

Company Registration No: 02924353

R.B. CHANCERY INVESTMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2008

**Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
P.O. Box 1000
Edinburgh EH12 1HQ**

TUESDAY



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R.B. CHANCERY INVESTMENTS LIMITED

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R.B. CHANCERY INVESTMENTS LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

M O Kellett
S C Lowe
T J Pettit
H E Tate

SECRETARY:

R E Fletcher

REGISTERED OFFICE:

Waterhouse Square
138-142 Holborn
London
EC1N 2TH

AUDITORS:

Deloitte LLP
London

Registered in England and Wales.

R.B. CHANCERY INVESTMENTS LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

Activity

The principal activity of the Company is investment business.

The Company is a subsidiary of The Royal Bank of Scotland Group plc ('RBSG') which provides it with access to suitable central resources including finance, risk, and human resources. In making investment decisions, the Company has regard to the risk appetite and philosophy set by the board of the RBSG. 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 website at rbs.com.

Review of the year

The directors are satisfied with the development of the Company's activities during the year. The Company does not currently expect to make any further significant investments in the foreseeable future.

The Company's financial performance is presented in the Income Statement on Page 7. The profit after taxation for the year amounted to £3,000 (2007: £18,325,000). The directors declared and paid dividends of £23,000,000 during the current year (2007: nil).

At the end of the year, the financial position showed total assets and equity of £601.4m (2007: £624.4m).

The Company's exposure to financial risks are disclosed in Note 10.

The directors, having made such enquiries as they considered appropriate, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2008, approved on 25 February 2009, which were prepared on a going concern basis.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year, are listed on page 1.

R.B. CHANCERY INVESTMENTS LIMITED

DIRECTORS' REPORT (Continued)

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; and
- prepare the financial statements on a 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.

DISCLOSURE OF INFORMATION TO AUDITORS

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

- (1) so far as he/she is aware there is no relevant audit information of which the Company's auditors are unaware; and
- (2) 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.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows the policy and practice on payment of creditors determined by The Royal Bank of Scotland Group plc ('RBSG'), as outlined below.

RBSG is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is RBSG's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

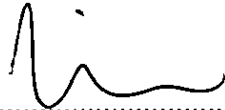
R.B. CHANCERY INVESTMENTS LIMITED

DIRECTORS' REPORT (Continued)

AUDITORS

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

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



.....
S C Lowe
Director
28 May 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF R.B. CHANCERY INVESTMENTS LIMITED

We have audited the financial statements of R.B. Chancery Investments Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, the accounting policies and the related notes 1 to 12. 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 might 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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 judgements 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
R.B. CHANCERY INVESTMENTS LIMITED (Continued)**

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 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

28 May 2009

R.B. CHANCERY INVESTMENTS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
Revenue	4	2	18,333
Other operating income	4	1	-
Administrative expenses		-	(8)
Profit before taxation		3	18,325
Taxation	5	-	-
Profit for the year		3	18,325

The results above arose wholly from continuing operations.

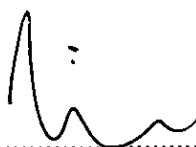
The notes on pages 11 to 17 form an integral part of the financial statements.

R.B. CHANCERY INVESTMENTS LIMITED**BALANCE SHEET****AS AT 31 DECEMBER 2008**

	Notes	As at 31/12/08 £'000	As at 31/12/07 £'000
Non-current assets			
Investments	6	25	53
Current assets			
Investments	6	28	-
Cash and cash equivalents	7	601,353	624,350
Total assets		601,406	624,403
Net assets		601,406	624,403
Equity			
Share capital	8	600,100	600,100
Retained earnings		1,306	24,303
Total equity		601,406	624,403

The notes on pages 11 to 17 form an integral part of the financial statements. The financial statements were approved by the Board of Directors and authorised for issue on 28 May 2009.

Signed on its behalf by:



.....
S C Lowe
Director

R.B. CHANCERY INVESTMENTS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital £'000	Available- for-sale reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2007	600,100	(2)	5,978	606,076
Gain on revaluation of available-for-sale investments	-	2	-	2
Profit for the year	-	-	18,325	18,325
Balance at 1 January 2008	600,100	-	24,303	624,403
Profit for the year	-	-	3	3
Dividends paid	-	-	(23,000)	(23,000)
Balance at 31 December 2008	600,100	-	1,306	601,406

R.B. CHANCERY INVESTMENTS LIMITED**CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

	Note	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
Net cash flow from operating activities	9	3	18,364
Financing activities			
Dividends on Ordinary Shares		(23,000)	-
Net cash flow from financing activities		(23,000)	-
Net cash flow for the year		(22,997)	18,364
Cash and cash equivalents at beginning of year		624,350	605,986
Cash and cash equivalents at end of year	7	601,353	624,350

The notes on pages 11 to 17 form an integral part of the financial statements.

R.B. CHANCERY INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

1. Accounting policies

a) Basis of preparation

These financial statements, which should be read in conjunction with the Directors' Report, have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets and liabilities. There is no material difference between the fair value and the carrying value of assets and liabilities accounted for at amortised cost.

Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 12 *Service Concession Arrangements*; and IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The adoption of these Interpretations has not led to any changes in the financial statements of the Company.

At the date of approval of these financial statements, although the following Standards and Interpretations were in issue, they were not effective and the Company has not chosen to adopt them early:

IFRS 1 /	Cost of Investment in a Subsidiary, Jointly Controlled Entity or
IAS27 (Amended)	Associate
IFRS 2 (Amended)	Share-based Payment
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 (Amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
FRS 7 (amended)	Improving disclosures about financial instruments
IAS 39 / IFRIC 9	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to owners
IFRIC 18	Transfer of assets from customers

The directors anticipate that the adoption of these Standards and Interpretations in future periods should not have a material impact on the financial statements of the Company when the relevant standards come into effect.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Accounting policies (continued)

b) Financial assets

Loans and receivables

Loans and receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

Investments

Investments, which comprise marketable debt securities are accounted for at fair value in the balance sheet. Income on investments calculated using the effective interest rate method is recognised in the income statement and remaining changes in the fair value of investments are recognised directly in equity.

c) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash is recognised when received and cash equivalents are recognised when the investments are made.

d) 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 RBS Group, and in respect of goodwill.

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

e) Stock lending

The Company enters into stock lending transactions under which it lends assets already held in the Company's balance sheet. The transferred assets continue to be recognised in their entirety and the Company receives a fee in respect of the assets transferred.

2. Directors and employees

None of the directors received any emoluments from the Company for their services to the Company during the current year or the prior year.

None of the directors had any material interest in any contract of significance in relation to the business of the Company during the current year or the prior year.

The Company did not have any employees in the current year or the prior year.

3. Profit before taxation

Audit fees of £5,000 (2007: £5,000) are borne by The Royal Bank of Scotland plc.

R.B. CHANCERY INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4.	Revenue	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
	Stock lending fee income	-	51
	Return on investment in debt securities	2	18,282
		2	18,333
	Other operating income		
	Other income	1	-
		3	18,333

5.	Taxation	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
	Tax expense:		
	UK corporation tax	-	-

The tax expense for the year can be reconciled to the profit in the income statement as follows:

	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
Profit before taxation	3	18,325
Tax charge thereon	1	5,498
Non-deductible expenses:		
Tax relief in respect of investments	-	(3,807)
Transfer pricing adjustment	9,637	6,346
Intra group settlement for nil consideration	(9,638)	(8,037)
UK corporation tax charge	-	-

The Company is resident in the United Kingdom for tax purposes. The Company's corporation tax liability is determined in sterling using the average corporation tax rates in the United Kingdom of 30% for the period from 1 January 2008 to 31 March 2008 and 28% for the period from 1 April 2008 to 31 December 2008 (year ended 31 December 2007: 30%).

The Company has agreed, in the wider interests of The Royal Bank of Scotland Group, to surrender any tax losses to other group companies for nil consideration and, as part of this agreement would also receive tax losses from other group companies for nil consideration.

R.B. CHANCERY INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Investments	As at 31/12/08 £'000	As at 31/12/07 £'000
Marketable debt securities	<u>53</u>	<u>53</u>

The marketable debt securities comprise UK Treasury gilts.

7. Cash and cash equivalents	As at 31/12/08 £'000	As at 31/12/07 £'000
Loans to group undertakings	601,311	624,348
Cash at bank	42	2
	<u>601,353</u>	<u>624,350</u>

8. Share capital	Number of Shares	As at 31/12/08 £'000	As at 31/12/07 £'000
Authorised			
Ordinary Shares of £1 each	2,250,000,000	<u>2,250,000</u>	<u>2,250,000</u>
Allotted, called up and fully paid			
Ordinary Shares of £1 each	600,100,000	<u>600,100</u>	<u>600,100</u>

Holders of the Ordinary Shares have the right to receive notice of, to attend and to vote in respect of any resolution of the Company. Each Ordinary Share carries an equal entitlement to receive dividends out of the funds of the Company that are legally available for distribution.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Reconciliation of profit to operating cash flows	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
Profit before taxation	3	18,325
Decrease in operating assets (adjusted for movements in fair value of investments recognised directly in equity)	-	39
Net cash flow from operating activities	3	18,364

10. Capital and financial risk management

Capital management

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 for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors its capital structure and sets the amount of capital after considering the cost of capital, the risks associated with the capital and with regard to the capital management objectives of The Royal Bank of Scotland Group ("RBSG"). In undertaking the management of capital, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce any debt.

- The adjusted net equity managed at 31 December 2008 and at 31 December 2007 was as follows:

	As at 31/12/08 £	As at 31/12/07 £
Total assets	601,406	624,403
Less: Total liabilities	-	-
Adjusted net equity	601,406	624,403

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Capital and financial risk management (continued)

Financial risk management

The Company is exposed to financial risk through its financial assets. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk of loss as a result of adverse changes in market prices and foreign currency together with related parameters such as market volatilities.

The Company is exposed to market risk as a result of the assets contained within the Company's balance sheet. There has been no change to the nature of the Company's exposure to market risks or the manner in which it manages and measures the risk.

The main component of market risk that the Company faces is interest rate risk. The Company manages interest rate risk by monitoring the interest rate profile of its assets.

Market risk – sensitivity analysis

The Company does not hold any variable rate assets and is therefore not directly sensitive to interest rate movements.

Credit risk

Credit risk is the risk arising from the possibility that the Company will incur losses from the failure of debtors to meet their obligations.

The Company's exposure to credit risk is not considered to be significant as the credit exposures are to related parties (Note 11) or with the UK Treasury Office. As at 31 December 2008 there were no outstanding or impaired loans due to the Company.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due.

Liquidity risk is mitigated by the routine monitoring of key management information.

The Company has no liabilities at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Related party transactions

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Its immediate parent company is The Royal Bank of Scotland plc which is incorporated in Great Britain and registered in Scotland.

As at 31 December 2008, The Royal Bank of Scotland Group plc heads the largest group in which the Company is consolidated and The Royal Bank of Scotland plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of both companies may be obtained from The Secretary, The Royal Bank of Scotland Group plc, Gogarburn, PO Box 1000, Edinburgh EH12 1HQ.

During the year, the Company was party to various transactions with The Royal Bank of Scotland plc. These transactions were entered into on an arms length basis unless stated otherwise and in respect of the surrender of tax losses (see Note 5). The income statement impact and outstanding balances arising from these transactions as at 31 December 2008 are set out below:

<u><i>The Royal Bank of Scotland plc</i></u>	Year ended 31/12/08 £'000	Year ended 31/12/07 £'000
Income statement impact:		
- Stock lending fee income	-	51
	As at 31/12/08 £'000	As at 31/12/07 £'000
Amount owed to the Company		
- Unsecured loans	601,311	624,348

Amounts owed to the Company consisted of a £601,311k loan with a residual maturity of less than one month and on an interest free basis.