>(1,013,907)</u>	<u>491,917</u>
Actual tax credit for the year	<u>(368,805)</u>	<u>(234,426)</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in 26 October 2015 now standing at 20% with effect from 1 April 2015, 19% from 1 April 2017 and 18% 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.

5. Investments

	2015 £	2014 £
As at 1 January	3,844,664	3,781,736
Additions of available-for-sale assets	2,625,007	1,127,842
Distribution	(1,393,162)	(1,292,958)
Unrealised gains	496,030	228,044
As at 31 December	<u>5,572,539</u>	<u>3,844,664</u>

The Company invested in Capital for Enterprise Fund L.P. which supports small businesses and projects by providing finance. Under the scheme the UK Government, a related party trading under the name Department for Business Innovation and Skills, holds the majority shareholding with four high street banks each contributing and holding an 8.33% stake. The banks involved are RBS plc (via the Company), Barclays Bank PLC, HSBC Bank plc and Lloyds Banking Group plc.

RBS SME holds a 9.999% stake in the Scottish Loan Fund which supports small and medium sized businesses in Scotland by providing debt finance.

6. Borrowings

	2015 £	2014 £
Loans from Group banks - Royal Bank of Scotland plc	<u>166,149,230</u>	<u>106,323,067</u>
Current liabilities	33,885,041	22,020,044
Non-current liabilities	<u>132,264,189</u>	<u>84,303,023</u>
Loans from Group banks - Royal Bank of Scotland plc	<u>166,149,230</u>	<u>106,323,067</u>

NOTES TO THE FINANCIAL STATEMENTS

6. Borrowings (continued)

The loans balance from The Royal Bank of Scotland plc detailed above is a combination of loans. The loans are all unsecured and interest bearing, with rates ranging from 0.9000% to 2.3125% (2014: 0.9000% to 2.3125%) per annum. The loans also have a range of maturity dates, with the earliest maturity being 15 December 2016 (2014: 15 December 2016) and the latest being 14 December 2020 (2014: 24 March 2020).

The bank overdraft was from The Royal Bank of Scotland plc and was repayable on demand. The overdraft limit is £3,250,000 (2014: £3,250,000) and at the year end the Company had access to a further £3,250,000 (2014: £3,250,000) of funds.

Interest on borrowings has been disclosed under amounts due to Group undertakings.

7. Accruals

	2015 £	2014 £
Audit fees	14,423	15,600
Accruals	-	281,426
	<u>14,423</u>	<u>297,026</u>

8. Interest in associate

Interest in associate is carried at cost less impairment. Movements during the year were as follows:

	2015 £	2014 £
At 1 January	104,716,220	53,004,930
Additions	58,500,000	54,000,002
Reversal of impairment/(impairment losses)	5,007,796	(2,288,712)
At 31 December	<u>168,224,016</u>	<u>104,716,220</u>

Details of the interest in associate, including the name, country of incorporation, and proportion of ownership interest is detailed in the following table:

Name of associate	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Business Growth Fund Plc	England and Wales	23.98%	23.98%	Provide long-term capital to UK based companies

NOTES TO THE FINANCIAL STATEMENTS

9. 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.

	Available- for-sale	Loans and receivables	At amortised cost	Non financial assets/ liabilities	Total
	£	£	£	£	£
2015					
Assets					
Interest in associate	-	-	-	168,224,016	168,224,016
Investments	5,572,539	-	-	-	5,572,539
Amounts due from Group undertakings	-	1	-	-	1
Current tax asset	-	-	-	368,805	368,805
	<u>5,572,539</u>	<u>1</u>	<u>-</u>	<u>168,592,821</u>	<u>174,165,361</u>
Liabilities					
Borrowings	-	-	166,149,230	-	166,149,230
Bank overdraft	-	-	2,277,493	-	2,277,493
Amounts due to Group undertakings	-	-	498,533	-	498,533
Accruals	-	-	-	14,423	14,423
	<u>-</u>	<u>-</u>	<u>168,925,256</u>	<u>14,423</u>	<u>168,939,679</u>
Equity					<u>5,225,682</u>
					<u>174,165,361</u>

	Available-for- sale	Loans and receivables	At amortised cost	Non financial assets/ liabilities	Total
	£	£	£	£	£
2014					
Assets					
Interest in associate	-	-	-	104,716,220	104,716,220
Investments	3,844,664	-	-	-	3,844,664
Amounts due from Group undertakings	-	1	-	-	1
Current tax asset	-	-	-	234,424	234,424
	<u>3,844,664</u>	<u>1</u>	<u>-</u>	<u>104,950,644</u>	<u>108,795,309</u>
Liabilities					
Borrowings	-	-	106,323,067	-	106,323,067
Bank overdraft	-	-	200,451	-	200,451
Amounts due to Group undertakings	-	-	333,604	-	333,604
Accruals	-	-	-	297,026	297,026
	<u>-</u>	<u>-</u>	<u>106,857,122</u>	<u>297,026</u>	<u>107,154,148</u>
Equity					<u>1,641,161</u>
					<u>108,795,309</u>

NOTES TO THE FINANCIAL STATEMENTS

9. Financial instruments (continued)

Valuation hierarchy

The following tables show the financial instruments carried at fair value by valuation method:

2015	Level 1 £	Level 2 £	Level 3 £	Total £
Investments	-	- 5,572,539		5,572,539
2014	Level 1 £	Level 2 £	Level 3 £	Total £
Investments	-	- 3,844,664		3,844,664

Level 1: valued by reference to unadjusted quoted prices in active markets for identical assets and liabilities

Level 2: valued by reference to observable market data, other than quoted market prices

Level 3: valuation is based on the IPEVC guidelines (see accounting policy 1(e))

There were no transfers between levels in the year.

A reconciliation from the opening balance to the closing balance has been separately disclosed in note 5.

10. Called up share capital

	2015 £'000	2014 £'000
Authorised:		
3 ordinary shares of £ 1 each	3	3
Allotted, called up and fully paid:		
Equity shares		
3 ordinary shares of £ 1 each	3	3

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

11. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings and loans from Group undertakings. The Company is a member of The Royal Bank of Scotland Group plc 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 Royal Bank of Scotland Group plc has complied with the Prudential Regulation Authority's capital requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS**12. Commitments**

At 31 December 2015, the Company was committed to investing a further £7,022 (2014: £524,069) in Capital for Enterprise Limited till 26 March 2016. The Capital for Enterprise Fund LP terminated on 23 March 2016 and Capital for Enterprise Fund Managers Limited (the Manager) was appointed as liquidating trustee to oversee the wind-up of the fund.

The Company is committed to investing £300m in the BGF by 2021. This will take the form of periodic subscriptions for shares in the capital of BGF as notified by BGF, subject to an annual maximum commitment set in advance each calendar year (2016: £90m; 2015: £72.56m). The Company has subscribed £176.28m to 31 December 2015 (2014: £117.78m).

The Company also reconfirmed its intention to consider providing further equity funding to BGF of up to £250m in due course if BGF provides further evidence that there is sufficient demand for such further funding on commercial terms.

With regards to the SLF, the Company is committed to investing the lower of £15m or 9.9999% of the total fund. The commitment at the date of signing is £11,318,865. These amounts can be drawn at anytime before the fifth anniversary of the first closing date as notified by SLF. The Company had subscribed £6,368,021 to 31 December 2015 (2014: £2,769,299).

Commitments which have been entered into with Capital for Enterprise Limited L.P., Business Growth Fund plc and Scottish Loan Fund L.P. are not included within assets on the balance sheet.

The Company, together with other members of The Royal Bank of Scotland Group plc, 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.

13. 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.

Transactions between the Company, the UK Government and UK Government controlled bodies, consisted solely of corporation tax and equity shares, which are disclosed in notes 4 and 5 respectively.

Group undertakings

The Company's immediate parent company is The Royal Bank of Scotland plc, a company incorporated in the UK and registered in Scotland. As at 31 December 2015, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in the UK and registered in Scotland. Copies of the consolidated accounts may be obtained from Corporate Governance and Secretariat, 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 and registered in Scotland. As at 31 December 2015, 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 Secretariat, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

NOTES TO THE FINANCIAL STATEMENTS**14. Post balance sheet events**

Contributions totalling £45,497k have been made since 31 December 2015, split £7k to Capital for Enterprise, £45,250k to the Business Growth Fund and £240k to the Scottish Loan Fund. These contributions are non adjusting events and as a result no amounts have been included within the financial statements for the year ended 31 December 2015. The extension of the Capital for Enterprise Fund granted by the investors was due to expire on 23 March 2016 and similarly extensions granted to the underlying funds are due to run their course at around the same time.