

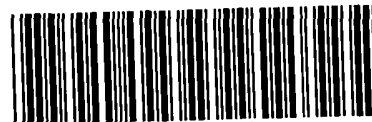
Company Registered No: SC143950

SIG 1 HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2016

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SIG 1 HOLDINGS LIMITED

SC143950

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

L J Barlow
S B Patel

COMPANY SECRETARY:

RBS Secretarial Services Limited

REGISTERED OFFICE:

24/25 St. Andrew Square
Edinburgh
Scotland
EH2 1AF

INDEPENDENT AUDITOR:

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered in Scotland

STRATEGIC REPORT

The directors of SIG 1 Holdings Limited ("the Company") present their annual report together with the audited financial statements for the year ended 31 December 2016.

ACTIVITIES AND BUSINESS REVIEW**Principal activity**

The principal activity of the Company continues to be the holding of investments.

The Company is a subsidiary of The Royal Bank of Scotland Group plc (RBS) which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of RBS review these matters on a group basis. Copies can be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or at www.rbs.com.

Business review

The Company incurred a loss during the year.

FINANCIAL PERFORMANCE

The Company's financial performance is presented in the Profit and Loss Account on page 8.

The loss before taxation for the year was £36,979,764 (2015: profit of £152,134,962). The retained loss for the year was £25,750,497 (2015: profit of £148,534,692).

At the end of the year, the total assets were £50,846,946 (2015: £43,572,110).

Dividend

No dividend was paid during the year (2015: £278,000,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The Company seeks to minimise its exposure to financial risks.

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

The Company is funded by facilities from The Royal Bank of Scotland plc. These are denominated in Sterling which is the functional currency and carry no significant financial risk.

The principal risks associated with the Company are as follows:

Interest rate risk

Structural interest rate risk arises where assets and liabilities have different repricing maturities. The Company manages interest rate risk by monitoring the consistency in the interest rate profile of its assets and liabilities, and limiting any re-pricing mismatches.

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

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

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

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

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. Management focuses on risk arising from the mismatch of maturities across the balance sheet and from undrawn commitments and other contingent obligations. The Company manages its liquidity risk by having access to group funding.

Market risk

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

The principal market risk to which the Company is exposed is equity prices together with market volatility.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with The Royal Bank of Scotland Group plc framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The group also maintains contingency facilities to support operations in the event of disasters.

GOING CONCERN

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2016, approved on 24 February 2017, which were prepared on a going concern basis.

STRATEGIC REPORT**DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

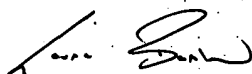
- so far as they are aware there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that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

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

DIRECTORS' INDEMNITIES

None of the directors have been indemnified under the qualifying third party terms.

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



L J Barlow
Director

Date: 14 June 2017

DIRECTORS' REPORT

The Strategic Report includes the review of the year, risk report, disclosure of information to auditors and directors' indemnities.

DIRECTORS AND COMPANY SECRETARY

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

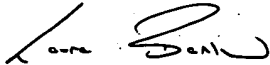
From 1 January 2016 to date the following changes have taken place:

	Appointed	Resigned
Directors		
D J Hourican	-	07 September 2016

INDEPENDENT AUDITOR

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

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



L J Barlow
Director

Date: 14 June 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIG 1 HOLDINGS LIMITED

We have audited the financial statements of SIG 1 Holdings Limited ("the Company") for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standards 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the 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

David Canning-Jones (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
Date: 15 June 2017

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2016

		2016	2015
		£	£
Continuing operations	Note		
Turnover	3	4,455,053	153,859,937
Operating expenses	4	(41,434,817)	(1,724,975)
Operating (loss)/profit before tax		(36,979,764)	152,134,962
Tax credit/(charge)	5	11,229,267	(3,600,270)
(Loss)/profit for the year		(25,750,497)	148,534,692

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

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 £	2015 £
(Loss)/profit for the financial year	(25,750,497)	148,534,692
Gains arising during the year	99,760	55,408
Less: reclassification adjustments for gains included in profit	(39,650)	(7,419,086)
Deferred tax movement on available for sale assets	7,930	438,204
Other comprehensive income/(loss) for the year	68,040	(6,925,474)
Total comprehensive (loss)/income for the year	(25,682,457)	141,609,218

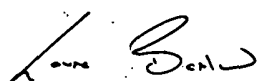
The accompanying notes form an integral part of these financial statements.

BALANCE SHEET
as at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investment in group undertakings	6	1	1
Investments - available-for-sale	7	99,760	-
Investments - designated as at fair value	8	-	2,680,568
		<u>99,761</u>	<u>2,680,569</u>
Current assets			
Investments - available-for-sale	7	-	80,000
Investments - designated as at fair value	8	566,025	3,583,345
Loans and receivables	9	250,000	226,968
Trade and other receivables	10	94,846	14,861
Current tax asset		7,298,466	-
Cash at bank		42,537,848	36,986,367
		<u>50,747,185</u>	<u>40,891,541</u>
Total assets		<u>50,846,946</u>	<u>43,572,110</u>
Creditors: amounts falling due within one year			
Trade and other payables	11	629,750	573,108
Current tax liabilities		-	6,965,403
Amounts due to group undertakings	12	1	520,252
Accruals, deferred income and other liabilities	13	13,200	13,356
Provisions for liabilities	14	41,000,000	-
		<u>41,642,951</u>	<u>8,072,119</u>
Creditors: amounts falling due after more than one year			
Deferred tax liabilities	15	107,495	721,034
Total liabilities		<u>41,750,446</u>	<u>8,793,153</u>
Equity: capital and reserves			
Called-up share capital	17	2	2
Available-for-sale reserve		99,760	31,720
Profit and loss account		8,996,738	34,747,235
Total shareholders' funds		<u>9,096,500</u>	<u>34,778,957</u>
Total liabilities and shareholders' funds		<u>50,846,946</u>	<u>43,572,110</u>

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

The financial statements of the Company were approved by the Board of Directors and authorised for issue on 14 June 2017 and signed on its behalf by:



L J Barlow
Director

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

	Share capital	Available-for-sale reserve	Profit and loss account	Total
	£	£	£	£
At 1 January 2015	2	9,362,012	164,212,543	173,574,557
Profit before realised gains transferred from profit and loss account	-	-	141,115,606	141,115,606
Realised gains transferred to Profit & Loss Account	-	(7,419,086)	7,419,086	-
Assets transferred to investments-designated at fair value through profit and loss	-	(2,404,818)	-	(2,404,818)
Other comprehensive income - unrealised gains on available for sale assets	-	55,408	-	55,408
Deferred tax on available for sale assets	-	438,204	-	438,204
Dividends paid	-	-	(278,000,000)	(278,000,000)
At 31 December 2015	2	31,720	34,747,235	34,778,957
Loss before realised gains transferred from profit and loss account	-	-	(25,790,147)	(25,790,147)
Realised gains transferred to Profit & Loss Account	-	(39,650)	39,650	-
Other comprehensive income - unrealised gains on available for sale assets	-	99,760	-	99,760
Deferred tax on available for sale assets	-	7,930	-	7,930
At 31 December 2016	2	99,760	8,996,738	9,096,500

Total comprehensive loss for the year of £25,682,457 (2015: income of £141,609,218) was wholly attributable to the equity holders of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies****a) Preparation and presentation of financial statements**

These financial statements are prepared:

- on a going concern basis;
- under Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework in accordance with the recognition and measurement principles of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS); and
- on the historical cost basis except that the following assets and liabilities are stated at their fair value: available for sale financial instruments, derivative financial instruments and investment property.

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

The Company is incorporated in the UK and registered in Scotland and the financial statements are presented:

- in accordance with the Companies Act 2006;
- in Sterling which is the functional currency of the Company; and
- with the benefit of the disclosure exemptions permitted by FRS 101 with regard to:
 - comparative information in respect of certain assets;
 - cash-flow statement;
 - standards not yet effective;
 - related party transactions.
 - disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IFRS 13 "Fair value Measurement"

Where required, equivalent disclosures are given in the group accounts of The Royal Bank of Scotland Group plc, these financial statements are available to the public and can be obtained as set out in note 21.

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

b) Consolidated financial statement

The financial statements contain information about SIG 1 Holdings Limited as an individual company and do not contain consolidation financial information as the parent of a group. The Company is exempt under IFRS 10 Consolidated Financial Statements and section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as in accordance with IFRS 10 the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its parent, The Royal Bank of Scotland Group plc, a public company registered in Scotland whose registered address is 36 St Andrew Square, Edinburgh, EH2 2YB.

c) Turnover

Interest income on financial assets that are classified as loans and receivables, available-for-sale or held-to-maturity and interest expense on financial liabilities, other than those at fair value through profit or loss, 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 is an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

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

Financial assets and financial liabilities held-for-trading or designated as at fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****c) Turnover (continued)**

Sale of investments are recognised when title has passed to the purchaser.

Fees in respect of property participation agreements are recognised at the time of transfer of risks and rewards to the final buyer of the property. 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. Fees charged for managing investments are recognised as turnover as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related turnover is recognised.

d) Taxation

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

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

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

e) Investments in Group undertakings

Investments in Group undertakings are stated at cost less any impairment

f) Financial assets

On initial recognition, financial assets are classified into loans and receivables, designated as at fair value through profit or loss, available-for sale or held-for-trading financial assets.

Loans and receivables

Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or as held-for-trading, or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 1(c)) less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****f) Financial assets (continued)****Designated as at fair value through profit or loss**

Financial assets may be designated as 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.

The principal category of financial assets designated as at fair value through profit or loss are those assets that are managed and whose performance is evaluated on a fair value basis. The Company invests in financial assets with a view to profiting from their total return in the form of interest and/or dividends and changes in fair value.

Available-for-sale - Investments

Financial assets that are not classified as held-to-maturity; held-for-trading; designated as at fair value through profit or loss; or loans and receivables, are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value.

Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy 1(c)). Other changes in the fair value of available-for-sale financial assets and related tax are reported in other comprehensive income until disposal, when the cumulative gain or loss is reclassified from equity to profit or loss.

Held-for-trading financial assets

A financial asset is classified as held-for-trading if it is acquired principally for sale in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). Held-for-trading financial assets are recognised at fair value with transaction costs being recognised in profit and loss. Subsequently, they are measured at fair value. Gains and losses on held-for-trading financial assets are recognised in the statement of comprehensive income as they arise.

Property participation fee agreements ("PPFA") are arrangements that entitle the Company to part of the proceeds if the counterparty disposes of one or a group of their properties. Due to the great uncertainty and restrictions around the terms of these agreements, management has taken the view that these are not recognised as assets on the balance sheet. The revenues from PPFA are recognised only at the time of transfer of risks and rewards to the final buyer of the property.

g) 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 held-to-maturity, available-for-sale or 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.

NOTES TO THE FINANCIAL STATEMENTS**1. Accounting policies (continued)****h) Financial liabilities**

On initial recognition financial liabilities are classified into amortised cost and measured using the effective interest method (see accounting policy 1(c)).

i) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or when it has been transferred and the transfer qualifies for derecognition.

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

j) Cash at bank

Cash at bank comprises 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.

2. Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Company's accounting policies that are considered by the directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

Loan impairment provisions

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

Fair value – financial instruments

Financial Instruments classified as held-for-trading or designated as at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured at fair value. Gains or losses arising from changes in fair value of financial instruments classified as held-for-trading or designated as at fair value through the profit or loss are included in the profit and loss account. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity unless an impairment loss is recognised.

NOTES TO THE FINANCIAL STATEMENTS

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

Fair value – financial instruments (continued)

Financial instruments measured at fair value include:

Equity securities (held-for-trading and designated as at fair value through profit or loss) - comprise equity shares of companies or corporations both listed and unlisted.

For unquoted investments a valuation methodology based on EBITDA/EBITA/EBIT multiples, turnover multiples, net asset values or other models in accordance with International Private Equity and Venture Capital Valuation Guidelines is used. For valuing quoted investments up-to-date market prices are used.

Derivatives (held-for-trading) - these include warrants and options.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets and financial liabilities where these are available. Fair value for a net open position in a financial instrument in an active market is the number of units of the instrument held multiplied by the last traded price (for financial assets) or offer price (for financial liabilities). Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instruments complexity and the availability of market based data.

Investment in group undertakings

The Company has reviewed the carrying value of investments in Group undertakings and concluded that there are no impairments required.

3. Turnover

	2016 £	2015 £
Interest receivable	3,192	28,066
Dividend income	982,268	52,378,134
Realised gains/(losses) on disposal of investments-available for sale	76,911	(1,500,454)
Realised gains on disposal of investments-designated as at fair value through profit or loss	2,898,389	97,727,116
Change in fair value of assets designated as at fair value through profit or loss	(42,336)	3,444,678
Property participation fee agreements	528,765	1,539,733
Other income	7,864	242,664
	4,455,053	153,859,937

Interest receivable includes interest earned on redeemable preference shares classified as loans and receivables

4. Operating expenses

	2016 £	2015 £
Legal and professional fees	17,380	540,886
Management charge	417,336	1,177,725
SME provision	41,000,000	-
Other operating expenses	101	6,364
	41,434,817	1,724,975

NOTES TO THE FINANCIAL STATEMENTS

4. Operating expenses (continued)

Management charge

Management charge relates to the Company's share of group resources such as the use of IT platforms, staff and a share of central resources. These are re-charged on an annual basis by The Royal Bank of Scotland plc, a fellow group undertaking.

Staff costs, number of employees and directors' emoluments

All staff and directors were employed by RBS companies and the financial statements for which contains full disclosure of employee benefit expenses incurred in the period including share based payments and pensions. The Company has no employees and pays a management fee for services provided by other RBS companies. The directors of the Company do not receive remuneration for specific services provided to the Company (2015: £nil).

The auditor's remuneration for statutory audit work for the Company was £12,000 (2015: £13,356). Remuneration paid to the auditors for non-audit work for the Company was £nil (2015: £nil).

5. Tax

	2016 £	2015 £
Current taxation:		
UK corporation tax charge for the year	(7,296,927)	7,818,150
Over provision in respect of prior periods	(3,326,731)	(852,730)
	<u>(10,623,658)</u>	<u>6,965,420</u>
Deferred taxation:		
Credit for the year	(599,993)	(3,365,150)
Under provision in respect of prior periods	(5,616)	
	<u>(605,609)</u>	<u>(3,365,150)</u>
Tax (credit)/charge for the year	<u>(11,229,267)</u>	<u>3,600,270</u>

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

	2016 £	2015 £
Operating (loss)/profit before tax	(36,979,764)	152,134,962
Expected tax (credit)/charge	(7,395,952)	30,802,119
Non-deductible items	287,013	7,801,048
Non-taxable items	(787,938)	(34,191,655)
Reduction in deferred tax asset following change in rate of UK Corporation Tax	(42)	41,488
Adjustments in respect of prior periods	(3,332,348)	(852,730)
Actual tax charge for the year	<u>(11,229,267)</u>	<u>3,600,270</u>

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted at the balance sheet date standing at 20% with effect from 1 April 2015, 19% from 1 April 2017 and 18% from 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates.

Since the balance sheet date, the UK Government's Budget on 16 March 2016 proposed, amongst other things, that the 18% tax rate reduction from 1 April 2020 be reduced to 17%. This rate was substantively enacted in the Finance Bill 2016 on 6 September 2016 and existing temporary differences on which deferred tax has been provided may therefore unwind in periods subject to this reduced rate. The impact of the post balance sheet date change in tax rate is not expected to be material.

NOTES TO THE FINANCIAL STATEMENTS

6. Investments in group undertakings

Investments in group undertakings are carried at cost less impairment. There were no movements during the year.

	2016 £	2015 £
At 1 January and 31 December	1	1

The subsidiary undertakings of the Company are shown below. Their capital consists of Ordinary Shares.

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
SIG Number 2 Limited	United Kingdom	100	100	Holding of investments

The registered office of SIG Number 2 Limited is 24/25, St Andrew Square, Edinburgh, Scotland, EH2 1AF

7. Investments – available-for-sale

	2016 £	2015 £
At 1 January	80,000	13,601,649
Disposals	(40,350)	(3,752,412)
Assets transferred to investments designated at fair value	-	(2,405,559)
Realised gains	(39,650)	(7,419,086)
Unrealised gains	99,760	55,408
At 31 December	99,760	80,000
Current	-	80,000
Non-current	99,760	-
	99,760	80,000

During the year 2015, management identified investments that the Company has significant influence over were classified as available-for-sale and would be more appropriately classified as designated fair-value-through-profit-and-loss investments in accordance with IAS 28. It had therefore reclassified them as disclosed in Notes 7 and 8. There was no impact on net assets.

8. Investments - designated as at fair value

	2016 £	2015 £
At 1 January	6,263,913	112,366,085
Assets transferred from investments available for sale	-	2,405,559
Disposals	(5,655,551)	(109,378,984)
Fair value adjustments	(42,337)	871,253
At 31 December	566,025	6,263,913
Current	566,025	3,583,345
Non-current	-	2,680,568
	566,025	6,263,913

NOTES TO THE FINANCIAL STATEMENTS

9. Loans and receivables

	2016 £	2015 £
At 1 January	226,968	553,936
Acquisitions	250,000	-
Repaid	(226,968)	(326,968)
At 31 December	<u>250,000</u>	<u>226,968</u>

10. Trade and other receivables

	2016 £	2015 £
Trade receivables	<u>94,846</u>	<u>14,861</u>

11. Trade and other payables

	2016 £	2015 £
Other payables	<u>629,750</u>	<u>573,108</u>

12. Amounts due to group undertakings

	2016 £	2015 £
Other fellow subsidiaries	<u>1</u>	<u>520,252</u>

13. Accruals, deferred income and other liabilities

	2016 £	2015 £
Accruals	<u>13,200</u>	<u>13,356</u>

14. Provision for liabilities

	2016 £	2015 £
Provision for small and medium enterprises	<u>41,000,000</u>	<u>-</u>

The company established a provision of £41 million in November 2016 in respect of the FCA review of RBS's treatment of SME customers, relating to the automatic refund of complex fees for SME customers that were in GRG between 2008 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

15. Deferred tax

The following are the major tax liabilities recognised by the Company, and the movements thereon.

	Available-for-sale assets £	Fair value through profit and loss £	Total £
At 1 January 2015	446,134	4,078,254	4,524,388
Credit to income	-	(3,365,150)	(3,365,150)
Credit to equity	(438,204)	-	(438,204)
At 31 December 2015	7,930	713,104	721,034
Credit to income	-	(605,609)	(605,609)
Credit to equity	(7,930)	-	(7,930)
At 31 December 2016	-	107,495	107,495

16. Financial instruments

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

	Designated as at fair value £	Available -for-sale £	Loans and receivables £	Non financial assets/ liabilities £	Total £
2016					
Assets					
Investment in group undertakings	-	-	-	1	1
Available-for-sale assets	-	99,760	-	-	99,760
Assets - designated as at fair value through profit or loss	566,025	-	-	-	566,025
Loans and receivables	-	-	250,000	-	250,000
Trade and other receivables	-	-	94,846	-	94,846
Current tax asset	-	-	-	7,298,466	7,298,466
Cash at bank	-	-	42,537,848	-	42,537,848
	566,025	99,760	42,882,694	7,298,467	50,846,946
Liabilities					
Provisions	-	-	-	41,000,000	41,000,000
Trade and other payables	-	-	629,750	-	629,750
Current tax liabilities	-	-	-	-	-
Amounts due to group undertakings	-	-	1	-	1
Accruals, deferred income and other liabilities	-	-	-	13,200	13,200
Deferred tax liabilities	-	-	-	107,495	107,495
	-	-	629,751	41,120,695	41,750,446
Equity					9,096,500
					50,846,946

NOTES TO THE FINANCIAL STATEMENTS

16. Financial instruments (continued)

2015	Designated as at fair value £	Available -for-sale £	Loans and receivables £	Non financial assets/ liabilities £	Total £
Assets					
Investments in group undertakings	-	-	-	1	1
Available for sale assets	-	80,000	-	-	80,000
Assets - designated as at fair value through profit or loss	6,263,913	-	-	-	6,263,913
Loans and receivables	-	-	226,968	-	226,968
Amounts due from group undertakings	-	-	-	-	-
Trade and other receivables	-	-	14,861	-	14,861
Cash at bank	-	-	36,986,367	-	36,986,367
	<u>6,263,913</u>	<u>80,000</u>	<u>37,228,196</u>	<u>1</u>	<u>43,572,110</u>
Liabilities					
Trade and other payables	-	-	573,108	-	573,108
Current tax liabilities	-	-	-	6,965,403	6,965,403
Amounts due to group undertakings	-	-	520,252	-	520,252
Accruals, deferred income and other liabilities	-	-	-	13,356	13,356
Deferred tax liabilities	-	-	-	721,034	721,034
			<u>1,093,360</u>	<u>7,699,793</u>	<u>8,793,153</u>
Equity					<u>34,778,957</u>
					<u>43,572,110</u>

NOTES TO THE FINANCIAL STATEMENTS

16. Financial instruments (continued)

Valuation hierarchy

The following table shows the financial instruments carried at fair value by hierarchy level 1, level 2 and level 3.

	Level 1	Level 2	Level 3	Level 3 Sensitivity (1)	Level 3 valuation technique
2016	£	£	£	£	£
Assets					
Available for sale assets	-	-	99,760	9,976	Proprietary models (9,976)
Assets - designated as at fair value through profit or loss	-	-	566,025	112,678	Proprietary models (112,678)
	-	-	665,785	122,654	(122,654)
2015	£	£	£	£	£
Assets					
Available for sale assets	-	-	80,000	8,000	Proprietary models (8,000)
Assets - designated as at fair value through profit or loss	-	-	6,263,913	889,340	Proprietary models (889,340)
	-	-	6,343,913	897,340	(897,340)

Valuation hierarchy

Financial assets and liabilities have been classified above according to a valuation hierarchy that reflects the valuation techniques used to determine fair value:

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

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

Level 3: valuation is based on inputs other than observable market data.

(1) Sensitivity represents the reasonably possible favourable and unfavourable effect respectively on the income statement or the statement of comprehensive income due to reasonably possible changes to valuations using reasonably possible alternative inputs to the RBS's valuation techniques or models. Totals for sensitivities are not indicative of the total potential effect on the income statement or the statement of comprehensive income.

Sensitivity analysis is based on the effect of a +/- 10% change in observable market data input used in the proprietary valuation models on Level 3 investments. The valuation models adopted for Level 3 assets will vary from asset to asset. This may include valuation techniques such as EBITDA/EBITA/EBIT multiples. Sensitivity analysis is performed by flexing the key valuation driver (earnings, turnover, multiple, net assets) by a factor of 10% to assess the impact on asset values at the year end.

NOTES TO THE FINANCIAL STATEMENTS

16. Financial instruments (continued)

Level 3 portfolio movement table

	Available-for-sale assets	
	2016 £	2015 £
At 1 January	80,000	13,069,402
Transfer to assets designated at fair value through profit or loss	-	(2,405,559)
Disposals	(80,000)	(10,639,251)
Fair value adjustment	99,760	55,408
At 31 December	99,760	80,000

	Assets designated at fair value through profit or loss	
	2016 £	2015 £
At 1 January	6,263,913	112,042,233
Transfer from assets available for sale	-	2,405,559
Disposals	(5,655,551)	(109,055,132)
Fair value adjustment	(42,337)	871,253
At 31 December	566,025	6,263,913

Fair value of financial instruments not carried at fair value

The directors consider that the carrying amount of other financial assets and liabilities recognised in the financial statements is equal to the fair value.

Credit quality

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

2016

Probability of default	Assets-designated as at fair value through profit and loss £	Available for sale - assets £	Trade and other receivables £	Loans and receivables £	Total £
0%-0.05%	566,025	99,760	94,846	250,000	1,010,631
0.05% - 1.1%	-	-	-	-	-
1.1% - 2.2%	-	-	-	-	-
2.2% - 17.2%	-	-	-	-	-
17.2% - 100%	-	-	-	-	-
Accruing past due	-	-	-	-	-
Non-accrual	-	-	-	-	-
Impaired	-	-	-	-	-
Impairment provision	-	-	-	-	-
	566,025	99,760	94,846	250,000	1,010,631

NOTES TO THE FINANCIAL STATEMENTS

16. Financial instruments (continued)

2015

Probability of default	Assets- designated as at fair value through profit and loss £	Available for sale - assets £	Trade and other receivables £	Loans and receivables £	Total £
0%-0.05%	6,263,913	80,000	14,861	226,968	6,585,742
0.05% - 1.1%	-	-	-	-	-
1.1% - 2.2%	-	-	-	-	-
2.2% - 17.2%	-	-	-	-	-
17.2% - 100%	-	-	-	-	-
Accruing past due	-	-	-	-	-
Non-accrual	-	-	-	-	-
Impaired	-	-	-	-	-
Impairment provision	-	-	-	-	-
	<u>6,263,913</u>	<u>80,000</u>	<u>14,861</u>	<u>226,968</u>	<u>6,585,742</u>

Probability of default is the likelihood that a customer will fail to make full and timely repayment of credit obligations over a one year time horizon.

There were no assets that were past due but not impaired at the balance sheet date.

17. Share capital

	2016 £	2015 £
Authorised:		
1,000 Ordinary Shares of £1	<u>1,000</u>	<u>1,000</u>
Allotted, called-up and fully paid:		
2 Ordinary Shares of £1	<u>2</u>	<u>2</u>

The Company has one class of Ordinary Shares which carry no right to fixed income.

18. Capital resources

The Company's capital consists of equity comprising issued share capital, retained earnings, loans from Group undertakings and subordinated loans. The Company is a member of The Royal Bank of Scotland group of companies which has regulatory disciplines over the use of capital. In the management of capital resources, the Company is governed by RBS policy which is to maintain a strong capital base: it is not separately regulated. The group has complied with the Prudential Regulation Authority's capital requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS**19. Commitment and Contingent Liabilities**

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 immediately accessible funds or assets, rights, facilities or other resources that, using best efforts, are reasonably capable of being converted to cleared, immediately available funds (the Company's available resources). The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

20. Memorandum item**FCA review of the RBS Group's treatment of SMEs**

In November 2013, Business Innovation and Skills published the Tomlinson report which was critical of the RBS Group's treatment of SMEs. Subsequently the FCA appointed a Skilled Person to report separately to it on the matter.

The RBS Group announced steps that will impact SME customers held in GRG between 2008 and 2013. These steps are (i) an automatic refund of certain complex fees; and (ii) a new complaints process, overseen by an Independent Third Party.

These steps have been developed with the involvement of the FCA which agreed that they are appropriate for the RBS Group to take.

The Company estimates the costs associated with the new complaints review process and the automatic refund of complex fees to be approximately £41 million, which has been recognised as a provision in 2016. This includes operational costs together with the cost of refunded complex fees and the additional estimated redress costs arising from the new complaints process.

The FCA has announced that its review will continue. The RBS Group continues to cooperate fully with the review.

21. Related parties**UK Government**

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

The Company enters into transactions with these bodies on an arms' length basis; they include the payment of UK corporation tax and Value Added Tax.

Group undertakings

The Company's immediate parent companies are The Royal Bank of Scotland plc and N.C. Head Office Nominees Limited, companies incorporated in the UK. As at 31 December 2016, The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated financial statements may be obtained from Corporate Governance and Regulatory Affairs, RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

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