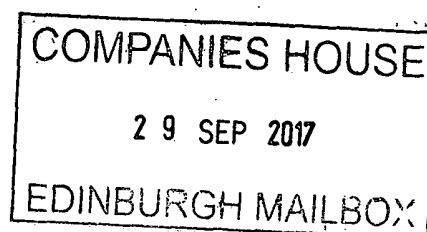


Company Registered No: 06838433

RBS SME INVESTMENTS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016



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OF SHIPBILT FINANCE LIMITED

001 - 01

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:

Ernst & Young LLP
Chartered Accountants and Statutory Auditor
25 Churchill Place
Canary Wharf
London
E14 5EY

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 2016.

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 and environment. For this reason, the assessment of the performance indicators for the Company is addressed at the RBS Group level. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies of the RBS Group accounts can be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or at www.rbs.com.

Review of the year**Business review**

The Company's principal 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 15 to the financial statements.

The Company has investments in three separate funds: Capital for Enterprise ("CFE"), Scottish Loan Fund ("SLF") and Business Growth Fund ("BGF").

The Company hold a significant investments in BGF equals to the 24.31%, while the participation held in CFE and SLF are equals to 8.33% and 9.99%.

Capital for Enterprise

Capital for Enterprise has a portfolio of five companies (2015: seven companies), having exited from two further investments during the year (2015: four). Realised losses of £519k were crystallised from the exit of two of the investments (2015: £3,896k from exit of two of the investments) and realised profits of £7,307k from the exit of one of the investments (2015: £934k from exit of two of the investments).

The Company invested an additional £7k (2015: £26k) in CFE during the year resulting in a total gross investment of £5,759k (2015: £5,752k). After distributions from the fund, along with total valuation impairments of £991k (2015: £1,158k), the carrying value of investments at 31 December 2016 is £295k (2015: £967k).

Further, CFE has decided to carry out the liquidation of the fund, this required agreement by investors who in aggregate hold more than 50% of total commitments. The extension of CFE Fund granted by the investors expired on 23 March 2016. As at the end of September 2017 the investments have not yet been liquidated.

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 £406k (2015: £2,599k) in SLF and received distributions of £1,630k (2015: £1,102k).

As at 31 December 2016, SLF had a portfolio of sixteen active (2015: nineteen) Scottish businesses having invested in a further one and exited from four during the year. These businesses cover a wide range of sectors including Engineering, Oil & Gas, Telecoms and Manufacturing.

Business Growth Fund

During the year ended 31 December 2016, the Company invested £87,000k (2015: £58,500k) in BGF, with a further investment of £18,500k up to the date of signing. BGF made a profit of £485k during the year (2015: £10,347k) with the Company earning its share of the profit amounting to £118k (2015: £2,481k).

SITUATIONAL REPORT

FINANCIAL PERFORMANCE

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

The operating loss before taxation for the year was £3,298,602 (2015: profit of £2,719,687). The retained loss for the year was £2,733,455 (2015: profit of £3,088,492).

At the end of the year total assets were £260,070,439 (2015: £174,165,361).

Dividends

The directors do not recommend the payment of a dividend (2015: £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.
- 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 accounts of The Royal Bank of Scotland Group plc for the year ended 31 December 2016, approved on 23 February 2017 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 (FRS) 101 Reduced Disclosure Framework, and must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

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

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



S M Thomson
Director

Date: 28th September 2017

DIRECTORS' REPORT

The Strategic Report includes the review of the year and the risk 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		
M Jenkins	-	20 June 2016
S M Thomson	25 July 2016	-

DISCLOSURE OF INFORMATION TO AUDITOR

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

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

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

INDEPENDENT AUDITOR

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

A resolution to appoint Ernst & Young LLP as the Company's auditor was passed on 30 September 2016 at the meeting of the Board of Directors. Ernst & Young LLP have expressed their willingness to continue in office as auditor.

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



S M Thomson
Director
Date: 28th September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PDS S&C INVESTMENTS LIMITED

We have audited the financial statements of PDS S&C Investments Limited for the year ended 31 December 2016 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 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally 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 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 result 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:

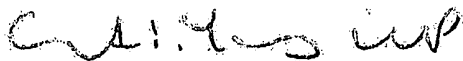
- the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Directors' Report and Strategic Report have been prepared in accordance with applicable legal requirements.

...to the members of EBF SMC INVESTMENTS LIMITED
...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 and Strategic 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,
- the directors were not entitled to take advantage of the small companies' exemption from preparing a strategic report.



Michael-John Albert (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

12 September 2017

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2016

		2016 £	2015 £
Income from continuing operations	Notes		
Interest payable		(2,562,334)	(1,954,237)
Net Interest expense		(2,562,334)	(1,954,237)
Operating expenses	3	(630,789)	(333,873)
Operating loss before loss of associate		(3,193,123)	(2,288,110)
(Impairment losses)/reversal of impairment	9	(105,479)	5,007,797
(Loss)/profit on ordinary activities before tax		(3,298,602)	2,719,687
Tax credit	4	565,147	368,805
(Loss)/profit for the financial year		(2,733,455)	3,088,492

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 £	2015 £
(Loss)/profit for the financial year	(2,733,455)	3,088,492
Other comprehensive income: subject to reclassification		
Investments- Available-for-sale	632,300	496,029
Total comprehensive (loss)/income for the financial year	(2,101,155)	3,584,521

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

BALANCE SHEET
as at 31 December 2016

	Notes	2016 £	2015 £
Fixed assets			
Interest in associate	9, 10	255,118,537	168,224,016
Investments	5, 10	4,386,754	5,572,539
Amounts due from Group undertakings	10	1	1
		<u>259,505,292</u>	<u>173,796,556</u>
Current assets			
Current tax asset	10	565,147	368,805
		<u>260,070,439</u>	<u>174,165,361</u>
Total assets			
Creditors: amounts falling due within one year			
Borrowings	6, 10	49,171,041	33,885,041
Bank overdraft	7	1,953,305	2,277,493
Amounts due to Group undertakings	10	572,178	498,533
Accruals	8, 10	14,402	14,423
		<u>51,710,926</u>	<u>36,675,490</u>
Total assets less current liabilities		<u>208,359,513</u>	<u>137,489,871</u>
Creditors: amounts falling due after more than one year			
Borrowings	6, 10	205,234,986	132,264,189
		<u>256,945,912</u>	<u>168,939,679</u>
Total liabilities			
Net assets		<u>3,124,527</u>	<u>5,225,682</u>
Equity: capital and reserves			
Called up share capital	11	3	3
Share premium account		11,999,998	11,999,998
Available-for-sale reserve		1,715,362	1,083,062
Profit and loss account		(10,590,836)	(7,857,381)
Total shareholder's funds	10	<u>3,124,527</u>	<u>5,225,682</u>
Total liabilities and shareholder's funds		<u>260,070,439</u>	<u>174,165,361</u>

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 28th September 2017 and signed on its behalf by:



S M Thomson
Director

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

	Share capital £	Share premium account £	Available- for-sale reserve £	Profit and loss account £	Total £
At 1 January 2015	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
Available-for-sale investments	-	-	632,300	-	632,300
Loss for the year	-	-	-	(2,733,455)	(2,733,455)
At 31 December 2016	3	11,999,998	1,715,362	(10,590,836)	3,124,527

Total comprehensive loss for the year of £2,414,896 (2015: income £3,584,521) 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 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 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:
 - o cash-flow statement;
 - o standards not yet effective; and
 - o related party transactions.

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these accounts are available to the public and can be obtained as set out in note 14.

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) 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.

d) Interest in associate

Interest in associate is stated at cost less any impairment. The impairment is calculated based on the share of the net assets.

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)).

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 in accordance with IAS 39 "Financial Instruments : Recognition and Measurement".

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.

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.

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. The fair value is calculated based on the share of the net investment assets.

Details of financial instruments carried at fair value are given in note 10 of the financial statements.

3. Operating expenses

	2016 £	2015 £
Management fees	513,502	219,354
Auditor's remuneration - audit services	14,587	14,400
Irrecoverable Value Added Tax	102,700	100,119
	630,789	333,873

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 Company does not remunerate directors nor can remuneration from elsewhere in the group be apportioned meaningfully in respect of their services 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 (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS

4. Tax

	2016 £	2015 £
Current tax:		
UK corporation tax credit for the year	(432,531)	(368,805)
Over provision in respect of prior periods	(132,616)	-
Tax credit for the year	(565,147)	(368,805)

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

	2016 £	2015 £
(Loss)/ profit on ordinary activities before tax	(3,298,602)	2,719,687
Expected tax (credit)/charge	(659,720)	550,643
Partnership profit	159,931	94,459
Non-deductible items	67,258	(1,013,907)
Adjustments in respect of prior periods	(132,616)	-
Actual tax credit for the year	(565,147)	(368,805)

5. Investments

	2016 £	2015 £
As at 1 January	5,572,539	3,844,664
Additions of available-for-sale assets	412,895	2,625,007
Distribution	(2,230,980)	(1,393,162)
Unrealised gains	632,300	496,030
As at 31 December	4,386,754	5,572,539

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.

NOTES TO THE FINANCIAL STATEMENTS

6. Borrowings

	2016 £	2015 £
Loans from Group banks - Royal Bank of Scotland plc	<u>254,406,027</u>	<u>166,149,230</u>
Current liabilities	49,171,041	33,885,041
Non-current liabilities	<u>205,234,986</u>	<u>132,264,189</u>
Loans from Group banks - Royal Bank of Scotland plc	<u>254,406,027</u>	<u>166,149,230</u>

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% (2015: 0.9000% to 2.3125%) per annum. The loans also have a range of maturity dates, with the earliest maturity being 15 June 2018 (2015: 15 December 2016) and the latest being 13 December 2021 (2015: 14 December 2020).

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

7. Bank overdraft

The bank overdraft was from The Royal Bank of Scotland plc and was repayable on demand. The overdraft limit is £3,250,000 (2015: £3,250,000) and at the year end the Company had access to a further £3,250,000 (2015: £3,250,000) of funds. The amount utilised from the overdraft facility is £1,953,305 (2015: £2,277,493).

8. Accruals

	2016 £	2015 £
Audit fees	<u>14,402</u>	<u>14,423</u>

9. Interest in associate

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

	2016 £	2015 £
At 1 January	168,224,016	104,716,220
Additions	87,000,000	58,500,000
(Impairment losses)/ reversal of impairment	<u>(105,479)</u>	<u>5,007,796</u>
At 31 December	<u>255,118,537</u>	<u>168,224,016</u>

Details of the interest in associate, including the name, country of incorporation, and proportion of ownership interest are 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	24.31%	24.31%	Provide long-term capital to UK based companies

NOTES TO THE FINANCIAL STATEMENTS

10. 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
	£	£	£	£	£
2016					
Assets					
Interest in associate	-	-	-	255,118,537	255,118,537
Investments	4,386,754	-	-	-	4,386,754
Amounts due from Group undertakings	-	1	-	-	1
Current tax asset	-	-	-	565,147	565,147
	<u>4,386,754</u>	<u>1</u>	<u>-</u>	<u>255,683,684</u>	<u>260,070,439</u>
Liabilities					
Borrowings	-	-	254,406,027	-	254,406,027
Bank overdraft	-	-	1,953,305	-	1,953,305
Amounts due to Group undertakings	-	-	572,178	-	572,178
Accruals	-	-	-	14,402	14,402
	<u>-</u>	<u>-</u>	<u>256,931,510</u>	<u>14,402</u>	<u>256,945,912</u>
Equity					<u>3,124,527</u>
					<u>260,070,439</u>

	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>

NOTES TO THE FINANCIAL STATEMENTS

10. Financial instruments (continued)

Valuation hierarchy

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

2016	Level 1 £	Level 2 £	Level 3 £	Total £
Investments	-	- 4,386,754	4,386,754	
2015	Level 1 £	Level 2 £	Level 3 £	Total £
Investments	-	- 5,572,539	5,572,539	

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))

The investments recorded at fair value for the Company are all considered Level 3. The valuation was made by calculating RBS SME Investments Limited share from the net assets of the investment.

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.

11. Called up share capital

	2016 £	2015 £
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.

12. 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

13. Commitments

At 31 December 2016, the Company no longer has a commitment to investing further in Capital for Enterprise Limited. 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 £388m 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 (2017: £162m; 2016: £90m). The Company has subscribed £263.28m to 31 December 2016 (2015: £176.28m).

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 £8,695,527. These amounts can be drawn at anytime before the fifth anniversary of the first closing date as notified by SLF – which had been extended by one year to March 2017. The Company had subscribed £6,773,917 to 31 December 2016 (2015: £6,368,021).

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.

14. 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. As at 31 December 2016, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated, a company incorporated in the UK. Copies of the consolidated financial statements 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 financial statements 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.

NOTES TO THE FINANCIAL STATEMENTS

15. Post balance sheet events

Contributions totalling £23,570k have been made, split £23,500k to the Business Growth Fund and £70k to the Scottish Loan Fund and the distributions totalling £749k have been made, split £350k to the Capital for Enterprise Fund and £399k to the Scottish Loan Fund since 31 December 2016. These contributions and distributions are non adjusting events and as a result no amounts have been included within the financial statements for the year ended 31 December 2016. The extension of the Capital for Enterprise Fund granted by the investors expired on 23 March 2016 and similarly extensions granted to the underlying funds are due to run their course.

Subsequent to the year end, there was a restructure in BGF Plc where a holding company, BGF Group Limited, was introduced. The Company's equity stake in BGF Plc will be swapped with an equity stake in BGF Group Limited.

The Company's commitment to invest in BGF Plc was replaced by a revised commitment to invest in BGF Group Limited. This has been set at a maximum of £550,000k.