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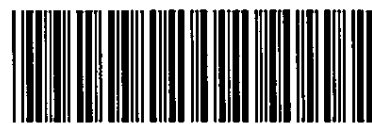
THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2007

Group Secretariat
The Royal Bank of Scotland Group plc
3 Princess Way
Redhill
Surrey
RH1 1NP

WEDNESDAY



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THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

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THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS: J P Sharp
A K Yuen

SECRETARY: R E Fletcher

REGISTERED OFFICE: 135 Bishopsgate
London
EC2M EUR

AUDITORS: Deloitte & Touche LLP
London

Registered in England and Wales.

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2007

ACTIVITIES AND BUSINESS REVIEW

The directors present their report and the audited accounts for the year ended 2007

The principal activity of the Company is to provide administrative services to Royal Bank of Scotland Group companies in Japan. The directors expect general level of activity not to change materially during the year 2008

The Company is a subsidiary of The Royal Bank of Scotland Group plc which provides the Company with direction and access to all central resources it needs and determines policies in all key areas such as finance, risk, human resources or environment. For this reason, the directors believe that performance indicators specific to the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The annual reports of The Royal Bank of Scotland Group plc review these matters on a group basis. Copies can be obtained from Group Secretariat, RBS Gogarburn, Edinburgh, EH12 1HQ, the Registrar of Companies or through the Group's web site at www.rbs.com

Review of the year

The directors are satisfied with the development of the Company's limited activities during the year. The Company will be guided by its ultimate parent company in seeking further opportunities for growth.

The Company's financial performance is presented in the Income Statement on Page 7. At the end of the year, the financial position showed total assets of JPY1,762 million and total equity of JPY261 million.

The Company is funded by facilities from The Royal Bank of Scotland plc Tokyo Branch. It seeks to minimise its exposure to external financial risks other than credit risk. Further information is disclosed in Note 9.

It also has exposure to asset risk on equipment.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1

From 1 January 2007 to date the following changes have taken place

	Appointed	Resigned
Secretary		
L M Blair		1 November 2007
R E Fletcher	2 November 2007	

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a Directors' Report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance, and cash flows of the Company. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

USE OF FINANCIAL INSTRUMENTS

The Company does not use derivative financial instruments and, due to the nature of its operations, the company is exposed to a limited degree of financial risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit risk represents the accounting loss that would be recognised at the reporting dates if counterparties failed completely to perform as contracted. The Company is not materially exposed to credit risk as upon default the loss would be recovered from the ultimate parent company.

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This confirmation is given and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

DIRECTORS' INDEMNITIES

In terms of Section 309C of the Companies Act 1985 (as amended), Mr A K Yuen had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors.

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



J P Sharp
Director
Date 12/1/08

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

We have audited the financial statements of The Royal Bank of Scotland Services Japan Limited (the "Company") for the year ended 31 December 2007 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we may state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the directors' report, the company's directors are responsible for the preparation of the directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report for the above year and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the directors' report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the directors' report is consistent with the financial statements

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

24 September 2008

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Income Statement Year ended 31 December 2007

	Notes	2007 ¥ 000's	2006 ¥ 000's
Operating income and expense			
- Service Fee	18	2,820,534	1,384,785
- Administrative expenses		(587,134)	(302,718)
- Staff costs	6	(1,726,800)	(704,384)
- Depreciation	9	(184,935)	(156,195)
- Operating lease		(206,852)	(173,663)
Operating Profit	5	114,813	47,825
Non-operating income and expense			
- Finance costs	7/18	(7,140)	(2,596)
Profit before tax		107,673	45,229
Tax	8	(154,899)	(3,641)
(Loss) Profit for the period		(47,226)	41,588
Attributable to Equity holders of the parent		(47,226)	41,588

The results above arose wholly from continuing activities

The notes on pages 11 to 22 form an integral part of the accounts

Statement of recognised income and expense

Year ended 31 December 2007

	2007 ¥ 000's	2006 ¥ 000's
(Loss) Profit for the period	(47,226)	41,588
Total recognised income and expense for the period	(47,226)	41,588

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Balance sheet

Year ended 31 December 2007

	Notes	2007 ¥ 000's	2006 ¥ 000's
NON-CURRENT ASSETS			
Property and equipment	9	823,650	800,867
Rental deposit		133,834	124,434
Intangible assets		144	144
Deferred tax assets	10	177,070	141,296
		<u>1,134,698</u>	<u>1,066,741</u>
CURRENT ASSETS			
Cash and cash equivalents		247,021	58,207
Account receivables	18	356,977	460,619
Prepaid expense and other assets		24,061	26,417
		<u>628,059</u>	<u>545,243</u>
TOTAL ASSETS		<u>1,762,757</u>	<u>1,611,984</u>
CURRENT LIABILITIES			
Account payables	18	(34,050)	—
Accrued expense and other liabilities		(101,920)	(90,501)
Bonus accrual		(227,177)	(106,436)
Bank loans	11/18	(1,000,000)	(1,000,000)
Current tax liabilities		(137,689)	(105,900)
		<u>(1,500,836)</u>	<u>(1,302,837)</u>
TOTAL LIABILITIES		<u>(1,500,836)</u>	<u>(1,302,837)</u>
NET ASSETS		<u>261,921</u>	<u>309,147</u>
EQUITY			
Share capital	12	(23)	(23)
Retained earnings	13	(261,898)	(309,124)
TOTAL EQUITY		<u>(261,921)</u>	<u>(309,147)</u>

The notes on pages 11 to 22 form an integral part of the accounts

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Balance sheet

Year ended 31 December 2007

The financial statements were approved by the board of directors and authorised for issue
on 12 Sept 2008

They were signed on its behalf by


J P Sharp
Director

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Cash flow statement

Year ended 31 December 2007

	Notes	2007 ¥ 000's	2006 ¥ 000's
Net cash flows from operating activities	14	396,532	102,903
Investing activities			
Purchase of property and equipment		(207,718)	(116,915)
Net cash used in investing activities		(207,718)	(116,915)
Financing activities			
Repayments of borrowings		—	(64,098)
Net cash (used in) from financing activities		—	(64,098)
Net increase (decrease) in cash and cash equivalents		188,814	(78,110)
Cash and cash equivalents at beginning of year		58,207	136,317
Cash and cash equivalents at end of year		<u>247,021</u>	<u>58,207</u>

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

1. General information

The Royal Bank of Scotland Services Japan Limited is a limited company in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1.

These financial statements are presented in Japanese Yen because that is the currency of the primary economic environment in which the Company operates and which is considered to be the Company's functional currency.

The principal accounting policies adopted are set out below.

2 Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Adoption of new accounting standards 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:

Amendments to IAS 23 (revised) Borrowing Costs

IFRS 8 Operating Segments

IFRIC11 IFRS 2 - Group and Treasury Share transactions

IFRIC 12 Service concessions arrangements

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interactions

The directors anticipate that the adoption of these Standards and Interpretations in the future periods will have no material impact on the financial statements of the Company.

The Company has adopted IFRS 7 'Financial Instruments: Disclosures' and related amendments under IAS 1 'Presentation of Financial Statements' for the accounting period beginning 1 January 2007. This has had no effect on the results, cash flows or financial position of the Company. However, there are changes to the notes to the accounts and comparative information is presented accordingly.

Accounting estimates and uncertainties to be included in accounting policies

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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Notes to the financial statements Year ended 31 December 2007

2. Significant accounting policies (continued)

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision or future periods if the revision affects both current and future periods. Significant estimates and assumptions are made in respect of Current and Deferred tax (note 8 and 10).

Account Receivables, Account Payables and Bank Loans

Account Receivables, Account Payables and Bank Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, Account Receivables, Account Payables and Bank Loans are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Leasing

Operating lease payments are charged to the profit and loss account in the period in which they are incurred.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

2. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis

Property, plant and equipment

Properties are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with IAS 23. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases

Leasehold improvements	10 years (10% per annum)
Computers and other equipment	5 years (20% per annum)
Furniture and fittings	10 years (10% per annum)

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

Intangible assets

Intangible assets are held at cost less provision for impairment and are not amortised as the telephone rights they relate to are of an indefinite term

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

2. Significant accounting policies (continued)

Revenue Recognition

Service fees consist of administrative fees receivable from the other group companies in Japan. Revenue is recognised once the service provided by the Company is completed.

Reclassification

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year presentation.

3 Financial Risk Management Objectives and Policies

The Company has financial risk exposures. This section summarises these risks and the way the Company manages these.

Risk management

The Company's major financial instruments include receivables, cash and cash equivalents, payables, bank loans, sundry creditors and accrued expenses. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Company is exposed to interest rate risk as a result of the assets and liabilities contained within the Company's balance sheet. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures these risks. The Company manages interest rate risk by monitoring consistency in the interest rate profile of its assets and liabilities.

The following tables indicate financial liabilities that are exposed to interest rate risk together with the corresponding range of applicable interest rates.

Exposed to cash flow interest rate risk	2007	2006
	¥ 000's	¥ 000's
Loans from group company (note 18)	1,000,000	1,000,000
Loan Receivables	-	-
Net interest bearing liabilities	1,000,000	1,000,000

Interest rate risk - Sensitivity analysis

If interest rates for the current year had been 50 basis points lower and this movement applied to the assets and liabilities as at the balance sheet date, the pre-tax profit for the year ended 31 December 2007 would have been JPY5 million higher (2006 JPY5 million higher). This would have mainly resulted from lower interest income on variable rate assets and lower financing costs in respect of its Loans. The inverse is equally true for the current year if interest rates had been 50 basis points higher.

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

3. Financial Risk Management Objectives and Policies (continued)

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate provision for impairment losses is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The following table analyses the credit exposure of the Company by type of asset

	2007	2006
	¥ 000's	¥ 000's
Cash at bank and in hand	247,021	58,207
Trade and other receivables (note 18)	356,977	460,619
Total assets bearing credit risk	603,998	518,826

There are no financial assets which are past due or impaired at balance sheet date

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Bank Loans are the primary sources of funds to finance the operations of the Company. The Company regularly reviews its major funding positions to ensure that it has the adequate financial resources to meet its financial obligations.

The table below details the expected maturity of the Company's material liabilities as at the balance sheet date. The table has been drawn up based on the undiscounted net cash outflows.

	2007			
	Less than 3 months	3 months - 1 year	1 - 5 years	Over 5 years
	¥ 000's	¥ 000's	¥ 000's	¥ 000's
Loans from group company (note 11)	-	1,000,000	-	-
Trade and other payables (note 18)	-	34,050	-	-
	-	1,034,050	-	-

	2006			
	Less than 3 months	3 months - 1 year	1 - 5 years	Over 5 years
	¥ 000's	¥ 000's	¥ 000's	¥ 000's
Loans from group company (note 11)	-	1,000,000	-	-

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

4. Capital Management

The Company is a member of The Royal Bank of Scotland Group plc which is subject to capital requirements imposed by the Financial Services Authority (FSA). A quarterly regulatory capital return is submitted to the FSA on a Royal Bank of Scotland plc and The Royal Bank of Scotland Group plc consolidated level.

The Company's objectives when managing capital are

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and
- to provide adequate return to shareholders by monitoring the risk level of its activities,

Capital is not managed for FSA purposes at the Company level but net equity levels are monitored and if required support from The Royal Bank of Scotland plc, an intermediate holding company, is obtained. The adjusted net equity that is managed at 31 December 2007 and at 31 December 2006 were as follows

	2007 ¥ 000's	2006 ¥ 000's
Total Assets	1,762,757	1,611,984
Less Total Liabilities	(1,500,836)	(1,302,837)
Less Fair value adjustments from which distributions are not permitted	-	-
Adjusted Net Equity	261,921	309,147

No dividends were declared during the period

5. Operating profit

Operating profit has been arrived at after charging

	2007 ¥ 000's	2006 ¥ 000's
Auditor's remuneration - audit services	4,428	2,800
Depreciation	184,935	156,194
Rental expenses under operating leases	206,852	173,663

Amounts payable to Deloitte Touche Tohmatsu and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were JPY nil (2006 JPY nil)

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

6. Staff costs

Their aggregate remuneration comprised

	2007 ¥ 000's	2006 ¥ 000's
- Wages and salaries	1,379,473	538,697
- Bonus	239,900	106,436
- Social security costs	45,240	22,922
- Pension costs (note 16)	62,187	36,329
	<u>1,726,800</u>	<u>704,384</u>

None of the Directors received emoluments from the Company (2006 Nil) The Directors' remuneration is borne by the ultimate holding company, The Royal Bank of Scotland Group plc

As at 31 December 2007, the Company employed 81 personnel (including executive directors) The average monthly number of employees (including executive directors) was 75 (2006 35) The following table shows the split of the average number of employees by department

Department	2007	2006
HR	8	4
IT	52	24
Other	15	7
Total	<u>75</u>	<u>35</u>

7. Finance costs

	2007 ¥ 000's	2006 ¥ 000's
Interest on borrowings	<u>7,140</u>	<u>2,596</u>

The Company borrowed short term loans from The Royal Bank of Scotland plc, Tokyo Branch, to cover operating expenses

8. Tax

	2007 ¥ 000's	2006 ¥ 000's
Current Japanese tax	(190,673)	(105,900)
Deferred tax (note 10)	35,774	102,259
Current tax for the year	<u>(154,899)</u>	<u>(3,641)</u>

Current tax is calculated at 42.05% (2006 42.05%) of the estimated assessable profit for the year The charge for the year can be reconciled to the profit per the income statement as follows

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Notes to the financial statements Year ended 31 December 2007

8. Tax (continued)

	2007		2006	
	¥ 000's	%	¥ 000's	%
Profit before tax	107,673	100.00	45,229	100.00
Tax at the current tax rate of 42.05% (2006: 42.05%)	(45,276)	42.05	(19,019)	42.05
Permanent difference	535	(0.50)	(128)	0.28
Valuation allowance	(113,712)	105.61	—	—
Tax effect of utilisation of tax losses not previously recognised	—	—	16,273	(35.98)
Other	3,554	(3.30)	(767)	1.70
Tax expense at effective tax rate for the year	<u>(154,899)</u>	<u>143.86</u>	<u>(3,641)</u>	<u>8.05</u>

9. Property and equipment

	Leasehold improvements ¥ 000's	Computers and other equipments ¥ 000's	Furniture and Fittings ¥ 000's	Total ¥ 000's
Cost				
At 1 January 2006	522,312	421,437	48,073	991,822
Additions	47,306	66,298	3,311	116,915
Disposals	—	—	—	—
At 1 January 2007	<u>569,618</u>	<u>487,735</u>	<u>51,384</u>	<u>1,108,737</u>
Additions	64,256	135,531	7,931	207,718
Disposals	—	—	—	—
At 31 December 2007	<u>633,874</u>	<u>623,266</u>	<u>59,315</u>	<u>1,316,455</u>
Accumulated depreciation and impairment				
At 1 January 2006	43,526	104,125	4,024	151,675
Charge for the year	64,430	87,381	4,384	156,195
At 1 January 2007	<u>107,956</u>	<u>191,506</u>	<u>8,408</u>	<u>307,870</u>
Charge for the year	76,493	103,380	5,062	184,935
At 31 December 2007	<u>184,449</u>	<u>294,886</u>	<u>13,470</u>	<u>492,805</u>
Carrying amount				
At 31 December 2007	<u>449,425</u>	<u>328,380</u>	<u>45,845</u>	<u>823,650</u>
At 31 December 2006	<u>461,662</u>	<u>296,229</u>	<u>42,976</u>	<u>800,867</u>

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

10 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period

	Capital allowances in excess of depreciation ¥ 000's	Accrued Bonuses ¥ 000's	Accrued Expense ¥ 000's	Other ¥ 000's	Less Valuation allowance ¥ 000's	Total ¥ 000's
At 1 January 2006	10,484	29,954	1,835	(3,236)	—	39,037
Charge to income	<u>12,863</u>	<u>14,804</u>	<u>32,795</u>	<u>41,797</u>	<u>—</u>	<u>102,259</u>
At 1 January 2007	23,347	44,758	34,630	38,561	—	141,296
Charge (credit) to income	<u>22,176</u>	<u>50,773</u>	<u>(34,630)</u>	<u>111,167</u>	<u>(113,712)</u>	<u>35,774</u>
As 31 December 2007	<u>45,523</u>	<u>95,531</u>	<u>—</u>	<u>149,728</u>	<u>(113,712)</u>	<u>177,070</u>

11. Bank Loans

	2007 ¥ 000's	2006 ¥ 000's
Bank loans due within one year	<u>1,000,000</u>	<u>1,000,000</u>

The weighted average interest rates paid during the year were as follows

	2007	2006
- Bank loans	0.76%	0.55%

The principal feature of the Company's borrowing is a loan of JPY1,000 million. The loan was taken out on 14 December 2007 and will continue until 14 June 2008. The loan carries an interest rate of 3 month TIBOR flat.

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Notes to the financial statements Year ended 31 December 2007

12. Share capital

	2007	2006
	¥	¥
Authorised		
100 Ordinary Shares of £1 each	23,200	23,200
Allotted, issued and fully paid		
100 Ordinary Shares of £1 each	23,200	23,200
The Company has one class of ordinary shares which carry no right to fixed income		

13. Retained Earnings

	¥ 000's
Balance at 1 January 2006	267,536
Net profit for the year	41,588
Balance at 1 January 2007	309,124
Net loss for the year	(47,226)
Balance at 31 December 2007	261,898

14. Notes to the cash flow statement

	2007	2006
	¥ 000's	¥ 000's
Operating profit	114,813	47,825
Depreciation	184,935	156,195
Other non-cash item	-	(7,013)
Operating cash flows before movements in working capital	299,748	197,007
Decrease (Increase) in Account receivables	103,643	(176,658)
Increase in Account payables	34,050	-
Decrease (Increase) in Prepaid expense and other assets	(7,044)	11,311
Increase in Accrued expense and other liabilities	131,881	68,473
Cash generated by operations	562,278	100,133
Income taxes paid	(158,884)	-
Income taxes received	-	5,366
Interest paid	(6,862)	(2,596)
Net cash from operating activities	396,532	102,903

Cash and cash equivalents which are presented as a single class of assets on the face of the balance sheet comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

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Notes to the financial statements Year ended 31 December 2007

15. Commitments and contingencies

At 31 December 2007, the Company had annual commitments under an operating and contingency site services lease as set out below

	2007 ¥000's	2006 ¥000's
Operating leases which expire		
Within one year	96,873	101,404
In the second to fifth years inclusive	-	16,800
	<u>96,873</u>	<u>118,204</u>

16. Retirement benefit schemes

The pension costs for the year were ¥62,187 thousand (2006 ¥36,329 thousand) All of the Company's employees are secondees and covered by Japanese tax qualified pension schemes either of The Royal Bank of Scotland plc Tokyo Branch or RBS Securities Japan Limited

The costs related to these schemes are assessed based on actuarial assumptions and recharged to the Company by The Royal Bank of Scotland plc Tokyo Branch or RBS Securities Japan Limited

17. Employees

All staff are employed by either The Royal Bank of Scotland plc Tokyo Branch, a company registered in Scotland, or RBS Securities Japan Limited, a company incorporated in Hong Kong Staff numbers and salaries of staffs employed by The Royal Bank of Scotland plc Tokyo Branch and RBS Securities Japan Limited are disclosed in the respective company accounts

The salary costs of the staff seconded to the Company are recharged to the Company by The Royal Bank of Scotland plc Tokyo Branch and RBS Securities Japan Limited

18. Related Party Disclosures

Transactions between the Company and group companies are disclosed below

	Service Fee		Finance Costs	
	2007 ¥000's	2006 ¥000's	2007 ¥000's	2006 ¥000's
Royal Bank of Scotland plc Tokyo Branch	1,438,509	612,433	(7,140)	(2,596)
RBS Securities Japan Limited	<u>1,382,025</u>	<u>772,352</u>	<u>-</u>	<u>-</u>
	<u>2,820,534</u>	<u>1,384,785</u>	<u>(7,140)</u>	<u>(2,596)</u>

THE ROYAL BANK OF SCOTLAND SERVICES JAPAN LIMITED

Notes to the financial statements Year ended 31 December 2007

18. Related Party Disclosures (continued)

	Account Receivables		Account Payables	
	2007	2006	2007	2006
	¥000's	¥000's	¥000's	¥000's
Royal Bank of Scotland plc Tokyo Branch	—	187,014	(34,050)	—
RBS Securities Japan Limited	105,623	273,605	—	—
The Royal Bank of Scotland plc Hong Kong Branch	251,354	—	—	—
	<u>356,977</u>	<u>460,619</u>	<u>(34,050)</u>	<u>—</u>

	Bank Loans	
	2007	2006
	¥000's	¥000's
Royal Bank of Scotland plc Tokyo Branch	(1,000,000)	(1,000,000)

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

19. Parent Companies

The Company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the Company is consolidated is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The Company's immediate parent and the smallest subgroup into which the Company is consolidated is National Westminster Bank Plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

20. Events after the balance sheet date

No significant events were noted.