1. Organization and Operations

Royal Alliance Associates, Inc. (the "Company") is a wholly-owned subsidiary of AIG Advisor Group, Inc. ("AIG AG"), which is a wholly-owned indirect subsidiary of American International Group, Inc. ("AIG"). AIG and/or its direct, wholly-owned subsidiaries may hereinafter be referred to as the "Parent". The Company is a broker-dealer registered with the Financial Industry Regulatory Authority and the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934, and an investment advisor registered under the Investment Advisers Act of 1940. The Company's primary business is the sale of financial products through its independent registered representatives. The Company's registered representatives sell financial products sponsored by the Parent and other affiliates (collectively, the "Affiliates"), as well as other unaffiliated companies.

The Company executes its customers' transactions on a fully-disclosed basis, through unaffiliated clearing broker-dealers, which carry the accounts and securities of the Company's customers.

On January 26, 2016, AIG announced its intention to sell AIG Advisor Group, Inc. and its subsidiaries (including the Company) to unrelated third parties. The sale is anticipated to close during the second quarter of 2016.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Future Application of Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, as amended by ASU 2015-14, *Revenue from Contracts with Customers*, a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance. The objective of ASU 2014-09 is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for the annual reporting period beginning after December 15, 2017. An entity can elect to adopt ASU 2014-09 using one of two methods, either full retrospective adoption to each prior reporting period, or recognize the cumulative effect of adoption at the date of initial application. The Company is in the process of evaluating the new standard, and as of December 31, 2015 cannot reasonably estimate the impact to the financial statements.

In August 2014, the FASB issued ASU 2014-15 on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The standard is effective for the annual periods ending December 31, 2016. Early adoption is permitted. This guidance is not expected to impact the Company's financial statements.

Commission Revenue and Expense

Commission revenue and Commission expense are recorded on a trade date basis as securities transactions occur.

Sponsor Revenue and Related Marketing and Meeting Expense

The Company receives sponsor revenues from various investment advisors and insurance companies (the "Sponsors") related to sales by the Company's registered representatives of mutual funds, variable annuities and other products of the Sponsors, as well as in return for inviting the Sponsors to the Company's annual representative convention. The Company records sponsor revenue when earned. The Company incurs expenses related to conventions and other events to provide Sponsors with access to the Company's registered representatives. The Company records marketing and meeting expenses when incurred. Marketing and meeting expenses are included in General and administrative expense in the Statement of Operations.

Investment Advisory Fees and Expenses

Investment advisory fees and expenses are recognized over the term of the advisory period.

Securities Transactions

Securities transactions are recorded on the trade date. Gains and losses arising from all securities transactions are recorded on a trade date basis.

Securities owned and securities sold, not yet purchased, are comprised primarily of trading securities and are carried at fair value on the Statement of Financial Condition. Realized and unrealized gains and losses are reflected in Other income in the Statement of Operations.

Other Income

Other income consists primarily of ticket charges and other fees and reimbursements from independent representatives associated with certain back-office functions necessary to run the business.

Fair Value Measurements

The Company's financial instruments at December 31, 2015 consist of cash and cash equivalents; securities owned; securities sold, not yet repurchased; and receivables from and payables to third parties and affiliates. The carrying amounts of cash and receivables from and payables to third parties and affiliates approximate fair value due to their short term nature.

In accordance with FASB Accounting Standards Codification ("ASC"), ASC 820, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3: Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires judgment. Management considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Cash Equivalents
The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

Concentration of Risk
At times, cash and cash equivalents may exceed the insurance limits of the Federal Deposit Insurance Corporation. Management believes its risk of loss is mitigated by investing in or through reputable major financial institutions.

Repayable and Forgivable Notes Receivable from Registered Representatives
Notes receivable from registered representatives consist of interest bearing loans with maturities ranging from one to seven years. These loans are included in Notes and accounts receivable from registered representatives on the Statement of Financial Condition. An estimate of the amount that will not be collected is reserved.

The Company also makes loans or pays advances to independent representatives as part of its hiring and retention process. Each year, a portion of these loans will be forgiven (generally over a period of three to seven years) as and when the representative meets certain operating and gross dealer concession levels. Amortization expense is recorded on a straight-line basis over the stated life of the loan and is included with Commission expense in the Statement of Operations. If an independent representative separates from the Company, any remaining balance of the loan becomes immediately due and payable. Generally, these loans have historically become uncollectible after the independent representative has separated from the Company. Accordingly, it is reclassified as a repayable loan with a full reserve until all collection efforts are exhausted at which time any remaining balances will be written off. Recoveries, if any, are recognized when received.

Furniture, Equipment, and Software
Furniture, equipment, and software are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is provided on a straight-line basis over the useful lives of the assets, currently estimated to be three to eight years.

Intangible Assets
Intangible assets represent the cost of acquired independent representative relationship and are amortized over their useful lives. The Company's remaining intangible assets are being amortized over ten years. Amortization expense for 2015 was approximately $128,000.

Income Taxes
The Company is included in the AIG consolidated federal income tax return. Federal income taxes are calculated as if the Company filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from the Parent under a tax sharing agreement between AIG and its subsidiaries. The amount of current taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates. The Company uses the liability

method to account for federal and state taxes in accordance with authoritative guidance under US GAAP on income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax benefits and consequences of differences between the carrying amounts of assets and liabilities and their respective tax basis using currently enacted tax rates for the years in which the temporary difference is expected to reverse. The Company calculates its current and deferred state income taxes using the actual apportionment and statutory rates for states in which they are required to file on a separate basis. In states that have a unitary regime, AIG accrues and pays the taxes owed and does not allocate the provision or cash to settle the expense with the members of the unitary group. Unlike for federal income tax purposes, AIG does not have state tax sharing agreements. AIG has determined that because the unitary tax expense will never be borne by the subsidiaries, the state tax unitary liability is not included in this separate company financial result. Interest and penalties, when incurred, are recognized in General and Administrative expense.

The Company is currently under Internal Revenue Service examination for the taxable years 2007 to 2010. Although the final outcome of possible issues raised in any future examination is uncertain, the Company believes that the ultimate liability, including interest, will not materially exceed amounts recorded in the consolidated financial statements. The Company's taxable years 2001 to 2015 remain subject to examination by major tax jurisdictions.

3. Cash Segregated Under Federal and Other Regulations

Cash of approximately $70,000 as of December 31, 2015 is segregated under provisions of the Securities Exchange Act of 1934 and primarily represents estimated remediation reserves required by the SEC and the Department of Labor.

4. Receivables From Broker-Dealers and Clearing Organizations

Amounts receivable from broker-dealers and clearing organizations at December 31, 2015, consist of the following:

(in thousands of dollars)

Receivable from clearing broker	$	3,381
Fees and commissions receivable		11,627
	$	15,008

5. Furniture, Equipment, and Software

Furniture, equipment, computer hardware and software consist of the following at December 31, 2015:

(in thousands of dollars)

Computer equipment	$	82
Furniture, fixtures and equipment		949
Software		38
Total		1,069
Less: Accumulated depreciation and amortization		(1,067)
	$	2

Depreciation and amortization expense on these assets totaled approximately $2,000 for the year ended December 31, 2015 and is included in General and administrative expenses in the accompanying Statement of Operations.

6. Securities Owned

The fair values of securities owned at December 31, 2015, are summarized as follows:

(in thousands of dollars)	Level 1		Level 2		Balance December 31, 2015	
Securities owned						
Municipal and other governmental bonds	$	-	$	47	$	47
US treasury bills		9,502		-		9,502
Corporate bonds		-		3		3
Mutual funds		42		-		42
	$	9,544	$	50	$	9,594
Securities sold, not yet purchased						
Certificate of deposit	$	(30)	$	-	$	(30)
Government bonds		-		(3)		(3)
	$	(30)	$	(3)	$	(33)
Cash equivalents						
Money market	$	4,112	$	-	$	4,112

There were no Level 3 securities at December 31, 2015. During 2015, there have been no transfers of securities between levels.

7. Related Party Transactions

The Company is involved in significant related party transactions and has significant related party balances with affiliates. The terms of agreements with Affiliates may not necessarily be indicative of the terms that would have existed if the Company operated as an unaffiliated entity.

Commission revenue for the year ended December 31, 2015 includes approximately $13,337,000 earned on sales of mutual funds and insurance products sponsored by Affiliates. Commission expense for the year ended December 31, 2015 included approximately $12,246,000 incurred on sales of products sponsored by Affiliates.

AIG AG negotiates fidelity bond insurance policies and allocates the expense to the Company. For the year ended December 31, 2015, the Company was allocated approximately $285,000 for these expenses, which is included in Clearance and other expense in the accompanying Statement of Operations.

The Company is included in the AIG consolidated federal income tax return under a tax sharing agreement between AIG and its subsidiaries.

The Company is reimbursed by its registered representatives to recover insurance, licensing and other costs. Total amounts reimbursed to the Company amounted to approximately $6,115,000 for the year ended December 31, 2015, which is recorded as Other income in the Statement of Operations.

In April 2015, the Company paid a dividend to the Parent totaling $13,407,000. Additionally, in November 2015 the Company received a capital contribution from the Parent totaling $4,729,000.

Pursuant to a service and expense agreement, the Parent provides, or causes to be provided, administrative, marketing, investment management, accounting, occupancy, and data processing services to the Company and certain affiliates. The allocation of costs for services is based generally on estimated levels of usage, transactions or time incurred in providing the respective services and, in all cases, billed amounts pursuant to this agreement do not exceed the cost to the Parent. These allocated costs, along with a reimbursement of the Company's direct overhead costs totaled approximately $55,022,000 for the year ended December 31, 2015 and are included in General and administrative expense in the Statement of Operations.

At December 31, 2015 the Company had the following intercompany receivables and payables to and from Affiliates:

(In thousands of dollars)	Due (To)	Due From
Woodbury Financial Services, Inc.	$ (26)	$ -
V2020 Wealth Management Corporation	(34)	-
National Union Fire Insurance Company	-	522
American General Life Insurance Company	(749)	-
Variable Annuity Life Insurance Company	(8)	-
Sagepoint Financial Inc.	(63)	-
FSC Securities Corporation	(130)	-
AIG Advisor Group, Inc.	-	54
	$ (1,010)	$ 576

8. Income Taxes

The components of the income tax benefit for the year ended December 31, 2015 are as follows:

(in thousands of dollars)	
Current	
Federal expense	$ 3,436
State and local benefit	(94)
Current expense	3,342
Deferred	
Federal expense	449
State and local expense	34
Deferred expense	483
Total expense	$ 3,825

Deferred tax assets and liabilities principally arise as a result of temporary difference from deferred compensation and related accrued interest, legal reserves and errors and omission reserves. The difference between the federal statutory tax rate of 35 percent and the Company's effective income tax rate of 61.8% percent for the year ending December 31, 2015, is primarily due to the following:

(in thousands of dollars, except rates)	Pretax Income	Tax Expense/(Benefit)	Rate Percentage
U.S. federal income tax at statutory:	$ 6,186	$ 2,165	35.0%
rate adjustments:			
State income taxes		(4)	-0.1%
Non-deductible fines and penalties		1,664	26.9%
	$ 6,186	$ 3,825	61.8%

The following table presents the components of the net deferred tax assets (liabilities):

(In thousands of dollars)

Deferred Tax Asset:	
Accrued Expenses	$ 2,596
Deferred Compensation	200
Software and intangible assets	2,133
Fixed Assets	663
Losses and Tax Credit Carryforwards	965
State Taxes	112
Total Deferred Tax Asset	6,669
Deferred Tax Liability:	
Unearned Income	(528)
Total Deferred Tax Liability	(528)
Net Deferred Tax Asset/(Liabilities)	$ 6,141

The Company recognizes and measures its unrecognized tax benefits in accordance with authoritative guidance. Under that guidance the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

The Company does not have any tax positions at the end of the year for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

9. Net Capital Requirements and Exemptions

Under Rule 15c3-1 of the Securities Exchange Act of 1934 (the "Rule"), the Company is required to maintain a minimum net capital amount. The Company elected to use the alternative method, permitted by the Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of $250,000 or two percent of aggregate debit balances. At December 31, 2015, the Company had net capital of approximately $12,147,000 which was approximately $11,897,000 in excess of the amount required.

The Company claims exemption from SEC Rule 15c3-3 under paragraph (k)(2)(ii) of the Rule.

10. Commitments and Contingencies

A guarantee is a contract that contingently requires the Company to pay a third party based on changes in an underlying asset, liability or equity security of the guaranteed party. In the normal course of business, the Company enters into contracts that contain a variety of representations and warranties, and which provide general indemnifications. The Company's maximum exposure in connection with these contracts is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

Litigation and Regulatory Matters

The Company is involved in various claims and lawsuits arising in the normal conduct of its business. Such claims and lawsuits are generally covered under Errors and Omissions insurance. Amounts not covered by such insurance will be paid directly by the Company. At December 31, 2015, the Company accrued approximately $5,052,000 for legal and regulatory matters and approximately $5,003,000 for Errors and Omissions claims. These liabilities are included in Accounts payable and accrued expenses in the Statement of Financial Condition.

The Company has cooperated with an ongoing investigation by the SEC relating to the Company's fee-based advisory business. The SEC identified two deficiencies that occurred between 2012 and 2014. Accordingly, in anticipation of reaching a settlement with the SEC, the Company accrued approximately $4,806,000 for the year ended December 31, 2015; of which approximately $4,727,000 remains payable at December 31, 2015.

Deferred Compensation

AIG has established a nonqualified deferred compensation plan (the "Plan") in which certain of the Company's registered representatives were allowed to elect to participate along with registered representatives of other affiliated companies. Effective January 2009, the Plan was frozen; no future contributions are allowed. The compensation deferral was deposited into a trust account maintained by an unaffiliated company. The value of the deferred compensation fluctuates with the value of the investment alternatives chosen. AIG has provided a full and unconditional guarantee of the obligations to pay the deferred compensation under the Plan.

Additionally, at December 31, 2015, the Company has established a liability of approximately $133,000 to provide certain participants up to a 2.75% cumulative return upon payout as provided in the Plan documents.

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions.

The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally agrees to indemnify them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event that additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

Clearing Broker-Dealers

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities transactions. The Company uses unaffiliated clearing broker-dealers to execute certain customer transactions. Such transactions may expose the Company and the clearing broker-dealers to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. In the event that customers fail to satisfy their obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customers' obligations. The Company does not expect nonperformance by customers. There is no maximum risk of loss under such arrangement. Based on experience, the Company does not believe any potential losses will be material.

Leases

At December 31, 2015, the Company has an operating office lease commitment which commenced in February 2007 and expires in January 2017.

The Company recognizes rents on a straight-line basis. The lease provides for monthly base rents of approximately $281,000 over the life of the lease with scheduled increases which began in 2012. Leasehold improvement allowances of approximately $3,500,000 were provided by the lessor to the Company as an inducement to the lease commitment. The Company incurred approximately $4,500,000 of additional leasehold improvements above the stated allowance. All leasehold improvements are to be retained by the landlord upon expiration of the lease. As a result, leasehold improvements paid by the Company are considered to be prepaid rents. Amortization of prepaid rents is included in General and administrative expense in the accompanying Statement of Operations.

At December 31, 2015, the aggregate minimum annual obligations under this non-cancelable operating lease are as follows.

(In thousands of dollars)

2016	$	3,779
2017		3,464
	$	7,243

The Company's rent expense for the year ended December 31, 2015 was approximately $3,779,000 and is included in General and administrative expense on the Statement of Operations.

11. Subsequent Events

Management of the Company has performed an evaluation of subsequent events through February 29, 2016, which is the date the financial statements were available to be issued. As noted in Note one; AIG has announced its intention to sell its investment in the Parent and its subsidiaries to unrelated third parties. The transaction is expected to close in the second quarter of 2016.