SC083026

ADAM & COMPANY PLC

REPORT AND ACCOUNTS

FOR THE YEAR TO 31 DECEMBER 2009

ADAM & COMPANY PLC

OFFICERS AND PROFESSIONAL ADVISERS

BOARD OF DIRECTORS
M McLean FCIBS (Chairman)
D J Cathie FCIBS (Managing Director)
B Coombs
S E C Miller (Non-Executive)
M Morley
J Rawlingson

SECRETARY
S Doyle

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22 Charlotte Square
Edinburgh EH2 4DF
0131 225 8484
E-mail enquiries @ adambank.com
Fax 0131 225 5136
Registered No: SC83026

INDEPENDENT AUDITORS
Deloitte LLP
Edinburgh

BANKERS
The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh EH2 2YB

Registered in Scotland

ADAM & COMPANY PLC

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be the provision of a range of banking services to clients in the high net worth market segment.

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

The Company is ultimately a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction, in addition to access to selected central resources. The Royal Bank of Scotland Group plc also aids development of policies in key areas such as finance, risk, human resources and environment. For this reason, the directors believe that performance indicators specific to Adam & Company plc are not necessary or appropriate for a more detailed understanding of the development, performance or position of the business. The annual reports of the Royal Bank of Scotland Group plc review these matters on a Group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, from the Registrar of Companies, or via the RBS Group's website at rbs.com

The Company is funded by a combination of client deposits, foreign currency deposits and facilities from The Royal Bank of Scotland plc. Excess cash arising from deposits in excess of the Company's funding requirements are placed with The Royal Bank of Scotland plc. The Group seeks to minimise its exposure to various external financial risks for which further information is disclosed in note 20 to the financial statements.

The directors, having made such enquiries as they consider appropriate, have prepared the financial statements on a going concern basis.

BUSINESS REVIEW

The directors are satisfied with the development of the Company's activities during the year. The Company's performance is presented in the Income Statement on page 7. The profit for the year after providing for taxation was £13.690 million (2008: £13.223 million). At the end of the year, the financial position showed total assets of £1,893 million (2008: £2,439 million) and equity of £92 million (2008: £78 million). The directors do not recommend the payment of a dividend (2008:nil). The retained profit of £13.690 million (2008: £13.223 million) has been transferred to reserves.

DIRECTORS AND SECRETARY

The names of the present directors of the company are shown on page 1, all of whom have served throughout the year, with the exception of M Morley who was appointed on 24 August 2009 and J Rawlingson, B Coombs and M McLean who were appointed on 28 September 2009. R Donaldson, D Graham, R Lockhart, J O'Donnell, W Stanworth, A Mulligan and K McGuire resigned on 16 November 2009. J Hackett resigned on 27 November 2009 and R Entwistle resigned on 31 December 2009.

STAFF POLICIES

The company encourages employee involvement through a process of employee communication. This includes internal communication activities through a corporate intranet, regular anonymous staff surveys, team meetings led by managers, briefings held by senior managers and regular dialogue with employees.

The company recognises its responsibility towards staff with disabilities and seeks to eliminate discrimination on the grounds of disability. The company recognises the experience; talent and skill that people with disabilities can bring to the workforce and strives to achieve equality of opportunity in the recruitment, employment and retention of all staff, including those with disabilities.

FINANCIAL INSTRUMENTS

The company seeks to minimise its exposure to external financial risks. The major risks associated with the company's businesses are market risk, liquidity risk and credit risk. The company has established a comprehensive framework for managing these risks, which evolves as the company's business activities change in response to market, credit and other developments. The company's policies for managing each of these risks and its exposure thereto are detailed in notes 18 to 21 to the financial statements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

In relation to the financial year to 31 December 2009, the company does not intend to follow any specific code or standard on payment practice, but instead prefers to remain flexible with respect to the payment of creditors.

The majority of suppliers of goods and services will be paid within one month of the company receiving an appropriate invoice. In order to reduce administration costs certain smaller invoices may be held over for payment with larger invoices. Where a supplier requests it, the company will endeavour to accommodate specific payment terms. As at 31 December 2009 the amount of trade creditors outstanding, expressed as a proportion of annual supplies invoiced, is equivalent to 45 days (2008: 40 days).

Payment terms will be discussed and agreed with new suppliers at the start of the relationship, rather than for each individual transaction.

SHARE CAPITAL

During the year the share capital was increased by £nil (2008: £3,750,000).

AUDITORS

The auditors, Deloitte LLP, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

ADAM & COMPANY PLC
DIRECTORS' REPORT (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare a directors' report and financial statements for each financial year and the directors have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs at the end of the year and the profit and loss for the financial year as far as concern members of the company. In preparing these financial statements, under International Accounting Standard 1, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and performance; and
- make an assessment of the company's ability to continue as a going concern.

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

We, the directors listed below, confirm that to the best of our knowledge:

- so far as he/she are aware there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

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

S Doyle
Secretary
22 Charlotte Square
EDINBURGH EH2 4DF

23 March 2010

Deloitte. ADAM & COMPANY PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADAM & COMPANY PLC

We have audited the company financial statements (the "financial statements") of Adam & Company plc for the year ended 31 December 2009 which comprise the income statement, the statement of comprehensive income, the balance sheet, the company statement of changes in equity, the company cash flow statement and the accounting policies and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 (APB's) Ethical Standards for Auditors. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Deloitte.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ADAM & COMPANY PLC (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

David Clark

David Claxton ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Edinburgh, United Kingdom

25 March 2010

ADAM & COMPANY PLC
INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009	2008
		£000	£000
Interest receivable		57,251	139,757
Interest payable		(20,295)	(103,243)
Net interest income		**36,956**	**36,514**
Fees and commissions receivable		9,206	9,247
Fees and commissions payable		(590)	(733)
Income from foreign exchange trading activities		2,830	3,379
Non-interest income		**11,446**	**11,893**
Total income		**48,402**	**48,407**
Operating expenses	2	(26,850)	(26,050)
Operating profit before impairment provisions		**21,552**	**22,357**
Net charge for impairment provisions		(2,128)	(3,719)
Profit before tax	4	**19,424**	**18,638**
Tax	5	(5,734)	(5,415)
Profit for the year		**13,690**	**13,223**

All the results of the company relate to continuing operations.

The accompanying notes on pages 17 to 43, the accounting policies on pages 12 to 16 form an integral part of these financial statements.

ADAM & COMPANY PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £000	2008 £000
Profit for the year	**13,690**	**13,223**
Gains/(losses) on available for sale financial assets	14	(10)
Tax relating to components of other comprehensive income	(4)	3
Total comprehensive income for the period	**13,700**	**13,216**

ADAM & COMPANY PLC
BALANCE SHEET
AS AT 31 DECEMBER 2009

		2009	2008
ASSETS	Notes	£000	£000
Cash and balances at central banks		365	390
Items in the course of collection from other banks		2,188	1,599
Loans and advances to banks		1,177,604	1,337,465
Loans and advances to customers	6	700,448	1,081,115
Debt securities	7	18	3,045
Intangible assets	9	219	144
Property, plant and equipment	10	2,382	2,885
Settlement balances		248	199
Derivatives at fair value	11	1,030	4,149
Other assets, prepayments and accrued income	12	7,771	5,886
Deferred tax asset	14	948	1,659
TOTAL ASSETS		**1,893,221**	**2,438,536**
LIABILITIES			
Deposits by banks		107,475	533,424
Items in the course of transmission to other banks		3,594	2,826
Customer accounts		1,640,097	1,773,686
Settlement balances		1,458	425
Derivatives at fair value	11	954	4,158
Other liabilities, accruals and deferred income	13	34,206	32,267
Deferred tax liabilities	14	-	13
Provisions for liabilities and charges	15	372	372
Subordinated liabilities	16	13,500	13,500
TOTAL LIABILITES		1,801,656	2,360,671
SHAREHOLDERS' EQUITY			
Called up share capital	17	19,548	19,548
Reserves		72,017	58,317
		91,565	77,865
TOTAL LIABILITIES AND EQUITY		**1,893,221**	**2,438,536**

The accompanying notes on pages 17 to 43, the accounting policies on pages 12 to 16 form an integral part of these financial statements.

The Financial Statements were approved by the Board of Directors and authorised for issue on 23 March 2010 and signed on its behalf by:

M McLean, Chairman

D J Cathie, Director

23 March 2010

Adam & Company PLC
Registered No: SC83026

ADAM & COMPANY PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Retained earnings	Available for sale reserves	Revaluation reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2009	19,548	58,112	(10)	215	77,865
Increase in share capital	-	-	-	-	-
Profit for the period	-	13,690	-	-	13,690
Other comprehensive income for the period	-	-	10	-	10
Balance at 31 December 2009	19,548	71,802	-	215	91,565

ADAM & COMPANY PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital	Retained earnings	Available for sale reserves	Revaluation reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2008	15,798	44,889	(3)	215	60,899
Increase in share capital	3,750	-	-	-	3,750
Profit for the period	-	13,223	-	-	13,223
Other comprehensive income for the period	-	-	(7)	-	(7)
Balance at 31 December 2008	19,548	58,112	(10)	215	77,865

ADAM & COMPANY PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £000	2008 £000
Cash flow used in operating activities	25	(183,097)	(254,128)
Investing activities			
Sale and maturity of securities		14	(4)
Purchase of property, plant and equipment		(331)	(623)
Purchase of intangibles		(141)	(80)
Cash flows used in investing activities		(458)	(707)
Financing activities			
Interest on subordinated liabilities		(161)	(358)
Issue of ordinary shares		-	3,750
Cash flows from financing activities		(161)	3,392
Net decrease in cash and cash equivalents		(183,716)	(251,443)
Cash and cash equivalents 1 January		850,759	1,102,202
Cash equivalents at 31 December	26	**667,043**	**850,759**

ACCOUNTING POLICIES

A. Adoption of new and revised International Financial Reporting Standards

IAS1 (Revised 2007) 'Presentation of Financial Statements' has introduced a number of changes in the format and content of the company's financial statements including a statement of changes in equity (showing components of the changes in equity for the period) as a primary financial statement and a statement of comprehensive income immediately following the income statement. The accounting standards effective this year have not had an impact on either the results or accounting policies of the company.

The Group has adopted "Improving Disclosures about Financial Instruments" (Amendments to IFRS 7 "Financial Instruments: Disclosures). These amendments expand the disclosures required about fair valiues and liquidity risk. Other new standards are not considered to have a material impact on the financial statements.

There are no new standards not yet effective which the directors believe will have a significant impact on the results or accounting policies of the company.

B. Accounting convention

The financial statements, which should be read in conjunction with the Directors' report, are prepared on a going concern basis and in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union and under the historical cost convention as modified by the revaluation to fair value of derivative financial instruments and available-for-sale financial assets. The financial statements of the company are prepared in accordance with section 394 of the Companies Act 2006.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

C. Revenue recognition

Interest income on financial assets that are classified as loans and receivables and available-for-sale, and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. 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 receivable, that are an integral part of the instrument's yield.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to profit or loss otherwise they are deferred and included in the effective interest rate on the advance.

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Brokerage commissions are recognised in revenues when trades are processed.

Commission received on card related service is accrued to the income statement as the service is performed.

D. Pensions

The Royal Bank of Scotland Group plc provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees. The cost of defined benefit pension schemes and healthcare plans is assessed by independent professionally qualified actuaries and recognised on a systematic basis over employees' service lives.

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside profit or loss and presented in the statement of recognised income and expense.

ACCOUNTING POLICIES (CONTINUED)

E. Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss using methods that best reflect the economic benefits over their estimated useful economic lives and included in depreciation and amortisation. The estimated useful economic lives are as follows:

Computer software	3-5 years straight line

F. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value.

Estimated useful lives are as follows:

Freehold buildings	50 years
Short leaseholds	unexpired period of the lease
Computer equipment	up to 5 years
Other equipment	4 to 15 years
Paintings	Not depreciated

G. 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. The recoverable amount of an asset is the higher of its fair value less costs 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 that have not been reflected in the estimation of 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 does not exceed that which it would have had had no impairment loss been recognised.

H. Currency translation

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 profit or loss.

I. Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

J. Financial assets

Financial assets are classified into available-for-sale, held for trading or loans and receivables.

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 held for trading. 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.

Held for trading – a financial asset is classified as held for trading if it is a derivative. Held for trading financial assets are recognised at fair value with transaction costs recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses on held for trading financial assets are recognised in profit or loss as they arise.

Available-for-sale – financial assets that are not classified as held for trading or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss, together with interest calculated using the effective interest rate method. Other changes in the fair value of available-for-sale financial assets are reported in the statement of comprehensive income. Interest calculated using the effective interest rate is recognised in profit or loss.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date. Fair value for a net open position in a financial asset that is quoted in an active market is the current bid price times the number of units of the instrument held. Fair values for financial assets not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial assets.

K. Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset 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 and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually.

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset 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 provision. Once an impairment loss has been recognised on a financial asset, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Latent loss provision is the provision held against the estimated impairment in the performing portfolio which has yet to be identified as at the balance sheet date. The methodology by which the provision is calculated entails a statistical estimation of existing but unidentified defaults, based upon the level of identified individual impairments and the emergence period (the average time taken for current impaired loans to be recognised and provided for under the individual assessment process).

L. Financial liabilities

A financial liability is classified as held for trading if it is a derivative. Held for trading financial liabilities are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses are recognised in profit or loss as they arise. All other financial liabilities are measured at amortised cost using the effective interest method.

Fair value for a net open position in a financial liability that is quoted in an active market is the current offer price times the number of units of the instrument held or issued. Fair values for financial liabilities not quoted in an active market are determined using appropriate valuation techniques including discounting future cash flows, option pricing models and other methods that are consistent with accepted economic methodologies for pricing financial liabilities.

ACCOUNTING POLICIES (CONTINUED)

M. Operating leases

Operating lease costs are charged to the profit and loss account in the period to which they relate on a straight line basis.

N. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand 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 changes in value.

O. Critical accounting estimates and judgments

The reported results of the company for 2009 are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements.

The judgments and assumptions involved in the company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the company would affect its reported results.

Impairment provisions – financial assets

The company provides for losses existing in its lending book so as to state its loan portfolio at its expected net realisable value. Provisions against exposures are established both individually and on a latent basis.

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

Evaluating estimates of provisions involves significant judgment 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.

Fair value

Under IFRS, fair value is the default presentation value for financial instruments. The main exceptions are loans and advances. The income statement reflects the movement in fair values of all financial instruments except those designated as being available-for-sale.

Fair value is the value at which a position could be closed out or sold in a transaction to a willing and knowledgeable counterparty over a reasonable period of time under current market conditions. 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.

Securities carried at fair value include corporate debt obligations. 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 or if a position could be liquidated only at an unfavourable price or over an extended period, fair value is based on appropriate valuation techniques or management estimates.

The company's derivative products include spot and forward purchases and sales of foreign currencies. Their fair value is derived from market quoted prices.

Fair values are primarily sensitive to interest and foreign exchange rates.

O. Critical accounting estimates and judgments (continued)

Provisions for Liabilities and charges

The 2008 bonus structure was changed and is now a deferred award scheme. The bonus earned in that year was deferred and is to be released in three instalments. The amount deferred is based on assumptions covering deposit interest rates, claw back provisions for leavers and assumptions on staff turnover and is shown in note 15. In November 2009 the bonus structure was amended with 80% of the total 2009 award being accrued in 2009, to be paid in 2010.

NOTES ON THE ACCOUNTS

1. SEGMENTAL ANALYSIS

In the opinion of the directors, the company has one class of business, the provision of a range of financial services. In addition, during the period it had no significant activities outside the United Kingdom. Accordingly, no segmental analysis by class of business or geographical location is provided.

2. OPERATING EXPENSES

	2009 £000	2008 £000
Staff costs:		
- Wages, salaries and other staff costs	7,195	6,929
- Social security costs	474	665
- Pension costs (note 3)	1,206	1,227
- Redundancy costs	347	-
Other operating expenses	17,628	17,229
	26,850	**26,050**

The average number of persons employed by the company was 227 (2008: 229).

3. PENSIONS

The Adam & Company Retirement Benefits Plan was merged with the Royal Bank of Scotland Group Pension Fund effective 31 December 2007 and all members' interests in the Adam & Company Retirement Benefits Plan was transferred to The Royal Bank of Scotland Group Pension Fund as at that date.

The Adam & Company scheme was closed to new entrants from 1 January 2003. Benefits continue to accrue for existing members within The Royal Bank of Scotland Group Fund.

Employees who joined the company after 1 January 2003 are eligible to join The Royal Bank of Scotland Group Pension Fund. IAS 19 requires accounting for this scheme on the basis that the company participates in a defined contribution scheme because it is not possible to identify the assets and liabilities of the scheme attributable to the company. For full disclosure of the scheme see the report and accounts of The Royal Bank of Scotland Group Plc.

4. PROFIT BEFORE TAX

	2009 £000	2008 £000
Profit before tax is stated after taking account of the following:		
Profit/(loss) on disposal on available for sale securities	14	(4)
Interest paid on subordinated liabilities	(161)	(358)

Auditors' remuneration:

Amounts paid to the auditors for statutory audit and other services were as follows:

	2009 £000	2008 £000
Audit services		
- Fees payable to the company's auditors for the audit of the company's annual accounts	14	24
Total audit fees	14	24
Other services	13	18
Total non audit fees	13	18
Total	27	42

5. TAX ON OPERATING PROFIT

	2009 £000	2008 £000
Analysis of charge in year		
Current taxation:		
UK corporation taxation at 28% (2008: 28.5%)		
- current tax on profits of the year	4,871	4,881
Adjustments in respect of previous years	169	(25)
Total current tax charge	5,040	4,856
Deferred taxation (note 14):		
Charge for the year	694	559
	694	559
Tax on profit on ordinary activities	**5,734**	**5,415**

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28% as follows:

	2009 £000	2008 £000
Profit on ordinary activities before tax	19,424	18,638
Profit on ordinary activities multiplied by the standard rate of UK corporation tax 28% (2008:28.5%)	5,439	5,312
Effects of:		
Expenses not deductible for tax purposes	126	128
Adjustments in respect of previous years	169	(25)
Impact of rate change in deferred tax	-	-
Total tax	5,734	5,415

6. LOANS AND ADVANCES TO CUSTOMERS

	2009 £000	2008 £000
Loans and receivables	**700,448**	**1,081,115**
The following concentrations of lending to UK residents are considered significant:		
- Home loans	101,716	366,800
- Property industry	94,832	90,116
- Business and other services	29,207	37,049
- Lending to individuals	371,056	342,853
- Other	103,637	244,297
Total	700,448	1,081,115

The above amounts are shown net of provisions for impairment – see note 8 for further details.

7. DEBT SECURITIES

	2009 Listed £000	2009 Unlisted £000	2008 Listed £000	2008 Unlisted £000
Available-for-sale	-	18	3,027	18

	2009 £000	2008 £000
Gross unrealised gains	-	-
Gross unrealised losses	-	(14)

The following table categorises the company's available-for-sale debt securities by maturity and yield (based on weighted averages as at 31 December).

	Within 1 year		After 1 but within 5 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
2009	£000	%	£000	%	£000	%
Total fair value	18	-	-	-	18	-

	Within 1 year		After 1 but within 5 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
2008	£000	%	£000	%	£000	%
Total fair value	3,045	6.37%	-	-	3,045	6.37%

8. PAST DUE AND IMPAIRED FINANCIAL ASSETS

Specific impaired loans and advances to customers are included within the balance disclosed in note 6.

2009	Cost £000	Provision £000	Net book value £000
Loans and advances to customers	11,293	(4,257)	7,036

2008	Cost £000	Provision £000	Net book value £000
Loans and advances to customers	23,211	(4,040)	19,171

The following table shows total impairment provisions for loans and advances classified as loans and receivables.

	2009 £000	2008 £000
At 1 January	4,276	1,016
Amounts written off	(1,574)	(8)
Recoveries of amounts previously written off	4	5
Charge to income statement	2,128	3,719
Unwind of discount	(394)	(456)
As at 31 December	4,440	4,276

During the year impairment charges of £nil (2008: £nil) were recognised on available-for-sale financial assets.

	2009 £000	2008 £000
Gains on disposal or settlement of loans and receivables	4	5
Impairment losses charged to income statement		
Loans and advances to customers	2,128	3,719
Impaired financial assets – individually assessed		
Loans and advances to customers	11,293	23,211

The company holds collateral in respect of certain loans and advances to customers that are post due or impaired. Such collateral includes mortgages over property (both residential and otherwise) and cash.

COLLATERAL

The following represents the loans secured against residential and other property.

	2009 £000	2008 £000
Residential property	426,796	367,809
Other property	153,321	223,484
	580,117	591,293

There have been no financial or non financial assets obtained during the year by taking possession or calling on other credit enhancements.

8. PAST DUE AND IMPAIRED FINANCIAL ASSETS (CONTINUED)

The following loans and advances to customers were past due at the balance sheet date but not considered impaired.

2009	Past due 1-29 days £000	Past due 30-59 days £000	Past due 60-89 days £000	Past due more than 90 days £000	Total £000
Loans and advances to customers	12,364	1,556	1,239	10,023	25,182

2008	Past due 1-29 days £000	Past due 30-59 days £000	Past due 60-89 days £000	Past due more than 90 days £000	Total £000
Loans and advances to customers	11,309	3,872	3,748	13,689	32,618

Included in the above balances are items that are past due through administrative and other delays in recording payments or in finalising documentation and other events unrelated to credit quality.

NOTES ON THE ACCOUNTS (CONTINUED

9. INTANGIBLE ASSETS

	Software £000
Cost:	
At 1 January 2009	418
Additions	141
At 31 December 2009	559
Accumulated amortisation and impairment:	
At 1 January 2009	274
Disposals	-
Charge for the year	66
At 31 December 2009	340
Net book value at 31 December 2009	**219**

	Software £000
Cost:	338
At 1 January 2008	
Additions	80
At 31 December 2008	418
Accumulated amortisation and impairment:	
At 1 January 2008	224
Disposals	
Charge for the year	50
At 31 December 2008	274
Net book value at 31 December 2008	**144**

NOTES TO THE ACCOUNTS (CONTINUED)

10. PROPERTY, PLANT AND EQUIPMENT

2009	Freehold premises £000	Short leasehold premises £000	Computers and other equipment £000	Total £000
Cost:				
At 1 January 2009	755	468	5,697	6,920
Additions	-	3	328	331
Amortisation	(157)	-	-	(157)
Disposals and write-off of fully depreciated assets	-	-	(67)	(67)
At 31 December 2009	598	471	5,958	7,027
Accumulated depreciation and amortisation:				
At 1 January 2009	88	243	3,704	4,035
Disposals and write-off of fully depreciated assets	-	-	(44)	(44)
Amortisation	(106)	-	-	(106)
Depreciation charge for the year	18	51	691	760
At 31 December 2009	-	294	4,351	4,645
Net book value at 31 December 2009	**598**	**177**	**1,607**	**2,382**

2008	Freehold premises £000	Short leasehold premises £000	Computers and other equipment £000	Total £000
Cost:				
At 1 January 2008	755	468	5,138	6,361
Additions	-	-	623	623
Disposals and write-off of fully depreciated assets	-	-	(64)	(64)
At 31 December 2008	755	468	5,697	6,920
Accumulated depreciation and amortisation:				
At 1 January 2008	70	183	3,106	3,359
Disposals and write-off of fully depreciated assets	-	-	(61)	(61)
Depreciation charge for the year	18	60	659	737
At 31 December 2008	88	243	3,704	4,035
Net book value at 31 December 2008	**667**	**225**	**1,993**	**2,885**

11. DERIVATIVES AT FAIR VALUE

The company provides foreign exchange services to customers, principally, buying and selling foreign currencies spot and forward up to one year. The company is exposed to movements in exchange rates between the date the contract is entered into and the date the contract matures. Consequently, to limit this exposure, the company enters into matching forward foreign exchange contracts with the market.

2009	Notional Amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Exchange rate contracts:			
Spot and forwards	32,660	1,030	954
2008			
Exchange rate contracts:			
Spot and forwards	42,254	4,149	4,158

The following table sets forth the gross positive fair values by maturity.

	Within one year 2009 £000	Greater than one year 2009 £000	Within one year 2008 £000	Greater than one year 2008 £000
Exchange rate contracts:				
Financial institutions	605	11	3,420	-
Other	408	6	633	96
	1,013	17	4,053	96

Amounts included in the income statement:

	2009 £000	2008 £000
Gains/(Losses) on financial assets designated as fair value through profit and loss	14	(5)

12. OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME

	2009 £000	2008 £000
Prepayments and accrued income	3,402	3,422
Due from parent company	2,520	2,160
Other	1,849	304
	7,771	5,886

13. OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

	2009 £000	2008 £000
Corporation tax	5,040	4,881
Amounts owed to related parties	9,969	7,832
Accruals and deferred income	13,981	13,757
Other liabilities	5,216	5,797
	34,206	32,267

14. DEFERRED TAXATION

Provision for deferred taxation has been made as follows:

	Accelerated capital allowances £000	Provisions £000	AFS reserves £000	Other £000	Other IAS transition £000	Deferred Bonus £000	Total £000
At 1 January 2008	(49)	60	1	2,061	129	-	2,202
(Charge)/credit to income (note 5)	36	(9)	-	(676)	(14)	104	(559)
Credit to equity	-	-	3	-	-	-	3
At 31 December 2008 and 1 January 2009	(13)	51	4	1,385	115	104	1,646
(Charge)/credit to income (note 5)	22	(9)	-	(692)	(15)	-	(694)
Credit to equity	-	-	(4)	-	-	-	(4)
At 31 December 2009	9	42	-	693	100	104	948

The above is analysed as follows:

- Deferred tax assets	948
- Deferred tax liabilities	-
	948

15. PROVISIONS FOR LIABILITIES AND CHARGES

	2009 £000	2008 £000
At 1 January	372	-
Additional provision in the year	-	372
Released in the year	-	-
At 31 December	372	372

The provision relates to a deferred award scheme and is expected to be released over four years.

It was estimated based on a number of assumptions. The level of bonuses accrued for 2008 was measured at their present value based on the rate the awards accrue interest (3%), discount rate of 5%, staff turnover (10% over 3 years) and a claw back provision for leavers of 2.5%.

£0.5m has been accrued for 2009, with no proportion being deferred. This is included within note 13.

16. SUBORDINATED LIABILITIES

Loan capital all of which has been raised for the development and expansion of the company's business and to strengthen its capital base comprises:

	2009 £000	2008 £000
Dated subordinated floating rate loan at amortised cost	**13,500**	**13,500**

The dated loan capital consists of two parts. The first of £3million is repayable on 30 September 2019. It may be prepaid with the prior consent of the Financial Services Authority at the option of the company in whole or in part on each calendar quarter end subsequent to 30 September 2014. Interest is payable throughout the term of the loan at the rate of 0.5% per annum over three month LIBOR. The second amount of £10.5million is repayable on 30 June 2022. It may be repaid with the prior consent of the Financial Services Authority at the opinion of the company in whole or in part of each calendar quarter and subsequent to 30 June 2017. Interest is payable throughout the term of the loan at the rate of 0.35% per annum over three month LIBOR.

17. CALLED UP SHARE CAPITAL

	2009 £000	2008 £000
Authorised:		
Ordinary shares of £1 each	25,000	25,000
Share capital allotted, called up and fully paid:		
Ordinary shares of £1 each	**19,548**	**19,548**

18. FINANCIAL INSTRUMENTS

The company provides banking services. It takes deposits in sterling and foreign currencies from customers and invests the funds in loans and advances to customers and banks and in debt securities. Deposits may be at call at floating interest rates or for a specified term at a fixed rate of interest. Likewise, loans and advances may be at floating interest rates or fixed for a term. These banking services give rise to liquidity, market and credit risk. The company also provides foreign exchange services to customers which again give rise to market and credit risk.

The company's financial instruments comprise cash, deposits, loans and debt securities in sterling and foreign currencies and derivative financial instruments comprise forward foreign exchange contracts. The company does not trade in financial instruments with the exception of that arising from facilitating customer transactions which involves buying and selling foreign currencies spot and forward and matching these activities in the market.

The company has an excess of deposits over loans and advances to customers and it utilises this excess by investing the funds in loans and advances to banks. These investments are in sterling, US dollars and euros. Where the company has excess deposits in other currencies it uses forward foreign exchange contracts to convert them into one of the three main currencies. The company will also use forward foreign exchange contracts to fund foreign currency loans and advances to customers where it does not already hold deposits in the currency being advanced.

18. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables analyse the company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

2009	Loans & receivables £000	Held for trading £000	AFS £000	Other amortised cost £000	Non financial assets/liabilities £000	Total £000
Cash and balances at central banks	365	-	-	-	-	365
Loans and advances to banks	1,177,604	-	-	-	-	1,177,604
Loans and advances to customers	700,448	-	-	-	-	700,448
Debt securities	-	-	18	-	-	18
Intangible assets	-	-	-	-	219	219
Property plant and equipment	-	-	-	-	2,382	2,382
Settlement balances	-	-	-	-	248	248
Derivatives at fair value	-	1,030	-	-	-	1,030
Prepayments, accrued income and other assets	-	-	-	-	10,907	10,907
	1,878,417	1,030	18	-	13,756	1,893,221
Deposits by banks	-	-	-	107,475	-	107,475
Customer accounts	-	-	-	1,640,097	-	1,640,097
Settlement balances	-	-	-	-	1,458	1,458
Derivatives at fair value	-	954	-	-	-	954
Accruals, deferred income and other liabilities	-	-	-	-	38,172	38,172
Subordinated liabilities	-	-	-	13,500	-	13,500
	-	954	-	1,761,072	39,630	1,801,656
Equity						91,565
						1,893,221

18. FINANCIAL INSTRUMENTS (CONTINUED)

2008	Loans & receivables £000	Held for trading £000	AFS £000	Other amortised cost £000	Non financial assets/liabilities £000	Total £000
Cash and balances at central banks	390	-	-	-	-	390
Loans and advances to banks	1,337,465	-	-	-	-	1,337,465
Loans and advances to customers	1,081,115	-	-	-	-	1,081,115
Debt securities	-	-	3,045	-	-	3,045
Intangible assets	-	-	-	-	144	144
Property plant and equipment	-	-	-	-	2,885	2,885
Settlement balances	-	-	-	-	199	199
Derivatives at fair value	-	4,149	-	-	-	4,149
Prepayments, accrued income and other assets	-	-	-	-	9,144	9,144
	2,418,970	4,149	3,045	-	12,372	2,438,536
Deposits by banks	-	-	-	533,424	-	533,424
Customer accounts	-	-	-	1,773,686	-	1,773,686
Settlement balances	-	-	-	-	425	425
Derivatives at fair value	-	4,158	-	-	-	4,158
Accruals, deferred income and other liabilities	-	-	-	-	35,478	35,478
Subordinated liabilities	-	-	-	13,500	-	13,500
	-	4,158	-	2,320,610	35,903	2,360,671
Equity						77,865
						2,438,536

18. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarise the remaining maturities of the company's financial instruments:

2009

	On demand £000	Under 1 month £000	1-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Assets								
Loans and advances to banks	755,506	164,844	21,530	48,382	12,283	119,680	55,379	1,177,604
Loans and advances to customers	113,516	13,914	21,238	32,646	41,255	326,214	151,665	700,448
Debt securities	-	18	-	-	-	-	-	18
Other assets and derivatives	10,572	520	36	441	16	17	-	11,602
Total	879,594	179,296	42,804	81,469	53,554	445,911	207,044	1,889,672
Liabilities								
Deposits by banks	79,896	9,764	3,011	1,004	4,065	9,735	-	107,475
Customer accounts	1,422,084	88,264	17,303	11,438	2,623	98,385	-	1,640,097
Other liabilities and derivatives	39,258	498	28	411	135	254	-	40,584
Subordinated liabilities	-	-	-	-	-	-	13,500	13,500
Total	1,541,238	98,526	20,342	12,853	6,823	108,374	13,500	1,801,656

2008

	On demand £000	Under 1 month £000	1-3 months £000	3-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000	Total £000
Assets								
Loans and advances to banks	420,026	407,725	213,627	90,760	132,531	20,716	52,080	1,337,465
Loans and advances to customers	169,293	34,386	25,025	45,189	85,689	199,927	521,606	1,081,115
Debt securities	-	18	-	3,027	-	-	-	3,045
Other assets and derivatives	8,095	55	169	185	2,775	944	-	12,223
Total	597,414	442,184	238,821	139,161	220,995	221,587	573,686	2,433,848
Liabilities								
Deposits by banks	5,080	224,173	271,836	18,650	3,016	10,669	-	533,424
Customer accounts	983,492	488,157	199,795	39,542	61,393	1,307	-	1,773,686
Other liabilities and derivatives	35,532	55	187	129	3,049	1,096	-	40,048
Subordinated liabilities	-	-	-	-	-	-	13,500	13,500
Total	1,024,104	712,385	471,818	58,321	67,458	13,072	13,500	2,360,658

18. FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the company's interest rate gaps in its non-trading book at 31 December 2009 and at 31 December 2008. Amounts have been allocated to time bands by reference to the earlier of the next interest repricing date and the maturity date. Short-term debtors and creditors have been included.

2009

	Within 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 5 years £000	After 5 years £000	Non-interest bearing £000	Total £000
Assets							
Loans and advances to banks	947,631	38,150	12,324	115,862	58,496	5,141	1,177,604
Loans and advances to customers	664,326	1,327	5,558	16,824	310	12,103	700,448
Debt securities	-	-	-	-	-	18	18
Other assets	365	-	-	-	-	14,786	15,151
Total assets	1,612,322	39,477	17,882	132,686	58,806	32,048	1,893,221
Liabilities							
Deposits by banks	90,733	1,002	4,060	9,723	-	1,957	107,475
Customer accounts	1,466,200	13,220	12,429	90,935	-	57,313	1,640,097
Loan capital	13,500	-	-	-	-	-	13,500
Other liabilities	-	124	-	248	-	40,212	40,584
Shareholders' equity	-	-	-	-	-	91,565	91,565
Total liabilities and equity	1,570,433	14,346	16,489	100,906	-	191,047	1,893,221
Interest rate sensitivity gap	41,889	25,131	1,393	31,780	58,806	(158,999)	
Cumulative gap	41,889	67,020	68,413	100,193	158,999	-	

18. FINANCIAL INSTRUMENTS (CONTINUED)

2008	Within 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 5 years £000	After 5 years £000	Non-interest bearing £000	Total £000
Assets							
Loans and advances to banks	1,033,619	87,714	144,328	17,612	49,299	4,893	1,337,465
Loans and advances to customers	1,007,705	8,502	10,432	31,354	1,559	21,563	1,081,115
Debt securities	-	3,027	-	-	-	18	3,045
Other assets	390	-	-	-	-	16,521	16,911
Total assets	2,041,714	99,243	154,760	48,966	50,858	42,995	2,438,536
Liabilities							
Deposits by banks	500,482	18,649	3,016	10,668	-	609	533,424
Customer accounts	1,575,008	51,769	63,110	1,308	-	82,491	1,773,686
Loan capital	13,500	-	-	-	-	-	13,500
Other liabilities	-	-	-	372	-	39,689	40,061
Shareholders' equity	-	-	-	-	-	77,865	77,865
Total liabilities and equity	2,088,990	70,418	66,126	12,348	-	200,654	2,438,536
Interest rate sensitivity gap	(47,276)	28,825	88,634	36,618	50,858	(157,659)	
Cumulative gap	(47,276)	(18,451)	70,183	106,801	157,659	-	

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs)

2009	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at FVTPL				
Derivative financial assets	-	1,030	-	1,030
Total	-	1,030	-	1,030
Financial Liabilities at FVTPL				
Derivative financial liabilities	-	954	-	954
Total	-	954	-	954

18. FINANCIAL INSTRUMENTS (CONTINUED)

2008	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at FVTPL				
Derivative financial assets	-	4,149	-	4,149
Total	-	4,149	-	4,149
Financial Liabilities at FVTPL				
Derivative financial liabilities	-	4,158	-	4,158
Total	-	4,158	-	4,158

There were no transfers between level 1 and 2 during the year.

19. CREDIT QUALITY INFORMATION

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess credit quality of borrowers. Customers are assigned on internal credit grade based on various credit grading factors. All credit ratings across the company map to a company level asset quality scale.

The internal credit grades are not solely based on the probability of default but also the asset and security quality and past relationships/knowledge of the client.

The internal credit grades are based on the following ratings:

AQ1 - Strong cash flow and quality security, negligible risk of default
AQ2 - Good cash flow, low loan to security value, minimal risk of default
AQ3 - Sustainable cash flow, reasonable loan to security value, unlikely to result in default
AQ4 - Good interest cover, element unsecured, unlikely to result in default
AQ5 - Repayment ability questionable, security may have deteriorated, much greater probability of default

The following summarises the various credit grades of Adam & Company plc's customers. Items included in accruing past due and non accrual are excluded from the relevant numbered grades.

19. CREDIT QUALITY INFORMATION (CONTINUED)

2009	AQ1 £000	AQ2 £000	AQ3 £000	AQ4 £000	AQ5 £000	Accruing past due £000	Non accrual £000	Less provision £000	Total £000
Cash and balances at central banks	365	-	-	-	-	-	-	-	365
Loans and advances to banks	1,177,604	-	-	-	-	-	-	-	1,177,604
Loans and advances to customers	3,275	100,943	320,779	236,569	6,664	25,182	11,293	(4,257)	700,448
Debt securities	18	-	-	-	-	-	-	-	18
Settlement balances	213	-	-	35	-	-	-	-	248
Derivatives	616	32	199	183	-	-	-	-	1,030
	1,182,091	100,975	320,978	236,787	6,664	25,182	11,293	(4,257)	1,879,713
Commitments	786	26,382	38,580	28,972	1,042	-	-	-	95,762
Contingent liabilities	10,652	7,324	4,235	16,918	-	-	-	-	39,129
	1,193,529	134,681	363,793	282,677	7,706	25,182	11,293	(4,257)	2,014,604

2008	AQ1 £000	AQ2 £000	AQ3 £000	AQ4 £000	AQ5 £000	Accruing past due £000	Non accrual £000	Less provision £000	Total £000
Cash and balances at central banks	390	-	-	-	-	-	-	-	390
Loans and advances to banks	1,337,465	-	-	-	-	-	-	-	1,337,465
Loans and advances to customers	1,513	134,234	705,462	182,298	5,819	32,618	23,211	(4,040)	1.081,115
Debt securities	3,045	-	-	-	-	-	-	-	3,045
Settlement balances	98	-	-	101	-	-	-	-	199
Derivatives	3,420	373	217	139	-	-	-	-	4,149
	1,345,931	134,607	705,679	182,538	5,819	32,618	23,211	(4,040)	2,426,363
Commitments	4,737	46,474	64,614	73,922	3,390	-	-	-	193,137
Contingent liabilities	9,998	8,250	6,201	17,337	-	-	-	-	41,786
	1,360,666	189,331	776,494	273,797	9,209	32,618	23,211	(4,040)	2,661,286

20. RISK MANAGEMENT

The risks involved in the company's derivatives and other financial instruments include liquidity, market and credit risk. Liquidity risk is the risk of not having funds available to meet commitments. Market risk is the risk of adverse changes in the level of interest rates and in the rate of exchange between currencies. Credit risk is the risk of default by counterparties to transactions. Responsibility for the control of risk within the company, with the exception of credit risk arising from non-bank counterparties, is vested in the Assets and Liabilities Committee which is composed of senior executives and which establishes the overall risk limits to which the company adheres.

Liquidity risk

Liquidity risk arises as a result of mismatching the maturity of financial assets and liabilities, for example, customers' deposits which are available on instant access terms being invested in longer-term loans to customers. Sufficient liquidity is achieved by maintaining a diversified portfolio of high quality liquid assets. In practice, while a significant proportion of customers' deposits are on instant access terms, the majority of such deposits provide a stable funding base for the company.

The group's interest rate risk is shown in note 18. Amounts have been allocated to time bands by reference to the earlier of the next interest repricing date and the maturity date. Short-term debtors and creditors have been included.

Interest rate risk

Interest rate risk arises as a result of differing interest repricing and maturity dates where, for example, the interest rate on a deposit may change with market conditions while that on a loan may be fixed for three years; differing interest bases where, for example, interest rates on deposits may be linked to the money markets while interest rates on loans may be linked to base rate; and holding financial instruments in various foreign currencies where, for example, one country's interest rate profile may be more volatile than another. The technique used by the group for managing interest rate risk is interest sensitivity analysis. For each currency, financial instruments are grouped into their interest characteristics such as base rate related, market led etc, and the impact on profitability of a 1% move in interest rates is calculated and compared to the limits which have been set for each currency. If interest rates had been 1% higher/lower and all other variables were held constant the groups' profit for the year ended 31 December 2009 would increase/decrease by £0.343m (2008: (£0. 548m)).

The interest rate gaps as at 31 December 2009 are analysed at note 18.

Currency risk

Currency risk arises from holding financial instruments in various currencies and from buying and selling foreign currencies spot and forward. The techniques used by the company for managing currency risk include overnight and intra-day limits and gap analysis. Overall limits and limits for each foreign currency are set for the net amount of financial assets less financial liabilities (including derivative financial instruments) which may be held. Further, overall and individual foreign currency limits are set for unmatched forward foreign exchange contracts. The company's exposure to foreign exchange risk at the respective year ends is provided at note 21.

Credit risk

Credit risk arises as a result of making loans and advances to customers and banks, by investing in debt securities and by entering into forward foreign exchange contracts. Responsibility for the control of credit risk arising from non-bank counterparties is vested in the Credit Forum which is composed of senior executives, while control of credit risk arising from bank counterparties is vested in the Assets and Liabilities Committee. Both committees establish requisite limits including individual counterparty limits, economic sector limits and country limits. The company's credit quality is shown in note 19.

21. FOREIGN EXCHANGE RISK

The company's exposure to foreign exchange risk at the respective year ends is given below. The amounts shown are the foreign exchange gaps in each currency and take into account the effect of forward foreign exchange contracts entered into to manage currency exposures.

	2009 Trading £000	2008 Trading £000
US dollar	54	48
Euro	196	359
Other currencies	20	23
	270	430

The non-trading book is completely matched and so there are no foreign exchange gaps in any currency at this or the previous balance sheet date.

22. CASH FLOWS PAYABLE ON FINANCIAL LIABILITIES

The following tables show cash flows payable on financial liabilities up to a period of 20 years including future payments of interest.

2009	0-3 months £000	3-12 months £000	1-3 years £000	3-5 years £000	5-10 years £000	10-20 years £000
Deposits by banks	93,472	5,253	10,376	-	-	-
Customer accounts	1,528,624	14,081	101,196	-	-	-
Subordinated liabilities	17	52	139	139	3,347	11,194
Other financial liabilities	1,484	172	338	-	-	-
	1,623,597	19,558	112,049	139	3,347	11,194
Derivatives – settled gross	954	-	-	-	-	-
	1,624,551	19,558	112,049	139	3,347	11,194
Commitments to lend	95,762	-	-	-	-	-
	1,720,313	19,558	112,049	139	3,347	11,194

2008	0-3 months £000	3-12 months £000	1-3 years £000	3-5 years £000	5-10 years £000	10-20 years £000
Deposits by banks	505,855	21,623	1,969	10,217	-	-
Customer accounts	1,658,517	116,830	2,011	-	-	-
Subordinated liabilities	68	207	550	550	1,374	16,248
Other financial liabilities	425	26	350	160	-	-
	2,164,865	138,686	4,880	10,927	1,374	16,248
Derivatives – settled gross	4,158	-	-	-	-	-
	2,169,023	138,686	4,880	10,927	1,374	16,248
Commitments to lend	193,137	-	-	-	-	-
	2,362,160	138,686	4,880	10,927	1,374	16,248

23. CAPITAL RESOURCES

The company's regulatory capital resources at 31 December in accordance with Financial Services Authority (FSA) definitions were as follows:

	2009 £000	2008 £000
Composition of regulatory capital		
Tier 1 capital		
Owners equity and minority interests	91,350	77,650
Total qualifying tier 1 capital	91,350	77,650
Tier 2 capital		
Qualifying subordinated debt	13,500	13,500
Fixed asset revaluation reserve	215	215
Impairment advance	184	236
Total qualifying tier 2 capital	13,899	13,951
Total regulatory capital	105,249	91,601

It is the company's policy to maintain a good capital base, to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business, and meeting the supervisory requirements of the FSA.

24. COMMITMENTS AND CONTINGENCIES

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 impairment in accordance with the company's impairment policy.

Contingent liabilities
Guarantees – the company gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the company will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the company could be required to pay under a guarantee is its principal amount as disclosed in the table below. The company expects most guarantees it provides to expire unused.

Other contingent liabilities – these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments

Under a loan commitment the company agrees to make funds available to a customer in the future, usually for a specified term which 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 and unutilised overdraft facilities.

Additional contingent liabilities arise in the normal course of the company's business. It is not anticipated that any material loss will arise from these transactions.

	2009 £000	2008 £000
Contingent liabilities:		
Guarantees	15,915	18,587
Other contingent liabilities	23,214	23,199
	39,129	41,786
Commitments:		
Commitments to lend (less than one year)	95,762	193,137

The company has annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2009 £000	2008 £000
Operating leases which expire:		
- within one year	127	407
- between one and five years	823	1,077
- over five years	48	173
	998	1,657

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for terms of between 10 and 20 years and rentals are fixed for an average of 5 years.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Financial Services Authority (FSA). In addition, the FSCS has the power to raise levies ('exit levies') on firms who have ceased to participate in the scheme and are in the process of ceasing to be authorised for the amount that the firm would otherwise have been asked to pay during the relevant levy year. The FSCS also has the power to raise exit levies on such firms which look at their potential liability to pay levies in future years.

FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until September 2011. The annual limit on the FSCS management expenses levy for the three years from September 2008 in relation to these institutions has been capped at £1 billion per annum.

The FSCS will receive funds from asset sales, surplus cash flow, or other recoveries in relation to these institutions which will be used to reduce the principal amount of the FSCS's borrowings. Only after the interest only period, which is expected to end in September 2011, will a schedule for repayment of any remaining principal outstanding (after recoveries) on the borrowings be agreed between the FSCS and HM Treasury. It is expected that, from that point, the FSCS will begin to raise compensation levies (principal repayments). No provision has been made for these levies as the amount is not yet known and is unlikely to be determined before 2011.

The Company has accrued £2.4 million for its share of FSCS management expenses levies for the 2009/10 and 2010/11 scheme years.

25. NET CASH FLOW FROM OPERATING ACTIVITIES

	2009 £000	2008 £000
Profit before tax	19,424	18,638
Decrease in prepayments and accrued income	20	870
Interest on subordinated liabilities	161	358
Decrease/(increase) in accruals and deferred income	(357)	2,116
Provisions for bad and doubtful debts	2,128	3,719
Loans and advances written off (net of recoveries)	(1,570)	(3)
Unwind of discount on impairment losses	(394)	(456)
Write-off of tangible assets	23	3
Provisions for liabilities and charges	-	372
Depreciation and amortisation of tangible and intangible fixed assets	877	787
Net cash inflow from trading activities	20,312	26,404
(Increase)/decrease in items in the course of collection from other banks	(589)	341
Increase in loans and advances to banks	(23,830)	(153,301)
Decrease/(increase) in loans and advances to customers	380,503	(251,038)
Decrease in debt securities	3,027	61,564
Decrease/(increase) in other assets	1,165	(2,968)
Changes in operating assets	360,276	(345,402)
(Decrease)/increase in deposits by banks	(425,949)	134,985
Decrease in customer accounts	(133,589)	(67,913)
Increase/(decrease) in items in the course of transmission to other banks	768	(276)
(Decrease)/increase in other liabilities	(34)	1,825
Changes in operating liabilities	(558,804)	68,621
Total income taxes paid	(4,881)	(3,751)
Net cash outflow from operating activities	**(183,097)**	**(254,128)**

26. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2009 £000	2008 £000
At 1 January	850,759	1,102,202
Net cash outflow	(183,716)	(251,443)
At 31 December	**667,043**	**850,759**
Comprising:		
Cash and balances at central banks	365	390
Debt securities repayable within three months	18	18
Loans and advances to banks repayable within three months	666,660	850,351
	667,043	**850,759**

27. DIRECTORS' EMOLUMENTS

	2009 £	2008 £
Non-executive directors		
- emoluments	-	18,335
Directors		
- emoluments	399,422	1,548,307
- company pension contributions to money purchase schemes	-	24,500
Highest paid director		
Aggregate emoluments and benefits	110,204	350,970

Retirement benefits are accruing to 4 (2008: 8) directors under defined benefit schemes.

28. BALANCES WITH RELATED PARTIES

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

The company has transactions with UK Government bodies on an arms' length basis, such as corporation tax and value added tax. The volume and diversity of such transaction are such that disclosure of their amounts is impractical.

The captions in the primary financial statements include the following amounts attributable, in aggregate, to parent companies:

	2009 £000	2008 £000
Assets		
Loans and advances to banks	1,169,431	1,334,691
Items in course of collection	2,188	1,599
Prepayments, accrued income and other assets	2,520	2,161
Liabilities		
Deposits by banks	-	382,583
Accruals and deferred income	483	788
Subordinated liabilities	13,500	13,500
Income		
Interest receivable	30,902	80,549
Interest payable	4,536	14,268
Expenses		
Other operating expenses	14,877	15,114

28. BALANCES WITH RELATED PARTIES (CONTINUED)

The captions in the primary financial statements include the following amounts attributable, in aggregate, with fellow subsidiaries:

	2009 £000	2008 £000
Assets		
Prepayments, accrued income and other assets	118	89
Liabilities		
Deposits by banks	106,241	147,991
Other liabilities, accruals and deferred income	10,547	8,539
Income		
Interest payable	2,048	7,761
Fees and commission receivable	201	232
Expenses		
Operating expenses	1,137	1,770

The captions in the primary financial statements include the following amounts attributable, in aggregate, with other related parties.

	2009 £000	2008 £000
Assets		
Loans and advances to customers	264	2
Income		
Interest receivable	-	-

Arrangements with directors and officers are disclosed in note 29 below.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for the doubtful debts in respect of the amounts owed by related parties.

29. ARRANGEMENTS WITH DIRECTORS (INCLUDING CONNECTED PERSONS) AND OFFICERS

The aggregate amounts outstanding under transactions, arrangements and agreements entered into by the company with directors (including connected persons) and officers were as follows:

	2009		2008	
	Number of persons	£000	Number of persons	£000
Directors (including connected persons)				
- Loans	3	21	9	386
Officers				
- Loans	34	622	24	611

30. IMMEDIATE AND ULTIMATE HOLDING COMPANY

Adam & Company plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out on page 2.

These accounts are consolidated into the accounts of Adam & Company Group plc, the immediate parent company. The company's ultimate holding company is The Royal Bank of Scotland Group plc, which is registered in Scotland. Accounts for Adam & Company Group plc can be obtained from Adam & Company Group plc, 22 Charlotte Square, Edinburgh. Accounts for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ.

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly owned by the UK Government

ADAM & COMPANY PLC

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting will be held at 22 Charlotte Square, Edinburgh on 19 May 2010 at 11.05am for the following purpose:

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the report and accounts for the year to 31 December 2009 be approved.

2. That Deloitte LLP be reappointed as auditors of the company for the period from the conclusion of this meeting until the conclusion of the next general meeting of the company at which accounts are laid before the company.

3. That the directors be authorised to fix the remuneration of the auditors.

By order of the Board

S Doyle
Secretary

23 March 2010

Registered Office

22 Charlotte Square
EDINBURGH EH2 4DF