Company Registered Number: 000001C

ISLE OF MAN BANK LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2015

ISLE OF MAN BANK LIMITED

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ISLE OF MAN BANK LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	Stephen John Camm (Chairman) Lynn Ann Cleary Paul David Morris William Catto Shimmins Paul Thomas Smith
SECRETARY:	Kenneth Ian Maddrell
REGISTERED OFFICE:	2 Athol Street Douglas Isle of Man IM99 1AN
AUDITOR:	Deloitte LLP Chartered Accountants Douglas Isle of Man

REPORT OF THE DIRECTORS

The directors of Isle of Man Bank Limited ("the Company") present their report, together with the audited financial statements of the Company for the year ended 31 December 2015. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The main activity of the Company is the provision of an extensive range of banking and other financial services.

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

Business review

The Company's financial performance is presented in the Income Statement on page 6.

The operating profit before tax for the year was £13,436k (2014: £10,918k).

Other matters

The Company's principal business activities are banking services including the taking of deposits and lending in the Isle of Man. Deposits not used to provide third party lending are placed with fellow subsidiaries of The Royal Bank of Scotland Group plc ("RBS"). The financial position of these, and hence ultimate recoverability of these placements, is a key exposure of the Company.

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 within the Accounting policies.

Risk management

The prevailing market and economic conditions pose risks for the Company. These include the level of defaults from customers on outstanding advances as well as the degree of uncertainty in the valuation of other financial assets and liabilities. The financial position of the Company, its cash flows, liquidity position, and borrowing facilities are set out in the financial statements. In addition notes 7 and 17 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit and liquidity risks.

The Board has delegated its authority for day to day risk management to the executive management sitting on committees as detailed in note 17. The Board approves any changes in inter-bank lending lines and in limits governing currency and interest rate exposures. The Board policy is not to enter into derivative transactions for trading purposes, but to undertake such contracts to hedge or reduce the volatility in interest income and foreign exchange. The Company's actual derivative transactions are outlined in note 12 to these financial statements. Further details of the Company's risk management policies are highlighted in note 17 to the financial statements.

Outlook

The directors are satisfied with the financial position of the Company and its subsidiaries and believe that they are appropriately placed to manage their business risks successfully.

The purpose of this report is to provide information to the members of the Company and it is addressed to them as such. Forward looking statements by their nature involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such statements.

ISLE OF MAN BANK LIMITED

REPORT OF THE DIRECTORS

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business Review above. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, notes 7 and 17 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Report of the Directors and the financial statements.

DIVIDENDS

An interim dividend of £10,000k was approved on 24 February 2015. A further dividend of £10,000k was approved on 14 December 2015, both of which were subsequently paid (2014: £32,500k).

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year, are listed on page 1. From 1 January 2015 to date the following changes have taken place:

	Appointed	Resigned
Directors		
Adrian John Gill		28 July 2015

STAFF

The directors wish to thank all the management and staff for the contribution made by them towards achieving these results.

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 in the financial statements.
By order of the Board:

Stephen John Camm
Chairman

Lynn Ann Cleary
Director

ISLE OF MAN BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Isle of Man company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRS as issued by the International Accounting Standards Board. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1931 to 2004. They are also responsible for the system of internal control, 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 are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

By order of the Board:

Stephen John Camm Chairman	Lynn Ann Cleary Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF MAN BANK LIMITED

We have audited the financial statements of Isle of Man Bank Limited ("the Company") for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the accounting policies and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as issued by the International Accounting Standards Board; and
- have been properly prepared in accordance with the Companies Act 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 1931 to 2004 requires us to report to you if, in our opinion:

- proper books of account have not been kept by the Company and that proper 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 books of account and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief, are necessary for the purpose of our audit; or
- certain disclosures of directors' loans and remuneration specified by law have not been complied with.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Douglas
Isle of Man 8th March 2016

ISLE OF MAN BANK LIMITED

INCOME STATEMENT *for the year ended 31 December 2015*

Continuing operations	Notes	2015 £'000	Restated 2014 £'000
Interest receivable		**29,161**	33,922
Interest payable		**(9,627)**	(11,368)
Net interest income	1	**19,534**	22,554
Fees and commission receivable		**6,297**	4,644
Fees and commission payable		**-**	(11)
Other operating income	2	**614**	148
Non-interest income		**6,911**	4,781
Total income		**26,445**	27,335
Operating expenses	3	**(12,858)**	(16,311)
Operating profit before impairment losses		**13,587**	11,024
Impairment losses	8	**(151)**	(106)
Operating profit before tax		**13,436**	10,918
Tax charge	5	**(1,246)**	(1,053)
Profit for the year		**12,190**	9,865

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

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

	Notes	2015 £'000	Restated 2014 £'000	Restated 2013 £'000
Profit for the year		**12,190**	9,865	17,602
Items that will not be reclassified subsequently to profit or loss:				
Actuarial gains/(losses) on defined pension schemes	4	**2,922**	(3,554)	(2,481)
Deferred taxation on actuarial movements on defined benefit pension schemes	14	**(278)**	391	250
Other comprehensive gains/(losses) for the year after tax		**2,644**	(3,163)	(2,231)
Total comprehensive income for the year		**14,834**	6,702	15,371

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

ISLE OF MAN BANK LIMITED

BALANCE SHEET *as at 31 December 2015*

	Notes	2015 £'000	Restated 2014 £'000	Restated 2013 £'000
Assets				
Cash and balances at central banks	7	**17,674**	17,282	16,192
Assets held for sale	7,9	**-**	48	-
Loans and advances to banks	7	**795,057**	828,697	725,126
Loans and advances to customers	7	**576,535**	651,418	682,456
Derivatives	7,12	**9,598**	9,320	7,013
Property, plant and equipment	7,11	**3,540**	3,612	3,739
Prepayments, accrued income and other assets	7	**215**	343	175
Retirement benefit assets	4,7	**6,427**	3,392	3,809
Total assets		**1,409,046**	1,514,112	1,438,510
Liabilities				
Deposits by banks	7	**51,846**	53,238	43,315
Customer accounts	7	**1,254,688**	1,334,196	1,262,305
Derivatives	7,12	**14,069**	14,513	7,773
Accruals, deferred income and other liabilities	7,13	**4,325**	23,706	10,061
Current tax liabilities	7	**1,234**	719	1,477
Deferred tax liabilities	7,14	**652**	342	383
Total liabilities		**1,326,814**	1,426,714	1,325,314
Equity				
Shareholders' equity:				
Called up share capital	15	**7,501**	7,501	7,501
Reserves		**74,731**	79,897	105,695
Total equity	7	**82,232**	87,398	113,196
Total liabilities and equity		**1,409,046**	1,514,112	1,438,510

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 7/3/16 and signed on its behalf by:

Stephen John Camm
Chairman

Lynn Ann Cleary
Director

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

	Notes	2015 £'000	Restated 2014 £'000	Restated 2013 £'000
Called up share capital				
At 1 January and 31 December		**7,501**	7,501	7,501
Retained earnings				
At 1 January		**79,897**	105,695	110,324
Actuarial gains/(losses) recognised in defined benefit schemes	4	**2,922**	(3,554)	(2,481)
Deferred taxation on actuarial movements recognised in defined benefit schemes	14	**(278)**	391	250
Dividends paid	6	**(20,000)**	(32,500)	(20,000)
Profit for the year		**12,190**	9,865	17,602
At 31 December		**74,731**	79,897	105,695
Shareholders' equity at 31 December		**82,232**	87,398	113,196

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

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

	Notes	2015 £'000	Restated 2014 £'000
Operating activities			
Operating profit for the year before tax	19	**13,436**	10,918
Adjustments for:			
Pension charge for defined benefit schemes	4	**414**	421
Cash contribution to defined benefit pension schemes	4	**(527)**	(3,558)
Loss on sale of assets		**-**	2
Depreciation of property, plant and equipment	11	**72**	73
Loan impairment provisions net of recoveries		**35**	(154)
Other non-cash items		**(6)**	(1)
Net cash inflows from trading activities		**13,424**	7,701
Changes in operating assets and liabilities	19	**7,232**	28,617
Net cash flows from operating activities before tax		**20,656**	36,318
Tax paid	19	**(421)**	(1,461)
Net cash flows from operating activities		**20,235**	34,857
Financing activities			
Dividends paid	6	**(20,000)**	(32,500)
Net cash flows used in financing activities		**(20,000)**	(32,500)
Effect of exchange rate changes on cash and cash equivalents		**5**	6
Net increase in cash and cash equivalents		**240**	**2,363**
Cash and cash equivalents 1 January		**18,555**	16,192
Cash and cash equivalents 31 December	20	**18,795**	18,555

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

ACCOUNTING POLICIES

1. Preparation and presentation of financial statements

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

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial assets and financial liabilities designated at fair value through profit or loss and derivative financial instruments. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

The Company is incorporated and registered in the Isle of Man.

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

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

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

The implementation of these requirements has not had a material effect on the Company's financial statements.

2. Consolidated financial statements

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. Under the provisions of section 4 of the Companies Act 1982 the Company has not prepared consolidated financial statements as in the directors' opinion it would be of no real value to the members of the Company due to the insignificant amounts involved. Furthermore the Company is exempt under IFRS 10 'Consolidated Financial Statements' from the requirement to prepare consolidated financial statements as the Company and its subsidiaries are included by full consolidation in the IFRS consolidated financial statements of its ultimate holding company, The Royal Bank of Scotland Group plc, a company registered in Scotland.

3. Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is 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 designated as fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in the income statement.

Commitment and utilisation fees are determined as a percentage of the facility. These fees 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. 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.

4. Pensions and other post-retirement benefits

The Company provides post-retirement benefits in the form of pensions to eligible employees.

4. Pensions and other post-retirement benefits (continued)

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

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

The charge to profit or loss for pension costs (recorded in operating expenses) comprises:

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

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

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

5. Property, plant and equipment

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

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

The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Property adaptation costs	10 years
Computer equipment	up to 5 years
Other equipment	5 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 to previous estimates.

6. Impairment of property, plant and equipment

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

If an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss 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.

7. Foreign currencies

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

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

8. Leases

As lessor
Contracts with customers to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer; all other contracts with customers to lease assets are classified as operating leases.

Finance lease receivables are included in the balance sheet, within Loans and advances to customers, at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment and included in Interest receivable. Unguaranteed residual values are subject to regular review; if there is a reduction in their value, income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

As lessee
Operating lease rental expense is included in Administration costs and recognised as an expense on a straight-line basis over the term of the relevant lease.

9. 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.

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

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.

10. Tax

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, taking into account relief for overseas tax where appropriate.

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 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.

ACCOUNTING POLICIES

11. Financial assets

On initial recognition financial assets are classified into designated at fair value through profit or loss; 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 income statement and are subsequently measured at fair value. Gains and losses on financial assets that are designated at fair value through profit or loss are recognised in the income statement 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 classified as available-for-sale or designated 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 3) 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 multiplied by 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.

12. 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.

Impairment losses are assessed individually for financial assets that are individually significant. Future cash flows from these financial assets are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience. Impairment losses are recognised in the income statement 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 period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

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

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

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

12. Impairment of financial assets (continued)

For certain categories of financial assets, such as credit facilities, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of credit facilities could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

13. 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 at fair value through profit or loss' - financial liabilities 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 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 income statement and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at fair value through profit or loss are recognised in the income statement as they arise.

Amortised cost - all other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 3).

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 multiplied by 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.

14. 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 transfer requires that the Company either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Company assesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. The asset remains on the balance sheet if substantially all the risks and rewards have been retained. It is derecognised if substantially all the risks and rewards have been transferred. If substantially all the risks and rewards have been neither retained nor transferred, the Company assesses whether or not it has retained control of the asset. If the Company has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement; if the Company has not retained control of the asset, it is derecognised.

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

15. Netting

Financial assets and financial liabilities are offset and the net amounts presented in the balance sheet when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Company is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented gross.

16. Derivatives and hedging

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.

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract; unless the entire contract is measured at fair value through the income statement.

16. Derivatives and hedging (continued)

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in the income statement.

The Company has entered into fair value hedge relationships which account for changes in the fair value of a recognised asset or liability or firm commitment.

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Company revokes the designation of a hedge relationship.

Fair value hedge – in a fair value hedge, the gain or loss on the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the income statement and, where the hedged item is measured at amortised cost, adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; or if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to the income statement over the life of the hedged item using a recalculated effective interest rate.

17. Cash and cash equivalents

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.

18. Investment in subsidiary

The Company's investment in its subsidiary is stated at cost less any accumulated impairment losses.

ACCOUNTING POLICIES

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. 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 'Conceptual Framework for Financial Reporting'.

The judgements and assumptions involved in the Company's accounting policies that are considered by the Board of 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 provides for losses existing in its lending book so as to state its loan portfolio at its expected ultimate net recoverable value.

Provisions against large exposures are established individually whilst those for smaller balances are established collectively.

Individual assessment of loans and advances comprises a review of the financial condition of the borrower and any guarantor and takes into account the customer's debt capacity and financial flexibility; the level and quality of earnings; the amount and sources of cash flows; the industry in which the customer operates; and the realisable value of any security held. The most significant estimates that affect the quantum of any specific provision are the amounts and timing of receipts from the borrower or recoveries from any security held.

All provisions are quantified on an effective interest rate basis so that the loan will yield a consistent return over its expected remaining life. The discounting required in the calculation of a provision is included in the initial charge; the discount unwinds through interest receivable in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

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 the performing portfolio before it is identified and reported as such, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life.

At 31 December 2015, gross impaired loans and advances to customers totalled £2,512k (2014: £2,462k) and customer loan impairment provisions amounted to £774k (2014: £638k). The fair value of security held against the loans and advances to customers above amounted to £1,836k (2014: £1,516k).

Evaluating estimates of provisions involves significant judgement, as receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions. Additionally, the security may not be readily marketable.

The future credit quality of the Company's lending book is subject to uncertainties that could cause actual credit losses to differ materially from reported loan loss provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends and changes in the Company's portfolios.

Pensions

The Company operates two pension schemes: The Isle of Man Pension Fund and The Isle of Man Bank Widows' and Orphans' Fund. The assets of the defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit credit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. Any surplus or deficit of scheme assets over liabilities is recognised on the balance sheet as an asset (surplus) or liability (deficit).

In determining the value of scheme liabilities, financial and demographic assumptions are made including price inflation, pension increase, earnings growth and the longevity of scheme members. A range of assumptions could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the surplus or deficit recognised on the balance sheet and the pension cost charged to the income statement. The assumptions adopted for the Company's pension schemes are set out in note 4 to the financial statements, together with sensitivities of the balance sheet and income statement to changes in those assumptions.

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

Pensions (continued)

A pension asset of £6,427k was recognised on the balance sheet at 31 December 2015 (2014: £3,392k).

Provisions for liabilities

As set out in Note 13, at 31 December 2015 the Company recognised provisions for liabilities totalling £1,255k (2014: £1,077k). Provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Company can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Fair value

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 participation at the measurement date. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

Financial assets carried at fair value include advances to banks, asset backed and corporate debt obligations, corporate equity shares and derivatives. Financial liabilities carried at fair value include deposits and derivatives. Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters. Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates.

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

Accounting developments

A number of IFRS and amendments to IFRS were in issue at 31 December 2015 that had effective dates of 1 January 2016 or later.

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

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

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

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

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

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

Accounting developments (continued)

Effective after 2016

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

IFRS 16 Leases was issued in January 2016 to replace IAS 17 Leases. Accounting for finance leases will remain substantially the same. Operating leases will be brought on balance sheet through the recognition of assets representing the contractual rights of use and liabilities will be recognised for the contractual payments. The effective date is 1 January 2019.

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 for classification and measurement of financial instruments, impairment of financial instruments and hedge accounting.

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.

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.

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.

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 Group expects that the measurement basis of the majority of the Group'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.

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 lease receivables and 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 assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted: determined by evaluating at the reporting date 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.

The Group has established a programme 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.

Accounting developments (continued)

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

Transition
The classification and measurement and impairment requirements are to be 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.

The Group is continuing to assess the standard's effect on its financial statements.

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

1. Net interest income

	2015 £'000	2014 £'000	2013 £'000
Interest receivable from Group undertakings	**7,531**	10,095	11,166
Interest receivable on loans and advances to customers	**21,630**	23,827	23,820
Interest receivable	**29,161**	33,922	34,986
Interest payable on customer accounts	**(4,168)**	(5,833)	(8,361)
Interest payable to Group undertakings	**(5,459)**	(5,535)	(1,769)
Interest payable	**(9,627)**	(11,368)	(10,130)
Net interest income	**19,534**	22,554	24,856

2. Other operating income

	2015 £'000	2014 £'000	2013 £'000
Gain/(loss) on the sale of Property, plant and equipment	**147**	(2)	301
Other income	**467**	150	169
Other operating income	**614**	148	470

3. Operating expenses

	2015 £'000	2014 £'000	2013 £'000
Staff costs			
Wages, salaries and other staff costs	**4,186**	4,531	4,759
Pension costs:			
- defined benefit schemes (see note 4)	**414**	421	495
- defined contributions schemes (see note 4)	**47**	41	44
- contributions to RBS operated pension schemes	**-**	56	(50)
	4,647	5,049	5,248
Other expenses			
Premises and equipment	**84**	116	-
Administration (1)	**8,055**	11,073	10,095
	8,139	11,189	10,095
Depreciation			
Property, plant and equipment depreciation (see note 11)	**72**	73	80
Operating expenses	**12,858**	16,311	15,423

(1) Administrative costs include provisions for possible product redress.

Auditor's remuneration	2015 £'000	2014 £'000	2013 £'000
Statutory audit work	**54**	54	54
Regulatory audit work	**23**	26	25
	77	80	79

The average number of persons employed by the Company during the year, excluding temporary staff was 127 (2014: 139).

4. Pension costs

The Company made contributions of £47k to its own defined contribution schemes in 2015 (2014: £41k).

Eligible employees of the Company can participate in membership of RBS operated pension schemes. The principal defined benefit scheme in the UK was The Royal Bank of Scotland Group Pension Fund (the "Main scheme"). The Main scheme was closed to new entrants in October 2006 and since then employees have been offered membership of The Royal Bank of Scotland Retirement Savings Plan, a defined contribution pension scheme. Detailed disclosure of the RBS pension schemes is available in the RBS Annual Report and Accounts 2015.

The Company operates two defined benefit pension scheme, The Isle of Man Bank Pension Fund ("IOMPF") and The Isle of Man Bank Widows' and Orphans' Fund ("IOMWO"), the assets of which are independent of the Company's finances.

The schemes operate under Isle of Man trust law and are managed and administered on behalf of their members in accordance with the terms of the trust deed, the scheme rules and Isle of Man legislation. There is no pension scheme funding legislation in the Isle of Man. However, statutory debt rules do apply such that a debt may be due on an employer if it becomes insolvent; the scheme winds up; or, in the case of a multi-employer scheme, stops participating in the scheme while the scheme continues.

The trustees of the schemes collectively own the scheme assets which are held separately from the assets of the Company. The Trustee body comprises three trustees nominated by the Company, one representative of the pensioners; one representative of the recognised union in the Isle of Man and one independent trustee. The trustees are responsible for operating the schemes in line with its formal rules and pensions law. It has a duty to act in the best interests of all scheme members, including pensioners and those who are no longer employed by the Company but who still have benefits in the schemes.

The Company's schemes were closed to new entrants in 2006.

Full valuations of the Company's scheme are carried out every 3 years.

Interim valuations of the Company's scheme were prepared to 31 December 2015 by independent actuaries, using the following assumptions:

Principal actuarial assumptions at 31 December	**2015**	2014	2013
Discount rate	**3.90%**	3.70%	4.65%
Rate of increase in salaries	**1.75%**	1.75%	1.75%
Rate of increase in pensions in payment	**2.00%**	2.10%	2.30%
Inflation assumption	**3.00%**	2.95%	3.30%

Discount rate

The Sterling yield curve is constructed by reference to yields on 'AA' corporate bonds from which a single discount rate is derived based on a cash flow profile similar in structure and duration to the pension obligations. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The criteria include issuance size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: for the Sterling curve, a constant credit spread relative to gilts is assumed at long durations.

Major classes of plan assets as a percentage of total plan assets	**2015**	2014	2013
Quoted assets			
Equities	**33%**	30%	34%
Index-linked bonds	**5%**	5%	5%
Government fixed interest bonds	**44%**	44%	43%
Corporate and other bonds	**18%**	18%	18%
Cash	**0%**	3%	0%
	100%	100%	100%

4. Pension costs (continued)

Post-retirement mortality assumptions	**2015**	2014	2013
Longevity at age 60 for current pensioners (years)			
Males	**28.6**	28.7	28.4
Females	**31.2**	31.4	30.9
Longevity at age 60 for future pensioners currently aged 40 (years)			
Males	**30.4**	30.6	29.9
Females	**33.2**	33.4	32.6

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the schemes.

Changes in value of net pension asset	**Fair value of plan assets £'000**	**Present value of defined benefit obligations £'000**	**Net pension asset £'000**
At 1 January 2015	108,007	(104,615)	**3,392**
Income statement:			
Expected return	3,723	-	**3,723**
Interest cost	-	(3,272)	**(3,272)**
Current service cost	-	(865)	**(865)**
	3,723	(4,137)	**(414)**
Statement of comprehensive income:			
Actuarial (losses)/gains due to experience gains	(3,408)	280	**(3,128)**
Actuarial gains due to changes in financial assumptions	-	5,704	**5,704**
Actuarial gains due to changes in demographic assumptions	-	690	**690**
Loss resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest (income)/cost	(344)	-	**(344)**
	(3,752)	6,674	2,922
Contributions by employer	527	-	527
Benefits paid	(4,071)	4,071	-
At 31 December 2015	**104,434**	**(98,007)**	**6,427**

4. Pension costs (continued)

Changes in value of net pension asset	Fair value of plan assets £'000	Present value of defined benefit obligations £'000	Net pension asset £'000
At 1 January 2014	90,959	(87,150)	3,809
Income statement:			
Expected return	4,180	-	4,180
Interest cost	-	(3,981)	(3,981)
Current service cost	-	(620)	(620)
	4,180	(4,601)	(421)
Statement of comprehensive income:			
Actuarial gains due to experience gains	12,571	-	12,571
Actuarial losses due to changes in financial assumptions	-	(14,890)	(14,890)
Actuarial losses due to changes in demographic assumptions	-	(1,065)	(1,065)
Losses resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income	(170)	-	(170)
	12,401	(15,955)	(3,554)
Contributions by employer	3,558	-	3,558
Benefits paid	(3,091)	3,091	-
At 31 December 2014	108,007	(104,615)	3,392

Changes in value of net pension asset	Fair value of plan assets £'000	Present value of defined benefit obligations £'000	Net pension asset £'000
At 1 January 2013	94,893	(91,696)	3,197
Income statement:			
Expected return	4,219	-	4,219
Interest cost	-	(4,051)	(4,051)
Current service cost	-	(663)	(663)
	4,219	(4,714)	(495)
Statement of comprehensive income:			
Actuarial gains and losses due to experience gains	(442)	7,337	6,895
Actuarial gains due to changes in financial assumptions	-	1,894	1,894
Actuarial losses due to changes in demographic assumptions	-	(3,297)	(3,297)
Losses resulting from changes in additional liability due to minimum funding requirements excluding amounts recognised in net interest income	(7,973)	-	(7,973)
	(8,415)	5,934	(2,481)
Contributions by employer	3,588	-	3,588
Benefits paid	(3,326)	3,326	-
At 31 December 2013	90,959	(87,150)	3,809

4. Pension costs (continued)

Of the expense for the year, £414k (2014: £421k) has been included in the income statement within staff costs (see note 3).

The Company expects to contribute £4,838k to its defined benefit pension schemes in 2016.

The weighted average duration of the Group's defined benefit obligation is 23 years.

History of defined benefit scheme	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Present value of defined benefit obligations	**(98,007)**	(104,615)	(87,150)	(91,696)	(85,703)
Fair value of plan assets	**104,434**	116,521	98,932	94,893	86,730
Pension IFRIC 14 Adjustment	**-**	(8,514)	(7,973)	(5,975)	(6,256)
Net surplus/(defecit)	**6,427**	3,392	3,809	(2,778)	(5,229)
Experience (losses)/gains on plan liabilities	**(40)**	-	7,337	-	-
Experience (losses)/gains on plan assets	**(3,140)**	12,571	(442)	2,913	5,757
Actual return on pension scheme assets	**1,122**	17,122	3,777	7,090	9,971

The table below sets out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet dates to a change in the principal actuarial assumptions:

	(Decrease)/increase in pension cost for the year			(Decrease)/increase in obligation at 31 December		
	2015 £'000	2014 £'000	2013 £'000	**2015 £'000**	2014 £'000	2013 £'000
0.25% increase in the discount rate	**(241)**	(278)	(270)	**(5,089)**	(5,355)	(4,186)
0.25% increase in inflation	**186**	206	185	**4,514**	5,101	3,963
0.25% additional rate of increase in pensions in payment	**144**	160	153	**3,577**	3,871	2,979
0.25% additional rate of increase in deferred pensions	**41**	45	38	**904**	1,186	951
0.25% additional rate of increase in salaries	**56**	52	58	**743**	710	547
Longevity increase of one year	**107**	103	119	**2,287**	2,476	1,927

5. Tax

	2015 £'000	2014 £'000	2013 £'000
Current tax:			
Charge for the year	**1,234**	719	1,477
Over provision in respect of prior periods	**(20)**	(16)	(10)
Total current tax	**1,214**	703	1,467
Deferred tax:			
Origination and reversal of timing differences	**32**	350	312
Tax charge for the year	**1,246**	1,053	1,779

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax of 10% (2014: 10%) as follows:

	2015 £'000	2014 £'000	2013 £'000
Operating profit before tax	**13,436**	10,918	19,381
Expected tax charge	**1,344**	1,129	1,938
Factors affecting the charge for the year:			
Disallowable expenses	**(7)**	10	-
Profits taxed at 10%	**(94)**	(71)	(128)
Other	**3**	(15)	(31)
Actual tax charge for the year	**1,246**	1,053	1,779

6. Ordinary dividends

	2015 £'000	2014 £'000	2013 £'000
Interim dividend of 266.6p (2014: 433.3p) per share	**20,000**	32,500	20,000

An interim dividend of £10,000k was approved on 24 February 2015. A further dividend of £10,000k was approved on 14 December 2015, both of which were subsequently paid (2014: £32,500k).

7. Financial instruments

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

2015	Designated as at fair value through profit or loss £'000	Available-for-sale £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets/ liabilities £'000	Total £'000
Assets						
Cash and balances at central banks	-	-	17,674	-	-	**17,674**
Assets held for sale	-	-	-	-	-	**-**
Loans and advances to banks	-	-	795,057	-	-	**795,057**
Loans and advances to customers	-	-	576,535	-	-	**576,535**
Derivatives	9,598	-		-	-	**9,598**
Property, plant and equipment		-	-	-	3,540	**3,540**
Prepayments, accrued income and other assets	-	-	-	-	215	**215**
Retirement benefit assets	-	-	-	-	6,427	**6,427**
	9,598	-	1,389,266	-	10,182	**1,409,046**
Liabilities						
Deposits by banks	-	-	-	51,846	-	**51,846**
Customer accounts	-	-	-	1,254,688	-	**1,254,688**
Derivatives	14,069	-	-	-	-	**14,069**
Accruals, deferred income and other liabilities	-	-	-	-	4,325	**4,325**
Current taxation	-	-	-	-	1,234	**1,234**
Deferred taxation	-	-	-	-	652	**652**
	14,069	-	-	1,306,534	6,211	**1,326,814**
Equity						**82,232**
						1,409,046

7. Financial Instruments (continued)

Restated 2014	Designated as at fair value through profit or loss £'000	Available-for-sale £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets/ liabilities £'000	Total £'000
Assets						
Cash and balances at central banks	-	-	17,282	-	-	17,282
Assets held for sale	-	48	-			48
Loans and advances to banks	865	-	827,832	-	-	828,697
Loans and advances to customers	-	-	651,418	-	-	651,418
Derivatives	9,320	-	-	-	-	9,320
Property, plant and equipment	-	-	-	-	3,612	3,612
Prepayments, accrued income and other assets	-	-	-	-	343	343
Retirement benefit assets	-	-	-	-	3,392	3,392
	10,185	48	1,496,532	-	7,347	1,514,112
Liabilities						
Deposits by banks	-	-	-	53,238	-	53,238
Customer accounts	865	-	-	1,333,331	-	1,334,196
Derivatives	14,513	-	-	-	-	14,513
Accruals, deferred income and other liabilities	-	-	-	-	23,706	23,706
Current taxation	-	-	-	-	719	719
Deferred taxation	-	-	-	-	342	342
	15,378	-	-	1,386,569	24,767	1,426,714
Equity						87,398
						1,514,112

Restated 2013	Designated as at fair value through profit or loss £'000	Available-for-sale £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets/ liabilities £'000	Total £'000
Assets						
Cash and balances at central banks	-	-	16,192	-	-	16,192
Assets held for sale	-	-	-			-
Loans and advances to banks	2,333	-	722,793	-	-	725,126
Loans and advances to customers	-	-	682,456	-	-	682,456
Derivatives	7,013	-	-	-	-	7,013
Property, plant and equipment	-	-	-	-	3,739	3,739
Prepayments, accrued income and other assets	-	-	-	-	175	175
Retirement benefit assets	-	-	-	-	3,809	3,809
	9,346	-	1,421,441	-	7,723	1,438,510
Liabilities						
Deposits by banks	-	-	-	43,315	-	43,315
Customer accounts	2,333	-	-	1,259,972	-	1,262,305
Derivatives	7,773	-	-	-	-	7,773
Accruals, deferred income and other liabilities	-	-	-	-	10,061	10,061
Current taxation	-	-	-	-	1,477	1,477
Deferred taxation	-	-	-	-	383	383
	10,106	-	-	1,303,287	11,921	1,325,314
Equity						113,196
						1,438,510

7. Financial Instruments (continued)

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

	2015			
	Level 1 (1)	**Level 2 (2)**	**Level 3 (3)**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Assets				
Derivatives	**1,649**	**7,949**	**-**	**9,598**
Total	**1,649**	**7,949**	**-**	**9,598**
Liabilities				
Derivatives	**(1,640)**	**15,709**	**-**	**14,069**
Total	**(1,640)**	**15,709**	**-**	**14,069**

	2014			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Loans and advances to banks	-	865	-	865
Derivatives	7,257	2,063	-	9,320
Total	7,257	2,928	-	10,185
Liabilities				
Customer accounts	-	865	-	865
Derivatives	8,337	6,176	-	14,513
Total	8,337	7,041	-	15,378

	2013			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Assets				
Loans and advances to banks	-	2,333	-	2,333
Derivatives	5,956	1,057	-	7,013
Total	5,956	3,390	-	9,346
Liabilities				
Customer accounts	-	2,333	-	2,333
Derivatives	5,739	2,034	-	7,773
Total	5,739	4,367	-	10,106

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments.

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

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

(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.

7. Financial Instruments (continued)

The following table shows the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost: all assets and liabilities carried at amortised cost on the balance sheet fall within level 2 of the valuation methodologies, as set out on page 26.

	2015 Carrying value £'000	**2015 Fair value £'000**	2014 Carrying value £'000	2014 Fair value £'000	2013 Carrying value £'000	2013 Fair value £'000
Financial assets						
Cash and balances at central banks	**17,674**	**17,674**	17,282	17,282	16,192	16,192
Loans and advances to banks						
Loans and receivables	**795,057**	**795,057**	827,832	827,832	722,793	722,793
Loans and advances to customers						
Loans and receivables	**576,535**	**552,577**	651,418	657,228	682,456	643,320
Financial liabilities						
Deposits by banks	**51,846**	**51,846**	53,238	53,238	43,315	43,315
Customer accounts	**1,254,688**	**1,254,688**	1,333,331	1,333,331	1,259,972	1,259,972

Differences between the carrying value and the fair value of loans and receivables above relate specifically to certain advances that are at fixed interest rates and fixed maturity dates. There is no intention to break any of these advances prior to maturity and the difference between carrying value and fair value is never expected to be realised.

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

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

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are set out below:

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

The Company uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate; option pricing models (such as Black-Scholes or binomial option pricing models) and simulation models such as Monte-Carlo.

The principal inputs to these valuation techniques are listed below. Values between and beyond available data points are obtained by interpolation and extrapolation. When utilising valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

- Bond prices - quoted prices are generally available for government bonds, certain corporate securities and some mortgage-related products.
- Credit spreads - where available, these are derived from prices of credit default swaps or other credit based instruments, such as debt securities. For others, credit spreads are obtained from pricing services.
- Interest rates - these are principally benchmark interest rates such as the London Inter-Bank Offered Rate (LIBOR) and quoted interest rates in the swap, bond and futures markets.
- Foreign currency exchange rates - there are observable markets both for spot and forward contracts and futures in the world's major currencies.

7. Financial Instruments (continued)

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

Deposits by banks and customer accounts
The fair values of deposits are estimated using discounted cash flow valuation techniques.

Remaining maturity

2015	**Less than 12 months £'000**	**More than 12 months £'000**	**Total £'000**
Assets			
Cash and balances at central banks	**17,674**	**-**	**17,674**
Loans and advances to banks	**767,057**	**28,000**	**795,057**
Loans and advances to customers	**27,786**	**548,749**	**576,535**
Derivatives	**8,619**	**979**	**9,598**
Liabilities			
Deposits by banks	**51,846**	**-**	**51,846**
Customer accounts	**1,251,676**	**3,012**	**1,254,688**
Derivatives	**13,090**	**979**	**14,069**

2014	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at central bank	17,282	-	17,282
Loans and advances to banks	744,324	84,373	828,697
Loans and advances to customers	85,163	566,255	651,418
Derivatives	216	9,104	9,320
Liabilities			
Deposits by banks	53,238	-	53,238
Customer accounts	1,310,708	23,488	1,334,196
Derivatives	206	14,307	14,513

2013	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at central bank	16,192	-	16,192
Loans and advances to banks	583,137	141,989	725,126
Loans and advances to customers	43,301	639,155	682,456
Derivatives	88	6,925	7,013
Liabilities			
Deposits by banks	43,315	-	43,315
Customer accounts	1,238,062	24,243	1,262,305
Derivatives	76	7,697	7,773

8. Financial assets - impairments

The following table shows analysis of impaired financial assets:

	2015			2014			2013		
	Cost £'000	Provision £'000	Net book value £'000	Cost £'000	Provision £'000	Net book value £'000	Cost £'000	Provision £'000	Net book value £'000
Impaired financial assets									
Loans and advances to customers	2,512	(774)	1,738	2,462	(638)	1,824	2,139	(696)	1,443

The above provision is with respect to the impaired book and excludes the latent provision.

The fair value of security held against these loans and advances to customers amounted to £1,836k (2014: £1,516k).

The following tables show the movement in the provision for impairment losses for loans and advances:

	Latent £'000	**Specific £'000**	**Total £'000**
At 1 January 2015	213	638	851
Amounts written off	-	(116)	(116)
Charge to the income statement	(11)	162	151
Recoveries of amounts previously written off	-	90	90
At 31 December 2015	202	774	976

	Latent £'000	Specific £'000	Total £'000
At 1 January 2014	213	696	909
Amounts written off	-	(260)	(260)
Charge to the income statement	-	106	106
Recoveries of amounts previously written off	-	96	96
At 31 December 2014	213	638	851

	Latent £'000	Specific £'000	Total £'000
At 1 January 2013	212	756	968
Amounts written off	-	(239)	(239)
Charge to the income statement	1	91	92
Recoveries of amounts previously written off	-	91	91
Unwind of discount - per PY	-	(3)	(3)
At 31 December 2013	213	696	909

8. Financial assets - impairments (continued)

The following tables show an analysis of past due but not impaired:

2015	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	**3,915**	**1,674**	**542**	**1,990**	**8,121**
2014					
Loans and advances to customers	1,822	1,048	54	3,686	6,610
2013					
Loans and advances to customers	2,639	1,279	512	1,707	6,137

9. Assets held for sale

As at 31 December 2014 a property with a net book value of £48k was held for sale. The property was sold in the current year.

10. Investment in subsidiary

	2015 £	2014 £	2013 £
At 1 January and 31 December	**100**	100	100

The Company owns 100% of the share capital of Isle of Man Nominees Limited, a nominee company incorporated and registered in the Isle of Man.

11. Property, plant and equipment

2015	Freehold Premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2015	6,327	179	6,506
Additions	-	-	-
Disposals	-	-	-
Held for sale	-	-	-
Currency translations and other adjustments	-	-	-
At 31 December 2015	**6,327**	**179**	**6,506**
Accumulated depreciation and amortisation:			
At 1 January 2015	2,722	172	2,894
Disposals	-	-	-
Depreciation charge for the year	65	7	72
Held for sale	-	-	-
Currency translations and other adjustments	-	-	-
At 31 December 2015	**2,787**	**179**	**2,966**
Net book value at 31 December 2015	**3,540**	**-**	**3,540**

11. Property, plant and equipment (continued)

2014	Freehold Premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2014	6,389	179	6,568
Additions	-	-	-
Disposals	(3)	-	(3)
Held for sale	(60)	-	(60)
Currency translations and other adjustments	1	-	1
At 31 December 2014	6,327	179	6,506
Accumulated depreciation and amortisation:			
At 1 January 2014	2,666	163	2,829
Depreciation charge for the year	64	9	73
Disposals	(1)	-	(1)
Held for sale	(12)	-	(12)
Currency translations and other adjustments	5	-	5
At 31 December 2014	2,722	172	2,894
Net book value at 31 December 2014	3,605	7	3,612

2013	Freehold Premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2013	6,389	179	6,568
Additions	-	-	-
Disposals	-	-	-
Held for sale	-	-	-
Currency translations and other adjustments	-	-	-
At 31 December 2013	6,389	179	6,568
Accumulated depreciation and amortisation:			
At 1 January 2013	2,601	148	2,749
Depreciation charge for the year	65	15	80
Disposals	-	-	-
Held for sale	-	-	-
Currency translations and other adjustments	-	-	-
At 31 December 2013	2,666	163	2,829
Net book value at 31 December 2013	3,723	16	3,739

12. Derivatives

Companies in the Group enter into various derivatives to manage year end foreign exchange and interest rate risks. Derivatives include swaps, forwards and options. They may be traded over-the-counter (OTC).

Swaps include currency swaps, interest rate swaps and equity and index swaps. A swap is an agreement to exchange cash flows in the future in accordance with a pre-arranged formula. Interest rate swap contracts generally involve exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

Forwards include forward foreign exchange contracts and forward rate agreements. A forward contract is a contract to buy or sell a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date. Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future date; there is no exchange of principal.

12. Derivatives (continued)

Options include OTC currency options, interest rate caps and floors and swap options. They are contracts that give the holder the right but not the obligation to buy or sell a specified amount of the underlying physical or financial commodity at an agreed price on an agreed date or over an agreed period.

The Company enters into fair value hedges and hedges of net investments in foreign operations. Fair value hedges principally involve interest rate swaps hedging the interest rate risk in recognised financial assets and financial liabilities. The Company hedges its net investment in foreign operations with currency borrowings.

Included in the table below are derivatives entered into during the normal course of business with customers and other RBS companies:

	2015			2014			2013		
	Notional amounts £'000	**Assets £'000**	**Liabilities £'000**	Notional amounts £'000	Assets £'000	Liabilities £'000	Notional amounts £'000	Assets £'000	Liabilities £'000
Exchange rate contracts									
Spots and forwards - RBS entities	**141,189**	**694**		68,177	201	-	38,371	29	-
Spots and forwards - third party	**22,122**	**954**	**7**	937	15	23	962	59	-
Interest rate swaps									
RBS	**141,189**	**7,949**	**14,062**	117,970	9,104	14,490	121,231	6,925	7,773
	304,500	**9,597**	**14,069**	187,084	9,320	14,513	160,564	7,013	7,773

Included in the above are fair value hedge accounting derivatives as follows:

Interest rate swaps	**13,477**	**-**	**2,692**	13,626	-	2,978	43,426	-	6,711

Gains and losses that have gone through the income statement in relation to interest rate swaps and fair value hedged items are as follows:

	2015 £'000	2014 £'000	2013 £'000
Gains recognised on the hedge accounting interest rate swap	**1,285**	4,282	3,517
Losses recognised on the item being hedged	**(1,652)**	(4,270)	(3,093)

13. Accruals, deferred income and other liabilities

	2015 £'000	2014 £'000	2013 £'000
Accruals and deferred income	**2,625**	22,377	9,673
Other liabilities	**1,700**	1,329	388
	4,325	23,706	10,061

Provisions of £1,255k (2014: £1,077k) are included in other liabilities.

The following amounts are included within provisions:

	Customer redress (1) £'000	**Other £'000**	**Total £'000**
At 1 January 2015	160	917	1,077
Charged to the income statement	475	260	735
Utilised in year	(233)	(324)	(557)
At 31 December 2015	**402**	**853**	**1,255**

(1) Customer redress provision
The Company has provided for customer redress in relation to payment protection insurance, interest rate hedging products and other retail products.

14. Deferred taxation

	Pension £'000	Accelerated capital allowances £'000	Provisions £'000	Total £'000
At 1 January 2013	(320)	(1)	-	(321)
Charge to income statement	(311)	(1)	-	(312)
Charge to other comprehensive income	(547)	-	-	(547)
Restatement of opening balance	797	-	-	797
At 1 January 2014	(381)	(2)	-	(383)
Charge to income statement	(350)	-	-	(350)
Credit to other comprehensive income	391	-	-	391
At 1 January 2015	(340)	(2)	-	(342)
Credit/(charge) to income statement	(34)	2	-	(32)
Charge to other comprehensive income	(278)	-	-	(278)
At 31 December 2015	**(652)**	-	-	**(652)**

During the year the Company has adopted IFRIC 14 "Limit On Defined Benefit Asset" and this caused a decrease in pension surplus recognised in the financial statements. The change in the accounting standard has been applied retrospectively and the pension asset and the deferred tax liability have been restated in 2013 and 2014 financial statements. The deferred tax liability balance was decreased by 797K in 2013 and 850k in 2014 as result of the changes in IFRIC 14.

15. Called up share capital

	Allotted, called up and fully paid			Authorised		
	31 December 2015 £'000	31 December 2014 £'000	31 December 2013 £'000	**2015 £'000**	2014 £'000	2013 £'000
Equity shares:						
Ordinary shares of £1	**7,501**	7,501	7,501	**15,000**	15,000	15,000
Preference shares of £1	-	-	-	**5**	5	5
Total share capital	**7,501**	7,501	7,501	**15,005**	15,005	15,005

	Allotted, called up and fully paid			Authorised		
Number of shares	**31 December 2015 £'000**	31 December 2014 £'000	31 December 2013 £'000	**2015 £'000**	2014 £'000	2013 £'000
Equity shares:						
Ordinary shares of £1	**7,501**	7,501	7,501	**15,000**	15,000	15,000
Preference shares of £1	-	-	-	**5**	5	5
	7,501	7,501	7,501	**15,005**	15,005	15,005

16. Leases

Amounts receivable under non-cancellable leases:

	2015			2014			2013		
Year in which receipt will occur:	**Gross amounts £'000**	**Present value adjustments £'000**	**Present value £'000**	Gross amounts £'000	Present value adjustments £'000	Present value £'000	Gross amounts £'000	Present value adjustments £'000	Present value £'000
Within 1 year	**3,404**	**(197)**	**3,207**	3,404	(341)	3,063	3,404	(179)	3,225
After 1 year but within 5 years	**13,614**	**(2,545)**	**11,069**	13,614	(3,038)	10,576	13,614	(2,318)	11,296
After 5 years	**27,229**	**(11,723)**	**15,506**	34,035	(16,420)	17,615	37,439	(16,438)	21,001
	44,247	**(14,465)**	**29,782**	51,053	(19,799)	31,255	54,457	(18,935)	35,522

16. Leases (continued)

Minimum amounts payable under non–cancellable leases:

	2015			
Year in which payment will occur:	**Within 1 year £'000**	**After 1 year but within 5 years £'000**	**After 5 years £'000**	**Total £'000**
Operating lease obligations:				
Premises	**1,650**	**4,646**	**7,835**	**14,131**

	2014			
Year in which payment will occur:	Within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
Operating lease obligations:				
Premises	1,799	4,716	7,735	14,250

	2013			
Year in which payment will occur:	Within 1 year £'000	After 1 year but within 5 years £'000	After 5 years £'000	Total £'000
Operating lease obligations:				
Premises	1,712	5,156	8,132	15,000

	2015 £'000	2014 £'000	2013 £'000
Amounts recognised as income and expense			
Operating lease payables – minimum payments	**1,778**	1,799	1,712

Residual value exposures

There are no unguaranteed residual values included in the carrying value of finance lease receivables.

17. Risk management

The major risks associated with The Royal Bank of Scotland International (Holdings) Limited and its subsidiaries (together the "Group") are market, liquidity, credit, regulatory and operational risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments. The Company is a wholly owned subsidiary of The Royal Bank of Scotland International (Holdings) Limited.

As discussed in the Report of the Directors, the authority for day-to-day risk management has been delegated to the Investment Risk Committee ("IRC"), the Offshore Asset and Liability Committee ("ALCO"), the Executive Committee Offshore ("ExCo") and the Offshore Audit Committee ("OAC").

17. Risk management (continued)

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 Group's financial condition or results.

The Group's management of its exposure to market risk recognises a fundamental distinction between the core (retail) lending and deposits and the Group's foreign exchange and money market (wholesale) activities.

Market risk includes:

Interest rate risk
Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of the yield curves and changes in the correlation of interest rates between different financial instruments. In addition to interest rate risk positions managed within controlled risk limits by the Treasury unit, structural interest rate risk arises in the consolidated balance sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities. Exposure to interest rate movements arises when there is a mis-match between interest rate sensitive assets and liabilities. The Group closely monitors interest rate movements, the interest rate and re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities. In order to reduce the effect of fluctuating interest rates on net interest income, the composition of non-trading interest rate risk is assessed and funding positions or other derivative transactions are hedged with RBS.

Currency risk

All transactional (or non-structural) currency exposure risk is managed by the Treasury unit and there remains a small immaterial open position which is measured on a daily basis within set limits. The principal non-sterling currencies in which the Group has transactional currency exposure are US Dollar and the Euro. These exposures are analysed in the table 'Balance Sheet by Currency'.

Value-at-Risk ("VaR")
The Group manages market risk through VaR limits as well as stress testing, position and sensitivity limits. VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The table below sets out the VaR for the Company, which assumes a 99% confidence level and a one-day time horizon.

	31 December 2015	**Maximum**	**Minimum**	**Average**
	£'000	**£'000**	**£'000**	**£'000**
Value-at-Risk	**2**	**7**	**1**	**4**

	31 December 2014	Maximum	Minimum	Average
	£'000	£'000	£'000	£'000
Value-at-Risk	5	18	4	7

Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations. These limitations are listed below:

- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- VaR using a 99% confidence level does not reflect the extent of potential losses beyond that percentile.
- The Group largely computes the VaR of the trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Group's intra-day exposure such as the calculation of VaR for selected portfolios.

These limitations and the nature of the VaR measure mean that the Company cannot guarantee that losses will not exceed the VaR amounts indicated or that losses in excess of the VaR amounts will not occur more frequently than once in 20 business days.

17. Risk management (continued)

Balance sheet by currency

2015	Sterling £'000	US Dollars £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at banks	17,640	16	15	3	17,674
Assets held for sale	-	-	-	-	-
Loans and advances to banks	693,577	66,009	23,625	11,846	795,057
Loans and advances to customers	576,535	-	-	-	576,535
Property, plant and equipment	3,540	-	-	-	3,540
Derivatives	8,942	377	279	-	9,598
Prepayments, accrued income and other assets	215	-	-	-	215
Retirement benefit asset	6,427	-	-		6,427
Total assets	**1,306,876**	**66,402**	**23,919**	**11,849**	**1,409,046**
Liabilities and equity					
Deposits by banks	51,112	217	300	217	51,846
Customer accounts	1,153,730	65,794	23,324	11,840	1,254,688
Derivatives	12,471	1,597	-	1	14,069
Accruals, deferred income and other liabilities	4,325	-	-	-	4,325
Current taxation	1,234	-	-	-	1,234
Deferred taxation	652	-	-	-	652
Shareholders' equity	82,232	-	-	-	82,232
Total liabilities and equity	**1,305,756**	**67,608**	**23,624**	**12,058**	**1,409,046**
2014					
Assets					
Cash and balances at banks	17,252	13	16	1	17,282
Assets held for sale	48	-	-	-	48
Loans and advances to banks	718,315	70,978	23,805	15,599	828,697
Loans and advances to customers	651,395	-	-	23	651,418
Property, plant and equipment	3,612	-	-	-	3,612
Derivatives	9,320	-	-	-	9,320
Prepayments, accrued income and other assets	343	-	-	-	343
Retirement benefit asset	11,906	-	-	-	11,906
Total assets	1,412,191	70,991	23,821	15,623	1,522,626
Liabilities and equity					
Deposits by banks	52,124	531	583	-	53,238
Customer accounts	1,224,724	70,552	23,221	15,699	1,334,196
Derivatives	14,513	-	-	-	14,513
Accruals, deferred income and other liabilities	23,706	-	-	-	23,706
Current taxation	719	-	-	-	719
Deferred taxation	1,192	-	-	-	1,192
Shareholders' equity	95,062	-	-	-	95,062
Total liabilities and equity	1,412,040	71,083	23,804	15,699	1,522,626

17. Risk management (continued)

Balance sheet by currency

2013	Sterling £'000	US Dollars £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at banks	16,165	12	14	1	16,192
Assets held for sale	-	-	-	-	-
Loans and advances to banks	619,310	53,314	29,925	22,577	725,126
Loans and advances to customers	682,456	-	-	-	682,456
Property, plant and equipment	3,739	-	-	-	3,739
Derivatives	7,012	1	-	-	7,013
Prepayments, accrued income and other assets	175	-	-	-	175
Retirement benefit asset	11,782	-	-	-	11,782
Total assets	1,340,639	53,327	29,939	22,578	1,446,483
Liabilities and equity					
Deposits by banks	42,625	150	171	369	43,315
Customer accounts	1,157,185	53,140	29,773	22,207	1,262,305
Derivatives	7,698	74	-	1	7,773
Accruals, deferred income and other liabilities	10,061	-	-	-	10,061
Current taxation	1,477	-	-	-	1,477
Deferred taxation	1,180	-	-	-	1,180
Shareholders' equity	120,372	-	-	-	120,372
Total liabilities and equity	1,340,598	53,364	29,944	22,577	1,446,483

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Group performs daily liquidity monitoring to ensure compliance with limits set by the regulators in the jurisdiction within which it operates. Quarterly reports are made to ALCO and the Board covering Sterling and currency liquidity.

The ultimate parent company, The Royal Bank of Scotland Group plc, is required by the Financial Conduct Authority to meet its Sterling obligations without recourse to the wholesale money market for a period of at least five business days. RBS manages its capital and liquidity, including drawing on support provided by the UK government and central banks in response to market conditions, in a responsible manner that continues to provide sufficient capital resources and liquidity for the Group to meet its obligations as they fall due.

The Company maintains daily liquidity reporting of positions to RBS.

The liquidity schedule is extracted from the prudential returns submitted to the regulators in Jersey and Isle of Man.

17. Risk management (continued)

2015	**0–3 months £'000**	**3–12 months £'000**	**1–3 years £'000**	**3–5 years £'000**	**5–20 years £'000**
Assets by contractual maturity					
Cash and balances	17,674	-	-	-	-
Loans and advances to banks	742,248	21,000	21,000	7,000	2,285
Total maturing assets	759,922	21,000	21,000	7,000	2,285
Loans and advances to customers	27,072	6,845	31,989	37,123	470,052
Total assets	**786,994**	**27,845**	**52,989**	**44,123**	**472,337**
Liabilities by contractual maturity					
Deposits by banks	51,000	-	-	-	-
Total maturing liabilities	51,000	-	-	-	-
Customer accounts	1,203,082	31,102	20,358	-	14,062
Derivatives held for hedging	-	-	-	-	-
Total liabilities	**1,254,082**	**31,102**	**20,358**	**-**	**14,062**
Maturity gap	**(467,088)**	**(3,257)**	**32,631**	**44,123**	**458,275**
Cumulative maturity gap	**(467,088)**	**(470,345)**	**(437,714)**	**(393,591)**	**64,684**

2014	0–3 months £'000	3–12 months £'000	1–3 years £'000	3–5 years £'000	5–20 years £'000
Assets by contractual maturity					
Cash and balances	17,282	-	-	-	-
Loans and advances to banks	667,444	74,771	28,000	21,000	35,373
Finance leases	-	-	3,027	5,271	22,956
Total maturing assets	684,726	74,771	31,027	26,271	58,329
Loans and advances to customers	23,529	24,533	17,318	39,606	509,331
Total assets	708,255	99,304	48,345	65,877	567,660
Liabilities by contractual maturity					
Deposits by banks	53,238	-	-	-	-
Total maturing liabilities	53,238	-	-	-	-
Customer accounts	1,330,842	17,970	22,858	630	-
Derivatives held for hedging	89	331	658	473	1,598
Total liabilities	1,384,169	18,301	23,516	1,103	1,598
Maturity gap	(675,914)	81,003	24,829	64,774	566,062
Cumulative maturity gap	(675,914)	(594,911)	(570,082)	(505,308)	60,754

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. For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

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.

17. Risk management (continued)

Credit risk (including counterparty risk)

Credit risk is the risk that the Group will incur losses owing to the failure of customers to meet their financial obligations to the Group. The most important step in managing this risk is the initial decision whether or not to extend credit. The Group's strong credit culture extends to the management of resultant exposures via individual counterparty and concentration limits and the monitoring of counterparty credit worthiness as described below.

The Group has exposure to RBS entities by making placements and advances to those counterparties. The Board of Directors reviews the placement of deposits to RBS. RBS is majority owned by the UK Government and draws on support provided by central banks where required in order to meet its commitments including those to the Group.

The day-to-day management of credit risk is devolved to a specialist credit function, which perform regular appraisals of counterparty credit quality through the analysis of qualitative and quantitative information. Credit authority is based on defined limits. If the Company requires collateral, this may be cash, or more commonly, security over a customer's assets.

Under IAS 39, provisions are assessed by the Company under the following two categories:

Individually assessed provisions
Individually assessed provisions are the provisions required for individually significant impaired assets which are assessed on a case-by-case basis, taking into account the financial condition of the counterparty and any guarantor. This incorporates an estimate of the discounted value of any recoveries and realisation of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full or written off.

Latent loss provisions
Latent loss provisions are the provisions held against the estimated impairment in the performing portfolio, which has yet to be identified and reported as at the year end date. To assess the latent loss within the portfolio, 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.

A management review has shown that the majority of the Company's lending book is covered in excess of 100% of the carrying value by the fair value of security. The fair values of security are based on the most recent open market valuation of each item of security and an ongoing review process is in place to ensure that all security remains valid. Unsecured Personal Lending totalled £9,914k as at 31 December 2015 (2014: £12,122k) – all unsecured lending is made subsequent to checking customer credit ratings and banking histories.

Impaired financial assets relating to credit risk are analysed in note 8. There are no other net significant exposures to credit risk.

Maximum credit risk exposure and significant concentrations of credit risk are illustrated in the table below:

2015	Gross loans and advances to banks and customers £'000	Derivatives £'000	Total £'000
UK and Crown Dependencies			
Central and local government	162,463	-	162,463
Manufacturing	2,380	-	2,380
Construction	5,061	-	5,061
Finance	795,154	9,598	804,752
Service industries and business	3,629	-	3,629
Agriculture, forestry and fishing	5,467	-	5,467
Property	30,309	-	30,309
Individuals	36,975	-	36,975
Home mortgages	288,970	-	288,970
Finance leases and instalment credit	29,781	-	29,781
Other	12,379	-	12,379
Total UK and Crown Dependencies	1,372,568	9,598	1,382,166

17. Risk management (continued)

2014	Gross loans and advances to banks and customers £'000	Derivatives £'000	Total £'000
UK and Crown Dependencies			
Central and local government	170,018	-	170,018
Manufacturing	2,629	-	2,629
Construction	5,539	-	5,539
Finance	828,943	9,320	838,263
Service industries and business	4,039	-	4,039
Agriculture, forestry and fishing	5,216	-	5,216
Property	83,832	-	83,832
Individuals	42,891	-	42,891
Home mortgages	290,885	-	290,885
Finance leases and instalment credit	31,254	-	31,254
Other	15,720	-	15,720
Total UK and Crown Dependencies	1,480,966	9,320	1,490,286

The balances included above have been offset with liabilities of £58,394k (2014: £58,050k) in accordance with the offsetting rules of IAS 32.

In accordance with IAS 32, balances with a counterparty are not offset unless there is a legally enforceable right to offset and there is an intention to settle net, or to realise the asset and settle the liability at the same time.

17. Risk management (continued)

Credit risk asset quality

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Customers are assigned credit grades based on various credit grades based on various credit grading models that reflect the key drivers of default for each customer type. All credit grades across the Group map to both a Group level asset quality scale, used for external financial reporting, and a master grading scale used for wholesale exposures, used for internal management reporting across portfolios. Accordingly, measures of risk exposure may be readily aggregated and reported at increasing levels of granularity depending on stakeholder or business need.

The table below shows credit risk assets by asset quality (AQ) band:

Asset Quality Grade	Minimum %	Maximum %
AQ1	0.000	0.034
AQ2	0.034	0.048
AQ3	0.048	0.095
AQ4	0.095	0.381
AQ5	0.381	1.076
AQ6	1.076	2.153
AQ7	2.153	6.089
AQ8	6.089	17.222
AQ9	17.222	100.000
AQ10	100.000	100.000

The following table provides an analysis of the credit quality of third party financial assets by probability of default:

2015	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000
1	17,674	795,057	192,423	9,598	38,027
2	-	-	-	-	-
3	-	-	-	-	-
4	-	-	9,015	-	2,810
5	-	-	15,225	-	7,505
6	-	-	331,390	-	45,120
7	-	-	9,231	-	3,059
8	-	-	4,210	-	465
9	-	-	1,660	-	172
10	-	-	3,722	-	-
Accruing past due	-	-	8,121	-	-
Impaired loans	-	-	2,514	-	-
Less impairment provision	-	-	(976)	-	-
Total	17,674	795,057	576,535	9,598	97,158

17. Risk management (continued)

Credit risk asset quality (continued)

2014	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000
1	17,282	828,697	208,497	9,320	45,099
2	-	-	-	-	-
3	-	-	-	-	-
4	-	-	16,561	-	2,643
5	-	-	22,934	-	6,009
6	-	-	373,010	-	39,101
7	-	-	10,611	-	2,029
8	-	-	7,855	-	748
9	-	-	1,836	-	196
10	-	-	1,893	-	2
Accruing past due	-	-	6,610	-	-
Impaired loans	-	-	2,462	-	-
Less impairment provision	-	-	(851)	-	-
Total	17,282	828,697	651,418	9,320	95,827

Regulatory risk

The Company manages its capital to ensure that entities in the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Company has capital adequacy requirements imposed by the Isle of Man Supervision Commission. The Company is required to report a risk asset ratio to the regulator on a periodic basis. The ratio is calculated as being the percentage of capital to assets, based on the regulators' definitions of capital and assets. This risk asset ratio is required at all times to be above a benchmark percentage provided by the regulator. The Company has been in compliance with capital adequacy requirements in respect of the years ending 31 December 2015 and 2014.

As at 31 December 2015 there were 9 (2014: 10) credit exposures (including guarantees) with a total value of £63,818k (2014: £331,100k) which individually exceed 10% of the adjusted capital base. The total value of credit exposures is £255,812k (2014: £405,654k).

ALCO reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital, along with considering compliance of regulatory requirements. Based on recommendations of the committee, the Company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. The Company's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

17. Risk management (continued)

Regulatory risk (continued)

Pension risk

Pension risk is the risk to the Company arising from its contractual or other liabilities to, or with respect to, its pension schemes, whether established for its employees, for those of a related company or otherwise.

The Company is exposed to risk from its defined benefit pension schemes to the extent that the assets of the schemes do not fully match the timing and amount of the schemes' liabilities. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in legislation. Ultimate responsibility for the Company's pension schemes is separate from the Company's management. The Company is exposed to the risk that the market value of the schemes' assets, together with future returns and any additional future contributions could be considered insufficient to meet the liabilities as they fall due. In such circumstances, the Company could be obliged, or may choose, to make additional contributions to the schemes or be required to hold additional capital to mitigate such risk.

Risk appetite and investment policy are agreed by the trustees with quantitative and qualitative input from the scheme actuaries and investment advisers. The trustees also consult with the Company to obtain its view on the appropriate level of risk within the pension funds. The Company independently monitors risk within its pension funds as part of the Internal Capital Adequacy Assessment Process. The RBS Pension Risk Committee (PRC), acting as a sub-committee of the RBS Asset and Liability Committee (ALCO), formulates the RBS view of pension risk.

The trustee boards are solely responsible for the investment of the schemes' assets which are held separately from the assets of the Company. The Company and the trustee boards discuss and agree on the investment principles and the funding plan. The schemes are invested in diversified portfolios of equity, government and corporate fixed-interest and index-linked bonds.

Risk has been mitigated in the schemes in a number of ways as follows:

- In 2006, the schemes were closed to new employees.
- From April 2010, the Company confirmed that it was making changes to the schemes by limiting the amount by which pensionable salary increases (the "pensionable salary cap") to 2% per annum (or CPI inflation, if lower).
- In October 2012, the Company confirmed that it was offering employees in the schemes the choice between an increase of 5% of salaries to the charge made for scheme membership and an increase in Normal Pension Age from 60 to 65 in respect of service from October 2012 with no additional charge.

A funding valuation of the IOMBWOF with an effective date of 31 December 2012 was finalised during 2014 (with no deficit contributions payable). A funding valuation of the IOMBPF at 31 December 2012 was finalised in 2015, resulting in deficit contributions of £3.065m p.a. payable from 2016 to 2023 inclusive. A further funding valuation of the IOMBPF is due as at 31 December 2015.

18. Contingent liabilities and commitments

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

	2015 £'000	2014 £'000	2013 £'000
Contingent liabilities:			
Guarantees	**1,130**	1,282	1,642
Other contingent liabilities	**249**	112	951
Total contingent liabilities	**1,379**	1,394	2,593
Commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend	**97,158**	95,827	123,382

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.

Contingent liabilities

These include standby letters of credit, supporting customer debt issues, contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities and obligations to The Royal Bank of Scotland plc.

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.

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.

Commitments under non-cancellable operating leases are detailed in note 16.

Litigation

The Company is involved in litigation involving claims by and against it which arise in the ordinary course of business. The directors of the Company, after reviewing the claims pending and threatened against the Company, and taking into account the advice of the relevant legal advisers, are satisfied that the outcome of these claims are unlikely to have a material adverse effect on the net assets of the Company.

19. Net cash inflow from operating activities

	2015 £'000	Restated 2014 £'000
Operating profit	**13,436**	10,918
Pension charge for defined benefit schemes	**414**	421
Cash contribution to defined benefit schemes	**(527)**	(3,558)
Loss on sale of assets	**-**	2
Depreciation of property, plant and equipment	**72**	73
Loan impairment provision net of recoveries	**35**	(154)
Foreign exchange	**(4)**	(1)
Other	**(2)**	-
Net cash inflows from trading activities	**13,424**	7,701
Decrease/(increase) in loans and advances to banks and customers	**108,337**	(71,107)
Increase in derivatives	**(278)**	(2,307)
Decrease/(increase) in prepayments, accrued income and other assets	**176**	(168)
Changes in operating assets	**108,235**	(73,582)
(Decrease)/increase in deposits by banks and customers	**(80,900)**	81,814
(Decrease)/increase in derivatives	**(444)**	6,740
(Decrease)/increase in accruals, deferred income and other liabilities	**(19,381)**	13,645
Decrease in deferred tax	**(278)**	-
Changes in operating liabilities	**(101,003)**	102,199
Taxes paid	**(421)**	(1,461)
Net cash inflow from operating activities	**20,235**	34,857

20. Analysis of cash and cash equivalents

	2015 £'000	2014 £'000
At 1 January		
Cash and balances at central banks	**18,555**	16,192
Net cash flow	**235**	2,357
Effect of exchange rate changes on cash and cash equivalents	**5**	6
At 31 December	**18,795**	18,555
Comprising:		
Cash and balances at central banks	**17,674**	17,283
Loans and advances to banks	**1,121**	1,272
	18,795	18,555

21. Interest received and paid

	2015 £'000	2014 £'000	2013 £'000
Interest received	**31**	34	37
Interest paid	**(9)**	(19)	(11)
	22	15	15

22. Related parties

The Company's immediate parent company is The Royal Bank of Scotland International (Holdings) Limited.

The Company's ultimate holding company, and the parent of the largest group into which the Company is consolidated into is The Royal Bank of Scotland Group plc.

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.

(a) Directors and key managers

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

	2015	2014	2013
	£'000	£'000	£'000
Customers accounts	**4**	3	-

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.

(b) Related party transactions

	2015	2014	2013
	£'000	£'000	£'000
Assets			
Loans and advances to banks:			
RBS entities	**791,068**	825,496	706,304
RBS International entities	**921**	726	15,905
	791,989	826,222	722,209
Liabilities			
Deposits by banks:			
RBS entities	**51,846**	53,238	43,315
Income			
Interest received:			
RBS entities	**7,531**	10,095	11,166
Fees received from RBS entities	**5,459**	-	-
Total income	**12,990**	10,095	11,166
Expenses			
Interest paid:			
RBS entities	**-**	5,535	1,768
Management recharge from RBS International Limited	**6,689**	8,347	7,985
Total expenses	**6,689**	13,882	9,753

22. Related parties (continued)

(c) Compensation of key management

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

	2015	2014	2013
	£'000	£'000	£'000
Short term benefits	135	131	97
Post employment benefits	11	14	12
Long term benefits	18	34	45
	164	179	154

23. Depositors' Compensation Scheme

The Company is required to participate in the Isle of Man Depositors' Compensation Scheme (the "Scheme"), as set out in the Compensation of Depositors Regulations 2008 (as amended).

On 8 October 2008, the Board of Kaupthing, Singer & Friedlander (Isle of Man) Limited declared that it was unable to pay its debts. At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was made placing the Company into liquidation.

During the course of 2009 pursuant to Regulation 14(l)(a) of the Scheme, the Scheme Manager (as defined by Regulation 5(l)) gave the requisite notice to levy an amount on the Company. The initial levy was £350k and was paid in 2009 and recorded as an expense in the Income Statement.

A provision of £700k was also made in 2009 to cover the future estimated cost to the Company of levies made by the Scheme Manager in future years. In both 2010 and 2011 the Company made further £350k annual contributions to the Scheme which was offset against the £700k provision made in 2009. To the best of their knowledge from publicly available information, the Directors believe that there is no further liability to the Scheme at this time.

During 2015, the Depositors' Compensation Scheme Manager issued the Company with an interim distribution of £99,812k (2014: £163k, 2013: £155k, 2012: £632k), which has been recorded in the Income Statement on page 6. Further distributions from the Scheme Manager are uncertain.

24. Restatement

In the fourth quarter of 2015, the Group voluntarily changed its accounting policy for the recognition of surpluses in its defined benefit pension schemes: in particular, the policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. Where the Group has a right to a refund, this is not deemed unconditional if pension fund trustees can use a scheme surplus to enhance benefits for plan members. As a result of this change, a minimum funding requirement to cover an existing shortfall in a scheme may give rise to an additional liability and surpluses may not be recognised in full. The revised accounting policy, by taking account of the powers of pension trustees in assessing the economic benefit available as a refund, provides more relevant information about the effect on the Group's financial position of its defined benefit pension schemes.

In accordance with IFRS, the amended policy has been applied retrospectively and prior periods restated.

24. Restatement (continued)

BALANCE SHEETS *as at 31 December 2013*

	Previously reported 2013 £'m	Adjustment 2013 £m	Restated 2013 £m
Assets			
Cash and balances at central banks	16,192	-	16,192
Loans and advances to banks	725,126	-	725,126
Loans and advances to customers	682,456	-	682,456
Equity shares	-	-	-
Derivatives	7,013	-	7,013
Investment in joint ventures	-	-	-
Property, plant and equipment	3,739	-	3,739
Intangible assets	-	-	-
Prepayments, accrued income and other assets	175	-	175
Deferred taxation	-	-	-
Retirement benefit assets	11,782	(7,973)	3,809
Total assets	1,446,483	(7,973)	1,438,510
Liabilities			
Deposits by banks	43,315	-	43,315
Customer accounts	1,262,305	-	1,262,305
Derivatives	7,773	-	7,773
Accruals, deferred income and other liabilites and other liabilities	10,061	-	10,061
Current taxation	1,477	-	1,477
Deferred taxation	1,180	(797)	383
Total liabilities	1,326,111	(797)	1,325,314
Equity			
Non-controlling interests	-	-	-
Shareholders' equity:			
Called up share capital	7,501	-	7,501
Reserves	112,871	(7,176)	105,695
Total equity	120,372	(7,176)	113,196
Total liabilities and equity	1,446,483	(7,973)	1,438,510

24. Restatement (continued)

INCOME STATEMENT *for the year ended 31 December 2014*

	Previously reported 2014 £'000	Adjustment 2014 £'000	Restated 2014 £'000
Interest receivable	33,922	-	33,922
Interest payable	(11,368)	-	(11,368)
Net interest income	22,554	-	22,554
Fees and commission receivable	4,644	-	4,644
Fees and commission payable	(11)	-	(11)
Other operating income	148	-	148
Non-interest income	4,781	-	4,781
Total income	27,335	-	27,335
Operating expenses	(15,940)	(371)	(16,311)
Operating profit before impairment	11,395	(371)	11,024
Impairment losses	(106)	-	(106)
Operating profit before tax	11,289	(371)	10,918
Tax charge	(1,053)	-	(1,053)
Profit for the year	10,236	(371)	9,865
Profit attributable to:			
Ordinary shareholders	10,236	(371)	9,865
	10,236	(371)	9,865

STATEMENT OF COMPREHENSIVE INCOME *for the year ended 31 December 2014*

	Previously reported 2014 £'m	Adjustment 2014 £'m	Restated 2014 £'m
Profit for the year	10,236	(371)	9,865
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension schemes	(3,384)	(170)	(3,554)
Deferred tax on actuarial movements recognised on defined benefit schemes	338	53	391
Items that will be reclassified subsequently to profit or loss:			
Other comprehensive loss after tax	(3,046)	(117)	(3,163)
Total comprehensive income for the year	7,190	(488)	6,702

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

24. Restatement (continued)

BALANCE SHEETS *as at 31 December 2014*

	Previously reported 2014 £'000	Adjustment £'000	Restated 2014 £'000
Assets			
Cash and balances at central banks	17,282	-	17,282
Assets held for sale	48	-	48
Loans and advances to banks	828,697	-	828,697
Loans and advances to customers	651,418	-	651,418
Available for sale investments	-	-	-
Derivatives	9,320	-	9,320
Investments in joint ventures	-	-	-
Propery, plant and equipment	3,612	-	3,612
Intangible assets	-	-	-
Prepayments, accrued income and other assets	343	-	343
Deferred taxation	-	-	-
Retirement benefit assets	11,906	(8,514)	3,392
Total assets	1,522,626	(8,514)	1,514,112
Liabilities			
Deposits by banks	53,238	-	53,238
Customer accounts	1,334,196	-	1,334,196
Derivatives	14,513	-	14,513
Accruals, deferred income and other liabilities	23,706	-	23,706
Current tax	719	-	719
Deferred taxation	1,192	(850)	342
Retirement benefit liabilities	-	-	-
Total liabilities	1,427,564	(850)	1,426,714
Equity			
Shareholders' equity:			
Called up share capital	7,501	-	7,501
Reserves	87,561	(7,664)	79,897
Total equity	95,062	(7,664)	87,398
Total liabilities and equity	1,522,626	(8,514)	1,514,112