Annual Report and Accounts

For The Year Ended 31 December 2013

Isle of Man Bank | Community Banking

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Isle of Man Bank Limited

Company Information

REGISTERED OFFICE

2 Athol Street

Douglas

Isle of Man

IM99 1AN

Telephone: 01624 637000

DIRECTORS

Stephen John CAMM

Lynn Ann CLEARY (appointed 12 September 2013)

Emer Anne DILLEEN (resigned 12 September 2013)

Adrian John GILL

Paul David MORRIS

William Catto SHIMMINS

Paul Thomas SMITH

SECRETARY

Kenneth Ian MADDRELL

AUDITOR

Deloitte LLP
Douglas
Isle of Man

IOMB REPORT OF THE DIRECTORS

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited financial statements for Isle of Man Bank Limited (the "Company") for the year ended 31 December 2013.

ACTIVITIES

The Company provides an extensive range of banking and other financial services.

PLACE OF INCORPORATION

The Company is incorporated in the Isle of Man.

ASSETS

In the opinion of the Directors and from their knowledge of the Company's affairs, the assets shown in the Company's Balance Sheet were realisable in the ordinary course of business at amounts not less than the totals shown, after making allowance for all appropriate costs, including the cost of realisation and financing.

RESULTS AND BUSINESS REVIEW

The profit before taxation for the year amounted to £19,381,000 (2012: £17,823,000).

The Company's principal business activities are banking services including the taking of deposits and lending in the Isle of Man. Deposits not used to provide third party lending are placed with fellow subsidiaries of The Royal Bank of Scotland Group plc. The financial position of these entities and hence ultimate recoverability of these placements is a key exposure to the Company.

During 2008 and 2009 The Royal Bank of Scotland Group plc, the ultimate parent of the Company received support from the UK Government through HM Treasury which subscribed for shares that provided it with control of The Royal Bank of Scotland Group plc. UK Financial Investments Limited is managing the UK Government's shareholding and is the majority shareholder of The Royal Bank of Scotland Group plc.

The prevailing market and economic conditions pose risks for the Company. These include the level of defaults from customers on outstanding advances as well as the degree of uncertainty in the valuation of other financial assets and liabilities. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Directors are satisfied with the financial position of the Company and believe that they are appropriately placed to manage its business risks successfully. After making enquiries, the Directors believe there are adequate resources for the Company to continue in operational existence for the foreseeable future and that there are sufficient funds to support the current and planned activities and accordingly they continue to adopt the going concern basis in preparing the financial statements.

The purpose of this report is to provide information to the members of the Company and it is addressed to them as such. Forward looking statements by their nature involve inherent risks and uncertainties since future events, circumstances and other factors can cause results and developments to differ materially from the plans, objectives, expectations and intentions expressed in such statements.

DIVIDENDS

The Directors declared and paid a dividend for the year ended 31 December 2013 of £20,000,000 (2012: £12,000,000).

DIRECTORS AND SECRETARY

The current Directors and Secretary of the Company are shown on page 3. All were in position during the year and since the year end, except as noted below.

Changes made during 2013 are shown below:

Lynn Ann CLEARY (appointed 12 September 2013)

Emer Anne DILLEEN (resigned 12 September 2013)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Isle of Man 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) as issued by the International Accounting Standards Board. The financial statements are required by law to 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 statement the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

IOMB REPORT OF THE DIRECTORS

- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper 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 1931 to 2004. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

AUDITOR

In accordance with Section 12(2) of the Isle of Man Companies Act 1982, the auditors, Deloitte LLP, offer themselves for reappointment at the forthcoming Annual General Meeting.

RISK MANAGEMENT & DERIVATIVES

The Board has delegated its authority for day to day risk management to the executive management sitting on committees as detailed in note 16. The Board approves any changes in interbank lending lines and in limits governing currency and interest rate exposures. The Board policy is not to enter into derivative transactions for trading purposes, but to undertake such contracts to hedge or reduce the volatility in interest income and foreign exchange. The Company's actual derivative transactions are outlined in note 11 to these financial statements. Further details of the Company's risk management policies are highlighted in note 16.

STAFF

The Directors wish to thank all the management and staff for the contribution made by them towards achieving these results.

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

Adrian John Gill
Director

Lynn Ann Cleary
Director

21 February 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ISLE OF MAN BANK LIMITED

We have audited the financial statements of Isle of Man Bank Limited for the year ended 31 December 2013 which comprise the Income Statement; the Statement of Comprehensive Income; the Balance Sheet; the Statement of Changes in Equity; the Statement of Cash Flows and related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. 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 auditors

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

Scope of the audit of the financial statements

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

Opinion on the 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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and:
- have been properly prepared in accordance with the Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept by the Company and that proper 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 books of account and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief, are necessary for the purpose of our audit; or
- certain disclosures of Directors' loans and remuneration specified by law have not been complied with.

Deloitte LLP

Chartered Accountants

Douglas, Isle of Man, 28 February 2014

IOMB Income Statement

Income Statement for the year ended 31 December 2013

Continuing Operations	Notes	2013 £'000s	2012 £'000s
Interest receivable		**34,986**	38,026
Interest payable		**(10,130)**	(13,108)
Net interest income		**24,856**	24,918
Fees and commissions receivable		**9,570**	7,721
Other operating income		**470**	632
Non-interest income		**10,040**	8,353
Total income		**34,896**	33,271
Staff costs	3	**(5,248)**	(5,080)
Other administrative costs	3	**(10,095)**	(9,552)
Depreciation	3	**(80)**	(276)
Operating expenses		**(15,423)**	(14,908)
Operating profit before impairment losses		**19,473**	18,363
Impairment losses	9	**(92)**	(540)
Profit before tax		**19,381**	17,823
Tax	6	**(1,779)**	(1,403)
Profit for the year		**17,602**	16,420

The notes on pages 11 to 47 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2013

	Notes	2013 £'000s	2012 £'000s
Profit for the year		**17,602**	16,420
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains / (losses) on defined benefit pension schemes	4	**5,492**	(703)
Deferred taxation on actuarial gains / (losses) on defined benefit pension schemes	4	**(547)**	(217)
Total comprehensive income for the year		**22,547**	15,500

The notes on pages 11 to 47 form an integral part of these financial statements.

IOMB Balance Sheet

Balance Sheet as at 31 December 2013

Assets	Notes	2013 £'000s	2012 £'000s
Cash and balances at central banks		**16,192**	16,739
Non current asset held for sale	24	**-**	297
Equity-linked securities designated as fair value through profit or loss	8	**2,167**	21,777
Loans and advances to banks	8	**722,959**	740,243
Loans and advances to customers		**738,506**	714,844
Derivatives at fair value	11	**7,013**	10,585
Other assets, prepayments and accrued income		**175**	665
Shares in subsidiary undertaking	23	**-**	-
Property, plant and equipment	10	**3,739**	3,819
Retirement benefit assets	4	**11,782**	6,740
Total assets		**1,502,533**	1,515,709

Liabilities	Notes	2013 £'000s	2012 £'000s
Deposits by banks	12	**43,315**	57,524
Equity-linked securities designated as fair value through profit or loss	13	**2,167**	21,777
Customer accounts	13	**1,316,188**	1,288,861
Derivatives at fair value	11	**7,773**	14,679
Other liabilities, accruals and deferred income		**10,061**	9,780
Current taxation liabilities		**1,477**	1,399
Deferred taxation liabilities	14	**1,180**	321
Retirement benefit liabilities	4	**-**	3,543
Total liabilities		**1,382,161**	1,397,884

Equity	Notes	2013 £'000s	2012 £'000s
Shareholder's equity:			
Called up share capital	22	**7,501**	7,501
Reserves		**112,871**	110,324
Total equity		**120,372**	117,825
Total liabilities and equity		**1,502,533**	1,515,709

The accounts were approved by the Board of Directors on 21 February 2014 and signed on its behalf by

Adrian John Gill
Director

Lynn Ann Cleary
Director

The notes on pages 11 to 47 form an integral part of these financial statements.

IOMB Statement of Changes in Equity

Statement of Changes in Equity for the year ended 31 December 2013

2013	**Share capital** £'000	**Retained earnings** £'000	**Total equity** £'000
Balance at 1 January 2013	**7,501**	**110,324**	**117,825**
Amounts recognised in income statement:			
Profit for the year	**-**	**17,602**	**17,602**
Amounts recognised in the statement of comprehensive income:			
Actuarial gains recognised in defined benefit schemes	**-**	**5,492**	**5,492**
Deferred taxation on actuarial gains recognised in defined benefit schemes	**-**	**(547)**	**(547)**
Payment of ordinary dividends	**-**	**(20,000)**	**(20,000)**
Balance at 31 December 2013	**7,501**	**112,871**	**120,372**

2012	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	7,501	106,824	114,325
Amounts recognised in income statement:			
Profit for the year	-	16,420	16,420
Amounts recognised in the statement of comprehensive income:			
Actuarial losses recognised in defined benefit schemes	-	(703)	(703)
Deferred taxation on actuarial losses recognised in defined benefit schemes	-	(217)	(217)
Payment of ordinary dividends	-	(12,000)	(12,000)
Balance at 31 December 2012	7,501	110,324	117,825

The notes on pages 11 to 47 form an integral part of these financial statements.

IOMB Statement of Cash Flows

Statement of Cash Flows for the year ended 31 December 2013

	Notes	2013 £'000s	2012 £'000s
Operating activities			
Company operating profit before tax		**19,381**	17,823
Adjustments for:			
Depreciation	3	**80**	276
Pension charge for defined benefit schemes	4	**489**	775
Cash contribution to defined benefit pension schemes	4	**(3,588)**	(3,650)
Gain on sale of non-current asset		**(301)**	-
Impairment provisions		**92**	540
Other non-cash items		**706**	7,752
Changes in operating assets	20	**17,101**	34,539
Changes in operating liabilities	20	**(13,116)**	(44,232)
Income taxes paid		**(1,391)**	(1,046)
Cash flows from operating activities	20	**19,453**	12,777
Financing activities			
Dividends paid	7	**(20,000)**	(12,000)
Cash flows from financing activities		**(20,000)**	(12,000)
Net (decrease) / increase in cash and cash equivalents		**(547)**	777
Cash and cash equivalents 1 January	21	**16,739**	15,962
Cash and cash equivalents 31 December	21	**16,192**	16,739

The notes on pages 11 to 47 form an integral part of these financial statements.

IOMB Notes to the Accounts

Notes to the Accounts for the year ended 31 December 2013

1. Accounting policies

(a) Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) on the historical cost basis as modified by accounting for the following assets and liabilities at fair value: derivative financial instruments, financial assets that are designated at fair value through profit or loss and financial liabilities that are designated at fair value through profit or loss. Recognised financial assets and financial liabilities in fair value hedges are adjusted for changes in fair value in respect of the risk that is hedged.

Adoption of new and revised standards

The Company adopted a number of new and revised IFRSs effective 1 January 2013:

IAS 19 'Employee Benefits' (revised) requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended.

IAS 27 'Separate Financial Statements' comprises those parts of the existing IAS 27 that deal with separate financial statements. IAS 28 'Investments in Associates and Joint Ventures' covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

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 11 'Joint Arrangements', which supersedes IAS 31 'Interests in Joint Ventures', distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method. IFRS 11 requires retrospective application.

IFRS 12 'Disclosure of Interests in Other Entities' mandates the disclosures in annual financial statements in respect of investments in subsidiaries, joint arrangements, associates and structured entities that are not controlled by the Company.

IFRS 13 'Fair Value Measurement' sets out a single IFRS framework for defining and measuring fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosures about fair value measurements.

'Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)' amended IFRS 7 to require disclosures about the effects and potential effects on an entity's financial position of offsetting financial assets and financial liabilities and related arrangements.

Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those items that are subject to subsequent reclassification.

'Annual Improvements 2009-2011 Cycle' also made a number of minor changes to IFRSs.

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

1. **Accounting policies (continued)**

Standards and interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year ended 31 December 2013:

IAS 32	Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (effective 1 January 2014)
IFRS 9	Financial Instruments (effective 1 January 2015)

Amendments to IFRS10, IFRS 12 and IAS 27 (October 2012) – Investment Entities (effective for accounting periods starting on or after 1 January 2014).

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods, except for IFRS 9 which will impact both the measurement and disclosures of Financial Instruments.

(b) Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in the Business Review on page 4. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are set out in the financial statements. In addition, note 16 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

After making enquiries about the continued availability of funding from The Royal Bank of Scotland Group plc and its subsidiaries (together RBS Group), the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

(c) Basis of consolidation

Under the provisions of Section 4 of the Companies Act 1982 the Company has not prepared consolidated financial statements as in the Directors' opinion it would be of no real value to the members of the Company due to the insignificant amounts involved.

The Company itself is a wholly owned subsidiary and has taken advantage of the exemption available to it under IFRS 10 consolidated financial statements not to prepare consolidated financial statements.

(d) Revenue recognition

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

Commitment and utilisation fees are determined as a percentage of the facility. These fees are deferred and included in the effective interest rate on the advance. If it is unlikely that a specific lending arrangement will be entered into, such fees are recognised in the income statement over the life of the facility.

1. **Accounting policies (continued)**

Fees in respect of services are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. The application of this policy to significant fee types is outlined below.

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

(e) Pensions and other post-retirement benefits

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

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Re-measurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Re-measurement recorded in the statement of comprehensive income is not recycled. Past service cost is recognised in the income statement in the period of scheme amendment. Net-interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- current service cost, past-service cost and gains and losses on curtailments and settlements;
- net-interest expense or income; and
- re-measurement.

The retirement benefit obligation recognised in the balance sheet represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

Contributions to defined contribution pension schemes are recognised in the income statement when payable.

(f) Property, plant and equipment

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

Depreciation is charged to the Income Statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

Freehold buildings	50 years
Property adaptation costs	10 years
Computer equipment	up to 5 years
Other equipment	5 to 15 years

1. **Accounting policies (continued)**

(g) Impairment of property, plant and equipment

At each reporting date, the Company assesses whether there is any indication that property, plant and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of the asset and the impairment loss if any. If the recoverable amount of an asset is less than its carrying value, an impairment loss is recognised immediately in the Income Statement and the carrying value of the asset reduced by the amount of the loss.

A reversal of an impairment loss on property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

(h) Foreign currencies

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

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

(i) Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Finance lease receivables are stated in the Balance Sheet at the amount of the net investment in the lease, being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment. Unguaranteed residual values are subject to regular review to identify potential impairments. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately. Rentals payable under operating leases are charged to the Income Statement on a straight line basis over the term of the lease.

(j) Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes, except in relation to overseas earnings where remittance is controlled by the Company.

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

(k) Financial assets

Financial assets are classified into available for sale financial assets, loans and receivables or designated at fair value through profit and loss.

Loans and receivables – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables except those that are classified as held-to-maturity, held for trading or designated as fair value through the income statement. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses. Interest income is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest would be immaterial.

1. **Accounting policies (continued)**

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

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

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

Derecognition of financial assets – The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Impairment of financial assets

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

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables or as held-to-maturity investments has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually for financial assets that are individually significant. Future cash flows from these financial assets are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in the Income Statement and the carrying amount of the financial asset reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

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

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

For certain categories of financial assets, such as credit facilities, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of credit facilities could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

(m) Financial liabilities

Designated at fair value through profit or loss – financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value with transaction costs being recognised in the income statement and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated at fair value through profit or loss are recognised in the income statement as they arise.

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

All other financial liabilities are measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities – The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(n) Derivatives and hedge accounting

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

A derivative embedded in a contract is accounted for as a stand-alone derivative if its economic characteristics are not closely related to the economic characteristics of the host contract, unless the entire contract is carried at fair value through profit or loss.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the Income Statement unless the derivative is the hedging instrument in a qualifying hedge. The Company has entered into fair value hedge relationships which account for changes in the fair value of a recognised asset or liability or firm commitment.

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, details the risk that is being hedged and the way in which effectiveness will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued.

Fair value hedge – in a fair value hedge, the gain or loss on the hedging instrument is recognised in the Income Statement. The gain or loss on the hedged item attributable to the hedged risk is recognised in the Income Statement and adjusts the carrying amount of the hedged item. Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting or if the hedging instrument expires or is sold, terminated or exercised or if hedge designation is revoked. If the hedged item is one for which the effective interest rate method is used, any cumulative adjustment is amortised to the Income Statement over the life of the hedged item using a recalculated effective interest rate.

1. **Accounting policies (continued)**

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances at central banks.

(p) Netting

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, including master netting agreements, 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.

(q) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. **Critical accounting estimates and judgements**

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

Impairment provisions – loans and receivables

The Company provides for losses existing in its lending book so as to state its loan portfolio at its expected ultimate net realisable value.

Provisions against large exposures are established individually whilst those for smaller balances are established collectively.

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

All provisions are quantified on an effective interest rate basis so that the loan will yield a consistent return over its expected remaining life. The discounting required in the calculation of a provision is included in the initial charge; the discount unwinds through interest receivable in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Company has developed methodologies to estimate the time that an asset can remain impaired within the performing portfolio before it is identified and reported as such, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life. Evaluating estimates of provisions involves significant judgement, as receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions. Additionally, the security may not be readily marketable.

The future credit quality of the Company's lending book is subject to uncertainties that could cause actual credit losses to differ materially from reported loan loss provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends and changes in the Company's portfolios.

Pensions

The Company operates two defined benefit pension schemes, the Isle of Man Bank Pension Fund and the Isle of Man Bank Widows' and Orphans' Fund. The assets of the defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. Any surplus or deficit of scheme assets over liabilities is recognised in the Balance Sheet as an asset (surplus) or liability (deficit). An asset is only recognised to the extent that the surplus can be recovered through reduced contributions in the future or through refunds from the scheme.

In determining the value of scheme liabilities, assumptions are made as to price inflation, pension increases, earnings growth and employees. There is a range of assumptions that could be adopted in valuing the schemes' liabilities. Different assumptions could significantly alter the amount of the deficit recognised in the Balance Sheet and the pension cost charged to the Statement of Comprehensive Income. The assumptions underlying the 2013 deficit and pension cost are set out in note 4 to the financial statements.

In relation to the Royal Bank of Scotland International Pension Trust any contributions made are treated as defined contribution schemes in accordance with IAS19.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participation at the measurement date. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

Financial assets carried at fair value include advances to banks, asset backed and corporate debt obligations, corporate equity shares and derivatives. Financial liabilities carried at fair value include deposits and derivatives. Fair value for a substantial proportion of these instruments is based on observable market prices or derived from observable market parameters. Where observable prices are not available, fair value is based on appropriate valuation techniques or management estimates.

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

3. Operating expenses

	2013 £'000	2012 £'000
Operating activities		
Administrative expenses		
Staff costs		
Wages, salaries and other staff costs	**4,759**	4,305
Pension costs (see note 4)	**489**	775
	5,248	5,080
Other administrative expenses	**10,095**	9,552
Depreciation		
Property plant and equipment (see note 10)	**80**	276
Auditors' remuneration		
Amounts paid to the auditors for statutory audit and other services were as follows:		
Audit services		
– Statutory audit	**54**	62
– Regulatory audit	**25**	9
Total	**79**	71

The average number of persons employed by the Company during the year, excluding temporary staff, was 145 (2012: 147).

4. Pension costs

The Company operates a number of pension schemes, which are predominantly defined benefit schemes whose assets are independent of the Company's finances. It also contributes to defined contribution schemes. In 2007 the defined benefit schemes were closed to new entrants.

The total pension costs for the Company were as follows:

	2013 £'000	2012 £'000
Amount charged to income statement		
Defined contribution schemes	**44**	43
Expected return on pension scheme assets	**(4,219)**	(4,177)
Interest on pension scheme liabilities	**4,051**	4,238
Current service cost	**663**	716
Other defined benefit schemes	**(50)**	(45)
Net pension cost defined benefit schemes	**489**	775

Interim valuations of the Company's defined benefit schemes were prepared to 31 December 2013 by independent actuaries. The rate of increase in salaries (per annum) is capped at 2% and the following assumptions were used:

	2013 Company Schemes	2012 Company Schemes
Rate of increase in salaries (per annum)	**1.75%**	1.75%
Rate of increase in pensions in payment (per annum)	**2.30%**	2.80%
Discount rate (per annum)	**4.65%**	4.50%
Inflation assumption (per annum)	**3.30%**	2.90%

The assets and liabilities of the schemes were as follows:

	2013 Company Schemes £'000	% of plan Assets	2012 Company Schemes £'000	% of plan Assets
Equities	**33,499**	**34%**	32,019	34%
Index linked bonds	**5,185**	**5%**	5,097	5%
Government fixed interest bonds	**42,840**	**43%**	40,848	43%
Corporate and other bonds	**17,408**	**18%**	16,929	18%
Total market value of assets	**98,932**	**100%**	94,893	100%
Present value of scheme liabilities	**(87,150)**		(91,696)	
Net surplus in the schemes	**11,782**		3,197	
Deferred tax liability (note 14)	**(1,178)**		(320)	
Net pension surplus	**10,604**		2,877	

4. Pension costs (continued)

IAS 19 'Employee Benefits' (revised) requires the assumptions for long-term rates of return to be set equal to the discount rate for all asset classes. Included in the above net pension surplus are assets of £8,582,000 and £3,200,000 (2012: £6,740,000 and liability £3,543,000) relating to the surplus in the Isle of Man Widows and Orphans pension scheme (IOMWO) and the Isle of Man Pension Fund (IOMPF) respectively.

	2013 £'000	2012 £'000
Amount recognised in the Statement of Comprehensive Income		
Actual return less expected return on pension scheme assets	**(442)**	2,913
Experience gains arising on scheme liabilities	**7,337**	-
Changes in assumptions underlying the present value of scheme liabilities	**(1,403)**	(3,616)
Movement in deferred tax (note 14)	**(547)**	(217)
Actuarial gains / (losses) recognised on post-retirement benefit schemes	**4,945**	(920)

The cumulative amount of actuarial losses recognised in the consolidated statement of comprehensive income since the date of transition to IFRS is a gain of £2,523,000 (2012: loss £2,474,000).

For the IOMBPF and the IOMBWOF schemes, the mortality assumptions are based on standard mortality tables which allow for future mortality improvements. These assumptions estimate that life expectancies from age 60 for active members who are currently age 45 were 29.5 years for males and 32.2 years for females. The corresponding figures used for disclosures at 31 December 2012 were 28.6 years for males and 30.2 years for females based upon active members who were then age 45.

Movement in the present value of defined benefit obligations were as follows:

	2013 £'000	2012 £'000
At 1 January	**91,696**	85,703
Service cost	**663**	716
Experience gains	**(7,337)**	-
Interest cost	**4,051**	4,238
Benefits paid in plan or company assets	**(3,326)**	(2,577)
Actuarial losses	**1,403**	3,616
At 31 December	**87,150**	91,696

Movement in the fair value of scheme assets were as follows:

	2013 £'000	2012 £'000
At 1 January	**94,893**	86,730
Expected return on scheme assets	**4,219**	4,177
Actuarial (losses) / gains	**(442)**	2,913
Employer contribution	**3,588**	3,650
Benefits paid from plan or company assets	**(3,326)**	(2,577)
At 31 December	**98,932**	94,893

4. Pension costs (continued)

The valuation for the IOMPF and IOMWO schemes as at 31 December 2012 is expected to be finalised by the end of the first quarter of 2014; the previous valuation was as at 31 December 2009.

Contributions for 2013 include lump sum amounts totalling £3,065,000 (IOMPF) paid into the Group funds in addition to the monthly contributions (2012: £3,065,000 IOMPF).

The estimated employer contribution in respect of defined benefit schemes to be made in 2014 is £3,572,000.

History of experience adjustments:

	2013 Company Schemes £'000	2012 Company Schemes £'000	2011 Company Schemes £'000	2010 Company Schemes £'000	2009 Company Schemes £'000
Total market value of assets	**98,932**	94,893	86,730	76,641	68,401
Present value of scheme liabilities	**(87,150)**	(91,696)	(85,703)	(75,819)	(77,926)
Net Pension surplus/(deficit)	**11,782**	3,197	1,027	822	(9,525)
Difference between expected and actual return on scheme assets:					
Amount	**(442)**	2,913	5,757	2,904	2,106
Percentage of scheme assets	**0%**	3%	7%	4%	3%
Experience gains and losses on scheme liabilities:					
Amount	**7,337**	-	-	(3,359)	-
Percentage of the present value of scheme liabilities:	**8%**	0%	0%	4%	0%

The below sets out the sensitivities of the pension cost for the year and the present value of defined benefit obligations at the balance sheet date to a change in the principal actuarial assumptions:

	Increase/(decrease) in pension cost for the year		Increase/(decrease) in obligation at 31 December	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
0.25% increase in discount rate	**(270)**	261	**(4,186)**	4,975
0.25% increase in inflation	**185**	(180)	**3,963**	(3,394)
0.25% additional rate of increase in pensions payment	**153**	(144)	**2,979**	(2,601)
0.25% additional rate of increase in deferred pensions	**38**	(42)	**951**	(818)
0.25% additional rate of increase in salaries	**58**	(61)	**547**	(748)

The Company also participates in The Royal Bank of Scotland International Pension Trust (RBSIPT). This is a defined benefit scheme whose assets are independent of the Company's finances. The pension costs of this scheme are assessed across its membership as a whole, and it is not possible to determine the share of the scheme's assets and liabilities that relates to the Company. Accordingly, the requirements of IAS 19 "Employee Benefits" relating to multi-employer schemes apply and the Company accounts for its contributions to the schemes as if they were defined contribution schemes.

5. Operating profit before tax

Operating profit before tax is stated after taking account of the following:

	2013 £'000	2012 £'000
Net profit on financial assets/financial liabilities at fair value through profit or loss		
Net gains on financial assets	**6,803**	1,915
Net losses on financial liabilities	**(6,803)**	(1,915)
Net profit	**-**	-

Related party transactions

Income:		
Interest income from RBS Group plc	**11,166**	13,327
Interest paid to RBS Group plc	**1,768**	1,857
Expenses:		
Group Management recharge from RBS International Ltd	**7,985**	8,512
Remuneration paid to key management personnel:		
Short-term employee benefits -		
Salary and other benefits	**2,140**	2,256
Long-term employee benefits -		
Pension contributions	**248**	290
Accrued pension benefits attributable to key management personnel as at 31 December	**8,044**	6,415
Deposits from key management personnel	**2,027**	1,596
Loans to key management personnel	**1,996**	1,968
Interest paid to key management personnel	**16**	19
Interest received from key management personnel	**46**	37

Key management have banking relationships with Group entities which are entered into in the normal course of business.

IOMB Notes to the Accounts

6. Tax on operating profit

	2013 £'000	2012 £'000
Current taxation:		
Income tax charge for the year	**1,477**	1,399
(Over) / under provision in respect of prior periods	**(8)**	13
Current tax charge for the year	**1,469**	1,412
Deferred taxation:		
Charge / (credit) for the year	**310**	(9)
Tax charge for the year	**1,779**	1,403

The actual tax charge differs from the expected tax charge computed by applying the standard rate of income tax of 10% (2012: 10%) as follows:

	2013 £'000	2012 £'000
Operating profit before tax	**19,381**	17,823
Expected tax charge at standard rate of 10%	**1,938**	1,782
Profits Taxed at 0%	**(128)**	(123)
Other	**(31)**	(256)
Actual tax charge	**1,779**	1,403

7. Ordinary dividends

	2013 £'000	2012 £'000
Interim	**20,000**	12,000
Final	**-**	-
Total dividends on ordinary equity shares	**20,000**	12,000

8. Loans and advances to banks

	2013 £'000	2012 £'000
Equity-linked securities designated as at fair value through profit or loss	**2,167**	21,777
Loans and receivables	**722,959**	740,243
	725,126	762,020
Amounts above include:		
Amounts due from RBS Group	**706,304**	739,484
Amounts due from RBS International Limited entities	**15,905**	21,144

Designated as at fair value through profit or loss:
Certain equity-linked products totalling £2,167,000 (2012: £21,776,911) before fair value adjustments have been designated as fair value through profit or loss. The carrying value of those financial assets, which is net of impairment adjustments, represents the Company's maximum exposure to loss on those assets.

9. Impaired financial assets

	2013 £'000	2012 £'000
Loans and advances to customers classified under loans and receivables		
Cost	**2,139**	2,227
Provision as at 31 December	**(696)**	(757)
Net book value at 31 December	**1,443**	1,470

A management review indicates that the amount of financial assets past due as to principal or interest payments, but not impaired was not significant as at 31 December 2013 and 2012. The fair value of security held against these loans and advances to customers amounted to £1,443,000 (2012: £2,607,000).

Impairment losses charged to income statement

	2013 £'000	2012 £'000
Loans and receivables		
Loans and advances (see table below)	**92**	540
Total	**92**	540

9. Impaired financial assets (continued)

Impairment provisions for financial instruments classified as loans and receivables.

	Latent £'000	Specific £'000	Total £'000
At 1 January 2013	**212**	**757**	**968**
Charge for the year	**1**	**91**	**92**
Amounts written off	**-**	**(239)**	**(239)**
Recoveries of amounts previously written off	**-**	**90**	**91**
Unwind of discount	**-**	**(3)**	**(3)**
At 31 December 2013	**213**	**696**	**909**
At 1 January 2012	268	351	619
(Credit) / charge for the year	(56)	596	540
Amounts written off	-	(259)	(259)
Recoveries of amounts previously written off	-	69	68
At 31 December 2012	212	757	968

10. Property, plant and equipment

2013	Freehold premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2013	**6,389**	**179**	**6,568**
Additions	**-**	**-**	**-**
At 31 December 2013	**6,389**	**179**	**6,568**
Accumulated depreciation:			
At 1 January 2013	**2,601**	**148**	**2,749**
Depreciation charge for the year	**65**	**15**	**80**
At 31 December 2013	**2,666**	**163**	**2,829**
Net book value at 31 December 2013	**3,723**	**16**	**3,739**

10. Property, plant and equipment (continued)

2012	Freehold premises £'000	Computers and other equipment £'000	Total £'000
Cost:			
At 1 January 2012	10,413	404	10,817
Fully depreciated assets	(3,969)	(226)	(4,195)
Transfer to assets held for sale	(55)	-	(55)
Additions	-	1	1
At 31 December 2012	6,389	179	6,568
Accumulated depreciation:			
At 1 January 2012	6,322	356	6,678
Fully depreciated assets	(3,969)	(226)	(4,195)
Transfer to assets held for sale	(10)	-	(10)
Depreciation charge for the year	258	18	276
At 31 December 2012	2,601	148	2,749
Net book value at 31 December 2012	3,788	31	3,819

11. Derivatives at fair value

The Company enters into various derivatives to manage year end foreign exchange and interest rate risks. Derivatives include swaps, forwards and options. They may be traded over-the-counter (OTC).

Swaps include currency swaps, interest rate swaps, and equity and index swaps. A swap is an agreement to exchange cash flows in the future in accordance with a pre-arranged formula. Interest rate swap contracts generally involve exchange of fixed and floating interest payment obligations without the exchange of the underlying principal amounts.

Forwards include forward foreign exchange contracts and forward rate agreements. A forward contract is a contract to buy (or sell) a specified amount of a physical or financial commodity, at an agreed price, on an agreed future date. Forward foreign exchange contracts are contracts for the delayed delivery of currency on a specified future date. Forward rate agreements are contracts under which two counterparties agree on the interest to be paid on a notional deposit of a specified maturity at a specific future date; there is no exchange of principal.

Options include OTC currency and options, interest rate caps and floors and swap options. They are contracts that give the holder the right but not the obligation to buy (or sell) a specified amount of the underlying physical or financial commodity at an agreed price on an agreed date or over an agreed period.

The Company enters into fair value hedges and hedges of net investments in foreign operations. Fair value hedges principally involve interest rate swaps hedging the interest rate risk in recognised financial assets and financial liabilities. The Company hedges its net investment in foreign operations with currency borrowings.

Included in the table are derivatives entered into in the normal course of business with customers and Group companies.

2013	Notional £'000	Fair value Assets £'000	Fair value Liabilities £'000
Exchange rate contracts:			
Spot & forwards – RBS Group entities	38,371	29	-
Spot & forwards – Third party	962	59	-
Interest rate swaps:			
RBS Group entities	121,231	6,925	7,773
Total	160,564	7,013	7,773
Included in the above are fair value hedging derivatives as follows:			
Interest rate swaps	43,426	-	6,711

2012	Notional £'000	Fair value Assets £'000	Fair value Liabilities £'000
Exchange rate contracts:			
Spot & forwards – RBS Group entities	66,619	19	64
Spot & forwards – Third party	1,978	40	-
Interest rate swaps:			
RBS Group entities	56,028	10,526	14,615
Total	124,625	10,585	14,679
Included in the above are fair value hedging derivatives as follows:			
Interest rate swaps	48,985	-	9,715

Included within the interest rate swaps above is a fair value hedge. Gains and losses that have been recorded in the Income Statement relating to this swap and the hedged item are as follows:

	2013 £'000	2012 £'000
Gain / (loss) recognised on the interest rate swap used as a hedge	**3,517**	(195)
Losses recognised on the item being hedged	**(3,093)**	(2,179)

12. Deposits by banks

	2013 £'000	2012 £'000
Amortised cost	**43,315**	57,524
Amounts above include:		
Deposits taken from RBS Group plc	**42,961**	56,120

13. Customer accounts

	2013 £'000	2012 £'000
Equity-linked securities designated as at fair value through profit or loss	2,167	21,777
Amortised cost	1,316,188	1,288,861
	1,318,355	1,310,638

Designated at fair value through profit or loss:

Certain equity-linked products totalling £2,167,000 (2012: £21,777,000) before fair value adjustments have been designated as fair value through profit or loss.

14. Deferred taxation

The deferred tax liability arises as follows:

	Pension £'000	Accelerated capital allowances £'000	Provisions £'000	Total £'000
At 1 January 2013	**320**	**1**	**-**	**321**
Charge to income statement	**311**	**1**	**-**	**312**
Charge to statement of comprehensive income	**547**	**-**	**-**	**547**
At 31 December 2013	**1,178**	**2**	**-**	**1,180**
At 1 January 2012	103	10	-	113
Credit to income statement	-	(9)	-	(9)
Charge to the statement of comprehensive income	217	-	-	217
At 31 December 2012	320	1	-	321

Total deferred taxation as at 31 December 2013 is analysed as follows:

Deferred taxation assets	-
Deferred taxation liabilities	**1,180**
Net deferred taxation liability	**1,180**

15. Leases

Minimum amounts receivable and payable under non-cancellable leases

2013	Year in which receipt or payment will occur Within 1 £'000	After 1 year but within 5 Years £'000	After 5 Years £'000	Total £'000
(i) Finance lease assets:				
Amounts receivable	3,404	13,614	34,035	51,053
Present value adjustment	(179)	(2,318)	(16,438)	(18,935)
Present value amounts receivable	3,225	11,296	17,597	32,118
(ii) Operating lease obligations:				
Amounts payable				
Premises	1,712	5,156	8,132	15,000

2012	Year in which receipt or payment will occur Within 1 £'000	After 1 year but within 5 Years £'000	After 5 Years £'000	Total £'000
(i) Finance lease assets:				
Amounts receivable	3,407	13,628	40,886	57,878
Present value adjustment	(178)	(2,318)	(18,480)	(20,933)
Present value amounts receivable	3,229	11,310	22,406	36,945
(ii) Operating lease obligations:				
Amounts payable				
Premises	173	692	3,460	4,325

	2013 £'000	2012 £'000
Amounts recognised as income and expense		
Operating lease payable – minimum payments	-	173

Residual value exposures

There are no unguaranteed residual values included in the carrying value of finance lease receivables.

16. Financial instruments – risk procedures

Risk management

Risk appetite is an expression of the maximum level of risk that we are prepared to accept to deliver our business objectives. Risk and balance sheet management across The Royal Bank of Scotland International (Holdings) Limited (the parent Company) and its subsidiaries (together "the Group") is based on the Risk Appetite approved by the Board of Directors, who ultimately will agree this for each division and regularly reviews the Group's performance in relation to risk.

Risk appetite is defined in both quantitative and qualitative terms, which serve as a way of setting appetite and managing risk performance as we implement an agreed strategy.

Quantitative: encompassing capital, funding and liquidity, credit, country, market, operational, regulatory and business risks underpinned by stress testing.

Qualitative: ensuring that the Company applies the correct principles, policies and procedures, manages reputational risk with sound controls and a strong risk culture.

As discussed in the Directors' Report, the authority for day to day risk management has been delegated to the Asset and Liability Committee ("ALCO"), the Executive Committee Offshore ("ECO"), the Offshore Audit Committee ("OAC"), the Offshore Risk Management Committee ("ORMC") and the Offshore Board Credit Committee ("OBCC").

Capital risk

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Company has capital adequacy requirements imposed by the Isle of Man Financial Supervision Commission. The Company is required to report a risk asset ratio to the regulator on a periodic basis. The ratio is calculated as being the percentage of capital to assets, based on the regulator's definitions of capital and assets. This risk asset ratio is required at all times to be above a benchmark % provided by the regulator. The Company has been in compliance with capital adequacy requirements in respect of the years ended 31 December 2013 and 2012.

ALCO reviews the capital structure of the Company on a quarterly basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital, along with considering compliance with regulatory requirements. Based on recommendations of the committee, the Company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The ORMC is notified of any breaches of regulatory requirements.

The Company's overall strategy remains unchanged from 2012.

Liquidity risk

The risk that the Company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost. The Company performs daily liquidity monitoring to ensure compliance with limits set by the regulators in the jurisdiction within which it operates. Quarterly reports are made to ALCO and the Board covering sterling and currency liquidity.

The maturity analysis of the Company's financial liabilities is disclosed in the table on page 37, 'Maturity Analysis of Financial Liabilities'.

The ultimate parent company, The Royal Bank of Scotland Group plc, is required by the Financial Conduct Authority to meet its sterling obligations without recourse to the wholesale money market for a period of at least five business days. RBS Group manages its capital and liquidity, including drawing on support provided by the UK government and central banks in response to market conditions, in a responsible manner that continues to provide sufficient capital resources and liquidity for the Group to meet its obligations as they fall due.

The Company maintains daily liquidity reporting of positions to RBS Group.

Credit risk (including Counterparty Risk)

The risk that the Group will incur losses owing to the failure of customers to meet their financial obligations to the Group. The most important step in managing this risk is the initial decision whether or not to extend credit. The Group's strong credit culture extends to the management of resultant exposures via individual counterparty and concentration limits and the monitoring of counterparty credit worthiness as described below.

The Group has exposure to RBS Group entities by making placements and advances to those counterparties. The Board of Directors reviews the placement of deposits to RBS Group. RBS Group is majority owned by the UK Government and draws on support provided by central banks where required in order to meet its commitments including those to the Group.

The day-to-day management of credit risk is devolved to a specialist credit function, which performs regular appraisals of counterparty credit quality through the analysis of qualitative and quantitative information. Credit authority is based on defined limits with responsibility for significant transactions residing with the OBCC.

If the Company requires collateral, this may be cash, or more commonly, security over a customer's assets.

Under IAS39 provisions are assessed by the Company under the following two categories:

Individually assessed provisions - are the provisions required for individually significant impaired assets which are assessed on a case by case basis, taking into account the financial condition of the counterparty and any guarantor. This incorporates an estimate of the discounted value of any recoveries and realisation of security or collateral. The asset continues to be assessed on an individual basis until it is repaid in full or written off.

Latent loss provisions - are the provisions held against the estimated impairment in the performing portfolio, which has yet to be identified and reported as at the balance sheet date. To assess the latent loss within the portfolio, the Company has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such.

A management review has shown that the majority of the Company's lending book is covered in excess of 100% of the carrying value by the fair value of security. The fair values of security are based on the most recent open market valuation of each item of security and an ongoing review process is in place to ensure that all security remains valid. Unsecured Personal Lending totalled £14,329,000 as at 31 December 2013 (2012: £17,751,692) – all unsecured lending is made subsequent to checking customer credit ratings and banking histories.

Impaired financial assets relating to credit risk are analysed in note 9. The maximum exposure to credit risk is shown in note 8. There are no other net significant exposures to credit risk.

Operational risk

Operational risk arises from the potential of inadequate systems, errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. The Company's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

Market risk

Market risk is the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of financial contracts including derivatives will have an adverse impact.

The Company's management of its exposure to market risk recognises a fundamental distinction between the core (retail) lending and deposits and the Company's foreign exchange and money market (wholesale) activities. Refer to the Value-at-Risk section below for discussion of the management of market risk.

16. Financial instruments – risk procedures (continued)

Market Risk includes -

Interest rate risk

Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of the yield curves and changes in the correlation of interest rates between different financial instruments. In addition to interest rate risk positions managed within controlled risk limits by our Treasury unit, structural interest rate risk arises in the Balance Sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities. Exposure to interest rate movements arises when there is a mis-match between interest rate sensitive assets and liabilities. The Company closely monitors interest rate movements, the interest rate and re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities. In order to reduce the effect of fluctuating interest rates on net interest income, the composition of non-trading interest rate risk is assessed and funding positions or other derivative transactions are hedged with RBS Group.

Currency risk

All transactional currency exposure risk is managed by the Treasury unit and there remains a small immaterial open position which is measured on a daily basis within set limits. The principal non-sterling currencies in which the Group has transactional currency exposure are US Dollar and the Euro. These are reported in the table on page 39, ‘balance sheet by currency’. The Value-at-Risk is shown on page 38.

17. Financial instruments

Maturity Analysis of Financial Assets:

2013 Remaining maturity	Sight – 8 days £'000	8 days – 1 month £'000	1-3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Assets								
Cash and balances at central banks	**16,192**	**-**	**-**	**-**	**-**	**-**	**-**	**16,192**
Loans and advances to banks	**29,379**	**308,834**	**69,769**	**80,526**	**94,629**	**141,989**	**-**	**725,126**
Loans and advances to customers	**86,027**	**4,701**	**2,157**	**3,745**	**2,721**	**82,832**	**556,323**	**738,506**
Derivatives at fair value	**-**	**88**	**-**	**-**	**-**	**-**	**6,925**	**7,013**
Other assets, prepayments and accrued income	**175**	**-**	**-**	**-**	**-**	**-**	**-**	**175**
Total assets	**131,773**	**313,623**	**71,926**	**84,271**	**97,350**	**224,821**	**563,248**	**1,487,012**

2012 Remaining maturity	Sight – 8 days £'000	8 days – 1 month £'000	1-3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Assets								
Cash and balances at central banks	16,739	-	-	-	-	-	-	16,739
Loans and advances to banks	313,462	81,007	52,988	24,762	73,423	208,378	8,000	762,020
Loans and advances to customers	82,889	4,530	2,078	3,608	2,622	79,810	539,307	714,844
Derivatives at fair value	-	55	-	24	-	-	10,506	10,585
Other assets, prepayments and accrued income	-	665	-	-	-	-	-	665
Total assets	413,090	86,257	55,066	28,394	76,045	288,188	558,110	1,504,853

Maturity Analysis of Financial Assets:

2013 Remaining maturity	Sight – 8 days £'000	8 days – 1 month £'000	1-3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Liabilities								
Deposits by banks	**7,712**	**2,050**	**23,336**	**10,217**	**-**	**-**	**-**	**43,315**
Customer accounts	**1,022,511**	**143,365**	**41,734**	**37,990**	**48,512**	**24,243**	**-**	**1,318,355**
Derivatives at fair value	**-**	**76**	**-**	**-**	**-**	**-**	**7,697**	**7,773**
Other liabilities, accruals and deferred income	**10,061**	**-**	**-**	**-**	**-**	**-**	**-**	**10,061**
	1,040,284	**145,491**	**65,070**	**48,207**	**48,512**	**24,243**	**7,697**	**1,379,504**

2012 Remaining maturity	Sight – 8 days £'000	8 days – 1 month £'000	1-3 months £'000	3-6 months £'000	6-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Liabilities								
Deposits by banks	7,443	15,125	24,340	10,616	-	-	-	57,524
Customer accounts	818,275	175,078	60,144	63,978	88,281	104,882	-	1,310,638
Derivatives at fair value	-	-	-	-	-	-	14,679	14,679
Other liabilities, accruals deferred income and current taxation liabilities	9,780	-	-	-	-	-	-	9,780
	835,498	190,203	84,484	74,594	88,281	104,882	14,679	1,392,621

17. Financial instruments (continued)

Value-at-Risk:

The Company manages the market risk through value-at-risk (VaR) limits as well as stress testing, position and sensitivity limits. VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The table below sets out the VaR for the Company, which assumes a 99% confidence level and a one-day time horizon.

	Average £'000	Year end £'000	Maximum £'000	Minimum £'000
VaR				
31 December 2013	**25**	**6**	**76**	**6**
31 December 2012	76	54	95	48

The Company VaR should be interpreted in light of the limitations of the methodologies used. These limitations include:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.

- VaR using a 99% confidence level does not reflect the extent of potential losses beyond that percentile.

- The Company largely computes the VaR of the trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Company's intra-day exposure such as the calculation of VaR for selected portfolios.

These limitations and the nature of the VaR measure mean that the Company cannot guarantee that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in 20 business days.

17. Financial instruments (continued)

Balance sheet by currency:

2013 Sterling Equivalent	Sterling £'000	US Dollars £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	16,165	12	14	1	16,192
Loans and advances to banks	619,310	29,925	53,314	22,577	725,126
Loans and advances to customers	738,506	-	-	-	738,506
Derivatives at fair value	7,012	1	-	-	7,013
Other assets, prepayments and accrued income	175	-	-	-	175
Property, plant and equipment	3,739	-	-	-	3,739
Retirement benefit asset	11,782	-	-	-	11,782
Total assets	1,396,689	29,938	53,328	22,578	1,502,533
Liabilities and equity					
Deposits by banks	42,625	150	171	369	43,315
Customer accounts	1,213,235	53,140	29,773	22,207	1,318,355
Derivatives at fair value	7,698	74	-	1	7,773
Other liabilities, accruals and deferred income	10,061	-	-	-	10,061
Current taxation liabilities	1,477	-	-	-	1,477
Deferred taxation liability	1,180	-	-	-	1,180
Shareholders' equity	120,372	-	-	-	120,372
Total liabilities and equity	1,400,051	53,364	29,944	22,577	1,502,533

2012 Sterling Equivalent	Sterling £'000	US Dollars £'000	Euro £'000	Other £'000	Total £'000
Assets					
Cash and balances at central banks	16,717	8	13	1	16,739
Non current assets held for sale	297	-	-	-	297
Loans and advances to banks	629,401	57,999	42,606	32,014	762,020
Loans and advances to customers	714,838	-	6	-	714,844
Derivatives at fair value	10,585	-	-	-	10,585
Other assets, prepayments and accrued income	665	-	-	-	665
Property, plant and equipment	3,819	-	-	-	3,819
Retirement benefit assets	6,740	-	-	-	6,740
Total assets	1,383,062	58,007	42,625	32,015	1,515,709
Liabilities and equity					
Deposits by banks	55,628	265	779	852	57,524
Customer accounts	1,183,367	56,756	41,170	29,345	1,310,638
Derivatives at fair value	14,679	-	-	-	14,679
Other liabilities, accruals and deferred income	9,780	-	-	-	9,780
Current taxation liabilities	1,399	-	-	-	1,399
Deferred taxation liability	321	-	-	-	321
Post-retirement benefit liabilities	3,543	-	-	-	3,543
Shareholders' equity	117,825	-	-	-	117,825
Total liabilities and equity	1,386,542	57,021	41,949	30,197	1,515,709

17. Financial instruments (continued)

Maximum credit risk exposure and significant concentrations of credit risk are illustrated in the table below:

Industry and regional analysis of financial assets as at 31 December 2013:

	Loans and advances to banks and customers £'000	Derivatives £'000	Total £'000
UK & Crown Dependencies			
Central and local government	264,599	-	264,599
Manufacturing	2,622	-	2,622
Construction	5,848	-	5,848
Finance	725,292	7,013	732,305
Service industry and business activities	3,150	-	3,150
Agriculture, forestry and fishing	5,174	-	5,174
Property	97,791	-	97,791
Individuals	15,512	-	15,512
Home mortgages	301,403	-	301,403
Finance leases and instalment credit	32,119	-	32,119
Other	11,031	-	11,031
Total UK & Crown Dependencies	1,464,541	7,013	1,471,554
Total gross financial instruments	1,464,541	7,013	1,471,554
Provisions and impairment (note 9)	(909)	-	(909)
Total financial instruments	1,463,632	7,013	1,470,645

The balances included above have been grossed up by £59,167,000 (2012: £59,648,646) in order to comply with the offsetting rules of IAS32.

In accordance with IAS 32, balances with a counterparty are not offset unless there is a legally enforceable right of offset and there is an intention to settle net, or to realise the asset and settle the liability at the same time.

17. Financial instruments (continued)

Industry and regional analysis of financial assets as at 31 December 2012:

	Loans and advances to banks and customers £'000	Derivatives £'000	Total £'000
UK & Crown Dependencies			
Central and local government	184,786	-	184,786
Manufacturing	2,853	-	2,853
Construction	4,438	-	4,438
Finance	763,731	10,585	774,316
Service industry and business activities	8,617	-	8,617
Agriculture, forestry and fishing	4,360	-	4,360
Property	86,778	-	86,778
Individuals	2,432	-	2,432
Home mortgages	339,049	-	339,049
Finance leases and instalment credit	36,884	-	36,884
Other	43,904	-	43,904
Total UK & Crown Dependencies	1,477,832	10,585	1,488,417
Total gross financial instruments	1,477,832	10,585	1,488,417
Provisions and impairment (note 9)	(968)	-	(968)
Total financial instruments	1,476,864	10,585	1,487,449

17. Financial instruments (continued)

Fair value instruments recognised in the Balance Sheet

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss				
Derivative financial assets	-	7,013	-	7,013
Other financial assets designated as at fair value through profit or loss	-	2,167	-	2,167
Total	-	9,180	-	9,180
Financial liabilities at fair value through profit or loss				
Customer accounts	-	2,167	-	2,167
Derivative financial liabilities	-	7,773	-	7,773
Total	-	9,940	-	9,940

2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss				
Derivative financial assets	-	10,585	-	10,585
Other financial assets designated as at fair value through profit or loss	-	21,777	-	21,777
Total	-	32,362	-	32,362
Financial liabilities at fair value through profit or loss				
Customer accounts	-	21,777	-	21,777
Derivative financial liabilities	-	14,679	-	14,679
Total	-	36,456	-	36,456

18. Asset quality

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned an internal credit grade based on various credit grading models that reflect the probability of default. All credit ratings across the Group map to a Group level asset quality scale, namely master grade scaling (MGS).

Expressed as an annual probability of default, the upper and lower boundaries for each of these Group level asset quality grades are as follows:

	Annual probability of default	
MGS	Lower	Upper
1	0.0000%	0.0060%
2	0.0060%	0.0120%
3	0.0120%	0.0170%
4	0.0170%	0.0240%
5	0.0240%	0.0340%
6	0.0340%	0.0480%
7	0.0480%	0.0670%
8	0.0670%	0.0950%
9	0.0950%	0.1350%
10	0.1350%	0.1900%
11	0.1900%	0.2690%
12	0.2690%	0.3810%
13	0.3810%	0.5380%
14	0.5380%	0.7610%
15	0.7610%	1.0760%
16	1.0760%	1.5220%
17	1.5220%	2.1530%
18	2.1530%	3.0440%
19	3.0440%	4.3050%
20	4.3050%	6.0890%
21	6.0890%	8.6110%
22	8.6110%	12.1770%
23	12.1770%	17.2220%
24	17.2220%	24.3550%
25	24.3550%	34.4430%
26	34.4430%	100.0000%
27.	100.0000%	

18. Asset quality (continued)

The following table provides an analysis of the credit quality of financial assets by the Company's internal credit ratings.

2013

MGS	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000
1	16,192	1,871	-	-	-
2	-	-	-	-	-
3	-	-	98,106	-	17,066
4	-	-	202,750	-	35,862
5	-	-	-	-	-
6	-	-	7	-	-
7	-	-	-	-	-
8	-	-	28	-	-
9	-	-	-	-	-
10	-	-	4,912	-	854
11	-	-	1,293	-	225
12	-	-	2,281	-	397
13	-	-	29,614	-	5,152
14	-	-	16,918	-	2,943
15	-	-	317,927	-	55,305
16	-	-	10,100	-	1,757
17	-	-	7,918	-	1,377
18	-	-	4,118	-	716
19	-	-	2,793	-	486
20	-	-	2,623	-	456
21	-	-	647	-	113
22	-	-	393	-	68
23	-	-	582	-	101
24	-	-	2,070	-	360
25	-	-	627	-	109
26	-	-	203	-	35
27	-	-	2,300	-	-
	16,192	1,871	708,210	-	123,382
InterGroup Position with RBS Group	-	723,255	-	7,013	-
Past Due	-	-	29,066	-	-
Non Accrual	-	-	2,139	-	-
Impairment Provision	-	-	(909)	-	-
Total	16,192	725,126	738,506	7,013	123,382

18. Asset quality (continued)

The following table provides an analysis of the credit quality of financial assets by the Company's internal credit ratings.

2012

MGS	Cash and balances at central banks £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Derivatives £'000	Commitments £'000
1	16,739	736	40,386	-	7,921
2	-	636	213,187	-	41,811
3	-	-	-	-	-
4	-	-	-	-	-
5	-	-	-	-	-
6	-	20	-	-	-
7	-	-	-	-	-
8	-	-	-	-	-
9	-	-	3,196	-	5
10	-	-	3,358	-	659
11	-	-	2,380	-	467
12	-	-	5,238	-	1,027
13	-	-	3,394	-	666
14	-	-	17,424	-	3,417
15	-	-	343,854	-	68,059
16	-	-	35,133	-	6,890
17	-	-	14,263	-	2,797
18	-	-	4,983	-	977
19	-	-	1,165	-	228
20	-	-	638	-	125
21	-	-	2,079	-	408
22	-	-	309	-	61
23	-	-	795	-	156
24	-	-	2,002	-	393
25	-	-	-	-	-
26	-	-	274	-	54
27	-	-	487	-	95
	16,739	1,392	694,545	-	136,216
InterGroup Position with RBS Group	-	760,628	-	10,585	-
Past Due	-	-	19,040	-	-
Non Accrual	-	-	2,227	-	-
Impairment Provision	-	-	(968)	-	-
Total	16,739	762,020	714,844	10,585	136,216

19. Commitments and contingent obligations

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2013. Although the Company is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Company's expectation of future losses.

	2013 £'000	2012 £'000
Contingent liabilities:		
Various	2,593	892
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	123,382	136,216

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

(a) Contingent liabilities

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

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

(b) Commitments

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

Commitments under non-cancellable operating leases are detailed in note 15.

(c) Litigation

The Company is involved in litigation involving claims by and against it which arise in the ordinary course of business. The Directors of the Company, after reviewing the claims pending and threatened against the Company, and taking into account the advice of the relevant legal advisers, are satisfied that the outcome of these claims are unlikely to have a material adverse effect on the net assets of the Company.

20. Net cash inflow from operating activities

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2013. Although the Company is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Company's expectation of future losses.

	2013 £'000	2012 £'000
Operating profit before tax	**19,381**	17,823
Decrease in prepayments and accrued income	**490**	169
Provisions on impairment losses	**92**	540
Loss on sale of non-current asset	**(301)**	-
Foreign exchange	**216**	18
Pensions charge for defined benefit schemes	**489**	775
Cash contribution to defined benefit pension schemes	**(3,588)**	(3,650)
Depreciation of property, plant and equipment	**80**	276
Net cash inflow from trading activities	**16,859**	15,951
Decrease in loans and advances to banks	**36,894**	16,495
Decrease in derivatives at fair value	**3,572**	4,944
(Increase) / decrease in loans and advances to customers	**(23,662)**	13,397
Decrease / (increase) in other assets	**297**	(297)
Changes in operating assets	**17,101**	34,539
(Decrease) / increase in deposits by banks	**(14,209)**	4,920
Decrease in derivatives at fair value	**(6,906)**	(3,133)
Increase / (decrease) in customer accounts	**7,717**	(46,019)
Increase in other liabilities, accruals and deferred income	**282**	7,565
Changes in operating liabilities	**(13,116)**	(36,667)
Total income taxes paid		
Income taxes paid in respect of operating activities	**(1,391)**	(1,046)
Net cash inflow from operating activities	**19,453**	12,777

21. Analysis of cash and cash equivalents

	2013 £'000	2012 £'000
At 1 January	**16,739**	15,962
Net cash (outflow) / inflow	**(547)**	777
At 31 December	**16,192**	16,739
Comprising:		
Cash and balances at central banks	**16,192**	16,739
	16,192	16,739

22. Called up share capital

	Allotted, called up and fully paid		Authorised	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Equity shares				
Ordinary shares of £1	**7,501**	7,501	**15,000**	15,000
Preference shares of £1	**-**	-	**5**	5
Total share capital	**7,501**	7,501	**15,005**	15,005

Number of shares	Allotted, called up and fully paid		Authorised	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Equity shares				
Ordinary shares of £1	**7,501,100**	7,501,100	**15,000,000**	15,000,000
Preference shares of £1	**-**	-	**5,000**	5,000
Total share capital	**7,501,000**	7,501,000	**15,005,000**	15,005,000

23. Shares in subsidiary undertaking

The subsidiary undertaking of the Company is:

	Nature of Business	Country of Incorporation	Holding Ordinary Shares of £1	Percentage Share Holding
Isle of Man Bank Nominees Limited	Nominee	Isle of Man	100	100%

24. Non-current assets classified as held for sale

There are no held for sale assets at 31 December 2013. As at 31 December 2012 two properties with a combined net book value of £297,000 were held for sale.

25. Holding company

The Isle of Man Bank Limited is a wholly owned subsidiary of The Royal Bank of Scotland International (Holdings) Limited which is itself an indirect wholly owned subsidiary of The Royal Bank of Scotland Group plc which is registered in Scotland and which the Directors regard as the ultimate holding and controlling parent company.

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

26. Related party transactions

Note 5 'Operating profit before tax' provides information on key management and transactions with related parties. The balances payable to and receivable from related parties are included within the notes as appropriate.

27. Depositors Compensation Scheme

The Company is required to participate in the Isle of Man Depositors' Compensation Scheme ('the Scheme'), as set out in the Compensation of Depositors Regulations 2008 (as amended) and subsequently, the Depositors' Compensation Scheme Regulations 2011.

On 8 October 2008, the Board of Kaupthing, Singer & Friedlander (Isle of Man) Limited ('KSF IOM') declared that it was unable to pay its debts. At a hearing in the Isle of Man High Court on 27 May 2009, a winding up order was made placing the company into liquidation.

During 2009 the Company paid an initial contribution of £350,000 to the Scheme and made a provision amounting to £700,000 in respect of estimated future contributions to the Scheme. In both 2010 and 2011 the Company made further £350,000 annual contributions to the Scheme which have been offset against the £700,000 provision made in 2009. To the best of our knowledge from the publicly available information, the Directors believe that there is no further liability to the scheme at this time.

During 2012, Isle of Man Bank Limited received an Interim Distribution from the Scheme of £632,471.