Company Registered Number: SC083026

ADAM & COMPANY PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

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BOARD OF DIRECTORS AND COMPANY SECRETARY

DIRECTORS:	M R McLean FCIBS (Chairman) G Storrie (Managing Director) M R Regan (Finance Director) P G Flavel (Director) A H Henderson (Non-executive director) L H Urquhart OBE (Non-executive director)
COMPANY SECRETARY:	M Gow
REGISTERED OFFICE:	25 St Andrew Square Edinburgh Scotland EH2 1AF
AUDIT AND RISK COMMITTEE:	A H Henderson (Chair) L H Urquhart OBE
INDEPENDENT AUDITOR:	Ernst & Young LLP Statutory Auditor 25 Churchill Place London United Kingdom E14 5EY

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 2016. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

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 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 depth of the services provided, whilst leveraging its connection with The Royal Bank of Scotland Group plc (RBS).

The Company continues to be part of the Commercial & Private Banking business within RBS which provides support and access to all central resources. Copies of the consolidated accounts of the ultimate holding company may be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

As part of the Commercial and Private Banking Franchise within RBS, the Company's performance is measured via targets focusing on customer satisfaction, employee engagement and financial returns. The Company's key priorities are to develop the best client experience, invest in a high performing culture, deepen needs met for sustainable growth, optimise the operating model and simplify the business.

Business review

The directors are satisfied with the Company's trading performance during the year.

Performance highlights	**2016** **£m**	2015 £m
Total income	**30**	32
Operating expenses	**(22)**	(28)
Underlying profit before provisions	**8**	4
Impairment release/ (loss)	**2**	(2)
Operating profit before tax	**10**	2
Profit and total comprehensive income for the year	**7**	2
Loans and advances to customers	**660**	651
Customer accounts	**1,777**	1,640
Cost:income ratio	**73.9%**	88.1%
Return on equity	**8.2%**	2.1%
Customer loan:deposit ratio	**37.1%**	39.7%

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 9.

The Company reported a retained profit for the year after tax of £7m (2015: £2m), driven by a reduction in operating expenses which was partly offset by a reduction in income.

Total income decreased by £2m (2015: £4m). Growth in deposits and lending has been offset by the impact of a lower interest rate environment.

Operating expenses decreased by £6m (2015: increased by £11m). 2015 included one off costs attributable to systems write off relating to the reorganisation of the wider Private Banking division within RBS. This saw the cost:income ratio decrease from 88.1% to 73.9% during the year.

2016 delivered a return on equity of 8.2% (2015: 2.1%) and a cost: income ratio of 73.9% (2015: 88.1%).

Loans and advances to customers increased by £9m (2015: decreased by £11m) and Customer accounts increased by £137m (2015: decreased by £50m). This resulted in a decrease in the customer loan:deposit ratio to 37.1% (2015: 39.7%).

Business review (continued)

Other matters

The Company is funded by a combination of customer deposits, foreign currency deposits and facilities from RBS. Excess cash arising from deposits in excess of the Company's funding requirements is placed with RBS. The Company seeks to minimise its exposure to various external financial risks for which further information is disclosed in note 18 to the financial statements. Deposits placed with the RBS Group companies amounted to £1,375m (2015: £1,255m).

Ring-fencing

The UK ring-fencing legislation which requires the separation of essential banking services from investment banking services will take effect from 1 January 2019. The final ring-fenced legal structure of RBS and the actions to be taken to achieve it remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. Under the current proposed ring-fenced structure, the majority of the existing personal, private, business and commercial customers of The Royal Bank of Scotland plc ("RBS plc") will be transferred to the Company during 2018. At the same time the Company will be renamed RBS plc and will remain part of the ring-fenced bank.

Although Adam & Company will no longer operate as an independent legal entity as it does today, it will continue to trade under the Adam & Company brand and its core activities will remain unchanged. Adam & Company will continue to serve its customers as it does today.

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 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 18 to the financial statements.

Outlook

The Company continues to be part of the Commercial & Private Banking business within the wider RBS Group. Being closer to the Commercial business is a cornerstone of the Company'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.

The vote to leave the EU was widely expected to have a negative impact on the economy. So far, there has been a significant fall in sterling, but consumer spending has remained robust, and growth has continued. The UK has not yet left the EU, and the terms of its departure are not known andthe long-term impact remains impossible to predict. The Company's prime focus through this uncertain period has been, and will continue to be, to provide high quality banking and investment services to its clients and to help them to understand the implications of change.

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.

By order of the Board:

G Storrie
Director

Date: 25 April 2017

DIRECTORS' REPORT

The Strategic Report includes the financial review of the year including risk management.

Employee policies

Staff involvement

The Company has adopted RBS employee policies and processes.

The Company values the input of its employees and actively seeks opportunities to engage with staff at all levels and invites them to contribute to on-going dialogue and activities. The annual survey of employee opinions, known as Our View, provides valuable data to decision makers across the Group in support of improving employee engagement and satisfaction. We track our progress through pulse surveys and ask questions used by other organisations so we can compare ourselves against our financial peers.

In 2015, the Company launched 'Determined to lead'. It is the means by which leaders put our values into practice every day and is transforming the way we operate by creating a common language, consistent operating rhythm and improving the competence of our leaders across the Company. It provides consistent tools to lead and engage our people. This programme has continued in 2016.

Employees across the Company continue to widely support, both financially and through volunteering, many community and other worthy causes. Such giving is encouraged by the use of payroll giving and staff charity funds which support worthy causes at local, national and international level. Every June, employees come together to raise funds for local and national charities. "Give A Day" offers employees an extra day's annual leave to give their time as volunteers and fundraisers to a charity or cause that matters to them.

Employment of disabled persons

The Company's policy is that disabled persons are considered for employment and subsequent training, career development and promotion based on merit. The Company's disability plan is to become a disability smart organisation by 2018. It addresses areas for improvement including branch access, accessible services, improving employee adjustment processes and inserting disability checkpoints into our key processes and practices.

Diversity

The Company values and promotes diversity in all areas of recruitment and employment. Building a working environment where all our employees can develop to their full potential is important to us irrespective of their age, belief, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation. We work hard to avoid limiting potential through bias, prejudice or discrimination. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with local laws on equality and Our Code to build and develop an inclusive workforce in order to understand and respond to our diverse customer base.

Safety, health and wellbeing

Wellbeing is an integral part of how we create a great place to work.

The Company offers a wide range of health benefits and services to help maintain physical and mental health, and support our people if they become unwell.

In 2016, the focus was on physical, mental health and social wellbeing. Opportunities to improve the efficiency and effectiveness of safety, health and wellbeing management policies and services were monitored and, where relevant, implemented.

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

Share capital

Analysis of share capital can be found in note 17 to the financial statements.

DIRECTORS' REPORT

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 2016 to date, the following changes have taken place:

Director	Appointed	Resigned
M J Morley	-	17 March 2016
P G Flavel	17 March 2016	-
B M Mulholland	-	22 August 2016
M R Regan	31 October 2016	-
B McCrindle	-	30 December 2016

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

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.

Political contributions

No contributions were made to any political party (2015: £nil).

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 8, 18 and 27 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 its exposures to 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 2016, approved on 23 February 2017, which were prepared on a going concern basis.

Dividends

An interim dividend of £10m was approved on 16 June 2016 and subsequently paid (2015: £nil).

The directors do not recommend the payment of a final dividend (2015: £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' REPORT

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.

Auditor

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

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board:

G Storrie
Director

Date: 25 April 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 8.

The directors are responsible for the preparation of the Annual Report and Accounts which include the Strategic Report, Directors' Report and the accounts. The Directors, as permitted by the Companies Act 2006, have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Company. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report (incorporating the Business review) includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board:

G Storrie
Director

Date: 25 April 2017

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

We have audited the financial statements of Adam & Company plc ("the Company") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related Notes 1 to 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.

This report is made solely to the Company's member, 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 member 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 member 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 set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of 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, based on the work undertaken in the course of the audit:

- 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;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ernst & Young LLP

Michael-John Albert (Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London, United Kingdom
Date: 26 April 2017

STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2016*

Continuing operations	Notes	**2016 £'000**	2015 £'000
Interest receivable		**29,806**	31,837
Interest payable		**(5,342)**	(5,901)
Net interest income	1	**24,464**	25,936
Fees and commission receivable		**4,320**	4,826
Fees and commission payable		**(157)**	(68)
Income from trading activities		**1,172**	986
Non-interest income	2	**5,335**	5,744
Total income		**29,799**	31,680
Operating expenses	3	**(22,008)**	(27,911)
Operating profit before impairment		**7,791**	3,769
Impairment releases/(losses) on loans and advances	9	**1,764**	(499)
Impairment of intangible assets	10	**-**	(1,069)
Profit before tax		**9,555**	2,201
Tax charge	6	**(2,790)**	(435)
Profit and total comprehensive income for the year		**6,765**	1,766

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

BALANCE SHEET *as at 31 December 2016*

	Notes	2016 £'000	2015 £'000
Assets			
Cash and balances at central banks	8	**229**	377
Loans and advances to banks	8	**1,384,668**	1,264,058
Loans and advances to customers	8	**660,235**	651,044
Settlement balances	8	**1,207**	326
Derivatives	8, 12	**-**	14
Prepayments, accrued income and other assets	8, 13	**24,426**	23,825
Property, plant and equipment	8, 11	**563**	770
Deferred tax asset	8, 15	**130**	144
Total assets		**2,071,458**	1,940,558
Liabilities			
Deposits by banks	8	**182,150**	178,175
Customer accounts	8	**1,777,292**	1,639,705
Settlement balances	8	**3**	1
Derivatives	8, 12	**-**	10
Accruals, deferred income and other liabilities	8, 14	**27,325**	34,744
Provisions for liabilities and charges	8, 16	**1,948**	1,948
Total liabilities		**1,988,718**	1,854,583
Equity			
Shareholders' equity:			
Called up share capital	17	**19,548**	19,548
Retained earnings and reserves		**63,192**	66,427
Total equity	8	**82,740**	85,975
Total liabilities and equity		**2,071,458**	1,940,558

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 25 April 2017 and signed on its behalf by:

G Storrie
Managing Director
Date: 25 April 2017

M R Regan
Director
Date: 25 April 2017

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

	Notes	2016 £'000	2015 £'000
Called up share capital			
At 1 January and 31 December	17	**19,548**	19,548
Retained earnings			
At 1 January		**66,212**	64,446
Profit for the year		**6,765**	1,766
Dividends paid	7	**(10,000)**	-
At 31 December		**62,977**	66,212
Revaluation reserves			
At 1 January and 31 December		**215**	215
Shareholders' equity at 31 December		**82,740**	85,975

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

CASH FLOW STATEMENT *for the year ended 31 December 2016*

	Notes	2016 £'000	2015 £'000
Operating activities			
Operating profit for the year before tax		**9,555**	2,201
Adjustments for:			
Loss on disposal of property, plant and equipment		**110**	-
Elimination of foreign exchange differences [(1)]		**25**	28
Depreciation and amortisation		**97**	346
Impairment of intangible assets		**-**	1,069
Movement in impairment provision for loans and advances		**(2,588)**	(1,646)
Provisions for liabilities and charges		**-**	1,575
Other non-cash items		**(203)**	(419)
Net cash flows from trading activities	20	**6,996**	3,154
Changes in operating assets and liabilities		**79,450**	(32,895)
Net cash flows from/(used in) operating activities before tax		**86,446**	(29,741)
Tax paid	20	**(481)**	(3,929)
Net cash flows from/(used in) operating activities		**85,965**	(33,670)
Investing activities			
Purchase of property, plant and equipment	11	**-**	(19)
Net cash flows used in investing activities		**-**	(19)
Financing activities			
Equity dividends paid	7	**(10,000)**	-
Net cash flows used in financing activities		**(10,000)**	-
Effect of exchange rate changes		**17,097**	1,850
Net increase/(decrease) in cash and cash equivalents		**93,062**	(31,839)
Cash and cash equivalents 1 January	22	**821,817**	853,656
Cash and cash equivalents 31 December	22	**914,879**	821,817

[(1)] Change in methodology for elimination of foreign exchange difference, applied to 2015. This resulted in restatement of numbers reported in prior year (previously reported as £1,850k).

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

ACCOUNTING POLICIES *for the year ended 31 December 2016*

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

A number of IFRSs and amendments to IFRS were in issue at 31 December 2016 that would affect the Company from 1 January 2017 or later:

In January 2016, the IASB amended IAS 7 'Cash Flow Statements' to require disclosure of the movements in financing liabilities. The amendment is effective from1 January 2017.

In January 2016, the IASB amended IAS 12 'Income taxes' to clarify the recognition of deferred tax assets in respect of unrealised losses. The amendment is effective from 1 January 2017.

Neither of these amendments is expected to have a material effect on the company's financial statements.

Effective after 2017 - IFRS 9

In July 2014, the IASB published IFRS 9 'Financial Instruments' with an effective date of 1 January 2018. IFRS 9 replaces the current financial instruments standard IAS 39, setting out new accounting requirements in a number of areas. The Company is continuing its assessment of the standard's effect on its financial statements.

The principle features of IFRS 9 are as follows:

Recognition and derecognition

The material in IAS 39 setting out the criteria for the recognition and derecognition of financial instruments has been included unamended in IFRS 9.

Classification and measurement

Financial assets - There are three classifications for financial assets in IFRS 9: fair value through profit or loss; fair value through other comprehensive income; and amortised cost.

a) Financial assets with terms that give rise to interest and principal cash flows only and which are held in a business model whose objective is to hold financial assets to collect their cash flow are measured at amortised cost.

b) Financial assets with terms that give rise to interest and principal cash flows only and which are held in a business model whose objective is achieved by holding financial assets to collect their cash flow and selling them are measured at fair value through other comprehensive income.

c) Other financial assets are measured at fair value through profit and loss.

However, at initial recognition, any financial asset may be irrevocably designated as measured at fair value through profit or loss if such designation eliminates a measurement or recognition inconsistency.

The company continues to evaluate the overall effect, but expects that the measurement basis of the majority of the company's financial assets will be unchanged on application of IFRS 9.

Financial liabilities - IFRS 9's requirements on the classification and measurement of financial liabilities are largely unchanged from those in IAS 39. However, there is a change to the treatment of changes in the fair value attributable to own credit risk of financial liabilities designated as at fair value through profit or loss which are recognised in other comprehensive income and not in profit or loss as required by IAS 39.

Hedge accounting

Hedge accounting requirements are designed to align accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The basic mechanics of hedge accounting: fair value, cash flow and net investment hedges are retained.

ACCOUNTING POLICIES *for the year ended 31 December 2016*

1. Presentation of financial statements (continued)

There is an option in IFRS 9 for an accounting policy choice to continue with the IAS 39 hedge accounting framework. The Company is actively considering its implementation approach.

Credit impairment

IFRS 9's credit impairment requirements apply to financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to certain loan commitments and financial guarantee contracts. On initial recognition a loss allowance is established at an amount equal to 12-month expected credit losses ('ECL') that is the portion of life-time expected losses resulting from default events that are possible within the next 12 months.

Where a significant increase in credit risk since initial recognition is identified, the loss allowance increases so as to recognise all expected default events over the expected life of the asset. The Company expects that financial assets where there is objective evidence of impairment under IAS39 will be credit impaired under IFRS 9, and carry loss allowances based on all expected default events.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted: determined by evaluating at the reporting date for each customer or loan portfolio a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money. Recognition and measurement of credit impairments under IFRS 9 are more forward-looking than under IAS 39.

A programme has been established to implement the necessary changes in the modelling of credit loss parameters, and the underlying credit management and financial processes; this programme is led jointly by Risk and Finance. The inclusion of loss allowances on all financial assets will tend to result in an increase in overall impairment balances when compared with the existing basis of measurement under IAS 39.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening Balance Sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

Effective after 2017 – other standards

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.

The Company is assessing the effect of adopting these standards on its financial statements.

2. Revenue recognition

Interest income on financial assets that are classified as loans and receivables 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.

2. Revenue recognition (continued)

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.

3. Employee benefits

This policy should be read in conjunction with Note 4 on page 21.

Short-term employee benefits, such as salaries, paid absences, and other benefits are accounted for on an accruals basis over the period in which the employees provide the related services. Employees may receive variable compensation satisfied by cash, by debt instruments issued by RBS or by RBS shares. Variable compensation that is settled in cash or debt instruments is charged to profit or loss over the period from the start of the year to which the variable compensation relates to the expected settlement date taking account of forfeiture and claw back criteria.

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

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 the Company. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

4. 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.

5. 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.

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.

6. 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 over their estimated useful lives.

6. 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

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

7. Revaluation reserve

The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Company's businesses, included within property, plant and equipment. If the revaluation results in an increase in value, it should be credited to other comprehensive income and accumulated in equity unless it represents the reversal of a revaluation decrease of the same asset previously recognised as an expense, in which case it should be recognised in profit and loss. The revaluation reserve is not distributable.

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

At each reporting date, the Company assesses whether there is any indication that 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 a 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 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.

9. 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.

10. 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.

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.

11. 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.

12. 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 Company 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.

13. 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.

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.

13. Impairment of financial assets (continued)

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. 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.

14. 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 Company 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).

15. 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 such as cash collateral held with banks and settlement systems.

16. Financial guarantee contracts

Under a financial guarantee contract, the Company, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract measured in accordance with accounting policy 10. Amortisation is calculated so as to recognise fees receivable in profit or loss over the period of the guarantee.

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.

ACCOUNTING POLICIES *for the year ended 31 December 2016*

Critical accounting policies and key sources of estimation uncertainty (continued)

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 2016, gross loans and advances to customers totalled £662,812k (2015: £656,412k) and customer loan impairment provisions amounted to £2,577k (2015: £5,368k).

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.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2016*

1. Net interest income

	2016 £'000	2015 £'000
Loans and advances to customers	**19,529**	21,169
Loans and advances to banks	**10,277**	10,668
Interest receivable	**29,806**	31,837
Customer accounts	**(3,219)**	(4,239)
Deposits by banks	**(2,123)**	(1,662)
Interest payable	**(5,342)**	(5,901)
Net interest income	**24,464**	25,936

2. Non-interest income

	2016 £'000	2015 £'000
Fees and commission receivable	**4,320**	4,826
Fees and commission payable	**(157)**	(68)
Income from trading activities:		
Foreign exchange[1]	**1,172**	986
Non-interest income	**5,335**	5,744

(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

	2016 £'000	2015 £'000
Wages, salaries and other staff costs	**4,147**	3,948
Social security costs	**411**	376
Pension costs	**442**	516
Staff costs	**5,000**	4,840
Intangible assets amortisation (see Note 10)	**-**	193
Property, plant and equipment depreciation (see Note 11)	**97**	153
Depreciation & amortisation	**97**	346
Premises and equipment	**511**	485
Other administrative expenses [1]	**16,400**	22,240
Other expenses	**16,911**	22,725
Operating expenses	**22,008**	27,911

(1) The decrease is on account of system recharges/write off cost due to the reorganisation of the wider Private Banking division in 2015. The majority of other administrative expenses relate to recharges for IT systems maintenance costs.

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

Employee numbers	2016 Number	2015 Number
Managers	**42**	44
Clerical and other staff	**80**	84
	122	128

3. Operating expenses (continued)

Auditor's remuneration
Amounts paid to the Company's auditors for statutory audit and other services are set out below. All audit-related and other services are approved by the RBS Group Audit Committee and are subject to strict controls to ensure the external auditor's independence is unaffected by the provision of other services. The RBS Group Audit Committee recognises that for certain assignments the auditors are best placed to perform the work economically; for other work the Company selects the supplier best placed to meet its requirements. The Company's auditors are permitted to tender for such work in competition with other firms where the work is permissible under audit independence rules.

On 24 March 2016 Deloitte LLP (Deloitte) resigned as the Company's auditors and at the Annual General Meeting on 16 June 2016 the shareholders approved the appointment of Ernst & Young LLP (EY) as the Company's auditor for the audit of the 2016 annual accounts.

Amounts paid to the Company's auditors for statutory audit and other services are set out below:

	2016 £'000	2015 £'000
Audit services:		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**63**	63
- Other services [(1)]	**52**	-
	115	63

(1) Other assurance services pursuant to legislation

In addition the auditor's remuneration for group reporting audit work of £62k was borne by The Royal Bank of Scotland Group plc, the ultimate parent company of the Company.

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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2016*

5. Emoluments of directors

	2016 £'000	2015 £'000
Chairman and non-executive directors - emoluments	73	72
Executive directors - emoluments	486	606
	559	678

Number of directors to whom retirement benefits are accruing in respect of qualifying service:		
- money purchase schemes	3	2
- defined benefit schemes	-	1

The total emoluments of the highest paid director were £408,522 (2015: £475,233).

The executive directors may also participate in the RBS's executive share plans and share save schemes.

6. Taxation

	2016 £'000	2015 £'000
Current taxation:		
United Kingdom corporation tax at 20% (2015: 20.25%)		
Charge for the year	2,787	463
(Over)/under provision in respect of prior years	(11)	6
Total current taxation	2,776	469
Deferred taxation:		
(Credit)/charge for the year	(6)	29
Under/(over) provision in respect of prior years	20	(63)
Total deferred taxation	14	(34)
Tax charge for the year	2,790	435

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

	2016 £'000	2015 £'000
Operating profit before tax	9,555	2,201
Expected tax charge	1,910	445
Factors affecting the charge for the year:		
Non-deductible items	76	89
Surcharge on banking companies	796	-
Movement in deferred tax asset following introduction of surcharge on banking companies	(1)	(42)
Prior years adjustments	9	(57)
Actual tax charge for the year	2,790	435

The effective tax rate for the year was 29.2% (2015: 19.76%).

6. Taxation (continued)

The main rate of UK Corporation Tax will reduce from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. Under the Finance (No 2) Act 2015 the Company is also subject to Banking Surcharge 8% rate which applies to the relevant banking profits from 1 January 2016. The closing deferred tax assets and liabilities have been calculated taking into account that these may unwind in periods subject to the reduced rates and the banking surcharge inclusive rate in respect of banking temporary differences.

7. Ordinary Dividends

	2016 £'000	2015 £'000
An interim dividend of 51.2p (2015: nil) per share	**10,000**	-

No final dividend was paid.

8. 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.

2016	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	-	229	-	-	229
Loans and advances to banks[1]	-	1,384,668	-	-	1,384,668
Loans and advances to customers	-	660,235	-	-	660,235
Settlement balances	-	1,207	-	-	1,207
Property, plant and equipment	-	-	-	563	563
Deferred tax asset	-	-	-	130	130
Prepayments, accrued income and other assets	-	-	-	24,426	24,426
	-	2,046,339	-	25,119	2,071,458
Liabilities					
Deposits by banks[2]	-	-	182,150	-	182,150
Customer accounts	-	-	1,777,292	-	1,777,292
Settlement balances	-	-	3	-	3
Accruals, deferred income and other liabilities	-	-	-	27,325	27,325
Provisions for liabilities and charges	-	-	-	1,948	1,948
	-	-	1,959,445	29,273	1,988,718
Equity					82,740
					2,071,458

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

8. Financial instruments (continued)

2015	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	-	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
Deferred tax asset	-	-	-	144	144
Prepayments, accrued income and other assets	-	-	-	23,825	23,825
	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

(1) Includes items in the course of collection from other banks of RBS £355k (2015: £471k).

(2) Includes items in the course of transmission to other banks of RBS £683k (2015: £nil).

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

	2016			2015		
	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						
Derivatives	-	-	-	-	14	-
Total	-	-	-	-	14	-
Liabilities						
Derivatives	-	-	-	-	10	-
Total	-	-	-	-	10	-

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

8. Financial Instruments (continued)

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

	2016			2015		
	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	**229**	**-**	**-**	377	-	-
Loans and advances to banks	**-**	**1,384,668**	**-**	-	1,264,058	-
Loans and advances to customers	**-**	**-**	**657,912**	-	-	653,628
Settlement balances asset	**-**	**-**	**1,207**	-	-	326
Total	**229**	**1,384,668**	**659,119**	377	1,264,058	653,954
Liabilities						
Deposits by banks	**-**	**182,150**	**-**	-	178,175	-
Customer accounts	**-**	**-**	**1,759,116**	-	-	1,624,406
Settlement balances liability	**-**	**-**	**3**	-	-	1
Total	**-**	**182,150**	**1,759,119**	-	178,175	1,624,407

(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.

8. 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:

	2016 Carrying value £'000	**2016 Fair value £'000**	2015 Carrying value £'000	2015 Fair value £'000
Financial assets				
Cash and balances at central banks	**229**	**229**	377	377
Loans and advances to banks	**1,384,668**	**1,384,668**	1,264,058	1,264,058
Loans and advances to customers	**660,235**	**657,912**	651,044	653,628
Settlement balances	**1,207**	**1,207**	326	326
Financial liabilities				
Deposits by banks	**182,150**	**182,150**	178,175	178,175
Customer accounts	**1,777,292**	**1,759,116**	1,639,705	1,624,406
Settlement balances	**3**	**3**	1	1

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. 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.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

Short-term financial instruments
For certain short-term financial instruments: 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, customer demand deposits and notes in circulation, carrying value is a reasonable approximation of fair value.

Loans and advances to banks and customers
In estimating the fair value of loans and advances to banks and customers measured at amortised cost, loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) Contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing.
(b) Expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products.

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 2016*

8. Financial instruments (continued)

Remaining maturity

2016	**Less than 12 months £'000**	**More than 12 months £'000**	**Total £'000**
Assets			
Cash and balances at central banks	**229**	**-**	**229**
Loans and advances to banks	**1,060,308**	**324,360**	**1,384,668**
Loans and advances to customers	**246,515**	**413,720**	**660,235**
Settlement balances	**1,207**	**-**	**1,207**
Liabilities			
Deposits by banks	**55,187**	**126,963**	**182,150**
Customer accounts	**1,777,292**	**-**	**1,777,292**
Settlement balances	**3**	**-**	**3**

2015	Less than 12 months £'000	More than 12 months £'000	Total £'000
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

9 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 2016	**3,843**	**1,525**	**5,368**
Recovery of amounts previously written off	**301**	**-**	**301**
Amounts written off	**(1,125)**	**-**	**(1,125)**
Credit to the income statement	**(424)**	**(1,340)**	**(1,764)**
Unwind of discount	**(203)**	**-**	**(203)**
At 31 December 2016	**2,392**	**185**	**2,577**

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

The following table shows analysis of impaired financial assets:

	2016			2015		
	Cost £'000	**Provision £'000**	**Net book value £'000**	Cost £'000	Provision £'000	Net book value £'000
Impaired financial assets						
Loans and advances to customers	**7,600**	**(2,392)**	**5,208**	12,659	(3,843)	8,816

The following tables show an analysis of past due but not impaired. The loans are classified as accruing loans as no impairment loss is expected:

2016	**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**
Loans and advances to customers	**2,640**	**-**	**532**	**3,655**	**6,827**

During 2016, 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. The impact of this restatement has been reconciled under the disclosure impacted.

2015 As restated*	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
Loans and advances to customers	3,381	-	287	-	3,668

2015					
As reported	1,853	111	-	25,181	27,145
Adjustment	1,528	(111)	287	(25,181)	(23,477)
As restated*	3,381	-	287	-	3,668

10. Intangible assets

	Software Costs £'000
Cost:	
At 1 January 2015	2,853
Disposals	(2,819)
Write-off of fully amortised assets	(34)
At 31 December 2015 and at 31 December 2016	-
Amortisation:	
At 1 January 2015	1,591
Charge for the year	193
Impairment during the year	(1,750)
Write-off of fully amortised assets	(34)
At 31 December 2015 and at 31 December 2016	-
Net book value	
At 31 December 2015 and at 31 December 2016	-

In 2015, 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 was determined using value-in-use calculations. The assumptions used in the value-in-use calculations for the CGU were based on the underlying budgets of all private banking entities and included a number of key assumptions. Based on these forecasts, the IT systems in the financial statements at a legal entity level was written-off.

In 2015 impairment of £1,069k in respect of systems write off was included in the Statement of Comprehensive Income.

11. Property, plant and equipment

2016	Freehold Premises £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2016	520	214	4,267	5,001
Additions	-	-	-	-
Disposals	-	(177)	(3,810)	(3,987)
At 31 December 2016	**520**	**37**	**457**	**1,014**
Accumulated depreciation and amortisation:				
At 1 January 2016	71	181	3,979	4,231
Charge for the year	14	13	70	97
Disposals	-	(177)	(3,700)	(3,877)
At 31 December 2016	**85**	**17**	**349**	**451**
Carrying amount at 31 December 2016	**435**	**20**	**108**	**563**

11. Property, plant and equipment (continued)

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

There was a loss of £110k on disposal of assets during the year (2015: £nil).

12. Derivatives

	2016			2015		
	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

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.

13. Prepayments, accrued income and other assets

	2016 £'000	2015 £'000
Due within 12 months:		
Prepayments and accrued income	**3,259**	3,353
Other assets (1)	**21,167**	20,472
	24,426	23,825

(1) Balances primarily consist of settlement balances.

14. Accruals, deferred income and other liabilities

	2016 £'000	2015 £'000
Due within 12 months:		
Taxation	**2,776**	481
Accruals and deferred income	**1,782**	10,399
Other liabilities (1)	**22,767**	23,864
	27,325	34,744

(1) Balances primarily consist of accrued income and accrued Value Added Tax.

15. Deferred taxation

Provision for deferred taxation has been made as follows:

	2016 £'000	2015 £'000
Deferred tax asset	**130**	144

	Accelerated capital allowances £'000	**Provisions £'000**	**Other provision £'000**	**Other IAS transition £'000**	**Total £'000**
At 1 January 2015	63	8	22	17	110
(Charge)/credit to income statement	7	15	29	(17)	34
At 1 January 2016	**70**	**23**	**51**	**-**	**144**
(Charge)/credit to income statement	**5**	**(17)**	**(2)**	**-**	**(14)**
At 31 December 2016	**75**	**6**	**49**	**-**	**130**

The provision for UK deferred taxation has been calculated at 27% (2015: 28%), being the latest enacted rate of corporation tax, inclusive of the 8% Banking Surcharge. A deferred tax asset of £130k has been recognised for the Company at 31 December 2016 (2015: £144k). This asset has been recognised in the financial statements following the deferral of bonuses under the medium-term incentive plan, the provision for severance 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.

16. Provision for liabilities and charges

	Provision for severance £'000(1)	**Other provisions £'000(2)**	**Total provisions £'000**
At 31 December 2015 and at 31 December 2016	**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.
(2) Other provisions comprise amounts due in respect of litigation.

17. Called-up share capital

	Allotted, called-up and fully paid		**Authorised**	
	31 December 2016 £'000	31 December 2015 £'000	**31 December 2016 £'000**	31 December 2015 £'000
Equity shares:				
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**	
Number of shares	**2016 Thousands**	2015 Thousands	**2016 Thousands**	2015 Thousands
Equity shares:				
Ordinary shares of £1	**19,548**	19,548	**25,000**	25,000

18. Risk management

The major risks associated with the Company's businesses are 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 and is reviewed regularly by the Board and the Audit and Risk Committee.

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.

Foreign currency risk

The Company upstream all foreign currency balances to their parent and as such the risk is managed at this level, residual mismatches are monitored on an ongoing basis and are reported to the Private Banking Asset and Liability Management Committee (ALCO) at least quarterly.

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.

	2016 Total £'000	2015 Total £'000
US Dollar	**(37)**	7
Euro	**(1)**	(5)
Other currencies	**167**	58
At 31 December	**129**	60

Interest rate risk

Interest rate risk arises where assets and liabilities have different re-pricing dates.

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

The 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.

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 differs from the contractual maturity.

18. Risk management (continued)

Liquidity risk (continued)

The table below analyses the contractual cash flows receivable and payable up to a period of twenty years:

2016	**0–3 months £'000**	**3–12 months £'000**	**1–3 years £'000**	**3–5 years £'000**	**5–10 years £'000**	**10–20 years £'000**
Assets by contractual maturity						
Cash and balances at central banks	229	-	-	-	-	-
Loans and advances to banks	914,650	145,658	159,882	164,478	-	-
Total maturing assets	914,879	145,658	159,882	164,478	-	-
Loans and advances to customers	147,028	99,487	148,816	71,470	193,434	-
Total assets	1,061,907	245,145	308,698	235,948	193,434	-
Liabilities by contractual maturity						
Deposits by banks	7,493	47,694	64,968	45,581	16,414	-
Total maturing liabilities	7,493	47,694	64,968	45,581	16,414	-
Customer accounts	1,730,373	46,919	-	-	-	-
Total liabilities	1,737,866	94,613	64,968	45,581	16,414	-
Maturity gap	(675,959)	150,532	243,730	190,367	177,020	-
Cumulative maturity gap	(675,959)	(525,427)	(281,697)	(91,330)	85,690	85,690
Guarantees and commitments - notional amount						
Guarantees [(1)]	17,066	-	-	-	-	-
Commitments [(2)]	112,769	-	-	-	-	-
	129,835	-	-	-	-	-

For notes relating to this table, refer to page 34.

2015	0–3 months £'000	3–12 months £'000	1–3 years £'000	3–5 years £'000	5–10 years £'000	10–20 years £'000
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 amounts						
Guarantees [(1)(3)]	17,539	-	-	-	-	-
Commitments [(2)(3)]	59,377	-	-	-	-	-
	76,916	-	-	-	-	-

For notes relating to this table, refer to page 34.

18. Risk management (continued)

Liquidity risk (continued)

(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.
(3) During 2016, the company performed a review of management information sources which identified inconsistencies in the categorisation of type of contingent liabilities and commitments between source data systems. Deviations have been resolved in the current year. Impacted disclosures were updated respectively in Note 19.

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.

If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the latest date on which it can repay regardless of early repayment whereas the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met.

The principal amounts of financial assets and liabilities that are repayable after 20 years or where the counterparty has no right to repayment of the principal are excluded from the table as are interest payments after 20 years.

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.

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.

Provisions are reassessed regularly as part of the Company's ongoing monitoring process.

18. Risk management (continued)

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 by the Company, and a master grading scale for wholesale exposures used for internal management reporting across portfolios.

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

2016	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000	Contingent liabilities £'000
Intra-group balances with parent [2]	-	1,372,844	-	-	-	-
AQ1	229	11,824	83,040	-	31,594	2,720
AQ2	-	-	75,408	-	-	-
AQ3	-	-	219,132	-	-	-
AQ4	-	-	121,766	-	34,987	3,188
AQ5	-	-	59,721	-	22,204	8,146
AQ6	-	-	32,918	-	21,773	2,987
AQ7	-	-	28,782	-	1,153	-
AQ8	-	-	888	-	498	-
AQ9	-	-	-	-	560	25
AQ10 [1]	-	-	26,730	-	-	-
Accruing past due	-	-	6,827	-	-	-
Non–accrual	-	-	7,600	-	-	-
Impairment provisions	-	-	(2,577)	-	-	-
Total	229	1,384,668	660,235	-	112,769	17,066

For notes relating to this table, refer to page 36.

18. Risk management (continued)

Liquidity risk (continued)

2015*	Cash and balances at central banks	Loans and advances to banks	As restated * Loans and advances to customers	Derivatives	Commitments [3]	Contingent liabilities [3]
As restated	£'000	£'000	£'000	£'000	£'000	£'000
Intra-group balances with parent [2]	-	1,230,594	-	-	-	-
AQ1	377	33,464	85,295	14	16,635	2,795
AQ2	-	-	77,059	-	-	-
AQ3	-	-	193,382	-	-	-
AQ4	-	-	152,964	-	18,422	3,276
AQ5	-	-	60,562	-	11,691	8,372
AQ6	-	-	16,973	-	11,464	3,070
AQ7	-	-	22,280	-	607	-
AQ8	-	-	4,606	-	262	-
AQ9	-	-	14,709	-	296	26
AQ10[1]	-	-	12,255	-	-	-
Accruing past due	-	-	3,668	-	-	-
Non–accrual	-	-	12,659	-	-	-
Impairment provisions	-	-	(5,368)	-	-	-
Total	377	1,264,058	651,044	14	59,377	17,539

2015 Loans and advances to customers	As reported £'000	Adjustment £'000	As restated * £'000
AQ1	85,295		85,295
AQ2	77,059	-	77,059
AQ3	193,382	-	193,382
AQ4	152,964	-	152,964
AQ5	60,562	-	60,562
AQ6	16,973	-	16,973
AQ7	22,280	-	22,280
AQ8	4,606	-	4,606
AQ9	-	14,709	14,709
AQ10[1]	3,487	8,768	12,255
Accruing past due	27,145	(23,477)	3,668
Non–accrual	12,659	-	12,659
Impairment provisions	(5,368)	-	(5,368)
Total	651,044	-	651,044

(1) Balances included in this band represent Potential Problem Loans. These loans are not classified as impaired as there is adequate security in place to cover the outstanding loan amount.

(2) Previously intra-group balances were included in AQ1.

(3) 2015 Commitments and contingent liabilities are restated and reconciled in Note 19.

18. 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. This represents the largest product type (mortgages) and largest portion of the non-performing book. Non-performing loans represent loans where no interest payments or principal repayments are being received by the Company. The remaining element not shown is all performing and covers corporate lending of £30m (2015: £19m) and non-mortgage retail lending of £153m (2015: £196m).

	2016		2015	
	Performing	**Non-performing**	Performing	Non-performing
Commercial real estate by average loan to value (LTV)	**£'000**	**£'000**	£'000	£'000
<70%	**27,751**	**2,510**	33,344	2,301
>70% and <=90%	**2,032**	**4,184**	308	7,577
>90% and <=110%	**-**	**730**	434	-
>110% and <=130%	**634**	**1,592**	-	2,250
>130%	**-**	**-**	-	425
Total with LTVs	**30,417**	**9,016**	34,086	12,553
Unsecured	**2,619**	**272**	10,155	1,595
Total book	**33,036**	**9,288**	44,241	14,148
Total portfolio weighted average LTV	**52.0%**	**86.8%**	53.5%	90.4%

	2016		2015	
Non-performing corporate loans (excluding commercial real estate)	**Loans £'000**	**Provisions £'000**	Loans £'000	Provisions £'000
Secured	**980**	**83**	2,282	268
Unsecured	**27**	**27**	36	36

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.

18 Risk management (continued)

Retail exposures (continued)

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

Non-performing residential mortgages by average loan to value (LTV)	2016 £'000	2015 £'000
<70%	5,928	5,787
>70% and <=90%	1,890	1,680
>90% and <=110%	-	952
Total	7,818	8,419
Total portfolio average by LTV	62.3%	62.2%
Other mortgages	93	30
Total	7,911	8,449

Performing residential mortgages by average loan to value (LTV)	2016 £'000	2015 £'000
<70%	326,471	283,383
>70% and <=90%	93,008	72,590
>90% and <=110%	5,858	9,635
>110% and <=130%	-	-
>130%	954	350
Total	426,291	365,958
Total portfolio average by LTV	55.4%	55.4%
Other mortgages	2,377	6,725
Total	428,668	372,683

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 the UK (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
- RBS 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.

18. 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.

Plans to merge parts of the C&RA function with Risk Management were announced in December 2016. The change, designed to take advantage of synergies across the risk, conduct and regulatory agendas, will take effect from 1 January 2017. Regulatory Affairs will move to Corporate Governance & Regulatory Affairs (formerly Corporate Governance & Secretariat), and Remediation and Complaints will move to Services Chief Operating Office.

The level of regulatory risk remained high during 2016, 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.

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. The activities through which conduct risk may arise are varied and include product design, marketing and sales, complaint handling, staff training and handling of confidential Insider Information. Conduct risk also exists if the Company does not take effective action to prevent fraud, bribery and money laundering.

The Conduct Risk Appetite Framework was established in 2015 and continued to be embedded in the Company during 2016. Key elements included:

- Migration to simpler, principle-based policies with accountable executives identified and roles, accountabilities and responsibilities defined;
- Roll-out of RBS-wide policies, processes and strategic systems to identify and manage conflicts of interest better;
- Enhancement of the RBS-wide surveillance programme; and
- Significant investment in anti-money laundering controls, governance and training.

Aligned with the customer-focused vision to be the leading UK bank for trust, customer service and advocacy by 2020, C&RA provides trusted advice and challenge to the business, supporting sustainable growth, protecting customers and standing up for fairness. The Company continued to embed the conduct risk appetite framework in 2016. The framework ensures that conduct risk exposures are understood and managed in accordance with agreed risk appetite. The Company conduct risk appetite is based on its strategic risk objectives, with quantitative targets supplemented by qualitative criteria focused on attaining good customer outcomes, upholding market integrity, meeting stakeholder expectations and promoting a strong risk culture.

18. 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.

Frameworks are maintained at an RBS Group level to ensure that the risk of an outsized loss due to concentration to a particular borrower, sector, product type or country remains within appetite. The credit frameworks are aligned to the RBS Group's risk appetite framework.

The Group uses a product and asset class framework to control credit risk for its Personal businesses. The framework sets limits that measure and control the quality of both existing and new business for each relevant franchise or segment. These risks and the limits set associated with them are assessed for appropriateness on a regular basis.

The Company operates in the UK private banking sector and the directors consider this a single class of business.

The nature of the business is supplying lending services, amongst other services to high net worth individuals, thus the most significant concentration risk is credit risk. Please refer to the credit risk section within this note.

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.

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 2016. 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.

	2016	Restated 2015 [1]
	£'000	£'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**17,066**	17,539
Other contingent liabilities	**-**	-
Total contingent liabilities *	**17,066**	17,539
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend:-		
Less than one year	**56,128**	55,869
One year and above	**56,641**	3,508
Total commitments *	**112,769**	59,377

[1] During 2016, the Company performed a review of management information sources which identified inconsistencies in the categorisation of type of contingent liabilities and commitments between source data systems. Deviations have been resolved in the current year. Impacted discloses were updated respectively.

	Contingent liabilities		Commitments	
* 2015	Guarantees and irrevocable letters of credit	Other contingent liabilities	Less than 1 year	1 year and over
As reported	12,934	16,763	58,812	-
Adjustment	4,605	(16,763)	(2,943)	3,508
As restated	17,539	-	55,869	3,508

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.

19. Memorandum items (continued)

Contingent liabilities (continued)

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. At any moment in time it is likely that the Company will be involved in investigations and disputes. Such matters are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages. 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.

The Company records a provision for a liability in relation to such matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation.

In many proceedings and investigations, it is not possible to determine whether any loss is probable or to estimate reliably the amount of any loss, either as a direct consequence of the proceedings and investigations or as a result of adverse impacts or restrictions on the Company's reputation, business and operations. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can reasonably be estimated for any claim. The Company cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are situations where the Company may pursue an approach that in some instances leads to a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations even for those matters for which the Company believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows.

The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that the Company has recognised. Where (and as far as) liability cannot be reasonably estimated, no provision has been recognised.

The Financial Service 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.

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 2016*

20. Net cash flows from operating activities

	2016 £'000	2015 £'000
Net cash flows from trading activities	**6,996**	3,154
Increase in loans and advances to banks and customers	**(50,922)**	(63,322)
(Increase)/decrease in prepayments, accrued income and other assets	**(1,468)**	9,839
Changes in operating assets	**(52,390)**	(53,483)
Increase in deposits by banks and customers	**141,562**	31,069
Decrease in accruals, deferred income and other liabilities	**(9,722)**	(10,481)
Changes in operating liabilities	**131,840**	20,588
Taxes paid	**(481)**	(3,929)
Net cash flows from/(used in) operating activities	**85,965**	(33,670)

21. Interest received and paid

	2016 £'000	2015 £'000
Interest received	**30,352**	32,328
Interest paid	**(5,840)**	(6,232)
	24,512	26,096

22. Analysis of cash and cash equivalents

	2016 £'000	2015 £'000
At 1 January		
Cash	**377**	460
Cash equivalents	**821,440**	853,196
	821,817	853,656
Net cash inflow/(outflow)	**75,965**	(33,689)
Effect of exchange rate changes on cash and cash equivalents	**17,097**	1,850
At 31 December	**914,879**	821,817
Comprising:		
Cash and balances at central banks	**229**	377
Loans and advances to banks	**914,650**	821,440

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 2016*

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. As at 31 December 2016, 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:

	2016		2015	
	Aggregate amount outstanding £'000	**Number of persons**	Aggregate amount outstanding £'000	Number of persons
Directors:				
Loans	-	-	-	-
Officers:				
Loans	-	-	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 2016, the Company has been consolidated into The Royal Bank of Scotland Group plc. Copies of the consolidated financial statements may be obtained from Corporate Governance and Regulatory Affairs, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

(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:

	2016 £'000	2015 £'000
Loans and advances to customers	-	4
Customer accounts	-	3,926
Interest received	-	1
Total assets	-	3,931

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.

25. Related parties (continued)

(b) Related party transactions

	2016 **£'000**	2015 £'000
Assets		
Loans and advances:		
Parent companies	**1,373,199**	1,230,771
Other related parties, including fellow subsidiaries	**1,711**	24,060
	1,374,910	1,254,831
Liabilities		
Deposit by banks:		
Parent companies	**-**	217
Other related parties, including fellow subsidiaries	**95,323**	146,460
	95,323	146,677
Other liabilities, accruals and deferred income:		
Parent companies	**1,631**	860
Other related parties, including fellow subsidiaries	**134**	7,845
	1,765	8,705
Total liabilities	**97,088**	155,382

	2016 **£'000**	2015 £'000
Income		
Interest receivable:		
Parent companies	**9,806**	9,420
Other related parties, including fellow subsidiaries	**479**	1,247
	10,285	10,667
Interest payable:		
Parent companies	**(1)**	(1)
Other related parties, including fellow subsidiaries	**(1,557)**	(1,587)
	(1,558)	(1,588)
Total income	**8,727**	9,079
Expenses		
Operating expenses:		
Parent companies	**7,232**	7,381
Other related parties, including fellow subsidiaries	**7,103**	10,448
Total expenses	**14,335**	17,829

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:

	2016 £'000	2015 £'000
Short term benefits	**561**	1,025
Post-employment benefits	**80**	119
Long term benefits[1]	**47**	177
	688	1,321

(1) Long term benefits consists of Long Term Incentive Plans (LTIPs).

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.

27. Capital resources (unaudited)

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

	Unaudited [1] 2016 £'000	Unaudited [1] 2015 £'000
Tier 1:		
Shareholders' equity	**82,740**	85,975
Deductions:		
Other regulatory adjustments	**(5,952)**	(1,766)
Total Tier 1 capital	**76,788**	84,209
Risk weighted assets by risk		
Credit risk	**395,434**	427,783
Market risk	**241**	151
Operational risk	**66,736**	63,025
Total risk weighted assets	**462,411**	490,959
Key capital ratios [2]		
Tier 1	**16.6%**	17.1%
Total capital	**16.6%**	17.1%

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2016 and 31 December 2015.
(2) Key capital ratios represent capital as a proportion of risk weighted assets.

Risk weighted assets

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 Prudential Regulatory Authority (PRA). The PRA 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 PRA requirements during the year ended 31 December 2016.