Company Registered Number: SC083026

ADAM & COMPANY PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2014

CONTENTS

BOARD OF DIRECTORS AND COMPANY SECRETARY

DIRECTORS:	M R McLean FCIBS (Chairman) G Storrie (Managing Director) I M Ewart K A Falconer M J Morley B M Mulholland A H Henderson (Non-executive director) B McCrindle (Non-executive director) L H Urquhart (Non-executive director)
COMPANY SECRETARY:	M Gow
REGISTERED OFFICE:	25 St Andrew Square Edinburgh, Scotland EH2 1AF
INDEPENDENT AUDITOR:	Deloitte LLP Chartered Accountants and Statutory Auditor London, United Kingdom

Registered in Scotland

STRATEGIC REPORT

The directors of Adam & Company plc ("the Company") present their annual report, together with audited financial statements for the year ended 31 December 2014. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

ACTIVITIES AND BUSINESS REVIEW

Principal activities

The principal activity of the Company continues to be the provision of a range of banking and financial services. The Company operates as a bank and a professional services practice and aims to help, serve and advise its clients.

The Company continues to focus on its core activities of supplying its wealth management and banking services to high net worth individuals and their businesses and will continue to concentrate on improving the quality and efficiency of the services provided, leveraging the connection with The Royal Bank of Scotland Group plc ("RBS") commercial operations to deliver a rounded proposition for the clients financial requirements.

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

The Company is a subsidiary of RBS which provides direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources and environment. The annual report of RBS reviews these matters on a group basis. Copies can be obtained from Corporate Governance and Secretariat, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, the Registrar of Companies or through the RBS website www.rbs.com.

Business review

The directors are pleased with the Company's strong reported performance during the year resulting in a return on equity of 18% (2013: 14.4%).

The 2014 financial results were supported by a number of one off items which will not reoccur and which have improved the reported financial performance of the Company. Excluding these items the Company's underlying core business remains solid and it continues to work towards its 15% return on equity target with the support of its parent company.

The retained profit for the year was £15,182k (2013: £12,100k) and this was transferred to reserves.

Performance highlights

	2014	2013
Operating profit before impairment losses (£k)	**18,837**	17,133
Impairment reversal/(losses) (£k)	**352**	(65)
Operating profit before tax (£k)	**19,189**	17,068
Cost:income ratio	**47.3%**	53.4%
Return on equity	**18.0%**	14.4%
Customer loan:deposit ratio	**39.2%**	40.0%

Financial performance

The Company's financial performance is presented in the Statement of Comprehensive Income on page 8.

Total income decreased by £986k (2013: £3,262k) and expenses decreased by £2,690k (2013: £5,106k).

The profit after tax for the year was £15,182k (2013: £12,100k), an increase of 25.5% on 2013.

The Company's cost:income ratio was 47.3% in 2014 (2013: 53.4%) and return on equity was 18% (2013: 14.4%).

At the end of the year, the Balance Sheet showed total assets of £1,920,090k (2013: £1,872,612k).

Other matters

The Company is funded by a combination of customer 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 is placed with The Royal Bank of Scotland plc. The Company seeks to minimise its exposure to various external financial risks for which further information is disclosed in Note 17 to the financial statements.

STRATEGIC REPORT

Business review (continued)

Accounting policies

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Company's critical accounting policies and key sources of estimation uncertainty are included in the accounting policies on pages 18 to 19.

Risk management

The principal risks associated with the Company's businesses are market, currency, interest rate, liquidity, credit, regulatory, reputational and operational risk. RBS has established a comprehensive framework which the Company complies with for managing these risks, which is continually evolving as the business activities change in response to market, credit, product and other developments.

The Company's policies for managing each of these risks and its exposure thereto are detailed in Note 17 to the financial statements.

Outlook

The directors remain confident that the Company is well positioned to meet the continuing challenges of the evolving regulatory environment it operates within, external pressures and changing customer needs. They consider the Group and Company to be in a stable financial position and confirm that they have adequate resources to continue in business for the foreseeable future. Accordingly they continue to adopt a going concern basis in preparing the financial statements.

During 2014 the Adam & Company Group was successfully integrated into the Commercial and Private Banking business unit within the wider RBS Group. Being closer with the Commercial business is a cornerstone of the Adam & Company Group's longer term strategy and a key source of future clients which has already begun to generate business. The Company will continue to serve the needs of high net worth individuals, deepen relationships with commercial clients and provide private banking services to successful business owners and entrepreneurs.

Share capital

Analysis of share capital can be found in Note 16 to the financial statements.

Directors' indemnities

In terms of Section 236 of the Companies Act 2006, all directors listed on page 1 have been granted Qualifying Third Party Indemnity Provisions by RBS.

Employee policies

Diversity and inclusion

RBS has a range of policies and processes that extend through the employee life-cycle including recruitment, flexible working and support for ill-health and disability-related absence. Diversity performance is monitored and reviewed at RBS and Adam Group executive level. This commitment extends beyond RBS including support of external charitable networks and encouraging the development of community engagement and supplier relationships. Internally, RBS supports initiatives such as the Women in Business network.

The Company has adopted RBS employee policies and processes.

The Managing Director and other senior executives regularly communicate with employees across a range of channels.

Details of the number of employees and related costs can be found in Note 3.

Political contributions

No contributions were made to any political party (2013: £nil).

STRATEGIC REPORT

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, including principal risks, are set out in the Business review on pages 2 and 3.

The financial position of the Company, its cash flows, liquidity position, capital and funding sources are set out in the financial statements. Notes 7, 17 and 18 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to market, credit and liquidity risks.

The directors, having made such enquiries as they considered appropriate, having reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, have prepared the financial statements on a going concern basis. In reaching their conclusion they considered the announcement of results by RBS for the year ended 31 December 2014, approved on 26 February 2015, which were prepared on a going concern basis.

Dividends

An interim dividend of £15m was approved on 19 June 2014 and subsequently paid (2013: £5m).

The directors do not recommend the payment of a final dividend (2013: £nil).

Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change or additional disclosure or amendment in the financial statements.

Directors' disclosure to auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

By order of the Board:

M Gow
Company Secretary

Date: 21 April 2015

DIRECTORS' REPORT

The Strategic Report includes the financial review of the year, including risk management, disclosure of information to auditors, directors' indemnities and post balance sheet events.

Directors and company secretary

The names of the current members of the Board of Directors and Company Secretary are shown on page 1.

From 1 January 2014 to date, the following changes have taken place:

	Appointed	Resigned
Director		
B M Mulholland	17.03.2015	-

In accordance with the Articles of Association, the directors are not required to retire by rotation.

Auditor

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to re-appoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board:

M Gow
Company Secretary

Date: 21 April 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulation. Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors have chosen to prepare the financial statements in accordance with IFRS as adopted by the EU. 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 of the Company and of the profit or loss for that period. In preparing these financial statements International Accounting Standards (IAS) 1 requires the directors to:

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

The directors are responsible for keeping 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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that these financial statements comply with the aforementioned requirements.

By order of the Board:

M Gow
Company Secretary

Date: 21 April 2015

INDEPENDENT AUDITOR' S REPORT TO THE MEMBERS OF ADAM & COMPANY PLC

We have audited the financial statements of Adam & Company plc ("the Company") for the year ended 31 December 2014 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the accounting policies and the related Notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of the Company's profit for the year then ended;
- have been properly prepared in accordance with IFRS 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the Company, 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.

Russell Davis FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 21 April 2015

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

Continuing operations	Notes	2014 £'000	2013 £'000
Interest receivable		**36,175**	48,449
Interest payable		**(6,197)**	(18,486)
Net interest income	1	**29,978**	29,963
Fees and commission receivable		**4,800**	5,387
Fees and commission payable		**(248)**	(362)
Income from trading activities		**1,246**	1,774
Non-interest income	2	**5,798**	6,799
Total income		**35,776**	36,762
Operating expenses	3	**(16,939)**	(19,629)
Operating profit before impairment reversal/(losses)		**18,837**	17,133
Impairment reversal/(losses) on loans and advances	8	**352**	(65)
Profit before tax		**19,189**	17,068
Tax charge	5	**(4,007)**	(4,968)
Profit and total comprehensive income for the year		**15,182**	12,100

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

BALANCE SHEET *as at 31 December 2014*

	Notes	2014 £'000	2013 £'000
Assets			
Cash and balances at central banks	7	**460**	439
Loans and advances to banks	7	**1,220,872**	1,171,841
Loans and advances to customers	7	**662,478**	680,775
Settlement balances	7	**306**	1,821
Intangible assets	7, 9	**1,262**	1,481
Property, plant and equipment	7, 10	**904**	1,217
Derivatives	7, 11	**80**	3
Prepayments, accrued income and other assets	7, 12	**33,618**	14,928
Deferred tax asset	7, 14	**110**	107
Total assets		**1,920,090**	1,872,612
Liabilities			
Deposits by banks	7	**96,683**	41,008
Customer accounts	7	**1,690,128**	1,700,777
Settlement balances	7	**26**	539
Derivatives	7, 11	**89**	3
Accruals, deferred income and other liabilities	7, 13	**48,582**	45,640
Provisions for liabilities and charges	7, 15	**373**	618
Total liabilities		**1,835,881**	1,788,585
Equity			
Shareholders' equity:			
Called up share capital	16	**19,548**	19,548
Retained earnings		**64,661**	64,479
Total equity	7	**84,209**	84,027
Total liabilities and equity		**1,920,090**	1,872,612

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

The financial statements were approved and authorised for issue by the Board of Directors on 21 April 2015 and signed on its behalf by:

G Storrie
Managing Director
Date: 21 April 2015

B Mulholland
Director
Date: 21 April 2015

STATEMENT OF CHANGES IN EQUITY *for the year ended 31 December 2014*

	Notes	2014 £'000	2013 £'000
Called up share capital			
At 1 January and 31 December	16	**19,548**	19,548
Retained earnings			
At 1 January		**64,264**	57,164
Profit for the year		**15,182**	12,100
Dividends paid	6	**(15,000)**	(5,000)
At 31 December		**64,446**	64,264
Revaluation reserves			
At 1 January and 31 December		**215**	215
Shareholders' equity at 31 December		**84,209**	84,027

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

CASH FLOW STATEMENT *for the year ended 31 December 2014*

	Notes	2014 £'000	2013 £'000
Operating activities			
Operating profit for the year before tax	20	**19,189**	17,068
Adjustments for:			
Loss on disposal of property, plant and equipment		**130**	-
Loss on disposal of intangible assets		**21**	-
Elimination of foreign exchange differences		**(4,565)**	-
Depreciation and amortisation		**411**	527
(Gains)/losses on loans and advances written off		**(10,959)**	1,096
Provisions for liabilities and charges		**(245)**	(725)
Other non-cash items		**(552)**	(660)
Net cash flows from trading activities	20	**3,430**	17,306
Changes in operating assets and liabilities		**75,115**	(228,376)
Net cash flows from operating activities before tax		**78,545**	(211,070)
Tax paid	20	**(3,810)**	(2,849)
Net cash flows from operating activities		**74,735**	(213,919)
Investing activities			
Purchases of intangible assets	9	**(6)**	(188)
Purchases of property, plant and equipment	10	**(24)**	-
Net cash flows from investing activities		**(30)**	(188)
Financing activities			
Equity dividends paid	6	**(15,000)**	(5,000)
Net cash flows from financing activities		**(15,000)**	(5,000)
Effect of exchange rate changes		**4,565**	-
Net increase/(decrease) in cash and cash equivalents		**64,270**	(219,107)
Cash and cash equivalents 1 January	22	**789,386**	1,008,493
Cash and cash equivalents 31 December	22	**853,656**	789,386

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

ACCOUNTING POLICIES

1. Presentation of financial statements

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

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments that are designated as at fair value through profit or loss.

The Company is incorporated in the United Kingdom and registered in Scotland. The Company's financial statements are presented in accordance with the Companies Act 2006.

The Company adopted a number of new and revised IFRS effective 1 January 2014:

International Financial Reporting Interpretations Committee 21 'Levies' (IFRIC 21) provides guidance on accounting for the liability to pay a government imposed levy.

IAS 36 – 'Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)' align IAS 36's disclosure requirements about recoverable amounts with IASB's original intentions.

IAS 19 – 'Defined Benefit Plans: Employee Contributions' distinguishes the accounting for employee contributions that are related to service from those that are independent of service.

Annual Improvements to IFRS 2010 – 2012 and 2011 – 2013 cycles also made a number of minor changes to IFRS.

Implementation of the above standards has not had a material effect on the financial statements of the Company.

2. Revenue recognition

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Financial assets and financial liabilities designated as fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in the Statement of Comprehensive Income.

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. Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised. The application of this policy to significant fee types is outlined below:

Payment services: this comprises income received for payment services including cheques cashed, direct debits, Clearing House Automated Payments (the UK electronic settlement system) and BACS payments (the automated clearing house that processes direct debits and direct credits). These are generally charged on a per transaction basis. The income is earned when the payment or transaction occurs. Charges for payment services are usually debited to the customer's account, monthly or quarterly in arrears. Income is accrued at year end for services provided but not charged.

Fees and commissions payable: fees and commissions are payable in respect of services provided by third party intermediaries. These are charged through the profit and loss over the life of the underlying product.

ACCOUNTING POLICIES

3. Pensions and other post-retirement benefits

RBS provides post-retirement benefits in the form of pensions and healthcare plans to eligible employees.

Contributions to defined contribution pension schemes are recognised in the Statement of Comprehensive Income when payable.

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

The charge to the Statement of Comprehensive Income for pension costs (recorded in operating expenses) comprises:

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

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

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

There is no contractual agreement or policy on the way that the cost of RBS defined benefit pension schemes and healthcare plans are allocated to the Company. Therefore the Company accounts for the charges it incurs as payments to a defined contribution scheme.

4. Intangible assets

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

Computer software	3 - 5 years

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

5. Property, plant and equipment

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

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

5. Property, plant and equipment (continued)

The depreciable amount is the cost of an asset less its residual value. The estimated useful lives of the Company's property, plant and equipment are as follows:

Freehold and long leasehold buildings	50 years
Short leaseholds	Unexpired period of the lease
Computer equipment	Up to 5 years
Other equipment	4 to 15 years
Paintings	Not depreciated

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes.

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

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

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

7. Foreign currencies

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

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

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Sterling at foreign exchange rates ruling at the balance sheet date. Income and expenses of foreign operations are translated into Sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognised in other comprehensive income.

8. Provisions and contingent liabilities

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

Provision is made for restructuring costs, including the costs of redundancy, when the Company has a constructive obligation to restructure. An obligation exists when the Company has a detailed formal plan for the restructuring and has raised a valid expectation in those affected by starting to implement the plan or announcing its main features.

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

ACCOUNTING POLICIES

8. Provisions and contingent liabilities (continued)

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

9. Taxation

Income tax expense or income, comprising current tax and deferred tax, is recorded in the Statement of Comprehensive Income except income tax on items recognised outside the Statement of Comprehensive Income which is credited or charged to other comprehensive income or to equity as appropriate. Current tax is income tax payable or recoverable in respect of the taxable profit or loss for the year arising in income or in equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

10. Financial assets

On initial recognition financial assets are classified into designated as at fair value through profit or loss or loans and receivables.

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

Financial assets and liabilities that the Company designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in the Statement of Comprehensive Income and are subsequently measured at fair value. Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in the Statement of Comprehensive Income as they arise.

Loans and receivables - non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method (see accounting policy 2) less any impairment losses.

Fair value – fair value for a net open position in a financial asset that is quoted in an active market is the current bid price 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.

11. Impairment of financial assets

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

Financial assets carried at amortised cost – if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. For collateralised loans and receivables, estimated future cash flows include cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

ACCOUNTING POLICIES

11. Impairment of financial assets (continued)

Where, in the course of the orderly realisation of a loan, it is exchanged for equity shares or property, the exchange is accounted for as the sale of the loan and the acquisition of equity securities or investment property. Where the Company's interest in equity shares following the exchange is such that the Company controls an entity, that entity is consolidated. Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making collective impairment assessments, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the year of historical experience. Impairment losses are recognised in the Statement of Comprehensive Income and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If, in a subsequent year, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

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

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

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

12. Financial liabilities

On initial recognition financial liabilities are classified into designated as at fair value through profit or loss; or amortised cost. Issues of financial liabilities measured at amortised cost are recognised on settlement date; all other regular way transactions in financial liabilities are recognised on trade date.

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

Financial liabilities that the Company designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in the Statement of Comprehensive Income, and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated as at fair value through profit or loss are recognised in the Statement of Comprehensive Income as they arise.

Fair value - fair value for a net open position in a financial liability that is quoted in an active market is the current offer price 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.

Amortised cost - all other financial liabilities are measured at amortised cost using the effective interest method (see accounting policy 2).

ACCOUNTING POLICIES

13. Derecognition

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

A financial liability is removed from the balance sheet when the obligation is discharged, or cancelled, or expires. On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Company, the Company derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the present value of the cash flows under the new terms with the present value of the remaining cash flows of the original debt issue discounted at the effective interest rate of the original debt issue.

14. Netting

Financial assets and financial liabilities are offset and the net amounts presented in the balance sheet when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

15. Derivatives

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in non-interest income within profit or loss.

16. Share-based payments

RBS awards options over shares to its employees under various share option schemes. IFRS 2 'Share-based Payment' is applied by RBS to grants made under these schemes. RBS recognises an expense for these transactions with its employees based on the fair value on the date the options are granted. It includes the cost of these awards in determining any recharges of employee costs it makes to UK subsidiaries in RBS.

17. Cash and cash equivalents

In the Cash Flow Statement, cash and cash equivalents comprise cash and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

ACCOUNTING POLICIES

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard of interpretation, IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of financial statements.

The judgements and assumptions involved in the Company's accounting policies that are considered by the 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.

Loan impairment provisions

The Company's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired where there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. Such objective evidence, indicative that a borrower's financial position has deteriorated, can include for loans that are individually assessed: the non-payment of interest or principal; debt renegotiation; probable bankruptcy or liquidation; significant reduction in the value of any security; breach of limits or covenants; and deteriorating trading performance and, for collectively assessed portfolios: the borrower's payment status and observable data about relevant macroeconomic measures. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

At 31 December 2014, gross loans and advances to customers totalled £669,911k (2013: £699,719k) and customer loan impairment provisions amounted to £6,753k (2013: £17,617k).

There are two components to the Company's loan impairment provisions: individual and latent.

Individual component – all loans are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Latent component – this is made up of loan losses that have been incurred but have not been separately identified at the balance sheet date. Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Company has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

Fair value – financial instruments

Financial instruments classified as designated as at fair value through profit or loss are recognised in the financial statements at fair value. All derivatives are measured at fair value. Derivative assets and derivative liabilities are shown separately on the face of the balance sheet.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A fair value measurement takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability. In determining fair value the Group maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

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

Details of financial instruments carried at fair value are given in Note 7 to the financial statements.

ACCOUNTING POLICIES

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

Forbearance

Forbearance policies are the main response to managing customers in financial difficulty and are deployed through the Company's forbearance initiative. Forbearance is applied to customers where temporary or longer term relief is offered through the renegotiation of the original contract although on terms not generally available on a commercial basis. This may include offering contract revisions by various means including reduced repayment, interest only arrangements, payment moratorium, term extension, lifetime reduced repayment; these forbearance arrangements are subject to heightened monitoring.

Forbearance offered by the Company on loans where an impairment loss provision has been previously recognised will result in such loans retaining their classification as non-performing. Where the customer met the loan terms prior to modification and there is a realistic expectation that the customer will adhere to the forbearance terms, these loans will be classified as performing loans.

Accounting developments

International Financial Reporting Standards
A number of IFRS and amendments to IFRS were in issue at 31 December 2014 that had effective dates of 1 January 2015 or later.

Effective for 2015
IAS 19 'Defined Benefit Plans: Employee Contributions' was issued in November 2013. This amendment distinguishes the accounting for employee contributions that are related to service from that for those that are independent of service.

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

Implementation of these changes is not expected to have a material effect on the Company's financial statements.

Effective after 2015
In July 2014, IFRS 9 'Financial Instruments' was finalised.

The classification and measurement of liabilities do not differ significantly from those in IAS 39 except for the treatment of changes in the fair value of financial liabilities that are designated as at fair value through profit or loss attributable to own credit; these must be presented in other comprehensive income.

IFRS 9's requirements for classification and measurement of unimpaired assets are similar to those in IAS 39; however, loans not held to realise their inherent cash flows and more complex loans will be carried at fair value rather than amortised cost.

Financial asset impairments are measured having regard to expected losses instead of IAS 39's incurred loss approach.

IFRS 9 relaxes some of the hedging conditions in IAS 39 although the ability to discontinue hedging at will has been removed.

The effective date for IFRS 9 is 1 January 2018.

The Company continues to assess the effect of the major changes IFRS 9 will introduce to the framework for financial instrument accounting.

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014. It will replace IAS 11 'Construction Contracts', IAS 18 'Revenue' and several interpretations. Contracts are bundled or unbundled into distinct performance obligations with revenue recognised as the obligations are met. It is effective from 1 January 2017.

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

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

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

ACCOUNTING POLICIES

Accounting developments (continued)

Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' were issued in December 2014 to clarify the application of the investment entity consolidation exception. Their effective date is 1 January 2016.

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

The Company is assessing the effects of these new standards.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

1. Net interest income

	2014 £'000	2013 £'000
Loans and advances to customers	**22,052**	24,402
Loans and advances to banks	**14,123**	24,047
Interest receivable	**36,175**	48,449
Customer accounts	**(5,566)**	(18,473)
Deposits by banks	**(631)**	(13)
Interest payable	**(6,197)**	(18,486)
Net interest income	**29,978**	29,963

2. Non-interest income

	2014 £'000	2013 £'000
Fees and commission receivable	**4,800**	5,387
Fees and commission payable	**(248)**	(362)
Income from trading activities:		
Foreign exchange [1]	**1,246**	1,774
Non-interest income	**5,798**	6,799

(1) The analysis of trading income is based on how the business is organised and the underlying risks managed. Foreign exchange includes spot and forward foreign exchange contracts.

3. Operating expenses

	2014 £'000	2013 £'000
Wages, salaries and other staff costs	**3,280**	3,763
Social security costs	**488**	701
Pension costs (see Note 4)	**655**	815
Redundancy costs	**185**	69
Staff costs	**4,608**	5,348
Intangible assets amortisation (see Note 9)	**204**	230
Property, plant and equipment depreciation (see Note 10)	**207**	297
Depreciation & amortisation	**411**	527
Premises and equipment	**841**	1,713
Other administrative expenses	**11,079**	12,041
Other expenses	**11,920**	13,754
Operating expenses	**16,939**	19,629

The average number of persons employed by the Company during the year was made up as follows:

Employee numbers	2014 Number	2013 Number
Managers	**40**	47
Clerical and other staff	**82**	95
	122	142

Auditor's remuneration	2014 £'000	2013 £'000
Audit services:		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	**62**	62
	62	62

4. Pension costs

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 were transferred to The Royal Bank of Scotland Group Pension Fund 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 Pension Fund.

Employees who joined the Group after 1 January 2003 were eligible to join The Royal Bank of Scotland Group Pension Fund until October 2006, when it was closed to new entrants. After this date, new entrants have instead been offered membership of The Royal Bank of Scotland Retirement Savings Plan, a defined contribution pension scheme.

For full disclosure of the schemes refer to the accounts of The Royal Bank of Scotland Group plc.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

5. Taxation

Current taxation:	2014 £'000	2013 £'000
United Kingdom corporation tax at 21.5% (2013: 23.25%)		
Charge for the year	**3,981**	3,743
Under provision in respect of prior years	**29**	922
Total current taxation	**4,010**	4,665
Deferred taxation:		
Charge for the year	**263**	318
Over provision in respect of prior years	**(266)**	(15)
Total deferred taxation	**(3)**	303
Tax charge for the year	**4,007**	4,968

The actual tax charge differs from the expected tax charge computed by applying the blended rate of UK corporation tax of 21.5% (2013: 23.25%) as follows:

	2014 £'000	2013 £'000
Operating profit before tax	**19,189**	17,068
Expected tax charge	**4,125**	3,968
Factors affecting the charge for the year:		
Non-deductible items	**119**	79
Reduction in deferred tax asset/(liability) following change in rate of UK corporation tax	**-**	13
Prior years adjustments	**(237)**	908
Actual tax charge for the year	**4,007**	4,968

The effective tax rate for the year was 20.88% (2013: 29.11%).

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in July 2013 now standing at 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The closing deferred tax assets and liabilities have been calculated at 20% in accordance with the rates enacted at the balance sheet date.

6. Ordinary Dividends

	2014 £'000	2013 £'000
Interim dividend of 76.7p (2013: 25.6p) per share	**15,000**	5,000

The interim dividend was paid on 19 June 2014.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

7. Financial instruments

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments in International Accounting Standards (IAS) 39 'Financial Instruments: Recognition and Measurement'. Assets and Liabilities outside the scope of IAS 39 are shown separately. There is no interest in suspense.

2014	Designated as at fair value through profit or loss £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets / liabilities £'000	Total £'000
Assets					
Cash and balances at central banks	-	460	-	-	460
Loans and advances to banks[1]	-	1,220,872	-	-	1,220,872
Loans and advances to customers	-	662,478	-	-	662,478
Settlement balances	-	306	-	-	306
Intangible assets	-	-	-	1,262	1,262
Property, plant and equipment	-	-	-	904	904
Derivatives	80	-	-	-	80
Prepayments, accrued income and other assets	-	-	-	33,618	33,618
Deferred tax asset	-	-	-	110	110
	80	1,884,116	-	35,894	1,920,090
Liabilities					
Deposits by banks[2]	-	-	96,683	-	96,683
Customer accounts	-	-	1,690,128	-	1,690,128
Settlement balances	-	-	26	-	26
Derivatives	89	-	-	-	89
Accruals, deferred income and other liabilities	-	-	-	48,582	48,582
Provisions for liabilities and charges	-	-	-	373	373
Deferred tax liability	-	-	-	-	-
	89	-	1,786,837	48,955	1,835,881
Equity					84,209
					1,920,090

For notes relating to this table, refer to page 25.

7. Financial instruments (continued)

2013	Designated as at fair value through profit or loss £'000	Loans and receivables £'000	Other (amortised cost) £'000	Non financial assets / liabilities £'000	Total £'000
Assets					
Cash and balances at central banks	-	439	-	-	439
Loans and advances to banks(1)	-	1,171,841	-	-	1,171,841
Loans and advances to customers	-	680,775	-	-	680,775
Settlement balances	-	1,821	-	-	1,821
Intangible assets	-	-	-	1,481	1,481
Property, plant and equipment	-	-	-	1,217	1,217
Derivatives	3	-	-	-	3
Prepayments, accrued income and other assets	-	-	-	14,928	14,928
Deferred tax asset	-	-	-	107	107
	3	1,854,876	-	17,733	1,872,612
Liabilities					
Deposits by banks(2)	-	-	41,008	-	41,008
Customer accounts	-	-	1,700,777	-	1,700,777
Settlement balances	-	-	539	-	539
Derivatives	3	-	-	-	3
Accruals, deferred income and other liabilities	-	-	-	45,640	45,640
Provisions for liabilities and charges	-	-	-	618	618
	3	-	1,742,324	46,258	1,788,585
Equity					84,027
					1,872,612

(1) Includes items in the course of collection from other banks of RBS £4,382k (2013: £3,972k).

(2) Includes items in the course of transmission to other banks of RBS £3,929k (2013: £2,730k).

The following table shows the financial instruments carried at fair value:

	2014			2013		
	Level 1 (1)	**Level 2 (2)**	**Level 3 (3)**	Level 1 (1)	Level 2 (2)	Level 3 (3)
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Assets						
Derivatives	-	**80**	-	-	3	-
Total	-	**80**	-	-	3	-
Liabilities						
Derivatives	-	**89**	-	-	3	-
Total	-	**89**	-	-	3	-

7. Financial instruments (continued)

(1) Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares, certain exchange-traded derivatives, G10 government securities and certain US agency securities.

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

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

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, broker dealer quotations or alternative pricing sources with reasonable levels of price transparency and those instruments valued using techniques include most government securities, investment-grade corporate bonds, certain mortgage products, certain bank and bridge loans, repos and reverse repos, less liquid equities, state and municipal obligations, most physical commodities, investment contracts issued by RBS life assurance businesses and certain money market securities and loan commitments and most OTC derivatives.

(3) Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, the Company determines a reasonable level for the input.

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost:

	2014 Carrying value £'000	**2014 Fair value £'000**	2013 Carrying value £'000	2013 Fair value £'000
Financial assets				
Cash and balances at central banks	**460**	**460**	439	439
Loans and advances to banks				
Loans and receivables	**1,220,872**	**1,220,872**	1,171,841	1,171,841
Loans and advances to customers				
Loans and receivables	**662,478**	**665,934**	680,775	684,197
Settlement balances	**306**	**306**	1,821	1,821
Financial liabilities				
Deposits by banks	**96,683**	**96,683**	41,008	41,008
Customer accounts	**1,690,128**	**1,688,791**	1,700,777	1,705,037
Settlement balances	**26**	**26**	539	539

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

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

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

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

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

7. Financial instruments (continued)

Remaining maturity

2014	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at central banks	460	-	460
Loans and advances to banks	981,828	239,044	1,220,872
Loans and advances to customers	310,044	352,434	662,478
Settlement balances	306	-	306
Derivatives	80	-	80
Liabilities			
Deposits by banks	12,219	84,464	96,683
Customer accounts	1,671,320	18,808	1,690,128
Settlement balances	26	-	26
Derivatives	89	-	89

2013	Less than 12 months £'000	More than 12 months £'000	Total £'000
Assets			
Cash and balances at central banks	439	-	439
Loans and advances to banks	1,064,202	107,639	1,171,841
Loans and advances to customers	359,358	321,417	680,775
Settlement balances	1,821	-	1,821
Derivatives	3	-	3
Liabilities			
Deposits by banks	41,008	-	41,008
Customer accounts	1,672,469	28,308	1,700,777
Settlement balances	539	-	539
Derivatives	3	-	3

8. Financial Assets - impairments

The following table shows the movement in the provision for impairment losses for loans and advances:

	Individually assessed £'000	Latent £'000	Total £'000
At 1 January 2014	17,617	1,327	18,944
Amounts written off	(10,607)	-	(10,607)
Charge/(credit) to the income statement	295	(647)	(352)
Unwind of discount	(552)	-	(552)
At 31 December 2014	6,753	680	7,433

	Individually assessed £'000	Latent £'000	Total £'000
At 1 January 2013	16,560	1,929	18,489
Recovery of amounts previously written off	1,031	-	1,031
Charge/(credit) to the income statement	667	(602)	65
Unwind of discount	(641)	-	(641)
At 31 December 2013	17,617	1,327	18,944

8. Financial Assets - impairments (continued)

The following table shows analysis of impaired financial assets:

	2014			2013		
	Cost	**Provision**	**Net book value**	Cost	Provision	Net book value
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Impaired financial assets						
Loans and advances to customers	**22,318**	**(7,433)**	**14,885**	38,727	(18,944)	19,783

The Company holds collateral in respect of certain loans and advances to banks and to customers that are past due or impaired. Such collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade receivables, and guarantees of lending from parties other that the borrower.

The following table shows financial and non-financial assets, recognised on the Company's balance sheet, obtained during the year by taking possession of collateral or calling on other credit enhancements:

	2014	2013
	£'000	£'000
Residential property	**344,678**	309,426
Other property	**122,176**	115,702
	466,854	425,128

The following tables show an analysis of past due but not impaired i.e. excluding financial assets requiring an individual provision:

2014	**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	**8,727**	**108**	**-**	**-**	**8,835**

2013					
Loans and advances to customers	7,108	4,356	5,550	-	17,014

9. Intangible assets

	Software Costs 2014 £'000	Software Costs 2013 £'000
Cost:		
At 1 January	**3,080**	2,884
Additions	**6**	188
Disposals	**(233)**	-
Adjustment	**-**	8
At 31 December	**2,853**	3,080
Amortisation:		
At 1 January	**1,599**	1,382
Charge for the year	**204**	230
Disposals	**(212)**	-
Adjustment	**-**	(13)
At 31 December	**1,591**	1,599
Net book value		
At 31 December	**1,262**	1,481

There was a loss of £21k on disposal of assets during the year (2013: £nil).

10. Property, plant and equipment

2014	Freehold Premises £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2014	520	464	5,824	6,808
Additions	-	-	24	24
Disposals	-	(49)	(875)	(924)
At 31 December 2014	**520**	**415**	**4,973**	**5,908**
Accumulated depreciation and amortisation:				
At 1 January 2014	35	406	5,150	5,591
Charge for the year	18	10	179	207
Disposals	-	(43)	(751)	(794)
At 31 December 2014	**53**	**373**	**4,578**	**5,004**
Carrying amount at 31 December 2014	**467**	**42**	**395**	**904**

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

10. Property, plant and equipment (continued)

2013	Freehold Premises £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
Cost:				
At 1 January 2013 and at 31 December 2013	520	464	5,824	6,808
Accumulated depreciation and amortisation:				
At 1 January 2013	18	396	4,880	5,294
Charge for the year	17	10	270	297
At 31 December 2013	35	406	5,150	5,591
Carrying amount at 31 December 2013	485	58	674	1,217

There was a loss of £130k on disposal of assets during the year (2013: £nil).

11. Derivatives

	2014			2013		
	Notional amounts £'000	**Assets £'000**	**Liabilities £'000**	Notional amounts £'000	Assets £'000	Liabilities £'000
Exchange rate related contracts						
Spot and forward foreign exchange	**2,869**	**80**	**89**	80	3	3

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.

12. Prepayments, accrued income and other assets

	2014 £'000	2013 £'000
Prepayments and accrued income	**3,118**	10,813
Other assets	**30,500**	4,115
	33,618	14,928

13. Accruals, deferred income and other liabilities

	2014 £'000	2013 £'000
Taxation	**3,942**	3,743
Accruals and deferred income	**3,565**	4,291
Other liabilities	**41,075**	37,606
	48,582	45,640

14. Deferred taxation

Provision for deferred taxation has been made as follows:

	2014 **£'000**	2013 £'000
Deferred tax asset	**110**	107
Deferred tax liability	**-**	-
Net deferred tax	**110**	107

	Accelerated capital allowances £'000	Provisions £'000	Other provision £'000	Other IAS transition £'000	Total £'000
At 1 January 2013	43	(29)	332	64	410
(Charge)/credit to income statement	1	29	(297)	(36)	(303)
At 1 January 2014	**44**	**-**	**35**	**28**	**107**
(Charge)/credit to income statement	**19**	**8**	**(13)**	**(11)**	**3**
At 31 December 2014	**63**	**8**	**22**	**17**	**110**

The provision for UK deferred taxation has been calculated at 20% (2013: 20%), being the latest enacted rate of corporation tax. A deferred tax asset of £110k has been recognised for the Company at 31 December 2014 (2013: £107k). This asset has been recognised in the financial statements following the provision for litigation and sundry losses, the impairment and redress provision and accelerated capital allowances. The directors are of the opinion, based on recent and forecasted trading, that the tax due on future profits in the current and next financial year will exceed the value of the deferred tax asset.

15. Provision for liabilities and charges

	Provision for severance [(1)] **£'000**	**Other provisions £'000**	**Total provisions £'000**
At 1 January 2014	**561**	**57**	**618**
Charged to income statement	**266**	**-**	**266**
Released during the year	**(235)**	**(57)**	**(292)**
Utilised in year	**(219)**	**-**	**(219)**
At 31 December 2014	**373**	**-**	**373**

(1) The Company provides for future severance costs where there is a constructive obligation arising within the next 12 months.

16. Called-up share capital

	Allotted, called-up and fully paid		Authorised	
	31 December 2014 £'000	31 December 2013 £'000	**31 December 2014 £'000**	31 December 2013 £'000
Equity shares:				
Ordinary shares of £1	**19,548**	19,548	**25,000**	25,000
Total called-up share capital	**19,548**	19,548	**25,000**	25,000

	Allotted, called-up and fully paid		Authorised	
Number of shares	**2014 Thousands**	2013 Thousands	**2014 Thousands**	2013 Thousands
Equity shares:				
Ordinary shares of £1	**19,548**	19,548	**25,000**	25,000

17. Risk management

The major risks associated with the Company's businesses are market, foreign currency, interest rate, liquidity, credit, regulatory, reputational and operational risk. The Company has established a comprehensive framework for managing these risks which is continually evolving as the Company's business activities change in response to market, credit, product and other developments.

The Company has established clear risk policies, including limits, reporting lines and control procedures. This framework is designed to provide tight control and is reviewed regularly by both Executive and Board Committees.

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, prices, volatilities and correlations may have an adverse financial impact on the Company's financial condition or results.

The Company does not maintain any material proprietary trading positions and consequently has limited exposure to market risk. The market risk that arises through the provision of products and services to customers, being principally interest rate and foreign exchange risk, is predominantly hedged. Unhedged market risk is small in accordance with policy limits.

The Company does not maintain material open currency positions.

At an RBS level, the risk appetite is expressed in the form of a combination of Value at Risk ('VaR'), sensitivity and scenario limits. VaR is a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, RBS VaR assumes a time horizon of one trading day and confidence level of 99% as it is considered that this provides greater clarity in respect of more severe potential economic outcomes. The RBS VaR model is based on a historical simulation model utilising data from the previous two years trading results. This approach, in common with many other VaR models, assumes that risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by relevance of the historical data used. The RBS method, however, does not make any assumption about the nature or type of underlying loss distribution.

RBS VaR should be interpreted in light of the limitations of the methodology used, as follows:

- Historical Simulation VaR may not provide the best estimate of future market movements. It can only provide a prediction of the future based on events that occurred in the time series horizon. Therefore, events that are more severe than those in the historical data series cannot be predicted.
- The use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile.
- The use of a one-day time horizon will not fully capture the profit and loss implications of positions that cannot be liquidated or hedged within one day.
- RBS computes the VaR of trading portfolios at the close of business. Positions may change substantially during the course of the trading day and intra-day profit and losses will be incurred.

These limitations mean that RBS cannot guarantee that losses will not exceed the VaR.

A 'Risk not in VaR' framework has been developed to address those market risks not adequately captured by the market standard VaR methodology. Where risks are not included in the model, various non-VaR controls (for example, position monitoring, sensitivity limits, triggers or stress limits) are in place.

17. Risk management (continued)

Foreign currency risk

The Company does not maintain any material non-trading open currency positions.

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 intraday 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 is provided in the table 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.

	2014 Total £'000	2013 Total £'000
US dollar	**16**	42
Euro	**548**	332
Other currencies	**12**	(8)
At 31 December	**576**	366

Interest rate risk

Interest rate risk arises where assets and liabilities have different re-pricing dates. Company policy requires all interest risk to be transferred to trading units either within RBS or with third parties, through arm's length cash transactions and derivatives, principally interest rate swaps.

The directors consider that the Company is not materially exposed to adverse profit and loss impact from interest rate volatility as no material proprietary interest rate positions are held.

Liquidity risk

The Company has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities with no material liquidity gaps.

The contractual maturity of assets and liabilities, shown in the following tables, highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits. In practice, the behaviour profile of many assets and liabilities exhibit greater stability and longer maturity than the contractual maturity.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

17. Risk management (continued)

Liquidity risk (continued)

The table below analyses the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest by contractual maturity:

2014	0–3 months £'000	3–12 months £'000	1–3 years £'000	3–5 years £'000	5–10 years £'000	10–20 years £'000
Assets by contractual maturity						
Cash and balances at central banks	460	-	-	-	-	-
Loans and advances to banks	857,578	124,250	137,044	102,000	-	-
Total maturing assets	858,038	124,250	137,044	102,000	-	-
Loans and advances to customers	196,593	113,451	155,706	67,250	129,478	-
Total assets	1,054,631	237,701	292,750	169,250	129,478	-
Liabilities by contractual maturity						
Deposits by banks	8,217	4,002	55,456	23,759	5,249	-
Total maturing liabilities	8,217	4,002	55,456	23,759	5,249	-
Customer accounts	1,649,110	22,210	18,808	-	-	-
Total liabilities	1,657,327	26,212	74,264	23,759	5,249	-
Maturity gap	(602,696)	211,489	218,486	145,491	124,229	-
Cumulative maturity gap	(602,696)	(391,207)	(172,721)	(27,230)	96,999	96,999
Guarantees and commitments - notional amount						
Guarantees (1)	14,215	-	-	-	-	-
Commitments (2)	67,686	-	-	-	-	-
	81,901	-	-	-	-	-

(1) The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects most guarantees it provides to expire unused.

(2) The Company has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

17. Risk management (continued)

Liquidity risk (continued)

2013	0–3 months £'000	3–12 months £'000	1–3 years £'000	3–5 years £'000	5–10 years £'000	10–20 years £'000
Assets by contractual maturity						
Cash and balances at central banks	439	-	-	-	-	-
Loans and advances to banks	792,920	271,283	107,639	-	-	-
Total maturing assets	793,359	271,283	107,639	-	-	-
Loans and advances to customers	219,543	139,815	148,339	66,683	106,395	-
Total assets	1,012,902	411,098	255,978	66,683	106,395	-
Liabilities by contractual maturity						
Deposits by banks	41,008	-	-	-	-	-
Total maturing liabilities	41,008	-	-	-	-	-
Customer accounts	1,636,838	35,631	28,308	-	-	-
Total liabilities	1,677,846	35,631	28,308	-	-	-
Maturity gap	(664,944)	375,467	227,670	66,683	106,395	-
Cumulative maturity gap	(664,944)	(289,477)	(61,807)	4,876	111,271	111,271
Guarantees and commitments - notional amounts						
Guarantees (1)	14,451	-	-	-	-	-
Commitments (2)	140,866	-	-	-	-	-
	155,317	-	-	-	-	-

(1) The Company is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Company expects most guarantees it provides to expire unused.

(2) The Company has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Company does not expect all facilities to be drawn, and some may lapse before drawdown.

Financial assets have been reflected in the time band of the latest date on which they could be repaid unless earlier repayment can be demanded by the reporting entity; financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty.

Credit risk

Credit risk is the risk of financial loss owing to the failure of clients or counterparties to meet their obligations to the Company. The quantum and nature of credit risk assumed in the Company's different business activities vary considerably, while the overall credit risk outcome usually exhibits a degree of correlation to the macroeconomic environment.

Credit risk organisation

The existence of a strong credit risk management organisation is vital to support the goals of the Company. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and a focus on the importance of sustainable lending practices. The role of the credit risk management organisation is to provide the business with the support necessary to develop and maintain a sound lending franchise within risk appetite while providing strong independent oversight and challenge.

Responsibility for development of RBS-wide policies, credit risk frameworks, Company-wide portfolio management and assessment of provision adequacy sits within the functional RBS Credit Risk Organisation (RBSCRO) within RBS under the management of the RBS Chief Credit Officer. The Company works together with RBSCRO to ensure that the Board's expressed risk appetite is met within a clearly defined and managed control environment. Activities within credit risk include credit approval, transaction and portfolio analysis, early problem recognition and setting standards for ongoing credit risk stewardship within the business areas.

17. Risk management (continued)

Credit risk mitigation
The Company employs a number of structures and techniques to mitigate credit risk. Unsecured facilities are carefully considered as to affordability and repayment and generally represent only the lower value exposures within the Company's books. A large part of the Company's credit exposures are covered by security that is assigned a value below the assessed market value in accordance with stated credit policies. These include a range of transactions, from retail mortgage lending to commercial financing, with a security interest in a physical or financial asset.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Company cover: general requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants; the means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights; acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued; actions to be taken in the event the current value of mitigation falls below required levels; management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation; management of concentration risks, for example, setting thresholds and controls on exposure to a single borrower, the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Provision analysis
Early and active management of problem exposures ensures that credit losses are minimised. Specialised units are used to ensure that appropriate action to mitigate risk is taken in a timely manner.

Credit risk assets consist of loans and advances (including overdraft facilities), guarantees issued on behalf of clients and financial instruments (measured at mark to market value) across all customer types. Where relevant, and unless otherwise stated, data reflects the effect of credit mitigation techniques.

Credit risk asset quality
The Company has made the decision to adopt the standardised approach to credit capital calculations. Under the standardised approach there is no requirement for probability of default (PD) to be calculated. Due to this decision, the assets lent do not have a probability of default rating and have been classified into asset quality bands based on a set of assessment criteria and the expert judgement of credit professionals.

	Maximum	Minimum
AQ1	0.00	0.03
AQ2	0.03	0.05
AQ3	0.05	0.10
AQ4	0.1	0.38
AQ5	0.38	1.08
AQ6	1.08	2.15
AQ7	2.15	6.09
AQ8	6.09	17.22
AQ9	17.22	100.00
AQ10	100	-

Larger commercial clients are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an RBS Group level asset quality scale (illustrated above), used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios.

17. Risk management (continued)

Credit risk asset quality (continued)

The following tables provide an analysis of the credit quality of third party financial assets by asset quality grade:

2014	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000	Contingent liabilities £'000
AQ1	460	1,220,872	121,159	80	25,299	19,564
AQ2	-	-	66,734	-	-	-
AQ3	-	-	168,347	-	-	-
AQ4	-	-	122,678	-	17,298	6,697
AQ5	-	-	45,607	-	11,333	5,356
AQ6	-	-	15,884	-	10,892	-
AQ7	-	-	31,532	-	1,171	-
AQ8	-	-	19,907	-	-	-
AQ9	-	-	22,321	-	6	-
AQ10	-	-	24,589	-	1,687	-
Accruing past due	-	-	8,835	-	-	-
Non–accrual	-	-	22,318	-	-	-
Impairment provisions	-	-	(7,433)	-	-	-
Total	460	1,220,872	662,478	80	67,686	31,617

2013	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000	Contingent liabilities £'000
AQ1	439	1,171,841	63,675	3	25,509	10,056
AQ2	-	-	72,795	-	-	-
AQ3	-	-	194,384	-	-	-
AQ4	-	-	96,627	-	42,295	6,554
AQ5	-	-	65,510	-	33,829	13,119
AQ6	-	-	20,980	-	24,691	2,208
AQ7	-	-	64,133	-	6,659	-
AQ8	-	-	25,415	-	-	-
AQ9	-	-	38,727	-	4,590	-
AQ10	-	-	1,732	-	3,293	-
Accruing past due	-	-	17,014	-	-	-
Non–accrual	-	-	38,727	-	-	-
Impairment provisions	-	-	(18,944)	-	-	-
Total	439	1,171,841	680,775	3	140,866	31,937

17. Risk management (continued)

Collateral and other credit enhancements received

Within its secured portfolios, the Company has recourse to various types of collateral and other credit enhancements to mitigate credit risk and reduce the loss to the Company arising from the failure of a customer or counterparty to meet their obligations. These include: cash deposits; charges over residential and commercial property, debt securities, equity shares and other financial collateral; and third-party guarantees. The existence of collateral may affect the pricing of a facility and its regulatory capital requirement. When a collateralised financial asset becomes impaired, the impairment charge directly reflects the realisable value of collateral and any other credit enhancements.

	2014	
	Performing	**Non-performing**
Commercial real estate by average loan to value (LTV)	**£'000**	**£'000**
<70%	**32,066**	**2,157**
>70% and <=90%	**2,366**	**5,184**
>90% and <=110%	**3,016**	**4,830**
>110% and <=130%	**-**	**2,413**
>130%	**-**	**690**
Total with LTVs	**37,448**	**15,274**
Unsecured	**22,531**	**4,430**
Total book	**59,979**	**19,704**
Total portfolio weighted average LTV	**50.6%**	**90.1%**

	2014		2013	
Non-performing corporate loans (excluding commercial real estate)	**Loans £'000**	**Provisions £'000**	Loans £'000	Provisions £'000
Secured	**13,262**	**853**	10,394	4,179
Unsecured	**92**	**92**	91	91

Retail exposures

All borrowing applications, whether secured or not, are subject to appropriate credit risk underwriting processes including an assessment of affordability and the source of repayment. Pricing is typically higher on unsecured than secured loans. For secured loans, pricing will typically vary by LTV: higher-LTV products are typically subject to higher interest rates commensurate with the associated risk.

The value of a property intended to secure a mortgage is assessed during the loan underwriting process using industry-standard methodologies. Property values supporting home equity lending reflect individual appraisal valuations unless the lending value is very low.

The existence of collateral has an impact on provisioning levels. Once a secured loan is classified as non-performing, the realisable net present value of the underlying collateral allowing for the costs associated with repossession are used to estimate the provision required.

17. Risk management (continued)

Retail exposures (continued)

The tables below shows period-end weighted LTVs for the Company's residential mortgage portfolio split between performing and non-performing.

Non-performing residential mortgages by average loan to value (LTV)	2014 £'000	2013 £'000
<70%	**6,437**	150
>70% and <=90%	**795**	450
>90% and <=110%	**950**	950
Total	**8,182**	1,550
Total portfolio average by LTV	**51.2%**	82.1%

Performing residential mortgages by average loan to value (LTV)	2014 £'000	2013 £'000
<70%	**242,129**	200,594
>70% and <=90%	**51,166**	29,821
>90% and <=110%	**5,446**	2,325
>110% and <=130%	**645**	675
>130%	**655**	794
Total	**300,041**	234,209
Total portfolio average by LTV	**53.2%**	50.5%

Regulatory risk

Regulatory risk is the risk of material loss or liability, legal or regulatory sanctions, or reputational damage, resulting from the failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations, or major industry standards, in any location in which the Company operates.

The Company believes that maintaining a strong regulatory risk framework is fundamental to ensuring sustainable growth, rebuilding its reputation and maintaining stakeholder confidence. Accordingly, the Company's stated regulatory risk and compliance risk appetite is for no material or widespread breaches of rules, expectations, regulations or laws, individually or in aggregate. However, it also recognises that genuine errors occur, and so the Company accepts limited, non-material regulatory risk and subsequent loss.

The Company manages regulatory risk under the 'Three Lines of Defence' model in line with RBS. This model defines responsibilities and accountabilities in accordance with the following principles:

the business units (including business areas and support functions) are the first 'Line of Defence'. They are accountable for owning and managing, within a defined risk appetite, the risks which exist in their business area;

independent monitoring and control functions are the second 'Line of Defence'. They are accountable for owning and developing the risk and control frameworks and tools which the business uses to discharge its responsibilities; and

RBS Internal Audit and an independent Credit Quality Assurance function is the third 'Line of Defence' and provides independent assurance over the key risks to the organisation, which includes an assessment of the entire control framework.

Compliance within the Company operates under these principles as a second line of defence since reporting lines are to the RBS function rather than at a divisional level.

The Conduct and Regulatory Affairs (C&RA) function, reporting into the Chief Conduct and Regulatory Affairs officer, is responsible for setting the Company wide conduct and compliance policy and standards, providing relevant, accurate and timely conduct, compliance and financial crime advice and guidance to the business and ensuring controls are effective for managing regulatory affairs, compliance, conduct and financial crime risks across RBS.

17. Risk management (continued)

Regulatory risk (continued)

C&RA ensures appropriate reporting of all material regulatory reviews and other regulatory developments worldwide to the appropriate Company committees, including the Board, the Audit Committee, and the Risk Committee.

The level of regulatory risk remained high during 2014, as policymakers and regulators continued to strengthen regulation and supervision.

Work on the revised target operating model continued in 2013. In October, Compliance and Regulatory Affairs removed existing reporting lines into Risk and the Business. These changes marked the creation of an independent second line control function reporting into the Head of Conduct and Regulatory Affairs. This function has responsibility for setting Company wide policy and standards, providing advice to the business and ensuring controls are effective for managing regulatory affairs, compliance and financial crime risks across the Company. This will drive consistent standards for managing conduct risk, align with regulators' expectations and achieve a step change in the awareness and management of conduct risk alongside other principal risk.

Conduct risk

Conduct risk is the risk that the behaviour of the Company and its staff towards its customers, or in the markets in which it operates, leads to unfair or inappropriate customer outcomes and can result in reputational damage, financial loss or both. The damage or loss may be the result of breaches of regulatory rules or laws, or of failing to meet customers' or regulators' expectations of the Company.

Conduct risk exists across all stages of the Company's relationships with its customers, from the development of its business strategies, through governance arrangements, to post-sales processes. Activities through which conduct risk may arise are diverse and include product design, marketing and sales, complaint handling, staff training and competence, fraud, bribery, money laundering, and handling of confidential and non-public price sensitive information.

Throughout 2014, the Company's conduct risk framework continued to be delivered. Key elements included:
Further embedding of a new RBS-wide C&RA operating model and governance structure, by integrating former divisional and functional resources to drive consistent Company-wide standards for managing conduct risks more efficiently, removing optionality across businesses;
Establishing a Conduct Advisory function with the expertise and skills to effectively interrogate and assess business models, strategy and products, provide oversight, challenge and advice and make selective risk-based interventions;
The establishment of a specialist remediation governance to deliver consistent and timely fair customer outcomes;

Aligned with the customer-focused vision to be the leading UK bank for trust, customer service and advocacy by 2020, Conduct and Regulatory Affairs (C&RA) has evolved from focusing on policy conformance to the wider consideration of Conduct and placing customers at the heart of our business. The new RBS-wide approach to Conduct was implemented throughout 2014 with the delivery of processes and tools which recognise the need to stress the business model and set the bar for how we do business. A conduct risk appetite framework is being developed to ensure that our risk profile is based on our strategic risk objectives, with quantitative targets supplemented by qualitative criteria focused on meeting good customer outcomes, market integrity, stakeholder expectations and promoting a strong risk culture. Work to refine and embed the risk appetite framework and associated control processes will continue into 2015.

The level of conduct risk remained high throughout 2014. The Group is continuing to remediate legacy conduct issues while also restructuring its customer-facing businesses and support functions around the needs of its customers.

Reputational risk

Currently the Company manages reputational risk through a number of functions such as the Communications & Corporate Services division.

At an RBS level there is an RBS Sustainability management function and also an Environmental, Social and Ethical (ESE) Risk management function. This latter function is responsible for assessing ESE risks associated with business engagements and divisions. The risk is viewed as material given the key nature of the Company's market reputation in achieving its strategic risk objectives.

17. Risk management (continued)

Anti-Money Laundering

An annual Money Laundering Reporting Officer's Report is submitted to the Board and the FCA. Covering the operation and effectiveness of the systems and controls in place to comply with Anti-Money Laundering (AML) law and regulation, it also describes the Company's AML framework. In addition, it covers the systems and controls in place to prevent the financing of terrorism and to ensure compliance with sanctions as well as embargoes and export controls imposed by the UN, governments and other supranational bodies.

Operational risk

Operational risks are inherent in the Company's business. Operational risk losses occur as the result of fraud, human error, missing or inadequately designed processes, failed systems, damage to physical assets, improper behaviour or from external events. The key mitigating processes and controls include risk and control assessment, scenario analysis, loss data collection, new product approval process, key risk indicators, notifiable events process and the self certification process. The implementation of these processes and controls is facilitated and overseen by operational risk teams, with internal audit providing independent evaluation of the control framework.

18. Capital Resources

The following table analyses the Company's regulatory capital resources at 31 December

Composition of regulatory capital	2014 £'000	2013 £'000
Tier 1:		
Owners' equity and minority interests	**83,994**	83,812
Total tier 1 capital	**83,994**	83,812
Tier 2:		
Fixed asset revaluation reserve	**215**	215
Impairment allowance	**680**	1,327
Total tier 2 capital	**895**	1,542
Total regulatory capital	**84,889**	85,354

The Company manages its capital to ensure capital cover at least meets RBS Risk Asset Ratio ("RAR") requirements. The capital structure of the Company consists of debt and equity attributable to equity holders comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

It is the Company's policy to maintain an appropriate capital base and to utilise it efficiently throughout its activities to optimise returns to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Company has regard to the supervisory requirements of the Financial Conduct Authority (FCA). The FCA uses RAR as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). The Company has complied with FCA requirements during the year ended 31 December 2014.

19. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding as at 31 December 2014. Although the Company is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Company's expectation of future losses.

	2014 **£'000**	2013 £'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security:		
Guarantees and irrevocable letters of credit	**14,215**	14,451
Other contingent liabilities	**17,402**	17,486
Total contingent liabilities	**31,617**	31,937
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend:-		
Less than 1 year	**67,686**	140,866
Total commitments	**67,686**	140,866

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Company's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Company's normal credit approval processes and any potential loss is taken into account in assessing provisions for bad and doubtful debts in accordance with the Company's provisioning policy.

Commitments

Commitments to lend – under a loan commitment the Company agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

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 above table. 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.

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.

Litigation

As a participant in the financial services industry, the Company operates in a highly regulated environment and is subject to significant legal and statutory risks. At any moment in time it is inevitable that the Company will be involved in a number of investigations and, or disputes. Such cases are subject to many uncertainties and their outcome is often difficult to predict, particularly in the early stages of a case. The directors of the Company have reviewed these actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on the Company's consolidated net assets, results of operations or cash flows.

19. Memorandum items (continued)

The 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 FCA. In addition, the FSCS has the power to raise levies on a firm that has ceased to participate in the scheme and is in the process of ceasing to be authorised for the costs that it would have been liable to pay had the FSCS made a levy in the financial year it ceased to be a participant in the scheme.

The FSCS has borrowed from HM Treasury to fund compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. The interest rate on these borrowings is subject to a floor being the higher of 12 month LIBOR plus 100 basis points or the relevant gilt rate for the equivalent cost of borrowing from HM Treasury. The FSCS and HM Treasury have agreed that the period of these loans will reflect the expected timetable for recoveries from the estates of Bradford & Bingley and the other failed banks. The FSCS will levy the deposit taking sector for its share of the balance of the principal outstanding for the non-Bradford & Bingley loan prior to the FSCS loan facility with HM Treasury expiring in March 2015. In addition, the FSCS levied an interim payment relating to resolution costs for Dunfermline Building Society of £100 million. The total capital element levied on the industry in 2014/15 scheme was £399 million (£363 million in the 2013/14 scheme year).

The Company has accrued £432k for its share of estimated FSCS levies for the 2013/14 and 2014/15 scheme years.

Capital Support Deed

The Company, together with other members of RBS, is party to a Capital Support Deed (CSD). Under the terms of the CSD, the Company may be required, if compatible with its legal obligations, to make distributions on, or repurchase or redeem, its ordinary shares. The amount of this obligation is limited to the Company's capital resources in excess of the capital and financial resources needed to meet its regulatory requirements. The Company may also be obliged to make onward distribution to its ordinary shareholders of dividends or other capital distributions received from subsidiaries that are party to the CSD. The CSD also provides that, in certain circumstances, funding received by the Company from other parties to the CSD becomes immediately repayable, such repayment being limited to the Company's available resources.

20. Net cash inflow/(outflow) from operating activities

	2014 £'000	2013 £'000
Operating profit	**19,189**	17,068
Loss on disposal of property, plant and equipment	**130**	-
Loss on disposal of intangible assets	**21**	-
Elimination of foreign exchange differences	**(4,565)**	-
Depreciation and amortisation of tangible and intangible assets	**411**	527
(Gains)/losses on loans and advances written-off net of recoveries	**(10,959)**	1,096
Provisions for liabilities and charges	**(245)**	(725)
Other non-cash items	**(552)**	(660)
Net cash inflows from trading activities	**3,430**	17,306
Decrease in loans and advances to banks & customers	**45,025**	36,276
Increase in prepayments, accrued income and other assets	**(17,251)**	(5,132)
Changes in operating assets	**27,774**	31,144
Increase/(decrease) in deposits by banks and customers	**45,025**	(249,680)
Increase/(decrease) in accruals, deferred income and other liabilities	**2,316**	(9,840)
Changes in operating liabilities	**47,341**	(259,520)
Tax paid	**(3,810)**	(2,849)
Net cash flows from operating activities	**74,735**	(213,919)

21. Interest received and paid

	2014 £'000	2013 £'000
Interest received	**37,049**	48,901
Interest paid	**(8,232)**	(20,911)
	28,817	27,990

22. Analysis of cash and cash equivalents

	2014 £'000	2013 £'000
At 1 January		
Cash	**439**	497
Cash equivalents	**788,947**	1,007,996
	789,386	1,008,493
Net cash inflow/(outflow)	**59,705**	(219,107)
Effect of exchange rate changes on cash and cash equivalents	**4,565**	-
At 31 December	**853,656**	789,386
Comprising:		
Cash and balances at central banks	**460**	439
Loans and advances to banks	**853,196**	788,947

23. Divisional analysis

The Company operates in the private banking sector, with 100% of business derived in the United Kingdom.

The directors consider private banking a single class of business.

NOTES TO THE FINANCIAL STATEMENTS *for the year ended 31 December 2014*

24. Transactions with directors

As at 31 December 2014, the aggregate amounts outstanding in relation to the transactions, arrangements and agreements entered into by the Company in relation to loans to directors, including connected persons, or officers of the Company are set out below:

	2014		2013	
	Aggregate amount outstanding £'000	**Number of persons**	Aggregate amount outstanding £'000	Number of persons
Directors:				
Loans	-	-	-	-
Officers:				
Loans	**10**	**9**	23	10

All of the above balances are classified under Loans and advances to customers.

25. Related parties

UK Government

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

Transactions between the company, the UK Government and UK Government controlled bodies, consisted solely of Corporation Tax and Value Added Tax.

Group undertakings

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, and its immediate parent company is Adam & Company Group plc. Both companies are incorporated in Great Britain and registered in Scotland.

As at 31 December 2014, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and Adam & Company Group plc heads the smallest group in which the Company is consolidated. Copies of the consolidated financial statements of both companies may be obtained from The Company Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

25. Related parties (continued)

Assets	2014 £'000	2013 £'000
Loans and advances:		
Parent companies	1,172,903	999,952
Other related parties, including fellow subsidiaries	43,364	167,944
Total assets	**1,216,267**	1,167,896
Liabilities		
Deposit by banks:		
Parent companies	4,065	31
Other related parties, including fellow subsidiaries	92,652	38,247
	96,717	38,278
Other liabilities, accruals and deferred income:		
Parent companies	948	3,520
Other related parties, including fellow subsidiaries	982	2,847
	1,930	6,367
Total liabilities	**98,647**	44,645
Income		
Interest receivable:		
Parent companies	9,189	15,145
Other related parties, including fellow subsidiaries	3,985	8,897
	13,174	24,042
Interest payable:		
Parent companies	(1)	(1)
Other related parties, including fellow subsidiaries	(622)	(729)
	(623)	(730)
Total income	**12,551**	23,312
Expense		
Operating expenses:		
Parent companies	5,522	3,249
Other related parties, including fellow subsidiaries	3,863	5,178
	9,385	8,427

26. Post balance sheet events

There have been no significant events between the year end and the date of approval of the financial statements which would require a change to, or additional disclosure or amendment in the financial statements.