

Company Registered Number: JE 2304



THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

31 December 2015

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

BOARD OF DIRECTORS AND SECRETARY

DIRECTORS: Michael John Morley (Chairman)
Stephen John Camm
Lynn Ann Cleary
Andrew Martin McLaughlin
Stephen Reilly
Louis Philip Chetwynd Taylor

SECRETARY: Christopher Ian Nicol

REGISTERED OFFICE: Royal Bank House
71 Bath Street
St Helier
Jersey
JE4 8PJ

AUDITOR: Deloitte LLP
Chartered Accountants
St Helier
Jersey

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

The directors of The Royal Bank of Scotland International 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 banking services, including the taking of deposits and lending.

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 £216m (2014: £255m).

Other matters

The Company’s principal business activities are banking services including the taking of deposits and lending in the Channel Islands, Isle of Man and Gibraltar. 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, capital and funding sources are set out in the financial statements. Notes 7 and 18 to the financial statements include the Company’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposures to 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 18. 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 13 to these financial statements. Further details of the Company’s risk management policies are highlighted in note 18 to the financial statements.

Outlook

The directors are satisfied with the financial position of the Company 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.

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. 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 18 to the financial statements include the Company’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

GOING CONCERN (continued)

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.

REGULATION

The Company is licensed under the Financial Services (Jersey) Law 1998 to conduct deposit taker business, fund services business, general insurance mediation business, investment business and money services business, under classes A, B, C, Q, X, Z, DC and 02 of this law. The Company operates in different jurisdictions through its branches and is subject to the following laws and regulations:

Guernsey

- Banking Supervision (Bailiwick of Guernsey) Law 1994;
- Protection of Investors (Bailiwick of Guernsey) Law 1987;
- The Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law 2002;
- The Banking Deposit Compensation Scheme (Liability of Participants to Compensation Levy) (Bailiwick of Guernsey) Regulations 2010.

Isle of Man

- Financial Services Act 2008.

Gibraltar

- Banking Act 1992;
- Financial Services (Markets in Financial Instruments) Act 2006.

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
Andrew Martin McLaughlin	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:



Andrew Martin McLaughlin
Director



Lynn Ann Cleary
Director

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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 International Financial Reporting Standards (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 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 (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

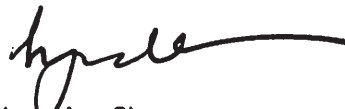
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

The directors are also responsible for compliance with the Banking Business (Jersey) Law 1991, the Financial Services (Jersey) Law 1998 and their Codes of Practice.

By order of the Board:



Andrew Martin McLaughlin
Director



Lynn Ann Cleary
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

We have audited the financial statements of The Royal Bank of Scotland International 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 23. 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 Article 113A of the Companies (Jersey) Law 1991. 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 (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (General Insurance Mediation Business (Accounts, Audits, Reports and Solvency)) (Jersey) Order 2005, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or 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 accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Gregory Branch, BSc FCA
for and on behalf of Deloitte LLP
Chartered Accountants
St. Helier, Jersey

8 March 2016

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

INCOME STATEMENT *for the year ended 31 December 2015*

	Notes	2015 £m	2014 £m
Continuing operations			
Interest receivable		332	360
Interest payable		(69)	(80)
Net interest income	1	263	280
Fees and commission receivable		77	81
Fees and commission payable		(1)	(3)
Other operating income	2	11	13
Non-interest income		87	91
Total income		350	371
Operating expenses	3	(133)	(125)
Operating profit before impairment gains		217	246
Impairment (losses)/gains	8	(1)	9
Operating profit before tax		216	255
Tax charge	5	(22)	(25)
Profit for the year		<u>194</u>	<u>230</u>

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

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

	Notes	2015 £m	2014 £m
Profit for the year		194	230
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined pension schemes	4	8	(40)
Deferred taxation on actuarial movements on defined benefit pension schemes	15	(1)	3
Other comprehensive gains/(losses) for the year after tax		7	(37)
Total comprehensive income for the year		201	193

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

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

BALANCE SHEET as at 31 December 2015

	Notes	2015 £m	2014 £m
Assets			
Cash and balances at central banks	7	54	52
Assets held for sale	7,9	-	2
Loans and advances to banks	7	16,817	16,257
Loans and advances to customers	7	5,689	5,427
Available for sale investments	7	-	1
Derivatives	7,13	22	27
Property, plant and equipment	7,11	36	42
Intangible assets	7,12	1	1
Prepayments, accrued income and other assets	7	4	3
Deferred tax assets	7,15	3	4
Total assets		22,626	21,816
Liabilities			
Deposits by banks	7	704	598
Customer accounts	7	19,920	19,414
Derivatives	7,13	23	35
Accruals, deferred income and other liabilities	7,14	62	34
Current tax	7	14	18
Retirement benefit liabilities	4,7	38	53
Total liabilities		20,761	20,152
Equity			
Shareholders' equity:			
Called up share capital	16	97	97
Reserves		1,768	1,567
Total equity	7	1,865	1,664
Total liabilities and equity		22,626	21,816

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

The financial statements were approved and authorised for issue by the Board of Directors on 7/3/16 and signed on its behalf by:



Andrew Martin McLaughlin
Director



Lynn Ann Cleary
Director

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

	Notes	2015 £m	2014 £m
Called up share capital			
At 1 January and 31 December		97	97
Share premium			
At 1 January and 31 December		5	5
Retained earnings			
At 1 January		1,562	1,619
Actuarial gains/(losses) recognised in defined benefit schemes	4	8	(40)
Deferred taxation on actuarial (gains)/losses recognised in defined benefit schemes	15	(1)	3
Dividends paid	6	-	(250)
Profit for the year		194	230
At 31 December		1,763	1,562
Shareholders' equity at 31 December		1,865	1,664

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

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

CASH FLOW STATEMENT for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Operating activities			
Operating profit for the year before tax	20	216	255
Adjustments for:			
Pension charge for defined benefit schemes	4	9	8
Cash contribution to defined benefit pension schemes	4	(17)	(19)
Gain on sale of assets		(3)	(4)
Depreciation of property, plant and equipment	11	7	9
Loan impairment provisions net of recoveries		(28)	(42)
Other non-cash items		12	8
Net cash inflows from trading activities		196	215
Changes in operating assets and liabilities	20	(115)	115
Net cash flows from operating activities before tax		81	330
Tax paid	20	(25)	(25)
Net cash flows from operating activities		56	305
Investing activities			
Purchases of property, plant and equipment	11	(3)	(6)
Proceeds on disposal of property, plant and equipment		5	9
Purchase of intangible assets	12	-	(1)
Net cash flows from investing activities		2	2
Financing activities			
Dividends paid	6	-	(250)
Net cash flows used in financing activities		-	(250)
Effect of exchange rate changes on cash and cash equivalents		(11)	(8)
Net increase in cash and cash equivalents		47	49
Cash and cash equivalents 1 January		159	110
Cash and cash equivalents 31 December	21	206	159

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

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

1. 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) and interpretations issued by the IFRS 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, equity shares, available-for-sale financial assets 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 Jersey, Channel Islands.

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. 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. If it is unlikely that a specific lending arrangement will be entered into, such fees are recognised in the income statement over the life of the facility.

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 period end for services provided but not charged.

Investment management fees: fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as an expense as the related revenue is recognised.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

4. Pensions and other post-retirement benefits

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

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 period 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 and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
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. Intangible assets

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

Computer software	5 years
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Expenditure on internally generated goodwill and brands is written-off as incurred. Direct costs relating to the development of internal-use computer software are capitalised once technical feasibility and economic viability have been established. These costs include payroll, the costs of materials and services, and directly attributable overheads. Capitalisation of costs ceases when the software is capable of operating as intended. During and after development, accumulated costs are reviewed for impairment against the benefits that the software is expected to generate. Costs incurred prior to the establishment of technical feasibility and economic viability are expensed as incurred as are all training costs and general overheads. The costs of licences to use computer software that are expected to generate economic benefits beyond one year are also capitalised.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

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

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

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

8. 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.

9. 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.

Rental income from operating leases is recognised in income on a receivable basis over the term of the lease. Operating lease assets are included within Property, plant and equipment and depreciated over their useful lives.

As lessee

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

10. Provisions and contingent liabilities

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

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).

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

10. Provisions and contingent liabilities (continued)

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

11. 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.

12. Financial assets

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

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

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 as 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 as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

Available-for-sale - financial assets that are not classified as loans and receivables or designated at fair value through profit or loss are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets. Impairment losses and exchange differences resulting from retranslating the amortised cost of monetary available-for-sale financial assets denominated in a foreign currency are recognised in profit or loss together with interest calculated using the effective interest method (see accounting policy 3). Other changes in the fair value of available-for-sale financial assets and any related tax are reported in other comprehensive income until disposal, when the cumulative gain or loss is reclassified from equity to profit or loss.

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.

13. Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

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ACCOUNTING POLICIES

13. Impairment of financial assets (continued)

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.

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.

14. Financial liabilities

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

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.

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15. 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.

16. 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.

17. 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.

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 enters into one type of hedge relationship: hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges).

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.

18. 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.

19. Investment in Group undertakings

The Company's investments in its subsidiaries are stated at cost less any accumulated impairment losses.

20. Assets under administration

Assets and liabilities held in a fiduciary capacity are not included in these financial statements.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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.

Individual assessment of loans and advances comprise 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 £24m (2014: £67m) and customer loan impairment provisions (excluding the latent provision) amounted to £11m (2014: £37m). The fair value of security held against the loans and advances to customers above amounted to £12m (2014: £31m).

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 a pension scheme: The Royal Bank of Scotland International Pension Trust ("RBSIPT"). The assets of the defined benefit scheme 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 pensions scheme is set out in note 4 to the financial statements, together with sensitivities of the balance sheet and income statement to changes in those assumptions.

A pension liability of £38m was recognised on the balance sheet at 31 December 2015 (2014: £53m).

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

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

Provisions for liabilities

As set out in note 14, at 31 December 2015 the Company recognised provisions for liabilities totalling £ 18m (2014: £18m). 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 participants 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.

Deferred tax

The Company makes provision for deferred tax on short-term and other temporary differences where tax recognition occurs at a different time from accounting recognition. Tax assets are recognised in respect of unused tax losses to the extent that it is probable that there will be future taxable profits against which the losses can be utilised.

Accounting developments

International Financial Reporting Standards

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

Effective for 2016

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

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

Annual Improvements to IFRS 2012 - 2014 cycle was issued in September 2014 making a number of minor amendments to IFRS. The 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 Group's financial statements

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ACCOUNTING POLICIES

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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

ACCOUNTING POLICIES

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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

1. Net interest income

	2015 £m	2014 £m
Interest receivable from Group undertakings	162	189
Loans and advances to customers	170	171
Interest receivable	<u>332</u>	<u>360</u>
Customer accounts	(60)	(70)
Interest payable to Group undertakings	(9)	(10)
Interest payable	<u>(69)</u>	<u>(80)</u>
Net interest income	<u>263</u>	<u>280</u>

2. Other operating income

	2015 £m	2014 £m
Intercompany fees received	8	9
Gain on the sale of Property, plant and equipment	3	4
Other operating income	<u>11</u>	<u>13</u>

3. Operating expenses

	2015 £m	2014 £m
Staff costs		
Wages, salaries and other staff costs	59	60
Provision for restructuring costs (see note 14)	1	6
Pension costs:		
- defined benefit schemes (see note 4)	9	8
- defined contribution schemes (see note 4)	1	1
- contributions to RBS operated pension schemes	1	1
	<u>71</u>	<u>76</u>
Other expenses		
Premises and equipment	13	21
Administration ⁽¹⁾	42	19
	<u>55</u>	<u>40</u>
Depreciation		
Property, plant and equipment depreciation (see note 11)	7	9
	<u>7</u>	<u>9</u>
Operating expenses	<u>133</u>	<u>125</u>

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

	2015 £'000	2014 £'000
Auditors' remuneration		
Statutory audit work	296	297
Regulatory audit work	59	46
	<u>355</u>	<u>343</u>

The average number of persons employed by the Company during the year, excluding temporary staff was 1,176 (2014: 1,231).

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

4. Pension costs

The Company made contributions of £1m to its own defined contribution schemes in 2015 (2014: £1m).

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 a defined benefit pension scheme, The Royal Bank of Scotland International Pension Trust ("RBSIPT"), the assets of which are independent of the Company's finances.

The Company's defined benefit scheme was closed to new entrants in 2006.

The RBSIPT operates under Jersey trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, the scheme rules and the Jersey legislation and, where applicable, that of its constituent plans (primarily in Guernsey and the Isle of Man). There is no pension scheme funding legislation in Jersey, Guernsey or the Isle of Man. However, statutory debt rules do apply in respect of the Isle of Man plan of the RBSIPT 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 RBSIPT's corporate trustee is RBS International Employees' Pension Trustees Limited ("RBSIEPTL"), a subsidiary of The Royal Bank of Scotland International (Holdings) Limited. RBSIEPTL is the legal owner of the RBSIPT's assets which are held separately from the assets of the Company. The Board of RBSIEPTL comprises two trustee directors nominated by members selected from eligible active staff and pensioner members who apply; three directors appointed by the Company; and one independent Trustee. The Board is responsible for operating the scheme 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 scheme.

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
Discount rate	3.70%	3.70%
Rate of increase in salaries	1.75%	1.75%
Rate of increase in pensions in payment	2.80%	2.80%
Inflation assumption	2.95%	2.95%

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
Quoted assets		
Equities	42%	51%
Index-linked bonds	22%	35%
Corporate and other bonds	15%	-
Government fixed interest bonds	8%	14%
Unquoted assets		
Hedge funds	2%	-
Property	5%	-
Derivatives	3%	-
Other	3%	-
	100%	100%

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

4. Pension costs (continued)

Post-retirement mortality assumptions	2015	2014
Longevity at age 60 for current pensioners (years)		
Males	29.0	29.0
Females	30.2	30.5
Longevity at age 60 for future pensioners currently ages 40 (years)		
Males	30.9	30.9
Females	32.2	32.6

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

	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
Changes in value of net pension liability			
At 1 January 2015	466	(519)	(53)
<i>Income statement:</i>			
Expected return	17	-	17
Interest cost	-	(18)	(18)
Current service cost	-	(8)	(8)
	17	(26)	(9)
<i>Statement of comprehensive income:</i>			
Actuarial losses due to experience gains	(15)	(8)	(23)
Actuarial gains due to changes in financial assumptions	-	28	28
Actuarial gains due to changes in demographic assumptions	-	3	3
	(15)	23	8
Contributions by employer	17	-	17
Benefits paid	(24)	24	-
Expenses paid	(1)	-	(1)
At 31 December 2015	460	(498)	(38)

	Fair value of plan assets £m	Present value of defined benefit obligations £m	Net pension liability £m
Changes in value of net pension liability			
At 1 January 2014	395	(420)	(25)
<i>Income statement:</i>			
Expected return	19	-	19
Interest cost	-	(18)	(18)
Current service cost	-	(8)	(8)
	19	(26)	(7)
<i>Statement of comprehensive income:</i>			
Actuarial gains due to experience gains	47	-	47
Actuarial losses due to changes in financial assumptions	-	(81)	(81)
Actuarial losses due to changes in demographic assumptions	-	(6)	(6)
	47	(87)	(40)
Contributions by employer	19	-	19
Benefits paid	(14)	14	-
At 31 December 2014	466	(519)	(53)

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

4. Pension costs (continued)

Of the expense for the year, £9m (2014: £8m) has been included in the income statement within staff costs (see note 3).

The Company expects to contribute £18m to its defined benefit pension schemes in 2016.

The weighted average duration of the Company's defined benefit obligation is 26 years.

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
History of defined benefit scheme					
Present value of defined benefit obligations	(498)	(519)	(419)	(386)	(362)
Fair value of plan assets	460	466	395	345	318
Net deficit	<u>(38)</u>	<u>(53)</u>	<u>(24)</u>	<u>(41)</u>	<u>(44)</u>
Experience (losses)/gains on plan liabilities	(8)	-	-	33	-
Experience (losses)/gains on plan assets	(15)	47	24	10	(1)
Actual return on pension scheme assets	2	66	40	28	17

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	2014	2015	2014
	£m	£m	£m	£m
0.25% increase in the discount rate	(1)	(2)	(29)	(34)
0.25% increase in inflation	1	1	22	24
0.25% additional rate of increase in pensions in payment	1	1	19	21
0.25% additional rate of increase in deferred pensions	1	1	8	11
0.25% additional rate of increase in salaries	-	-	3	3
Longevity increase of one year	1	1	14	14

5. Taxation

	2015	2014
	£m	£m
Current taxation:		
Charge for the year	22	25
Under provision in respect of prior periods	-	-
Total current taxation	<u>22</u>	<u>25</u>
Deferred taxation:		
Charge for the year	-	1
Over provision in respect of prior periods	-	(1)
Total deferred taxation	<u>-</u>	<u>-</u>
Tax charge for the year	<u>22</u>	<u>25</u>

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

5. Taxation (continued)

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	2014
	£m	£m
Operating profit before tax	216	255
Expected tax charge	21	26
<i>Factors affecting the charge for the year:</i>		
Non-deductible items	1	-
Non-taxable items	-	-
Rate differences on current tax	-	-
Adjustments in respect of prior years	-	(1)
Actual tax charge for the year	22	25

6. Ordinary dividends

	2015	2014
	£m	£m
Interim dividend of nil (2014: 259.0p) per share	-	250

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

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	Available-for- sale	Loans and receivables	Other (amortised cost)	Non financial assets/ liabilities	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	-	-	54	-	-	54
Assets held for sale	-	-	-	-	-	-
Loans and advances to banks	261	-	16,556	-	-	16,817
Loans and advances to customers	-	-	5,689	-	-	5,689
Available for sale investments	-	-	-	-	-	-
Derivatives	22	-	-	-	-	22
Property, plant and equipment	-	-	-	-	36	36
Intangible assets	-	-	-	-	1	1
Prepayments, accrued income and other assets	-	-	-	-	4	4
Deferred tax assets	-	-	-	-	3	3
	283	-	22,299	-	44	22,626
Liabilities						
Deposits by banks	-	-	-	704	-	704
Customer accounts	261	-	-	19,659	-	19,920
Derivatives	23	-	-	-	-	23
Accruals, deferred income and other liabilities	-	-	-	-	62	62
Current tax	-	-	-	-	14	14
Retirement benefit liabilities	-	-	-	-	38	38
	284	-	-	20,363	114	20,761
Equity						1,865
						22,626

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

7. Financial instruments (continued)

2014	Designated as at fair value through profit or loss	Available-for- sale	Loans and receivables	Other (amortised cost)	Non financial assets/ liabilities	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash and balances at central banks	-	-	52	-	-	52
Assets held for sale	-	-	-	-	2	2
Loans and advances to banks ⁽¹⁾	831	-	15,426	-	-	16,257
Loans and advances to customers	-	-	5,427	-	-	5,427
Available for sale investments	-	1	-	-	-	1
Derivatives	27	-	-	-	-	27
Property, plant and equipment	-	-	-	-	42	42
Intangible assets	-	-	-	-	1	1
Prepayments, accrued income and other assets	-	-	-	-	3	3
Deferred tax assets	-	-	-	-	4	4
	858	1	20,905	-	52	21,816
Liabilities						
Deposits by banks	-	-	-	598	-	598
Customer accounts	831	-	-	18,583	-	19,414
Derivatives	35	-	-	-	-	35
Accruals, deferred income and other liabilities	-	-	-	-	34	34
Current tax liabilities	-	-	-	-	18	18
Retirement benefit liabilities	-	-	-	-	53	53
	866	-	-	19,181	105	20,152
Equity						1,664
						21,816

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

7. Financial instruments (continued)

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

	2015				2014			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Loans and advances to banks	-	261	-	261	-	831	-	831
Derivatives	14	8	-	22	7	20	-	27
Debt securities	-	-	-	-	-	1	-	1
Total	14	269	-	283	7	852	-	859
Liabilities								
Customer accounts		261		261	-	831	-	831
Derivatives	14	9	-	23	6	29	-	35
Total	14	270	-	284	6	860	-	866

(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.

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 3 of the valuation methodologies, as set out above.

	2015 Carrying value £m	2015 Fair value £m	2014 Carrying value £m	2014 Fair value £m
Financial assets				
Cash and balances at central banks	54	54	52	52
Loans and advances to banks				
Loans and receivables	16,556	16,556	15,426	15,426
Loans and advances to customers				
Loans and receivables	5,689	5,633	5,427	5,346
Financial liabilities				
Deposits by banks	704	704	598	598
Customer accounts	19,659	19,659	18,583	18,583

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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

7. Financial instruments (continued)

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.

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

	Less than 12 months	More than 12 months	Total
	£m	£m	£m
2015			
Assets			
Cash and balances at central banks	54	-	54
Loans and advances to banks	13,566	3,251	16,817
Loans and advances to customers	1,609	4,080	5,689
Derivatives	14	8	22
Liabilities			
Deposits by banks	704	-	704
Customer accounts	19,804	116	19,920
Derivatives	14	9	23

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

7. Financial instruments (continued)

Remaining maturity (continued)

2014	Less than 12 months £m	More than 12 months £m	Total £m
Assets			
Cash and balances at central bank	52	-	52
Loans and advances to banks	12,864	3,393	16,257
Loans and advances to customers	2,064	3,363	5,427
Available for sale investments	1	-	1
Derivatives	14	13	27
Liabilities			
Deposits by banks	598	-	598
Customer accounts	19,120	294	19,414
Derivatives	14	21	35

8. Financial assets - impairments

The following table shows analysis of impaired financial assets:

	2015			2014		
	Cost £m	Provision £m	Net book value £m	Cost £m	Provision £m	Net book value £m
Impaired financial assets						
Loans and advances to customers	24	(11)	13	67	(37)	30

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 £12m (2014: £31m).

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

8. Financial assets - impairments (continued)

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

	Latent £m	Specific £m	Total £m
At 1 January 2015	2	37	39
Amounts written off	-	(29)	(29)
Charge to the income statement	(1)	2	1
Recoveries of amounts previously written off	-	1	1
Unwind of discount	-	-	-
Currency translation adjustment	-	-	-
At 31 December 2015	1	11	12

	Latent £m	Specific £m	Total £m
At 1 January 2014	9	71	80
Amounts written off	-	(33)	(33)
Charge to the income statement	(7)	(2)	(9)
Recoveries of amounts previously written off	-	1	1
Unwind of discount	-	(1)	(1)
Currency translation adjustment	-	1	1
At 31 December 2014	2	37	39

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

	Past due 1–29 days £m	Past due 30–59 days £m	Past due 60–89 days £m	Past due more than 90 days £m	Total £m
2015					
Loans and advances to customers	34	7	1	7	49

9. Assets held for sale

As at 31 December 2014 properties with a combined net book value of £2m were held for sale. The properties were sold in the current year.

10. Investments in Group undertakings

	2015 £'000	2014 £'000
At 1 January and 31 December	12	12

The following companies were the principal undertakings of the Company and are wholly owned:

Name of undertaking	Place of incorporation	Principal activity
Gosport Limited	Gibraltar	Investment holding
Rimford Corporation (wholly owned by Gosport Limited)	Delaware, USA	Property holding
Sotomar Limited	Gibraltar	Investment holding

In the opinion of the Directors the aggregate net realisable value of the investments in subsidiary companies is, in the ordinary course of business, at least equal to its value on the balance sheet.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

11. Property, plant and equipment

2015	Freehold Premises £m	Long leasehold premises £m	Computers and other equipment £m	Total £m
Cost:				
At 1 January 2015	19	3	86	108
Additions	1	-	2	3
Disposals	(3)	-	(2)	(5)
Held for sale	-	-	-	-
Currency translation and other adjustments	-	-	-	-
At 31 December 2015	17	3	86	106
Accumulated depreciation and amortisation:				
At 1 January 2015	3	2	61	66
Disposals	-	-	(3)	(3)
Depreciation charge for the year	-	-	7	7
Held for sale	-	-	-	-
At 31 December 2015	3	2	65	70
Net book value at 31 December 2015	14	1	21	36

2014	Freehold Premises £m	Long leasehold premises £m	Computers and other equipment £m	Total £m
Cost:				
At 1 January 2014	26	4	84	114
Additions	1	-	5	6
Disposals	(5)	(1)	(3)	(9)
Held for sale	(3)	-	-	(3)
At 31 December 2014	19	3	86	108
Accumulated depreciation and amortisation:				
At 1 January 2014	4	3	55	62
Disposals	(1)	(1)	(2)	(4)
Depreciation charge for the year	1	-	8	9
Held for sale	(1)	-	-	(1)
At 31 December 2014	3	2	61	66
Net book value at 31 December 2014	16	1	25	42

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

12. Intangible assets

	2015 £m	2014 £m
Software development		
Cost:		
At 31 December	1	1
Amortisation:		
At 31 December	-	-
Net book value at 31 December	1	1

The amortisation cost for the year was £163k (2014: £21k). The amortisation period for software development costs is 5 years. The amortisation is calculated using the straight line method.

13. Derivatives

The Company enters 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.

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 overleaf are derivatives entered into during the normal course of business with customers and other RBS companies.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

13. Derivatives (continued)

	2015			2014		
	Notional amounts £m	Assets £m	Liabilities £m	Notional amounts £m	Assets £m	Liabilities £m
Exchange rate contracts						
Spots and forwards - RBS entities	1,234	11	7	1,225	8	15
Spots and forwards - third party	346	3	6	390	7	4
Currency swaps and options - RBS entities	5	-	-	82	-	-
Currency swaps and options - third party	5	-	-	82	-	-
Interest rate swaps						
RBS entities	93	8	8	114	12	12
Third party	30	-	1	41	-	2
Interest rate options						
RBS entities	50	-	1	166	-	-
Third party	50	-	-	166	-	2
	1,813	22	23	2,266	27	35

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

Interest rate swaps	52	-	13	52	-	15
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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 £m	2014 £m
Gains recognised on the hedge accounting interest rate swap	1	4
Losses recognised on the item being hedged	(1)	(4)

14. Accruals, deferred income and other liabilities

	2015 £m	2014 £m
Accruals and deferred income	44	16
Other liabilities	18	18
	62	34

Provisions of £18m (2014: £18m) are included in other liabilities.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

14. Accruals, deferred income and other liabilities (continued)

	Property (1) £m	Integrated restructuring (2) £m	Customer redress (3) £m	Total £m
At 1 January 2015	6	3	9	18
Charged to the income statement	-	1	8	9
Released during the year	(2)	-	-	(2)
Utilised in year	-	(3)	(4)	(7)
At 31 December 2015	4	1	13	18

(1) Property provision

The property provisions principally comprise provisions for onerous lease contracts. Provision is made for future rentals payable in respect of vacant leasehold property and for any shortfall where leased property is sub-let at a rental lower than the lease rentals payable by the Company.

(2) Integrated restructuring provision

The Company has reviewed its organisational design and how it is managed to ensure it has the most effective and efficient cost base. To this end £1m has been charged in the year.

(3) Customer redress provision

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

15. Deferred taxation

	Pension £m	Accelerated capital allowances £m	Provisions £m	Total £m
At 1 January 2014	2	(1)	-	1
Credit to other comprehensive income	3	-	-	3
At 1 January 2015	5	(1)	-	4
Credit to other comprehensive income	(1)	-	-	(1)
At 31 December 2015	4	(1)	-	3

Total deferred taxation is analysed as follows:

	2015 £m	2014 £m
Deferred taxation assets	3	5
Deferred taxation liabilities	-	(1)
	3	4

16. Share capital

	Allotted, called up and fully paid		Authorised	
	31 December 2015 £m	31 December 2014 £m	2015 £m	2014 £m
<i>Equity shares:</i>				
Ordinary shares of £1	97	97	300	300
Total share capital	97	97	300	300

The whole of the issued share capital of the Company comprises one class of Ordinary Share held by its holding company, The Royal Bank of Scotland International (Holdings) Limited and its nominee, each share being entitled to one vote.

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

17. Leases

Amounts receivable under non-cancellable leases:

Year in which receipt will occur:	2015			2014		
	Gross amounts	Present value adjustments	Present value	Gross amounts	Present value adjustments	Present value
	£m	£m	£m	£m	£m	£m
Within 1 year	7	(5)	2	7	(4)	3
After 1 year but within 5 years	30	(16)	14	29	(16)	13
After 5 years	69	(18)	51	75	(22)	53
	106	(39)	67	111	(42)	69

Minimum amounts payable under non-cancellable leases:

Year in which payment will occur:	2015				2014			
	After 1 year			Total	After 1 year			Total
	Within 1 year	but within 5 years	After 5 years		Within 1 year	but within 5 years	After 5 years	
	£m	£m	£m	£m	£m	£m	£m	£m
<i>Operating lease obligations:</i>								
Premises	4	17	43	64	4	14	38	56

	2015	2014
	£m	£m
Amounts recognised as income and expense		
Operating lease payables – minimum payments	6	4

Residual value exposures

The unguaranteed residual values included in the carrying value of finance lease receivables (see above) and operating lease assets (2015: £1m, 2014: £1m) will be recovered after 5 years.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. 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").

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

Non-trading currency risk exposure arises principally due to investments in overseas operations. Movements in the exchange rates of the operational currency of the overseas investment will impact the consolidated balance sheet and the income statement unless the investment is financed by borrowings in the same currency. These currency exposures are referred to as structural currency exposures of which the Group has a limited exposure in relation to its foreign-based subsidiaries. These exposures are analysed below in the table 'Structural Currency Exposures'.

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
	£m	£m	£m	£m
Value-at-Risk	0.01	0.04	0.01	0.02
	31 December 2014	Maximum	Minimum	Average
	£m	£m	£m	£m
Value-at-Risk	0.04	0.05	0.02	0.03

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management – value-at-risk (continued)

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 Group 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.

Balance sheet by currency

2015	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at banks	54	-	-	-	54
Loans and advances to banks	3,700	7,762	4,686	669	16,817
Loans and advances to customers	3,865	473	1,080	271	5,689
Available for sale investments	-	-	-	-	-
Derivatives	10	-	5	7	22
Property, plant and equipment	36	-	-	-	36
Intangible assets	1	-	-	-	1
Prepayments, accrued income and other assets	4	-	-	-	4
Deferred tax	3	-	-	-	3
Total assets	7,673	8,235	5,771	947	22,626
Liabilities and equity					
Deposits by banks	499	-	1	204	704
Customer accounts	11,413	3,817	4,076	614	19,920
Derivatives	10	2	4	7	23
Accruals, deferred income and other liabilities	62	-	-	-	62
Current tax	14	-	-	-	14
Retirement benefit liabilities	38	-	-	-	38
Shareholders' equity	1,865	-	-	-	1,865
Total liabilities and equity	13,901	3,819	4,081	825	22,626

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

18. Risk management (continued)

2014	Sterling £m	US Dollars £m	Euro £m	Other £m	Total £m
Assets					
Cash and balances at banks	52	-	-	-	52
Assets held for sale	2	-	-	-	2
Loans and advances to banks	9,391	3,277	2,870	719	16,257
Loans and advances to customers	4,394	237	622	174	5,427
Available for sale investments	1	-	-	-	1
Derivatives	18	9	-	-	27
Property, plant and equipment	42	-	-	-	42
Intangible assets	1	-	-	-	1
Prepayments, accrued income and other assets	3	-	-	-	3
Deferred taxation	4	-	-	-	4
Total assets	13,908	3,523	3,492	893	21,816
Liabilities and equity					
Deposits by banks	470	2	1	125	598
Customer accounts	11,680	3,510	3,491	733	19,414
Derivatives	22	1	11	1	35
Accruals, deferred income and other liabilities	34	-	-	-	34
Current taxation	18	-	-	-	18
Retirement benefit liabilities	53	-	-	-	53
Shareholders' equity	1,664	-	-	-	1,664
Total liabilities and equity	13,941	3,513	3,503	859	21,816

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 Group 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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management (continued)

Liquidity risk (continued)

	0-3 months	3-12 months	1-3 years	3-5 years	5-20 years
	£m	£m	£m	£m	£m
2015					
Assets by contractual maturity					
Cash and balances at central banks	54	-	-	-	-
Loans and advances to banks	12,220	1,178	1,839	1,420	166
Total maturing assets	12,274	1,178	1,839	1,420	166
Loans and advances to customers	546	1,387	1,811	701	1,223
Total assets	12,820	2,565	3,650	2,121	1,389
Liabilities by contractual maturity					
Deposits by banks	508	62	-	4	115
Total maturing liabilities	508	62	-	4	115
Customer accounts	19,291	290	74	-	-
Total liabilities	19,799	352	74	4	115
Maturity gap	(6,979)	2,213	3,576	2,117	1,274
Cumulative maturity gap	(6,979)	(4,766)	(1,190)	927	2,201
	0-3 months	3-12 months	1-3 years	3-5 years	5-20 years
	£m	£m	£m	£m	£m
2014					
Assets by contractual maturity					
Cash and balances	52	-	-	-	-
Loans and advances to banks	11,187	1,665	1,802	1,202	389
Debt securities	1	-	-	-	-
Finance leases	-	3	7	7	53
Total maturing assets	11,240	1,668	1,809	1,209	442
Loans and advances to customers	582	1,341	1,084	921	1,359
Total assets	11,822	3,009	2,893	2,130	1,801
Liabilities by contractual maturity					
Deposits by banks	377	76	-	-	-
Total maturing liabilities	377	76	-	-	-
Customer accounts	18,212	819	258	22	-
Derivatives held for hedging	1	1	3	3	8
Total liabilities	18,590	896	261	25	8
Maturity gap	(6,768)	2,113	2,632	2,105	1,793
Cumulative maturity gap	(6,768)	(4,655)	(2,023)	82	1,875

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 ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management (continued)

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

Credit risk (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 Group requires collateral, this may be cash, or more commonly, security over a customer's assets.

Under IAS 39 provisions are assessed by the Group 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 Group 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 Group'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 £24m as at 31 December 2015 (2014: £67m) – 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:

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management - credit risk (continued)

2015	Gross loans and advances to banks and customers £m	Available for sale investments £m	Derivatives £m	Total £m
UK, Crown Dependencies and Gibraltar				
Central and local government	78	-	-	78
Manufacturing	11	-	-	11
Construction	101	-	-	101
Finance	19,356	-	22	19,378
Service industries and business	49	-	-	49
Agriculture, forestry and fishing	4	-	-	4
Property	1,209	-	-	1,209
Individuals	208	-	-	208
Home mortgages	964	-	-	964
Other	236	-	-	236
Total UK, Crown Dependencies and Gibraltar	22,216	-	22	22,238
Europe				
Central and local government	50	-	-	50
Manufacturing	-	-	-	-
Construction	1	-	-	1
Finance	2	-	-	2
Service industries and business	3	-	-	3
Agriculture, forestry and fishing	-	-	-	-
Property	30	-	-	30
Individuals	184	-	-	184
Home mortgages	4	-	-	4
Other	28	-	-	28
Total Europe	302	-	-	302
Total				
Central and local government	128	-	-	128
Manufacturing	11	-	-	11
Construction	102	-	-	102
Finance	19,358	-	22	19,380
Service industries and business activities	52	-	-	52
Agriculture, forestry and fishing	4	-	-	4
Property	1,239	-	-	1,239
Individuals	392	-	-	392
Home mortgages	968	-	-	968
Other	264	-	-	264
	22,518	-	22	22,540

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management - credit risk (continued)

2014	Gross loans and advances to banks and customers £m	Available for sale investments £m	Derivatives £m	Total £m
UK, Crown Dependencies and Gibraltar				
Central and local government	70	-	-	70
Manufacturing	2	-	-	2
Construction	42	-	-	42
Finance	18,278	-	27	18,305
Service industries and business	54	-	-	54
Agriculture, forestry and fishing	4	-	-	4
Property	1,419	1	-	1,420
Individuals	256	-	-	256
Home mortgages	986	-	-	986
Other	311	-	-	311
Total UK, Crown Dependencies and Gibraltar	21,422	1	27	21,450
Europe				
Central and local government	50	-	-	50
Manufacturing	-	-	-	-
Construction	1	-	-	1
Finance	2	-	-	2
Service industries and business	4	-	-	4
Agriculture, forestry and fishing	-	-	-	-
Property	31	-	-	31
Individuals	180	-	-	180
Home mortgages	7	-	-	7
Other	26	-	-	26
Total Europe	301	-	-	301
Total				
Central and local government	120	-	-	120
Manufacturing	2	-	-	2
Construction	43	-	-	43
Finance	18,280	-	27	18,307
Service industries and business activities	58	-	-	58
Agriculture, forestry and fishing	4	-	-	4
Property	1,450	1	-	1,451
Individuals	436	-	-	436
Home mortgages	993	-	-	993
Other	337	-	-	337
	21,723	1	27	21,751

In accordance with IFRS 7, 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.

Credit risk asset quality

Internal reporting and oversight of risk assets is principally differentiated by credit grades. 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 overleaf shows credit risk assets by asset quality (AQ) band.

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

18. Risk management - credit risk asset quality (continued)

Asset Quality Grade	Minimum %	Maximum %
AQ 1	0.000	0.034
AQ 2	0.034	0.048
AQ 3	0.048	0.095
AQ 4	0.095	0.381
AQ 5	0.381	1.076
AQ 6	1.076	2.153
AQ 7	2.153	6.089
AQ 8	6.089	17.222
AQ 9	17.222	100.000
AQ 10	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 £m	Loans and advances to banks £m	Loans and advances to customers and assets held for sale £m	Available for sale investments £m	Derivatives £m	Commitments £m
AQ 1	54	16,813	344	-	22	415
AQ 2	-	-	1,058	-	-	618
AQ 3	-	1	855	-	-	784
AQ 4	-	3	1,025	-	-	747
AQ 5	-	-	597	-	-	276
AQ 6	-	-	1,622	-	-	320
AQ 7	-	-	92	-	-	19
AQ 8	-	-	14	-	-	1
AQ 9	-	-	1	-	-	1
AQ 10	-	-	19	-	-	-
Accruing past due	-	-	50	-	-	-
Impaired loans	-	-	24	-	-	-
Less impairment provision	-	-	(12)	-	-	-
Total	54	16,817	5,689	-	22	3,181

2014	Cash and balances at central banks £m	Loans and advances to banks £m	Loans and advances to customers and assets held for sale £m	Available for sale investments £m	Derivatives £m	Commitments £m
AQ 1	52	16,250	602	-	27	362
AQ 2	-	4	576	-	-	654
AQ 3	-	3	587	-	-	699
AQ 4	-	-	1,015	-	-	233
AQ 5	-	-	756	1	-	232
AQ 6	-	-	1,650	-	-	208
AQ 7	-	-	141	-	-	17
AQ 8	-	-	21	-	-	3
AQ 9	-	-	4	-	-	3
AQ 10	-	-	6	-	-	-
Accruing past due	-	-	41	-	-	-
Impaired loans	-	-	67	-	-	-
Less impairment provision	-	-	(39)	-	-	-
Total	52	16,257	5,427	1	27	2,411

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

18. Risk management (continued)

Regulatory risk

The Group manages its capital to ensure that entities in the Group 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 Group consists of equity attributable to equity holders of the ultimate parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Group has capital adequacy requirements imposed by the following regulators - the Jersey Financial Services Commission, the Guernsey Financial Services Commission, the Financial Supervision Commission Isle of Man, the Financial Services Commission Gibraltar and the Cayman Islands Monetary Authority. Group entities are required to report a risk asset ratio to regulators 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 each of the regulators. All Group entities have been in compliance with capital adequacy requirements in respect of the years ending 31 December 2015 and 2014.

ALCO reviews the capital structure of the Group's entities 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 Group 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.

The Group's overall strategy remains unchanged from 2014.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. The Group'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.

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.

The International Pensions Trust ("IPT") is the largest of the schemes and the main source of pension risk. It operates under a trust deed under which the corporate trustee is a subsidiary of the Company. The trustee board comprises three directors selected by the Company, two directors nominated by members and one independent director.

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. A sub-committee of PRC has responsibility for oversight of the IPT as a material RBS pension scheme; considering mechanisms that could potentially be used for managing risk within the IPT as well as financial strategy, and also reviews actuarial assumptions from a sponsor perspective as appropriate.

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 board 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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

18. Risk management – pension risk (continued)

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, RBSI 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 IPT was undertaken with an effective date of 31 March 2012. Under the terms of the deficit Recovery Plan, the Company agreed to pay contributions to repay the deficit at the rate of £13.5m p.a. until March 2018, with a further payment of £11.25m in 2019. A funding valuation as at 31 March 2015 is ongoing and expected to be finalised during 2016.

19. 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	2014
	£m	£m
Contingent liabilities:		
Guarantees	277	262
Other contingent liabilities	84	19
Total contingent liabilities	<u>361</u>	<u>281</u>
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend:	3,182	2,411
Total commitments	<u>3,182</u>	<u>2,411</u>

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.

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 17.

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.

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

20. Net cash inflow from operating activities

	2015 £m	2014 £m
Operating profit	216	255
Loan impairment provisions net of recoveries	(28)	(42)
Gain on sale of assets	(3)	(4)
Foreign exchange	11	9
Pension charge for defined benefit schemes	9	8
Cash contribution to defined benefit schemes	(17)	(19)
Depreciation of property, plant and equipment	7	9
Other non-cash items	1	(1)
Net cash inflows from trading activities	196	215
Decrease/(increase) in loans and advances to banks and customers	(749)	112
Increase/(decrease) in derivatives at fair value	5	(7)
Increase/(decrease) in prepayments, accrued income and other assets	2	(2)
Changes in operating assets	(742)	103
Increase in deposits by banks and customers	612	-
(Decrease)/increase in derivatives at fair value	(12)	9
Increase in accruals, deferred income and other liabilities	27	3
Changes in operating liabilities	627	12
Tax paid	(25)	(25)
Net cash inflow from operating activities	56	305

21. Analysis of cash and cash equivalents

	2015 £m	2014 £m
At 1 January		
Cash and balances at central banks	52	42
Cash equivalents	107	68
	159	110
Net cash inflow	58	57
Effect of exchange rate changes on cash and cash equivalents	(11)	(8)
At 31 December	206	159
Comprising:		
Cash and balances at central banks	54	52
Loans and advance to banks and debt securities	152	107
	206	159

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

22. Interest received and paid

	2015 £m	2014 £m
Interest received	324	358
Interest paid	(70)	(103)
	254	255

23. 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 directors of the Company and members of the Executive Committee Offshore. The following amounts are attributable, in aggregate, to key management:

	2015 £'000	2014 £'000
Loans and advances to customers	2,827	2,421
Customer accounts	482	1,116
Interest received	56	49
Interest paid	2	9

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 £m	2014 £m
Assets		
Loans and advances to banks:		
RBS International group entities	16,810	16,236
Liabilities		
Deposits by banks:		
RBS entities	704	598
Income		
Interest received:		
RBS entities	162	189
Fees received from RBS entities	8	9
Total income	170	198
Expenses		
Interest paid:		
RBS entities	9	10
Administration expenses paid to RBS entities	5	14
Administration expenses recovered	-	(9)
Total expenses	14	15

THE ROYAL BANK OF SCOTLAND INTERNATIONAL LIMITED

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

23. Related parties (continued)

(c) Compensation of key management

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

	2015	2014
	£'000	£'000
Short term benefits	1,791	1,600
Post employment benefits	173	204
Long term benefits	265	436
	2,229	2,240