

Annual Report
2014

Bank of Cyprus UK

Contents **Page**

Corporate information	2
Chairman's statement	3
Chief Executive's review and strategic report	4
Directors' report	5
Directors' responsibilities in respect of the financial statements	7
Independent auditors' report	8
Financial statements	9

Definitions

"BOCFS"	Bank of Cyprus Financial Services Limited
The "Company"	Bank of Cyprus UK Limited
"FCA"	Financial Conduct Authority
"FSCS"	Financial Services Compensation Scheme
"IAS"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards
The "Group"	The Parent together with its subsidiary undertakings
The "Parent"	Bank of Cyprus Public Company Limited
"PRA"	Prudential Regulation Authority

Corporate information

Directors
Philip Nunnerley[1, 2] - *Chairman*
Soteris Antoniades[3] - *Assistant Chief Executive*
David Green[1, 2] - *Chairman of the Audit & Risk Committee and senior independent non-executive director*
Marios Kalochoritis[2] - *Non-executive director*
Iacovos Koumi[3] - *Chief Executive*
Kypros Kyprianou[3] - *Assistant Chief Executive*
Spyros Neophytou[1, 2] - *Non-executive director*

Other senior executives
Stephen Byrne[3] - *Head of Legal & Compliance and Company Secretary*
Tony Leahy[3] - *Head of Human Resources & Communications*
Andrew Michaelides[3] - *Chief Financial & Risk Officer*
Samantha Taylor - *Head of Internal Audit*

[1] Member of the Audit & Risk Committee
[2] Member of the Remuneration Committee
[3] Member of the Management Committee

Independent auditor
Ernst & Young LLP

Registered office
27-31 Charlotte Street, London W1T 1RP

Locations
Central London
27-31 Charlotte Street, London W1T 1RP

North London
PO Box 17484, 87 Chase Side, London N14 5WH

South London
18-24 Brighton Road, South Croydon CR2 6AA

Birmingham
123 Parade, Sutton Coldfield B72 1PU

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority

Registered in England and Wales under company number 04728421

www.bankofcyprus.co.uk

Chairman's statement

During 2014 the Company concentrated on restoring its lending book to growth. It is pleasing to report growth in the loan book of 12.3% following a number of years of contraction as we followed a cautious policy and conserved capital and liquidity while the UK market went through a financial crisis followed by the crisis in Cyprus, the home market of our Parent. This growth is testimony to our customers' confidence in the Company and its ability to continue to serve their needs.

In August 2014 the Parent raised an additional €1 billion of capital, as a result of which it passed the ECB stress tests in November 2014. In the same month a largely new Group Board was appointed under the chairmanship of Dr Josef Ackerman.

We are now in a strong position to continue to grow our loan book, with a strong balance sheet and adequate capital and liquidity. As the UK economy continues to recover, businesses of all sizes now have the confidence to invest. We are keen to finance growing businesses whenever we can.

2015 marks the 60th anniversary of Bank of Cyprus UK. We have demonstrated through the years that we can respond successfully to changing economic conditions and have built up a good understanding of our customers. We continue to offer an attractive home for savings and for our entrepreneurial borrowers we offer a level of service and flexibility that the larger banks cannot provide.

I would like to thank my fellow directors, the management and staff for their valuable contribution throughout 2014 and the role they have played in helping to position our business for a successful future.

Philip Nunnerley
Chairman

Chief Executive's review and strategic report

Business model
The Company's business model is to raise retail deposits, mainly in the UK market, and lend those deposits to UK business customers and property entrepreneurs. It intends to grow its lending business sustainably throughout 2015, largely using existing surplus liquidity to fund this growth.

Financial performance
2014 has been a year of growth and improved financial performance. Advances have grown by 12.3%, with new advances totalling £205m during the year. The growth in advances has absorbed some of the excess liquidity that the Company held at the beginning of the year. More competitive pricing for advances has meant that interest income has reduced from £35.8m in 2013 to £31.1m in 2014. However interest expense has also fallen, from £23.5m in 2013 to £16.5m in 2014 as a result of a lower average cost of deposits. Overall net interest income for the year was £14.6m, 19% higher than 2013.

Profit before tax has benefited from a better than expected outcome for a number of debts in recovery and a reduction in the collective provision to reflect improved bad debt experience in recent years. These resulted in a £3.3m credit to the profit and loss account as against a £1.3m charge in 2013. Profit before tax for 2014 was £4.2m compared to £0.1m in 2013.

The quality of the loan book continues to improve, with impaired loans reducing from 6.5% of the loan book in 2013 to 2.7% in 2014 and non-impaired loans in arrears by more than 90 days reducing from 3.1% to 1.8%.

Despite the growth in lending, liquidity remains at high levels, with cash and balances with central banks standing at £367m, representing 38.5% of customer deposits. The high level of liquidity reduced the need to actively promote our deposits during 2014, so the total of customer deposits was allowed to reduce somewhat from £981m in December 2013 to £955m at 31 December 2014.

The capital position remains strong, with total capital standing at 25.4% of risk weighted assets (2013: 24.6%).

During 2014 we have invested in a new system to automate loan approval and processing, which has improved the efficiency of loan granting. This has become increasingly important as the pace of new lending has picked up.

Plans for 2015 and principal risks
For 2015 we are planning further growth in lending to take advantage of the strong capital and liquidity position which is designed to improve the Company's profitability. We intend to achieve this growth by maintaining and improving the quality of service to customers and continuing to price our products competitively. We are planning to invest in improved online banking and the provision of further online services to our customers.

The principal risks and uncertainties facing the Company are as follows:

- credit risk
- failure to achieve loan growth
- further adverse developments in Cyprus which could result in a contagion effect and loss of confidence among the Company's customers notwithstanding the ringfencing of the Company and the protection offered to depositors by the UK Financial Services Compensation Scheme
- failure to recruit, retain and motivate good calibre staff who can support the Company's strategy

Credit risk is the principal risk for the Company, as it is for most banks. The Company's impairment losses would be increased if there was a decline in property values in the UK or a worsening of the economic climate. The directors are of the view that the UK property market and the economic climate more generally are broadly stable. Lending policies remain prudent, so that good margins of servicing cover and security are maintained, enabling the Company to see through a decline in UK property prices or deterioration in the economy.

The improvement we have seen in the UK economy and the recovery of the property market from the recession of 2008 to 2012 will support the continued growth in the loan book, especially in London and the South East, the Company's main area of focus. Activity in the latter part of 2014 and the early part of 2015 has borne out this expectation, with encouraging signs in the loan pipeline that this growth will continue. However competition in the market for lending to small businesses and business entrepreneurs is strong and the Company will keep its pricing and quality of service under review to ensure that it can continue to grow its loan book.

The independence of the Company from the Parent in financial and operational terms provides protection against the risk of contagion from further adverse developments in Cyprus. As a UK incorporated bank, the Company benefits from protection for its depositors through the UK Financial Services Compensation Scheme.

Staff turnover in 2014 (excluding retirements and departures initiated by the Company) was 10.4%, an improvement on the 17.3% seen in 2013, reflecting a return to stability following a period of uncertainty. We are aware that we operate in a competitive employment market, particularly in London, and that we must ensure that we continue to be an attractive employer in terms of job challenge, training and reward.

Environmental matters
The Company has adopted a corporate responsibility policy under which it seeks to minimise any adverse environmental impact of its operations by recycling waste and adopting energy efficient methods of heating and lighting.

Iacovos Koumi
Chief Executive

Directors' report

The directors present their report and financial statements for the year ended 31 December 2014.

Principal activity
The principal activity of the Company is business and personal banking.

Financial results
The results of the Company for the year ended 31 December 2014 are set out in the income statement on page 9. The directors endorse the information and views set out in the Chairman's statement and Chief Executive's review and strategic report.

The directors are satisfied that the capital and liquidity positions of the Company more than meet regulatory requirements and are adequate for the foreseeable future.

Going concern
The directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. A statement of responsibilities of the directors in relation to the financial statements is shown on page 7.

The Company has its own capital and liquidity and is not dependent on the Parent for support.

Dividends
The Company did not declare or pay a dividend in 2014 (2013: nil).

Hedging policy
The Company uses interest rate swaps to hedge against interest rate risk where appropriate. Hedging is covered in more detail in notes 15 and 26 of the financial statements.

Capital
The current regulatory capital is shown in note 28 of the financial statements.

Human resources
The Company had 173 permanent employees at 31 December 2014 (2013: 167). During the year, the Company invested £96,000 in staff development.

Board of directors
Full details of the board of directors are shown on page 2. Since 1 January 2014 the following changes have taken place:

Name of director	*Date of appointment*	*Date of resignation*
Marios Kalochoritis	26 September 2014	
Xanthos Vrachas	26 September 2014	20 November 2014

Directors and their interests
None of the directors had any beneficial interest in the share capital of the Company or any other group company within the UK at any time during the year. No option to purchase shares in the Company has been granted to any director.

Disclosure of information to the auditors
So far as each person who was a director at the date of this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors
Ernst & Young LLP continue as auditors of the Company. The Company is a private limited company and under the Companies Act 2006 is not required to appoint auditors annually.

Future developments and events after the balance sheet date
The Company's plans for 2015 are set out in the Chief Executive's review and strategic report.

Corporate governance and risk management
The board is collectively responsible for governance and risk management. It meets as and when required and at least quarterly. It sets the overall risk appetite of the Company and ensures that risks are carefully managed and controlled. The following are in place to ensure that this happens.

At board level, the Audit & Risk Committee has within its terms of reference the oversight of all risks inherent in the business. This committee meets as and when required and at least quarterly. The Remuneration Committee, set up in November 2014, makes recommendations to the Parent regarding remuneration policy for staff generally and on base pay, variable pay and pension arrangements for the executive directors, other members of the Management Committee and the Head of Internal Audit with a view to managing human resources risk.

At executive level, risks are overseen and managed by a number of committees.

The main risk is credit risk, which is the risk that customers will be unable to repay their loans and advances and will fail to perform under their contractual commitments. Credit risk is managed through credit policies, credit approval procedures and controls and analysis in relation to quality, sector and geographical area. The risk is monitored at executive level by the Advances Committee, which meets monthly.

Liquidity, cash flow and market risks are monitored at executive level by the Asset & Liability Committee, which meets monthly. Systems risk, including risk relating to IT security, is monitored at executive level by the Systems Committee, which meets quarterly and regulatory and operational risks are monitored by the Compliance & Controls Committee, which meets quarterly, as does the Human Resources Committee which monitors resources risk in terms of our people and succession planning.

More information on risk management is set out in note 26 of the financial statements.

Subsidiary
The Company is the immediate owner of 100% of the shares of a UK company, Bank of Cyprus Financial Services Limited (BOCFS), an appointed representative of Legal & General Partnership Services Limited. BOCFS sells insurance and protection products of Legal & General.

Charitable donations
During 2014 the Company made charitable donations totalling £25,000 (2013: £23,000).

Third party indemnity provisions for the benefit of directors
The Company has taken out directors' and officers' liability insurance.

By order of the board

Stephen Byrne
Secretary

17 February 2015

Directors' responsibilities in respect of 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 the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 in accordance with International Accounting Standard 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

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

Independent auditors' report

To the members of Bank of Cyprus UK Limited

We have audited the financial statements of Bank of Cyprus UK Limited for the year ended 31 December 2014 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and in 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.

Peter Wallace
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP, London
25 February 2015

Notes:
The maintenance and integrity of the Bank of Cyprus UK Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement and statement of comprehensive income

For the year ended 31 December 2014

	Notes	***2014***	*2013*
		£000	*£000*
Interest income	4	**31,070**	35,808
Interest expense	5	**(16,467)**	(23,510)
Net interest income		**14,603**	12,298
Fee and commission income	6	**3,590**	3,321
Foreign exchange gains	7	**341**	458
Net gains on financial instrument transactions	8	**185**	332
Total operating income		**18,719**	16,409
Staff costs	9	**(9,273)**	(8,086)
Depreciation and amortisation	10	**(1,453)**	(1,453)
Other operating expenses	11	**(7,098)**	(5,468)
Profit before provisions for impairment of loans and advances		**895**	1,402
Provisions for impairment of loans and advances	12	**3,294**	(1,287)
Profit before tax		**4,189**	115
Taxation	13	**(888)**	(627)
Profit/(loss) after tax		**3,301**	(512)
Other comprehensive income			
Revaluation of properties	17	**3,535**	-
Tax on revaluation of properties	13	**(203)**	-
Total other comprehensive income		**3,332**	-
Total comprehensive profit/(loss) for the year attributable to the equity holders		**6,633**	(512)

The notes on page 13 to 37 and all other primary statements form an integral part of these financial statements.

Statement of financial position

At 31 December 2014

	Notes	***2014*** ***£000***	*2013* *£000*
Assets			
Cash and balances with central banks	14	**367,398**	468,784
Placements with banks	14	**58,528**	47,519
Placements with related entities	14, 29	**9,555**	9,916
Investment in subsidiary	27	**400**	400
Loans and advances to customers	16	**617,976**	550,494
Property and equipment	17	**12,085**	9,315
Intangible assets	18	**683**	510
Other assets	19	**2,418**	3,899
Total assets		**1,069,043**	1,090,837
Liabilities			
Placements by related entities	29	**13,123**	13,570
Amounts due to banks		**10**	1,006
Customer deposits	20	**955,464**	980,845
Other liabilities	21	**4,168**	5,777
Subordinated loan	22	**30,062**	30,056
Total liabilities		**1,002,827**	1,031,254
Equity			
Share capital	23	**65,000**	65,000
Revaluation and other reserves		**3,332**	-
Accumulated losses		**(2,116)**	(5,417)
Total equity		**66,216**	59,583
Total liabilities and equity		**1,069,043**	1,090,837

The notes on pages 13 to 37 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 17 February 2015 and were signed on its behalf by:

Philip Nunnerley
Chairman

Iacovos Koumi
Chief Executive

Statement of changes in equity

For the year ended 31 December 2014

	2014				*2013*
	Share capital	***Revaluation and other reserves***	***Accumulated losses***	**Total**	*Total*
	£000	***£000***	***£000***	**£000**	*£000*
1 January	**65,000**	**-**	**(5,417)**	**59,583**	60,095
Total comprehensive profit/(loss) for the year attributable to the equity holders	**-**	**3,332**	**3,301**	**6,633**	(512)
31 December	**65,000**	**3,332**	**(2,116)**	**66,216**	59,583

The notes on pages 13 to 37 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2014

	2014	*2013*
	£000	*£000*
Profit before tax	**4,189**	115
Adjustments for:		
Provisions for impairment of loans and advances	**(3,294)**	1,287
Depreciation of property and equipment	**1,087**	1,123
Amortisation of intangible assets	**366**	330
Interest on subordinated loan	**2,262**	2,262
Tax paid	**-**	(382)
Changes in operating assets and liabilities		
(Decrease)/increase in customer deposits	**(23,721)**	68,213
(Increase)/decrease in loans and advances to customers	**(64,908)**	69,283
(Increase)/decrease in other assets	**(58)**	(1,483)
Decrease/(increase) in accrued income and prepaid expenses	**248**	(161)
(Decrease)/increase in other liabilities	**(1,903)**	323
Increase /(decrease) in accrued expenses	**295**	(675)
Net cash flow (used in)/from operating activities	**(85,437)**	140,235
Cash flows from investing activities		
Purchase of property and equipment	**(227)**	(195)
Purchase of intangible assets	**(539)**	(414)
Net cash flow used in investing activities	**(766)**	(609)
Cash flows from financing activities		
Interest paid on subordinated loan	**(2,256)**	(3,429)
Net cash flow used in financing activities	**(2,256)**	(3,429)
Net (decrease)/ increase in cash and cash equivalents for the year	**(88,459)**	136,197
Cash and cash equivalents		
1 January	**511,643**	374,507
Net foreign exchange differences	**(836)**	939
Net (decrease)/increase in cash and cash equivalents for the year	**(88,459)**	136,197
31 December	**422,348**	511,643

The notes on pages 13 to 37 form an integral part of these financial statements.

Notes to the financial statements

1 Corporate information

The Company is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

The Company is wholly owned by Bank of Cyprus Public Company Limited, the Parent in which the financial statements of the Company are consolidated. The Parent is incorporated in Cyprus and its consolidated financial statements may be obtained from www.bankofcyprus.com.

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 400 of the Companies Act 2006 because the Company and its subsidiary are included in the consolidated financial statements of the ultimate Parent company, Bank of Cyprus Public Company Limited, which are publicly available. These financial statements have been prepared on a standalone basis. The accounting policies used by the Company that are relevant to an understanding of the financial statements are stated in note 2.

2 Accounting policies

Basis of preparation

These standalone financial statements have been prepared on a historical cost basis, except for revaluation of land and buildings and derivative financial instruments that have been measured at fair value through profit and loss. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Statement of compliance

The standalone financial statements have been prepared in accordance with the IFRSs as adopted by the EU and the requirements of the Companies Act 2006.

Presentation of financial statements

The financial statements are presented in sterling, which is the Company's functional and presentation currency. All values are rounded to the nearest thousand, except where otherwise indicated.

The Company presents its balance sheet broadly in order of decreasing liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in note 26.

Financial assets and financial liabilities are offset, and the net amount reported in the balance sheet, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Foreign currency translation

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the reporting currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange gains' in the income statement.

Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

New accounting standards and interpretations adopted during the year

The Company adopted the following IASB pronouncements in the current year. The IASB pronouncements have an effective date of 1 January 2013 and have been endorsed by the EU for application only from 1 January 2014.

IFRS 10 'Consolidated Financial Statements' replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. There has been no material impact on the financial position of the Company.

IFRS 12 'Disclosures of Involvement with Other Entities' includes all of the financial statement disclosures that were previously in IAS 27, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. There has been no material impact on the financial position of the Company.

IAS 27 'Separate Financial Statements' comprises those parts of the existing IAS 27 that deal with separate financial statements. There has been no material impact on the financial position of the Company.

IAS 32 'Financial Instruments: Presentation' (Amended) - Offsetting Financial Assets and Financial Liabilities. The amendment clarifies the meaning of 'currently has a legally enforceable right to set off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. There has been no material impact on the financial position of the Company.

IFRIC Interpretation 21 'Levies' addresses the accounting for a liability to pay a levy recognized in accordance with IAS 37 'Provisions, Contingent liabilities and Contingent assets' and the liability to pay a levy whose timing and amount is certain. There has been no material impact on the financial position of the Company.

Standards and interpretations that are issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are set out below. The company intends to adopt these standards, if applicable, when they become effective.

Standards and interpretations issued by the IASB but not yet adopted by the EU

IFRS 9 'Financial Instruments', issued July 2014 and effective for financial years beginning on or after 1 January 2018. This standard replaces IAS 39 'Financial Instruments: Recognition and measurement' and contains new requirements for the recognition and measurement of financial assets and liabilities, the recognition of impairment, and hedge accounting. The new hedge accounting model aims to provide a better link between an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. The revised recognition and measurement approach will lead to the Company's financial assets being classified as either amortised cost, fair value through other comprehensive income, or fair value through the income statement, dependent on the business model and cash flow characteristics of the financial asset. Financial liabilities designated at fair value through the profit and loss will continue to be recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on financial instrument transactions' in the income statement

The impairment of financial assets under IFRS 9 will be based on expected credit losses rather than incurred credit losses as at present. There is currently no definitive date for the EU endorsement of this standard.

IFRS 15 'Revenue from Contracts with Customers', issued May 2014 and effective for financial years beginning on or after 1 January 2017. The standard establishes principles for reporting information about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based five step model to be applied to all contracts with customers.

Amendments to IAS 16 'Clarification of acceptable methods of depreciation and amortisation', issued May 2014 and effective for financial years beginning on or after 1 January 2016. IAS 16 establishes the principle for the basis of depreciation being the expected pattern of consumption of the future economic benefits of an asset. This amendment provides clarification that the use of certain revenue based methods to calculate depreciation is not appropriate.

Annual Improvements 2012-2014

The IASB issued Annual Improvements to IFRSs 2012-2014 Cycle, a collection of amendments to IFRSs, in response to the issues addressed during the 2012-2014 cycle.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Change in methods of disposal*
  The objective of this amendment is to clarify the application of the guidance in IFRS 5 regarding the case of a change in a disposal plan from a plan to sell a division by means of an initial public offering to a plan to spin off a division and distribute a dividend in kind to its shareholders.
- *IFRS 7 Financial Instruments: Disclosures: Servicing Contracts*
  The objective of this project is to add guidance to IFRS 7 to clarify how the principle in paragraph 42C of IFRS 7 is applied to a servicing contract for the purpose of the transfer disclosure requirements in paragraph 42E-42H of IFRS 7
- *IFRS 7 Financial Instruments: Disclosures: Applicability of the amendments to IFRS 7 Disclosure–Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements*
  The objective of this amendment to clarify the applicability of the Amendments to IFRS 7 Disclosure-Offsetting Financial Assets and Financial Liabilities issued in December 2011 to condensed interim financial statements
- *IAS 19 Employee Benefits – Discount rate: regional market issue*
  The objective of this amendment is to clarify the application of the requirements of IAS *19 Employee Benefits* (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency

Segmental information

The Company operates in the United Kingdom in one principal activity, namely business and personal banking.

Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income

For all financial assets measured at amortised cost and interest-bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial asset or liability, where appropriate, to the net carrying amount of that financial asset or liability. The calculation takes into account contractual terms of the financial asset and liability (eg prepayment options) excluding future credit losses.

Fee and commission income

Fees and commissions are recognised on an accruals basis to match the cost of providing the services except for advances arrangement fees which are amortised over the life of the advances.

Retirement benefits

The cost of providing retirement pensions is charged to the profit and loss account at the amount of the defined contributions payable for each year. Differences between contributions payable and those actually paid are shown as accruals or prepayments.

Taxation

Taxation on income is provided in accordance with fiscal regulations and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date which will give rise to taxable amounts in future periods.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in profit or loss.

Financial instruments

Date of recognition

The Company initially recognises advances and deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Company becomes party to the contractual provisions of the instruments.

Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue except in the case of loans and receivables and subordinated loan stock not measured at fair value through profit or loss.

Derivative financial instruments

The Company uses derivatives such as interest rate swaps and exchange rate contracts to manage market risk. Derivatives are recorded at fair value and carried 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 included in 'Net gains on financial instrument transactions'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the income statement.

Financial assets or financial liabilities designated at fair value through the profit and loss account

Financial assets and financial liabilities classified in this category are designated as such by management on initial recognition when any of the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and whose performance is evaluated on a fair value basis, in accordance with a documented risk management framework, or (c) the financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities designated at fair value through the profit and loss are recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on financial instrument transactions' in the income statement. Interest income and expense are included in the corresponding captions in the income statement according to the terms of the relevant contract using the effective interest rate method.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Trading investments', 'Investments available for sale' or 'Investments at fair value through profit or loss'. After their initial recognition, loans and receivables are subsequently measured at amortised cost, less any provision for impairment. The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances' in the case of loans and advances to customers.

Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Although the value of collateral is not recognised directly in the financial statements, collateral is valued for the purposes of risk management and in connection with the assessment of impairment of secured loans and advances to customers. The fair value of collateral is generally assessed, at a minimum, at inception and

based on the Company's quarterly reporting schedule. Some collateral, for example cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Financial guarantees

The Company provides guarantees in the normal course of business on behalf of its customers. In the majority of cases, the Company will hold collateral against the resultant exposure or have a right of recourse to the customer, or both. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure banking facilities and guarantees to Her Majesty's Revenue and Customs. The nominal principal amount of these guarantees is set out in Note 24.

Subordinated loan

The subordinated loan in issue is initially measured at the fair value of the consideration received, net of any issue costs. It is subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemption value, over the period to the earliest date at which the Company has the right to redeem the subordinated loan stock. Interest on subordinated loan stock in issue is included in 'Interest expense' in the income statement.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset or where applicable a part of a financial asset or part of a group of similar financial assets is derecognised when: (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Company has transferred its contractual rights to receive cash flows from the asset or (c) the Company has assumed an obligation to pay the received cash flows in full to a third party and: either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event or events have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Individual impairment

For loans and advances to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral. There is objective evidence that a loan is impaired when it is probable that the Company will not be able to collect all amounts due according to the original contract terms.

Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults or a decline in the value of collateral.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. To assess the future cash flows from tangible collateral in the form of land and buildings the Company obtains up to date professional advice on the sale value.

Future cash flows are based upon prudent assumptions about the value of the property representing the underlying security, costs that might be incurred in realising the value in the property, and the time it takes to repossess and sell properties. The property value is updated at regular intervals to ensure the Company has a good understanding of the change in the market value of the property held as collateral.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

The present value of the estimated future cash flows is calculated using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

Collective impairment

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors. Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Loan renegotiations and forbearance

In certain circumstances, the Company will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. There are a number of different types of loan renegotiation, including the capitalisation of arrears, payment holidays, temporary transfer to interest-only terms and extensions of the due date of payment. Where the renegotiated payments of interest and principal will not recover the original carrying value of the asset, the asset continues to be reported as past due and is considered impaired. Where the renegotiated payments of interest and principal will recover the original carrying value of the asset, the loan is no longer reported as past due or impaired provided that payments are made in accordance with the revised terms and are expected to continue to be paid in accordance with the revised terms.

Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value.

Write-offs

Loans together with the associated provisions are written off when there is no realistic prospect of recovery. If a previously written off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the income statement.

Changes after recognition of impairment

Loans are monitored continuously and are reviewed for impairment at each reporting period. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected on a timely basis, the previously recognised impairment loss is reduced by adjusting the impairment provision account.

Hedge accounting

The Company uses derivative financial instruments to hedge exposures to interest rate and foreign exchange risks. The Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness of the hedging relationship also forms part of the Company's documentation.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective retrospectively for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure that the hedging relationship is highly effective in offsetting the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedges

In the case of fair value hedges that meet the criteria for hedge accounting, the change in the fair value of a hedging instrument is recognised in the income statement in 'Net gains on financial instrument transactions'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Net gains on financial instrument transactions'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash flow hedges

In the case of cash flow hedges that meet the criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in 'Net gains on financial instrument transactions' in the income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the income statement. When a hedging instrument expires, or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in

other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the income statement.

Offsetting financial instruments

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

Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition.

Property and equipment

Property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out on a three year cycle by independent qualified valuers on the basis of current market values. Revaluation increments are credited to the asset revaluation reserve, unless these reverse deficits on revaluations charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the asset revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

Computer hardware and furniture and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition.

Property and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use.

Depreciation of buildings and equipment is calculated on a straight line basis over the estimated useful life, as follows: buildings 30 years, computer equipment 5 years, furniture and fixtures 10 years.

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains or losses on the disposal of property and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

Intangible assets

Software acquired is measured on initial recognition at cost when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is three years.

Intangible assets are reviewed for impairment when changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Company are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

3 Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires the Company's management to make judgements, estimates and assumptions that can have a material impact on the amounts recognised in the financial statements. The accounting policies that are critical to the Company's results and financial position in terms of the materiality of the items to which the policy is applied, and which involve a high degree of judgement including the use of estimates and assumptions are set out below.

Going concern

The Company's directors have made an assessment of its ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future.

The Company's capital position remains strong. Stress tests carried out in September 2014 demonstrate that the Company holds sufficient capital and liquidity to continue in business, even if subjected to a severe stress scenario which includes substantial reductions in the value of property held as security for advances and an increased rate of deposit withdrawal.

The assessment of the Company's ability to continue as a going concern does not rely on the availability of parental support. The directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Accordingly, the financial statements for the year ended 31 December 2014 have been prepared on a going concern basis.

Provision for impairment of loans and advances to customers

The Company reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required.

The amount of provision is affected by the value of collateral held which mainly comprises land and buildings. Any decreases in the fair value of this collateral will translate to increases in the required provisions for impairment of loans and advances. For example, a 5% decrease in the value of collateral for impaired advances would lead to an increase in the provision for impairment by £473,000.

In addition to provisions for impairment on an individual basis, the Company also makes collective impairment provisions. The Company bases its calculation of collective provisions on loss rates arising from historical experience. This methodology is subject to estimation uncertainty, partly because it is not practicable to identify losses on an individual loan basis because of the large number of loans in the portfolio. In addition, the use of historical information is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio. In certain circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic, regulatory or behavioural conditions such that the most recent trends in the portfolio risk factors are not an accurate indicator of likely future trends.

In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the provision for impairment derived solely from historical loss experience. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly.

Taxation

The Company operates in the United Kingdom and is therefore subject to United Kingdom corporation tax. Estimates are required in determining the provision for taxes at the balance sheet date. The Company recognises tax liabilities for transactions whose tax treatment is uncertain. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities. In relation to current year tax there are no assumptions or estimates that significantly affect the tax provision.

Deferred tax assets are recognised by the Company in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty.

4 Interest income	***2014*** ***£000***	*2013* *£000*
Loans and advances to customers	**29,220**	33,805
Placements with banks and central banks	**1,621**	1,750
Placements with related entities	**229**	253
	31,070	35,808

Interest income from loans and advances to customers includes interest from impaired loans and advances amounting to £837,000 (2013: £2,419,000).

5 Interest expense		
Customer deposits	**13,521**	20,130
Amounts due to related entities	**207**	229
Subordinated loan	**2,262**	2,262
	15,990	22,621
Derivative financial instruments	**477**	889
	16,467	23,510

6 Fee and commission income		
Credit-related fees and commissions	**1,113**	575
Other banking fees and commissions	**2,477**	2,746
	3,590	3,321

7 Foreign exchange gains

Foreign exchange gains arise from the re-translation of monetary assets in foreign currency at the balance sheet date, realised exchange gains from transactions in foreign currency which have been settled during the year, and the revaluation of foreign exchange derivatives.

8 Net gains on financial instrument transactions		
Net gains arising from fair value hedges (see note 15)	**185**	332

9 Staff costs		
Salaries	**7,461**	6,436
Social security costs	**811**	706
Retirement benefit costs - defined contribution scheme	**1,001**	944
	9,273	8,086

The number of staff employed (including three executive directors) by the Company as at 31 December 2014 was 173 (2013: 167).

10 Depreciation and amortisation	***2014*** ***£000***	*2013* *£000*
Depreciation	**1,087**	1,123
Amortisation of intangible assets	**366**	330
	1,453	1,453

11 Other operating expenses

Information technology	**1,948**	1,727
Professional fees	**490**	459
Communication	**375**	471
Premises	**774**	765
Advertising	**263**	285
Money transmission	**765**	624
Printing and stationery	**411**	258
Financial Services Compensation Scheme levy	**660**	39
Other operating expenses	**1,412**	840
	7,098	5,468

Professional fees include fees (including taxes) paid to the independent auditors of the Company, for audit and other professional services provided to the Company as follows:

Fees for the audit of the financial statements	**188**	188
Fees for tax compliance services	**20**	50
	208	238

12 Provisions for impairment of loans and advances

The movement of provisions for impairment of loans and advances to customers is as follows:

	2014			*2013*
	£000	***£000***	***£000***	*£000*
	Individual impairment	***Collective impairment***	***Total***	*Total*
1 January	**14,515**	**3,500**	**18,015**	22,901
Applied in writing off impaired loans and advances	**(2,953)**	**-**	**(2,953)**	(6,173)
(Credit)/charge for the period	**(2,683)**	**(611)**	**(3,294)**	1,287
31 December	**8,879**	**2,889**	**11,768**	18,015

13 Taxation

	2014	*2013*
	£000	*£000*
UK corporation tax		
Charge for the year	**-**	-
Adjustments in respect of prior years	**-**	273
	-	273
Deferred tax		
Charge for the year	**886**	320
Adjustments in respect of prior years	**2**	34
	888	354
Tax debit/(credit) for the year	**888**	627

The tax charge/(credit) in the income statement for the year differs from the standard rate of corporation tax in the United Kingdom of 21.5% (2013: 23.25%). The differences are reconciled below:

Profit before tax	**4,189**	115
Tax calculated at 21.5% (2013: 23.25%)	**901**	27
Tax effect of:		
Expenses not deductible for tax purposes	**51**	85
Non-taxable income	**-**	-
Tax rate change	**(66)**	208
Adjustment in respect of prior years – current tax	**-**	273
Adjustment in respect of prior years – deferred tax	**2**	34
	888	627

The net deferred tax asset arises from:

Difference between capital allowances and depreciation	**348**	56
Property revaluation	**(324)**	(121)
Tax losses carried forward	**122**	1,302
Net deferred tax asset	**146**	1,237

Business projections indicate that there will be sufficient taxable profits against which to offset the deferred tax asset on losses within the next three years.

The movement in the net deferred tax asset is set out below:

1 January	**1,237**	1,591
Revaluation of properties	**(203)**	-
Deferred tax recognised in the income statement	**(888)**	(354)
31 December	**146**	1,237

The analysis of the net deferred tax (charge)/credit recognised in the income statement is set out below:

	2014	*2013*
	£000	*£000*
Difference between capital allowances and depreciation	**168**	64
Tax losses brought forward and utilised	**(1,120)**	(127)
Other temporary differences	**-**	(49)
Change in tax rates	**66**	(208)
Adjustment in respect of prior years	**(2)**	(34)
	(888)	(354)

Deferred tax assets have been stated at the corporation tax rate of 20% (2013: 20%) reflecting the reduction in the United Kingdom corporation tax rate which will take effect from 1 April 2015 and which was substantially enacted on 17 July 2013, on the basis that the Company's deferred tax assets will unwind after 1 April 2015.

14 Cash, balances with central banks and placements with banks

Cash	**390**	377
Balances with the Bank of England	**367,008**	468,407
	367,398	468,784
Placements with related entities	**9,555**	9,916
Placements with banks	**58,528**	47,519
Cash and cash equivalents	**435,481**	526,219

Placements with banks earn interest (or in some cases are charged interest) based on the inter-bank rate for the relevant term and currency.

Balances with central banks include mandatory deposits of £269,000 (2013: £314,000) which are not available for use in the Company's day to day business. These comprise cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

15 Derivative financial instruments

The use of derivatives is an integral part of the Company's activities. Derivatives are used to manage the Company's own exposure to fluctuations in interest rates and exchange rates.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

Interest rate caps and floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The fair value of derivative financial instruments represents the cost of replacement of these contracts at the balance sheet date. The credit exposure arising from these transactions is managed as part of the Company's market risk management.

The fair value of the derivatives can be either positive (an asset) or negative (a liability) as a result of fluctuations in market interest rates or foreign exchange rates in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Company also uses derivatives to hedge the changes in interest rates or exchange rates which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement.

Changes in the fair value of derivatives designated as fair value hedges are recognised in the income statement. The Company's fair value hedge relationships are principally interest rate swaps used to hedge the interest rate risk of fixed rate loans to customers.

Gains or losses due to changes on fair value hedges for the year are as follows:

	2014	2013
	£000	£000
Gains from change in fair value of trading derivatives	**89**	132
Gains from change in fair value of hedging instruments	**255**	824
Losses from change in fair value of hedged items	**(159)**	(624)
	185	332

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2014			2013		
	Notional amount	**Fair value**		Notional amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	£000	**£000**	**£000**	£000	£000	£000
Interest rate related contracts						
Swaps	**17,216**	**-**	**(303)**	31,442	-	(639)
Collar	**2,583**	**-**	**(114)**	2,742	2	(202)
Spot foreign exchange rate contracts	**1,120**	**4**	**(1)**	548	3	-
Total derivative contracts	**20,919**	**4**	**(418)**	34,732	5	(841)

16 Loans and advances to customers

	2014			2013		
	Loans	**Overdrafts**	**Total**	Loans	Overdrafts	Total
	£000	**£000**	**£000**	£000	£000	£000
Gross loans and advances	**617,280**	**12,464**	**629,744**	549,809	18,700	568,509
Provisions for impairment of loans and advances	**(10,737)**	**(1,031)**	**(11,768)**	(17,124)	(891)	(18,015)
	606,543	**11,433**	**617,976**	532,685	17,809	550,494

The credit quality of gross loans and advances to customers is as follows:

Neither past due nor impaired	**569,251**	**10,415**	**579,666**	475,718	14,956	490,674
Past due but not impaired	**32,497**	**873**	**33,370**	39,589	1,541	41,130
Impaired	**15,532**	**1,176**	**16,708**	34,502	2,203	36,705
	617,280	**12,464**	**629,744**	549,809	18,700	568,509

The length of arrears of past due but not impaired loans and advances to customers is as follows:

Up to 30 days	**18,653**	**63**	**18,716**	21,882	231	22,113
31 to 90 days	**3,431**	**63**	**3,494**	1,782	89	1,871
91 to 180 days	**1,233**	**14**	**1,247**	4,210	176	4,386
181 to 365 days	**1,895**	**223**	**2,118**	2,118	238	2,356
Over one year	**7,285**	**510**	**7,795**	9,604	800	10,404
	32,497	**873**	**33,370**	39,596	1,534	41,130

Loans in arrears over 90 days are not considered impaired if there is sufficient collateral to give reasonable certainty that the loan will be recovered in full. There are no repossessions of collateral held at the reporting date.

17 Property and equipment

	2014					2013
	Freehold property	Leasehold property	Computer equipment	Furniture & equipment	Total	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 January	**5,801**	**290**	**2,890**	**7,692**	**16,673**	16,480
Revaluation	**3,535**	**-**	**-**	**-**	**3,535**	-
Additions	**-**	**95**	**198**	**29**	**322**	193
Disposals	**-**	**-**	**(168)**	**-**	**(168)**	-
Cost or valuation at 31 December	**9,336**	**385**	**2,920**	**7,721**	**20,362**	16,673
Accumulated depreciation at 1 January	**(250)**	**(20)**	**(2,386)**	**(4,702)**	**(7,358)**	(6,235)
Disposals	**-**	**-**	**168**	**-**	**168**	-
Depreciation charge for the year	**(128)**	**(7)**	**(230)**	**(722)**	**(1,087)**	(1,123)
Accumulated depreciation at 31 December	**(378)**	**(27)**	**(2,448)**	**(5,424)**	**(8,277)**	(7,358)
Net book value at 31 December	**8,958**	**358**	**472**	**2,297**	**12,085**	9,315

Property includes land amounting to £3,145,000, of which £3,120,000 relates to freehold property and £25,000 relates to leasehold property. No depreciation is charged for land. The property of the Company was revalued at 31 December 2014. The valuations were carried out by independent qualified valuers, on the basis of market value using observable prices and recent market transactions in accordance with guidance published by the Royal Institution of Chartered Surveyors. The movement in the revaluation reserve is shown in the statement of other comprehensive income and the statement of changes in equity.

18 Intangible assets

	2014	2013
Computer software	**£000**	£000
Cost at 1 January	**4,109**	3,695
Additions	**539**	414
Cost at 31 December	**4,648**	4,109
Accumulated amortisation at 1 January	**(3,599)**	(3,269)
Amortisation charge for the year	**(366)**	(330)
Accumulated amortisation at 31 December	**(3,965)**	(3,599)
Net book value at 31 December	**683**	510

19 Other assets

Debtors	**304**	348
Prepaid expenses	**441**	690
Deferred tax asset	**146**	1,237
Collateral deposit	**1,480**	1,583
Other	**47**	41
	2,418	3,899

20 Customer deposits

	2014	*2013*
	£000	*£000*
Customer deposits by category		
Demand	**273,264**	244,814
Notice	**133,135**	123,307
Term	**549,065**	612,724
	955,464	980,845
Customer deposits by geographical area		
United Kingdom	**561,248**	556,573
Cyprus	**289,087**	304,975
Greece	**68,772**	80,365
Other countries	**36,357**	38,932
	955,464	980,845

Customer deposits include cash collateral of £7,790,000 against advances as at 31 December 2014 (2013: £6,674,000).

21 Other liabilities

Trade creditors	**991**	1,519
Financial Services Compensation Scheme levy (note 25)	**625**	568
Interest rate swaps (held for trading)	**249**	439
Interest rate swaps (designated as fair value hedges)	**168**	402
Items in the course of settlement	**1,112**	2,230
Tax deduction scheme for interest	**238**	441
Provision for claims and litigation	**554**	-
Other	**231**	178
	4,168	5,777

22 Subordinated loan

Unsecured subordinated loan	**30,062**	30,056

The unsecured subordinated loan is due to the Parent. Interest on the loan is payable at 7% above the sterling 3 month London Interbank Offered Rate. The loan has no maturity date, and is repayable at the option of the Company at any time after 22 June 2017, subject to the prior consent of the PRA. The loan is subordinated to the claims of other creditors and is unsecured.

23 Share capital

	2014		*2013*	
	Number of shares	***£000***	*Number of shares*	*£000*
Issued and fully paid				
Ordinary shares of £1 each	**65,000,000**	**65,000**	65,000,000	65,000

24 Contingent liabilities and commitments

As part of the services provided to its customers, the Company enters into various revocable commitments and contingent liabilities. These consist of financial guarantees and undrawn commitments to lend.

Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer and to carry out those obligations should the customer fail to do so.

Where guarantees are issued on behalf of customers, the Company usually holds collateral against the exposure and has a right of recourse to the customer.

In relation to acceptances and guarantees, the table below shows the Company's maximum exposure should contracts be fully drawn upon and customers default without taking account of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held:

	2014	*2013*
	£000	*£000*
Acceptances, guarantees and cashing facilities	**1,076**	3,560
Commitments to advance	**13,143**	12,146
	14,219	15,706

Contingent obligations and commitments are managed in accordance with the Company's credit risk management policies. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Company.

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2014 amount to £636,000 (2013: £83,000).

Litigation

Other than claims and litigation in the ordinary course of business, for which provision has been included in other liabilities, there are no significant pending litigation claims or assessments against the Company the outcome of which would have a material effect on the Company's financial position or operations.

25 Financial Services Compensation Scheme levy

The FSCS provides compensation to eligible depositors up to £85,000 in the event that a financial institution is unable to repay amounts due. Following the failure of a number of financial institutions in 2008, the FSCS borrowed funds from the UK government to cover compensation for protected deposits. These borrowings are expected to be repaid from the realisation of the assets of the institutions. Under the FSCS levy rules, all deposit takers will be required to pay a proportion of any irrecoverable losses. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total levy charged to each bank is determined by its share of deposits protected under the FSCS at 31 December each year.

In 2014, the Company paid the second of the three annual instalments of £586,000. As at 31 December 2014, the bank has accrued £625,000 in respect of the estimated final instalment and interest payments relating to the FSCS Specified Deposit Defaults Levy. The amount calculated is based on the level of protected deposits as at 31 December 2013 and 2014.

The ultimate cost of the FSCS levy to the industry as a result of the banking collapses in 2008 is dependent upon various still uncertain factors, including the value of potential recoveries of assets by the FSCS and the level of protected deposits.

26 Risk management

Through its normal operations the Company is exposed to a number of risks, the most significant of which are liquidity risk, credit risk, operational risk and market risk. To manage these risks the Company has established clear risk policies, including limits, reporting lines and control procedures. Adherence to these policies and procedures is independently monitored by the Company's credit risk, market risk, operational risk, compliance and internal audit functions. The Company's risk management processes and internal controls are subject to regular review by the appropriate executive and board committees, including the Advances, Compliance & Controls, Asset & Liability and Audit & Risk committees.

Fair value of financial assets and liabilities

The following tables analyse the Company's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet.

		2014		*2013*	
	Notes	***Carrying value***	***Fair value***	*Carrying value*	*Fair value*
		£000	***£000***	*£000*	*£000*
Financial assets					
Cash and balances with central banks	(a)	**367,398**	**367,398**	468,784	468,784
Placements with banks	(b)	**58,528**	**58,528**	47,519	47,519
Placements with related entities	(b)	**9,555**	**9,555**	9,916	9,916
Loans and advances to customers	(c)	**617,976**	**604,955**	550,494	536,572
Financial liabilities					
Amounts due to banks	(b)	**10**	**10**	1,006	1,006
Amounts due related entities	(b)	**13,123**	**13,123**	13,570	13,570
Customer deposits	(d)	**955,464**	**954,464**	980,845	980,845
Derivative financial liabilities	(e)	**418**	**418**	841	841
Subordinated loan	(f)	**30,062**	**30,062**	30,056	30,056

The fair value estimates are based on the following methodologies and assumptions:

(a) The carrying amounts of these financial assets and financial liabilities approximate fair value.
(b) The carrying value of placements with banks and amounts due to banks is considered to approximate fair value. Placements with banks are repayable on demand or within twelve months. Amounts due to banks and related entities are re-priced every three months relative to market rates. As a result, the carrying value approximates the fair value.
(c) The carrying value of loans and advances to customers is net of allowance for impairment losses and unearned income. The fair value of the advances is calculated by adjusting the cash flows for the risk and discounting.
(d) The carrying value of customer deposits is considered to approximate fair value. The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.
(e) The fair value of derivatives (including foreign exchange contracts and interest rate swaps) designated as being carried at fair value through profit or loss are based on quoted market prices and data or valuation techniques based on observable market data as appropriate to the nature and type of the underlying instrument.
(f) The subordinated loan is non-traded and reprices in response to changes in market rates. Its fair value includes interest accrued since the last interest payment date.

The following table shows an analysis of derivative financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2014	***Level 1***	***Level 2***	***Level 3***	***Total fair value***
	£000	***£000***	***£000***	***£000***
Derivative financial assets	**-**	**4**	**-**	**4**
Derivative financial liabilities	**-**	**(418)**	**-**	**(418)**

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total fair value***
	£000	*£000*	*£000*	*£000*
Derivative financial assets	-	5	-	5
Derivative financial liabilities	-	(841)	-	(841)

Level 1 inputs are those with quoted prices for similar instruments, level 2 inputs have directly observable market inputs other than level 1 inputs, and level 3 inputs are not based on observable market data.

Loans and advances to customers are at level 3 of the fair value hierarchy. The fair value of loans and advances is dependent on estimates, including the risk premium. A 1% increase in the risk premium would reduce the fair value of loans and advances on £18.5m (2013: £14.4m).

Liquidity risk

Liquidity risk is the risk of failure to realise assets or raise funds to meet current and future commitments. To manage liquidity risk the Company maintains a portfolio of high quality liquid and marketable assets sufficient to meet the liquidity requirements of the PRA and the Company's internal policies. Actual and projected cash flows of the Company are monitored on a continuing basis to ensure that the Company preserves a satisfactory liquidity position at all times.

Analysis of assets and liabilities by expected maturity

31 December 2014	***Carrying value***	***Demand***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and balances with central banks	**367,398**	**367,130**	**-**	**268**	**-**	**-**
Placements with banks	**58,528**	**58,528**	**-**	**-**	**-**	**-**
Placements with related entities	**9,555**	**5**	**9,550**	**-**	**-**	**-**
Investment in subsidiary	**400**	**-**	**-**	**-**	**-**	**400**
Loans and advances to customers	**617,976**	**28,996**	**50,282**	**80,551**	**271,943**	**186,204**
Property and equipment	**12,085**	**-**	**-**	**-**	**-**	**12,085**
Intangible assets	**683**	**-**	**-**	**-**	**-**	**683**
Other assets	**2,418**	**-**	**-**	**2,418**	**-**	**-**
Total assets	**1,069,043**	**454,659**	**59,832**	**83,237**	**271,943**	**199,372**
Liabilities and equity:						
Amounts due to banks	**10**	**10**	**-**	**-**	**-**	**-**
Amounts due to related entities	**13,123**	**3,158**	**-**	**9,565**	**-**	**400**
Customer deposits	**955,464**	**273,264**	**230,316**	**291,780**	**160,104**	**-**
Other liabilities	**4,168**	**-**	**-**	**4,168**	**-**	**-**
Subordinated loan	**30,062**	**62**	**-**	**-**	**-**	**30,000**
Total liabilities	**1,002,827**	**276,494**	**230,316**	**305,513**	**160,104**	**30,400**
Total equity	**66,216**	**-**	**-**	**-**	**-**	**66,216**
Total liabilities and equity	**1,069,043**	**276,494**	**230,316**	**305,513**	**160,104**	**96,616**
Acceptances and guarantees	**1,076**	**1,076**				

31 December 2013	***Carrying value***	***Demand***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and balances with central banks	468,784	468,470	-	314	-	-
Placements with banks	47,519	31,019	16,500	-	-	-
Placements with related entities	9,916	5	9,911	-	-	-
Investment in subsidiary	400	-	-	-	-	400
Loans and advances to customers	550,494	48,246	66,010	81,975	210,803	143,460
Property and equipment	9,315	-	-	-	-	9,315
Intangible assets	510	-	-	-	-	510
Other assets	3,899	-	-	3,899	-	-
Total assets	1,090,837	547,740	92,421	86,188	210,803	153,685
Liabilities and equity:						
Amounts due to banks	1,006	1,006	-	-	-	-
Amounts due to related entities	13,570	3,661	-	9,909	-	-
Customer deposits	980,845	244,815	280,299	341,582	114,149	-
Other liabilities	5,777	-	-	5,777	-	-
Subordinated loan	30,056	56	-	-	-	30,000
Total liabilities	1,031,254	249,538	280,299	357,268	114,149	30,000
Total equity	59,583	-	-	-	-	59,583
Total liabilities and equity	1,090,837	249,538	280,299	357,268	114,149	89,583
Acceptances and guarantees	3,560	3,560	-	-	-	-

The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities:

Non-derivative financial liabilities

	2014					*2013*				
	Demand	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***	*Demand*	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	***£000***	***£000***	***£000***	***£000***	*£000*	*£000*	*£000*	*£000*	*£000*
Amounts due to banks	**10**	**-**	**-**	**-**	**-**	1,006	-	-	-	-
Amounts due to related entities	**3,158**	**-**	**9,587**	**-**	**400**	3,661	-	9,932	-	-
Customer deposits	**275,953**	**227,892**	**295,123**	**166,207**	**-**	244,319	280,761	346,531	119,428	-
Subordinated loan	**62**	**-**	**-**	**8,714**	**30,000**	56	-	-	9,137	30,000

The following table sets out the contractual maturity for derivative financial instruments. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as determined by the yield curves existing at the reporting date.

Derivative financial liabilities

	2014				*2013*			
	Up to 3 months	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***	*Up to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*
	£000	***£000***	***£000***	***£000***	*£000*	*£000*	*£000*	*£000*
Interest rate swaps	**81**	**223**	**-**	**-**	203	331	312	-

The balances in the cash flow tables above will not agree directly to the balances in the balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and future interest payments.

Credit risk

Credit risk arises principally from lending activities, but also from other on and off balance sheet transactions where there is a risk that the counterparty may not meet its obligations to the Company. Credit risk occurs mainly in customer advances. To control credit risk, the Company establishes lending policies and exposure limits by various categories including counterparty, sector and country, which are reviewed on a continuing basis.

Credit policies are approved by the board of directors on recommendation from the executive Advances Committee, which has management oversight of credit risk. The Company maintains a dedicated credit risk function with responsibility for managing credit risk and monitoring management of advances by the Company's business units.

The Advances Committee meets monthly and reviews reports on credit concentration, portfolio performance and provisions. The Advances Committee approves credit facilities within its authority or makes recommendations to the Parent and the board of directors for approval.

An analysis of impairments and watch list customer advances (advances which show symptoms of credit weakness) is shown below:

	2014			*2013*		
	Loans	***Overdrafts***	***Total***	*Loans*	*Overdrafts*	*Total*
	£000	***£000***	***£000***	*£000*	*£000*	*£000*
Individually impaired	**15,532**	**1,176**	**16,708**	34,502	2,203	36,705
Allowance for impairment	**(7,924)**	**(955)**	**(8,879)**	(13,737)	(778)	(14,515)
	7,608	**221**	**7,829**	20,765	1,425	22,190
Watch list advances						
High risk	**13,482**	**770**	**14,252**	17,875	1,105	18,980
Medium risk	**6,902**	**802**	**7,704**	26,780	3,230	30,010
	20,384	**1,572**	**21,956**	44,655	4,335	48,990
Not subject to impairment nor on watch list	**581,364**	**9,716**	**591,080**	470,652	12,162	482,814
Allowance for collective impairment	**(2,813)**	**(76)**	**(2,889)**	(3,387)	(113)	(3,500)
Carrying amount	**606,543**	**11,433**	**617,976**	532,685	17,809	550,494

The following table shows the risk concentration by sector for customer advances:

	2014	*2013*
	£000	*£000*
Business sector		
Property investment	**463,057**	372,398
Property development	**20,326**	18,143
Hotels, catering and leisure	**65,108**	73,947
Manufacturing	**7,780**	11,960
Retail and wholesale	**12,528**	19,771
Other business sectors	**31,892**	36,357
Personal sector	**29,053**	35,933
	629,744	568,509
Allowance for impairment	**(11,768)**	(18,015)
Carrying amount	**617,976**	550,494

The amount of loans and advances subject to forbearance is analysed below. Forbearance means the active agreement by the bank with the customer to vary the terms of a loan agreement, either temporarily or permanently, to assist a customer to overcome financial stress and repay a loan that is secured by an owner-occupied residential property.

31 December 2014	***Total***	***Neither past due nor impaired***	***Past due but not impaired***	***Impaired***
	£000	***£000***	***£000***	***£000***
Temporary conversions from repayment to interest only	**335**	**-**	**67**	**268**
Term extension for interest only loans	**1,168**	**-**	**311**	**857**
Term extensions for capital repayment	**540**	**302**	**238**	**-**
Payment holidays	**301**	**-**	**301**	**-**
Capitalisation of arrears	**-**	**-**	**-**	**-**
Amortisation profile change	**138**	**138**	**-**	**-**
	2,482	**440**	**917**	**1,125**

31 December 2013	*Total*	*Neither past due nor impaired*	*Past due but not impaired*	*Impaired*
	£000	*£000*	*£000*	*£000*
Temporary conversions from repayment to interest only	655	589	66	-
Term extension for interest only loans	6,352	6,352	-	-
Term extensions for capital repayment	704	375	329	-
Payment holidays	441	441	-	-
Capitalisation of arrears	131	-	131	-
	8,283	7,757	526	-

Loans and advances which have been subject to forbearance continue to be classified as being subject to forbearance until the loan or advance is redeemed or is restructured on normal commercial terms.

Operational risk

Operational risk is the risk of loss or reputational damage arising from inadequate systems, errors, poor management, internal control breaches, fraud and external events. Procedures and controls are in place to manage these risks throughout the Company and are supplemented by contingency planning to ensure business continuity, as well as the maintenance of insurance cover where appropriate.

Market risk

Market risk is the risk that changes in the level of interest rates, exchange rates and other financial indicators will have an adverse financial impact.

The Company is exposed to interest rate risk as a result of mismatches in its balance sheet between the dates on which interest receivable on assets and interest payable on liabilities next reset to market rates or the dates on which the assets and liabilities mature. The Company aims to manage this risk through controlling such mismatches within limits set by reference to the maximum potential loss of earnings under given changes of interest rates. In managing these mismatches the Company makes use of appropriate interest rate derivative contracts including interest rate swaps.

A summary of the Company's interest rate gap position is as follows:

31 December 2014	***Carrying value***	***Non-interest bearing***	***Up to 3 months***	***3 months to 1 year***	***1 year to 5 years***	***Over 5 years***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Assets:						
Cash and bank advances	**425,926**	**1,530**	**424,127**	**269**	**-**	**-**
Placements with related entities	**9,555**	**51**	**9,504**	**-**	**-**	**-**
Investment in subsidiary	**400**	**400**	**-**	**-**	**-**	**-**
Loans and advances to customers	**617,976**	**-**	**590,131**	**17,232**	**10,613**	**-**
Fixed assets	**12,768**	**12,768**	**-**	**-**	**-**	**-**
Other assets	**2,418**	**-**	**-**	**2,418**	**-**	**-**
Total assets	**1,069,043**	**14,749**	**1,023,762**	**19,919**	**10,613**	**-**
Liabilities:						
Amounts due to banks	**10**	**10**	**-**	**-**	**-**	**-**
Amounts due to related entities	**13,123**	**28**	**13,095**	**-**	**-**	**-**
Customer deposits	**955,464**	**141,831**	**369,661**	**285,408**	**158,564**	**-**
Other liabilities	**4,168**	**-**	**-**	**4,168**	**-**	**-**
Subordinated loan	**30,062**	**62**	**30,000**	**-**	**-**	**-**
Total liabilities	**1,002,827**	**141,931**	**412,756**	**289,576**	**158,564**	**-**
Derivatives	**-**	**(3)**	**17,219**	**(17,216)**	**-**	**-**
Interest rate gap	**66,216**	**(127,185)**	**628,225**	**(286,873)**	**(147,951)**	**-**

31 December 2013						
Assets:						
Cash and bank advances	516,303	45,712	470,277	314	-	-
Placements with related entities	9,916	-	9,916	-	-	-
Investment in subsidiary	400	400	-	-	-	-
Loans and advances to customers	550,494	-	525,916	7,301	17,277	-
Fixed assets	9,825	9,825	-	-	-	-
Other assets	3,899	3,899	-	-	-	-
Total assets	1,090,837	59,836	1,006,109	7,615	17,277	-
Liabilities:						
Amounts due to banks	1,006	-	1,006	-	-	-
Amounts due to related entities	13,570	-	13,570	-	-	-
Customer deposits	980,845	108,369	418,557	339,775	114,144	-
Other liabilities	5,777	4,918	859	-	-	-
Subordinated loan	30,056	56	30,000	-	-	-
Total liabilities	1,031,254	113,343	463,992	339,775	114,144	-
Derivatives	-	(3)	20,455	(3,236)	(17,216)	-
Interest rate gap	59,583	(53,510)	562,572	(335,396)	(114,083)	-

The Company monitors its exposure to interest rate risk. The annualised impact of a potential 1% change, both increase and decrease, in the interest rates against the Company's interest bearing assets and liabilities is as follows:

	2014	*2013*
	£000	*£000*
Increase of 1%	**5,365**	3,991
Decrease of 1%	**(2,628)**	(1,967)

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income for a year arising from a parallel rise or fall in all market interest rates and do not take into account the effect of any actions to mitigate the effect.

The Company is exposed to foreign currency risk as a result of mismatches between assets and liabilities in foreign currencies arising from the Company's lending, deposit taking and currency dealing activities. The majority of currency dealings are carried out for the purpose of facilitating customer transactions. The Company's treasury department is responsible for managing currency risk within intra-day and overnight limits. The Company's currency net exposures remain low at the balance sheet date. The potential impact on profit after tax and on equity of a change in currency exchange rates is negligible at the reporting date.

Set-off
Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company is party to a number of arrangements that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented gross.

The table below shows potential effect of the amounts that could be offset under the Company's right of set-off but which are shown gross in the financial statements.

	2014			*2013*		
	Gross amounts presented in the balance sheet	***Offset amounts***	***Net amounts***	*Gross amounts presented in the balance sheet*	*Offset amounts*	*Net amounts*
	£000	***£000***	***£000***	*£000*	*£000*	*£000*
Financial assets						
Placements with banks	**58,528**	**10**	**58,518**	47,519	1,005	46,514
Placements with related entities	**9,555**	**9,555**	**-**	9,916	9,916	-
Loans and advances to customers	**617,976**	**30,772**	**587,204**	550,494	24,592	525,902
Financial liabilities						
Amounts due to banks	**10**	**10**	**-**	1,006	1,005	1
Amounts due related entities	**13,123**	**9,555**	**3,568**	13,570	9,916	3,654
Customer deposits	**955,464**	**30,772**	**924,692**	980,845	24,592	956,253

27 Investment in subsidiary

Bank of Cyprus Financial Services Limited (BOCFS), whose principal place of business is England and Wales, is a wholly owned subsidiary of the Company. BOCFS is a representative of Legal & General Partnership Services Limited, which is authorised and regulated by the FCA for the purposes of recommending, advising on and selling life assurance and other insurance products bearing the Legal & General name. The investment in subsidiary is accounted for at cost.

28 Capital management

Pillar 3 of the Basel 3 accord covers the external communication of risk and capital information by banks as specified in the Basel rules. The Pillar 3 disclosures for the Company are set out below.

Capital adequacy

The Company is supervised by the PRA, as a UK authorised bank, and is required to satisfy the liquidity and capital requirements of the PRA on a standalone basis. It is required to demonstrate to the PRA that it can withstand liquidity and capital stresses without parental support.

The Company carries out a full annual review of the adequacy of its capital to support its current and future activities, including during periods of stress, using the standardised approach for credit risk. The review is documented in the Internal Capital Adequacy Assessment Process document, which is approved by the board of directors and submitted to the PRA. The

PRA reviews the Internal Capital Adequacy Assessment Process document and issues Individual Capital Guidance (ICG) setting out the minimum capital requirements for the Company.

The Company manages its capital so as to ensure that it will have adequate capital resources to support its plans and to meet the regulatory requirements as set out in the ICG, including during periods of stress. For this purpose it maintains its own buffer in excess of the regulatory requirements. The preparation of annual plans, budgets and forecasts includes a projection of the capital position and capital requirements to ensure that capital resources will continue to be adequate.

Composition of regulatory capital and ratios

	2014	*2013*
	£000	*£000*
Core Tier 1		
Shareholders' equity	**66,216**	59,583
Core Tier 1 deduction: Intangible assets	**(683)**	(510)
	65,533	59,073
Qualifying Tier 2 capital		
Undated subordinated loan	**30,000**	30,000
Collective provisions	**2,889**	3,500
	98,422	92,573
Deductions from the totals of Tier 1 and Tier 2		
Investment in subsidiary	**(400)**	(400)
Total regulatory capital	**98,022**	92,173
Tier 1 ratio %	**16.9%**	15.7%
Total capital ratio %	**25.4%**	24.6%
Leverage ratio	**6.1%**	5.5%

The Parent, Bank of Cyprus Public Company Limited, is supervised by the Central Bank of Cyprus on a consolidated basis.

The risk weighted assets by category are as follows:

31 December 2014	***Balances***	***Risk weighted assets***	***Capital requirement***
	£000	***£000***	***£000***
Central governments and central banks	**367,398**	**-**	**-**
Institutions	**58,528**	**11,706**	**936**
Related entities	**-**	**-**	**-**
Corporate	**123,105**	**112,685**	**9,015**
Retail exposures:			
Exposures to small and medium size enterprises	**66,872**	**50,154**	**4,012**
Retail exposures secured by residential real estate collateral	**318,970**	**104,442**	**8,355**
Other retail exposures	**15,976**	**11,982**	**959**
Exposures secured on residential real estate	**77,463**	**27,112**	**2,169**
Past due exposures	**18,479**	**22,552**	**1,804**
Other assets	**14,903**	**14,903**	**1,192**
	1,061,694	**355,536**	**28,442**
Off balance sheet exposures	**13,621**	**171**	**14**
Credit risk totals	**1,075,315**	**355,707**	**28,456**
Operational risk capital requirement			**2,395**
Total minimum capital requirement			**30,851**

Operational risk business lines and capital requirements for 2014 are as follows:

	Average income	***Capital requirement***
	£000	***£000***
Commercial banking	**2,969**	**445**
Retail banking	**15,209**	**1,825**
Payment and settlement	**693**	**125**
Total average income and capital requirement	**18,871**	**2,395**

31 December 2013	*Balances*	*Risk weighted assets*	*Capital requirement*
	£000	*£000*	*£000*
Central governments and central banks	468,784	-	-
Institutions	47,519	9,504	760
Related entities	2	3	-
Corporate	113,716	104,305	8,344
Retail exposures:			
Exposures to small and medium size enterprises	64,633	48,475	3,878
Retail exposures secured by residential real estate collateral	245,273	79,970	6,398
Other retail exposures	17,030	12,772	1,022
Exposures secured on residential real estate	78,028	27,310	2,185
Past due exposures	36,177	41,711	3,337
Other assets	13,614	13,614	1,095
	1,084,776	337,664	27,019
Off balance sheet exposures	13,149	240	15
Credit risk totals	1,097,925	337,904	27,034
Operational risk capital requirement			2,899
Total minimum capital requirement			29,933

Operational risk business lines and capital requirements for 2013 were as follows:

	Average income	*Capital requirement*
	£000	£000
Commercial banking	5,494	824
Retail banking	16,167	1,940
Payment and settlement	749	135
Total average income and capital requirement	22,410	2,899

29 Related party transactions

The Company is a wholly-owned subsidiary of Bank of Cyprus Public Company Limited, which is incorporated in Cyprus. The Parent is the immediate and ultimate parent and the controlling party. The smallest and largest group into which the results of the Company are consolidated is the Parent's group, whose annual report is available at www.bankofcyprus.com.

The Company has one wholly-owned subsidiary company, BOCFS, which advises on and sells life assurance and other protection products.

During 2014, the following transactions entered into with the Parent by the Company remained in force:

- An unsecured subordinated loan agreement dated 20 June 2012 for £30m. The interest rate under this agreement is set at 7% above the sterling 3 month London Interbank Offered Rate, and interest is payable annually. At 31 December 2014 the outstanding balance was £30m and there was accrued interest of £62,000 (2013: £56,000). The loan has no maturity date, and is repayable at the option of the Company at any time after 22 June 2017.

- A deposit agreement dated 4 July 2012 under which either party may deposit an amount with the other party up to a maximum of £45m. The total deposits of each party are to equal the total deposits of the other party within a tolerance of 2%. The deposits of the Parent with the Company are subject to a withdrawal notice of 100 days. At 31 December 2014 the Company's deposits with the Parent totalled £9,499,000 (2013: £9,868,000) and there was accrued interest on them of £51,000 (2013: £43,000). The Parent's deposits with the Company at the same date totalled £9,537,000 (2013: £9,879,000) and there was accrued interest of £28,000 (2013: £30,000). Under the deposit agreement there is a right of set-off for each party in case of default or insolvency by the other party.

- Nostro accounts held by the Company with the Parent with a total credit balance of £5,000 at 31 December 2014 (£5,000 at 31 December 2013).

- Vostro accounts held by the Parent with the Company with a total credit balance of £2,037,000 at 31 December 2014 (£2,062,000 at 31 December 2013).

During 2014, the Company levied a management charge of £62,000 (2013: £110,000) on its subsidiary, BOCFS, for the provision of staff and other support services. At 31 December 2014 there was an interest-free debt of £400,000 to BOCFS (2013: £400,000).

During 2014, the following transactions entered into with fellow subsidiaries of the Parent remained in force:

- Vostro accounts held by Bank of Cyprus Channel Islands Limited, a wholly owned subsidiary of the Parent, with a total balance of £11,096 at 31 December 2014 (2013: £11,000).
- Vostro accounts held by Tefkros Investments (CI) Limited, a wholly owned subsidiary of the Parent, with a total balance of £1,110,020 at 31 December 2014 (2013: £1,188,000).

Placements with and by related entities were as follows:

	2014	*2013*
	£000	*£000*
Placements with related entities	**-**	-
Balance under deposit agreement of 4 July 2012 including accrued interest	**9,550**	9,911
Credit balances on nostro accounts	**5**	5
	9,555	9,916

Placements by related entities		
Balance under deposit agreement of 4 July 2012 including accrued interest	**9,565**	9,909
Credit balances on vostro accounts held by Parent	**2,037**	2,062
Credit balance on vostro account held by Bank of Cyprus Channel Islands Limited	**11**	11
Credit balance on vostro account held by Tefkros Investments (CI) Limited	**1,110**	1,188
Balance owed to BOCFS	**400**	400
	13,123	13,570

The Company made contributions to an employee savings plan during the year ended 31 December 2014 totalling £267,000 (2013: £224,000). The contributions are held as a deposit in the Company.

The total personnel compensation of key management personnel paid by or on behalf of the Company was as set out below. Key management personnel are defined as persons who are or have been members of the board or the Management Committee of the Company during 2014.

	2014	*2013*
	£000	*£000*
Directors' emoluments	**645**	595
Short-term employee benefits of key management personnel	**300**	301

The total remuneration of the highest paid director was £236,000 (2013: £239,000). The amount of pension contributions paid by the Company to the pension scheme on behalf of the highest paid director was £53,000 (2013: £33,000).

Directors, key management personnel and their connected persons as of 31 December 2014 have the following balances with the Company in the normal course of business.

	Number of key management personnel	***Amounts £000***
Secured loans, unsecured loans and overdrafts		
1 January 2014	**4**	**12**
Net movements in the year	**-**	**-**
31 December 2014	**4**	**12**

Deposit accounts and current account credit balances		
1 January 2014	**7**	**776**
Net movements in the year	**-**	**(42)**
31 December 2014	**7**	**734**

0345 850 5555*
www.bankofcyprus.co.uk

Bank of Cyprus UK Limited
Registered office 27-31 Charlotte Street, London W1T 1RP

*Calls may be recorded for monitoring and training

Cover page artwork provided by Ashmole Academy, North London