Company Registration No. 36695

COUTTS & COMPANY

Directors' Report and Financial Statements

31 December 2008

Coutts & Company

Report and financial statements 2008

Contents

Coutts & Company

Officers and professional advisers

Directors

The Earl of Home CVO, CBE (Chairman, Non-executive director)
Gordon Francis Pell (Non-executive director)
The Rt. Hon. Lord Hurd of Westwell CH, CBE (Deputy Chairman, Non-executive director)
Sarah Jane Deaves (Chief Executive)
John Duncan Baines (Non-executive director)
Brian John Crowe (Non-executive director, Resigned 3 June 2008)
Nicholas Guy Pollard (Executive director)
James Hedley Rawlingson (Executive director, Appointed 14 January 2008)

Secretary

Sally Anne Doyle

Registered office

440 Strand
London
WC2R 0QS

Audit committee

The Earl of Home CVO, CBE (Chairman)
Neil Christopher Dolby
Gavin Christopher Frost
William Stephen Pearson

Auditors

Deloitte LLP
London

Directors' report

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

Business review

Activities

Coutts & Company (the 'Bank' or the 'Company') and its subsidiary undertakings (together called the 'Group') provide a wide range of banking and financial services.

The Group continues to focus on its core activities of supplying wealth management and banking services to high net worth individuals and their businesses and will continue to concentrate on improving the quality and efficiency of the services provided.

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

Business review

The directors are satisfied with the Company's performance during the year. The Company will be guided by its ultimate parent company in seeking further opportunities for growth. No final dividend has been declared (2007 - £Nil). An interim dividend of £90,000,000 has been paid (2007 – £120,000,000). A dividend of £7,500,000 was paid from Coutts Finance Company to Coutts & Company in the second quarter of 2008.

The Company's financial performance is presented in the Income Statement on Page 8. Income grew by £12,571,000 and expenses rose by £12,073,000. The profit for the year was £187,107,000 an increase of 7.2%. At the end of the year, the financial position showed total assets of £16,464,733,000 and equity of £581,421,000 compared to total assets of £15,903,977,000 and equity of £483,427,000 in 2007.

The principle source of funds for the Bank is its core customer deposits gathered from its private clients. The underlying strength of the Bank is demonstrated by its performance. The Bank is a net provider of funds to other companies in the RBS group. Customer accounts increased from £14.0 billion in December 2007 to £14.2 billion at the end of December 2008. There was fluctuation in balances at the height of the market disruptions in October 2008 but this was recovered by the year end. The Bank's strong client focus is a key part of the funding strategy and continues to benefit the Group's funding position.

In 2007, following a review of the principal business of Coutts & Company Investment Management Limited, the Board decided that due to increasingly complex regulations it will no longer be able to undertake business for US resident clients. The business was made dormant in 2007 and will be wound up in 2009.

The directors do not anticipate any other material change in either the type or level of business activities of the Group in the foreseeable future.

Directors' report

The Bank's approach to risk management, including its financial risk management objectives and policies and information on the Group's exposure to price, credit, liquidity and cash flow risk is discussed in Note 27 Financial instruments on page 35 to 40.

Going concern

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 membership of the Board and secretary are set out on page 1. On 14 January 2008 James Rawlingson was appointed as an executive director of the Company. On 3 June 2008 Brian Crowe resigned as non-executive director.

Disclosure of information to auditors

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

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

b) the director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Directors' indemnities

Under the terms of Section 309c of The Companies Acts 1985 (as amended), all the Directors listed on page 1 have been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

Employee policies

The average number of persons employed by the Group during the year was 1,799 (2007 – 1,562) and the aggregate remuneration paid or payable in respect of the year to those employees was £140,689,000 (2007 – £136,278,000).

The Group encourages staff involvement by a process of communication and consultation. This takes the form of information throughout normal management channels, intranet publications and regular dialogue with staff representatives.

All staff are given the opportunity confidentially to state their views about working for the Group via the annual staff opinion survey. Staff are able to comment on a variety of topics from management leadership to communication and employee involvement. The latest survey was undertaken in October 2008. The results of each survey are shared with all staff and action plans are prepared to address the key issues raised.

During 2008, the Group maintained its policy of giving disabled applicants for employment equal consideration to that given to the able for available vacancies, without regard to the difficulties which their disability might cause. The policy also includes the rehabilitation and retention of staff who become disabled, having regard to their particular aptitude and abilities and ensures that disabled staff receive suitable training and development.

Directors' report

Charitable contributions

At the year end the Group recorded donations totalling £1,269,000 (2007 – £1,268,000) to be paid to United Kingdom charitable organisations in 2009. No contributions were made to any political party (2007 – £nil).

Policy and practice on payment of creditors

The Group 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 a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

At 31 December 2008, the aggregate amount owed to suppliers represented 36 days (2007 – 29 days) of the amount invoiced by suppliers to the Bank during the year.

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

Sally Doyle

Secretary

25 March 2009

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

By order of the Board.

Independent auditors' report to the Members of Coutts & Company

We have audited the Group and parent company financial statements (the "financial statements") of Coutts & Company for the year ended 31 December 2008 which comprise the consolidated income statement, the balance sheets, the statements of changes in equity, the cash flow statements, and the related notes 1 to 35. 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 Acts 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

As described in the directors' report the Company's directors are responsible for the preparation of the directors' report and financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union set out in the statement of directors' responsibility.

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 Acts 1985. We also report to you whether, in our opinion, the information given in the director's 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 and the Group, 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 Coutts & Company

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the company's affairs as at 31 December 2008 and of the Group's profit for the year then ended;
- the parent company's financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- 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.

Separate opinion in relation to IFRS

As explained in Note 2(i), the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
25 March 2009

Consolidated income statement
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Interest receivable:			
- interest receivable from group undertakings		548,050	523,246
- other interest receivable		318,873	303,089
Interest payable:			
- interest payable to group undertakings		(64,029)	(49,267)
- other interest payable		(531,643)	(549,492)
NET INTEREST INCOME		271,251	227,576
Fees and commissions receivable	4	199,950	199,369
Fees and commissions payable		(6,909)	(7,118)
Income from trading activities	5	22,247	16,121
NON-INTEREST INCOME		215,288	208,372
Profit on disposal of building		5,414	43,434
TOTAL INCOME		491,953	479,382
Staff costs	6	(140,689)	(136,278)
Premises and equipment		(7,574)	(289)
Other administrative expenses		(42,778)	(38,938)
Depreciation and amortisation	17	(2,718)	(4,482)
Other operating charges		(41,514)	(42,462)
Impairment losses on loans and advances	16	(5,865)	(1,258)
Provisions for liabilities and charges	24	3,015	(2,343)
OPERATING PROFIT BEFORE TAXATION	8	253,830	253,332
Tax on profit	9	(66,723)	(78,712)
PROFIT FOR THE FINANCIAL YEAR		187,107	174,620

All operations were continuing in current and prior period. The notes on pages 15 to 47 form an integral part of the accounts.

Consolidated balance sheet
Year Ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Cash and cash equivalents		2,938	2,748
Items in the course of collection from other banks		10,590	11,958
Loans and advances to banks	12	10,377,817	10,897,387
Loans and advances to customers	13	5,919,193	4,926,734
Equity shares	14	18	12
Property, plant and equipment	17	16,185	19,634
Derivatives at fair value	18	79,933	5,768
Other assets, prepayments and accrued income	19	58,059	39,736
Total assets		16,464,733	15,903,977
Liabilities			
Deposits by banks	20	1,376,958	1,113,034
Items in the course of transmission to other banks		9,696	19,862
Customer accounts	21	14,231,989	14,013,933
Derivatives at fair value	18	77,492	5,386
Other liabilities, accruals and deferred income	22	99,412	226,800
Provisions for liabilities and charges	24	5,083	10,751
Subordinated liabilities			
- loan capital issued by immediate parent undertaking	25	82,682	30,784
Total liabilities		15,883,312	15,420,550
Equity			
Shareholders' equity			
Called-up share capital	26	41,333	41,333
Retained earnings		540,088	442,094
Total equity		581,421	483,427
Total liabilities and equity		16,464,733	15,903,977

These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2009.

Signed on behalf of the Board of Directors

Home

The Earl of Home
Chairman

James Rawlingson
Finance Director

The notes on page 15 to 47 form an integral part of the accounts.

Balance sheet
Year Ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Assets			
Cash and cash equivalents		2,838	2,648
Items in the course of collection from other banks		10,590	11,958
Loans and advances to banks	12	10,377,817	10,897,387
Loans and advances to customers	13	5,890,045	4,897,113
Equity shares	14	18	12
Shares in group undertakings	15	3,350	3,350
Property, plant and equipment	17	16,185	19,634
Derivatives at fair value	18	79,933	5,768
Other assets, prepayments and accrued income	19	57,699	39,352
Total assets		16,438,475	15,877,222
Liabilities			
Deposits by banks	20	1,378,697	1,113,068
Items in the course of transmission to other banks		9,696	19,862
Customer accounts	21	14,231,989	14,013,933
Derivatives at fair value	18	77,492	5,386
Other liabilities, accruals and deferred income	22	94,897	223,582
Provisions for liabilities and charges	24	5,083	10,751
Subordinated liabilities			
- Loan capital issued to immediate parent undertaking	25	82,682	30,784
Total liabilities		15,880,536	15,417,366
Equity			
Shareholders' equity			
Called-up share capital	26	41,333	41,333
Retained earnings		516,606	418,523
Total equity		557,939	459,856
Total liabilities and equity		16,438,475	15,877,222

These financial statements were approved by the Board of Directors and authorised for issue on 25 March 2009.

Signed on behalf of the Board of Directors

The Earl of Home
Chairman

James Rawlingson
Finance Director

The notes on pages 15 to 47 form an integral part of the accounts.

Consolidated statement of changes in equity
Year ended 31 December 2008

	Notes	Attributable to equity holders of the Group			
		Share capital £'000	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance at 31 December 2007		41,333	442,094	-	483,427
Changes in equity for 2008					
Profit for the period		-	187,107	-	187,107
Exchange movement		-	887	-	887
Total recognised income and expense for the period		-	187,994	-	187,994
Dividends	11	-	(90,000)	-	(90,000)
Balance at 31 December 2008		41,333	540,088	-	581,421

	Notes	Attributable to equity holders of the Group			
		Share capital £'000	Retained earnings £'000	Revaluation reserve £'000	Total £'000
Balance at 31 December 2006		41,333	360,324	26,982	428,639
Changes in equity for 2007					
Profit for the period		-	174,620	-	174,620
Exchange movement		-	168	-	168
Total recognised income and expense for the period		-	174,788	-	174,788
Revaluation reserve release due to disposal		-	26,982	(26,982)	-
Dividends	11	-	(120,000)	-	(120,000)
Balance at 31 December 2007		41,333	442,094	-	483,427

The notes on pages 15 to 47 form an integral part of the accounts.

Statement of changes in equity
Year ended 31 December 2008

	Notes	Share capital £'000	Retained earnings £'000	Revaluation reserve £'000	Total £'000
		Attributable to equity holders of the Company			
Balance at 31 December 2007		41,333	418,523	-	459,856
Changes in equity for 2008					
Profit for the period	10	-	179,696	-	179,696
Exchange movement		-	887	-	887
Total recognised income and expense for the period		-	180,583	-	180,583
Dividends paid	11	-	(90,000)	-	(90,000)
Dividends received from subsidiary		-	7,500	-	7,500
Balance at 31 December 2008		41,333	516,606	-	557,939

	Notes	Share capital £'000	Retained earnings £'000	Revaluation reserve £'000	Total £'000
		Attributable to equity holders of the Company			
Balance at 31 December 2006		41,333	343,012	26,982	411,327
Changes in equity for 2007					
Profit for the period	10	-	167,880	-	167,880
Exchange movement		-	218	-	218
Total recognised income and expense for the period		-	168,098	-	168,098
Revaluation reserve release due to disposal		-	26,982	(26,982)	-
Dividends paid	11	-	(120,000)	-	(120,000)
Dividends received from subsidiary		-	431	-	431
Balance at 31 December 2007		41,333	418,523	-	459,856

The notes on pages 15 to 47 form an integral part of the accounts

Consolidated cash flow statement
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Operating activities			
Group operating profit before taxation	29	253,830	253,332
Adjustments for:			
Depreciation and amortisation		2,718	4,482
Other non-cash items		(5,572)	(45,132)
Net cash inflows from trading activities	29	250,976	212,682
Changes in operating assets	29	(557,373)	(2,648,908)
Changes in operating liabilities	29	429,790	2,536,814
Net cash flows from operating activities before tax		123,393	100,588
Income taxes paid	29	(85,137)	(72,054)
Cash flows from operating activities		38,256	28,534
Investing activities			
Purchase of property, plant and equipment	17	(1,863)	(5,693)
Proceeds on disposal of building		8,001	97,697
Cash flows from investing activities		6,138	92,004
Financing activities			
Subordinated loan obtained		44,909	-
Equity dividends paid	11	(90,000)	(120,000)
Cash flows from financing activities		(45,091)	(120,000)
Effects of exchange movement		887	168
Net increase in cash and cash equivalents		190	706
Cash and cash equivalents 1 January		2,748	2,042
Cash and cash equivalents 31 December	31	2,938	2,748

The notes on pages 15 to 47 form an integral part of the accounts

Coutts & Company

Cash flow statement
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Operating activities			
Bank operating profit	29	243,444	243,702
Adjustments for:			
Depreciation and amortisation		2,718	4,482
Other non-cash items		(6,478)	(45,132)
Net cash inflows from trading activities	29	239,684	203,052
Changes in operating assets	29	(556,964)	(2,639,561)
Changes in operating liabilities	29	430,227	2,534,025
Net cash flows from operating activities before tax		112,947	97,516
Income taxes paid	29	(82,191)	(69,563)
Cash flows from operating activities		30,756	27,953
Investing activities			
Purchase of property, plant and equipment	17	(1,863)	(5,693)
Sale of building		8,001	97,697
Cash flows from investing activities		6,138	92,004
Financing activities			
Subordinated loan obtained		44,909	-
Equity dividends paid	11	(90,000)	(120,000)
Equity dividends received		7,500	431
Cash flows from financing activities		(37,591)	(119,569)
Effects of exchange movement		887	218
Net increase in cash and cash equivalents		190	606
Cash and cash equivalents 1 January		2,648	2,042
Cash and cash equivalents 31 December	31	2,838	2,648

The notes on pages 15 to 47 form an integral part of the accounts.

Notes to the accounts
Year ended 31 December 2008

1. General information

Coutts & Company 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 Group's operations and its principal activities are set out on page 2.

2. Principal accounting policies

(i) Adoption of new and revised Standards

The accounts, which should be read in conjunction with the Directors' report, are prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union ("EU"). The EU has not adopted the complete text of IAS39 'Financial Instruments: Recognition and Measurement'; it has relaxed some of the standards hedging requirements. The Group has not taken advantage of this relaxation and has adopted the IAS39 as issued by the IASB. The Group's financial statements are prepared in accordance with IFRS as issued by the IASB.

Standards and Interpretations effective in the current period

In October 2008, the IASB issued and the EU endorsed, amendments to IAS 39 'Financial Instruments: Recognition and Measurement' to permit the reclassification of financial assets out of the held-for trading (HFT) and available for sale (AFS) categories subject to certain restrictions. The only AFS holding is the VocaLink Holdings Limited (see note 14). The Company performed a review of the current classification of the financial assets and determined that no reclassification is required.

Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 IFRS 2 – Group and Treasury Share Transactions 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 Group's accounting policies.

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

• IFRS 1 (amended)/IAS 27 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
• IFRS 2 (amended)	Share-based Payment – Vesting Conditions and Cancellations
• IFRS 3 (revised 2008)	Business Combinations
• IFRS 8	Operating Segments
• IAS 1(revised 2007)	Presentation of Financial Statements
• IAS 23 (revised 2007)	Borrowing Costs
• IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
• IAS 32 (amended)/IAS 1 (amended)	Puttable Financial Instruments and Obligations Arising on Liquidation
• IFRIC 12	Service Concession Arrangements
• IFRIC 15	Agreements for the Construction of Real Estate
• IFRIC 16	Hedges of a Net Investment in a Foreign Operation

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on and after 1 January 2009.

(ii) Accounting convention

The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

(iii) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the holding company (Coutts & Company) and its subsidiaries. Control exists where the Group has the power to govern the financial and operating policies of the entity; generally conferred by holding a majority of voting rights.

All intra-group balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared using uniform accounting policies.

(iv) Revenue recognition

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

Financial assets and financial liabilities held for trading and financial liabilities designated as fair value through profit or loss are recorded at fair value. Changes in fair value are recognised in profit or loss together with dividends and interest receivable and payable.

Commitment and utilisation fees are determined as a percentage of the outstanding facility. The fees are deferred and included in the effective interest rate on the advance.

Service fees are accrued to reflect income attributable to the service rendered. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. The application of this policy to significant fee types is outlined below.

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

Card related services: fees from credit card business include commission received from retailers for processing credit and debit card transactions. Income is accrued to the income statement as the service is performed.

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

(iv) Revenue recognition (continued)

Interchange received: as issuer, the Group receives a fee (interchange) each time a cardholder purchases goods and services. The Group also receives interchange fees from other card issuers for providing cash advances through its branch and Automated Teller Machine networks. These fees are accrued once the transaction has taken place.

Investment management fees: fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are deferred and charged as expense as the related revenue is recognised.

(v) Pensions and other post-retirement benefits

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

For defined benefit 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.

There is no contractual agreement or policy on the way that the cost of The Royal Bank of Scotland Group plc defined benefit pension schemes and healthcare plans are allocated to the Group. It therefore accounts for the charges it incurs as payments to a defined contribution scheme.

There is no defined contribution pension scheme.

(vi) Property, plant and equipment

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

Depreciation is charged to 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 and long leasehold buildings	50 years
Short leaseholds	unexpired period of the lease
Computer equipment	5 years
Motor vehicles	5 years
Other plant and equipment	10 to 15 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

(vii) Impairment of assets and property, plant and equipment

At each reporting date, the Group assesses whether there is any indication that its intangible assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and the impairment loss if any. Irrespective of any indications of impairment, intangible assets with indefinite useful lives are tested annually for impairment by comparing their carrying value with their recoverable amount. If an asset does not generate cash flows that are independent from those of other assets or groups of assets, 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 or cash-generating unit 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 or property, plant and equipment is recognised as it arises provided the increased carrying value does not exceed that which it would have been had no impairment loss been recognised.

(viii) Foreign currencies

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

Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are stated at fair value are translated into sterling at foreign exchange rates ruling at the dates the values were determined. Translation differences arising on non-monetary items measured at fair value are recognised in profit or loss except for differences arising on available-for-sale non-monetary financial assets, for example, equity shares, which are included in the available-for-sale reserve in equity.

The assets and liabilities of foreign operations are translated into sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates unless these do not approximate to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations are recognised directly in equity.

(ix) Leases

Contracts to lease assets are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are accounted for as operating leases. The lease for 440 Strand has been classified as an operating lease due to the substance of the transaction.

The Group as a lessor

Rental income from operating leases is credited to the income statement on a receivable basis over the term of the lease. Operating lease assets are included within property, plant and equipment and depreciated over their useful lives (see note vi).

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

(x) Taxation

The tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on taxable profits for the year, arising in income or in equity, taking into account relief for overseas' taxation where appropriate. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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 Group.

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

(xi) Financial assets

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

Loans and receivables – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at adjusted 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 acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative. Held for trading financial assets are recognised at fair value with transaction costs being 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 loans and receivables or held for trading 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. 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 (see note iv above) 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.

(xii) Impairment of financial assets

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

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

(xii) Impairment of financial assets (continued)

Financial assets carried at amortised cost - if there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

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

Financial assets carried at available for sale – when a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through profit or loss.

(xiii) Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest method (see note iv above) or fair value.

A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or 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. Financial liabilities that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value with transaction costs being recognised in profit or loss and are subsequently measured at fair value. Gains and losses on financial liabilities that are designated at fair value through profit or loss are recognised in profit or loss as they arise. Financial liabilities may be designated at fair value through profit or loss only if such designation relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract. All other financial liabilities are measured at amortised cost using the effective interest method (see note iv above).

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.

Notes to the accounts
Year ended 31 December 2008

2. Principal accounting policies (continued)

(xiv) Derivatives

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

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

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle that obligation at the balance sheet date, and are discounted to present value where the effect is material.

The Medium Term Incentive Plan (MTIP) provision is a deferred bonus scheme which is awarded annually to private bankers within the group for payment 3 years in arrears. If a private banker were to leave employment of the group prior to the award maturing, no bonus would be paid.

(xvi) Share-based payments

The Royal Bank of Scotland Group plc grants options over shares to its employees under various share option schemes. IFRS 2 'Share-based Payment' is applied by The Royal Bank of Scotland Group plc to grants under these schemes after 7 November 2002 that had not vested on 1 January 2009. The Royal Bank of Scotland Group plc recognises an expense for these transactions with its employees based on the fair value on the date the options are granted. It includes the cost of these awards in determining any recharges of employee costs it makes to UK subsidiaries in the Group.

(xvii) 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.

(xviii) Related party transactions

IFRS requires all entities to disclose related party transactions. The company's policy is to have regard to materiality from the shareholder's perspective.

(xix) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the accounts
Year ended 31 December 2008

3. Critical accounting estimates and judgements

The reported results of the Group for 2008 are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The Group's principal accounting policies are set out on pages 15 to 21. UK company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard of interpretation, International Accounting Standard ("IAS") 8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Group'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 Group would affect its reported results.

Impairment provisions – financial assets

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired where there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

There are two components to the Group's loan impairment provisions: individual and collective.

Individual component – all impaired loans are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of 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, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

Collective component – this is made up of loan losses that have been incurred but have not been separately identified at the balance sheet date (latent loss provisions). The methodology by which the Latent Loss Reserve 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 impairment assessment process).

Notes to the accounts
Year ended 31 December 2008

3. Critical accounting estimates and judgements (continued)

(i) Fair value

Financial instruments classified as held for trading and financial assets classified as available for sale are recognised in the financial statements at fair value. All derivatives are measured at fair value. Derivative assets and derivative liabilities are shown separately on the face of the balance sheets. Gains or losses arising from changes in fair value of financial instruments classified as held for trading are included in the income statement. Unrealised gains and losses on available for sale financial assets are recognised directly in equity, unless an impairment loss is recognised.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

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

A negligible proportion of the Group's trading derivatives are valued directly from quoted prices, the majority being valued using appropriate valuation techniques. The fair value of substantially all securities' positions carried at fair value is determined directly from quoted prices.

4. Fees and commissions receivable

	2008 £'000	2007 £'000
Investment fees	110,951	109,662
Banking and commissions fees	26,233	32,374
Trust fees	7,778	8,292
Card service fees	26,955	25,874
Miscellaneous fees	28,033	23,167
	199,950	199,369

5. Income from trading activities

	2008 £'000	2007 £'000
Foreign exchange	22,247	16,121

Foreign exchange includes spot and forward foreign exchange contracts, interest rate swaps, currency swaps, futures and options.

Notes to the accounts
Year ended 31 December 2008

6. Staff costs

	2008 £'000	2007 £'000
Staff costs		
Wages and salaries	114,499	112,404
Social security costs	12,099	10,874
Pension costs (see note 7)	14,091	13,000
	140,689	136,278

The average number of persons employed by the Group and the Bank during the year was made up as follows:

	Number of Employees 2008	2007
Managers	702	593
Clerical and other staff	1,097	969
	1,799	1,562

7. Pension costs

Members of the Group sponsor a number of pension schemes in the UK and overseas, predominantly defined benefit schemes, whose assets are independent of the Group's finances. The Group's defined benefit schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years. Employees do not make contributions for basic pensions but may make voluntary contributions to secure additional benefits on a money-purchase basis. Since October 2006, The Royal Bank of Scotland Group Pension Fund ('Main scheme') has been closed to new entrants. The Group also provides post retirement benefits other than pensions, principally through subscriptions to private healthcare schemes in the UK and the US and unfunded post-retirement benefit plans. Provision for the costs of these benefits is charged to the income statement over the average remaining future service lives of eligible employees. The amounts are not material.

Interim valuations of the Group's schemes were prepared to 31 December by independent actuaries, using the following assumptions:

Principal actuarial assumptions at 31 December	Main scheme 2008	2007	2006
Discount rate	6.5%	6.0%	5.3%
Expected return on plan assets (weighted average)	7.1%	6.9%	6.9%
Rate of increase in salaries	4.0%	4.5%	4.2%
Rate of increase in pensions in payment	2.7%	3.2%	2.9%
Inflation assumption	2.7%	3.2%	2.9%

Major classes of plan assets as a percentage of total plan assets	Main scheme 2008	2007	2006
Equities	59.4%	61.0%	60.5%
Index-linked bonds	18.0%	18.2%	17.3%
Government fixed interest bonds	1.2%	1.2%	2.5%
Corporate and other bonds	18.5%	15.1%	14.0%
Property	3.7%	3.8%	4.3%
Cash and other assets	(0.8%)	0.7%	1.4%

Notes to the accounts
Year ended 31 December 2008

7. Pension costs (continued)

Ordinary shares of the Company with a fair value of £15 million (2007 - £69 million; 2006 - £89 million) are held by the Group's pension schemes; £15 million (2007 - £65 million; 2006 - £87 million) in the Main scheme which also holds other financial instruments issued by the Group with a value of £421 million (2007 - £606 million; 2006 - £258 million).

The expected return on plan assets at 31 December is based upon the weighted average of the following assumed returns on the major classes of plan assets:

	Main scheme 2008	2007	2006
Equities	8.4%	8.1%	8.1%
Index-linked bonds	3.9%	4.5%	4.5%
Government fixed interest bonds	3.9%	4.5%	4.5%
Corporate and other bonds	6.1%	5.5%	5.3%
Property	6.1%	6.3%	6.3%
Cash and other assets	2.5%	4.6%	4.6%

Post-retirement mortality assumptions (Main scheme):

	2008	2007	2006
Longevity at age 60 for current pensioners (years):			
Males	26.1	26.0	26.0
Females	26.9	26.8	28.9
Longevity at age 60 for future pensioners (years):			
Males	28.1	28.1	26.8
Females	28.2	28.2	29.7

These post-retirement mortality assumptions are derived from standard mortality tables used by the scheme actuary to value the liabilities for the main scheme. Following a comprehensive review of the mortality experience of the main scheme over the last three years by the scheme actuary, different standard mortality tables (adjusted as appropriate) have been used in valuing the scheme liabilities as at 31 December 2008.

	Main scheme 2008 Fair value of plan assets £m	2008 Present value of defined benefit obligations £m	2008 Net pension liability £m	2007 Fair value of plan assets £m	2007 Present value of defined benefit obligations £m	2007 Net pension liability £m
At 1 January	18,575	18,099	(476)	17,374	19,004	1,630
Income statement:						
Expected return	1,271	-	(1,271)	1,182	-	(1,182)
Interest cost	-	1,080	1,080	-	1,007	1,007
Current service cost	-	437	437	-	566	566
Past service cost	-	21	21	-	19	19
	1,271	1,538	267	1,182	1,592	410
Statement of recognised income and expense:						
Actuarial gains and losses	(4,784)	(3,389)	1,395	163	(1,937)	(2,100)
Intra-group transfers	-	-	-	30	30	-
Contributions by employer	396	-	(396)	416	-	(416)
Benefits paid	(630)	(630)	-	(551)	(551)	-
Expenses included in service cost	(24)	(24)	-	(39)	(39)	-
At 31 December	14,804	15,594	790	18,575	18,099	(476)

Notes to the accounts
Year ended 31 December 2008

7. Pension costs (continued)

At 31 December 2008, ABN AMRO's principal pension scheme in the Netherlands had fair value of plan assets of £8,181 million (2007 - £6,417 million) and present value of defined benefit obligations £8,589 (2007 - £ £6,189 million). The principal actuarial assumptions at 31 December 2008 were: discount rate 5.4% (2007 – 5.4%); expected return on plan assets (weighted average) 4.7% (2007 – 6.2%); rate of increase in salaries 2.5% (2007 – 2.5%); rate of increase in pensions in payment 2.0% (2007 – 2.0%); and inflation assumption 2.0% (2007 – 2.0%).

The Group expects to contribute £807 million to its defined benefit pension schemes in 2009 (Main scheme – £385 million). Of the net liabilities of schemes in deficit, £201 million (2007 – £212 million) relates to unfunded schemes.

Cumulative net actuarial gains of £717 million (2007 – £1,570 million losses; 2006 – £619 million losses) have been recognised in the statement of recognised income and expense, of which £184 million gains (2007 £1,579 million losses; 2006 – £521 million losses) relate to the Main scheme.

	Main scheme			
	2008	**2007**	**2006**	**2005**
History of defined benefit schemes	**£m**	**£m**	**£m**	**£m**
Present value of defined benefit obligations	15,594	18,099	19,004	19,118
Fair value of plan assets	14,804	18,575	17,374	15,914
Net surplus/(deficit)	(790)	476	(1,630)	(3,204)
Experience losses on plan liabilities	(55)	(256)	(4)	(41)
Experience gains on plan assets	(4,784)	163	552	1,556
Actual return on pension scheme assets	(3,513)	1,345	1,574	2,486

	Main scheme				All schemes			
	Increase/(decrease)				Increase/(decrease)			
	in pension cost for the year		in obligation at 31 December		in pension cost for the year		in obligation at 31 December	
	2008	2007	2008	2007	2008	2007	2008	2007
	£m	£m	£m	£m	£m	£m	£m	£m
25 bps increase in the discount rate	(37)	(41)	(696)	(874)	(53)	(49)	(1,161)	(1,318)
25 bps increase in inflation	77	83	624	800	114	98	1,089	1,245
25 bps additional rate of increase in pensions in payment	41	43	383	461	63	51	695	760
25 bps additional rate of increase in deferred pensions	8	5	94	113	15	7	227	239
25 bps additional rate of increase in salaries	28	35	168	216	35	40	219	265
Longevity increase of 1 year	31	31	302	390	50	37	700	761

Notes to the accounts
Year ended 31 December 2008

8. Operating profit before taxation

	2008 £'000	2007 £'000
Operating profit for the year is stated after crediting:		
Aggregate amounts receivable under operating leases	261	2,130
And after charging:		
Interest payable in respect of subordinated liabilities	4,876	2,179
Aggregate amounts payable under land and building operating leases	8,534	3,118
Auditors' remuneration:		
- audit of the company's annual accounts	159	236
- audit of the subsidiaries pursuant to legislation	19	11
- other services pursuant to legislation – Financial Services Authority compliance	54	49

9. Tax on profit

	2008 £'000	2007 £'000
Current taxation:		
United Kingdom corporation tax at 28.5% (2007 – 30%)	71,558	78,908
Under provision in respect of prior periods	(3,460)	(1,129)
	68,098	77,779
Deferred taxation:		
Origination and reversal of timing differences	1,565	(160)
Under provision in respect of prior periods	(2,940)	1,093
Tax charge for the year	66,723	78,712

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax of 28.5% (2007:30%) as follows:

	The Group	
	2008 £'000	2007 £'000
Expected tax charge	72,342	76,000
Factors affecting charge:		
Disallowable expenses	456	563
Chargeable gain in excess of accounting gain on disposal	5	1320
Non-qualifying depreciation	333	578
Charge to deferred tax in relation to changes of corporation tax rate	284	406
Other short term timing differences	(297)	(117)
Prior year adjustments	(6,400)	(38)
Tax charge for the year	66,723	78,712

10. Profit dealt with in the accounts of the bank

As permitted by Section 230 of the Companies Acts 1985, the income statement of the Bank has not been presented separately. Profit after tax of £179,696,000 (2007 - £167,880,000) for the financial year has been dealt with in the accounts of the Bank (page 12).

Notes to the accounts
Year ended 31 December 2008

11. Dividends

	2008 Pence per share	2008 £'000	2007 Pence per share	2007 £'000
Interim	218.0	90,000	291.0	120,000

12. Loans and advances to banks

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Loans and receivables	10,379,781	10,899,351	10,379,781	10,899,351
Individual impairment provision (note 16)	(1,964)	(1,964)	(1,964)	(1,964)
	10,377,817	10,897,387	10,377,817	10,897,387
Amounts include:				
Due from other RBS Group undertakings	10,356,237	10,881,020	10,356,237	10,881,020

13. Loans and advances to customers

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Loans and receivables	5,907,715	4,912,832	5,937,769	4,942,453
Individual and collective impairment provision (note 16)	(17,670)	(15,719)	(18,576)	(15,719)
	5,890,045	4,897,113	5,919,193	4,926,734
Amounts include:				
Due from subsidiaries	1,342,205	1,044,365		

14. Equity shares

	The Bank and The Group			
	2008 Balance sheet £'000	2008 Fair value £'000	2007 Balance sheet £'000	2007 Fair value £'000
Investment securities:				
Available for sale - unlisted	18	18	12	12

	Equity holding	
	2008 %	2007 %
The principal equity shares are:		
VocaLink Holdings Limited £1 Shares	0.03	0.06

As at 31 December 2008 Coutts holds 30,464 shares in VocaLink Limited. The fair value of the investment in VocaLink is based on the value attributed to each share when Voca Limited merged with Link on 29 June 2007. There is no active market for these shares.

Notes to the accounts
Year ended 31 December 2008

15. Shares in group undertakings

	2008 £'000	2007 £'000
The Bank		
Subsidiary undertakings:		
Cost and carrying value at 1 January and 31 December	3,350	3,350

The Bank owns 100% of the ordinary share capital and voting rights of Coutts Finance Co, 440 Strand, London WC2R 0QS, which is an unlisted company incorporated in Great Britain and registered in England and Wales. Its principal business is the provision of residential mortgages in the United Kingdom.

The Bank owns 100% of the ordinary share capital and voting rights of Coutts & Company Investment Management Limited, 440 Strand, London WC2R 0QS, which is an unlisted company incorporated in Great Britain and registered in England and Wales. Coutts & Company Investment Management Ltd was made dormant during 2007. The company will be wound down in 2009.

Other wholly owned subsidiary undertakings are unlisted dormant companies used mainly for nominee purposes, all of which are incorporated in Great Britain and registered in England and Wales.

16. Impairment losses on loans and advances

	2008 £'000	2007 £'000
Impairment losses charged to profit or loss		
The Group		
Loans and receivables:		
Loans and advances (see table below)	5,865	1,258
Total	5,865	1,258

Notes to the accounts
Year ended 31 December 2008

16. Impairment losses on loans and advances (continued)

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

	2008 Total £'000	2007 Total £'000
The Group		
At 1 January	17,683	19,686
Amounts written off	(2,196)	(2,263)
Charge to profit and loss	5,865	1,258
Foreign Exchange	12	-
Unwind of discount	(824)	(998)
At 31 December	20,540	17,683
Loans and advances to banks	1,964	1,964
Loans and advances to customers	18,576	15,719
Group total	20,540	17,683

	2008 £'000	2007 £'000
Impairment losses charged to profit or loss		
The Bank		
Loans and receivables:		
Loans and advances (see table below)	4,787	1,258
Total	4,787	1,258

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

	2008 Total £'000	2007 Total £'000
The Bank		
At 1 January	17,683	19,686
Amounts written off	(2,196)	(2,263)
Charge to profit and loss	4,787	1,258
Foreign Exchange	12	-
Unwind of discount	(652)	(998)
At 31 December	19,634	17,683
Loans and advances to banks	1,964	1,964
Loans and advances to customers	17,670	15,719
Bank total	19,634	17,683

Notes to the accounts
Year ended 31 December 2008

17. Property, plant and equipment

The Bank and The Group	Freehold land and buildings £'000	Long leasehold £'000	Short leasehold £'000	Computers and other equipment £'000	Total £'000
Cost:					
At 1 January 2008	6,588	5,458	13,753	22,013	47,812
Additions	157	136	1,097	473	1,863
Disposals	(3,127)	-	(210)	(24)	(3,361)
At 31 December 2008	3,618	5,594	14,640	22,462	46,314
Depreciation:					
At 1 January 2008	1,260	1,609	7,840	17,469	28,178
Charge for the year	115	134	1,612	857	2,718
Disposals	(631)	-	(119)	(17)	(767)
At 31 December 2008	744	1,743	9,333	18,309	30,129
Net book value					
At 31 December 2008	2,874	3,851	5,307	4,153	16,185
At 31 December 2007	5,328	3,849	5,913	4,544	19,634

18. Derivatives at fair value

	2008			2007		
	Total derivatives			Total derivatives		
The Bank and the Group	Notional amounts £'000	Assets £'000	Liabilities £'000	Notional amounts £'000	Assets £'000	Liabilities £'000
Exchange rate related contracts						
Forward foreign exchange	863,027	54,543	52,696	352,087	4,553	4,209
Free standing derivatives						
Interest rate related contracts:						
Futures, forwards and options	200,279	25,390	24,796	199,232	1,215	1,177
	1,063,306	79,933	77,492	551,319	5,768	5,386

19. Other assets, prepayments and accrued income

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Deferred taxation (note 23)	7,060	5,685	7,060	5,685
Corporation taxation	8,124	-	8,124	-
Other assets, prepayments and accrued income				
- RBS Group undertakings	23,788	8,796	23,788	8,796
- other	18,727	24,871	19,087	25,255
	57,699	39,352	58,059	39,736

Notes to the accounts
Year ended 31 December 2008

20. Deposits by banks

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Deposits by banks	1,378,697	1,113,068	1,376,958	1,113,034
Amounts include:				
Due to subsidiaries	1,739	34	-	-
Due to other RBS Group undertakings	1,371,794	1,109,268	1,371,794	1,109,268
	1,373,533	1,109,302	1,371,794	1,109,268

21. Customer accounts

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Customer accounts	14,231,989	14,013,933	14,231,989	14,013,933

22. Other liabilities, accruals and deferred income

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Taxation	-	9,593	2,965	12,529
Payables and accrued expenses:				
- RBS Group undertakings	11,015	154,505	11,015	154,511
- other	-	636	-	636
Other accruals and deferred income:				
- other	83,882	58,848	85,432	59,124
	94,897	223,582	99,412	226,800

Notes to the accounts
Year ended 31 December 2008

23. Deferred taxation

	The Bank and The Group		
	Accelerated capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2007	2,111	(8,729)	(6,618)
Charge to income statement	(30)	963	933
At 31 December 2007	2,081	(7,766)	(5,685)
Charge to income statement	(3,570)	2,195	(1,375)
At 31 December 2008 (Note 19)	(1,489)	(5,571)	(7,060)

The provision for UK deferred taxation has been calculated at 28.5% (2007 – 30%), being the rate of corporation tax. A deferred tax asset of £7,060,000 has been recognised at 31 December 2008 (2007 - £5,685,000). This asset has been recognised in the financial statements following the deferral of bonuses under the medium term incentive plan, the provision for litigation and sundry losses, the impairment provision and accelerated capital allowances. The directors are of the opinion, based on recent and forecasted trading, that the level of profits in the current and next financial year will exceed the value of the deferred tax asset. There is no unprovided potential deferred taxation liability (2007 - £Nil), particularly in respect of revaluation gains on properties.

The directors are of the opinion that, in view of the type and use of properties involved, the likelihood of any material tax liabilities arising on the disposal of the Group's properties at current market value is so remote that no useful purpose would be served in attempting to quantify it. Most of the Group's properties are occupied for the purposes of the Group's trade and consequently any gains arising on disposal are normally rolled-over pursuant to Taxation of Chargeable Gains Act 1992, Section 152.

24. Provisions for liabilities and charges

	The Bank and The Group			
	Provision for severance (1) £'000	Provision for MTIP (2) £'000	Other provisions (3) £'000	Total provisions £'000
Provision as at 1 January 2008	1,784	7,826	1,141	10,751
Charged to the profit and loss	-	-	-	-
Released during the year	(1,759)	(1,256)	-	(3,015)
Utilised in year	(25)	(2,353)	(275)	(2,653)
Provision as at 31 December 2008	-	4,217	866	5,083

Notes:

(1) The Group provides for future severance costs where there is a constructive obligation arising within the next 12 months.

(2) The Group operates Medium Term Incentive Plans ('MTIP'), which run for three years. The expected cost under each plan is provided for when each grant is made.

(3) Other provisions arise in the normal course of business and are expected to crystallise in the foreseeable future.

Notes to the accounts
Year ended 31 December 2008

25. Subordinated liabilities

	The Bank and The Group			
	2008 Interest rate	2008 £'000	2007 Interest rate	2007 £'000
Primary Capital Floating Rate Stock, due to National Westminster Bank Plc				
£ 13,300,000 (note a)	3.416%	13,300	6.341%	13,300
US $ 15,000,000 (note b)	2.746%	10,271	5.031%	7,484
£ 10,000,000 (note c)	3.270%	10,000	6.517%	10,000
Primary Capital Floating Rate Stock, due to Royal Bank of Scotland Plc				
£ 30,000,000 (note d)	7.278%	30,000		-
€ 20,000,000 (note e)	6.274%	19,111		-
		82,682		30,784

(a) This stock, issued in 1987 to the National Westminster Bank Plc, has no final maturity, but all or part of it may be redeemed by Coutts & Company at any time, subject to the prior consent of the Financial Services Authority.

(b) This stock, issued in 1988 to the National Westminster Bank Plc, has no final maturity, but all or part of it may be redeemed by Coutts & Company at any time, subject to the prior consent of the Financial Services Authority.

(c) This stock, issued in 2002 to the National Westminster Bank Plc, has a final maturity date of December 2017.

(d) This stock, issued in 2008 to The Royal Bank of Scotland plc, has a final maturity date of January 2023.

(e) This stock, issued in 2008 to The Royal Bank of Scotland plc, has a final maturity date of January 2023.

These primary loan stock capital issues by the Bank are unsecured and are subordinated to the claims of senior creditors. The primary loan capital is available to absorb losses but ranks ahead of other existing capital in the event of liquidation.

26. Called-up share capital

	2008 £'000	2007 £'000
Authorised, allotted, called-up and fully paid		
41,333,333 (2007 – 41,333,333) ordinary shares of £1 each	41,333	41,333

Notes to the accounts
Year ended 31 December 2008

27. Financial instruments

Capital risk management

The Group manages its capital to ensure capital cover at least meets RBS Group Risk Asset Ratio ("RAR") requirements. The capital structure of the Group consists of debt and equity attributable to equity holders comprising issued capital, reserves and retained earnings as disclosed in note 26 and the Statement of Changes in Equity.

Externally imposed capital requirement

It is the Group's policy to maintain an appropriate capital base and to utilise it efficiently throughout its activities to optimise returns to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the FSA. The FSA uses RAR as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). The Group has complied with FSA requirements during the year ended 31 December 2008.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Classification of financial assets

The classification of balance sheet items are listed in the table below:

Balance sheet classification

Assets	
Cash and balances at central banks	Loans and receivables
Items in the course of collection from other banks	Loans and receivables
Loans and advances to banks	Loans and receivables
Loans and advances to customers	Loans and receivables
Equity shares	Available for sale
Property, plant and equipment	Non financial assets/liabilities
Derivatives at fair value	Designated as at fair value through the profit or loss
Other assets, prepayments and accrued income	Non financial assets/liabilities
Liabilities	
Deposits by banks	Other (amortised cost)
Items in the course of transmission to other banks	Other (amortised cost)
Customer accounts	Other (amortised cost)
Derivatives at fair value	Designated as at fair value through the profit or loss
Other liabilities, accruals and deferred income	Non financial assets/liabilities
Provisions for liabilities and charges	Non financial assets/liabilities
Subordinated liabilities	Other (amortised cost)

Financial risk management objectives

The major risks faced by the Group are market risk, liquidity risk, credit risk and operational risk. The Group has established a comprehensive framework for managing these risks which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

Notes to the accounts
Year ended 31 December 2008

27. Financial instruments (continued)

Market risk

Market risk is the risk that changes in interest rates, foreign exchange rates, prices, volatilities and correlations, may have an adverse financial impact on the Group's financial condition or results.

The Group does not maintain any material proprietary trading positions and consequently has limited exposure to market risk. The market risk that arises through the provision of products and services to customers, being principally interest rate and foreign exchange risk, is predominantly hedged. Unhedged market risk is small in accordance with policy limits.

The Group does not maintain material open currency positions.

Value-at-risk (VaR) analysis

VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, Royal Bank of Scotland Group plc's VaR assumes a time horizon of one day and a confidence level of 95. Royal Bank of Scotland Group plc uses historical simulation models in computing VaR. This approach, in common with many other VaR models, assumes that risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by the relevance of the historical data used. Royal Bank of Scotland Group plc's method, however, does not make any assumption about the nature or type of underlying loss distribution. Royal Bank of Scotland Group plc typically uses the previous 500 trading days market data. Royal Bank of Scotland Group plc's VaR should be interpreted in light of the limitations of the methodology used. These limitations include:

Foreign currency risk

The Group does not maintain material non-trading open currency positions

Forward foreign exchange contracts

The Group does not maintain any material proprietary trading positions and consequently has limited exposure to foreign exchange movements. The foreign exchange risk is predominately hedged.

Interest rate risk management

Interest rate risk arises where assets and liabilities of the company have different re-pricing dates. Group policy requires all interest risk to be transferred to trading units either within the RBS Group or with third parties, through arm's length cash transactions and derivatives, principally interest rate swaps. This risk management is undertaken by the Group.

The directors consider that the company is not materially exposed to adverse profit and loss impact from interest rate volatility as no material proprietary interest rate positions are held.

Notes to the accounts
Year ended 31 December 2008

27. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of obtaining sufficient collateral on certain types of lending as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed by the risk management committee annually.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Concentration of credit did not exceed 5% of gross monetary assets at any time during the year.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Asset quality of lending

The Group has made the decision to adopt the standardised approach to assessing its asset quality of lending. Under the standardised approach there is no requirement for probability of default to be calculated. Due to this decision part of the assets lent do not have a probability of default rating and have been classified as asset quality unscored.

The table below summarises the asset quality for the Group as at 31 December 2008.

	Credit risk excluding past due and non accrual									
	AQ1 £'000	AQ2 £'000	AQ3 £'000	AQ4 £'000	AQ5 £'000	AQU £'000	Past due but not non Accrual £'000	Non accrual £'000	Less Impairment Provision £'000	Balance sheet £'000
Cash and cash equivalents	2,938	-	-	-	-	-	-	-	-	2,938
Items in the course of collection from other banks	10,590	-	-	-	-	-	-	-	-	10,590
Loans and advances to banks	10,374,773	137	-	-	2,748	159	-	1,964	(1,964)	10,377,817
Loans and advances to customers	2,418,157	686,251	763,294	299,257	90,325	1,442,941	210,241	27,303	(18,576)	5,919,193
Derivatives at fair values	79,933	-	-	-	-	-	-	-	-	79,933
	12,886,391	686,388	763,294	299,257	93,073	1,443,100	210,241	29,267	(20,540)	16,390,471

Notes to the accounts
Year ended 31 December 2008

27. Financial instruments (continued)

Asset quality of lending (continued)

Financial instruments graded as follows:

AQ1 = Probability of default (PD) >0.00% and <=0.2%
AQ2= Probability of default >0.2% and <= 0.6%
AQ3= Probability of default >0.6% and <=1.5%
AQ4= Probability of default >1.5% and <= 5.0%
AQ5= Probability of default > 5.0%.
AQU= Asset quality unscored but excluding past due and impaired.

The following table shows an analysis of past due but not impaired ie. Excluding Financial Assets Requiring an Individual or Collective (but not Latent) Provision. The analysis is of the group as at 31 December 2008.

Class of financial instrument	Past due 1 to 29 days £'000	Past due 30 to 59 days £'000	Past due 60 to 89 days £'000	Past due 90 days and more £'000	Total £'000
Cash and cash equivalents	-	-	-	-	-
Items in the course of collection from other banks	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	116,375	42,523	13,047	38,296	210,241
Derivatives at fair values	-	-	-	-	-
	116,375	42,523	13,047	38,296	210,241

The table below summarises the asset quality for the Group as at 31 December 2007.

	Credit risk excluding past due and non accrual									
	AQ1 £'000	**AQ2 £'000**	**AQ3 £'000**	**AQ4 £'000**	**AQ5 £'000**	**AQU £'000**	**Past due but not non accrual £'000**	**Non accrual £'000**	**Less impairment provision £'000**	**Balance sheet £'000**
Cash and cash equivalents	2,748	-	-	-	-	-	-	-	-	2,748
Items in the course of collection from other banks	11,958	-	-	-	-	-	-	-	-	11,958
Loans and advances to banks	10,896,469	-	-	-	-	918	-	1,964	(1,964)	10,897,387
Loans and advances to customers	2,076,625	533,760	664,102	388,880	89,246	1,162,051	4,612	23,177	(15,719)	4,926,734
Derivatives at fair values	-	344	5,283	141	-	-	-	-	-	5,768
	12,987,800	534,104	669,385	389,021	89,246	1,162,969	4,612	25,141	(17,683)	15,844,595

Financial instruments graded as follows:

AQ1 = Probability of default (PD) >0.00% and <=0.2%
AQ2= Probability of default >0.2% and <= 0.6%
AQ3= Probability of default >0.6% and <=1.5%
AQ4= Probability of default >1.5% and <= 5.0%
AQ5= Probability of default > 5.0%.
AQU= Asset quality unscored but excluding past due and impaired.

Notes to the accounts
Year ended 31 December 2008

27. Financial Instruments (continued)

Asset quality of lending (continued)

The following table shows an analysis of past due but not impaired .ie. excluding financial assets requiring an individual or collective (but not latent) provision. The analysis is of the group as at 31 December 2007.

Class of financial instrument	Past due				Total
	1 to 29 days £'000	30 to 59 days £'000	60 to 89 days £'000	90 days and more £'000	£'000
Cash and cash equivalents	-	-	-	-	-
Items in the course of collection from other banks	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	579	628	939	2,466	4,612
Derivatives at fair values	-	-	-	-	-
	579	628	939	2,466	4,612

Liquidity risk management

The Group has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities with no material liquidity gaps.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

The table below summarises the contractual cash flows payable on financial liabilities for the Group as at 31 December 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	Over 20 Years £ '000	Total £ '000
Deposits by banks	508,347	310,800	341,767	191,287	18,302	2,215	4,240	1,376,958
Items in the course of transmission to other banks	9,696	-	-	-	-	-	-	9,696
Customer accounts	12,965,721	1,183,896	78,333	4,039				14,231,989
Derivatives at fair value	11	51,606	2,846	1,967	7,709	13,353	-	77,492
Subordinated liabilities	23,571	-	-	-	10,000	49,111	-	82,682
	13,507,346	1,546,302	422,946	197,293	36,011	64,679	4,240	15,778,817

Notes to the accounts
Year ended 31 December 2008

27. Financial instruments (continued)

The table below summarises the contractual cash flows payable on financial liabilities for the Group as at 31 December 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	Over 20 Years £ '000	Total £ '000
Deposits by banks	417,897	460,512	65,217	135,777	26,296	3,073	4,262	1,113,034
Items in the course of transmission to other banks	19,862	-	-	-	-	-	-	19,862
Customer accounts	13,661,105	194,866	148,675	9,287	-	-	-	14,013,933
Derivatives at fair value	5,386	-	-	-	-	-	-	5,386
Subordinated liabilities	20,784	-	-	-	10,000	-	-	30,784
	14,125,034	655,378	213,892	145,064	36,296	3,073	4,262	15,182,999

Fair value of financial instruments

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

The carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements of the Group and the Bank approximates their fair values.

Notes to the accounts
Year ended 31 December 2008

28. Memorandum items

The following tables give, for the Bank and Group, the nominal principal amounts and risk weighted amounts for certain off-balance sheet transactions. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the Financial Services Authority ('FSA') guidelines implementing the Basel agreement on capital adequacy.

Memorandum Items	2008		2007	
	Contract amount £'000	Risk weighted amount £'000	Contract amount £'000	Risk weighted amount £'000
The Bank and the Group				
Contingent liabilities:				
Acceptances and endorsements	105	105	21	21
Guarantees and assets pledged as collateral security:-				
Guarantees and irrevocable letters of credit	265,073	265,073	218,709	197,705
Other contingent liabilities	8,844	8,844	9,232	4,616
Total contingent liabilities	274,022	274,022	227,962	202,342
The Group				
Commitments:				
Documentary credits and other short-term trade-related contingencies	1,065	213	370	-
Undrawn formal standby facilities, credit lines and other commitments to lend:-				
1 year and over	64,037	32,019	21,477	10,737
Less than 1 year	2,844,796	568,959	2,625,679	-
Total commitments	2,909,898	601,191	2,647,526	10,737
The Bank				
Commitments:				
Documentary credits and other short-term trade-related contingencies	1,065	213	370	-
Undrawn formal standby facilities, credit lines and other commitments to lend:-				
1 year and over	54,959	27,480	21,474	10,737
Less than 1 year	2,607,532	521,506	2,381,774	-
Total commitments	2,663,556	549,199	2,403,618	10,737

	The Bank and The Group	
	2008 £'000	2007 £'000
Operating lease commitments:		
At the year end, annual commitments under non-cancellable operating leases were:		
Premises - operating leases which expire:		
- within one year	1,952	2,115
- between one and five years	1,533	2,365
- in five years or more	996	1,331

The commitments under non-cancellable operating leases are paid annually as part of Coutts management recharge to The Royal Bank of Scotland Group plc (note 34).

Notes to the accounts
Year ended 31 December 2008

28. Memorandum items (continued)

Management and agency services: The Group provides investment management services. Funds under management at 31 December 2008 were £6,264m (2007 - £7,774m).

Future contracted capital expenditure: The Group has contracted capital expenditure not provided for in the accounts of £14,040,000 (2007 - £25,020,000).

Contingent liabilities

Acceptances – in accepting a bill of exchange drawn on it by a customer a bank undertakes to pay the holder of the bill at maturity. Most acceptances are presented for payment and reimbursement by the customer is usually immediate. In the UK, bills accepted by certain banks designated by the Bank of England are eligible for rediscount at the Bank of England.

Endorsements – in endorsing a bill of exchange a bank accepts liability for payment of any shortfall on the bill at maturity. Unlike acceptances, the endorsing bank receives value for the bill, which is then rediscounted.

Guarantees – the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Group could be required to pay under a guarantee is its principal amount as disclosed in the table on Memorandum Items on page 41. The Group 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.

Commitments

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 Group'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 Group's normal credit approval processes and any potential loss is taken into account in assessing provisions for bad and doubtful debts in accordance with the Group's provisioning policy.

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

Other commitments – these include forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities.

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

Litigation

The Group is involved in litigation involving claims by and against it which arise in the ordinary course of business. The directors of the Group have reviewed these actual, threatened and known potential claims and proceedings and, after consulting with the relevant legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on the Group's consolidated net assets, results of operations or cash flows.

Notes to the accounts
Year ended 31 December 2008

28. Memorandum items (continued)

The Financial Services Compensation Authority

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 maxima set by the Financial Services Authority (FSA). For 2008/09, these have been set at £1billion for management expenses levies and £1.84 billion for compensation levies. In addition, the FSCS has the power to raise levies on firms who have ceased to participate in the scheme and are in the process of ceasing to be authorized (so called 'exit levies') 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 £19.7billion from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander and Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are currently on an interest-only basis until September 2011. The annual limit on the FSCS management expenses 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 FSCS charge of £18 million for its share of management expenses for the 2008/09 and 2009/10 scheme years has been taken in the financial statements of the parent.

Notes to the accounts
Year ended 31 December 2008

29. Net cash inflow from operating activities

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating profit	243,444	243,702	253,830	253,332
Loans and advances written off net of recoveries	(2,196)	(2,263)	(2,196)	(2,263)
Provisions for bad and doubtful debts	4,147	260	5,053	260
Gain on sale of tangible fixed assets	(5,414)	(43,434)	(5,414)	(43,434)
Provisions for liabilities and charges	(3,015)	305	(3,015)	305
Depreciation and amortisation of tangible and intangible assets	2,718	4,482	2,718	4,482
Net cash inflows from trading activities	239,684	203,052	250,976	212,682
Decrease/(increase) in items in the course of collection	1,368	(1,941)	1,368	(1,941)
Decrease/(increase) in loans and advances to banks	519,570	(2,310,310)	519,570	(2,310,310)
Increase in loans and advances to customers	(994,883)	(463,676)	(995,316)	(472,905)
Decrease in derivatives at fair value	(74,165)	-	(74,165)	-
(Increase)/decrease in other assets, prepayments and accrued income	(8,854)	136,366	(8,830)	136,248
Changes in operating assets	(556,964)	(2,639,561)	(557,373)	(2,648,908)
(Increase)/decrease in items in the course of transmission	(10,166)	12,929	(10,166)	12,929
Increase in deposits by banks	265,629	249,934	263,924	250,890
Increase in customer accounts	218,056	2,354,302	218,056	2,355,974
Decrease/(increase) in other liabilities, accruals and deferred income	(115,398)	(84,036)	(114,130)	(83,875)
Decrease / (increase) in derivatives at fair value	72,106	896	72,106	896
Changes in operating liabilities	430,227	2,534,025	429,790	2,536,814
Total income taxes paid	(82,191)	(69,563)	(85,137)	(72,054)
Net cash inflow from operating activities	30,756	27,953	38,256	28,534

30. Analysis of changes in financing during the year

	The Bank and The Group	
	2008 £'000	2007 £'000
Loan Capital:		
At 1 January	30,784	30,933
Additional capital issued	44,909	-
Currency translation	6,989	(149)
At 31 December (Note 25)	82,682	30,784

Notes to the accounts
Year ended 31 December 2008

31. Analysis of cash and cash equivalents

	The Bank		The Group	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 1 January	2,648	2,042	2,748	2,042
Net cash inflow	190	606	190	706
At 31 December	2,838	2,648	2,938	2,748

32. Segmental information

The Group operates in the private banking sector, with 99% of business derived in the United Kingdom, and 1% of business derived in Monaco.

The Directors consider private banking a single class of business.

33. Transactions with directors, officers and others

For the purposes of IAS ' Related party Disclosure', key management comprises directors of the company. The remuneration of the directors of the Bank is set out below in aggregate:

	2008 £'000	2007 £'000
Emoluments	1,369	1,252
Other	-	77
Total emoluments received by directors	1,369	1,329
Number of directors to whom retirement benefits are accruing in respect of qualifying services:		
- defined benefit schemes	3	3

The total emoluments of the highest paid director were £501,988 (2007 – £446,707). The accrued pension attributable to that director was £Nil (2007 – £Nil). No shares were received or receivable in respect of qualifying services under long-term incentive schemes. Total emoluments include bonuses paid in early 2008 which related to performance for the year 2007.

As at 31 December 2008, the aggregate amounts outstanding in relation to the transactions, arrangements and agreements entered into by the Group in relation to loans to directors, including connected persons, or officers of the Bank is set out below.

	Aggregate amount outstanding £'000	Number of persons
Directors:		
Loans	805	5
Officers:		
Loans	1,008	16

All of the above balances are classified under Loans and Advances to Customers.

Notes to the accounts
Year ended 31 December 2008

34. Related party transactions

The Bank's ultimate holding company, ultimate controlling party and the parent of the largest group into which the Company is consolidated, is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of financial statements for The Royal Bank of Scotland Group plc, can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh EH12 1HQ. The immediate parent of the Company, which is also the smallest group into which the Company is consolidated, is National Westminster Bank Plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements for this subgroup can be obtained from National Westminster Bank Plc, 135 Bishopsgate, London EC2M 3UR.

On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc, the Group's holding company. 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.

As a result the UK Government and UK Government controlled bodies became related parties of the Group. The Group enters into transactions with many of these bodies on an arms' length basis. The volume and diversity of such transactions are such that disclosure of their amounts in the period 1 December 2008 to 31 December 2008 is impractical.

In accordance with IAS24, transactions or balances between Group entities that have been eliminated on consolidation are not reported. The captions in the primary financial statements of the parent company include amounts attributable to subsidiaries. These amounts have been disclosed in aggregate in the relevant notes to the financial statements.

As at 31 December 2008 balances with the UK Government, UK Government controlled bodies and parent companies were:

	Central Government (including the Bank of England) £'000	Local Government £'000	Banks, financial corporations and public corporations £'000	Holding company and related companies £'000	2008 Total £'000
Assets					
Loans and advances to Banks	4,121	-	-	10,356,237	10,360,358
Other loans and advances to customers	3,000	-	-	-	3,000
Other assets, prepayments and accrued income		-	-	23,788	23,788
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities					
Customer accounts	28,585	29	963	-	29,577
Deposits by banks	-		-	1,371,794	1,371,794
Other liabilities, accruals and deferred income	-	-	-	11,015	11,015
Subordinated liabilities	-	-	-	82,682	82,682

Notes to the accounts
Year ended 31 December 2008

34. Related party transactions (continued)

As at 31 December 2008 Profit and Loss balances with holding company and related parties were:

	£'000
Interest receivable	548,050
Interest payable	64,029
Fees and commissions receivable	51,609
Fees and commission payable	2,968

None of the amounts due from related parties were impaired.

Other operating charges includes a management recharge of £50,545,000 (2007 - £42,439,000) from The Royal Bank of Scotland Group plc. Included in the management recharge is the employee costs in respect of share based payments and pension costs.

35. Events after the balance sheet date

There were no events after the Balance Sheet date that requires disclosure in the financial statements.