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ADAM & COMPANY PLC

REPORT AND ACCOUNTS

FOR THE YEAR TO 31 DECEMBER 2008

ADAM & COMPANY PLC

OFFICERS AND PROFESSIONAL ADVISERS

BOARD OF DIRECTORS
R M Entwistle FCIB, FCIBS (Non-Executive Chairman)

D J Cathie FCIBS (Managing Director)

R E Donaldson ACIB
Lord Donald Graham FCIBS
R R Lockhart FCIBS
S E C Miller (Non-Executive)
J O'Donnell ACIBS
W J Stanworth CA
A K Mulligan ACA
J R Hackett
K A McGuire MCIBS

SECRETARY
S Doyle

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22 Charlotte Square
Edinburgh EH2 4DF
0131 225 8484
E-mail enquiries @ adambank.com
Fax 0131 225 5136
Registered No: SC83026

INDEPENDENT AUDITORS
Deloitte LLP
Edinburgh

BANKERS
The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh EH2 2YB

Registered in Scotland

ADAM & COMPANY PLC

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

The company's business continued to be that of providing banking and other financial services. The directors aim to maintain the management policies which are designed to provide a high quality of service to clients.

The directors are satisfied with the development of the company's activities during the year. The company's performance is presented in the Income Statement on page 7. The profit for the year after providing for taxation was £13.223 million (2007: £10.230 million). At the end of the year, the financial position showed total assets of £2,439 million (2007: £2,349 million) and equity of £78 million (2007: £61 million). The directors do not recommend the payment of a dividend (2007: nil). The retained profit of £13.223 million (2007: £10.230 million) has been transferred to reserves.

The directors do not anticipate any material change in either the type or level of activities of the company.

The company is ultimately a subsidiary of The Royal Bank of Scotland Group plc which provides the company with a significant degree of direction, in addition to access to central resources. The Royal Bank of Scotland Group plc also provides policies in key areas such as finance, risk, human resources and environment, and any deviation from these policies has to be agreed. For this reason, the directors believe that performance indicators specific to Adam & Company plc are not necessary or appropriate for a more detailed 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 an ultimate group basis.

The group is funded by a combination of client deposits, foreign currency deposits and other facilities from The Royal Bank of Scotland plc. Excess cash arising from deposits in excess of the group's funding requirements are placed with The Royal Bank of Scotland plc. The group seeks to minimise its exposure to various external financial risks for which further information is disclosed in note 24.

The directors, having made such enquiries as they consider 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 names of the present directors of the company are shown on page 1, all of whom have served throughout the year, with the exception of K A McGuire who was appointed on 1 April 2008. R W Moore resigned as director on 23 June 2008. R S Alexander resigned as company secretary on 7 January 2009. S Doyle was appointed as company secretary on 7 January 2009.

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 judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' RESPONSIBILITIES (CONTINUED)

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 Companies Acts 1985 and 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who are a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

STAFF POLICIES

The company encourages employee involvement through a process of employee communication. This includes internal communication activities through a corporate intranet, regular anonymous staff surveys, team meetings led by managers, briefings held by senior managers and regular dialogue with employees.

The company recognises its responsibility towards staff with disabilities and seeks to eliminate discrimination on the grounds of disability. The company recognises the experience; talent and skill that people with disabilities can bring to the workforce and strives to achieve equality of opportunity in the recruitment, employment and retention of all staff, including those with disabilities.

FINANCIAL INSTRUMENTS

The company seeks to minimise its exposure to external financial risks. The major risks associated with the company's businesses are market risk, liquidity risk and credit risk. The company has established a comprehensive framework for managing these risks, which evolves as the company's business activities change in response to market, credit and other developments. The company's policies for managing each of these risks and its exposure thereto are detailed in notes 22 to 24 to the financial statements.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

In relation to the financial year to 31 December 2008, the company does not intend to follow any specific code or standard on payment practice, but instead prefers to remain flexible with respect to the payment of creditors.

The majority of suppliers of goods and services will be paid within one month of the company receiving an appropriate invoice. In order to reduce administration costs certain smaller invoices may be held over for payment with larger invoices. Where a supplier requests it, the company will endeavour to accommodate specific payment terms. As at 31 December 2008 the amount of trade creditors outstanding, expressed as a proportion of annual supplies invoiced, is equivalent to 40 days (2007: 37 days).

Payment terms will be discussed and agreed with new suppliers at the start of the relationship, rather than for each individual transaction.

SHARE CAPITAL

During the year the share capital was increased by £3,750,000 (2007: £3,000,000).

AUDITORS

The auditors, Deloitte LLP, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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

S Doyle
Secretary
22 Charlotte Square
EDINBURGH EH2 4DF
31 March 2009

ADAM & COMPANY PLC

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ADAM & COMPANY PLC

We have audited the financial statements of Adam & Company plc (the company) for the year ended 31 December 2008 which comprise the income statement, the balance sheet, the statement of recognised income and expense, the cash flow statement, the accounting policies and the related notes 1 to 34. 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 with the company are 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 ADAM & COMPANY PLC (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
Edinburgh, United Kingdom

31 March 2009

ADAM & COMPANY PLC
INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008	2007
		£000	£000
Interest receivable		139,757	121,394
Interest payable		(103,243)	(90,474)
Net interest income		36,514	30,920
Fees and commissions receivable		9,247	9,035
Fees and commissions payable		(733)	(606)
Income from trading activities	2	3,379	2,635
Other operating income		-	-
Non-interest income		11,893	11,064
Total income		48,407	41,984
Operating expenses	3	(26,050)	(26,295)
Operating profit before impairment provisions		22,357	15,689
Net charge for impairment provisions		(3,719)	(846)
Profit before tax	5	18,638	14,843
Tax	6	(5,415)	(4,613)
Profit for the year		**13,223**	**10,230**

All the results of the company relate to continuing operations.

ADAM & COMPANY PLC
BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 £000	2007 £000
ASSETS			
Cash and balances at central banks		390	440
Items in the course of collection from other banks		1,599	1,940
Loans and advances to banks	7	1,337,465	1,423,412
Loans and advances to customers	8	1,081,115	833,337
Debt securities	9	3,045	76,753
Intangible assets	11	144	114
Property, plant and equipment	12	2,885	3,002
Settlement balances		199	1,014
Derivatives at fair value	13	4,149	894
Other assets, prepayments and accrued income	14	5,886	6,228
Deferred tax asset	18	1,659	2,251
TOTAL ASSETS		**2,438,536**	**2,349,385**
LIABILITIES			
Deposits by banks	15	533,424	398,439
Items in the course of transmission to other banks		2,826	3,102
Customer accounts	16	1,773,686	1,841,599
Settlement balances		425	649
Derivatives at fair value	13	4,158	873
Other liabilities, accruals and deferred income	17	32,267	30,275
Deferred tax liabilities	18	13	49
Provisions for liabilities and charges	19	372	-
Subordinated liabilities	20	13,500	13,500
TOTAL LIABILITES		2,360,671	2,288,486
SHAREHOLDERS' EQUITY			
Called up share capital	21	19,548	15,798
Reserves		58,317	45,101
		77,865	60,899
TOTAL LIABILITIES AND EQUITY		**2,438,536**	**2,349,385**

The Financial Statements were approved by the Board of Directors and authorised for issue on 31 March 2009

They were signed on its behalf by:

R M Entwistle, Chairman

D J Cathie, Director

31 March 2009

ADAM & COMPANY PLC
STATEMENT OF RECOGNISED INCOME & EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2008

	Retained earnings £000	Available for sale reserves £000	Total £000
Net valuation losses taken directly to equity	-	(14)	(14)
Net loss taken to income	-	4	4
Tax on items recognised direct in equity	-	3	3
Profit for the period	13,223	-	13,223
Total recognised income and expense	**13,223**	**(7)**	**13,216**

ADAM & COMPANY PLC
STATEMENT OF RECOGNISED INCOME & EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2007

	Retained earnings £000	Available for sale reserves £000	Total £000
Net valuation losses taken directly to equity	-	(4)	(4)
Net profit taken to income	-	(8)	(8)
Tax on items recognised direct in equity	-	1	1
Profit for the period	10,230	-	10,230
Actuarial gains on pension scheme	(376)	-	(376)
Total recognised income and expense	**9,854**	**(11)**	**9,843**

ADAM & COMPANY PLC
RECONCILIATION OF MOVEMENT IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital	Retained earnings	Available for sale reserves	Revaluation reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2008	15,798	44,889	(3)	215	60,899
Increase in share capital	3,750	-	-	-	3,750
Total recognised income and expense for the period	-	13,223	(7)	-	13,216
Balance at 31 December 2008	19,548	58,112	(10)	215	77,865

ADAM & COMPANY PLC
RECONCILIATION OF MOVEMENT IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital	Retained earnings	Available for sale reserves	Revaluation reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2007	12,798	35,035	8	215	48,056
Increase in share capital	3,000	-	-	-	3,000
Total recognised income and expense for the period	-	9,854	(11)	-	9,843
Balance at 31 December 2007	15,798	44,889	(3)	215	60,899

ADAM & COMPANY PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £000	2007 £000 *restated
Cash flow (used in)/from operating activities	29	(254,128)	114,622
Investing activities			
Sale and maturity of securities		(4)	8
Purchase of property, plant and equipment		(623)	(885)
Purchase of intangibles		(80)	(28)
Cash flows used in investing activities		(707)	(905)
Financing activities			
Interest on subordinated liabilities		(358)	(352)
Issue of ordinary shares		3,750	3,000
Issue of subordinated liabilities		-	8,000
Cash flows from financing activities		3,392	10,648
Net (decrease)/increase in cash and cash equivalents		(251,443)	124,365
Cash and cash equivalents 1 January		1,102,202	977,837
Cash equivalents at 31 December	30	**850,759**	**1,102,202**

* Refer to note 30.

ACCOUNTING POLICIES

A. Adoption of new and revised International Financial Reporting Standards

The accounting standards effective this year have not had an impact on either the results or accounting policies of the group.

There are no new standards not yet effective which the directors believe will have a significant impact on the results or accounting policies of the group.

B. Accounting convention

The financial statements, which should be read in conjunction with the Directors' report, are prepared on a going concern basis and in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union and under the historical cost convention as modified by the revaluation to fair value of derivative financial instruments and available-for-sale financial assets. The financial statements of the company are prepared in accordance with Section 226 of, and Schedule 9 to, the Companies Act 1985.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

C. Revenue recognition

Interest income on financial assets that are classified as loans and receivables and available-for-sale, and 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 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.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. If it is unlikely that a specific lending arrangement will be entered into, such fees are taken to profit or loss otherwise they are deferred and included in the effective interest rate on the advance.

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. Brokerage commissions are recognised in revenues when trades are processed.

Commission received on card related service is accrued to the income statement as the service is performed.

D. Pensions

The company provides retirement benefits in the form of pensions to eligible employees.

For defined benefit schemes, scheme liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities. Scheme assets are measured at their fair value. Any surplus or deficit of scheme assets over liabilities is recognised in the balance sheet as an asset (surplus) or liability (deficit). The current service cost and any past service costs together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities is charged to operating expenses. Actuarial gains and losses are recognised in full in the period in which they occur outside profit or loss and presented in the statement of recognised income and expense.

E. Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit or loss using methods that best reflect the economic benefits over their estimated useful economic lives and included in depreciation and amortisation. The estimated useful economic lives are as follows:

Computer software	3-5 years straight line

F. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation 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 profit or loss on a straight-line basis so as to write off the depreciable amount of property, plant and equipment over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value.

Estimated useful lives are as follows:

Freehold buildings	50 years
Short leaseholds	unexpired period of the lease
Computer equipment	up to 5 years
Other equipment	4 to 15 years
Paintings	Not depreciated

G. Impairment of intangible assets and property, plant and equipment

At each reporting date, the company assesses whether there is any indication that its intangible assets or 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 an asset does not generate cash flows that are independent from those of other assets or groups of assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset that have not been reflected in the estimation of future cash flows. If the recoverable amount of an intangible or tangible asset is less than its carrying value, an impairment loss is recognised immediately in profit or loss and the carrying value of the asset reduced by the amount of the loss. A reversal of an impairment loss on intangible assets (excluding goodwill) or property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have had had no impairment loss been recognised.

H. Currency translation

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 profit or loss.

I. Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity. 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.

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

J. Financial assets

Financial assets are classified into available-for-sale, held for trading or loans and receivables.

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 for trading. 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.

Held for trading – a financial asset is classified as held for trading if it is a derivative. Held for trading financial assets are recognised at fair value with transaction costs recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses on held for trading financial assets are recognised in profit or loss as they arise.

Available-for-sale – financial assets that are not classified as held for trading or loans and receivables are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss, together with interest calculated using the effective interest rate method. Other changes in the fair value of available-for-sale financial assets are reported in a separate component of shareholders' equity. Interest calculated using the effective interest rate is recognised in profit or loss.

Regular way purchases of financial assets classified as loans and receivables are recognised on settlement date; all other regular way purchases are recognised on trade date. 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.

K. Impairment of financial assets

The company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset 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 classified as loans and receivables has been incurred, the company measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually.

Impairment losses are recognised in profit or loss 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 provision. Once an impairment loss has been recognised on a financial asset, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Latent loss provision is the provision held against the estimated impairment in the performing portfolio which has yet to be identified as at the balance sheet date. The methodology by which the provision is calculated entails a statistical estimation of existing but unidentified defaults, based upon the level of identified individual impairments and the emergence period (the average time taken for current impaired loans to be recognised and provided for under the individual assessment process).

L. Financial liabilities

A financial liability is classified as held for trading if it is a derivative. Held for trading financial liabilities are recognised at fair value with transaction costs being recognised in profit or loss. Subsequently they are measured at fair value. Gains and losses are recognised in profit or loss as they arise. 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 times 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.

M. Operating leases

Operating lease costs are charged to the profit and loss account in the period to which they relate.

N. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

O. Critical accounting estimates and judgments

The reported results of the company for 2008 are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements.

The judgments 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 – financial assets

The company provides for losses existing in its lending book so as to state its loan portfolio at its expected net realisable value. Provisions against exposures are established both individually and on a latent basis.

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 and 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'.

Evaluating estimates of provisions involves significant judgment 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.

Fair value

Under IFRS, fair value is the default presentation value for financial instruments. The main exceptions are loans and advances. The income statement reflects the movement in fair values of all financial instruments except those designated as being available-for-sale.

Fair value is the value at which a position could be closed out or sold in a transaction to a willing and knowledgeable counterparty over a reasonable period of time under current market conditions. 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.

Securities carried at fair value include corporate debt obligations. 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 or if a position could be liquidated only at an unfavourable price or over an extended period, fair value is based on appropriate valuation techniques or management estimates.

The company's derivative products include spot and forward purchases and sales of foreign currencies. Their fair value is derived from market quoted prices.

Fair values are primarily sensitive to interest and foreign exchange rates.

O. Critical accounting estimates and judgments (continued)

Pensions
In determining the value of scheme liabilities, assumptions are made as to price inflation, dividend growth, 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 income statement. The assumptions adopted for the pension schemes are set out in Note 4 to the accounts.

Provisions for Liabilities and charges
The 2008 bonus structure was changed and is now a deferred award scheme. The bonus earned in each year is deferred and released in three instalments. The amount deferred is based on assumptions covering deposit interest rates, claw back provisions for leavers and assumptions on staff turnover.

NOTES TO THE ACCOUNTS

1. SEGMENTAL ANALYSIS

In the opinion of the directors, the company has one class of business, the provision of a range of financial services. In addition, during the period it had no significant activities outside the United Kingdom. Accordingly, no segmental analysis by class of business or geographical location is provided.

2. INCOME FROM TRADING ACTIVITIES

	2008 £000	2007 £000
Foreign exchange trading	3,379	2,635

3. OPERATING EXPENSES

	2008 £000	2007 £000
Staff costs:		
- Wages, salaries and other staff costs	6,929	7,554
- Social security costs	665	612
- Pension costs (note 4)	1,227	1,665
Other operating expenses	17,229	16,464
	26,050	26,295

The average number of persons employed by the company was 229 (2007: 209).

4. PENSIONS

The Adam & Company Retirement Benefits Plan was merged with the Royal Bank of Scotland Group Pension Fund effective 31 December 2007 and all members' interests in the Adam & Company Retirement Benefits Plan was transferred to The Royal Bank of Scotland Group Pension Fund as at that date.

The Adam & Company Retirement Benefits Plan was closed to new entrants from 1 January 2003, however benefits continued to accrue for existing members and will continue to accrue within The Royal Bank of Scotland Group Pension Fund following the plan merger.

Employees who joined the company after 1 January 2003 are eligible to join The Royal Bank of Scotland Group Pension Fund. IAS 19 requires accounting for this scheme on the basis that the company participates in a defined contribution scheme because it is not possible to identify the assets and liabilities of the scheme attributable to the company. Full disclosure of the scheme is provided below, see note 4b.

Details of pension schemes material to the Group are given below.

4a. ADAM & COMPANY RETIREMENT BENEFITS PLAN

The Adam & Company Retirement Benefits Plan was a defined benefit scheme and was measured at fair value at the balance sheet date. Scheme liabilities were measured using the projected unit method, which took account of projected earnings increases, using actuarial assumptions that were mutually compatible and led to the best estimate of the future cash flows. These cash flows were discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. The deficit in a defined benefit scheme is the shortfall of the value of the assets in the scheme below the value of the scheme liabilities. Any deficit was recognised as a liability to the extent of the employer's legal or constructive obligation to fund it. The current service cost (the increase in scheme liabilities arising from employee service in the current period) and interest cost (the unwind of the discount on scheme liabilities) net of the expected return on scheme assets were charged to the profit and loss account. Actuarial gains and losses (changes in surpluses or deficits due to experience gains and losses and to changes in actuarial assumptions) were recognised in full in the statement of recognised income and expense for the period.

During the year the group contributed 19% (2007: 35%) of Adam & Company Retirement Benefits Plan members' salaries to The Royal Bank of Scotland Group Fund, which funds both the future service requirement and the amortisation of the past service deficit. Members contribute 2.5% of salaries (2007: 2.5%).

4a. PENSIONS (CONTINUED)

As at 31 December 2007 the Adam & Company Retirement Benefits Plan was merged with The Royal Bank of Scotland Group Fund. The following notes demonstrate the position immediately prior to the merger as at 31 December 2007 and as at 31 December 2008.

The total pension cost for the year is as follows:

	2008 £000	2007 £000
Amount charged to profit and loss account		
Expected return on pension scheme assets	-	1,217
Interest on pension scheme liabilities	-	(1,476)
Net return debited to net interest income	-	(259)
Current service cost	-	(1,600)
Net pension cost of defined benefit scheme	-	(1,859)
Contributions to The Royal Bank of Scotland Group Pension Fund	-	(1,139)
Total pension costs	-	(2,998)
of which charged to other group companies	-	1,333
Total pension costs of the company (note 3)	-	(1,665)

The present values of the scheme liabilities at the respective year ends were calculated by a qualified independent actuary using the following major assumptions:-

	2008	2007
Rate of increase in salaries	-	4.7%
Rate of increase in pensions in payment	-	3.1%
Discount rate	-	6.1%
Inflation assumption	-	3.1%
Rate of interest on deferred pensions	-	-

The assets in the scheme and the expected rates of return just before transfer were:-

	2008		2007	
	Value £000	Long-term rate of return expected	Value £000	Long-term rate of return expected
Equities	-	-	-	-
Index linked bonds	-	-	-	-
Corporate and other bonds	-	-	-	-
Government Bonds	-	-	-	-
Cash	-	-	30,037	4.6%
Total market value of assets	-		30,037	
Present value of scheme liabilities	-		(30,344)	
Deficit in the scheme	-		(307)	
Settlement credit	-		307	
Related deferred tax	-		-	
Net pension liability	-		-	

NOTES TO THE ACCOUNTS (CONTINUED)

4a. PENSIONS (CONTINUED)

The following amounts were recognised in the statements of recognised income and expense:

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	-	(445)
Experience gains and losses arising on scheme liabilities	-	1,403
Changes in assumptions underlying the present value of scheme liabilities	-	(1,335)
Actuarial (loss)	-	(377)

The analysis of the movement in the deficit in the scheme during the year is as follows:-

	2008 £000	2007 £000
Deficit in scheme at 1 January	-	(9,545)
Current service cost	-	(1,600)
Contributions	-	11,781
Finance costs	-	(259)
Actuarial (loss)	-	(377)
Deficit in scheme at 31 December	-	-

History of experience gains and losses:-	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets				
- amount (£000)	-	(445)	663	1,362
- percentage of scheme assets	-	1%	4%	9%
Experience gains and losses on scheme liabilities				
- amount (£000)	-	1,403	(570)	(536)
- percentage of the present value of the scheme liabilities	-	5%	2%	2%
Total actuarial gain/(loss)				
- amount (£000)	-	(577)	(2,446)	(4,531)
- percentage of the present value of the scheme liabilities	-	1%	9%	17%

4b. THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

The Royal Bank of Scotland Group Pension Fund is a defined benefit scheme and is measured at 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 are mutually compatible and lead to the best estimate of the future cash flows. These cash flows are discounted at the interest rate applicable to high-quality corporate bonds of the same currency and term as the liabilities. The surplus/deficit in a defined benefit scheme is the excess/shortfall of the value of the assets in the scheme over/below the value of the scheme liabilities. Any asset or liability and actuarial gains or losses are recognised in The Royal Bank of Scotland Group financial statements.

During the year the company contributed 21.5% (2007: 21.5%) of members' salaries to The Royal Bank of Scotland Group Pension Fund.

NOTES TO THE ACCOUNTS (CONTINUED)

4b. PENSIONS (CONTINUED)

The total pension cost for all participating employers in The Royal Bank of Scotland Group Pension Fund is as follows:

	2008 £m	2007 £m
Amount charged to profit and loss account		
Expected return on pension scheme assets	1,271	1,182
Interest on pension scheme liabilities	(1,080)	(1,007)
Net return credited to net interest income	191	175
Current service cost	(437)	(566)
Past service cost	(21)	(19)
Net pension cost of defined benefit scheme	(267)	(410)

The present values of the scheme liabilities at the respective year ends were calculated by a qualified independent actuary using the following major assumptions:-

	2008	2007
Rate of increase in salaries	4.0%	4.5%
Rate of increase in pensions in payment	2.7%	3.2%
Discount rate	6.5%	6.0%
Inflation assumption	2.7%	3.2%
Expected return on plan assets	7.1%	6.9%

The assets in the scheme and the expected rates of return were:

	2008		2007	
	Value	Long-term rate of return expected	Value	Long-term rate of return expected
	£m		£m	
Equities	8,794	8.4%	11,331	8.1%
Index Linked Bonds	2,665	3.9%	3,381	4.5%
Government fixed interest bonds	178	3.9%	223	4.5%
Corporate and other bonds	2,739	6.1%	2,805	5.5%
Property	548	6.1%	706	6.3%
Cash	(120)	2.5%	129	4.6%
Total market value of assets	14,804		18,575	
Present value of scheme liabilities	(15,594)		(18,099)	
(Deficit)/surplus in the scheme	(790)		476	

NOTES TO THE ACCOUNTS (CONTINUED)

4b. PENSIONS (CONTINUED)

The analysis of the movement in the deficit in the scheme during the year is as follows:-

	2008 £m	2007 £m
Surplus/(deficit) in scheme at 1 January	476	(1,630)
Current service cost	(437)	(566)
Past service cost	(21)	(19)
Contributions	396	416
Finance costs	(1,080)	(1,007)
Expected return	1,271	1,182
Actuarial (loss)/gain	(1,395)	2,100
(Deficit)/surplus in scheme at 31 December	(790)	476

5. PROFIT BEFORE TAX

	2008 £000	2007 £000
Profit before tax is stated after taking account of the following:		
(Loss)/profit on disposal on available for sale securities	(4)	8
Interest on subordinated liabilities	358	352

Auditors' remuneration:

Amounts paid to the auditors for statutory audit and other services were as follows:

	2008 £000	2007 £000
Audit services		
- Fees payable to the company's auditors for the audit of the company's annual accounts	24	23
- Audit related reporting	-	3
Total audit fees	24	26
Other services	18	-
Total non audit fees	18	-
Total	42	26

6. TAX ON OPERATING PROFIT

	2008 £000	2007 £000
Analysis of charge in year		
Current taxation:		
UK corporation taxation at 28.5% (2007: 30%)		
- current tax on profits of the year	4,881	3,769
Adjustments in respect of previous years	(25)	(21)
Total current tax charge	4,856	3,748
Deferred taxation (note 18):		
(Credit)/charge for the year	559	707
Rate change impact	-	158
	559	865
Tax on profit on ordinary activities	5,415	4,613
Deferred tax analysis:		
Deferred tax asset	595	841
Deferred tax liabilities	(36)	24
	559	865

During the year the rate of the corporation tax changed from 30% to 28%, making the effective rate of charge for the year 28.5%.

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 30% as follows:

	2008 £000	2007 £000
Profit on ordinary activities before tax	18,638	14,843
Profit on ordinary activities multiplied by the standard rate of UK corporation tax (28.5%) (2007:30%)	5,312	4,453
Effects of:		
Expenses not deductible for tax purposes	128	23
Adjustments in respect of previous years	(25)	(21)
Impact of rate change in deferred tax	-	158
Total tax	5,415	4,613

7. LOANS AND ADVANCES TO BANKS

	2008 £000	2007 £000
Loans and receivables	1,337,465	1,423,412

8. LOANS AND ADVANCES TO CUSTOMERS

	2008 £000	2007 £000
Loans and receivables	1,081,115	833,337
The following concentrations of lending to UK residents are considered significant:		
- Home loans	366,800	267,357
- Property industry	90,116	62,798
- Business and other services	37,049	30,001
- Lending to individuals	342,853	289,282

9. DEBT SECURITIES

	£000
At 31 December 2008	
Available-for-sale	3,045
Gross unrealised gains	-
Gross unrealised losses	(14)

	Listed £000	Unlisted £000	Total £000
At 31 December 2008 Available-for-sale	3,027	18	3,045

	£000
At 31 December 2007	
Available-for-sale	76,753
Gross unrealised gains	37
Gross unrealised losses	(41)

	Listed £000	Unlisted £000	Total £000
At 31 December 2007 Available-for-sale	9,516	67,237	76,753

9. DEBT SECURITIES (CONTINUED)

The following table categorises the company's available-for-sale debt securities by maturity and yield (based on weighted averages as at 31 December).

	Within 1 year		After 1 but within 5 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
2008	£000	%	£000	%	£000	%
Total fair value	3,045	6.37%	-	-	3,045	6.37%

	Within 1 year		After 1 but within 5 years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield
2007	£000	%	£000	%	£000	%
Total fair value	73,716	6.03	3,037	6.42	76,753	6.05

10. PAST DUE AND IMPAIRED FINANCIAL ASSETS

Impaired loans and advances to customers are included within the balance disclosed in note 8.

2008	Cost £000	Provision £000	Net book value £000
Loans and advances to customers	23,211	(4,040)	19,171

2007	Cost £000	Provision £000	Net book value £000
Loans and advances to customers	6,764	(799)	5,965

10. IMPAIRED FINANCIAL ASSETS (CONTINUED)

The following table shows impairment provisions for loans and advances classified as loans and receivables.

	2008 £000	2007 £000
At 1 January	1,016	343
Amounts written off	(8)	(63)
Recoveries of amounts previously written off	5	64
Charge to income statement	3,719	846
Unwind of discount	(456)	(174)
As at 31 December	4,276	1,016

During the year impairment charges of £nil (2007: £nil) were recognised on available-for-sale financial assets.

	2008 £000	2007 £000
Gains on disposal or settlement of loans and receivables	5	64
Impairment losses charged to income statement		
Loans and advances to customers	3,719	846
Impaired financial assets – individually assessed		
Loans and advances to customers	23,211	6,764

The company holds collateral in respect of certain loans and advances to customers that are post due or impaired. Such collateral includes mortgages over property (both residential and otherwise) and cash.

COLLATERAL

The following represents the loans secured against residential and other property.

	2008 £000	2007 £000
Residential property	367,809	301,734
Other property	223,484	146,307
	591,293	448,041

There have been no financial or non financial assets obtained during the year by taking possession or calling on other credit enhancements.

10. IMPAIRED FINANCIAL ASSETS (CONTINUED)

The following loans and advances to customers were past due at the balance sheet date but not considered impaired.

2008	Past due 1-29 days £000	Past due 30-59 days £000	Past due 60-89 days £000	Past due more than 90 days £000	Total £000
Loans and advances to customers	11,309	3,872	3,748	13,689	32,618

2007	Past due 1-29 days £000	Past due 30-59 days £000	Past due 60-89 days £000	Past due more than 90 days £000	Total £000
Loans and advances to customers	11,488	9,299	3,170	17,222	41,179

Included in the above balances are items that are past due through administrative and other delays in recording payments or in finalising documentation and other events unrelated to credit quality.

NOTES TO THE ACCOUNTS (CONTINUED

11. INTANGIBLE ASSETS

	Software £000
Cost:	338
At 1 January 2008	
Additions	80
At 31 December 2008	418
Accumulated amortisation and impairment:	
At 1 January 2008	224
Disposals	
Charge for the year	50
At 31 December 2008	274
Net book value at 31 December 2008	**144**

	Software £000
Cost:	
At 1 January 2007	362
Disposals	(51)
Additions	27
At 31 December 2007	338
Accumulated amortisation and impairment:	
At 1 January 2007	219
Disposals	(52)
Charge for the year	57
At 31 December 2007	224
Net book value at 31 December 2007	**114**

NOTES TO THE ACCOUNTS (CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT

2008	Freehold premises £000	Short leasehold premises £000	Computers and other equipment £000	Total £000
Cost:				
At 1 January 2008	755	468	5,138	6,361
Additions	-	-	623	623
Disposals and write-off of fully depreciated assets	-	-	(64)	(64)
At 31 December 2008	755	468	5,697	6,920
Accumulated depreciation and amortisation:				
At 1 January 2008	70	183	3,106	3,359
Disposals and write-off of fully depreciated assets	-	-	(61)	(61)
Depreciation charge for the year	18	60	659	737
At 31 December 2008	88	243	3,704	4,035
Net book value at 31 December 2008	**667**	**225**	**1,993**	**2,885**

2007	Freehold premises £000	Short leasehold premises £000	Computers and other equipment £000	Total £000
Cost:				
At 1 January 2007	755	449	4,411	5,615
Additions	-	26	859	885
Disposals and write-off of fully depreciated assets	-	(7)	(132)	(139)
At 31 December 2007	755	468	5,138	6,361
Accumulated depreciation and amortisation:				
At 1 January 2007	52	135	2,651	2,838
Disposals and write-off of fully depreciated assets	-	(7)	(109)	(116)
Depreciation charge for the year	18	55	564	637
At 31 December 2007	70	183	3,106	3,359
Net book value at 31 December 2007	**685**	**285**	**2,032**	**3,002**

13. DERIVATIVES AT FAIR VALUE

The company provides foreign exchange services to customers, principally, buying and selling foreign currencies spot and forward up to one year. The company is exposed to movements in exchange rates between the date the contract is entered into and the date the contract matures. Consequently, to limit this exposure, the company enters into matching forward foreign exchange contracts with the market.

2008	Notional Amounts £000	Fair Value Assets £000	Fair Value Liabilities £000
Exchange rate contracts:			
Spot and forwards	42,254	4,149	4,158
2007			
Exchange rate contracts:			
Spot and forwards	100,943	894	873

The following table sets forth the gross positive fair values by maturity.

	Within one year 2008 £000	Greater than one year 2008 £000	Within one year 2007 £000	Greater than one year 2007 £000
Exchange rate contracts:				
Financial institutions	3,420	-	578	24
Other	633	96	292	-
	4,053	96	870	24

Amounts included in the income statement:

	2008 £000	2007 £000
Losses on financial assets designated as fair value through profit and loss	(5)	(11)

14. OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME

	2008 £000	2007 £000
Prepayments and accrued income	3,422	4,292
Due from parent company	2,160	1,800
Other	304	136
	5,886	6,228

15. DEPOSITS BY BANKS

	2008 £000	2007 £000
Amortised cost	533,424	398,439

16. CUSTOMER ACCOUNTS

	2008 £000	2007 £000
Amortised cost	1,773,686	1,841,599

17. OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

	2008 £000	2007 £000
Corporation tax	4,881	3,769
Amounts owed to related parties	7,832	8,991
Other liabilities	19,554	17,515
	32,267	30,275

18. DEFERRED TAXATION

Provision for deferred taxation has been made as follows:

	Accelerated capital allowances £000	Provisions £000	AFS reserves £000	Pension £000	Other £000	Other IAS transition £000	Deferred Bonus £000	Total £000
At 1 January 2007	(25)	73	-	2,863	-	155	-	3,066
(Charge)/credit to income (note 6)	(28)	(9)	-	(2,863)	2,209	(16)	-	(707)
Credit to equity	-	-	1	-	-	-	-	1
Effect of rate change	4	(4)	-	-	(148)	(10)	-	(158)
At 31 December 2007 and 1 January 2008	(49)	60	1	-	2,061	129	-	2,202
(Charge)/credit to income (note 6)	36	(9)	-	-	(676)	(14)	104	(559)
Credit to equity	-	-	3	-	-	-	-	3
At 31 December 2008	(13)	51	4	-	1,385	115	104	1,646

The above is analysed as follows:

- Deferred tax assets	1,659
- Deferred tax liabilities	(13)
	1,646

19. PROVISIONS FOR LIABILITIES AND CHARGES

	2008 £000	2007 £000
At 1 January	-	88
Additional provision in the year	372	-
Released in the year	-	(88)
At 31 December	372	-

The prior year provision relates to costs associated with the relocation of London branch, completed in 2005. All liabilities have now been cleared. The current year provision relates to a deferred award scheme and is expected to be released over four years.

The additional provision for the year has been estimated based on a number of assumptions. The level of bonuses accrued for 2008 have been measured at their present value based on the rate the awards accrue interest (3%), discount rate of 5%, staff turnover (10% over 3 years) and a claw back provision for leavers of 2.5%.

20. SUBORDINATED LIABILITIES

Loan capital all of which has been raised for the development and expansion of the company's business and to strengthen its capital base comprises:

	2008 £000	2007 £000
Dated subordinated floating rate loan at amortised cost	**13,500**	**13,500**

The dated loan capital consists of two parts. The first of £3million is repayable on 30 September 2019. It may be prepaid with the prior consent of the Financial Services Authority at the option of the company in whole or in part on each calendar quarter end subsequent to 30 September 2014. Interest is payable throughout the term of the loan at the rate of 0.5% per annum over three month LIBOR. The second amount of £10.5million is repayable on 30 June 2022. It may be repaid with the prior consent of the Financial Services Authority at the opinion of the company in whole or in part of each calendar quarter and subsequent to 30 June 2017. Interest is payable throughout the term of the loan at the rate of 0.35% per annum over three month LIBOR.

21. CALLED UP SHARE CAPITAL

	2008 £000	2007 £000
Authorised:		
Ordinary shares of £1 each	25,000	18,230
Share capital allotted, called up and fully paid:		
Ordinary shares of £1 each	**19,548**	**15,798**

22. FINANCIAL INSTRUMENTS

The company provides banking services. It takes deposits in sterling and foreign currencies from customers and invests the funds in loans and advances to customers and banks and in debt securities. Deposits may be at call at floating interest rates or for a specified term at a fixed rate of interest. Likewise, loans and advances may be at floating interest rates or fixed for a term. These banking services give rise to liquidity, market and credit risk. The company also provides foreign exchange services to customers which again give rise to market and credit risk.

The company's financial instruments comprise cash, deposits, loans and debt securities in sterling and foreign currencies and derivative financial instruments comprise forward foreign exchange contracts. The company does not trade in financial instruments with the exception of that arising from facilitating customer transactions which involves buying and selling foreign currencies spot and forward and matching these activities in the market.

The company has an excess of deposits over loans and advances to customers and it utilises this excess by investing the funds in loans and advances to banks and in debt securities. These investments are in sterling, US dollars and euros. Where the company has excess deposits in other currencies it uses forward foreign exchange contracts to convert them into one of the three main currencies. The company will also use forward foreign exchange contracts to fund foreign currency loans and advances to customers where it does not already hold deposits in the currency being advanced.

22. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables analyse the company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

2008	Loans & receivables £000	Held for trading £000	AFS £000	Other amortised cost £000	Non financial assets/liabilities £000	Total £000
Cash and balances at central banks	390	-	-	-	-	390
Loans and advances to banks	1,337,465	-	-	-	-	1,337,465
Loans and advances to customers	1,081,115	-	-	-	-	1,081,115
Debt securities	-	-	3,045	-	-	3,045
Intangible assets	-	-	-	-	144	144
Property plant and equipment	-	-	-	-	2,885	2,885
Settlement balances	-	-	-	-	199	199
Derivatives at fair value	-	4,149	-	-	-	4,149
Prepayments, accrued income and other assets	-	-	-	-	9,144	9,144
	2,418,970	4,149	3,045	-	12,372	2,438,536
Deposits by banks	-	-	-	533,424	-	533,424
Customer accounts	-	-	-	1,773,686	-	1,773,686
Settlement balances	-	-	-	-	425	425
Derivatives at fair value	-	4,158	-	-	-	4,158
Accruals, deferred income and other liabilities	-	-	-	-	35,478	35,478
Subordinated liabilities	-	-	-	13,500	-	13,500
	-	4,158	-	2,320,610	35,903	2,360,671
Equity						77,865
						2,438,536

22. FINANCIAL INSTRUMENTS (CONTINUED)

2007	Loans & receivables £000	Held for trading £000	AFS £000	Other amortised cost £000	Non financial assets/liabilities £000	Total £000
Cash and balances at central banks	440	-	-	-	-	440
Loans and advances to banks	1,423,412	-	-	-	-	1,423,412
Loans and advances to customers	833,337	-	-	-	-	833,337
Debt securities	-	-	76,753	-	-	76,753
Intangible assets	-	-	-	-	114	114
Property plant and equipment	-	-	-	-	3,002	3,002
Settlement balances	-	-	-	-	1,014	1,014
Derivatives at fair value	-	894	-	-	-	894
Prepayments, accrued income and other assets	-	-	-	-	10,419	10,419
	2,257,189	894	76753	-	14,549	2,349,385
Deposits by banks	-	-	-	398,439	-	398,439
Customer accounts	-	-	-	1,841,599	-	1,841,599
Settlement balances	-	-	-	-	649	649
Derivatives at fair value	-	873	-	-	-	873
Accruals, deferred income and other liabilities	-	-	-	-	33,426	33,426
Subordinated liabilities	-	-	-	13,500	-	13,500
	-	873	-	2,253,538	34,075	2,288,486
Equity						60,899
						2,349,385

22. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarise the remaining maturities of the company's financial instruments:

2008

	On demand £000	Under 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								
Loans and advances to banks	420,026	407,725	213,627	90,760	132,531	20,716	52,080	1,337,465
Loans and advances to customers	169,293	34,386	25,025	45,189	85,689	199,927	521,606	1,081,115
Debt securities	-	18	-	3,027	-	-	-	3,045
Other assets and derivatives	8,095	55	169	185	2,775	944	-	12,223
Total	597,414	442,184	238,821	139,161	220,995	221,587	573,686	2,433,848
Liabilities								
Deposits by banks	5,080	224,173	271,836	18,650	3,016	10,669	-	533,424
Customer accounts	983,492	488,157	199,795	39,542	61,393	1,307	-	1,773,686
Other liabilities and derivatives	35,532	55	187	129	3,049	1,096	-	40,048
Subordinated liabilities	-	-	-	-	-	-	13,500	13,500
Total	1,024,104	712,385	471,818	58,321	67,458	13,072	13,500	2,360,658

2007

	On demand £000	Under 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								
Loans and advances to banks	209,362	771,249	246,967	111,594	25,134	22,976	36,131	1,423,413
Loans and advances to customers	141,787	8,886	12,778	22,263	47,330	205,055	395,238	833,337
Debt securities	-	36,817	17,411	4,143	15,359	3,022	-	76,752
Other assets and derivatives	9,621	230	594	20	26	24	-	10,515
Total	360,770	817,182	277,750	138,020	87,849	231,077	431,369	2,344,017
Liabilities								
Deposits by banks	122,395	121,494	142,032	-	-	12,518	-	398,439
Customer accounts	782,668	913,221	121,884	18,067	5,684	75	-	1,841,599
Other liabilities and derivatives	34,026	270	563	16	19	5	-	34,899
Subordinated liabilities	-	-	-	-	-	-	13,500	13,500
Total	939,089	1,034,985	264,479	18,083	5,703	12,598	13,500	2,288,437

22. FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarises the company's interest rate gaps in its non-trading book at 31 December 2008 and at 31 December 2007. Amounts have been allocated to time bands by reference to the earlier of the next interest repricing date and the maturity date. Short-term debtors and creditors have been included.

2008	Within 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 5 years £000	After 5 years £000	Non-interest bearing £000	Total £000
Assets							
Loans and advances to banks	1,033,619	87,714	144,328	17,612	49,299	4,893	1,337,465
Loans and advances to customers	1,007,705	8,502	10,432	31,354	1,559	21,563	1,081,115
Debt securities	-	3,027	-	-	-	18	3,045
Other assets	390	-	-	-	-	16,521	16,911
Total assets	2,041,714	99,243	154,760	48,966	50,858	42,995	2,438,536
Liabilities							
Deposits by banks	500,482	18,649	3,016	10,668	-	609	533,424
Customer accounts	1,575,008	51,769	63,110	1,308	-	82,491	1,773,686
Loan capital	13,500	-	-	-	-	-	13,500
Other liabilities	-	-	-	372	-	39,689	40,061
Shareholders' equity	-	-	-	-	-	77,865	77,865
Total liabilities and equity	2,088,990	70,418	66,126	12,348	-	200,654	2,438,536
Interest rate sensitivity gap	(47,276)	28,825	88,634	36,618	50,858	(157,659)	
Cumulative gap	(47,276)	(18,451)	70,183	106,801	157,659	-	

NOTES TO THE ACCOUNTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

2007	Within 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 5 years £000	After 5 years £000	Non-interest bearing £000	Total £000
Assets							
Loans and advances To banks	1,220,372	111,561	25,358	14,406	47,929	3,786	1,423,412
Loans and advances To customers	775,280	3,886	6,727	37,268	3,189	6,987	833,337
Debt securities	63,726	1,644	11,365	-	-	18	76,753
Other assets	440	-	-	-	-	15,443	15,883
Total assets	2,059,818	117,091	43,450	51,674	51,118	26,234	2,349,385
Liabilities							
Deposits by banks	386,563	-	-	10,525	-	1,351	398,439
Customer accounts	1,766,694	17,507	1,598	427	8,107	47,266	1,841,599
Loan capital	13,500	-	-	-	-	-	13,500
Other liabilities	-	-	-	-	-	34,948	34,948
Shareholders' equity	-	-	-	-	-	60,899	60,899
Total liabilities and equity	2,166,757	17,507	1,598	10,952	8,107	144,464	2,349,385
Interest rate sensitivity gap	(106,939)	99,584	41,852	40,722	43,011	(118,230)	
Cumulative gap	(106,939)	(7,355)	34,497	75,219	118,230	-	

23. CREDIT QUALITY INFORMATION

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess credit quality of borrowers. Customers are assigned on internal credit grade based on various credit grading factors. All credit ratings across the company map to a company level asset quality scale.

The internal credit grades are not solely based on the probability of default but also the asset and security quality and past relationships/knowledge of the client.

The internal credit grades are based on the following ratings:

AQ1 - Strong cash flow and quality security, negligible risk of default
AQ2 - Good cash flow, low loan to security value, minimal risk of default
AQ3 - Sustainable cash flow, reasonable loan to security value, unlikely to result in default
AQ4 - Good interest cover, element unsecured, unlikely to result in default
AQ5 - Repayment ability questionable, security may have deteriorated, much greater probability of default

The following summarises the various credit grades of Adam & Company plc's customers. Items included in accruing past due and non accrual are excluded from the relevant numbered grades.

2008	AQ1 £000	AQ2 £000	AQ3 £000	AQ4 £000	AQ5 £000	Accruing past due £000	Non accrual £000	Less provision £000	Total £000
Cash and balances at central banks	390	-	-	-	-	-	-	-	390
Loans and advances to banks	1,337,465	-	-	-	-	-	-	-	1,337,465
Loans and advances to customers	1,513	134,234	705,462	182,298	5,819	32,618	23,211	(4,040)	1.081,115
Debt securities	3,045	-	-	-	-	-	-	-	3,045
Settlement balances	98	-	-	101	-	-	-	-	199
Derivatives	3420	373	217	139	-	-	-	-	4,149
	1,345,931	134,607	705,679	182,538	5,819	32,618	23,211	(4,040)	2,426,363
Commitments	4,737	46,474	64,614	73,922	3,390	-	-	-	193,137
Contingent liabilities	9,998	8,250	6,201	17,337	-	-	-	-	41,786
	1,360,666	189,331	776,494	273,797	9,209	32,618	23,211	(4,040)	2,661,286

23. CREDIT QUALITY INFORMATION (CONTINUED)

2007	AQ1 £000	AQ2 £000	AQ3 £000	AQ4 £000	AQ5 £000	Accruing past due £000	Non accrual £000	Less provision £000	Total £000
Cash and balances at central banks	440	-	-	-	-	-	-	-	440
Loans and advances to banks	1,423,412	-	-	-	-	-	-	-	1,423,412
Loans and advances to customers	1,123	124,125	527,181	131,427	2,554	41,179	6,764	(1,016)	833,337
Debt securities	76,753	-	-	-	-	-	-	-	76,753
Settlement balances	916	-	-	98	-	-	-	-	1,014
Derivatives	607	201	17	69	-	-	-	-	894
	1,503,251	124,326	527,198	131,594	2,554	41,179	6,764	(1,016)	2,335,850
Commitments	518	40,401	134,413	41,818	1,568	-	-	-	218,718
Contingent liabilities	6,373	5,666	20,061	6,246	446	-	-	-	38,792
	1,510,142	170,393	681,672	179,658	4,568	41,179	6,764	(1,016)	2,593,360

24. RISK MANAGEMENT

The risks involved in the company's derivatives and other financial instruments include liquidity, market and credit risk. Liquidity risk is the risk of not having funds available to meet commitments. Market risk is the risk of adverse changes in the level of interest rates and in the rate of exchange between currencies. Credit risk is the risk of default by counterparties to transactions. Responsibility for the control of risk within the company, with the exception of credit risk arising from non-bank counterparties, is vested in the Assets and Liabilities Committee which is composed of senior executives and which establishes the overall risk limits to which the company adheres.

Liquidity risk
Liquidity risk arises as a result of mismatching the maturity of financial assets and liabilities, for example, customers' deposits which are available on instant access terms being invested in longer-term loans to customers. Sufficient liquidity is achieved by maintaining a diversified portfolio of high quality liquid assets. In practice, while a significant proportion of customers' deposits are on instant access terms, the majority of such deposits provide a stable funding base for the company.

The group's interest rate risk is shown in note 22. Amounts have been allocated to time bands by reference to the earlier of the next interest repricing date and the maturity date. Short-term debtors and creditors have been included

24. RISK MANAGEMENT (CONTINUED)

Interest rate risk
Interest rate risk arises as a result of differing interest repricing and maturity dates where, for example, the interest rate on a deposit may change with market conditions while that on a loan may be fixed for three years; differing interest bases where, for example, interest rates on deposits may be linked to the money markets while interest rates on loans may be linked to base rate; and holding financial instruments in various foreign currencies where, for example, one country's interest rate profile may be more volatile than another. The technique used by the group for managing interest rate risk is interest sensitivity analysis. For each currency, financial instruments are grouped into their interest characteristics such as base rate related, market led etc, and the impact on profitability of a 1% move in interest rates is calculated and compared to the limits which have been set for each currency. If interest rates had been 1% higher/lower and all other variables were held constant the groups' profit for the year ended 31 December 2008 would increase/decrease by £0.548m (2007: (£0.374m)).

The interest rate gaps as at 31 December 2008 are analysed at note 22.

Currency risk
Currency risk arises from holding financial instruments in various currencies and from buying and selling foreign currencies spot and forward. The techniques used by the company for managing currency risk include overnight and intra-day limits and gap analysis. Overall limits and limits for each foreign currency are set for the net amount of financial assets less financial liabilities (including derivative financial instruments) which may be held. Further, overall and individual foreign currency limits are set for unmatched forward foreign exchange contracts. The company's exposure to foreign exchange risk at the respective year ends is provided at note 25.

Credit risk
Credit risk arises as a result of making loans and advances to customers and banks, by investing in debt securities and by entering into forward foreign exchange contracts. Responsibility for the control of credit risk arising from non-bank counterparties is vested in the Credit Forum which is composed of senior executives, while control of credit risk arising from bank counterparties is vested in the Assets and Liabilities Committee. Both committees establish requisite limits including individual counterparty limits, economic sector limits and country limits. The company's credit quality is shown in note 23.

25. FOREIGN EXCHANGE RISK

The company's exposure to foreign exchange risk at the respective year ends is given below. The amounts shown are the foreign exchange gaps in each currency and take into account the effect of forward foreign exchange contracts entered into to manage currency exposures.

	2008 Trading £000	2007 Trading £000
US dollar	48	231
Euro	359	304
Other currencies	23	14
	430	549

The non-trading book is completely matched and so there are no foreign exchange gaps in any currency at this or the previous balance sheet date.

NOTES TO THE ACCOUNTS (CONTINUED)

26. CASH FLOWS PAYABLE ON FINANCIAL LIABILITIES

The following tables show cash flows payable on financial liabilities up to a period of 20 years including future payments of interest.

2008	0-3 months £000	3-12 months £000	1-3 years £000	3-5 years £000	5-10 years £000	10-20 years £000
Deposits by banks	505,855	21,623	1,969	10,217	-	-
Customer accounts	1,658,517	116,830	2,011	-	-	-
Subordinated liabilities	68	207	550	550	1,374	16,248
Other financial liabilities	425	26	350	160	-	-
	2,164,865	138,686	4,880	10,927	1,374	16,248
Derivatives – settled gross	4,158	-	-	-	-	-
	2,169,023	138,686	4,880	10,927	1,374	16,248
Commitments to lend	193,137	-	-	-	-	-
	2,362,160	138,686	4,880	10,927	1,374	16,248

2007	0-3 months £000	3-12 months £000	1-3 years £000	3-5 years £000	5-10 years £000	10-20 years £000
Deposits by banks	390,925	-	4,935	9,237	-	-
Customer accounts	2,038,267	24,435	5,146	9,237	-	-
Subordinated liabilities	71	284	861	1,477	2,923	19,521
Other financial liabilities	649	-	-	-	-	-
	2,429,912	24,719	10,942	19,951	2,923	19,521
Derivatives – settled gross	873	-	-	-	-	-
	2,430,785	24,719	10,942	19,951	2,923	19,521
Commitments to lend	218,718	-	-	-	-	-
	2,649,503	24,719	10,942	19,951	2,923	19,521

27. CAPITAL RESOURCES

The company's regulatory capital resources at 31 December in accordance with Financial Services Authority (FSA) definitions were as follows:

	2008 £000	2007 £000
Composition of regulatory capital		
Tier 1 capital		
Owners equity and minority interests	77,650	60,684
Total qualifying tier 1 capital	77,650	60,684
Tier 2 capital		
Qualifying subordinated debt	13,500	13,500
Fixed asset revaluation reserve	215	215
Impairment advance	236	217
Total qualifying tier 2 capital	13,951	13,932
Total regulatory capital	91,601	74,616

It is the company's policy to maintain a good capital base, to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business, and meeting the supervisory requirements of the FSA.

The FSA uses Risk Asset Rated ("RAR") as a measure of capital adequacy in the UK banking sector, comparing the bank's capital resources with its risk weighted assets (the assets and off balance sheet exposures are weighted to reflect the internal credit and other risks). The FSA requires the RAR for a UK Bank not to be less than 8% with a tier 1 component of not less than 4%. The company works to a limit of 8.8%, below which additional FSA submissions would be required. The company has complied with both requirements throughout the year.

28. COMMITMENTS AND CONTINGENCIES

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 impairment in accordance with the company's impairment policy.

Contingent liabilities
Guarantees – the company gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the company will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the company could be required to pay under a guarantee is its principal amount as disclosed in the table below. The company expects most guarantees it provides to expire unused.

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

28. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments

Under a loan commitment the company agrees to make funds available to a customer in the future, usually for a specified term which 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.

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.

	2008 £000	2007 £000
Contingent liabilities:		
Guarantees	18,587	17,115
Other contingent liabilities	23,199	21,677
	41,786	38,792
Commitments:		
Commitments to lend (less than one year)	193,137	218,718

The company has annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2008 £000	Land and buildings 2007 £000
Operating leases which expire:		
- within one year	407	427
- between one and five years	1,077	1,360
- over five years	173	299
	1,657	2,086

Operating lease payments represent rentals payable by the company for certain of its office properties. Leases are negotiated for terms of between 10 and 20 years and rentals are fixed for an average of 5 years.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Financial Services Authority (FSA). In addition, the FSCS has the power to raise levies ('exit levies') on firms who have ceased to participate in the scheme and are in the process of ceasing to be authorised for the amount that the firm would otherwise have been asked to pay during the relevant levy year. The FSCS also has the power to raise exit levies on such firms which look at their potential liability to pay levies in future years.

FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until September 2011. The annual limit on the FSCS management expenses levy for the three years from September 2008 in relation to these institutions has been capped at £1 billion per annum.

The FSCS will receive funds from asset sales, surplus cash flow, or other recoveries in relation to these institutions which will be used to reduce the principal amount of the FSCS's borrowings. Only after the interest only period, which is expected to end in September 2011, will a schedule for repayment of any remaining principal outstanding (after recoveries) on the borrowings be agreed between the FSCS and HM Treasury. It is expected that, from that point, the FSCS will begin to raise compensation levies (principal repayments). No provision has been made for these levies as the amount is not yet known and is unlikely to be determined before 2011.

The Company has accrued £2.1 million for its share of FSCS management expenses levies for the 2008/9 and 2009/10 scheme years.

29. NET CASH FLOW FROM OPERATING ACTIVITIES

	2008 £000	2007 £000 restated
Operating profit	18,638	14,843
Decrease in prepayments and accrued income	870	376
Interest on subordinated liabilities	358	352
Decrease/(increase) in accruals and deferred income	2,116	(751)
Provisions for bad and doubtful debts	3,719	846
Loans and advances written off (net of recoveries)	(3)	1
Unwind of discount on impairment losses	(456)	(174)
Write-off of tangible assets	3	23
Provisions for liabilities and charges	372	(88)
Depreciation and amortisation of tangible and intangible fixed assets	787	694
Charge for defined benefit pension scheme	-	1,859
Cash contribution to defined benefit pension scheme	-	(11,781)
Net cash inflow from trading activities	26,404	6,200
Decrease in items in the course of collection from other banks	341	1,438
Increase in loans and advances to banks	(153,301)	(143,191)
Increase in loans and advances to customers	(251,038)	(192,431)
Decrease/(increase) in debt securities	61,564	(4,322)
Increase in other assets	(2,968)	(912)
Changes in operating assets	(345,402)	(339,418)
Increase in deposits by banks	134,985	169,975
(Decrease)/increase in customer accounts	(67,913)	282,659
Decrease in items in the course of transmission to other banks	(276)	(1,847)
Increase in other liabilities	1,825	567
Changes in operating liabilities	68,621	451,354
Total income taxes paid	(3,751)	(3,514)
Net cash (outflow)/inflow from operating activities	**(254,128)**	**114,622**

30. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2008 £000	2007 £000 restated
At 1 January	1,102,202	977,837
Net cash (outflow)/inflow	(251,443)	124,365
At 31 December	**850,759**	**1,102,202**
Comprising:		
Cash and balances at central banks	390	440
Debt securities repayable within three months	18	12,162
Loans and advances to banks repayable within three months	850,351	1,089,600
	850,759	**1,102,202**

The 2007 cash flow statement and notes 29 and 30 have been restated due to a change in presentation method in order to allow comparison to the 2008 numbers. No other caption is affected.

31. DIRECTORS' EMOLUMENTS

	2008 £	2007 £
Non-executive directors		
- emoluments	18,335	15,750
Directors		
- emoluments	1,548,307	1,307,517
- company pension contributions to money purchase schemes	24,500	24,500
Highest paid director		
Aggregate emoluments and benefits	350,970	253,081

Retirement benefits are accruing to 9 (2007: 8) directors under defined benefit schemes.

32. BALANCES WITH RELATED PARTIES

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 has transactions with UK Government bodies on an arms' length basis. The volume and diversity of such transaction are such that disclosure of their amounts in the period 1 to 31 December 2008 is impractical.

The captions in the primary financial statements include the following amounts attributable, in aggregate, to parent companies:

	2008 £000	2007 £000
Assets		
Loans and advances to banks	1,324,321	1,348,705
Items in course of collection	1,599	1,939
Prepayments, accrued income and other assets	12,531	8,633
Liabilities		
Deposits by banks	382,583	227,876
Accruals and deferred income	788	618
Subordinated liabilities	13,500	13,500
Income		
Interest receivable	80,549	66,431
Interest payable	14,268	7,367
Expenses		
Other operating expenses	15,114	16,433

32. BALANCES WITH RELATED PARTIES (CONTINUED)

The captions in the primary financial statements include the following amounts attributable, in aggregate, with fellow subsidiaries:

	2008 £000	2007 £000
Assets		
Prepayments, accrued income and other assets	89	90
Liabilities		
Deposits by banks	147,991	167,391
Other liabilities, accruals and deferred income	8,539	9,659
Income		
Interest payable	7,761	7,550
Fees and commission receivable	232	224
Expenses		
Operating expenses	1,770	1,683

The captions in the primary financial statements include the following amounts attributable, in aggregate, with other related parties.

	2008 £000	2007 £000
Assets		
Loans and advances to customers	2	1
Income		
Interest receivable	0	0

Arrangements with directors and officers are disclosed in note 33 below.

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

33. ARRANGEMENTS WITH DIRECTORS (INCLUDING CONNECTED PERSONS) AND OFFICERS

The aggregate amounts outstanding under transactions, arrangements and agreements entered into by the company with directors (including connected persons) and officers were as follows:

	2008		2007	
	Number of persons	£000	Number of persons	£000
Directors (including connected persons)				
- Loans	9	386	11	804
Officers				
- Loans	24	611	42	390

34. IMMEDIATE AND ULTIMATE HOLDING COMPANY

Adam & Company plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out on page 2.

These accounts are consolidated into the accounts of Adam & Company Group plc, the immediate parent company. The company's ultimate holding company is The Royal Bank of Scotland Group plc, which is registered in Scotland. Accounts for Adam & Company Group plc can be obtained from Adam & Company Group plc, 22 Charlotte Square, Edinburgh. Accounts for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ.

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 has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly owned by the UK Government

ADAM & COMPANY PLC

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting will be held at 22 Charlotte Square, Edinburgh on 26 May 2009 at 11.05am for the following purpose:

To consider and, if thought fit, pass the following Ordinary Resolutions:

1. That the report and accounts for the year to 31 December 2008 be approved.

2. That Deloitte LLP be reappointed as auditors of the company for the period from the conclusion of this meeting until the conclusion of the next general meeting of the company at which accounts are laid before the company.

3. That the directors be authorised to fix the remuneration of the auditors.

By order of the Board

S Doyle
Secretary

31 March 2009

Registered Office

22 Charlotte Square
EDINBURGH EH2 4DF