

Company Registered Number: SC083026

ADAM & COMPANY PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2015



CONTENTS

Page

BOARD OF DIRECTORS AND COMPANY SECRETARY

1

STRATEGIC REPORT

2

DIRECTORS' REPORT

5

STATEMENT OF DIRECTORS' RESPONSIBILITIES

6

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADAM & COMPANY PLC

7

STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2015*

8

BALANCE SHEET *as at 31 December 2015*

9

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

10

CASH FLOW STATEMENT *for the year ended 31 December 2015*

11

ACCOUNTING POLICIES

12

NOTES TO THE FINANCIAL STATEMENTS

21

BOARD OF DIRECTORS AND COMPANY SECRETARY

DIRECTORS:

M R McLean FCIBS (Chairman)
G Storrle (Managing Director)
P Flavel
B M Mulholland
A H Henderson (Non-executive director)
B McCrindle (Non-executive director)
L H Urquhart OBE (Non-executive director)

COMPANY SECRETARY:

M Gow

REGISTERED OFFICE:

25 St Andrew Square
Edinburgh, Scotland
EH2 1AF

INDEPENDENT AUDITOR:

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Registered in Scotland

STRATEGIC REPORT

The directors of Adam & Company plc ("the Company") present their annual report, together with audited financial statements for the year ended 31 December 2015. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The Company continues to be part of the Commercial & Private Banking business within The Royal Bank of Scotland Group plc ("RBS").

ACTIVITIES AND BUSINESS REVIEW**Principal activities**

The principal activity of the Company continues to be the provision of a range of banking and financial services. The Company operates as a bank and a professional services practice helping to serve and advise its clients.

The Company continues to focus on its core activities of supplying its banking and wealth management services to high net worth individuals and their businesses and will continue to concentrate on improving the quality and efficiency of the services provided, leveraging its connection with RBS commercial operations to deliver a rounded proposition for the clients financial requirements.

The directors do not anticipate any significant change in either the type or level of activities of the Company.

The Company is a subsidiary of RBS which provides direction and access to all central resources it needs and determines policies in all key areas such as Finance, Risk, Human Resources and Environment. The annual report of RBS reviews these matters on a group basis. Copies can be obtained from Corporate Governance and Secretariat, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or through the RBS website www.rbs.com.

Business review

The directors are satisfied with the Company's underlying trading performance during 2015 which delivered a return on equity of 11.0% (2014: 18.0%) and a cost:income ratio of 67.1% (2014: 47.3%). The trading performance in 2014 was supported by a number of one off items, including balance sheet releases which will not reoccur. This improved the reported financial performance of the Company in 2014.

The Company reported a retained profit for the year after tax of £2m (2014: £15m) which was transferred to reserves.

The reduction in headline profit is attributable to systems write offs related to the reorganisation of the wider Private Banking division and a reduction in income. The reduction in income was forecast and was driven primarily by a lower interest rate environment. The impact of systems write offs is disclosed under performance highlights below.

Performance highlights

	2015 £m	2014 £m
Total income	32	36
Underlying costs	(21)	(17)
Underlying profit before provisions	10	19
System write offs	(8)	-
Loan impairment	(0.5)	0.4
Operating profit before tax	2	19
Cost:income ratio (incl. Systems write offs)	88.1%	47.3%
Return on equity (incl. Systems write offs)	2.1%	18.0%
Customer loan:deposit ratio	39.7%	39.2%

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 8.

Total income decreased by £4m (2014: decreased by £1m) whilst total expenses increased by £11m (2014: decreased by £3m).

The reported profit after tax for the year was £2m (2014: £15m), a decrease of 88.4% on 2014.

The Company's reported cost:income ratio was 69.3% (2014: 47.3%) whilst the reported return on equity was 2.1% (2014: 18.0%).

At the end of the year, the Balance Sheet showed total assets of £1,941m (2014: £1,920m).

STRATEGIC REPORT**Business review (continued)***Other matters*

The Company is funded by a combination of customer deposits, foreign currency deposits and facilities from The Royal Bank of Scotland plc. Excess cash arising from deposits in excess of the Company's funding requirements is placed with The Royal Bank of Scotland plc. The Company seeks to minimise its exposure to various external financial risks for which further information is disclosed in note 17 to the financial statements.

Accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Company's critical accounting policies and key sources of estimation uncertainty are included in the accounting policies on pages 18 to 19.

Risk management

The principal risks associated with the Company's businesses are market, currency, interest rate, conduct, liquidity, credit, regulatory, reputational and operational risk. RBS has established a comprehensive framework which the Company complies with for managing these risks, which is continually evolving as the business activities change in response to market, credit, product and other developments.

The Company's policies for managing each of these risks and its exposure thereto are detailed in note 17 to the financial statements.

Outlook

The directors remain confident that the Company is well positioned to meet the continuing challenges of the evolving regulatory environment it operates within, external pressures and changing customer needs. They consider the Company to be in a stable financial position and confirm that they have adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt a going concern basis in preparing the financial statements.

Adam & Company continues to be part of Commercial & Private Banking business within the wider RBS Group. Being closer to the Commercial business is a cornerstone of the Adam & Company Group's longer term strategy and a key source of future clients which has already begun to generate business. The Company will continue to serve the needs of high net worth individuals, deepen relationships with commercial clients and provide private banking services to successful business owners and entrepreneurs.

Share capital

Analysis of share capital can be found in note 16 to the financial statements.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors listed on page 1 have been granted Qualifying Third Party Indemnity Provisions by RBS.

Employee policies*Diversity and inclusion*

RBS has a range of policies and processes that extend through the employee life-cycle including recruitment, flexible working and support for ill-health and disability-related absence. Diversity performance is monitored and reviewed at RBS and Adam Group executive level. This commitment extends beyond RBS including support of external charitable networks and encouraging the development of community engagement and supplier relationships. Internally, RBS supports initiatives such as the Women in Business network.

The Company has adopted RBS employee policies and processes.

The Managing Director and other senior executives regularly communicate with employees across a range of channels.

Details of the number of employees and related costs can be found in note 3.

Political contributions

No contributions were made to any political party (2014: £nil).

STRATEGIC REPORT**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position, including principal risks, are set out in the Business review on pages 2 and 3.

The financial position of the Company, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 7, 17 and 18 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risks.

The directors, having made such enquiries as they considered appropriate, having reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis. In reaching their conclusion they considered the announcement of results by RBS for the year ended 31 December 2015, approved on 25 February 2016, which were prepared on a going concern basis.

Dividends

No dividend was approved or paid by directors during 2015 (2014: £15m).

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

Post balance sheet events

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

Directors' disclosure to auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

By order of the Board:



B M Mulholland
Director

Date: 22 April 2016

DIRECTORS' REPORT

The Strategic Report includes the financial review of the year, including risk management, disclosure of information to the auditor, directors' indemnities and post balance sheet events.

Directors and company secretary

The names of the current members of the Board of Directors and Company Secretary are shown on page 1.

From 1 January 2015 to date, the following changes have taken place:

Director	Appointed	Resigned
B M Mulholland	17 March 2015	-
I M Ewart	-	1 September 2015
K A Falconer	-	30 November 2015
M J Morley	-	17 March 2016
P Flavel	17 March 2016	-

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Auditor

The Royal Bank of Scotland Group plc will appoint 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 Annual General Meeting.

By order of the Board:



B M Mulholland
Director

Date: 22 April 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulation. Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have chosen to prepare the financial statements in accordance with IFRS as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing these financial statements International Accounting Standards (IAS) 1 requires the directors to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The directors confirm that these financial statements comply with the aforementioned requirements:

By order of the Board:



B M Mulholland
Director

Date: 22 April 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ADAM & COMPANY PLC

We have audited the financial statements of Adam & Company plc ("the Company") for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the accounting policies and the related Notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Statement of Directors' Responsibilities, 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 the Company's profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

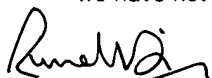
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

Date: 22 April 2016

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2015

		2015	2014
	Notes	£'000	£'000
Continuing operations			
Interest receivable		31,837	36,175
Interest payable		(5,901)	(6,197)
Net interest income	1	25,936	29,978
Fees and commission receivable		4,826	4,800
Fees and commission payable		(68)	(248)
Income from trading activities		986	1,246
Non-interest income	2	5,744	5,798
Total income		31,680	35,776
Operating expenses	3	(27,911)	(16,939)
Operating profit before impairment		3,769	18,837
Impairment (losses)/releases on loans and advances	8	(499)	352
Impairment of intangible assets	9	(1,069)	-
Profit before tax		2,201	19,189
Tax charge	5	(435)	(4,007)
Profit and total comprehensive income for the year		1,766	15,182

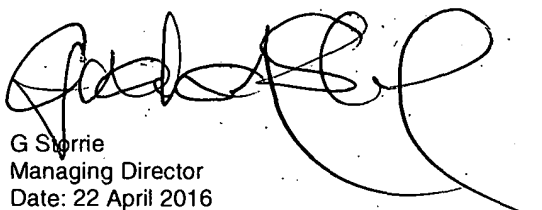
The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET as at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Cash and balances at central banks	7	377	460
Loans and advances to banks	7	1,264,058	1,220,872
Loans and advances to customers	7	651,044	662,478
Settlement balances	7	326	306
Intangible assets	7, 9	-	1,262
Property, plant and equipment	7, 10	770	904
Derivatives	7, 11	14	80
Prepayments, accrued income and other assets	7, 12	23,825	33,618
Deferred tax asset	7, 14	144	110
Total assets		1,940,558	1,920,090
Liabilities			
Deposits by banks	7	178,175	96,683
Customer accounts	7	1,639,705	1,690,128
Settlement balances	7	1	26
Derivatives	7, 11	10	89
Accruals, deferred income and other liabilities	7, 13	34,744	48,582
Provisions for liabilities and charges	7, 15	1,948	373
Total liabilities		1,854,583	1,835,881
Equity			
Shareholders' equity:			
Called up share capital	16	19,548	19,548
Retained earnings		66,427	64,661
Total equity	7	85,975	84,209
Total liabilities and equity		1,940,558	1,920,090

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

The financial statements were approved by the Board of Directors on 22 April 2016 and signed on its behalf by:


 G Storr
 Managing Director
 Date: 22 April 2016


 B M Mulholland
 Director
 Date: 22 April 2016

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

	Notes	2015 £'000	2014 £'000
Called up share capital			
At 1 January and 31 December	16	19,548	19,548
Retained earnings			
At 1 January		64,446	64,264
Profit for the year		1,766	15,182
Dividends paid	6	-	(15,000)
At 31 December		66,212	64,446
Revaluation reserves			
At 1 January and 31 December		215	215
Shareholders' equity at 31 December		85,975	84,209

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

CASH FLOW STATEMENT *for the year ended 31 December 2015*

	Notes	2015 £'000	2014 £'000
Operating activities			
Operating profit for the year before tax	20	2,201	19,189
Adjustments for:			
Impairment of intangible assets		1,069	-
Loss on disposal of property, plant and equipment		-	130
Loss on disposal of intangible assets		-	21
Elimination of foreign exchange differences		(1,850)	(4,565)
Depreciation and amortisation		346	411
Gains on loans and advances written off		(1,646)	(10,959)
Provisions for liabilities and charges		1,575	(245)
Other non-cash items		(419)	(552)
Net cash flows from trading activities	20	1,276	3,430
Changes in operating assets and liabilities		(31,017)	75,115
Net cash flows (used in)/from operating activities before tax		(29,741)	78,545
Tax paid	20	(3,929)	(3,810)
Net cash flows (used in)/from operating activities		(33,670)	74,735
Investing activities			
Purchases of intangible assets	9	-	(6)
Purchases of property, plant and equipment	10	(19)	(24)
Net cash flows used in investing activities		(19)	(30)
Financing activities			
Equity dividends paid	6	-	(15,000)
Net cash flows used in financing activities		-	(15,000)
Effect of exchange rate changes		1,850	4,565
Net (decrease)/increase in cash and cash equivalents		(31,839)	64,270
Cash and cash equivalents 1 January	22	853,656	789,386
Cash and cash equivalents 31 December	22	821,817	853,656

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

ACCOUNTING POLICIES**1. Presentation of financial statements**

The financial statements are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union (EU).

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments that are classified as at fair value through profit or loss.

The Company is incorporated in the United Kingdom and registered in Scotland. The Company's financial statements are presented in accordance with the Companies Act 2006.

Adoption of new and revised standards

The Company adopted a number of new and revised IFRS effective 1 January 2015:

IAS 19 'Defined Benefit Plans: Employee Contributions' was issued in November 2013. This amendment distinguishes the accounting for employee contributions that are related to service from those that are independent of service.

Annual Improvements to IFRS 2010 - 2012 and 2011 - 2013 cycles were issued in December 2013 making a number of minor amendments to IFRS.

The implementation of these requirements has not had a material effect on the Company accounts.

2. Revenue recognition

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities other than those measured at fair value are determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities classified as fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in the Statement of Comprehensive Income.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to profit or loss otherwise they are deferred and included in the effective interest rate on the advance.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Brokerage commissions are recognised in revenues when trades are processed. Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised. The application of this policy to significant fee types is outlined below:

Payment services: this comprises income received for payment services including cheques cashed; direct debits, Clearing House Automated Payments (the UK electronic settlement system) and BACS payments (the automated clearing house that processes direct debits and direct credits). These are generally charged on a per transaction basis. The income is earned when the payment or transaction occurs. Charges for payment services are usually debited to the customer's account, monthly or quarterly in arrears. Income is accrued at year end for services provided but not charged.

Fees and commissions payable: fees and commissions are payable in respect of services provided by third party intermediaries. These are charged through the profit and loss over the life of the underlying product.

ACCOUNTING POLICIES**3. Pensions and other post-retirement benefits**

RBS provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to defined contribution pension schemes are recognised in the Statement of Comprehensive Income when payable.

For defined benefit schemes, the defined benefit obligation is measured on an actuarial basis using the projected unit credit method and discounted at a rate determined by relevance to market yields at the end of the reporting period on high quality corporate bonds of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. The difference between scheme assets and scheme liabilities – the net defined benefit asset or liability – is recognised in the balance sheet. A defined benefit asset is limited to the present value of any economic benefits available to RBS in the form of refunds from the plan or reduced contributions to it.

The charge to the Statement of Comprehensive Income for pension costs (recorded in operating expenses) comprises:

- the current service cost
- interest, computed at the rate used to discount scheme liabilities, on the net defined benefit liability or asset
- past service cost resulting from a scheme amendment or curtailment
- gains or losses on settlement.

A curtailment occurs when RBS significantly reduces the number of employees covered by a plan. A plan amendment occurs when RBS introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the net defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases). A settlement is a transaction that eliminates all further obligation for part or all of the benefits.

Actuarial gains and losses (i.e. gains or losses on re-measuring of the net defined benefit asset or liability) are recognised in full in the year in which they arise in other comprehensive income.

There is no contractual agreement or policy on the way that the cost of RBS defined benefit pension schemes and healthcare plans are allocated to RBS. Contributions to defined contribution pension schemes are recognised in the income statement when payable.

4. Intangible assets

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

Computer software	10 years
-------------------	----------

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

5. Property, plant and equipment

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

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives.

ACCOUNTING POLICIES**5. Property, plant and equipment (continued)**

The depreciable amount is the cost of an asset less its residual value. The estimated useful lives of the Company's property, plant and equipment are as follows:

Freehold and long leasehold buildings	50 years
Short leaseholds	Unexpired period of the lease
Computer equipment	Up to 5 years
Other equipment	4 to 15 years
Paintings	Not depreciated

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes.

6. Impairment of intangible assets and property, plant and equipment

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

If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and its value-in-use. Value-in-use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in the Statement of Comprehensive Income and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on an intangible assets (excluding goodwill) or property, plant and equipment is recognised as it arises provided the increased carrying value is not greater than it would have been had no impairment loss been recognised. Impairment losses on goodwill are not reversed.

7. Foreign currencies

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

Transactions in foreign currencies are translated into Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are reported in income from trading activities. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into Sterling at foreign exchange rates ruling at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in the Statement of Comprehensive Income except for differences arising on available-for-sale non-monetary financial assets, for example equity shares, which are included in the available-for-sale reserve in equity unless the asset is the hedged item in a fair value hedge.

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognised in other comprehensive income.

8. Provisions and contingent liabilities

The Company recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Provision is made for restructuring costs, including the costs of redundancy, when the Company has a constructive obligation to restructure. An obligation exists when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or announcing its main features.

If the Company has a contract that is onerous, it recognises the present obligation under the contract as a provision. An onerous contract is one where the unavoidable costs of meeting the Company's contractual obligations exceed the expected economic benefits. When the Company vacates a leasehold property, a provision is recognised for the costs under the lease less any expected economic benefits (such as rental income).

ACCOUNTING POLICIES**8. Provisions and contingent liabilities (continued)**

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

9. Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the income statement 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 profit or loss, other comprehensive income or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

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

10. Financial assets

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

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

Financial assets and liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in the Statement of Comprehensive Income and are subsequently measured at fair value. Gains and losses on financial assets that are classified as at fair value through profit or loss are recognised in the Statement of Comprehensive Income as they arise.

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 designated as 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 2) less any impairment losses.

Fair value – fair value for a net open position in a financial asset that is quoted in an active market is the current bid price times the number of units of the instrument held. Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets.

11. 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.

Financial assets carried at amortised cost – if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralised loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

ACCOUNTING POLICIES**11. Impairment of financial assets (continued)**

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where the Company's interest in equity shares following the exchange is such that the Company controls an entity, that entity is consolidated. Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective impairment assessments, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the year of historical experience. Impairment losses are recognised in the Statement of Comprehensive Income and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If, in a subsequent year, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Impaired loans and receivables are written-off, i.e. the impairment provision is applied in writing down the loan's carrying value partially or in full, when the Company concludes that there is no longer any realistic prospect of recovery of part, or all of, the loan. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by-case basis. Such loans are reviewed regularly and write offs will be prompted by bankruptcy, insolvency, renegotiation and similar events.

Amounts recovered after a loan has been written off are credited to the loan impairment charge for the year in which they are received.

Financial assets carried at fair value – when a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in other comprehensive income and there is objective evidence that it is impaired, the cumulative loss is reclassified from equity to the Statement of Comprehensive Income. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through the Statement of Comprehensive Income, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event.

12. Financial liabilities

On initial recognition financial liabilities are classified into designated as at fair value through profit or loss or amortised cost. Issues of financial liabilities measured at amortised cost are recognised on settlement date; all other regular way transactions in financial liabilities are recognised on trade date.

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

Financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in the Statement of Comprehensive Income, and are subsequently measured at fair value. Gains and losses on financial liabilities that are classified as fair value through profit or loss are recognised in the Statement of Comprehensive Income as they arise.

Fair value - fair value for a net open position in a financial liability that is quoted in an active market is the current offer price times the number of units of the instrument held or issued. Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities.

Amortised cost - all other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 2).

ACCOUNTING POLICIES**13. De-recognition**

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 de-recognition. A transfer requires that the Company either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. The asset remains on the balance sheet if substantially all the risks and rewards have been retained. It is derecognised if substantially all the risks and rewards have been transferred. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset; if the Company has 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. On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Company, the Company derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the present value of the cash flows under the new terms with the present value of the remaining cash flows of the original debt issue discounted at the effective interest rate of the original debt issue.

14. Netting

Financial assets and financial liabilities are offset and the net amounts 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.

15. Derivatives

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in non-interest income within profit or loss.

16. Share-based payments

RBS awards options over shares to its employees under various share option schemes. IFRS 2 'Share-based Payment' is applied by RBS to grants made under these schemes. RBS recognises an expense for these transactions with its employees based on the fair value on the date the options are granted. It includes the cost of these awards in determining any recharges of employee costs it makes to UK subsidiaries in RBS.

17. Cash and cash equivalents

In the Cash Flow Statement, cash and cash equivalents comprise cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

ACCOUNTING POLICIES**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 of 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 Board 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 where there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. Such objective evidence, indicative that a borrower's financial position has deteriorated, can include for loans that are individually assessed: the non-payment of interest or principal; debt renegotiation; probable bankruptcy or liquidation; significant reduction in the value of any security; breach of limits or covenants; and deteriorating trading performance and, for collectively assessed portfolios: the borrower's payment status and observable data about relevant macroeconomic measures. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

At 31 December 2015, gross loans and advances to customers totalled £656,412k (2014: £669,911k) and customer loan impairment provisions amounted to £5,368k (2014: £7,433k).

There are two components to the Company's loan impairment provisions: individual and latent.

Individual component – all loans are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Latent component – this is made up of loan losses that have been incurred but have not been separately identified at the balance sheet date. Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Company has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

Fair value – financial instruments

Financial instruments classified as designated as at fair value through profit or loss are recognised in the financial statements at fair value. All derivatives are measured at fair value. Derivative assets and derivative liabilities are shown separately on the face of the balance sheet.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value the Company maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The Company's derivative products include swaps, forwards, futures and options. Exchange traded instruments are valued using quoted prices. The fair value of over-the-counter instruments is derived from pricing models which take account of contract terms, including maturity, as well as quoted market parameters such as interest rates and volatilities. Most of the Company's pricing models do not entail material subjectivity because the methodologies utilised do not incorporate significant judgement and the parameters included in the models can be calibrated to actively quoted market prices. Values established from pricing models are adjusted for credit risk, liquidity risk and future operational costs.

Details of financial instruments carried at fair value are given in note 7 to the financial statements.

ACCOUNTING POLICIES**Critical accounting policies and key sources of estimation uncertainty (continued)***Forbearance*

Forbearance policies are the main response to managing customers in financial difficulty and are deployed through the Company's forbearance initiative. Forbearance is applied to customers where temporary or longer term relief is offered through the renegotiation of the original contract although on terms not generally available on a commercial basis. This may include offering contract revisions by various means including reduced repayment, interest only arrangements, payment moratorium, term extension, lifetime reduced repayment; these forbearance arrangements are subject to heightened monitoring.

Forbearance offered by the Company on loans where an impairment loss provision has been previously recognised will result in such loans retaining their classification as non-performing. Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to the forbearance terms, these loans will be classified as performing loans.

Accounting developments**International Financial Reporting Standards**

A number of IFRS and amendments to IFRS were in issue at 31 December 2015 that will affect RBS from 1 January 2016 or later.

Effective for 2016

'Accounting for Acquisitions of Interests in Joint Operations' issued in May 2014 amends IFRS 11 'Joint Arrangements' to clarify that the donor of assets and liabilities to a joint operation should hold its continuing interest in them at the lower of cost and recoverable amount. The effective date is 1 January 2016.

'Clarification of Acceptable Methods of Depreciation and Amortisation' issued in May 2014 amends IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' requiring amortisation to be based on the consumption of an asset, introducing a rebuttable presumption that this is not achieved by an amortisation profile aligned to revenue. The effective date is 1 January 2016.

Annual Improvements to IFRS 2012 - 2014 cycle was issued in September 2014 making a number of minor amendments to IFRS. Its effective date is 1 January 2016.

Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' were issued in September 2014 to clarify the accounting for sales between an investor, its associate or joint ventures, and in December 2014 to clarify the application of the investment entity consolidation exception. The effective date of these amendments is 1 January 2016.

An amendment to IAS 1 'Presentation of Financial Statements' was issued in December 2014 to clarify the application of materiality to financial statements. Its effective date is 1 January 2016.

None of these amendments is expected to have a material effect on the Company financial statements.

Effective after 2016

In July 2014 the IASB published IFRS 9 'Financial Instruments'. IFRS 9 replaces the current financial instruments standard IAS 39, setting out new accounting requirements in a number of areas. First, there are revisions to the classification and measurement of financial instruments. There are new restrictions on the ability to account for financial assets at amortised cost and a prohibition on the bifurcation of embedded derivatives from financial assets. Accounting for financial liabilities is largely unchanged except for the treatment of changes in the fair value of liabilities designated as at fair value through profit or loss attributable to own credit risk; these are recognised in other comprehensive income.

Secondly, there are amended requirements for hedge accounting designed to align the accounting more closely to the risk management framework and remove or simplify some of the rule-based requirements of IAS 39. The basic mechanics of hedge accounting: fair value, cash flow and net investment hedges are retained. Finally, there is a new approach to credit impairment provisions moving from IAS 39's incurred loss model to an expected loss model. An expected loss model will result in the recognition of credit impairment losses earlier than an incurred loss model. Subject to EU endorsement, IFRS 9 is applicable for periods beginning on or after 1 January 2018.

IFRS 9 makes major and fundamental changes to accounting for financial instruments. The Company is continuing its assessment of its effect on the Company's financial statements.

ACCOUNTING POLICIES**Accounting developments (continued)****Effective after 2016 (continued)**

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014. It will replace IAS 11 'Construction Contracts', IAS 18 'Revenue' and several Interpretations. Contracts are bundled or unbundled into distinct performance obligations with revenue recognised as the obligations are met. It is effective from 1 January 2018. It is not expected to have a material effect on Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

1. Net interest income

	2015 £'000	2014 £'000
Loans and advances to customers	21,169	22,052
Loans and advances to banks	10,668	14,123
Interest receivable	31,837	36,175
Customer accounts	(4,239)	(5,566)
Deposits by banks	(1,662)	(631)
Interest payable	(5,901)	(6,197)
Net interest income	25,936	29,978

2. Non-interest income

	2015 £'000	2014 £'000
Fees and commission receivable	4,826	4,800
Fees and commission payable	(68)	(248)
Income from trading activities:		
Foreign exchange ⁽¹⁾	986	1,246
Non-interest income	5,744	5,798

(1) The analysis of trading income is based on how the business is organised and the underlying risks managed. Foreign exchange includes spot and forward foreign exchange contracts.

3. Operating expenses

	2015 £'000	2014 £'000
Wages, salaries and other staff costs	3,948	3,280
Social security costs	376	488
Pension costs (see Note 4)	516	655
Redundancy costs	-	185
Staff costs	4,840	4,608
Intangible assets amortisation (see Note 9)	193	204
Property, plant and equipment depreciation (see Note 10)	153	207
Depreciation & amortisation	346	411
Premises and equipment	485	841
Other administrative expenses*	22,240	11,079
Other expenses	22,725	11,920
Operating expenses	27,911	16,939

*The increase is principally on account of systems write off which relate to additional recharges due to the reorganisation of the wider Private Banking division.

The average number of persons employed by the Company during the year was made up as follows:

Employee numbers	2015 Number	2014 Number
Managers	44	40
Clerical and other staff	84	83
	128	123

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

3. Operating expenses (continued)

	2015 £'000	2014 £'000
Auditor's remuneration		
Audit services:		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	63	62
	63	62

4. Pension costs

The Adam & Company Retirement Benefits Plan was merged with The Royal Bank of Scotland Group Pension Fund effective 31 December 2007 and all members' interests in the Adam & Company Retirement Benefits Plan were transferred to The Royal Bank of Scotland Group Pension Fund at that date.

The Adam & Company scheme was closed to new entrants from 1 January 2003. Benefits continue to accrue for existing members within The Royal Bank of Scotland Group Pension Fund.

Employees who joined the Group after 1 January 2003 were eligible to join The Royal Bank of Scotland Group Pension Fund until October 2006, when it was closed to new entrants. After this date, new entrants have instead been offered membership of The Royal Bank of Scotland Retirement Savings Plan, a defined contribution pension scheme.

For full disclosure of the schemes refer to the accounts of The Royal Bank of Scotland Group plc.

5. Taxation

	2015 £'000	2014 £'000
Current taxation:		
<i>United Kingdom corporation tax at 20.25% (2014: 21.5%)</i>		
Charge for the year	463	3,981
Under provision in respect of prior years	6	29
Total current taxation	469	4,010
Deferred taxation:		
Charge for the year	29	263
Over provision in respect of prior years	(63)	(266)
Total deferred taxation	(34)	(3)
Tax charge for the year	435	4,007

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

	2015 £'000	2014 £'000
Operating profit before tax	2,201	19,189
Expected tax charge	445	4,125
<i>Factors affecting the charge for the year:</i>		
Non-deductible items	89	119
Increase in deferred tax asset following change in rate of UK corporation tax	(42)	-
Prior years adjustments	(57)	(237)
Actual tax charge for the year	435	4,007

The effective tax rate for the year was 19.76% (2014: 20.88%).

The main rate of UK Corporation Tax will reduce from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. Under the Finance (No 2) Act 2015, tax losses carried forward at 31 December 2015 are given credit in future periods at the main rate of UK corporation tax rate, excluding the Banking Surcharge rate (8%) introduced by the Act. Deferred tax assets and liabilities at 31 December 2015 take into account the reduced rates in respect of tax losses and non-banking temporary differences and where appropriate, the banking surcharge inclusive rate in respect of other banking temporary differences.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

6. Ordinary Dividends

	2015 £'000	2014 £'000
Dividend of nil (2014: 76.7p) per share	-	15,000

7. Financial instruments

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in International Accounting Standards (IAS) 39 'Financial Instruments: Recognition and Measurement'. Assets and Liabilities outside the scope of IAS 39 are shown separately.

	Designated as at fair value through profit or loss £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets / liabilities £'000	Total £'000
2015					
Assets					
Cash and balances at central banks	-	377	-	-	377
Loans and advances to banks ⁽¹⁾	-	1,264,058	-	-	1,264,058
Loans and advances to customers	-	651,044	-	-	651,044
Settlement balances	-	326	-	-	326
Property, plant and equipment	-	-	-	770	770
Derivatives	14	-	-	-	14
Prepayments, accrued income and other assets	-	-	-	23,825	23,825
Deferred tax asset	-	-	-	144	144
	14	1,915,805	-	24,739	1,940,558
Liabilities					
Deposits by banks ⁽²⁾	-	-	178,175	-	178,175
Customer accounts	-	-	1,639,705	-	1,639,705
Settlement balances	-	-	1	-	1
Derivatives	10	-	-	-	10
Accruals, deferred income and other liabilities	-	-	-	34,744	34,744
Provisions for liabilities and charges	-	-	-	1,948	1,948
	10	-	1,817,881	36,692	1,854,583
Equity					85,975
					1,940,558

For notes relating to this table, refer to page 24.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

7. Financial instruments (continued)

2014	Designated as at fair value through profit or loss £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets / liabilities £'000	Total £'000
Assets					
Cash and balances at central banks	-	460	-	-	460
Loans and advances to banks ⁽¹⁾	-	1,220,872	-	-	1,220,872
Loans and advances to customers	-	662,478	-	-	662,478
Settlement balances	-	306	-	-	306
Intangible assets	-	-	-	1,262	1,262
Property, plant and equipment	-	-	-	904	904
Derivatives	80	-	-	-	80
Prepayments, accrued income and other assets	-	-	-	33,618	33,618
Deferred tax asset	-	-	-	110	110
	80	1,884,116	-	35,894	1,920,090
Liabilities					
Deposits by banks ⁽²⁾	-	-	96,683	-	96,683
Customer accounts	-	-	1,690,128	-	1,690,128
Settlement balances	-	-	26	-	26
Derivatives	89	-	-	-	89
Accruals, deferred income and other liabilities	-	-	-	48,582	48,582
Provisions for liabilities and charges	-	-	-	373	373
	89	-	1,786,837	48,955	1,835,881
Equity					84,209
					1,920,090

(1) Includes items in the course of collection from other banks of RBS £471k (2014: £4,382k).

(2) Includes items in the course of transmission to other banks of RBS £nil (2014: £3,929k).

The following table shows the financial instruments carried at fair value:

	2015			2014		
	Level 1 ⁽¹⁾ £'000	Level 2 ⁽²⁾ £'000	Level 3 ⁽³⁾ £'000	Level 1 ⁽¹⁾ £'000	Level 2 ⁽²⁾ £'000	Level 3 ⁽³⁾ £'000
Assets						
Derivatives	-	14	-	-	80	-
Total	-	14	-	-	80	-
Liabilities						
Derivatives	-	10	-	-	89	-
Total	-	10	-	-	89	-

For notes relating to this table, refer to page 25.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

7. Financial Instruments (continued)

Fair value hierarchy of financial assets and liabilities that are not measured at fair value (but fair value disclosures are required):

	2015			2014		
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and balances at central banks	377	-	-	460	-	-
Loans and advances to banks	-	1,264,058	-	-	1,220,872	-
Loans and advances to customers	-	-	653,628	-	-	665,934
Settlement balances	-	-	326	-	-	306
Total	377	1,264,058	653,954	460	1,220,872	666,240
Liabilities						
Deposits by banks	-	178,175	-	-	96,683	-
Customer accounts	-	-	1,624,406	-	-	1,688,791
Settlement balances	-	-	1	-	-	26
Total	-	178,175	1,624,407	-	96,683	1,688,817

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares, certain exchange-traded derivatives, G10 government securities and certain US agency securities.

(2) Valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or
- valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency and those instruments valued using techniques include most government securities, investment-grade corporate bonds, certain mortgage products, certain bank and bridge loans, repos and reverse repos, less liquid equities, state and municipal obligations, most physical commodities, investment contracts issued by RBS life assurance businesses and certain money market securities and loan commitments and most OTC derivatives.

(3) Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Company determines a reasonable level for the input.

Level 3 portfolio movement tables

	Loans and advances to customers		Customer accounts		Settlement balances	
	2015	2014	2015	2014	2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	665,934	684,197	(1,688,791)	(1,705,037)	280	1,282
Fair value adjustment	(12,306)	(18,263)	64,385	16,246	45	(1,002)
At 31 December	653,628	665,934	(1,624,406)	(1,688,791)	325	280

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

7. Financial instruments (continued)

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost:

	2015 Carrying value £'000	2015 Fair value £'000	2014 Carrying value £'000	2014 Fair value £'000
Financial assets				
Cash and balances at central banks	377	377	460	460
Loans and advances to banks	1,264,058	1,264,058	1,220,872	1,220,872
Loans and advances to customers	651,044	653,628	662,478	665,934
Settlement balances	326	326	306	306
Financial liabilities				
Deposits by banks	178,175	178,175	96,683	96,683
Customer accounts	1,639,705	1,624,406	1,690,128	1,688,791
Settlement balances	1	1	26	26

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgements covering prepayments, credit risk and discount rates.

Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement. As a wide range of valuation techniques are available, it may be inappropriate to compare the Company's fair value information to independent markets or other financial institutions' fair values.

The fair value of financial instruments that are of short maturity (3 months or less) approximates their carrying value. This applies mainly to cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and demand deposits.

Loans and advances to banks and customers

Fair value is estimated by grouping loans into homogeneous portfolios and applying a discount rate to the cash flows. The discount rate is based on the market rate applicable at the balance sheet date for a similar portfolio with similar maturity and credit risk characteristics.

Deposits by banks and customer accounts

The fair values of deposits are estimated using discounted cash flow valuation techniques.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

7. Financial instruments (continued)

Remaining maturity

	Less than 12 months £'000	More than 12 months £'000	Total £'000
2015			
Assets			
Cash and balances at central banks	377	-	377
Loans and advances to banks	976,412	287,646	1,264,058
Loans and advances to customers	276,071	374,973	651,044
Settlement balances	326	-	326
Derivatives	14	-	14
Liabilities			
Deposits by banks	50,382	127,793	178,175
Customer accounts	1,639,705	-	1,639,705
Settlement balances	1	-	1
Derivatives	10	-	10
	Less than 12 months £'000	More than 12 months £'000	Total £'000
2014			
Assets			
Cash and balances at central banks	460	-	460
Loans and advances to banks	981,828	239,044	1,220,872
Loans and advances to customers	310,044	352,434	662,478
Settlement balances	306	-	306
Derivatives	80	-	80
Liabilities			
Deposits by banks	12,219	84,464	96,683
Customer accounts	1,671,320	18,808	1,690,128
Settlement balances	26	-	26
Derivatives	89	-	89

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

8. Financial Assets - impairments

The following table shows the movement in the provision for impairment losses for loans and advances:

	Individually assessed £'000	Latent £'000	Total £'000
At 1 January 2015	6,753	680	7,433
Amounts written off	(2,145)	-	(2,145)
(Credit)/charge to the income statement	(346)	845	499
Unwind of discount	(419)	-	(419)
At 31 December 2015	3,843	1,525	5,368

	Individually assessed £'000	Latent £'000	Total £'000
At 1 January 2014	17,617	1,327	18,944
Amounts written off	(10,607)	-	(10,607)
Charge/(credit) to the income statement	295	(647)	(352)
Unwind of discount	(552)	-	(552)
At 31 December 2014	6,753	680	7,433

The following table shows analysis of impaired financial assets:

	2015			2014		
	Cost £'000	Provision £'000	Net book value £'000	Cost £'000	Provision £'000	Net book value £'000
Impaired financial assets						
Loans and advances to customers	12,659	(3,843)	8,816	22,318	(6,753)	15,565

The following tables show an analysis of past due but not impaired i.e. excluding financial assets requiring an individual provision:

	Past due 1-29 days £'000	Past due 30-59 days £'000	Past due 60-89 days £'000	Past due more than 90 days £'000	Total £'000
2015					
Loans and advances to customers	1,853	111	-	25,181	27,145

During 2015, the Company performed a review of management information sources which identified inconsistencies in the categorisation of past due assets between source data systems. Deviations have been resolved in the current year and prior year by restating each of the impacted disclosures in the financial statements to reflect the RBS Group criteria for disclosure of past due assets. The impact of this restatement has been reconciled under the disclosure impacted.

	Past due 1-29 days £'000	Past due 30-59 days £'000	Past due 60-89 days £'000	Past due more than 90 days £'000	Total £'000
2014*					
As restated					
Loans and advances to customers	11,955	7,896	262	18,988	39,101
*As reported	8,727	108	-	-	8,835
Adjustment	3,228	7,788	262	18,988	30,266
As restated	11,955	7,896	262	18,988	39,101

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

9. Intangible assets

	Software Costs 2015 £'000	Software Costs 2014 £'000
Cost:		
At 1 January	2,853	3,080
Additions	-	6
Impairment during the year	(2,819)	-
Write-off of fully amortised assets	(34)	(233)
At 31 December	-	2,853
Amortisation:		
At 1 January	1,591	1,599
Charge for the year	193	204
Impairment during the year	(1,750)	-
Write-off of fully amortised assets	(34)	(212)
At 31 December	-	1,591
Net book value		
At 31 December	-	1,262

Following the reorganisation of Private Banking an impairment review at an RBS Group level was carried out which determined that the recoverable amount of the Private Banking Cash Generating Unit ("CGU") no longer supported the carrying value in the Group accounts. The recoverable amount is determined using value-in-use calculations. The assumptions used in the value-in-use calculations for the CGU are based on the underlying budgets of all private banking entities and include a number of key assumptions. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money. The discount rate for the year is 9.5% (2014: 12%). Growth rates are based on management forecasts of the subsidiary and estimates of market performance are based on economic forecasts. Based on these forecasts RBS Group impaired centrally held goodwill and all intangible assets in the CGU. This impairment was accepted by legal entity management as appropriate and included in the financial statements at a legal entity level.

Impairment of £1,069k in respect of systems write off is included in the Statement of Comprehensive Income.

There was a loss of £nil on disposal of assets during the year (2014: £21k).

10. Property, plant and equipment

2015	Freehold Premises £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2015	520	415	4,973	5,908
Additions	-	-	19	19
Write-off of fully depreciated assets	-	(201)	(725)	(926)
At 31 December 2015	520	214	4,267	5,001
Accumulated depreciation and amortisation:				
At 1 January 2015	53	373	4,578	5,004
Charge for the year	18	9	126	153
Write-off of fully depreciated assets	-	(201)	(725)	(926)
At 31 December 2015	71	181	3,979	4,231
Carrying amount at 31 December 2015	449	33	288	770

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

10. Property, plant and equipment (continued)

	Freehold Premises £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
2014				
Cost:				
At 1 January 2014	520	464	5,824	6,808
Additions	-	-	24	24
Disposals	-	(49)	(875)	(924)
At 31 December 2014	520	415	4,973	5,908
Accumulated depreciation and amortisation:				
At 1 January 2014	35	406	5,150	5,591
Charge for the year	18	10	179	207
Disposals	-	(43)	(751)	(794)
At 31 December 2014	53	373	4,578	5,004
Carrying amount at 31 December 2014	467	42	395	904

There was a loss of £nil on disposal of assets during the year (2014: £130k).

11. Derivatives

	2015			2014		
	Notional amounts £'000	Assets £'000	Liabilities £'000	Notional amounts £'000	Assets £'000	Liabilities £'000
Exchange rate related contracts						
Spot and forward foreign exchange	2,576	14	10	2,869	80	89

Derivative financial instruments comprise forward foreign exchange contracts. The Company does not trade in financial instruments with the exception of that arising from facilitating customer transactions which involves buying and selling foreign currencies spot and forward and matching these activities in the market.

12. Prepayments, accrued income and other assets

	2015 £'000	2014 £'000
Prepayments and accrued income	3,353	3,118
Other assets	20,472	30,500
	23,825	33,618

13. Accruals, deferred income and other liabilities

	2015 £'000	2014 £'000
Taxation	481	3,942
Accruals and deferred income	10,399	3,565
Other liabilities	23,864	41,075
	34,744	48,582

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

14. Deferred taxation

Provision for deferred taxation has been made as follows:

	2015 £'000	2014 £'000
Deferred tax asset	144	110
Net deferred tax	144	110

	Accelerated capital allowances £'000	Provisions £'000	Other provision £'000	Other IAS transition £'000	Total £'000
At 1 January 2014	44	-	35	28	107
(Charge)/credit to income statement	19	8	(13)	(11)	3
At 1 January 2015	63	8	22	17	110
(Charge)/credit to income statement	7	15	29	(17)	34
At 31 December 2015	70	23	51	-	144

The provision for UK deferred taxation has been calculated at 28% (2014: 20%), being the latest enacted rate of corporation tax, including the newly introduced 8% Banking Surcharge. A deferred tax asset of £144k has been recognised for the Company at 31 December 2015 (2014: £110k). This asset has been recognised in the financial statements following the provision for litigation and sundry losses, the impairment and redress provision and accelerated capital allowances. The directors are of the opinion, based on recent and forecasted trading, that the tax due on future profits in the current and next financial year will exceed the value of the deferred tax asset.

15. Provision for liabilities and charges

	Provision for severance ⁽¹⁾ £'000	Other provisions £'000	Total provisions £'000
At 1 January 2015	373	-	373
Charged to income statement	-	1,765	1,765
Utilised in year	(190)	-	(190)
At 31 December 2015	183	1,765	1,948

(1) The Company provides for future legal costs where there is a constructive obligation arising within the next 12 months.

16. Called-up share capital

	Allotted, called-up and fully paid		Authorised	
	31 December 2015 £'000	31 December 2014 £'000	31 December 2015 £'000	31 December 2014 £'000
<i>Equity shares:</i>				
Ordinary shares of £1	19,548	19,548	25,000	25,000
Total called-up share capital	19,548	19,548	25,000	25,000

	Allotted, called-up and fully paid		Authorised	
	2015 Thousands	2014 Thousands	2015 Thousands	2014 Thousands
<i>Equity shares:</i>				
Ordinary shares of £1	19,548	19,548	25,000	25,000

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***17. Risk management**

The major risks associated with the Company's businesses are market, foreign currency, interest rate, conduct, liquidity, credit, regulatory, reputational and operational risk. The Company has established a comprehensive framework for managing these risks which is continually evolving as the Company's business activities change in response to market, credit, product and other developments.

The Company has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, prices, volatilities and correlations may have an adverse financial impact on the Company's financial condition or results.

The Company does not maintain any material proprietary trading positions and consequently has limited exposure to market risk. The market risk that arises through the provision of products and services to customers, being principally interest rate and foreign exchange risk, is predominantly hedged. Unhedged market risk is small in accordance with policy limits.

The Company does not maintain material open currency positions.

At an RBS level, the risk appetite is expressed in the form of a combination of Value at Risk ('VaR'), sensitivity and scenario limits. VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, RBS VaR assumes a time horizon of one trading day and confidence level of 99% as it is considered that this provides greater clarity in respect of more severe potential economic outcomes. The RBS VaR model is based on a historical simulation model utilising data from the previous two years trading results. This approach, in common with many other VaR models, assumes that risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by relevance of the historical data used. The RBS method, however, does not make any assumption about the nature or type of underlying loss distribution.

RBS VaR should be interpreted in light of the limitations of the methodology used, as follows:

- Historical Simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the time series horizon. Therefore, events that are more severe than those in the historical data series cannot be predicted.
- The use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile.
- The use of a one-day time horizon will not fully capture the profit and loss implications of positions that cannot be liquidated or hedged within one day.
- RBS computes the VaR of trading portfolios at the close of business. Positions may change substantially during the course of the trading day and intra-day profit and losses will be incurred.

These limitations mean that RBS cannot guarantee that losses will not exceed the VaR.

A 'Risk not in VaR' framework has been developed to address those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Foreign currency risk

The Company does not maintain any material non-trading open currency positions.

Currency risk arises from holding financial instruments in various currencies and from buying and selling foreign currencies spot and forward. The techniques used by the Company for managing currency risk include overnight and intraday limits and gap analysis. Overall limits and limits for each foreign currency are set for the net amount of financial assets less financial liabilities (including derivative financial instruments) which may be held. Further, overall and individual foreign currency limits are set for unmatched forward foreign exchange contracts.

The Company's exposure to foreign exchange risk is provided in the table below. The amounts shown are the foreign exchange gaps in each currency and take into account the effect of forward foreign exchange contracts entered into to manage currency exposures.

	2015 Total £'000	2014 Total £'000
US Dollar	7	16
Euro	(5)	548
Other currencies	58	12
At 31 December	60	576

Interest rate risk

Interest rate risk arises where assets and liabilities have different re-pricing dates. Company policy requires all interest risk to be transferred to trading units either within RBS or with third parties, through arm's length cash transactions and derivatives, principally interest rate swaps.

The directors consider that the Company is not materially exposed to adverse profit and loss impact from interest rate volatility as no material proprietary interest rate positions are held.

Liquidity risk

The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities with no material liquidity gaps.

The contractual maturity of assets and liabilities, shown in the following tables, highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits. In practice, the behaviour profile of many assets and liabilities exhibit greater stability and longer maturity than the contractual maturity.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Liquidity risk (continued)

The table below analyses the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest by contractual maturity:

	0-3 months £'000	3-12 months £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	10-20 years £'000
2015						
Assets by contractual maturity						
Cash and balances at central banks	377	-	-	-	-	-
Loans and advances to banks	821,440	154,972	127,396	160,250	-	-
Total maturing assets	821,817	154,972	127,396	160,250	-	-
Loans and advances to customers	167,032	109,039	148,121	62,309	164,543	-
Total assets	988,849	264,011	275,517	222,559	164,543	-
Liabilities by contractual maturity						
Deposits by banks	4,923	45,459	63,999	56,999	6,795	-
Total maturing liabilities	4,923	45,459	63,999	56,999	6,795	-
Customer accounts	1,604,639	35,066	-	-	-	-
Total liabilities	1,609,562	80,525	63,999	56,999	6,795	-
Maturity gap	(620,713)	183,486	211,518	165,560	157,748	-
Cumulative maturity gap	(620,713)	(437,227)	(225,709)	(60,149)	97,599	97,599
Guarantees and commitments - notional amount						
Guarantees ⁽¹⁾	12,934	-	-	-	-	-
Commitments ⁽²⁾	58,812	-	-	-	-	-
	71,746	-	-	-	-	-

For notes relating to this table, refer to page 35.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Liquidity risk (continued)

	0-3 months £'000	3-12 months £'000	1-3 years £'000	3-5 years £'000	5-10 years £'000	10-20 years £'000
2014						
Assets by contractual maturity						
Cash and balances at central banks	460	-	-	-	-	-
Loans and advances to banks	857,578	124,250	137,044	102,000	-	-
Total maturing assets	858,038	124,250	137,044	102,000	-	-
Loans and advances to customers	196,593	113,451	155,706	67,250	129,478	-
Total assets	1,054,631	237,701	292,750	169,250	129,478	-
Liabilities by contractual maturity						
Deposits by banks	8,217	4,002	55,456	23,759	5,249	-
Total maturing liabilities	8,217	4,002	55,456	23,759	5,249	-
Customer accounts	1,649,110	22,210	18,808	-	-	-
Total liabilities	1,657,327	26,212	74,264	23,759	5,249	-
Maturity gap	(602,696)	211,489	218,486	145,491	124,229	-
Cumulative maturity gap	(602,696)	(391,207)	(172,721)	(27,230)	96,999	96,999
Guarantees and commitments - notional amounts						
Guarantees ⁽¹⁾	14,215	-	-	-	-	-
Commitments ⁽²⁾	67,686	-	-	-	-	-
	81,901	-	-	-	-	-

(1) The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects most guarantees it provides to expire unused.

(2) The Company has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the reporting entity; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

Credit risk

Credit risk is the risk of financial loss owing to the failure of clients or counterparties to meet their obligations to the Company. The quantum and nature of credit risk assumed in the Company's different business activities vary considerably, while the overall credit risk outcome usually exhibits a degree of correlation to the macroeconomic environment.

Credit risk organisation

The existence of a strong credit risk management organisation is vital to support the goals of the Company. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and a focus on the importance of sustainable lending practices. The role of the credit risk management organisation is to provide the business with the support necessary to develop and maintain a sound lending franchise within risk appetite while providing strong independent oversight and challenge.

Responsibility for development of RBS-wide policies, credit risk frameworks, Company-wide portfolio management and assessment of provision adequacy sits within the functional RBS Credit Risk Organisation (RBSCRO) within RBS under the management of the RBS Chief Credit Officer. The Company works together with RBSCRO to ensure that the Board's expressed credit risk appetite is met within a clearly defined and managed control environment. Activities within credit risk include credit approval, transaction and portfolio analysis, early problem recognition and setting standards for ongoing credit risk stewardship within the business areas.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***17. Risk management (continued)****Credit risk mitigation**

The Company employs a number of structures and techniques to mitigate credit risk. Unsecured facilities are carefully considered as to affordability and repayment and generally represent only the lower value exposures within the Company's books. A large part of the Company's credit exposures are covered by security that is assigned a value below the assessed market value in accordance with stated credit policies. These include a range of transactions, from retail mortgage lending to commercial financing, with a security interest in a physical or financial asset.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Company cover: general requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants; the means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights; acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued; actions to be taken in the event the current value of mitigation falls below required levels; management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation; management of concentration risks, for example, setting thresholds and controls on exposure to a single borrower, the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Provision analysis

Early and active management of problem exposures ensures that credit losses are minimised. Specialised units are used to ensure that appropriate action to mitigate risk is taken in a timely manner.

Credit risk asset quality

Credit risk assets consist of loans and advances (including overdraft facilities), guarantees issued on behalf of clients and financial instruments (measured at mark to market value) across all customer types. Where relevant, and unless otherwise stated, data reflects the effect of credit mitigation techniques.

The Company has made the decision to adopt the standardised approach to credit capital calculations. Under the standardised approach there is no requirement for probability of default (PD) to be calculated. Due to this decision, the assets lent do not have a probability of default rating and have been classified into asset quality bands based on a set of assessment criteria and the expert judgement of credit professionals.

	Minimum	Maximum
AQ1	0.00	0.03
AQ2	0.03	0.05
AQ3	0.05	0.10
AQ4	0.10	0.38
AQ5	0.38	1.08
AQ6	1.08	2.15
AQ7	2.15	6.09
AQ8	6.09	17.22
AQ9	17.22	100.00
AQ10	100.00	

Larger commercial clients are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an RBS Group level asset quality scale (illustrated above), used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Credit risk asset quality (continued)

The following tables provide an analysis of the credit quality of third party financial assets by asset quality grade:

	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2015	£'000	£'000	£'000	£'000	£'000	£'000
AQ1	377	1,264,058	85,295	14	11,010	5,584
AQ2	-	-	77,059	-	-	-
AQ3	-	-	193,382	-	-	-
AQ4	-	-	152,964	-	17,700	2,975
AQ5	-	-	60,562	-	13,695	8,542
AQ6	-	-	16,973	-	16,305	531
AQ7	-	-	22,280	-	59	12,065
AQ8	-	-	4,606	-	-	-
AQ9	-	-	-	-	43	-
AQ10	-	-	3,487	-	-	-
Accruing past due	-	-	27,145	-	-	-
Non-accrual	-	-	12,659	-	-	-
Impairment provisions	-	-	(5,368)	-	-	-
Total	377	1,264,058	651,044	14	58,812	29,697

During 2015, the Company performed a review of management information sources which identified inconsistencies in the categorisation of past due assets between source data systems. Deviations have been resolved in the current year and prior year by restating each of the impacted disclosures in the financial statements to reflect the RBS Group criteria for disclosure of past due assets. The impact of this restatement has been reconciled under the disclosure impacted.

	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Derivatives	Commitments	Contingent liabilities
2014 *	£'000	£'000	£'000	£'000	£'000	£'000
As restated						
AQ1	460	1,220,872	121,159	80	25,299	19,564
AQ2	-	-	66,734	-	-	-
AQ3	-	-	168,347	-	-	-
AQ4	-	-	122,678	-	17,298	6,697
AQ5	-	-	45,607	-	11,333	5,356
AQ6	-	-	15,884	-	10,892	-
AQ7	-	-	31,532	-	1,171	-
AQ8	-	-	19,907	-	-	-
AQ9*	-	-	16,644	-	6	-
AQ10*	-	-	-	-	1,687	-
Accruing past due*	-	-	39,101	-	-	-
Non-accrual	-	-	22,318	-	-	-
Impairment provisions	-	-	(7,433)	-	-	-
Total	460	1,220,872	662,478	80	67,686	31,617

	AQ9 £'000	AQ10 £'000	Accruing past due £'000
*As reported	22,321	24,589	8,835
Adjustment	(5,677)	(24,589)	30,266
As restated	16,644	-	39,101

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Collateral and other credit enhancements received

Within its secured portfolios, the Company has recourse to various types of collateral and other credit enhancements to mitigate credit risk and reduce the loss to the Company arising from the failure of a customer or counterparty to meet their obligations. These include: cash deposits; charges over residential and commercial property, debt securities, equity shares and other financial collateral; and third-party guarantees. The existence of collateral may affect the pricing of a facility and its regulatory capital requirement. When a collateralised financial asset becomes impaired, the impairment charge directly reflects the realisable value of collateral and any other credit enhancements.

The following tables show year end loan-to-value (LTV) for part of the Company's book. The remaining element not shown is all performing and covers corporate lending of £19m and non-mortgage retail lending of £196m.

	2015		2014	
	Performing £'000	Non-performing £'000	Performing £'000	Non-performing £'000
Commercial real estate by average loan to value (LTV)				
<70%	33,344	2,301	32,066	2,157
>70% and ≤90%	308	7,577	2,366	5,184
>90% and ≤110%	434	-	3,016	4,830
>110% and ≤130%	-	2,250	-	2,413
>130%	-	425	-	690
Total with LTVs	34,086	12,553	37,448	15,274
Unsecured	10,155	1,595	22,531	4,430
Total book	44,241	14,148	59,979	19,704
Total portfolio weighted average LTV	53.5%	90.4%	50.6%	90.1%

	2015		2014	
	Loans £'000	Provisions £'000	Loans £'000	Provisions £'000
Non-performing corporate loans (excluding commercial real estate)				
Secured	2,282	268	13,262	853
Unsecured	36	36	92	92

Retail exposures

All borrowing applications, whether secured or not, are subject to appropriate credit risk underwriting processes including an assessment of affordability and the source of repayment. Pricing is typically higher on unsecured than secured loans. For secured loans, pricing will typically vary by LTV: higher-LTV products are typically subject to higher interest rates commensurate with the associated risk.

The value of a property intended to secure a mortgage is assessed during the loan underwriting process using industry-standard methodologies. Property values supporting home equity lending reflect individual appraisal valuations unless the lending value is very low.

The existence of collateral has an impact on provisioning levels. Once a secured loan is classified as non-performing, the realisable net present value of the underlying collateral allowing for the costs associated with repossession are used to estimate the provision required.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Retail exposures (continued)

The tables below show period-end weighted LTVs for the Company's residential mortgage portfolio split between performing and non-performing.

	2015 £'000	2014 £'000
Non-performing residential mortgages by average loan to value (LTV)		
<70%	5,787	6,437
>70% and ≤90%	1,680	795
>90% and ≤110%	952	950
Total	8,419	8,182
Total portfolio average by LTV	62.2%	51.2%
Other mortgages	30	-
Total	8,449	8,182
Performing residential mortgages by average loan to value (LTV)		
<70%	283,383	242,129
>70% and ≤90%	72,590	51,166
>90% and ≤110%	9,635	5,446
>110% and ≤130%	-	645
>130%	350	655
Total	365,958	300,041
Total portfolio average by LTV	55.4%	53.2%
Other mortgages	6,725	-
Total	372,683	300,041

Regulatory risk

Regulatory risk is the risk of material loss or liability, legal or regulatory sanctions, or reputational damage, resulting from the failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations, or major industry standards, in any location in which the Company operates.

The Company believes that maintaining a strong regulatory risk framework is fundamental to ensuring sustainable growth, rebuilding its reputation and maintaining stakeholder confidence. Accordingly, the Company's stated regulatory risk and compliance risk appetite is for no material or widespread breaches of rules, expectations, regulations or laws, individually or in aggregate. However, it also recognises that genuine errors occur, and so the Company accepts limited, non-material regulatory risk and subsequent loss.

The Company manages regulatory risk under the 'Three Lines of Defence' model in line with RBS. This model defines responsibilities and accountabilities in accordance with the following principles:

- The business units (including business areas and support functions) are the first 'Line of Defence'. They are accountable for owning and managing, within a defined risk appetite, the risks which exist in their business area;
- Independent monitoring and control functions are the second 'Line of Defence'. They are accountable for owning and developing the risk and control frameworks and tools which the business uses to discharge its responsibilities; and
- Group Internal Audit and an independent Credit Quality Assurance function is the third 'Line of Defence' and provide independent assurance over the key risks to the organisation, which includes an assessment of the entire control framework.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***17. Risk management (continued)****Regulatory risk (continued)**

Conduct and Regulatory Affairs (C&RA) within the Company operates under these principles as a second line of defence since reporting lines are to the RBS function rather than at a divisional level.

The C&RA function, reporting into the Chief Conduct and Regulatory Affairs officer, is responsible for setting the Company wide conduct and compliance policy and standards, providing relevant, accurate and timely conduct, compliance and financial crime advice and guidance to the business and ensuring controls are effective for managing regulatory affairs, compliance, conduct and financial crime risks across RBS.

C&RA ensures appropriate reporting of all material regulatory reviews and other regulatory developments worldwide to the appropriate Company committees, including the Board, the Audit Committee, and the Risk Committee.

The level of regulatory risk remained high during 2015, as policymakers and regulators continued to strengthen regulation and supervision.

Conduct risk

Conduct risk is the risk that the behaviour of the Company and its staff towards its customers, or in the markets in which it operates, leads to unfair or inappropriate customer outcomes and can result in reputational damage, financial loss or both. The damage or loss may be the result of breaches of regulatory rules or laws, or of failing to meet customers' or regulators' expectations of the Company.

Conduct risk exists across all stages of the Company's relationships with its customers, from the development of its business strategies, through governance arrangements, to post-sales processes. Activities through which conduct risk may arise are diverse and include product design, marketing and sales, complaint handling, staff training and competence, fraud, bribery, money laundering, and handling of confidential and non-public price sensitive information.

Throughout 2015, the Company's conduct risk framework continued to be delivered. Key elements included:

- Further embedding of a new RBS-wide C&RA operating model and governance structure, by integrating former divisional and functional resources to drive consistent Company-wide standards for managing conduct risks more efficiently, removing optionality across businesses;
- Establishing a Conduct Advisory function with the expertise and skills to effectively interrogate and assess business models, strategy and products, provide oversight, challenge and advice and make selective risk-based interventions; and
- The establishment of a specialist remediation governance unit to deliver consistent and timely fair customer outcomes.

Aligned with the customer-focused vision to be the leading UK bank for trust, customer service and advocacy by 2020, Conduct and Regulatory Affairs (C&RA) has evolved from focusing on policy conformance to the wider consideration of Conduct and placing customers at the heart of our business. The new RBS-wide approach to Conduct was implemented throughout 2015 with the delivery of processes and tools which recognise the need to stress the business model and set the bar for how we do business. A conduct risk appetite framework is being developed to ensure that our risk profile is based on our strategic risk objectives, with quantitative targets supplemented by qualitative criteria focused on meeting good customer outcomes, market integrity, stakeholder expectations and promoting a strong risk culture. Work to refine and embed the risk appetite framework and associated control processes will continue into 2016.

The level of conduct risk remained high throughout 2015. The Company is continuing to remediate legacy conduct issues while also restructuring its customer-facing businesses and support functions around the needs of its customers.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

17. Risk management (continued)

Reputational risk

Currently the Company manages reputational risk through a number of functions principally being Risk, C&RA and Legal but also including those such as the Communications & Corporate Services division.

At an RBS level there is an RBS Sustainability management function and also an Environmental, Social and Ethical (ESE) Risk management function. This latter function is responsible for assessing ESE risks associated with business engagements and divisions. The risk is viewed as material given the key nature of the Company's market reputation in achieving its strategic risk objectives.

Concentration risk

Four formal frameworks are used to manage credit concentration risk. These are Product/Asset class, Sector, Single Name and Country concentration risks. These risks and the limits set associated with them are assessed for appropriateness on a regular basis.

Anti-Money Laundering

An annual Money Laundering Reporting Officer's Report is submitted to the Board and the FCA. Covering the operation and effectiveness of the systems and controls in place to comply with Anti-Money Laundering (AML) law and regulation, it also describes the Company's AML framework. In addition, it covers the systems and controls in place to prevent the financing of terrorism and to ensure compliance with sanctions as well as embargoes and export controls imposed by the UN, governments and other supranational bodies.

Operational risk

Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key mitigating processes and controls include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of these processes and controls is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

18. Capital Resources

The following table analyses the Company's regulatory capital resources at 31 December

	2015 £'000	2014 £'000
Composition of regulatory capital		
Tier 1:		
Owners' equity and minority interests	85,760	83,994
Total tier 1 capital	85,760	83,994
Tier 2:		
Fixed asset revaluation reserve	215	215
Impairment allowance	1,525	680
Total tier 2 capital	1,740	895
Total regulatory capital	87,500	84,889

The Company manages its capital to ensure capital cover at least meets RBS Risk Asset Ratio ("RAR") requirements. The capital structure of the Company consists of debt and equity attributable to equity holders comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

It is the Company's policy to maintain an appropriate capital base and to utilise it efficiently throughout its activities to optimise returns to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Company has regard to the supervisory requirements of the Financial Conduct Authority (FCA). The FCA uses RAR as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). The Company has complied with FCA requirements during the year ended 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

19. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding as at 31 December 2015. Although the Company is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Company's expectation of future losses.

	2015 £'000	2014 £'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	12,934	14,215
Other contingent liabilities	16,763	17,402
Total contingent liabilities	29,697	31,617
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend:-		
Less than 1 year	58,812	67,686
Total commitments	58,812	67,686

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Company's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Company's normal credit approval processes and any potential loss is taken into account in assessing provisions for bad and doubtful debts in accordance with the Company's provisioning policy.

Commitments

Commitments to lend – under a loan commitment the Company agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Contingent liabilities

Guarantees – the Company gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Company will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Company could be required to pay under a guarantee is its principal amount as disclosed in the above table. The Company expects most guarantees it provides to expire unused.

Other contingent liabilities – these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Additional contingent liabilities arise in the normal course of the Company's business. It is not anticipated that any material loss will arise from these transactions.

Litigation

As a participant in the financial services industry, the Company operates in a highly regulated environment and is subject to significant legal and statutory risks. At any moment in time it is inevitable that the Company will be involved in a number of investigations and, or disputes. Such cases are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages of a case. The directors of the Company have reviewed these actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on the Company's consolidated net assets, results of operations or cash flows.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***19. Memorandum items (continued)****The Financial Services Compensation Scheme**

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the FCA. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

The FSCS has borrowed from HM Treasury to fund compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. The interest rate on these borrowings is subject to a floor being the higher of 12 month LIBOR plus 100 basis points or the relevant gilt rate for the equivalent cost of borrowing from HM Treasury. The FSCS and HM Treasury have agreed that the period of these loans will reflect the expected timetable for recoveries from the estates of Bradford & Bingley and the other failed banks. The FSCS will levy the deposit taking sector for its share of the balance of the principal outstanding for the non-Bradford & Bingley loans over three years to repay the principal by March 2016. In addition, the FSCS levied an interim payment relating to resolution costs for Dunfermline Building Society of £325 million. The total capital element levied on the industry in 2015/16 scheme was £352 million (£399 million in the 2014/15 scheme year).

The Company has accrued £107k for its share of estimated FSCS levies for 2015/16 scheme year.

Capital Support Deed

The Company, together with other members of RBS, 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 capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Company may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015

20. Net cash inflow from operating activities

	2015 £'000	2014 £'000
Operating profit	2,201	19,189
Impairment of intangible assets	1,069	-
Loss on disposal of property, plant and equipment	-	130
Loss on disposal of intangible assets	-	21
Elimination of foreign exchange differences	(1,850)	(4,565)
Depreciation and amortisation of tangible and intangible assets	346	411
Gains on loans and advances written-off net of recoveries	(1,646)	(10,959)
Provisions for liabilities and charges	1,575	(245)
Other non-cash items	(419)	(552)
Net cash inflows from trading activities	1,276	3,430
(Increase)/decrease in loans and advances to banks and customers	(61,444)	45,025
Decrease/(increase) in prepayments, accrued income and other assets	9,839	(17,251)
Changes in operating assets	(51,605)	27,774
Increase in deposits by banks and customers	31,069	45,025
(Decrease)/increase in accruals, deferred income and other liabilities	(10,481)	2,316
Changes in operating liabilities	20,588	47,341
Tax paid	(3,929)	(3,810)
Net cash flows (used in)/from operating activities	(33,670)	74,735

21. Interest received and paid

	2015 £'000	2014 £'000
Interest received	32,328	37,049
Interest paid	(6,232)	(8,232)
	26,096	28,817

22. Analysis of cash and cash equivalents

	2015 £'000	2014 £'000
At 1 January		
Cash	460	439
Cash equivalents	853,196	788,947
	853,656	789,386
Net cash (outflow)/ inflow	(33,689)	59,705
Effect of exchange rate changes on cash and cash equivalents	1,850	4,565
At 31 December	821,817	853,656
Comprising:		
Cash and balances at central banks	377	460
Loans and advances to banks	821,440	853,196

23. Divisional analysis

The Company operates in the private banking sector, with 100% of business derived in the United Kingdom.

The directors consider private banking a single class of business.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2015**24. Transactions with directors**

For the purposes of IAS 24 'Related Party Disclosure', Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Key management comprise directors of the Company and members of the Executive Committee Offshore. As at 31 December 2015, the aggregate amounts outstanding in relation to the transactions, arrangements and agreements entered into by the Company in relation to loans to directors, including connected persons, or officers of the Company are set out below:

	2015		2014	
	Aggregate amount outstanding		Aggregate amount outstanding	
	£'000	Number of persons	£'000	Number of persons
Directors:				
Loans	-	-	-	-
Officers:				
Loans	4	2	4	2

All of the above balances are classified under Loans and advances to customers.

25. 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 Value Added Tax.

Group undertakings

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, and its immediate parent company is Adam & Company Group plc. Both companies are 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 and Adam & Company Group plc heads the smallest group in which the Company is consolidated. Copies of the consolidated financial statements of both companies may be obtained from Corporate Governance and Secretariat, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

(a) Directors and key managers

For the purposes of IAS 24 'Related Party Disclosure', key management comprise directors of the Company and members of the Senior Management team. The following amounts are attributable, in aggregate, to key management:

	2015	2014
	£'000	£'000
Loans and advances to customers	4	4
Customer accounts	3,926	3,903
Interest received	1	2
Total assets	3,931	3,909

Key management have banking relationships with Group entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***25. Related parties (continued)****(b) Related party transactions**

	2015 £'000	2014 £'000
Assets		
Loans and advances:		
Parent companies	1,230,771	1,172,903
Other related parties, including fellow subsidiaries	24,060	43,364
	1,254,831	1,216,267
Liabilities		
Deposit by banks:		
Parent companies	217	4,065
Other related parties, including fellow subsidiaries	146,460	92,652
	146,677	96,717
Other liabilities, accruals and deferred income:		
Parent companies	860	948
Other related parties, including fellow subsidiaries	7,845	982
	8,705	1,930
Total liabilities	155,382	98,647
	2015 £'000	2014 £'000
Income		
Interest receivable:		
Parent companies	9,420	9,189
Other related parties, including fellow subsidiaries	1,247	3,985
	10,667	13,174
Interest payable:		
Parent companies	(1)	(1)
Other related parties, including fellow subsidiaries	(1,587)	(622)
	(1,588)	(623)
Total income	9,079	12,551
Expenses		
Operating expenses:		
Parent companies	7,381	5,522
Other related parties, including fellow subsidiaries*	10,448	3,863
Total expenses	17,829	9,385

*The increase is principally on account of systems write off which relate to additional recharges due to the reorganisation of the wider Private Banking division.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2015***25. Related parties (continued)****(c) Compensation of key management**

The aggregate remuneration of directors and other members of key management during the year was as follows:

	2015	2014
	£'000	£'000
Short term benefits	1,025	1,010
Post-employment benefits	119	114
Long term benefits	177	105
	1,321	1,229

26. Post balance sheet events

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