ARBUTHNOT LATHAM

Private Bankers

Since 1833

Arbuthnot Latham & Co., Limited

Report and financial statements

for the year ended 31 December 2014

Registered Number 00819519

Contents

Company Information

Directors

Henry Angest (Chairman)

James W Fleming (Chief Executive)

James R Cobb (Group Director)

Robin A E Herbert (Non-executive)

Stephen P Kelly (Finance Director)

Paul Marrow (Non-executive)

Andrew A Salmon (Group Director)

Robert J J Wickham (Non-executive)

Secretary

Jeremy R Kaye F.C.I.S.

Registered office

Arbuthnot House
7 Wilson Street
London
EC2M 2SN
Registered Number 00819519

Auditor

KPMG LLP
15 Canada Square
London E14 5GL

Incorporated in the United Kingdom

Arbuthnot Latham & Co., Limited

Strategic Review

Business review

The Company's principal business is private banking that provides tailored banking and wealth management solutions to high net worth individuals.

The profit before tax for the year was £2.2m (2013: £6.1m), which is after a further £1.0m investment to establish the new Dubai office (2013: £0.9m). The core profit has grown year on year, after excluding the impact of the prior year gain on the sale and lease back of the business' new head quarters at Wilson Street.

Delivering a relationship led service to clients is at the heart of the philosophy of the bank and is the foundation principle of the business. The current year financial results demonstrate the success of this approach with the private banking UK business growing pre-tax profits to £4.7m (2013: £2.0m). The key business metrics grew strongly during the year, and the underlying momentum gained will benefit 2015 and beyond.

In December, the bank acquired a portfolio of residential mortgage loans from the administrators of the Dunfermline Building Society. The portfolio is closed to new business, is well seasoned with a proven track record of repayments and is supported by geographically diversified collateral. Whilst the underlying client base is outside the private bank core market, the portfolio's credit risk is within the Board approved risk appetite. The portfolio was purchased, at a discount, for £106m. It also provides further opportunities to participate in the Bank of England's Funding for Lending Scheme (FLS) and the sterling monetary framework.

The Company operated Gilliat Financial Solutions a business which designed, packaged and distributed structured products to the financial intermediary market. From midway through the year, following a strategic review, it ceased writing new business. It continues to be plan manager for a back book of existing clients. Gilliat made a £0.2m loss in the year (2013: £0.4m loss).

The bank paid a management charge of £1.3m (2013: £1.1m) to its parent, Arbuthnot Banking Group PLC, for management costs and centrally shared services.

The bank continues to be run from a strong capital and liquidity base, and the Directors believe that it is well placed for the future.

Arbuthnot Latham & Co., Limited

Strategic Review

KEY METIRCS	2014 £m	2013 £m	Mvmt £m
Private Banking (UK)	4.7	2.0	2.7
Private Banking (Dubai)	(1.0)	(0.9)	(0.1)
Gilliat Financial Solutions	(0.2)	(0.4)	0.2
Headquarters sale and leaseback	-	6.5	(6.5)
AL profit before group charge	3.5	7.2	(3.7)
ABG group charge	(1.3)	(1.1)	(0.2)
Pre-tax profit for the year	2.2	6.1	(3.9)
Private Banking loans	432	344	88
UK Mortgage Portfolio (Acquisition)	106	-	106
Client loans	538	344	194
Client deposits	592	521	71
FLS funding	77	40	37
Intra-group deposits	52	61	(9)
Treasury assets	122	239	(117)
Total assets	699	619	80
Assets under management	666	528	138
Tier 1 Capital	31.9	20.1	11.8
Total Capital	36.4	24.6	11.8
Key Performance Indicators			
Clients loans to client deposit and FLS ratio	80.4%	61.3%	19.1%
Credit losses % of Private Banking loans	0.7%	0.6%	0.1%
Average LTV on property backed loans	47.7%	48.6%	(0.9)%
Tier 1 capital ratio	9.4%	8.8%	0.6%
Total capital ratio	10.8%	10.8%	0.0%

Private banking delivered a year of further growth across all key business areas, with the proposition attracting higher numbers of quality clients. The bank's client focused approach continues to resonate well in its core market. The ever increasingly volume of disruption in the industry, has led to wealthy clients becoming disenchanted, and consequently determined to seek new financial relationships. The Bank's strategy focuses on meeting the needs of these high net worth individuals across key sectors and chosen geographies. The continued recruitment of senior bankers and the overall strengthening of its proposition have enabled the bank to increase its profile and in turn its flow of good quality business.

The private banking loan book grew by 26% to £432m (2013: £344m), as the Bank supported its clients in pursuing their wealth preservation and enhancement strategies, through the use of well-structured lending. The average loan-to-value on property backed lending improved to 48% (2013: 49%). Credit losses continued at less than 1% of the asset book, despite provisions against legacy transactions that had been underwritten outside the Bank's current lending strategy.

Client deposits grew by 14%, reflecting the increase in private banking clients, to close the year at £592m (2013: £521m). The Bank participated further in the Bank of England's FLS, by increasing drawings to end the year at £77m (2013: £40m). The FLS funding has a duration of four years, and is supported by property backed loan collateral and debt securities. The overall funding base of client deposits and FLS grew by 19.3% in the year.

The investment management service benefited from the strengthening of the client offering and the Bank's whole-of-market approach. Assets under management increased by 26% to finish the year at £666m (2013: £528m). Income from the wealth planning service grew to £1.6m (2013: £1.4m). The Bank continued to benefit from being the first bank in the UK to achieve Chartered Wealth Planning status.

The Bank completed its first full year of operation in Dubai, where very strong business growth has been achieved in a short space of time, reflecting the dynamic nature of the local market and its growth opportunities. The Dubai office performance is in line with expectations, and is anticipated to achieve profitability towards the end of 2015.

Investment has continued in the Company's infrastructure, reflecting the strategic importance of providing a high level of client service as the Bank grows. The most visible example of this was the move to newly refurbished Wilson Street headquarters. This demonstrated the Bank's commitment to providing a high quality environment to clients and staff. The banking, investment management and central IT operating platforms continue to be upgraded, with further investment expected going forward. The new mobile and internet banking services were launched in early 2014.

As a client centric organisation, the Bank seeks to gather feedback before product launches through client user groups, as well as on an ongoing basis from Private Bankers and client surveys. The client feedback continues to strengthen year on year.

The Bank continues to apply a prudent approach to liquidity management, underpinning the on-going stability of the Bank. This however results in the Bank incurring incremental costs to the business as the historically low rates on surplus funds deployed into treasury assets are below the cost of raising new deposits.

The client loan to deposit and FLS funding ratio at the end of the year was 80% (2013: 61%). The ratio rose above historic levels, following the completion of the £106m mortgage portfolio transaction in December.

The Bank continues to be well capitalised with the Tier 1 capital ratio at 9.4%, (2013: 8.8%), with a total capital ratio at 10.8% (2013: 10.8%). The parent company Arbuthnot Banking Group PLC made capital contributions of £10.5m in the year to support growth and the acquisition of mortgage portfolio (2013:£1.0m).

The Company's supported charity in 2014 was Beanstalk, a national charity that supports volunteers to provide one-to-one reading support in primary schools to children who have fallen behind with their reading. The Company's leadership development program entered, and won, the Beanstalk challenge event by raising a record £23k through a series of events and initiatives that involved the participation of the majority of staff.

Arbuthnot Latham & Co., Limited

Strategic Review

Principal Risks and Uncertainties
The Company regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application. A detailed description of the risk management framework and associated policies is set out in note 4. The principal risks inherent in the business are credit, market, liquidity, operational and regulatory.

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The lending portfolio is extended to private banking clients, the majority of which is secured against cash, property or other high quality assets. Credit risk is managed through the Credit Committee, with significant exposures also being approved by the Arbuthnot Banking Group Credit Risk Committee.

Market risk arises in relation to movement in interest rates, currencies and equity markets. The treasury function is focused on providing a service to clients and does not take significant unmatched positions in any market for its own account. Hence, the Company's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches.

Liquidity risk is the risk that the Company cannot meet its obligations as they fall due. A conservative approach is taken to managing liquidity. Arbuthnot Latham is predominantly funded by retail customer deposits and drawing from the Funding for Lending Scheme. The loan to deposit ratio is maintained at a prudent level. Following introduction of the current liquidity regime, which came into force on 1 October 2010, the Company maintains a liquid asset buffer which is comprised of high quality, unencumbered assets such as Government Securities, which can be called upon to meet the Company's liabilities.

The Board annually approves the Individual Liquidity Adequacy Assessment (ILAA). The Directors modelled various stress scenarios and assessed the resultant cash flows in order to evaluate the bank's potential liquidity requirements. The Directors firmly believe that sufficient liquid assets are held to allow the Bank to meet its liabilities in a stressed environment.

Operational risks, which include conduct risk, are the risks that the Company is exposed to in the normal course of business. The most significant exposure is to mis-selling risk via the wealth planning service and the structured product distribution business. The Company maintains operational and IT policies and procedures, clear compliance guidelines and provides on-going training to all staff. On-going sample checks and in-depth internal audits are performed to ensure the control environment is being maintained. The Company also has insurance policies in place to cover any claims that may arise.

Regulatory risk is the risk that the Company will have insufficient capital resources to support the business or does not comply with regulatory requirements. The Company adopts a conservative approach to managing its capital. Capital requirements are calculated as part of the annual budgeting and monthly forecasting processes. Capital and liquidity ratios are regularly monitored against the Board approved risk appetite as part of the risk management framework.

The parent company Arbuthnot Banking Group PLC completes a consolidated Individual Capital Adequacy Assessment Process (ICAAP), incorporating all group companies, including Arbuthnot Latham.

J W Fleming, Director
18 March 2015

Arbuthnot Latham & Co., Limited

Directors' Report

The Directors present the annual report and audited financial statements of Arbuthnot Latham & Co., Limited for the year ended 31 December 2014.

Principal Activities

Arbuthnot Latham & Co., Limited is a banking institution which is authorised by the Prudential Regulation Authority and authorised and regulated by the Financial Conduct Authority. It provides full banking, investment management and wealth planning services. Up until August 2014 it also packaged and distributed structured products to the intermediary market. A strategic review in accordance with section 414c of the Companies Act 2006 forming part of this report has been set out on pages 2 to 5.

Financial Results and Dividends

The profits for the year after tax were £2.4m (2013: £6.8m) including costs of £1.0m for the establishment of a regulated office in Dubai (2013: £0.9). The results for 2013 included a profit of £6.5m resulting from the sale and leaseback of the Arbuthnot Group Head Quarters.

Dividends of £nil were paid during the year (2013: £5m).

Going Concern

After making appropriate enquiries which assessed strategy, profitability, funding and capital resources, the Directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future. The financial statements are therefore prepared on the going concern basis.

Financial Risk Management

Details of how the Company manages risk are set out in the Strategic Report and Note 4: Financial Risk Management.

Directors

The Directors of the Company during the year were as follows:
H Angest
JW Fleming
JR Cobb
RAE Herbert
SP Kelly
P Marrow (appointed 10 April 2014)
J Reed (retired 31 December 2014)
AA Salmon
RJJ Wickham

Mr J W Fleming retires by rotation and being eligible offers himself for re-election. Mr R A E Herbert also retires by rotation but does not offer himself for re-election.

Sir Michael Peat was appointed as a director on 1st January 2015, retires under the Articles of Association and offers himself for election.

Arbuthnot Latham & Co., Limited

Directors' Report

Branches outside of the UK
During the year the company operated a branch in Dubai which is regulated by the Dubai Financial Services Authority.

Political Donations
The Company made no political donation during the year (2013: £nil).

Events after the balance sheet date
There were no post balance sheet events to report

Insurance of Directors
The Company maintains insurance to provide liability cover for directors and officers of the Company.

Auditors
A resolution to re-appoint KPMG LLP as auditors to the Company will be proposed at the Annual General Meeting, in accordance with section 487 of the Companies Act 2006.

Statement of disclosure of information to auditors
The Directors confirm that;

a. so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
b. the Directors have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

J.R. Kaye

JR Kaye
Secretary
18 March 2015
Company Registered Number 00819519

Arbuthnot Latham & Co., Limited

Directors' Report

Statement of Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Arbuthnot Latham & Co., Limited

We have audited the financial statements of Arbuthnot Latham & Co Ltd for the year ended 31 December 2014 set out on pages 10 to 58. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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 Directors' Responsibilities Statement set out on page 8, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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, 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.

Richard Hinton

Richard Hinton (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
18 March 2015

Arbuthnot Latham & Co., Limited

Statement of comprehensive income

	Note	Year ended 31 December 2014 £000	2013 £000
Interest and similar income		24,303	19,712
Interest expense and similar charges		(4,916)	(6,934)
Net interest income	**6**	**19,387**	**12,778**
Fee and commission income	7	9,758	8,981
Fee and commission expense		(251)	(198)
Net fee and commission income		**9,507**	**8,783**
Operating income		**28,894**	**21,561**
Net impairment losses on financial assets	8	(3,378)	(2,914)
Other income	9	2,088	10,300
Operating expenses	10	(25,397)	(22,893)
Profit before income tax from continuing operations		**2,207**	**6,054**
Income tax credit	12	209	794
Profit after income tax from continuing operations		**2,416**	**6,848**
Profit for the year		**2,416**	**6,848**
Other Comprehensive Income			
Movement in available-for-sale financial assets net of tax		-	**(250)**
Total comprehensive income net of tax for the year		**2,416**	**6,598**

The notes on pages 14 to 58 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Statement of financial position

	Note	At 31 December 2014 £000	2013 £000
ASSETS			
Cash		148	163
Cash and balances at central banks		34,565	192,883
Loans and advances to banks	13	12,085	26,717
Loans and advances to customers	14	547,988	352,482
Debt securities held-to-maturity	15	75,400	19,466
Financial investments available for sale	16	1,119	1,810
Derivative financial instruments	17	2,707	488
Shares in subsidiary undertakings	18	-	25
Investments in associates	19	943	943
Intangible assets	20	6,876	6,921
Property, plant and equipment	21	4,248	428
Other assets	22	12,226	16,389
Deferred tax asset	23	1,167	958
Total assets		**699,472**	**619,673**
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	29	15,000	15,000
Other reserves	30	12,250	1,750
Retained earnings	30	12,719	10,303
Total equity		**39,969**	**27,053**
LIABILITIES			
Deposits from banks	24	31,719	31,617
Derivative financial instruments	17	1,067	371
Deposits from customers	25	618,232	550,956
Other liabilities	26	3,985	5,176
Debt securities in issue	27	4,500	4,500
Total liabilities		**659,503**	**592,620**
Total equity and liabilities		**699,472**	**619,673**

The notes on pages 14 to 58 are an integral part of these financial statements

The financial statements on pages 10 to 58 were approved by the Board of directors on 18 March 2015 and were signed on their behalf by:

J W Fleming, Director

Stephen Kelly

S P Kelly, Director

Arbuthnot Latham & Co., Limited

Statement of changes in equity

	Note	Share capital £000	Retained earnings £000	Capital Contribution £000	Available for sale reserve £000	Total £000
At 1 January 2014		15,000	10,303	2,000	(250)	**27,053**
Net profit for the year		-	2,416	-	-	**2,416**
Total comprehensive income for year		-	2,416	-	-	**2,416**
Capital contribution	30	-	-	10,500	-	**10,500**
Total contributions by & distributions to owners	**30**	**-**	**-**	**10,500**	**-**	**10,500**
At 31 December 2014		**15,000**	**12,719**	**12,500**	**(250)**	**39,969**
At 1 January 2013		15,000	8,455	1,000	-	**24,455**
Net profit for the year		-	6,848	-	-	**6,848**
Net movement on available-for-sale financial assets		-	-	-	(250)	**(250)**
Total comprehensive income for year		-	6,848	-	(250)	**6,598**
Interim dividend relating to 2013 (£0.18 per share)	31	-	(5,000)	-	-	**(5,000)**
Capital contribution	30	-	-	1,000	-	**1,000**
Total contributions by & distributions to owners	**30**	**-**	**(5,000)**	**1,000**	**-**	**(4,000)**
At 31 December 2013		**15,000**	**10,303**	**2,000**	**(250)**	**27,053**

The notes on pages 14 to 58 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Statement of cash flows

	Note	Year ended 31 December 2014 £000	2013 £000
Cash flows from operating activities			
Interest and similar income received		20,480	16,832
Interest and similar charges paid		(6,811)	(8,640)
Fees and commissions received		12,854	11,404
Other income		2,989	4,493
Cash payments to employees and suppliers		(26,600)	(22,076)
Taxation paid / received		-	3
Cash flows from operating profits before changes in operating assets and liabilities		2,912	2,016
Changes in operating assets and liabilities:			
- net increase in loans and advances to customers		(196,139)	(52,428)
- net decrease / (increase) in other assets		3,343	(9,504)
- net increase in deposits from other banks		103	6,384
- net increase in amounts due to customers		67,760	42,495
- net increase in other liabilities		283	2,026
Net cash (outflow) from operating activities		(121,738)	(9,011)
Cash flows from investing activities			
Purchase of financial investments		-	(943)
Purchase of computer software		(380)	(431)
Purchase of property, plant and equipment		(4,103)	(924)
Proceeds from sale of property, plant and equipment		-	23,267
Purchase of debt securities held to maturity		(70,459)	(9,843)
Proceeds from sale of debt securities held to maturity		13,215	3,904
Net cash from investing activities		(61,727)	15,030
Cash flows from financing activities			
Dividends paid		-	(5,000)
Capital Contribution		10,500	1,000
Net cash used in financing activities		10,500	(4,000)
Net (decrease) / increase in cash and cash equivalents		**(172,965)**	**2,019**
Cash and cash equivalents at beginning of year		219,763	217,744
Cash and cash equivalents at end of year	**32**	**46,798**	**219,763**

The notes on pages 14 to 58 are an integral part of these financial statements

Arbuthnot Latham & Co., Limited

Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements were authorised for issue by the Board of directors on 18 March 2015.

1.1 Reporting Entity

Arbuthnot Latham & Co., Limited (the Company) is a company domiciled in the United Kingdom. The registered address of Arbuthnot Latham & Co., Limited is Arbuthnot House, 7 Wilson Street, London, EC2M 2SN. The Company is primarily involved in banking and financial services.

1.2 Basis of presentation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs as adopted and endorsed by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The financial statements are presented in pounds sterling, which is the Company's functional and presentational currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 2 and 4.

The accounts have been prepared on a going concern basis.

In accordance with IAS 27 'Consolidated and Separate Financial Statements', no consolidated financial statements for the Company's investment in subsidiaries were prepared as the Company itself is a wholly owned subsidiary of its immediate holding company, Arbuthnot Banking Group.

Standards, interpretation and amendments effective 2014

- IFRS 11, 'Joint Arrangements' (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and removes the choice of equity or proportionate accounting for jointly controlled entities, as was the case under IAS 31. This standard did not have any material impact on the financial statements.

- IFRS 12, 'Disclosure of Interests in Other Entities' (effective 1 January 2013). This standard replaces the existing accounting for subsidiaries and joint ventures (now joint arrangements) and contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. Due to the adoption of IFRS 12 the Company has expanded its disclosures surrounding subsidiaries (see Note 18) and associates (see Note 19).

- IAS 32 (Revised), 'Offsetting Financial Assets and Financial Liabilities' (effective 1 January 2014). This standard was amended to clarify the offsetting criteria, specifically when an entity currently has a legal right of set off; and when gross settlement is equivalent to net settlement. This standard did not have any material impact on the financial statements.

- IFRIC 21, 'Levies' (effective 1 January 2014). The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. That levy is recognised as a liability when, and only when, the triggering event specified in the legislation occurs.

1.3 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

1.4 Interest income and expense

Interest income and expense are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

1.5 Fee and commission income

Fees and commissions, which are not considered integral to the effective interest rate, are recognised on an accruals basis when the service has been provided. Loan commitment fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Asset and other management, advisory and service fees are recognised on an accrued basis as the related services are performed.

Commissions arising from the sale of structured products are recognised at the point of sale.

1.6 Financial assets and financial liabilities

The Company classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities at fair value through profit or loss; loans and receivables; held-to-maturity investments; available-for-sale financial assets and other financial liabilities. Management determines the classification of its investments at initial inception. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(a) Financial assets and financial liabilities at fair value through profit and loss

Financial assets and liabilities valued at fair value through profit or loss are financial derivatives. These are recognised on the date on which the Company becomes a party to the contractual provisions of the instrument.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers. Loans and receivables are carried at amortised cost less impairment using the effective interest rate method.

(c) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity, that have not been designated as fair value through the profit and loss or available for sale. Held-to-maturity investments are carried at amortised cost less impairment using the effective interest method,

(d) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. All available-for-sale investments are carried at fair value. Changes are recognised in other comprehensive income (available-for-sale reserve) until the investment is sold or impaired. Once sold or impaired the cumulative gains or losses previously recognised in other comprehensive income is reclassified to profit or loss.

(e) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments. Other financial liabilities are recognised when cash is received from the depositors. Other financial liabilities are carried at amortised cost using the effective interest method. The fair value of other liabilities repayable on demand is assumed to be the amount payable on demand at the Statement of Financial Position date.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis.

In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has substantially transferred all risks and rewards of ownership. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability in the statement of financial position. In transactions in which the Company neither retains nor substantially transfers all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have only been partially derecognised.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

1.7 Derivative financial instruments

All derivatives, including embedded derivatives, are recognised at their fair value. Derivatives are shown in the statement of financial position as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income.

Included in Derivative Financial Instruments are embedded derivatives. These arise from contracts ('hybrid contracts') containing both a derivative (the 'embedded derivative') and a non-derivative (the 'host contract'). Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value with gains and losses recognised in the income statement.

1.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.9 Impairment of financial assets

(a) Assets carried at amortised cost

On an ongoing basis the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence is the occurrence of a loss event, after the initial recognition of the asset, that impacts on the estimated future contractual cash flows of the financial asset or group of financial assets, and can be reliably estimated.

The criteria that the Company considers to determine that there is objective evidence of an impairment loss include, but are not limited to, the following:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Initiation of bankruptcy proceedings;
- Deterioration in the value of collateral;
- Deterioration of the borrower's competitive position;

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

(b) Assets classified as available for sale

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as objective evidence of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

1.10 Funding for Lending Scheme

Under the applicable International Accounting Standard, IAS 39, if a security is lent under an agreement to return it to the transferor, as is the case for eligible securities lent by institutions to the Bank of England under the FLS, then the security is not derecognised because the transferor retains all the risks and rewards of ownership. The UK Treasury Bills borrowed from the Bank of England under the FLS are not recognised on the Statement of Financial Position of the institution until such time as they are subject to a repurchase agreement with a third party, as they will not meet the criteria for derecognition by the Bank of England. When the UK Treasury Bills are pledged as part of a sale and repurchase agreement with a third party, amounts borrowed from the third party are recognised on the Statement of Financial Position.

1.11 Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for on the basis of the Company's direct equity interest and are initially recognised at cost less impairment.

1.12 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business. Goodwill on acquisitions of businesses is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The Company reviews the goodwill for impairment at least annually or more frequently when events or changes in economic circumstances indicate that impairment may have taken place, and carry goodwill at cost less accumulated impairment losses. Assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). For impairment testing purposes goodwill cannot be allocated to a

CGU that is greater than a reported operating segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested, reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss if the carrying amounts exceed the recoverable amounts.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

(c) Banking licence fees

Expenditure directly attributable to acquiring licences is recognised as an asset when the Company can demonstrate that the future economic benefits attributable to the licences will flow to the entity, and the cost of the asset can be measured reliably. These costs are amortised over five years.

1.13 Property, plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, applying the following annual rates, which are subject to regular review:

Freehold Buildings	2%
Office equipment	5% to 15%
Computer equipment	20% to 33%

Gains and losses on disposals are determined by deducting proceeds from carrying amount. These gains or losses are included in the statement of comprehensive income.

1.14 Repossessed collateral held as inventory

Land acquired through repossession of collateral which is subsequently held in the ordinary course of business with a view to develop and sell is accounted for as inventory.

Inventory is measured at the lower of cost or net realisable value. The cost of inventories comprise of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1.15 Leases

(a) As a lessor

Assets leased to customers under agreements which transfer substantially all the risks and rewards of ownership, with or without ultimate legal title, are classified as finance leases. When assets are held subject to finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. When assets are held subject to operating leases, the underlying assets are held at cost less accumulated depreciation, the assets are depreciated down to their estimated residual values on a straight line basis over the lease term. Lease rental income is recognised on a straight line basis over the lease term.

(b) As a Lessee

Rentals made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

1.16 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with a maturity of three months or less at the date of acquisition, including loans and advances to banks and building societies and short-term highly liquid debt securities.

1.17 Employee benefits

The Company contributes to a defined contribution scheme and to individual defined contribution schemes for the benefit of certain employees. The schemes are funded through payments to insurance companies or trustee-administered funds at the contribution rates agreed with individual employees.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. There are no post retirement benefits other than pensions.

1.18 Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, when they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

1.19 Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Company having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable.

Financial liabilities designated at fair value except for derivatives, are carried at amortised cost using the effective interest method as set out in policy 1.4. Equity instruments, including share capital, are initially recognised at net proceeds, after deducting transaction costs. Dividend and other payments to equity holders are deducted from equity.

1.20 Share capital

Dividends on ordinary shares are recognised in equity in the period in which they are approved.

1.21 Investments in subsidiaries

Investments in subsidiaries are held at cost less impairment.

1.22 Guarantees

The Company issues guarantees to third parties on behalf of its customers. These items, which are normally secured on customer assets, are initially recorded as contingent liabilities at the contracted value of the guarantee and subsequently recognised as a liability only to the extent the guarantee is called upon.

1.23 Forbearance

The Company does not actively enter into forbearance agreements with its clients. Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review.

1.24 Standards, amendments and interpretations to existing standards (applicable to the Company) that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2015 or later periods, but the Company has not early adopted them:

- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2017)[1]. This standard establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This standard is unlikely to have a material impact on the Company.

- IFRS 9, 'Financial instruments' (effective from 1 January 2018). This standard deals with the classification and measurement of financial assets and will replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of 'held to maturity', 'available for sale' and ' loans and receivables'. Further development phases for IFRS 9 are scheduled to cover key areas such as impairment and hedge accounting. The potential effect of this standard together with the further development phases are currently being evaluated but it is expected to have a material impact on the Company's financial statements, due to the nature of the Company's operations.

[1] - *This standard has not yet been endorsed by the EU*

2 Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2.1 Estimation uncertainty

Credit losses

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. The basis for evaluating impairment losses is described in accounting policy 1.9. Financial assets are individually evaluated for impairment with management using their best estimate in calculating the net present value of future cash flows. Management makes judgements on the financial position of the counterparty and the net realisable value of collateral in determining the expected future cash flows.

Goodwill impairment

The accounting policy for goodwill is described in note 1.12(a). The Company reviews the goodwill for impairment at least annually, or when events or changes in economic circumstances indicate that impairment may have taken place. Significant management judgements are made in estimations, to evaluate whether an impairment of goodwill is necessary. Impairment testing is done at cash-generating unit (CGU) level and the following two items, with judgements surrounding them, have a significant impact on the estimations used in determining the necessity of an impairment charge:

- Future cash flows: Cash flow forecasts reflect management's view of future business forecasts at the time of the assessment. These are based on the board approved 3 year plan with management growth estimates for periods beyond the plan period.

- The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Management considers the value in use for the Arbuthnot Latham core banking CGU to be the discounted cash flows over 5 years with a terminal value (2013: 5 years with a terminal value) generated through its private banking and wealth management activities. The 5 year plan with a terminal value is considered to be appropriate as the goodwill relates to an on-going well established business and not underlying assets with finite lives. An annualised income growth rate of 10% was used for the 5 year period (2013: 9%). Costs were forecast to grow 10% (2013: 7%). These rates were the best estimate of future forecasted performance, with a more conservative approach taken for latter years, as these were not budgeted for in detail as per the three year plan approved by the Directors.

- Discount rate: Management also apply judgement in determining the discount rate used to discount future expected cash flows. The discount rate is derived from the cost of capital for each CGU.

- Cash flows were discounted at a pre-tax rate of 12% (2013: 12%) to their net present value. The discount rate of 12% is considered to be appropriate after evaluating current market assessments of the time value of money and the risks specific to the assets or CGUs.

Taxation

The Company may enter into transactions whereby calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Company recognises liabilities based on estimates of the quantum of taxes that may be due. Deferred tax assets on carried forward losses are recognised where it is probable that future taxable profits will be available to utilise it. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the year in which the determination is made.

Acquisition of loan book

Acquired loan books are initially recognised at fair value. Significant judgement is exercised in calculating their effective interest rate ("EIR") using cash flow models which include assumptions on the interest rates prepayment rates, the probability and timing of defaults and the amount of incurred losses.

Average life of lending

IAS 39 requires interest earned from lending to be measured under the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Management must therefore use judgement to estimate the expected life of each instrument and hence the expected cash flows relating to it. The accuracy of the effective interest rate would therefore be affected by unexpected market movements resulting in altered customer behaviour, inaccuracies in the models used compared to actual outcomes and incorrect assumptions.

2.2 Judgements

Impairment of equity securities held as available for sale

A significant or prolonged decline in the fair value of an equity security is objective evidence of impairment. The Company regards a decline of more than 20 per cent in fair value as "significant" and a decline in the quoted market price that persists for nine months or longer as "prolonged".

Valuation of financial instruments

The Company measures the fair value of an instrument using quoted prices in an active market. A market is regarded as active if quoted prices are readily and regularly available, representing actual and regularly occurring market transactions. If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same for which market observable prices exist, net present value and discounted cash flow analysis. The objective of valuation techniques is to determine the fair value of the financial instrument at the reporting date as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the instance that fair values of assets and liabilities cannot be reliably measured, they are carried at cost.

The Company measure fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The tables below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the measurement is categorised:

At 31 December 2014	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash and cash equivalents		-	34,713	-	34,713
Derivative financial instruments	17	-	2,707	-	2,707
Loans and advances to banks	13	-	12,085	-	12,085
Loans and advances to customers	14	-	106,285	441,703	547,988
Debt securities held-to-maturity	15	-	75,400	-	75,400
Financial investments	16	13	-	1,106	1,119
		13	**231,190**	**442,809**	**674,012**
Liabilities					
Deposits from banks	24	-	31,719	-	31,719
Derivative financial instruments	17	-	1,067	-	1,067
Deposits from customers	25	-	-	618,232	618,232
Debt securities in issue	27	-	-	4,500	4,500
		-	**32,786**	**622,732**	**655,518**

At 31 December 2013	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash and cash equivalents		-	193,046	-	193,046
Derivative financial instruments	17	-	488	-	488
Loans and advances to banks	13	-	26,717	-	26,717
Loans and advances to customers	14	-	-	352,482	352,482
Debt securities held-to-maturity	15	-	19,466	-	19,466
Financial investments	16	13	-	1,796	1,809
		13	**239,717**	**354,278**	**594,008**
Liabilities					
Deposits from banks	24	-	31,617	-	**31,617**
Derivative financial instruments	17	-	371	-	**371**
Deposits from customers	25	-	-	550,956	**550,956**
Debt securities in issue	27	-	-	4,500	**4,500**
		-	**31,988**	**555,456**	**587,444**

There were no transfers between levels 1, 2 or 3 during the year.

The following table reconciles the movement in level 3 financial instruments measured at fair value through profit and loss (Financial investments) during the year:

	2014	2013
	£000	£000
Movement in level 3		
At January	1,797	2,768
Disposals	(243)	-
Impairment losses recognised in other comprehensive income	-	(250)
Impairment losses recognised in the profit and loss	(397)	(824)
Foreign exchange (losses)/gains recognised in the profit and loss	(51)	103
At December	**1,106**	**1,797**

3. Maturity analysis of assets and liabilities

The table below shows the maturity analysis of assets and liabilities as at 31 December 2014

At 31 December 2014	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	148	-	148
Cash and balances at central banks	34,565	-	34,565
Loans and advances to banks	12,085	-	12,085
Loans and advances to customers	239,932	308,056	547,988
Debt securities held-to-maturity	46,556	28,844	75,400
Financial investments available for sale	-	1,119	1,119
Derivative financial instruments	1,209	1,498	2,707
Investments in associates	-	943	943
Intangible assets	-	6,876	6,876
Property, plant and equipment	-	4,248	4,248
Other assets	12,226	-	12,226
Deferred tax asset	-	1,167	1,167
Total assets	**346,721**	**352,751**	**699,472**
LIABILITIES			
Deposits from banks	31,719	-	31,719
Derivative financial instruments	1,067	-	1,067
Deposits from customers	601,496	16,736	618,232
Other liabilities	3,985	-	3,985
Debt securities in issue	-	4,500	4,500
Total liabilities	**638,267**	**21,236**	**659,503**

The table below shows the maturity analysis of assets and liabilities as at 31 December 2013

At 31 December 2013	Due within one year £000	Due after more than one year £000	Total £000
ASSETS			
Cash	163	-	163
Cash and balances at central banks	192,883	-	192,883
Loans and advances to banks	26,717	-	26,717
Loans and advances to customers	274,022	78,460	352,482
Debt securities held-to-maturity	19,466	-	19,466
Financial investments available for sale	-	1,810	1,810
Derivative financial instruments	488	-	488
Shares in subsidiary undertakings	-	25	25
Investment in associate	-	943	943
Intangible assets	-	6,921	6,921
Property, plant and equipment	-	428	428
Other assets	16,389	-	16,389
Deferred tax asset	-	958	958
Total assets	**530,128**	**89,545**	**619,673**
LIABILITIES			
Deposits from banks	31,617	-	31,617
Derivative financial instruments	371	-	371
Deposits from customers	540,667	10,289	550,956
Other liabilities	5,176	-	5,176
Debt securities in issue	-	4,500	4,500
Total liabilities	**577,831**	**14,789**	**592,620**

4. Financial risk management

Strategy

By their nature, the Company's activities are principally related to the use of financial instruments. The Directors and senior management of the Company have formally adopted policies which set out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Risk Committee and the Board. In addition, the key business risks are identified and evaluated through the Company's risk register and managed on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Company's risk register is formally reviewed quarterly. The Board receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are also subject to consideration by the Board.

There are well-established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The principal non-operational risks inherent in the Company's business are credit, market and liquidity risks.

4.a.) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed by the Credit Committee through an annually reviewed policy sanctioned by the Board of Directors, with significant exposures also being approved by the Risk Committee of Arbuthnot Banking Group, the ultimate parent entity.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees.

The Company employs a range of policies and practices to mitigate credit risk. The most traditional and commonly used of these is the taking of collateral against residential property for fund advances. Other collateral types for loans and advances include, but are not limited to charges over: commercial properties, financial instruments such as debt securities and equities, personal guarantees, and charges over other chattels.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Company will seek additional capital from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Company's maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	At 31 December	
	2014	**2013**
	£000	**£000**
Credit risk exposure relating to on-balance sheet assets are as follows:		
Cash and balances at central banks	34,565	192,883
Loans and advances to banks	12,085	26,717
Loans and advances to customers	547,988	352,482
Debt securities held-to-maturity	75,400	19,466
Financial investments available for sale	1,119	1,810
Derivative financial instruments	2,707	488
Other assets	4,556	8,846
Credit Risk exposures relating to off-balance sheet assets are as follows:		
Guarantees	714	805
Loan Commitments	43,428	30,503
At 31 December	**687,997**	**441,117**

The preceding table represents the maximum credit risk exposure (net of impairment) to the Company at 31 December 2014 and 2013 without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures are based on the net carrying amounts as reported in the balance sheet.

Management is confident of its ability to continue to control the credit exposure to the Company resulting from both its loan and advances portfolio and debt securities based on the following:

- All exposures to banks, including debt securities, have at least an A3 credit rating or are deemed systemic to the UK or Dubai;
- 93% of the loans and advances to customers are neither past due nor impaired (2013: 91%);
- 4% of the loans and advances to customers are past due but not impaired (2013: 5%);
- Only 3% of the loans and advances to customers are considered individually impaired (2013: 4%).

All other assets aside from loans and advances to customers detailed above are deemed to be performing.

Loans and advances to clients where the principal security taken as collateral is residential and/or commercial property are detailed below.

	At December 2014		At December 2013	
	Loans	**Residential and Commercial Property**	**Loans**	**Residential and Commercial Property**
	£'000	**£'000**	**£'000**	**£'000**
Loan to Value				
Less than 60%	248,884	724,506	176,713	464,460
60%-80%	155,363	234,335	94,295	136,786
80%-100%	53,267	59,933	24,188	26,907
Greater than 100%*	47,104	39,733	17,089	13,816
Total	**504,618**	**1,058,507**	**312,285**	**641,969**

*In addition to property, other security is taken including charges over Arbuthnot Latham Investment Management portfolios, other chattels and personal guarantees.

The Directors monitor concentrations of sector and geography, but do not consider them to have a significant influence on the credit risk of the Company's loans and advances.

	Loans and advances to customers		Loan commitments	
	2014	**2013**	**2014**	**2013**
	£000	**£000**	**£000**	**£000**
Concentration by product				
Cash collateralised	19,934	17,709	-	-
Commercial	20,851	29,841	-	6,794
Residential mortgages	451,473	253,666	43,428	19,548
Non-Performing	11,940	8,399	-	-
Other Collateral	32,587	27,150	-	-
Unsecured	11,203	15,717	-	-
Other	-	-	-	4,161
At 31 December	**547,988**	**352,482**	**43,428**	**30,503**
Concentration by location of collateral				
East Anglia	3,047	-	-	-
East Midlands	8,918	-	-	-
London	297,386	187,512	22,810	11,608
Midlands	13,208	3,214	-	-
North East	2,894	-	-	-
North West	15,498	8,605	-	-
Scotland	10,753	-	-	-
South East	92,746	60,394	6	1,080
South West	23,885	18,983	283	1,629
Wales	7,104	299	-	-
Yorkshire & Humber	5,435	-	-	-
Other	67,114	73,475	20,329	16,186
At 31 December	**547,988**	**352,482**	**43,428**	**30,503**

4.b.) Market risk

Currency risk

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure for both overnight and intra-day positions, which are monitored daily. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2014.

At 31 December 2014	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	101	17	28	2	148
Cash and balances at central banks	34,565	-	-	-	34,565
Loans and advances to banks	2,622	5,428	3,099	936	12,085
Loans and advances to customers	508,413	8,437	31,138	-	547,988
Debt securities held-to-maturity	59,841	15,559	-	-	75,400
Financial investments available for sale	-	-	1,119	-	1,119
Derivative financial instruments	2,707	-	-	-	2,707
Investments in associates	943	-	-	-	943
Intangible assets	6,876	-	-	-	6,876
Property, plant and equipment	4,248	-	-	-	4,248
Other assets	12,226	-	-	-	12,226
Deferred tax asset	1,167	-	-	-	1,167
Total assets	**633,709**	**29,441**	**35,384**	**938**	**699,472**
LIABILITIES					
Deposits from banks	31,551	168	-	-	31,719
Derivative financial instruments	1,067	-	-	-	1,067
Deposits from customers	571,246	28,081	18,146	759	618,232
Other liabilities	3,985	-	-	-	3,985
Debt securities in issue	4,500	-	-	-	4,500
Total liabilities	**612,349**	**28,249**	**18,146**	**759**	**659,503**
Net on-balance sheet position	**21,360**	**1,192**	**17,238**	**179**	**39,969**
Credit commitments	**44,142**	**-**	**-**	**-**	**44,142**

At 31 December 2013	GBP (£) £000	USD ($) £000	Euro (€) £000	Other £000	Total £000
ASSETS					
Cash	89	53	20	1	163
Cash and balances at central banks	192,883	-	-	-	192,883
Loans and advances to banks	7,021	16,703	1,160	1,833	26,717
Loans and advances to customers	316,122	3,748	32,612	-	352,482
Debt securities held-to-maturity	16,423	3,043	-	-	19,466
Financial investments available for sale	13	-	1,797	-	1,810
Derivative financial instruments	488	-	-	-	488
Shares in subsidiary undertakings	25	-	-	-	25
Investments in associates	943	-	-	-	943
Intangible assets	6,921	-	-	-	6,921
Property, plant and equipment	428	-	-	-	428
Other assets	16,389	-	-	-	16,389
Deferred tax asset	958	-	-	-	958
Total assets	**558,703**	**23,547**	**35,589**	**1,834**	**619,673**
LIABILITIES					
Deposits from banks	31,615	2	-	-	31,617
Derivative financial instruments	371	-	-	-	371
Deposits from customers	509,630	20,292	19,388	1,646	550,956
Other liabilities	5,176	-	-	-	5,176
Debt securities in issue	4,500	-	-	-	4,500
Total liabilities	**551,292**	**20,294**	**19,388**	**1,646**	**592,620**
Net on-balance sheet position	**7,411**	**3,253**	**16,201**	**188**	**27,053**
Credit commitments	**31,308**	**-**	**-**	**-**	**31,308**

Derivative financial instruments (see note 17) cover the majority of the net exposures for each currency. A 10% strengthening of the pound against the euro would lead to a £6k increase (2013: £77k increase) in Company profits, while a 10% weakening of the pound against the euro would lead to the same reduction in Company profits. Similarly a 10% strengthening of the pound against the US dollar would lead to £1k increase (2013: £3k) in Company profits, while a 10% weakening of the pound against the US dollar would lead to the same decrease in Company profits.

4.c.) Interest rate risk

Interest rate risk is the potential adverse impact on the Company's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Company's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Company to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows. The Company seeks to "match" interest rate risk on either side of the balance sheet within strictly defined limits. Interest rate risk is present on money market placements of a fixed rate nature, fixed rate loans and fixed rate savings accounts.

The interest rate mismatch and earnings at risk is monitored in conjunction with liquidity and capital. Interest rate risk is measured on a parallel scenario for both 50 and 100 basis points. Interest rate risk is managed to limit earnings at risk to be less than £1m over an 18 month period in addition to interest rate mismatch which is monitored, throughout the maturity bandings of the book. This typically results in a pre-tax mismatch of £0.4m to £0.7m (2013: £0.4m to £1.0m). An increase in interest rates typically results in an increase to pre-tax profits, whereas a fall typically results in a loss to pre-tax profits.

The following tables summarise the re-pricing periods for the assets and liabilities in the Company. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-price and maturity date.

At 31 December 2014	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non interest bearing £000	Carrying amount £000
ASSETS							
Cash	148	-	-	-	-		148
Cash and balances at central banks	34,565	-	-	-	-	-	34,565
Derivative financial instruments	1,209	-	-	-	1,498	-	2,707
Loans and advances to banks	12,085	-	-	-	-	-	12,085
Loans and advances to customers	525,120	4,173	1,800	16,895	-	-	547,988
Debt securities held-to-maturity	70,179	-	-	5,221	-	-	75,400
Other assets	-	-	-	-	-	12,226	12,226
Total assets	**643,306**	**4,173**	**1,800**	**22,116**	**1,498**	**12,226**	**685,119**
LIABILITIES							
Deposits from banks	16,719	15,000	-	-	-	-	31,719
Deposits from customers	398,505	101,760	101,233	16,734	-	-	618,232
Derivative financial instruments	1,067				-	-	1,067
Other liabilities	-	-	-	-	-	3,985	3,985
Debt securities in issue	4,500	-	-	-	-	-	4,500
Equity	-	-	-	-	-	39,969	39,969
Total Liabilities	**420,791**	**116,760**	**101,233**	**16,734**	**-**	**43,954**	**699,472**
Impact of derivative financial instruments	3,800	-	-	(3,800)	-		-
Interest rate sensitivity gap	**226,315**	**(112,587)**	**(99,433)**	**1,582**	**1,498**	**(31,728)**	**(14,353)**
Cumulative gap	**226,315**	**113,728**	**14,295**	**15,877**	**17,375**	**(14,353)**	

At 31 December 2013	Within 3 months £000	More than 3 months but less than 6 months £000	More than 6 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000	Non Interest bearing £000	Carrying value £000
ASSETS							
Cash	163	-	-	-			163
Cash and balances at central banks	192,883	-	-	-	-	-	192,883
Derivative financial instruments	488	-	-	-	-	-	488
Loans and advances to banks	26,717	-	-	-	-	-	26,717
Loans and advances to customers	323,802	-	450	28,230	-	-	352,482
Debt securities held-to-maturity	16,423	-	-	3,043	-	-	19,466
Other assets	-	-	-	-	-	16,389	16,389
Total assets	**560,476**	**-**	**450**	**31,273**	**-**	**16,389**	**608,588**
LIABILITIES							
Deposits from banks	31,617	-	-	-	-	-	31,617
Deposits from customers	361,719	96,114	76,289	15,364	1,470	-	550,956
Derivative financial instruments	371	-	-	-	-	-	371
Other liabilities	-	-	-	-	-	5,176	5,176
Debt securities in issue	4,500	-	-	-	-	-	4,500
Equity	-	-	-	-	-	27,053	27,053
Total Liabilities	**398,207**	**96,114**	**76,289**	**15,364**	**1,470**	**32,229**	**619,673**
Impact of derivative financial instruments	3,800	-	-	(3,800)	-	-	
Interest rate sensitivity gap	**166,069**	**(96,114)**	**(75,839)**	**12,109**	**(1,470)**	**(15,840)**	**(11,085)**
Cumulative gap	**166,069**	**69,955**	**(5,884)**	**6,225**	**4,755**	**(11,085)**	

4.d.) Liquidity risk

Liquidity risk is the risk that a company is not able to meet obligations as they come due. This risk arises as the Company's liquidity is managed on a mismatch basis, with the mismatch being the difference between the levels of assets and liabilities in the same maturity bands. This maturity transformation is fundamental to the role of a bank in the wider economy. The Board approved its Individual Liquidity Adequacy Assessment (ILAA) on the 29 January 2014. The three stress scenarios prescribed by the Prudential Regulation Authority (PRA): Idiosyncratic, Market and Combined were considered and performed in addition to scenarios derived by the Board specific to the Company. The Directors firmly believe that sufficient liquid assets are held to allow the bank to meet its liabilities as they fall due.

The key features of the Company's business model are:

- Client lending is funded by client deposits, with a conservative loan to deposit ratio
- Lending is short term in nature (typically 0-3 years)
- Excess customer deposits are generally invested in institutions rated A3 or deemed systemic to the UK.
- Intra-group deposits and loans are segregated and managed separately to customer balances.

The aim is not to measure liquidity with a single metric but rather a range of principles and metrics which, when taken together, will ensure that the Company's liquidity risk is maintained at an acceptable level. The principle metrics are:

- To maintain liquid assets greater than the Overall Liquidity Adequacy Rule (OLAR), and to normally operate at least 10% above this level.
- To maintain a Liquid Assets Buffer (LAB) greater than the minimum required by the PRA as set by their Individual Liquidity Guidance, and to normally operate at least 10% above this level.
- To maintain a client lending to client deposits ratio below 90%, but to operate normally at least 10% beneath this level.
- To maintain adequate liquidity resources to withstand all known reasonable combinations of idiosyncratic and market risks for up to 90 days.

At 31 December 2014, the Bank had £119.8m (2013: £205.3m) in its liquid assets buffer, with the majority placed in the Bank of England reserve account.

The investment limits for each counterparty are reviewed regularly, and approved in accordance with the Arbuthnot Latham Treasury Policy.

The tables below analyses the contractual undiscounted cash flows for the Company into relevant maturity groupings at 31 December 2014:

At 31 December 2014	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Liabilities						
Deposits from banks	31,719	(33,060)	(18,030)	(15,030)	-	-
Derivative financial instruments	1,067	(1,067)	(1,067)	-	-	-
Deposits from customers	618,232	(624,964)	(455,509)	(152,654)	(16,801)	-
Other liabilities	3,985	(3,985)	(3,985)	-	-	-
Debt securities in issue	4,500	(5,665)	(68)	(155)	(822)	(4,620)
Total liabilities	**659,503**	**(668,741)**	**(478,659)**	**(167,839)**	**(17,623)**	**(4,620)**
Off-Balance Sheet						
Issued guarantee contracts	714	(714)	(714)	-	-	-
Unrecognised loan commitments	43,428	(43,428)	(43,428)	-	-	-
Total off balance sheet credit commitments	**44,142**	**(44,142)**	**(44,142)**	**-**	**-**	**-**

At 31 December 2014	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Assets						
Cash	148	148	148	-	-	-
Cash and balances at central banks	34,565	34,565	34,565	-	-	-
Loans and advances to banks	12,085	12,085	12,085	-	-	-
Debt securities held-to-maturity	75,400	76,228	39,539	7,369	29,320	-
Derivative financial instruments	2,707	2,707	1,209	-	-	1,498
Loans and advances to customers	547,988	576,672	122,176	118,040	314,720	21,736
Financial investments	1,119	1,119	-	1,119	-	-
Other assets	12,226	12,226	12,226	-	-	-
Total assets	**686,238**	**715,750**	**221,948**	**126,528**	**344,040**	**23,234**

The tables below analyses the contractual undiscounted cash flows for the Company into relevant maturity groupings at 31 December 2013:

At 31 December 2013	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Liabilities						
Deposits from banks	31,617	(31,617)	(31,617)	-	-	-
Derivative financial instruments	371	(371)	(371)	-	-	-
Deposits from customers	550,956	(586,163)	(400,162)	(179,861)	(6,140)	-
Other liabilities	5,176	(5,176)	(5,176)	-	-	-
Debt securities in issue	4,500	(5,447)	(50)	(153)	(5,244)	-
Total liabilities	**592,620**	**(628,774)**	**(437,376)**	**(180,014)**	**(11,384)**	**-**
Off-Balance Sheet						
Issued guarantee contracts	805	(805)	(805)	-	-	-
Unrecognised loan commitments	30,503	(30,503)	(30,503)	-	-	-
Total off balance sheet credit commitments	**31,308**	**(31,308)**	**(31,308)**	**-**	**-**	**-**

At 31 December 2013	Carrying Amount £000	Gross nominal inflow/ (outflow) £000	Not more than 3 months £000	More than 3 months but less than 1 year £000	More than 1 year but less than 5 years £000	More than 5 years £000
Assets						
Cash	163	163	163	-	-	-
Cash and balances at central banks	192,883	192,883	192,883	-	-	-
Loans and advances to banks	26,717	26,717	26,717	-	-	-
Debt securities held-to-maturity	19,466	19,701	2,491	141	17,069	-
Loans and advances to customers	352,482	381,909	109,823	22,784	249,302	-
Financial investments	1,810	1,810	-	1,810	-	-
Derivative financial instruments	488	488	488	-	-	-
Other assets	16,389	16,389	16,389	-	-	-
Total assets	**610,398**	**640,060**	**348,954**	**24,735**	**266,371**	**-**

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

4.e.) Fair value risk

The table below sets out the Company's financial assets and liabilities into the respective classifications:

At 31 December 2014	Derivatives held at FVTPL £000	Held to Maturity £000	Loans and Receivables £000	Available for Sale £000	Other Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Assets							
Cash	-	-	148	-	-	148	148
Cash and balances at central banks	-	-	34,565	-	-	34,565	34,565
Loans and advances to banks	-	-	12,085	-	-	12,085	12,085
Loans and advances to customers	-	-	547,988	-	-	547,988	543,970
Debt securities held-to-maturity	-	75,400	-	-	-	75,400	75,400
Financial investments available for sale	-	-	-	1,119	-	1,119	1,119
Derivative financial instruments	2,707	-	-	-	-	2,707	2,707
	2,707	**75,400**	**594,786**	**1,119**	-	**674,012**	**669,994**
Liabilities							
Deposits from banks	-	-	-	-	31,719	31,719	31,719
Deposits from customers	-	-	-	-	618,232	618,232	618,232
Debt securities in issue	-	-	-	-	4,500	4,500	4,500
Derivative financial instruments	1,067	-	-	-	-	1,067	1,067
	1,067	**-**	**-**	**-**	**654,451**	**655,518**	**655,518**

At 31 December 2013	Derivatives held at FVTPL £000	Held to Maturity £000	Loans and Receivables £000	Available for Sale £000	Other Amortised Cost £000	Total Carrying Amount £000	Fair Value £000
Assets							
Cash	-	-	163	-	-	163	163
Cash and balances at central banks	-	-	192,883	-	-	192,883	192,883
Loans and advances to banks	-	-	26,717	-	-	26,717	26,717
Loans and advances to customers	-	-	352,482	-	-	352,482	351,179
Debt securities held-to-maturity	-	19,466	-	-	-	19,466	19,547
Financial investments available for sale	-	-	-	1,810	-	1,810	1,810
Derivative financial instruments	488	-	-		-	488	488
	488	**19,466**	**572,245**	**1,810**	**-**	**594,009**	**592,787**
Liabilities							
Deposits from banks	-	-	-	-	31,617	31,617	31,617
Deposits from customers	-	-	-	-	550,956	550,956	550,956
Debt securities in issue	-	-	-	-	4,500	4,500	4,500
Derivative financial instruments	371	-	-	-	-	371	371
	371	**-**	**-**	**-**	**587,073**	**587,444**	**587,444**

4.f.) Fiduciary activities

The Company provides trustee, investment management and advisory services to third parties, which involve the Company making allocation, purchase and sale decisions in relation to a wide range of financial instruments.

These services give rise to the risk that the Company may be accused of maladministration or underperformance. At the balance sheet date, the Company had assets under management amounting to £666m (2013: £528m). Additionally the Company provides wealth planning services.

4.g.) Operational risk (unaudited)

The Company's objective is to manage operational risk, including conduct risk, so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiatives and creativity.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by an externally outsourced Internal Audit firm. The results of the Internal Audit reviews are discussed with the Company's senior management, with summaries submitted to the Arbuthnot Banking Group Audit Committee.

The most significant exposure is to mis-selling risk via the wealth planning service and the structured product distribution business.

The Company maintains operational and IT policies and procedures, clear compliance guidelines and provides on-going training to all staff. On-going sample checks and in-depth internal audits are performed to ensure the control framework is being maintained. The Company also has insurance policies in place to cover any claims that may arise.

Regulatory risk is the risk that the Company does not comply with regulatory prudential and conduct requirements.

5. Capital management

The Company's capital management policy is focused on optimising shareholder value. There is a clear focus on delivering organic growth and ensuring capital resources are sufficient to support planned levels of growth. The Board regularly reviews the capital position.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Prudential Regulation Authority (PRA), for supervisory purposes. Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital the Company needs to hold. This method takes the Pillar I capital formula calculations (standardised approach for credit, market and operational risk) as a starting point, and then considers whether each of the calculations deliver a sufficient capital sum adequately to cover managements' anticipated risks. Where the Board considered that the Pillar I calculations did not reflect the risk, an additional capital add-on in Pillar II is applied, and further modified by the Individual Capital Guidance issued by the FCA and PRA.

The Company's regulatory capital is divided into two tiers:

- Tier 1 comprises shareholders' funds after deducting goodwill and other intangible assets.
- Lower tier 2 comprises qualifying subordinated loan capital and other reserves. Lower tier 2 capital cannot exceed 50% of tier 1 capital.

The following table shows the regulatory capital resources as managed by the Company:

	2014	2013
	At 31 December	
	£000	**£000**
Tier 1		
Share Capital	15,000	15,000
Capital Contribution	12,500	2,000
AFS Reserve	(250)	(250)
Retained Earnings	12,719	10,303
Goodwill	(5,415)	(5,415)
Computer Software	(1,312)	(1,314)
Banking licence fees	(149)	(192)
Deferred tax Asset	(1,167)	-
Total tier 1 capital	**31,926**	**20,132**
Tier 2		
Debt securities in issue	4,500	4,500
Total tier 2 capital	**4,500**	**4,500**
Total tier 1 & tier 2	36,426	24,632
Investment in subsidiaries	-	(25)
Total capital after deductions	**36,426**	**24,607**

The parent entity the Arbuthnot Banking Group completes a consolidated Individual Capital Assessment Process (ICAAP), incorporating all group companies. The ICAAP is embedded in the risk management framework across the Group and is subject to ongoing updates and revisions when necessary. However, at a minimum, the ICAAP is updated annually as part of the business planning process. The ICAAP is a process that brings together management framework (i.e. the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

The Arbuthnot Banking Group ICAAP includes a summary of the capital required to mitigate the identified risks in Arbuthnot Latham, and the amount of capital the Group has available. During the period no breaches of externally imposed capital requirements have been reported.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. Pillar 3 disclosures for the year ended 31 December 2014 are published as a separate document on the Arbuthnot Banking Group website under Investor Relations (Announcements & Shareholder Info).

6. Net interest income

Interest income to customers includes loan-related fees of £4,139k (2013: £3,192k) which have been recognised under the effective interest rate.

	Year ended 31 December	
	2014	2013
	£000	£000
Interest income		
Cash and balances at central banks	733	767
Loans and advances:		
- To banks	82	20
- To customers	23,143	18,781
Debt securities held-to-maturity	345	144
Total Interest Income	**24,303**	**19,712**
Interest expense		
Deposits from banks	(202)	(146)
Deposits from customers	(4,509)	(6,585)
Interest on subordinated loan	(205)	(203)
Total Interest Expense	**(4,916)**	**(6,934)**
Net interest income	**19,387**	**12,778**

Interest income of £52k (2013: £19k) has been accrued on impaired loans and advances.

7. Fee and commission income

	Year ended 31 December	
	2014	2013
	£000	£000
Credit related fees	137	253
Banking commissions	1,637	1,337
Investment management fees and commissions	5,210	4,230
Wealth planning fees and commissions	1,556	1,351
Structured product commissions	1,218	1,810
Fee and commission income	**9,758**	**8,981**

8. Allowances for impairments of loans and advances

Total net impairment losses on financial assets are as follows:

	Year ended 31 December	
	2014	2013
	£000	£000
Impairment losses on loans and advances	2,936	2,090
Impairment losses on available for sale assets	333	824
Impairment losses on fair value through profit & loss assets	109	-
Net Impairment losses on financial assets	**3,378**	**2,914**

9. Other Income

Other income includes cross charges made to other members of the Arbuthnot Banking Group for the shared use of premises and information technology infrastructure.

On 17 October 2013 Arbuthnot Latham & Co., Limited completed the sale and leaseback of 7-21 Wilson Street, London EC2M 2TD. The net book value of the property at the date of sale was £16.5m. Under the terms of the sale and leaseback agreement, the cash consideration received by Arbuthnot was £26.2m paid on completion. The Buyer also provided £5.4m to be drawn by Arbuthnot to fund a renovation and fit out programme. After providing £3 million for the rent payable during the period of refurbishment prior to occupation and £0.2m of transaction costs, the net gain was £6.5m.

10. Operating expenses

Operating expenses comprise:		Year ended 31 December	
		2014	2013
	Note	£000	£000
Staff costs, including Directors:			
Salaries & wages		12,278	10,136
Social security costs		1,274	1,166
Pension		727	667
Amortisation	20	425	343
Depreciation	21	283	359
Operating lease rentals		1,931	1,831
ABG management charge		1,321	1,108
Other administrative expenses		7,158	7,283
Total operating expenses		**25,397**	**22,893**

Remuneration of the auditor and its associates, excluding VAT, was as follows:

	Year ended 31 December	
	2014	**2013**
	£000	**£000**
Fees payable to the Company's auditor for the audit of the Company's annual accounts	79	75
Audit related assurance services	36	33
Taxation compliance services	48	-
Taxation advisory services	3	1
Other assurance services	11	11
Total fees payable	**177**	**120**

11. Average number of employees

	Year ended 31 December	
	2014	**2013**
	£000	**£000**
Private banking	165	145
Structured products	10	17
	175	**162**

12. Corporation tax (credit) / expense

	Year ended 31 December	
	2014	**2013**
	£000	**£000**
United Kingdom corporation tax at 21.5% (2013: 23.25%)		
- Adjustment in respect of prior years	-	(27)
	-	**(27)**
Deferred tax		
- Current	124	(750)
- Adjustment in respect of prior years	(333)	(17)
	(209)	**(767)**
Income tax income	**(209)**	**(794)**

Tax reconciliation	Year ended 31 December	
	2014	**2013**
	£000	**£000**
Profit before tax for the year	**2,207**	**6,054**
United Kingdom corporation tax at 21.5% (2013: 23.25%)	475	1,408
Permanent differences	(408)	(2,265)
Change in tax rate	57	107
Prior period adjustments	(333)	(44)
Corporation tax income	**(209)**	**(794)**

Reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20%.

The Capital Requirements (Country-by-Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of CRD IV. The purpose of the regulations is to provide clarity on the source of the Bank's income and the location of its operations. The annual reporting requirements as at 31 December 2014 will be published on the Bank's website in due course at www.arbuthnotlatham.co.uk.

13. Loans and advances to banks

	At 31 December	
	2014	**2013**
	£000	**£000**
Placements with banks included in cash and cash equivalents	**12,085**	**26,717**

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on Moody's long term ratings:

	At 31 December	
	2014	**2013**
	£000	**£000**
A1	3,216	-
A2	6,483	26,253
Baa1	2,386	403
Unrated Intra Group Loan	-	61
	12,085	**26,717**

None of the loans and advances to banks is either past due or impaired (2013: £nil)

14. Loans and advances to customers

	As at 31 December	
	2014	**2013**
	£000	**£000**
Gross loans and advances	552,343	356,455
Less: allowances for impairments on loans and advances	(4,355)	(3,973)
	547,988	**352,482**

On the 18th December 2014 the company completed the purchase of a residential mortgage portfolio acquired from the administrators of the Dunfermline Building Society ("DBS") for a consideration of £106.3m. The portfolio is included in loans and advances to customers.

At 31 December 2014 £308,056k (2013: £78,460k) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date. For a maturity profile of loans and advances to customers refer to Note 3.

A reconciliation of the allowance for impairment losses on loans and advances is as follows:

	As at 31 December	
	2014	**2013**
	£000	**£000**
At 1 January	3,973	4,423
Impairment losses	2,936	2,090
Loans written off during the year as uncollectable	(2,554)	(2,540)
	4,355	**3,973**

The Directors have assessed the loans and advances with similar risk profiles collectively for any impairment. The Directors do not believe that there is any requirement for a collective provision (2013: £nil).

Loans and advances to customers include finance lease receivables as follows:

	As at 31 December	
	2014	**2013**
	£000	**£000**
Gross investment in finance lease receivables		
- No later than 1 year	6	14
	6	14
Unearned future finance income on finance leases	-	(9)
Net investment in finance leases	**6**	**5**
The net investment in finance leases may be analysed as follows:		
- No later than 1 year	6	5
	6	**5**

Loans and advances to customers can be further summarised as follows:

	As at 31 December	
	2014	**2013**
	£000	**£000**
Neither past due nor impaired	512,261	327,326
Past due but not impaired	22,907	16,470
Impaired	17,175	12,659
Gross	552,343	356,455
Less: allowance for impairment	(4,355)	(3,973)
Net	**547,988**	**352,482**

a.) Loans and advances past due but not impaired

Gross amounts of loans and advances to customers that were past due but not impaired were as follows:

	As at 31 December	
	2014	2013
	£000	£000
Past due up to 30 days	4,603	2,477
Past due 30 - 60 days	1,070	4,285
Past due 60 - 90 days	1,200	3,369
Over 90 days	16,034	6,339
Total	**22,907**	**16,470**

Loans and advances typically fall into this category when there is a delay in either the sale of the underlying collateral or the completion of formalities to extend credit facilities for a further period. Management have no material concerns regarding the quality of the collateral that secures the lending.

b.) Loans and advances renegotiated

Restructuring activities include external payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled £nil (2013: £nil).

c.) Collateral held

An analysis of loans and advances to customers past due or impaired by reference to the fair value of the underlying collateral is as follows:

	As at 31 December	
	2014	2013
	£000	£000
Past due but not impaired	73,047	37,663
Impaired	16,477	10,963
Fair value of collateral held	**89,524**	**48,626**

The net amount of individually impaired loans and advances to customers after provisions but before taking into account the cash flows from collateral held is £12,820k (2013: £8,686k).

15. Debt securities held to maturity

Debt securities represent certificates of deposit, and fixed rated notes. The Company's intention is to hold them to maturity, therefore they are recognised at amortised cost in the statement of financial position. Amounts include £nil (2013: £nil) with a maturity, when placed, of 3 months or less included in cash and cash equivalents (Note 32).

The movement in debt securities held to maturity may be summarised as follows:

	At 31 December	
	2014	2013
	£000	£000
At 1 January	19,466	13,526
Exchange difference on monetary assets	188	-
Additions	68,961	9,844
Redemptions	(13,215)	(3,904)
At 31 December	**75,400**	**19,466**

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on Moody's long term ratings:

	At 31 December	
	2014	2013
	£000	£000
Aaa	32,431	14,120
Aa1	22,284	3,044
Aa2	5,001	-
Aa3	3,747	2,302
A1	3,922	-
A2	3,507	-
Baa1	4,508	-
	75,400	**19,466**

None of the debt securities held-to-maturity are either past due or impaired.

16. Financial investments available for sale

	At 31 December	
	2014	2013
	£000	£000
Financial investments comprise:		
- Listed securities	13	13
- Unlisted securities	1,106	1,797
Total financial investments	**1,119**	**1,810**

a.) Listed securities

The Company holds investments in listed securities which are valued based on quoted prices.

b.) Unlisted securities

The Company has made equity investments in unlisted special purpose vehicles set up to acquire and enhance the value of commercial properties. These investments are of a medium term nature. There is no open market for these investments therefore the Company has valued them using appropriate valuation methodologies. The Directors intend to dispose of these assets when a suitable buyer has been identified.

17. Derivative financial instruments

	At 31 December 2014		
	Contract/ Notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000
Embedded Derivative	1,607	1,498	-
Currency swaps	81,898	1,209	1,067
	83,505	**2,707**	**1,067**

	At 31 December 2013		
	Contract/ Notional amount	Fair value assets	Fair value liabilities
	£000	£000	£000
Currency swaps	39,805	488	371
	39,805	**488**	**371**

The principal derivatives used by the Company are exchange rate contracts. Exchange rate related contracts include forward foreign exchange contracts and currency swaps. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate.

Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies; exchange of principal can be notional or actual. The Company only uses investment graded banks for derivative financial instruments rated A2 or above.

Included in derivative financial instruments are structured notes. These notes are accounted for as embedded derivatives. These arise from contracts ('hybrid contracts') containing both a derivative (the 'embedded derivative'): options to buy and sell indicies and a non-derivative (the 'host contract'): discounted bonds. Both the host and embedded derivative are presented net within derivative financial instruments.

18. *Shares in subsidiary undertakings*

	At 31 December	
	2014	**2013**
	£000	**£000**
At 1 January and 31 December	-	25

The subsidiary undertakings of the Company at 31 December 2013 & 2014 were:

	Country of incorporation	Interest %	Principal activity
Artillery Nominees Limited	UK	100	Dormant
Arbuthnot Securities Limited	UK	100	Dormant
Arbuthnot Latham (Nominees) Limited	UK	100	Dormant
John K Gilliat & Co., Limited	UK	100	Dormant

(i) All the above subsidiary undertakings are included in the Arbuthnot Banking Group consolidated financial statements and have an accounting reference date of 31 December.

(ii) All the above interests relate wholly to ordinary shares.

No investments in subsidiary undertakings are impaired.

19. Investments in Associates

	At 31 December	
	2014	2013
	£000	£000
Investments in associates	943	943
	943	**943**

On 11 October 2013, the Company together with Praxis (Holding) Limited, formed a special purpose vehicle in the form of a separate legal entity (Tarn Crag Limited). The purpose of this legal entity is to refurbish and re-let a property in Glasgow, with the intention to exit via a sale to an institutional investor in circa 5 years' time. The investment is recognised at cost less impairment.

(a) Significant restrictions
Praxis (Holding) Ltd receives £0.1m per annum in capacity as property manager. Arbuthnot Latham & Co., Ltd subscribed to £0.9m of loan notes and Praxis (Holding) Ltd subscribed to £0.5m of loan notes, which carry interest at 15% and is rolled up and payable on redemption. The bank debt and interest thereon and the loan notes and interest thereon as well as the property management fees need to be repaid, before further distribution between shareholders can take place.

(b) Risks associated with interests
Arbuthnot Latham & Co., Ltd agreed to subscribe to a further £0.2m of loan notes when required to fund working capital.

20. Intangible assets

	Goodwill	Computer software	Banking licence Fees	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 January	5,415	3,311	-	8,726
Additions	-	243	213	456
At 31 December 2013	**5,415**	**3,554**	**213**	**9,182**
Additions	-	380	-	**380**
Disposals	-	(1,838)	-	**(1,838)**
At 31 December 2014	**5,415**	**2,096**	**213**	**7,724**
Accumulated amortisation				
At 1 January	-	(1,918)	-	**(1,918)**
Amortisation charge	-	(322)	(21)	**(343)**
At 31 December 2013	**-**	**(2,240)**	**(21)**	**(2,261)**
Amortisation charge	-	(382)	(43)	**(425)**
Disposals	-	1,838	-	**1,838**
At 31 December 2014	**-**	**(784)**	**(64)**	**(848)**
Net book amount				
At 31 December 2013	**5,415**	**1,314**	**192**	**6,921**
At 31 December 2014	**5,415**	**1,312**	**149**	**6,876**

21. Property, plant and equipment

	Freehold Property £000	Leasehold Improvements £000	Computer and other equipment £000	Total £000
Cost or valuation				
At 1 January 2013	16,789	-	2,817	19,606
Additions	632	-	292	924
Disposals	(17,421)	-	-	(17,421)
At 31 December 2013	-	-	3,109	3,109
Additions	-	2,896	1,207	4,103
At 31 December 2014	-	2,896	4,316	7,212
Accumulated depreciation				
At 1 January 2013	(121)	-	(2,546)	(2,667)
Depreciation charge	(224)	-	(135)	(359)
Disposals	345	-	-	345
At 31 December 2013	-	-	(2,681)	(2,681)
Depreciation charge	-	(166)	(117)	(283)
At 31 December 2014	-	(166)	(2,798)	(2,964)
Net book amount				
At 31 December 2013	-	-	428	428
At 31 December 2014	**-**	**2,730**	**1,518**	**4,248**

22. Other Assets

	At 31 December 2014 £000	2013 £000
Trade receivables	3,885	4,735
Prepayments and accrued income	3,930	4,001
Repossessed collateral	3,743	3,543
Amount due from group companies	668	4,110
	12,226	**16,389**

Other assets include repossessed collateral, comprising of land. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness.

23. Deferred tax

	At 31 December	
	2014	2013
	£000	£000
At 1 January	958	90
Profit and loss account	209	868
Deferred tax asset at 31 December	**1,167**	**958**

The deferred tax asset comprises accelerated capital allowances, tax losses, and other short-term timing differences. Deferred tax assets are recognised for tax losses to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20%.

24. Deposits from banks

	At 31 December	
	2014	2013
	£000	£000
Deposits from other banks	**31,719**	**31,617**

Included in Deposits from other banks is £20,003k (2013: £31,617k) from Secure Trust Bank (fellow subsidiary of the Arbuthnot Banking Group).

25. Deposits from customers

	At 31 December	
	2014	2013
	£000	£000
Retail customers:		
- current/demand accounts	343,715	300,368
- notice accounts	57,000	58,649
- term deposits	217,517	191,939
	618,232	**550,956**

26. Other liabilities

	At 31 December	
	2014	2013
	£000	£000
Trade payables	1,008	933
Accruals & deferred income	2,977	4,243
	3,985	**5,176**

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury.

At 31 December 2014, the Company had accrued £180k (2013: £229k) in respect of the levy, based on the bank's estimated share of total market protected deposits.

27. Debt securities in issue

	At 31 December	
	2014	2013
	£000	£000
Subordinated loan notes	**4,500**	**4,500**

The subordinated loan notes qualify for Tier 2 capital.

28. Contingent liabilities and commitments

Capital commitments
At 31 December 2014, the Company had capital commitments of £nil (2013: £nil).

Credit commitments
The contractual amounts of the Company's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	At 31 December	
	2014	2013
	£000	£000
Guarantees and other contingent liabilities	714	805
Commitments to extend credit:		
- Original term to maturity of one year or less	43,428	30,503
	44,142	**31,308**

Operating lease commitments
Where the Company is the lessee, the future aggregate lease payments under non-cancellable operating leases are as follows:

	At 31 December	
	2014	2013
	£000	£000
Expiring:		
Within 1 year	2,603	3,500
Later than 1 year and no later than 5 years	7,000	7,853
Later than 5 years	8,750	10,500
	18,353	**21,853**

29. Share capital

Authorised, allotted, called up and fully paid shares of £1 each:

	2014	2013
Number of Shares	**15,000,000**	**15,000,000**

	2014 £000	2013 £000
Ordinary Share Captial	**15,000**	**15,000**

30. Reserves and retained earnings

	At 31 December 2014 £000	2013 £000
Retained earnings	12,719	10,303
Capital contribution	12,500	2,000
Available-for-sale reserve	(250)	(250)
Total reserves as 31 December	**24,969**	**12,053**

Capital contribution relates to cash contributions from the parent that are realised and available for distribution.

Movements in retained earnings were as follows:

	At 31 December 2014 £000	2013 £000
At 1 January	10,303	8,455
Profit for the year	2,416	6,848
Interim dividend for the year	-	(5,000)
At 31 December	**12,719**	**10,303**

31. Dividends

Dividends of £nil were paid during the year (2013: £5m).

32. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

		At 31 December	
		2014	2013
	Note	£000	£000
Cash		148	163
Cash and Balances at central banks		34,565	192,883
Loans and advances to banks	13	12,085	26,717
		46,798	**219,764**

33. Related-party transactions

Related parties of the Company includes Arbuthnot Banking Group and its subsidiaries, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

i. Transactions with group companies

	At 31 December	
	2014	2013
	£000	£000
Loans		
Loans outstanding at 1 January	11,562	12,687
Loans issued during the year	-	412
Loan repayments during the year	(63)	(1,537)
Loans outstanding at 31 December	**11,499**	**11,562**
Interest income earned	178	218

	At 31 December	
	2014	2013
	£000	£000
Deposits		
Deposits at 1 January	61,143	39,382
Deposits received during the year	39,332	25,995
Deposits repaid during the year	(63,105)	(4,234)
Deposits at 31 December	**37,370**	**61,143**
Interest expense on deposits	201	175

	2014	2013
	At 31 December	
	£000	£000
Amounts recharged to the parent company	3,296	3,406
Amounts recharged to fellow subsidiaries	223	73

	2014	2013
	At 31 December	
	£000	£000
Amounts recharged from the parent company	1,461	2,298
Amounts recharged from fellow subsidiaries	308	312

	2014	2013
	At 31 December	
	£000	£000
Balances due from the parent company	535	2,069
Balances due from fellow subsidiaries	133	2,042

Arbuthnot Banking Group provides the Company with a subordinated loan (Note 27).

Interest paid on the loan totalled £205k (2013: £203k).

The Company paid dividends of £nil during the year (2013: £5m) to Arbuthnot Banking Group (Note 31).

ii. Transactions with directors and key management personnel

The Company considers the Board of Directors as the key management personnel. Therefore the following disclosure relates entirely to directors.

	2014	2013
	£000	£000
Loans		
Loans outstanding at 1 January	5,138	3,038
Loans issued during the year	3,037	3,092
Loan repayments during the year	(2,422)	(992)
Loans outstanding at 31 December	**5,753**	**5,138**
Interest income earned	235	131

The loans issued to directors during the year consist of credit card transactions and term loans. All loans were on normal commercial terms and are all repayable on demand. No provisions have been recognised in respect of loans given to related parties (2013: £nil).

	2014	2013
	£000	£000
Deposits		
Deposits at 1 January	4,459	4,843
Deposits received during the year	2,729	2,563
Deposits repaid during the year	(3,095)	(2,947)
Deposits at 31 December	**4,093**	**4,459**
Interest expense on deposits	79	105

The Directors' emoluments (including pension contributions and benefits in kind) for the year were as follows:

	2014	2013
	£000	£000
Fees	15	38
Salary payments	903	689
Pension contributions	52	51
	970	**778**

Pension contributions are being accrued under money purchase schemes for 2 directors (2013: 2 directors) in respect of qualifying service. The emoluments of H Angest, JR Cobb, AA Salmon and RJJ Wickham were paid by the parent company. Their total emoluments are disclosed in the financial statements of the parent company.

The Directors' remuneration includes amounts paid to the highest paid Director in respect of:

	2014	2013
	£000	£000
Emoluments	442	471
Amounts payable to a money purchase pension scheme	35	35
	477	**506**

34. Ultimate controlling party

The Directors regard Arbuthnot Banking Group, a company registered in England and Wales, as the ultimate parent company. Henry Angest, the Group Chairman and CEO has a beneficial interest in 53.7% of the issued share capital of Arbuthnot Banking Group and is regarded by the Directors as the controlling entity. A copy of the consolidated financial statements of Arbuthnot Banking Group may be obtained from 7 Wilson Street, London, EC2M 2SN.

35. Events after the balance sheet date

There are no post balance sheet events to report.