

*2010 Annual Report*  
*RBS Coutts Bank (Manx) Limited*



## **RBS Coutts Bank (Manx) Limited**

### **Report and Financial Statements**

**31 December 2010**

# **RBS Coutts Bank (Manx) Limited**

## **REPORT AND FINANCIAL STATEMENTS 2010**

### **CONTENTS**

<b>Directors' report</b>	<b>2-3</b>
<b>Directors' responsibilities statement</b>	<b>4</b>
<b>Independent auditor's report</b>	<b>5</b>
<b>Profit and loss account</b>	<b>6</b>
<b>Balance sheet</b>	<b>7</b>
<b>Notes to the financial statements</b>	<b>8-19</b>

# **RBS Coutts Bank (Manx) Limited**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2010.

### **PRINCIPAL ACTIVITY**

The principal activity of RBS Coutts Bank (Manx) Limited ("the Company") is the provision of offshore banking services, of which deposit taking is the major activity. Deposit taking is primarily the receipt of fiduciary deposits from the international client base of the parent Company, RBS Coutts Bank Ltd.

### **RESULTS FOR THE YEAR**

The results of the Company for the year are set out on page 6. The Company made a profit after tax of SFR 24,532,492 (2009: SFR 41,408,843).

Profit and Loss Account, Net interest income (Page 6) and the Balance Sheet Assets and Liabilities (Page 7) have been impacted by the continuing worldwide money market low interest rate environment in uncertain economic conditions.

The Company's principal business activities are banking services including the taking of fiduciary deposits from Switzerland and lending to The Royal Bank of Scotland Group plc (RBSG) entities and other banks. The financial position of these entities and hence ultimate recoverability of these placements is a key exposure to the Company.

The financial position of the Company, its liquidity position and borrowing facilities are set out in the financial statements. In addition, note 1 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

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

### **DIVIDENDS**

The Directors declared two dividends of SFR 50,000,000 each for the year ended 31 December 2010, totalling SFR 100,000,000 (2009: SFR 75,000,000). These were paid on 10<sup>th</sup> May 2010 and on 17<sup>th</sup> December 2010 respectively out of accumulated retained profit.

## DIRECTORS REPORT - CONTINUED

### DIRECTORS

All the directors have served throughout the year and to date:

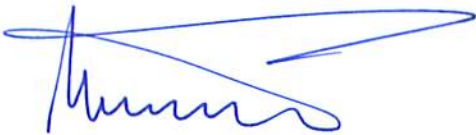
R I Collister  
V K McEneaney  
M D Voegelin

None of the Directors has had any direct beneficial interest in the share capital of the Company during the year and to date.

### AUDITORS

Deloitte & Touche, the Company's auditors resigned on the 4<sup>th</sup> November 2010. With effect from the 4<sup>th</sup> November 2010 Deloitte LLP were appointed auditors and have expressed their willingness to continue in office as auditors in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

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



R I Collister  
Director

17<sup>th</sup> February 2011

## DIRECTORS' RESPONSIBILITIES STATEMENT

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

Isle of Man Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with Companies Act 1931 to 2004. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the company included on the RBS Coutts Bank Ltd website. Legislation in the Isle of Man governing the preparation and dissemination of the financial statements may differ from legislations in other jurisdictions.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RBS COUTTS BANK (MANX) LIMITED**

We have audited the financial statements of RBS Coutts Bank (Manx) Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements

### **Opinion on financial statements**

In our opinion the financial statements:

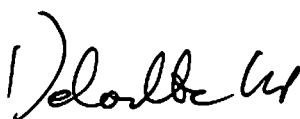
- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1931 to 2004.

### **Matters on which we are required to report by exception**

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

- proper books of account have not been kept by the company and that proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the books of account and returns; or
- we have not received all the information and explanations which to best of our knowledge and belief are necessary for the purpose of the audit; or
- certain disclosure of directors' loans and remuneration specified by law have not been complied with.

Deloitte LLP  
Chartered Accountants  
Isle of Man



24 February 2011

# RBS Coutts Bank (Manx) Limited

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2010

	Note	2010 SFR	2009 SFR
Interest receivable	1(d)	92,254,796	165,026,874
Interest payable	1(d)	(56,689,406)	(106,942,722)
<b>Net interest income</b>		<b>35,565,390</b>	<b>58,084,152</b>
Fees and commissions payable	1(e), 3	(7,400,719)	(10,752,763)
Fees and commissions receivable	1(e), 3	321,752	31,290
Foreign exchange (loss) / gain	1(b)	(632,157)	57,787
		<u>(7,711,124)</u>	<u>(10,694,976)</u>
<b>Operating income</b>		<b>27,854,266</b>	<b>47,420,466</b>
Operating expenses		(947,774)	(1,359,995)
		<u>26,906,492</u>	<u>46,060,471</u>
<b>Operating profit</b>	3	<b>26,906,492</b>	<b>46,060,471</b>
Exceptional Income	15	-	449,747
Exceptional Expenses	15	-	(1,785,275)
		<u>26,906,492</u>	<u>44,724,943</u>
<b>Profit before tax</b>		<b>26,906,492</b>	<b>44,724,943</b>
Taxation	1(i), 4	(2,374,000)	(3,316,100)
		<u>24,532,492</u>	<u>41,408,843</u>
<b>Profit for the year</b>		<b>24,532,492</b>	<b>41,408,843</b>

In both the current and preceding financial years, there were no recognised gains or losses other than those dealt with in the profit and loss account. A Statement of Total Recognised Gains and Losses has therefore not been produced.

The directors consider that all items dealt with in arriving at the profit for the year derive from continuing operations.

The notes on pages 8 to 19 form part of these financial statements.

# RBS Coutts Bank (Manx) Limited

## BALANCE SHEET As at 31 December 2010

	Note	2010 SFR	2009 SFR
<b>ASSETS</b>			
Due from banks	7	4,798,127,584	6,292,091,274
Accrued interest receivable and other assets	8	17,389,914	18,793,939
		<u>4,815,517,498</u>	<u>6,310,885,213</u>
<b>LIABILITIES</b>			
Due to banks	9	218,252,070	126,927,082
Fiduciary deposits	10	4,373,644,181	5,879,802,451
Accrued interest payable and other liabilities	5,11,15	9,525,952	13,565,227
		<u>4,601,422,203</u>	<u>6,020,294,760</u>
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	12	16,682,500	16,682,500
Additional paid in reserve	13	20,000,000	20,000,000
General reserve	13	38,255,642	38,255,642
Retained profit	13	139,157,153	215,652,311
<b>SHAREHOLDERS' FUNDS</b>	14	<u>214,095,295</u>	<u>290,590,453</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<u>4,815,517,498</u>	<u>6,310,885,213</u>

The notes on pages 8 to 19 form part of these financial statements.

These financial statements were approved by the Board of Directors on the 17<sup>th</sup> February 2011

Signed on behalf of the Board of Directors

R I Collister  
Director

V K McEaney  
Director

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the historical cost convention, with applicable Statements of Recommended Accounting Practice issued by the British Bankers' Association and United Kingdom accounting standards. The particular accounting policies adopted by the Company are described below.

#### (a) Going concern

The financial statements which should be read in conjunction with the Directors' Report, are prepared on a going concern basis.

#### (b) Foreign currency translation

All amounts in these financial statements are expressed in Swiss Francs. Monetary assets and liabilities in other currencies are translated into Swiss Francs at exchange rates prevailing at the end of the year. Income and expense items are translated at the exchange rates prevailing at the date on which the transaction took place. Foreign exchange gains and losses on translation of foreign currencies are credited or charged to the profit and loss account.

Exchange differences arising on the annual translation of the share capital and retained profit of the Company at 30 November 1993 are taken directly to profit and loss account and is subsequently corrected through the reserve account.

#### (c) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are made as considered necessary having regard to both specific and general factors. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. Provisions made (less amounts released) during the period are charged to the profit and loss account.

#### (d) Interest

Interest receivable and payable is accounted for on an accruals basis.

#### (e) Fees and commissions

Fees and commissions paid to and received from the parent Company, RBS Coutts Bank Ltd are accounted for on an accruals basis.

#### (f) Cash flow statement

The Company is not required to prepare a cash flow statement under an exemption granted in FRS1(revised) paragraph 5(a) on the basis that the voting rights in the Company are more than 90% held by the ultimate parent Company, The Royal Bank of Scotland Group Plc ("RBS Group Plc"), and the consolidated financial statements prepared by the ultimate parent Company, including the results of RBS Coutts Bank (Manx) Limited, will be publicly available (see note 16).

#### (g) Risk management

Through its normal operations, the Company is exposed to a number of risks, the most significant of which are liquidity, operational and market risk; responsibility for these is vested in the Board and the authority for day to day risk management has been delegated to RBS Coutts Bank Ltd.

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Liquidity risk*

The ultimate parent company, The Royal Bank of Scotland Group plc ("RBSG"), is required by the Financial Services Authority to meet its sterling obligations without recourse to the wholesale money market for a period of at least five business days, and measures and manages its cash flow on a daily basis in order to meet this requirement. Quarterly reports are made to the Board covering sterling and currency liquidity. RBSG manages its capital and liquidity, including drawing on support provided by the UK government and central banks in response to market conditions, in a responsible manner that continues to provide sufficient capital resources and liquidity for the Company to meet its obligations as they fall due.

The Company complies with the above limits and maintains daily liquidity reporting of positions to RBSG.

The maturity analysis of the Company's assets and liabilities is disclosed in notes 7, 9, 10 and 18.

#### *Credit risk*

The Company has exposure to RBSG entities and third parties by making placements and advances to those counterparties.

The Board of Directors regularly reviews the position of, and indicated support to, RBSG. As highlighted in liquidity risk above RBSG manages its capital including drawing on support where required in order to meet its commitments including those to the Company.

With respect to third party placements, RBSG operates a group aggregation scheme which sets limits on the amounts which can be placed with all counterparties. The Company complies with these limits and reports daily exposures to RBSG.

#### *Operational risk*

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

#### *Market risk*

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices or other market conditions, such as liquidity, will have an adverse impact on the Company's financial condition or results.

The principal market risks to which the Company is exposed are interest rate risk and currency risk.

#### *Interest rate risk*

Exposure to interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities. The drivers of interest rate risks are changes in the slope and shape of the yield curves and changes in the correlation of interest rates between different financial instruments. In addition to interest rate risk positions managed within controlled risk limits by RBS Coutts Bank Ltd, structural interest rate risk arises in the balance sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities.

The Company closely monitors interest rate movements, the interest rate and re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities. The full impact on the Balance Sheet is detailed in the interest rate repricing table shown in note 18.

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Capital risk management*

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2009.

The capital structure of the Company consists of equity attributable to equity holders of the immediate holding company as disclosed in note 16, comprising issued capital, reserves and retained earnings as disclosed in notes 12 and 13.

The Company has capital adequacy requirement imposed by the Financial Supervision Commission of the Isle of Man. The Company is required to report a risk asset ratio to the regulator on a periodic basis. The ratio is calculated as being the percentage of capital to asset, based on the regulator's definition of capital and assets. The risk asset ratio is required at all times to be above a benchmark percentage provided by the regulator. The Company has been in compliance with the capital adequacy requirements in respect of the years ended 31 December 2010 and 2009.

#### *Currency risk*

The Company does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its sterling based share capital and reserves. The profit and loss exposure limit from the translation of net foreign currency profits is set at SFR 8 million, and trading in foreign currency positions is limited to the close-out of such positions.

#### *Value at risk*

The ultimate parent Company's primary mechanism for estimating potential losses is a mathematical methodology, Value at Risk ("VaR") which estimates the exposure to market risk within a given level of confidence, over a defined time period. This is regularly reviewed to ensure it remains relevant and captures all significant risks. A confidence interval of 99% is used. This means that daily losses exceeding the VaR figure are likely to occur, on average, in only one in every 100 business days. The assumed holding period of any exposure and the historic market rate data observation period vary according to the trading activity.

The instruments covered by the VaR include all money market products, foreign exchange products and any securities held by the Company. The value of these instruments is assumed to vary in a linear fashion with changes in the market rates used to compute the present value.

The Royal Bank of Scotland Group Plc methodology is used to calculate the daily VaR numbers.

#### **(h) Financial instruments**

Financial instruments are fundamental to the business and constitute the core element of its operations. Financial instruments can create, modify or reduce the currency and market risks of the Company's balance sheet. Each of these risks and the Company's objectives for managing such risks are discussed in note 1(g) above.

Amounts due from banks and other assets are measured at cost less provision for any impairment.

Amounts due to banks, fiduciary deposits, and other liabilities are measured at cost.

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 1. ACCOUNTING POLICIES (continued)

#### (i) Taxation

Isle of Man tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

### 2. SEGMENTAL INFORMATION

All business arises from the provision of banking and related activities in the Isle of Man.

### 3. OPERATING PROFIT

Operating profit is stated after:

	2010 SFR	2009 SFR
Fees and Commissions receivable from the Royal Bank of Scotland Group	321,752	31,290
Fees and Commissions payable to RBS Coutts Bank Ltd	(7,357,000)	(10,694,000)
Fee and Commission payable others	(43,719)	(58,763)
Auditor's remuneration	(33,159)	(37,247)

The following outsourcing fees were also charged in the year:

	2010 SFR	2009 SFR
RBS Coutts Bank Ltd	(220,000)	(220,000)
The Royal Bank of Scotland International Limited (Isle of Man branch)	(72,704)	(384,810)

The Royal Bank of Scotland International Limited (Isle of Man branch) ceased to be the 'Approved Manager' of the Company with effect from the 1st January 2010.

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 4. TAXATION

The Company is subject to Isle of Man income tax at a rate of 10% on its taxable profits from deposit-taking activities and 0% on other activities.

	<b>2010</b>	<b>2009</b>
	<b>SFR</b>	<b>SFR</b>
Over Accrued Tax 2009/2008	(11,017)	(723,404)
Foreign exchange movement on 2009/2008 tax liability	-	(234,466)
Provision for Isle of Man income tax current year	2,318,860	4,391,132
	<hr/>	<hr/>
Current Tax	2,307,843	3,433,262
Deferred Tax	66,157	(117,162)
	<hr/>	<hr/>
<b>Income tax (Profit and Loss)</b>	<b>2,374,000</b>	<b>3,316,100</b>
	<hr/> <hr/>	<hr/> <hr/>

The differences between the total current tax provision shown above and the amount calculated by applying the standard rate of Isle of Man tax to the operating profit for the year is as follows:

<b>Operating profit</b>	26,906,492	44,724,943
	<hr/>	<hr/>
Tax charge on profit at 10%	2,690,649	4,472,494
Factors affecting charge:		
Income not subject to tax and exchange fluctuation and provisions not deductible in current period.	(371,789)	(81,362)
	<hr/>	<hr/>
<b>Total Current Provision for Income tax</b>	<b>2,318,860</b>	<b>4,391,132</b>
	<hr/> <hr/>	<hr/> <hr/>

### 5. TAX CREDITOR

	<b>2010</b>	<b>2009</b>
	<b>SFR</b>	<b>SFR</b>
Brought forward provision	4,305,061	6,080,000
Payment tax 2009/2008	(3,666,962)	(5,122,130)
Current Tax	2,307,843	3,433,262
Foreign Exchange movement on current tax provision	(746,554)	(86,071)
	<hr/>	<hr/>
<b>Provision for Income tax</b>	<b>2,199,388</b>	<b>4,305,061</b>
	<hr/> <hr/>	<hr/> <hr/>

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 6. DEFERRED TAX ASSETS

	2010 SFR	2009 SFR
A deferred Tax asset is arising from timing difference on contribution to the Isle of Man Depositors' Compensation Scheme (see note 15)	(51,002)	(117,162)

### 7. DUE FROM BANKS

	Notes	2010 SFR	2009 SFR
<b>Due from banks – demand</b>			
Parent Company		128,397,643	151,400,643
Royal Bank of Scotland Group companies		3,256	6,468
		<u>128,400,899</u>	<u>151,407,111</u>
<b>Due from banks – time</b>			
Parent Company		32,639,250	73,172,422
Royal Bank of Scotland Group companies		3,531,740,489	5,003,137,762
Others		1,105,346,946	1,064,373,979
		<u>4,798,127,584</u>	<u>6,292,091,274</u>
<b>Receivable:</b>			
Less than 8 days		291,561,683	608,137,097
8 days and less than 1 month		490,839,123	1,801,239,524
1 month and less than 3 months		914,216,801	1,145,748,436
3 months and less than 6 months		1,334,019,046	1,096,928,892
6 months and less than 1 year		1,029,419,260	274,053,139
1 year and less than 3 years		590,212,060	1,228,333,008
3 years and less than 5 years		147,859,611	137,651,178
		<u>4,798,127,584</u>	<u>6,292,091,274</u>

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 8. ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

	2010 SFR	2009 SFR
Accrued interest receivable	17,327,606	18,661,923
Other assets	62,308	132,016
	<u>17,389,914</u>	<u>18,793,939</u>

Accrued interest receivable includes an amount of SFR 15,639,069 (2009 : SFR 16,886,872) due from The Royal Bank of Scotland Group companies with SFR 141,210 (2009 : SFR 324,493) of this amount due from RBS Coutts Bank Ltd, the parent Company. Other assets include the deferred tax asset referred to in note 6.

### 9. DUE TO BANKS

Deposits due to banks comprise the following:

	2010 SFR	2009 SFR
<b>Due to banks – demand</b>		
Parent Company	22,683,320	126,927,082
<b>Due to banks – time</b>		
Parent Company	195,568,750	-
	<u>218,252,270</u>	<u>126,927,082</u>
<b>Repayable:</b>		
Less than 1 month	139,252,270	126,927,082
Less than 3 months	79,000,000	-
	<u>218,252,270</u>	<u>126,927,082</u>

### 10. FIDUCIARY DEPOSITS

	2010 SFR	2009 SFR
<b>Repayable:</b>		
Less than 8 days	2,029,682,116	2,977,262,718
8 days and less than 1 month	475,337,621	808,500,396
1 month and less than 3 months	430,383,227	818,525,141
3 months and less than 6 months	573,098,938	428,671,683
6 months and less than 1 year	537,420,719	124,863,118
1 year and less than 3 years	257,861,949	704,328,217
3 years and less than 5 years	69,859,611	17,651,178
	<u>4,373,644,181</u>	<u>5,879,802,451</u>

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 10. FIDUCIARY DEPOSITS (CONTINUED)

The above balances are placed with the Company by the parent company in its capacity as the fiduciary agent of its customers. The parent company has no beneficial interest in the above balances.

### 11. ACCRUED INTEREST PAYABLE AND OTHER LIABILITIES

	2010 SFR	2009 SFR
Accrued interest payable	6,325,991	7,458,655
Other liabilities	3,199,961	6,106,572
	<u>9,525,952</u>	<u>13,565,227</u>

Other liabilities includes a provision of SFR 510,021 (2009: SFR 1,171,617) in respect of the Depositors' Compensation Scheme (note 15) and a provision for income tax of SFR 2,199,388 (2009: SFR 4,305,061) (note 5).

In addition, Other liabilities includes an amount of SFR 69,170 (2009: SFR 161,906) representing fiduciary commissions due to the parent Company.

### 12. SHARE CAPITAL

	2010 SFR	2009 SFR
<b>Authorised:</b>		
20,000,000 ordinary shares of SFR1 each and 3,000,000 ordinary shares of £1 each	26,682,500	26,682,500
	<u>                    </u>	<u>                    </u>
<b>Called up, issued and fully paid:</b>		
10,000,000 ordinary shares of SFR1 each and 3,000,000 ordinary shares of £1 each	16,682,500	16,682,500
	<u>                    </u>	<u>                    </u>

For the purposes of converting £ share capital into Swiss Francs, a fixed exchange rate of 2.2275, being that prevailing at 30 November 1993, has been used.

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 13. RESERVES

	Profit and Loss Account SFR	Additional Paid in Reserve SFR	General Reserve SFR	Total SFR
Balance at 1 January 2009	248,732,303	20,000,000	38,255,642	306,987,945
Profit for the year	41,408,843	-	-	41,408,843
Dividend paid	(75,000,000)	-	-	(75,000,000)
Exchange movement	511,165	-	-	511,165
Balance at 31 December 2009	<u>215,652,311</u>	<u>20,000,000</u>	<u>38,255,642</u>	<u>273,907,953</u>
Balance at 1 January 2010	215,652,311	20,000,000	38,255,642	273,907,953
Profit for the year	24,532,492	-	-	24,532,492
Dividends paid	(100,000,000)	-	-	(100,000,000)
Exchange movement	(1,027,650)	-	-	(1,027,650)
Balance at 31 December 2010	<u>139,157,153</u>	<u>20,000,000</u>	<u>38,255,642</u>	<u>197,412,795</u>

Two dividends of SFR 50,000,000 each were paid on 10<sup>th</sup> May 2010 and on 17<sup>th</sup> December 2010 respectively (see Directors' Report).

### 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 SFR	2009 SFR
Profit for the financial year	24,532,492	41,408,843
Dividend paid	(100,000,000)	(75,000,000)
Exchange movement	(1,027,650)	511,165
Net deduction from shareholders' funds	<u>(76,495,158)</u>	<u>(33,079,992)</u>
Opening shareholders' funds	290,590,453	323,670,445
Closing shareholders' funds	<u>214,095,295</u>	<u>290,590,453</u>

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 15. EXCEPTIONAL ITEMS AND PROVISIONS

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

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

In addition to the liabilities established under the Scheme relating to KSF IOM, RBS Coutts Bank (Manx) Limited also received notification during the year 2009 that a refund would be due from the Depositors' Compensation Scheme of 1991 following liquidation of Bank of Credit & Commerce International SA. The refund of GBP 251,662 (SFR 449,747) was recorded as Exceptional Income in the 2009 profit and loss account.

During the course of 2009 pursuant to Regulation 14 (I) (a) of the Scheme, the Scheme Manager (as defined by Regulation 5 (I)) gave the requisite notice to levy an amount on RBS Coutts Bank (Manx) Limited. The initial levy was GBP 350,000 (SFR 613,658) and was paid in 2009 and recorded as Exceptional Expense in the profit and loss account.

A provision of GBP 700,000 (SFR 1,171,617) was made in 2009 to cover the future estimated cost to RBS Coutts Bank (Manx) Limited of levies made by the Scheme Manager in future years.

In 2010, a second levy of GBP 350,000 was paid on 28<sup>th</sup> June 2010 out of the provision. At year end 2010 the remaining provision was GBP 350,000 (SFR 510,021). The estimation may differ from the costs incurred in respect of the Scheme, but it is based upon the most recent available information. The directors believe that any variation will not be material.

The Depositors' Compensation Scheme Regulations 2010 came into operation on the 23<sup>rd</sup> October 2010. The Company is assessing the impact of these Regulations.

### 16. HOLDING AND ULTIMATE HOLDING COMPANY

The immediate holding Company and controlling party is RBS Coutts Bank Ltd, a banking corporation incorporated under the laws of Switzerland.

On 1 December 2008, The United Kingdom Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Plc. The UK Government shareholding in banks is managed by UK Financial Investments Limited, a company wholly owned by the UK Government.

The directors regard The Royal Bank of Scotland Group Plc, which is incorporated in the United Kingdom, to be the ultimate holding and controlling Company. The consolidated financial statements of The Royal Bank of Scotland Group Plc are available to the public at 36 St Andrew Square, Edinburgh, EH2 2YB.

### 17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available under Financial Reporting Standard 8, 'Related Party Disclosures', paragraph 3(c) whereby disclosure is not required of transactions with related parties provided the Company is a wholly owned subsidiary undertaking and the consolidated financial statements in which the Company is included are publicly available (see note 16).

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

### 18. FINANCIAL INSTRUMENTS

The Company does not currently trade for its own account in derivatives or financial instruments

#### *Interest rate repricing table*

The table following is management's estimate of the interest rate sensitivity gap for the Company at 31 December 2010 and 31 December 2009. It is not necessarily indicative of the positions at other times. The actual interest rate sensitivity of the Company's earnings will be determined by the currency and contractual or behavioural profile of assets and liabilities, in addition to the size and timing of interest rate movements. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. Variations in interest rate sensitivity may exist within repricing periods and among the currencies in which the Company has positions. It is prepared on a different basis from the VaR for non-trading interest rate risk.

As at 31 December 2010

	Within 3 months SFRm	After 3 months but within 6 months SFRm	After 6 months but within 1 year SFRm	After 1 year but within 5 years SFRm	After 5 years SFRm	Non- interest bearing funds SFRm	Total SFRm
<b>Assets</b>							
Due from banks	3,033	697	793	275	-	-	4,798
Accrued interest receivable	18	-	-	-	-	-	18
<b>Total assets</b>	<b>3,051</b>	<b>697</b>	<b>793</b>	<b>275</b>	<b>-</b>	<b>-</b>	<b>4,816</b>
<b>Liabilities</b>							
Due to banks	218	-	-	-	-	-	218
Fiduciary deposits	3,730	271	320	53	-	-	4,374
Accrued interest payable	10	-	-	-	-	-	10
Shareholders' funds	-	-	-	-	-	214	214
<b>Total liabilities</b>	<b>3,958</b>	<b>271</b>	<b>320</b>	<b>53</b>	<b>-</b>	<b>214</b>	<b>4,816</b>
<b>Interest rate sensitivity gap</b>	<b>(907)</b>	<b>426</b>	<b>473</b>	<b>222</b>	<b>-</b>	<b>(214)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>(907)</b>	<b>(481)</b>	<b>(8)</b>	<b>214</b>	<b>214</b>	<b>-</b>	<b>-</b>

# RBS Coutts Bank (Manx) Limited

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

### 18. FINANCIAL INSTRUMENTS (CONTINUED)

As at 31 December 2009

	Within 3 months SFRm	After 3 months but within 6 months SFRm	After 6 months but within 1 year SFRm	After 1 year but within 5 years SFRm	After 5 years SFRm	Non- interest bearing funds SFRm	Total SFRm
<b>Assets</b>							
Due from banks	4,592	1,122	274	304	-	-	6,292
Accrued interest receivable	19	-	-	-	-	-	19
<b>Total assets</b>	<b>4,611</b>	<b>1,122</b>	<b>274</b>	<b>304</b>	<b>-</b>	<b>-</b>	<b>6,311</b>
<b>Liabilities</b>							
Due to banks	127	-	-	-	-	-	127
Fiduciary deposits	5,247	454	125	54	-	-	5,880
Accrued interest payable	13	-	-	-	-	-	13
Shareholders' funds	-	-	-	-	-	291	291
<b>Total liabilities</b>	<b>5,387</b>	<b>454</b>	<b>125</b>	<b>54</b>	<b>-</b>	<b>291</b>	<b>6,311</b>
<b>Interest rate sensitivity gap</b>	<b>(776)</b>	<b>668</b>	<b>149</b>	<b>250</b>	<b>-</b>	<b>(291)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>(776)</b>	<b>(108)</b>	<b>41</b>	<b>291</b>	<b>291</b>	<b>-</b>	<b>-</b>

### 19. CURRENCY EXPOSURE

	GBP SFR,000	USD SFR,000	Euro SFR,000	Others SFR,000
<b>As at 31 December 2010 Swiss Franc Equivalent</b>				
Assets	1,399,593	1,855,409	1,077,264	189,803
Liabilities	1,398,487	1,854,308	1,076,382	189,198
Off balance sheet assets	-	-	-	-
Off balance sheet liabilities	-	-	-	-
	<b>1,106</b>	<b>1,101</b>	<b>882</b>	<b>605</b>
<b>As at 31 December 2009 Swiss Franc Equivalent</b>				
Assets	1,624,889	2,589,507	1,454,439	251,127
Liabilities	1,625,372	2,589,037	1,453,316	250,818
Off balance sheet assets	-	-	-	-
Off balance sheet liabilities	-	-	-	-
	<b>(483)</b>	<b>470</b>	<b>1,123</b>	<b>309</b>