

*2010 Annual Report
RBS Coutts Bank Ltd*



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Report of the Chairman of the Board and the Chief Executive Officer

For RBS Coutts, 2010 was a year of consolidation, repositioning and broadening the expertise in the various teams around the Bank. In financial terms, in a very difficult environment, the results are satisfactory with operating profit at CHF 102 million. As a result of a structural adjustment of our assets, refocusing our activities on core markets and currency related issues, assets under management declined last year to CHF 41.8 billion (previous year: CHF 48.3 billion). In the financial year 2010, RBS Coutts managed to improve its capital tier 1 ratio to 16.2% (previous year: 15.2%).

RBS Coutts is part of the international private banking arm of The Royal Bank of Scotland Group (RBS). In 2010, RBS reported good progress and the Group's balance sheet has been strengthened. The UK Government stake in the RBS Group changed from 85% to 82.8%.

Global economic growth returned in 2010 to expected levels and the transition from economies fuelled by government fiscal policy initiatives to ones led by private sector demand was completed. This transition happened none too soon, as late in the year Euro-zone government finances proved to have been built on faulty foundations. With transition to private sector demand and Euro-zone concerns, we saw a round of competitive currency devaluation develop among some major developed nations. The result was the significant appreciation of certain safe haven currencies like the Swiss Franc.

RBS Coutts delivered another year of strong investment performance to our discretionary portfolio management clients, particularly for clients with conservative or balanced investment policies. Delivering consistent investment rates of return to our clients meant that our assets under management held up well under the pressure of the strengthening Swiss Franc and certain planned attrition.

We continued to provide top class services to our clients and our commitment to this is evident to our clients in many ways but, not least, in the superior client output which clients have received during 2010. A number of initiatives were launched to enhance our services to clients including the Private Office and Wealth Institute/Philanthropy and Family Office offerings at RBS Coutts which have been very well received.

The regulatory environment is changing globally and we are increasing our diligence to protect our clients and our reputation. Many new procedures and controls have been established to ensure that we move forward in line with the expectations of the governing bodies which regulate the financial markets business. An ambitious Wealth International Transformation Program has been initiated last year with the objective to develop a client value proposition for clients in Western Europe. Determining factors of the value proposition development are tax compliance, attractiveness for the clients and for the bank. An appropriate portfolio for products and services will be implemented in 2011. In addition, RBS Coutts launched a Sales Management and Risk Management process that will be implemented in the client facing functions. The key elements of the process are a clearly defined investment offering, a sales management framework and a seamless Private Banking/Wealth Solutions cooperation.

We have developed new strategies to focus on our priority markets; Asia, the Middle East and Eastern Europe. In these markets, we see a substantial potential for growth and strong and sustainable profits and we can provide clients with all of the services expected under such a prestigious name.

RBS Coutts Bank Ltd has also started the process to become the "IT/Operations Service hub" for the activities of the RBS Wealth Division. The first large project to take advantage of the consolidation on the Avaloq platform was the migration of the Scottish bank Adam & Company. On 1 January of this year, the systems of the RBS subsidiary were wholly integrated on the Wealth Management platform of RBS Coutts as the end result of a seamless transition project. By the end of this year, specific Coutts & Co. data will be migrated to the Swiss-based banking engine, Avaloq, and be supported by the IT Service Hub in Zurich. This shows the commitment to RBS Coutts by the parent company and the confidence in the expertise available in Switzerland.

Success can only be maintained with the full commitment of the management and staff whom we thank for their contribution in 2010. The Bank is committed to being a Gold Standard Employer so that we can show our commitment to our people and receive their commitment to our brand in return. There have been many improvements including top quality education to ensure that all staff is well equipped for the new challenges and environment facing the wealth business worldwide.

With regret we accept the formal retirement of Dr. Dieter von Schulthess, our Vice-Chairman of the Board of Directors, after 35 years exemplary service to the Bank which has been appreciated by the current board and management as well as past members. However, we have also added to our Board; M. Rory Tapner, CEO RBS Wealth, joined the Board of Directors on 12 October, 2010, and we will make an additional appointment for the replacement of Dieter von Schulthess in due course. We have also extended our General Management Committee from 6 to 11 members, with the appointment of persons internally and other persons joining the organisation, to bring a wider range of international experience, expertise and direct exposure to the business.

The external environment we face remains challenging. We anticipate that in 2011 clients will continue to be cautious with their investment activities and that the financial industry is still marked by volatility in an ongoing low interest rate environment. Nevertheless, we will continue to focus on risk reduction and we will concentrate our efforts in 2011 in the emerging markets where we are implementing new strategies to focus on the growth potential.



The Earl of Home C.V.O., C.B.E.
Chairman of the Board of Directors



Gerhard H. Müller
Chief Executive Officer



Board of Directors/General Management Committee (as of 31 December 2010)

Board of Directors

The Earl of Home C.V.O., C.B.E.	Chairman <i>London</i>
Dr. Dieter von Schulthess	Deputy Chairman <i>Zurich</i>
Dominique Rochat	Member of the Board of Directors <i>Geneva</i>
Gordon F. Pell	Member of the Board of Directors <i>London</i>
Rory Tapner*	Member of the Board of Directors (*As of 12 October 2010.) <i>London</i>

General Management Committee

Gerhard H. Müller	Chairman of the General Management Committee <i>Chief Executive Officer</i>
John D. Anderson*	Member of the General Management Committee (*As of 1 October 2010.) <i>Head of Wealth Solutions Regional Management</i>
James Buchanan-Michaelson*	Member of the General Management Committee (*As of 1 August 2010.) <i>Head of Private Banking Wealth International Latin America & Africa</i>
Daniel Furtwängler*	Member of the General Management Committee (*As of 1 August 2010.) <i>Head of Private Banking Wealth International Western Europe & East Mediterranean</i>
Matthias Hasler*	Member of the General Management Committee (*As of 1 August 2010.) <i>Chief Operations Officer</i>
Andrea Isler*	Member of the General Management Committee (*As of 1 April 2010.) <i>Head of Human Resources</i>
Nick Pollard	Member of the General Management Committee <i>Head of RBS Coutts Asia</i>
Dr. Jürgen Pulm	Member of the General Management Committee <i>Chief Administration Officer</i>
John Savage	Member of the General Management Committee <i>Chief Risk Officer</i>
Michael Vlahovic*	Member of the General Management Committee (*As of 13 April 2010.) <i>Head of Private Banking Eastern & Central Europe</i>
Dr. Markus Voegelin	Member of the General Management Committee <i>Chief Financial Officer; Deputy Chief Executive Officer</i>

Our Presence Worldwide

Head Office

Switzerland

RBS Coutts Bank Ltd
Stauffacherstrasse 1
8022 Zurich
Telephone: +41 (0)43 245 51 11
Facsimile: +41 (0)43 245 53 96

Branches

Switzerland

RBS Coutts Bank Ltd
Marktgassee 63/65
3001 Berne
Telephone: +41 (0)31 329 11 11
Facsimile: +41 (0)31 311 63 91

RBS Coutts Bank Ltd
13, Quai de l'Île
1211 Geneva 11
Telephone: +41 (0)22 319 03 19
Facsimile: +41 (0)22 310 38 57

RBS Coutts Bank Ltd
Via G.B. Pioda 8
6901 Lugano
Telephone: +41 (0)91 913 49 10
Facsimile: +41 (0)91 913 49 20

Asia

RBS Coutts Bank Ltd
Hong Kong Branch
26th Floor, AIA Central
1 Connaught Road Central
Hong Kong
Telephone: +852 2525 6898
Facsimile: +852 2877 0108

RBS Coutts Bank Ltd
Singapore Branch (Merchant Bank)
50 Raffles Place
06-01 Singapore Land Tower
Singapore 048623
Telephone: +65 6223 3132
Facsimile: +65 6223 5098

Representative Office

Uruguay

RBS Coutts (Uruguay) SA
World Trade Center Torre 1
Av. Luis A. de Herrera 1248
Piso 8, Oficina 808
11300 Montevideo
Telephone +598 2 622 8000
Facsimile +598 2 628 3187

Subsidiaries

Isle of Man

RBS Coutts Bank (Manx) Limited
1 Prospect Hill
Douglas
IM1 1ES
Telephone: +44 1624 697940
Facsimile: +44 1624 697938

Switzerland

RBS Coutts Trustees (Switzerland) Ltd
13, Quai de l'Île
1211 Geneva 11
Telephone: +41 22 319 01 01
Facsimile: +41 22 319 01 02

Principality of Liechtenstein

RBS Coutts Trustees Aktiengesellschaft
Kirchstrasse 79
9490 Vaduz
Telephone: +423 237 40 07
Facsimile: +423 237 40 08



Isle of Man ●

Switzerland ●● Vaduz
Zurich
Geneva
Berne
Lugano

● Montevideo

Singapore ●

● Hong Kong

Consolidated Balance Sheet as at 31 December 2010

Assets

	2010 CHF,000	2009 CHF,000
Liquid assets	262,989	63,986
Money-market instruments	966,901	971,683
Due from banks	12,198,273	13,914,836
Due from customers	3,604,185	3,748,360
Mortgage loans	535,686	611,575
Financial investments	532,577	641,470
Unconsolidated participations	3,429	3,429
Fixed assets	122,845	69,242
Accrued income and prepaid expenses	74,392	122,466
Other assets	67,104	146,221
Total assets	18,368,381	20,293,268

Total due from qualified participants	6,896,711	7,745,001
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Liabilities

Due to banks	2,953,156	1,757,869
Due to customers in savings and investment accounts	9,430	16,063
Other amounts due to customers	13,807,868	16,967,203
Accrued expenses and deferred income	153,164	163,562
Other liabilities	98,830	122,619
Valuation adjustments and provisions	19,935	21,364
Reserves for general banking risks	51,512	51,512
Share capital	110,000	110,000
Capital reserves	187,381	187,381
Retained earnings	892,373	790,098
Consolidated net profit	84,732	105,597
Total liabilities	18,368,381	20,293,268

Total subordinated liabilities	–	–
Total due to qualified participants	1,982,972	1,062,740

Off-balance sheet operations

	2010 CHF,000	2009 CHF,000
Contingent liabilities	711,240	687,587
Irrevocable commitments	16,250	14,232
Derivative financial instruments		
– Contract volume	9,752,024	7,949,910
– Positive replacement values	44,225	96,132
– Negative replacement values	53,192	74,358
Fiduciary transactions	1,156,512	1,745,924

Consolidated Income Statement

Revenues and expenses from ordinary banking activities

	2010 CHF,000	2009 CHF,000
Result from interest activities		
Interest and discount income	255,145	357,687
Interest and dividend income on trading portfolios	–	5
Interest and dividend income on financial investments	12,943	14,201
Interest expense	-121,559	-197,659
Subtotal result from interest activities	146,529	174,234
Result from commission and service fee activities		
Commission income on lending activities	2,832	2,911
Commission income on securities and investment business	199,382	209,159
Commission on other services	77,103	89,552
Commission expense	-61,535	-72,038
Subtotal result from commission and service fee activities	217,782	229,584
Result from trading operations	43,799	56,755
Other ordinary income		
Income from sales of financial investments	–	–
Income from participations	1,228	1,496
– thereof from other unconsolidated participations	1,228	1,496
Income from premises	360	182
Other ordinary income	4,523	1,947
Other ordinary expense	-777	-622
Subtotal other ordinary income	5,334	3,003
Operating expense		
Personnel expense	-220,785	-212,359
General administration expense	-90,215	-94,445
Subtotal operating expense	-311,000	-306,804
Operating profit	102,444	156,772
Consolidated net profit		
Gross operating profit	102,444	156,772
Depreciation of capital assets	-16,570	-19,025
Valuation adjustments, provisions and losses	-2,657	-22,732
Subtotal	83,217	115,015
Extraordinary income	24,385	13,115
Extraordinary expenses	-9	-625
Taxes	-22,861	-21,908
Consolidated net profit	84,732	105,597

Consolidated Statement of Cash Flows

	2010 Source of funds CHF ,000	Application of funds CHF ,000	2009 Source of funds CHF ,000	Application of funds CHF ,000
Cash flow from operating results (internal source)				
Consolidated net profit	84,732	–	105,597	–
Depreciation and amortisation of capital assets	16,570	–	19,025	–
Premium on financial investments	8,893	–	–	–
Valuation adjustments and provisions	2,047	3,476	17,884	20,127
Accrued income and prepaid expenses	48,074	–	8,356	–
Accrued expenses and deferred income	–	10,398	–	31,537
Balance	146,442	–	99,198	–
Cash flow from shareholder's equity transactions				
Correction of retained earnings	–	3,320	–	127
Balance	–	3,320	–	127
Cash flow from investment activities				
Other fixed assets	161	70,335	148	7,199
Balance	–	70,174	–	7,051
Cash flow from banking operations				
<i>Medium- and long-term operations (more than 1 year)</i>				
Due from banks	456,799	–	–	1,349,194
Due from customers	–	231,633	11,577	–
Mortgage loans	40,708	–	–	144,046
Financial investments	100,000	–	144,683	113,178
Due to banks	–	19,849	1,551	–
Due to customers in savings and investment accounts	–	6,633	9,955	–
Other amounts due to customers	–	456,838	834,185	–
Balance	–	117,446	–	604,467
<i>Short-term operations</i>				
Money-market instruments	4,850,300	4,845,518	1,882,053	2,836,230
Due from banks	1,259,764	–	2,960,035	–
Due from customers	375,807	–	–	69,471
Mortgage loans	35,181	–	70,914	–
Securities and precious-metal trading portfolios	–	–	–	–
Other assets	79,117	–	28,055	–
Due to banks	1,215,136	–	–	1,731,912
Other amounts due to customers	–	2,702,497	225,554	–
Other liabilities	–	23,789	–	66,305
Balance	243,501	–	462,693	–
<i>Liquidity</i>				
Liquid assets	–	199,003	49,754	–
Balance	–	199,003	49,754	–

0. Comments on business activities; headcount; risk management

The Group's Head Office is in Zurich and there is a banking subsidiary based on the Isle of Man. Swiss branches are located in Berne, Geneva and Lugano. There are foreign branches in Hong Kong and Singapore and a representative office in Montevideo. Trust subsidiaries are located in both Geneva and Vaduz (Liechtenstein). The sole purpose of RBS Coutts Anteilsverwaltung GmbH, Vienna, is to act as the holding company for RBS Coutts Trustees AG in Liechtenstein. There is also a number of other smaller subsidiary companies in Switzerland. The Group's staff consists of 1,244 employees (1,101 in 2009).

The Group's core activity is to provide domestic and cross-border private banking services. These include investment, wealth management and advisory, trust and fiduciary and related banking services to individuals.

The services offered to our private banking clientele include discretionary portfolio management, investment advisory, estate planning, custodial services and a full range of related banking services, i.e. payments, secured lending, trading in foreign exchange, securities, precious metals and derivative financial instruments, deposits and current accounts.

RBS Coutts Bank Ltd provides trading and brokerage in securities, both in traditional and derivative financial instruments, for clients only. There is no proprietary trading. Securities or derivative financial instruments are held only sparingly at the Bank's own risk, for hedging purposes or in the form of liquidity reserves.

Money market activities are predominantly driven by the volume of fixed-term and fiduciary time deposits handled mainly through the subsidiary bank in the Isle of Man.

The primary focus of lending activities is to provide facilities to private banking clients on a collateralised basis. Commercial lending and activities in the capital markets are minimal; a few positions remain from previous activities. Mortgage lending is only offered to private clients with an existing banking relationship and to staff.

The Bank outsourced essential IT services to Swisscom subsidiary COMIT Ltd (development) and to Swisscom IT Services Ltd (operations), primarily including the development and operation of the Avaloq platform for the parent bank in Switzerland, the Asian branches and the Isle of Man subsidiary company. There are also outsourcing arrangements for subsidiaries located overseas to local service providers which are selected according to the size and activities of the companies. All these outsourcings are arranged through detailed service level agreements pursuant to the outsourcing circular of the Swiss Financial Market Supervisory Authority (FINMA). All staff at the service providers are subject to business and banking secrecy regulations, thus assuring client confidentiality.

In the recently ended financial year, in addition to the normal operation of our various internal applications, we also pressed ahead with the Avaloq for UK project. This project includes programming and preparing the Avaloq platform for the British affiliates as well as adapting and increasing the infrastructure. The smaller affiliate has been operating the new bank application since early 2011. The launch at the larger affiliate bank is planned during the course of 2011.

RBS Coutts Bank Ltd has implemented risk management. Based on a periodic identification of risks, the Bank's essential risks are valued and assessed with regard to their probability and impact. These risks are being avoided, mitigated, transferred or accepted by means decided by or under the supervision of the Board. There is an ongoing supervision in this respect.

I. Accounting, valuation and consolidation principles

I.1 Accounting and valuation principles

Introduction

The financial statements have been prepared in accordance with the provisions of the Swiss Code of Obligations, the Swiss Federal Law on Banks and Savings Banks, its Implementing Ordinance and the guidelines of the Swiss Financial Market Supervisory Authority (FINMA). The consolidated accounts represent a true and fair view of the Group's financial situation in accordance with the accounting rules set for banks.

Recording of transactions and revenue recognition

All business transactions concluded before the balance sheet date are recorded and valued on the date they are concluded. Revenues and expenses are recorded in the income statement with the date on which they are concluded.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Swiss francs at the at the year-end exchange rates, except for participations in foreign currencies which are recorded at the historic exchange rate. Income and expenses in foreign currencies are translated into Swiss francs at the exchange rate applicable on the relevant date.

The following rates have been used for currency conversion:

	USD	EUR	GBP
31.12.2010	0.9326	1.2486	1.4572
31.12.2009	1.0336	1.4837	1.6737

Liquid assets, money market instruments, amounts due from and to banks and customers, mortgage loans

These items are reported at nominal value, less valuation adjustments, where applicable, to recognise default risks established on an individual basis. Loans are classed as impaired when the contractually agreed principal and/or interest payments are more than 90 days outstanding, at the latest. Should a debtor be more than 90 days in arrears with interest payments, the accrued interest is allocated directly to valuation adjustments and provisions. Such interest is only credited to the income statement upon settlement thereof.

The impairment in value is measured as the difference between the book value of the asset and the probable amount that can be collected, taking into account the net proceeds of the realisation of any collateral and the counterparty risk.

The asset is written off from the balance sheet by netting it against the specific valuation adjustment if it is considered to be fully or partially unrecoverable or if the Bank agrees to waive the claim on the asset.

Securities and precious metals held for trading purposes

Securities and precious metals traded on a recognised stock exchange or a representative market which are held in the trading book are stated at market value. Unlisted securities and securities not traded on a representative market are stated at the lower of acquisition cost or market value.

Financial investments

Financial investments are stated at cost, adjusted for amortisation of any premiums or discounts on purchase. In the case of fixed interest-bearing securities which are held to maturity, premiums or discounts are amortised or accrued over the remaining duration of the instrument, such that the book value at maturity corresponds to the redemption value.

Fixed assets and participations

Fixed assets and participations are stated at cost less valuation adjustments to recognise reductions in value. Depreciation of fixed assets is calculated using the straight-line method over their useful lives. The useful lives are determined individually and are between 2 and 5 years for machinery and furniture and up to 10 years (but no longer than the end of the rental agreement) for investments in property. Licence fees for software are usually depreciated over 3 years, while the useful life is determined individually and is between 3 and 8 years for more complex systems.

Intangible assets

Acquired intangible assets are capitalised using the same rules as tangible fixed assets and amortised over their useful lives.

The goodwill paid on the takeover of Bank von Ernst in 2003 was fully amortised by 2008.

Valuation adjustments and provisions

Valuation adjustments and provisions are created to cover all identifiable risks. Individual valuation adjustments are deducted from the relevant assets.

Reserves for general banking risks

The accounting rules allow for the creation of reserves for general banking risks, which are considered to be part of equity. These are subject to tax.

Taxes

Accruals for income taxes are calculated based on the taxable profit of the year. Capital taxes are charged to the profit and loss account in the year in which they are due. Direct taxes due but not yet paid are accounted for under the position "Accrued expenses and deferred income".

Provisions for deferred taxes are built up through the profit and loss account. They are calculated based on current tax rates.

Retirement benefits

The Group runs several pension schemes in Switzerland. These are all defined contribution schemes under Swiss law. There are several overseas schemes based on local rules and regulations which are accounted for under the same rules as the Swiss schemes. All staff members working in Switzerland are beneficiaries as long as they have worked for the company for more than 3 months. As in the prior year, the application of Swiss GAAP ARR 16 did not lead to any balance sheet position for any economic benefit or liability. The cost as per table 5.3 therefore only includes the employer's contribution to various pension schemes in Switzerland and abroad. We do not publish a detailed overview within table 3.7 for this reason. The cost of the non-Swiss pension funds charged in the foreign branches (where the Bank does not have its own pension fund) is CHF 2.4 million (prior year CHF 3.8 million).

Contingent liabilities

Contingent liabilities are stated at their nominal value.

Fiduciary operations

Fiduciary operations include deposits and loans made by the Bank in its own name but at the risk and on behalf of investors. They are stated at their nominal value.

Derivative financial instruments

Derivative financial instruments include forward contracts, options, futures and swap transactions on interest, foreign exchange, precious metal, equity and index products.

Derivative financial instruments held for trading purposes and open at the balance sheet date are revalued to market as long as they are traded on recognised stock exchanges or on representative markets. Gains or losses on revaluations are reflected in the net results. If not quoted on a stock exchange or on a representative market, the instruments are valued according to the historic cost principle. Derivatives entered into for hedging purposes are valued according to the same method as the underlying hedged instruments. The income from the hedge is booked to the same income position as the corresponding income from the hedged position. Correlation, objectives and strategies of the hedge are documented when the transaction is performed. The effectiveness of the hedge is checked periodically. Gains and losses arising from the insufficient matching of the hedging instrument and the underlying hedged position are recognised immediately.

Subsequent events

There have been no events subsequent to the year-end which would require changes in the presentation of the financial statements.

1.2 Consolidation principles

The consolidated accounts include the parent bank and permanent participations as follows:

All participations where RBS Coutts Bank Ltd has a direct or indirect majority shareholding are fully consolidated. Assets and liabilities, off-balance sheet instruments and income and expenditure are included at 100% value.

Intragroup assets and liabilities as well as income and expenditure items are eliminated on consolidation.

The consolidation is prepared using the historic cost method. Acquisition values reflect book values as per 1 January 1994 or on the date of initial consolidation.

All significant participations from 20% to 50% are treated as associated companies. They are included in the accounts in accordance with the equity method (inclusion of net equity and annual profit on the basis of shares held).

Companies where the Group holds a participation of less than 20% or where its size and business have no material influence on the Group are accounted for under participations according to the lower of cost or market principle.

Group companies' earnings and expenditures are converted at rates as of the balance sheet date due to their minor significance. Foreign currency effects from consolidation are directly assigned to the retained earnings.

The consolidation period is the calendar year. In the recently ended financial year, the consolidation companies remained unchanged.

1.3 Changes in accounting, valuation and consolidation principles

The consideration of foreign currency effects during consolidation was changed in the financial year. Foreign currency conversions during consolidation will now be directly debited from retained earnings. This change pulled down retained earnings by around CHF 3 million in 2010.

Apart from that, no year-on-year adjustments were made in respect of accounting principles.

2. Management of interest rate, market, credit and other risks; use of derivative financial instruments

Risk management

Business risks are monitored by management and the Board of Directors on a regular basis by means of management information systems, reporting and regular meetings. Management has established a Risk Management Committee for this purpose. The Bank uses the value-at-risk methodology to support the risk management in derivative financial instruments. Each risk is controlled as follows:

- **Interest rate risks**

The Bank has established a documented policy to manage interest rate risk. The Treasury Committee regularly reviews adherence to the policy using a GAP analysis methodology.

- **Market risks**

The Bank has documented and approved position limits which are continuously used to control risk exposures in each area of business. In addition, the daily income and expenses are monitored.

- **Credit risks**

The Bank mainly has Lombard facilities, which are continuously monitored, or mortgages. Furthermore, there are documented approved credit lines for each counterparty. Management monitors the adherence to these limits on a regular basis, and a Credit Committee oversees risk control.

- **Operational risks**

Operational risks are defined as "threats of direct and indirect losses occurring due to the general inadequacy or failure of internal controls, human beings and systems or an external impact". They are controlled through internal rules outlining the organisation and its control mechanism. Dedicated resources within the enterprise risk function of the organisation are in charge of controlling these risks.

- **Compliance and legal risks**

The regulatory risk function and the legal department ensure that the business activity is compliant with the rules and regulations in place. These departments are responsible for the ongoing review of requirements and developments from regulators, legislatures and other organisations. They also make sure that internal rules and regulations are amended for these developments and that these rules are met.

- **Other risks**

Other risks are consistently monitored by management by means of the Bank's management information system, including reporting and meetings.

- **Use of derivative financial instruments**

The Bank uses derivative financial instruments on behalf of customers and for its own account for hedging purposes.

3. Information concerning the consolidated balance sheet

3.1 Summary of collateral for loans and off-balance sheet transactions

		Type of collateral			Total CHF ,000
		Mortgage collateral CHF ,000	Other collateral CHF ,000	Without collateral CHF ,000	
Loans					
Due from customers		707,024	2,832,867	64,294	3,604,185
Mortgage loans	Residential real estate	518,992	–	595	519,587
	Office and business premises	275	–	–	275
	Industry & Manufacturing	–	–	–	–
	Other	563	3,222	12,039	15,824
Total loans	2010	1,226,854	2,836,089	76,928	4,139,871
	2009	1,300,205	2,878,963	180,767	4,359,935
Off-balance sheet transactions					
Contingent liabilities		7,330	697,297	6,613	711,240
Irrevocable commitments		–	–	16,250	16,250
Total off-balance sheet transactions	2010	7,330	697,297	22,863	727,490
	2009	6,056	674,277	21,486	701,819

Impaired loans

	Gross loan position	Estimated return on liquidation of collaterals*	Net loan position	Specific value adjustments
Current year	12,832	244	12,588	12,586
Previous year	17,578	1,149	16,429	16,410

* Loan or residual value per client: smaller amount is prevailing

The net debt from endangered receivables as at year-end corresponds approximately to the specific value adjustments.

3.4 Participations and fixed assets

	Historical costs CHF ,000	Write-offs/ accumulated depreciation CHF ,000	Book value end of 2009 CHF ,000	2010			Book value end of 2010 CHF ,000
				Additions CHF ,000	Disposals CHF ,000	Write-offs/ depreciation CHF ,000	
Participations							
– Other participations	–	–	3,429	–	–	–	3,429
Total participations	–	–	3,429	–	–	–	3,429
Real estate							
– Other properties	–	–	–	–	–	–	–
Other fixed assets	202,710	-133,469	69,241	70,335	-161	-16,570	122,845
Total fixed assets	202,710	-133,469	69,241	70,335	-161	-16,570	122,845
Goodwill							
Other intangible assets	–	–	–	–	–	–	–
Total intangible assets	268,557	-268,557	–	–	–	–	–
Fire insurance value of real estate							
Fire insurance value of other fixed assets							60,623
Future payments due for operational leasing							
							259

3.5 Other assets and liabilities

	2010 Other assets CHF ,000	Other liabilities CHF ,000	2009 Other assets CHF ,000	Other liabilities CHF ,000
Replacement values of derivative financial instruments				
– Contracts as principal				
– Trading book	44'225	53'192	96,132	74,358
– Banking book	–	–	–	–
Total derivative financial instruments	44'225	53'192	96,132	74,358
Other net replacement values				
Indirect taxes	2'257	7'619	2,416	14,421
Settlement accounts	19'102	31'775	20,952	29,712
Coupons and securities not cashed in	–	18	–	18
Other assets and liabilities	1'520	6'226	26,721	4,110
Total other assets and liabilities	67'104	98'830	146,221	122,619

3.6 Assets pledged or assigned to secure own liabilities/Assets subject to reservation of title

<i>Balance sheet position</i>	<i>2010 Amount CHF ,000</i>	<i>of which used CHF ,000</i>	<i>2009 Amount CHF ,000</i>	<i>of which used CHF ,000</i>
Money-market instruments	2,399	—	2,666	—
Due from banks	26,578	—	29,459	—
Financial investments	532,577	50,554	641,470	50,889
Total assets pledged	561,554	50,554	673,595	50,889
Assets under conditional sale	—	—	—	—

Securities lending and borrowing and repurchase agreements

None

3.7 Commitments to own welfare and pension funds

<i>Balance sheet position</i>	<i>2010 CHF ,000</i>	<i>2009 CHF ,000</i>
Included in due to customers in savings and investment accounts	7,198	14,282
Included in other amounts due to customers	281	4,847
Total commitments to own welfare and pension funds	7,479	19,129

There are further pension funds in addition to the Swiss funds already described in the accounting principles section. This applies mainly for the Asian branches. The staff numbers of the other subsidiaries are small or are integrated within the Swiss pension funds.

As of the end of the year, the RBS Coutts Bank Ltd pension fund held employer contribution provisions of CHF 647k (prior year CHF 647k). There is no waiver of usage for these contribution provisions. No allocation was carried out in the year under review or in the prior year. Also, no contribution provisions to reduce employer contributions to the pension fund were liquidated. There also exists an additional welfare pension fund with assets as of the end of the year of CHF 5.1 million (prior year CHF 5.2 million), whose purpose is mainly to finance the other benefit institutions.

The application of Swiss GAAP FER 16 does, as in the prior year, still not give rise to the activation of any economic benefit or recognition of economic liabilities.

The financial excess coverage in the pension fund is approx. 108% as of the end of the year (prior year 108%). The calculation is carried out on the basis of the pension fund's provisional annual financial statements. There are no instances of underfunding at the foreign pension funds as of the balance sheet date.

3.8. Outstanding bonds

None

3.9 Valuation adjustments and provisions/ Reserves for general banking risks

	Balance end of 2009 CHF,000	Specific usage CHF,000	Change in definition of purpose (reclassification) CHF,000	Recoveries doubtful interest, exchange differences CHF,000	New creation charged to income statement CHF,000	Reversals credited to income statement CHF,000	Balance end of 2010 CHF,000
Provision for deferred taxes	–	–	–	–	–	–	–
Valuation adjustments and provisions for credit and operational risks							
– Loan losses and country risks	16,410	-1,132	–	-1,943	166	-915	12,586
– Operational risks	–	–	–	–	–	–	–
– Restructuring provisions	1,044	-1,290	489	–	–	–	243
– Provisions for pension funds	–	–	–	–	–	–	–
– Other provisions	20,320	-1,686	-489	-34	2,081	-500	19,692
Total valuation adjustments and provisions	37,774	-4,108	–	-1,977	2,247	-1,415	32,521
less:							
Valuation adjustments directly netted with assets	16,410						12,586
Total valuation adjustments and provisions as per balance sheet	21,364						19,935
Reserves for general banking risks	51,512	–	–	–	–	–	51,512

3.10 Significant shareholders and shareholders with more than 5% voting rights

	2010 Nominal CHF 000	Participation in %	2009 Nominal CHF 000	Participation in %
Voting shareholders				
RBS Netherlands Holdings B.V., Houten	110,000	100.00	110,000	100.00
Ultimate holding company				
Royal Bank of Scotland Group Plc, Edinburgh		100.00		100.00

As of the end of the year, the UK government (represented by Her Majesty's Treasury) has held an 82.8% share (prior year 84.4%) in the parent company and 67.8% in voting rights (prior year 70.3%) .

3.11 Statement of changes in shareholder's equity

<i>Shareholder's equity at beginning of 2010</i>	<i>CHF ,000</i>
Share capital	110,000
Capital reserves	187,381
Retained earnings	790,098
Reserves for general banking risks	51,512
Consolidated net profit	105,597
Total shareholder's equity at beginning of 2010 (before appropriation of profit)	1,244,588
- Currency corrections of subsidiaries via retained earnings	-3,322
+ Net profit current year	84,732
Total shareholder's equity at end of 2010	1,325,998
thereof	
Share capital	110,000
Capital reserves	187,381
Retained earnings	892,373
Reserves for general banking risks	51,512
Consolidated net profit	84,732

3.12 Maturity structure of current assets and borrowed funds

		At sight CHF ,000	Redeemable by notice CHF ,000	within 3 months CHF ,000	within 3 to 12 months CHF ,000	within 1 to 5 years CHF ,000	After 5 years CHF ,000	Without maturity CHF ,000	Total CHF ,000
Current assets									
Liquid assets		262,989	–	–	–	–	–	–	262,989
Money-market instruments		43	–	352,288	614,570	–	–	–	966,901
Due from banks		1,435,768	–	5,521,474	3,922,014	1,319,017	–	–	12,198,273
Due from customers		–	295,187	2,966,824	325,219	16,955	–	–	3,604,185
Mortgage loans		479	89,889	39,895	51,668	340,963	12,792	–	535,686
Financial investments		–	–	–	94,698	437,879	–	–	532,577
Total current assets	2010	1,699,279	385,076	8,880,481	5,008,169	2,114,814	12,792	–	18,100,611
	2009	1,337,026	437,956	12,296,838	3,058,700	2,808,376	13,014	–	19,951,910
Borrowed funds									
Due to banks		878,151	47	1,994,581	47,641	32,736	–	–	2,953,156
Due to customers in savings and investment accounts		9,430	–	–	–	–	–	–	9,430
Other amounts due to customers		7,477,687	1,944,668	2,314,832	1,664,059	406,622	–	–	13,807,868
Total borrowed funds	2010	8,365,268	1,944,715	4,309,413	1,711,700	439,358	–	–	16,770,454
	2009	8,732,528	2,962,455	4,561,517	1,568,590	916,045	–	–	18,741,135

3.13 Amounts due from and to affiliated companies and governing bodies

	2010 Due from CHF ,000	Due to CHF ,000	2009 Due from CHF ,000	Due to CHF ,000
Due from affiliated companies	1,282,833	–	1,220,495	–
Due to affiliated companies	–	42,162	–	38,658
Due from governing bodies	6,831	–	3,252	–
Total	1,289,664	42,162	1,223,747	38,658

Transactions with related parties

Most of the customer placements which are not needed for lending business are placed within the Royal Bank of Scotland Group (RBSG). This happens within the Asset and Liability Management framework on a daily basis and comprises a large number of transactions. These transactions are performed on a market rate basis. Loans to governing bodies are granted at normal staff terms.

3.14 Assets and liabilities by origin

Balance sheet position	2010		2009	
	Domestic CHF ,000	Foreign CHF ,000	Domestic CHF ,000	Foreign CHF ,000
Assets				
Liquid assets	262,988	1	63,982	4
Money-market instruments	389,899	577,002	413,730	557,953
Due from banks	538,471	11,659,802	638,464	13,276,372
Due from customers	73,578	3,530,607	70,253	3,678,107
Mortgage loans	308,053	227,633	301,263	310,312
Financial investments	532,577	–	641,470	–
Unconsolidated participations	3,429	–	3,429	–
Fixed assets	110,554	12,291	53,369	15,873
Intangible assets	–	–	–	–
Accrued income and prepaid expenses	30,204	44,188	76,789	45,677
Other assets	11,050	56,054	41,578	104,643
Total assets	2,260,803	16,107,578	2,304,327	17,988,941
Liabilities and shareholder's equity				
Due to banks	61,430	2,891,726	199,514	1,558,355
Due to customers in savings and investment accounts	9,358	72	15,991	72
Other amounts due to customers	979,608	12,828,260	1,163,140	15,804,063
Accrued expenses and deferred income	81,135	72,029	86,868	76,694
Other liabilities	31,778	67,052	33,084	89,535
Valuation adjustments and provisions	13,861	6,074	14,050	7,314
Reserves for general banking risks	51,512	–	51,512	–
Share capital	110,000	–	110,000	–
Capital reserves	153,361	34,020	153,361	34,020
Retained earnings	548,154	344,219	487,631	302,467
Consolidated net profit	60,818	23,914	60,523	45,074
Total liabilities and shareholder's equity	2,101,015	16,267,366	2,375,674	17,917,594

3.15 Assets by country groups

	2010 Total CHF ,000	in %	2009 Total CHF ,000	in %
Assets				
Europe	12,361,385	67.3	14,585,160	71.9
North America	407,798	2.2	677,223	3.3
Caribbean	983,738	5.3	1,251,663	6.2
Latin America	197,786	1.1	111,676	0.5
Africa	56,315	0.3	54,801	0.3
Asia	4,347,820	23.7	3,554,082	17.5
Oceania	13,539	0.1	58,663	0.3
Total assets	18,368,381	100.0	20,293,268	100.0

3.16 Consolidated balance sheet by currencies

	CHF	Currencies equivalent in CHF ,000			other	Total CHF ,000
		USD	EUR	GBP		
Assets						
Liquid assets	260,343	245	1,922	239	240	262,989
Money-market instruments	389,855	–	31	12	577,003	966,901
Due from banks	651,584	5,215,102	2,888,365	1,767,443	1,675,779	12,198,273
Due from customers	427,165	874,737	416,766	432,399	1,453,118	3,604,185
Mortgage loans	351,175	24,848	10,492	142,873	6,298	535,686
Financial investments	532,577	–	–	–	–	532,577
Unconsolidated participations	3,429	–	–	–	–	3,429
Fixed assets	122,788	57	–	–	–	122,845
Intangible assets	–	–	–	–	–	–
Accrued income and prepaid expenses	36,256	12,934	9,691	9,533	5,978	74,392
Other assets	21,381	21,152	9,242	2,938	12,391	67,104
Assets	2,796,553	6,149,075	3,336,509	2,355,437	3,730,807	18,368,381
Assets from forex spot, -forward and -option positions	250,060	2,085,951	370,220	193,013	1,345,574	4,244,818
Total assets	3,046,613	8,235,026	3,706,729	2,548,450	5,076,381	22,613,199
Liabilities and shareholder's equity						
Due to banks	678,402	478,883	110,309	7,022	1,678,540	2,953,156
Due to customers in savings and investment accounts	9,430	–	–	–	–	9,430
Other amounts due to customers	677,580	6,538,120	2,720,931	2,293,214	1,578,023	13,807,868
Accrued expenses and deferred income	93,974	6,476	2,850	9,686	40,178	153,164
Other liabilities	47,282	22,295	2,855	13,267	13,131	98,830
Valuation adjustments and provisions	13,644	938	–	4,913	440	19,935
Reserves for general banking risks	51,512	–	–	–	–	51,512
Share capital	110,000	–	–	–	–	110,000
Capital reserves	187,381	–	–	–	–	187,381
Retained earnings	892,259	24	90	–	–	892,373
Consolidated net profit	81,595	36	3,101	–	–	84,732
Liabilities	2,843,059	7,046,772	2,840,136	2,328,102	3,310,312	18,368,381
Liabilities from forex spot, -forward and -option positions	223,752	1,185,069	861,352	218,744	1,764,870	4,253,787
Total liabilities	3,066,811	8,231,841	3,701,488	2,546,846	5,075,182	22,622,168
Net position per currency	-20,198	3,185	5,241	1,604	1,199	-8,969

4. Information concerning consolidated off-balance sheet transactions**4.1 Contingent liabilities**

	2010 CHF ,000	2009 CHF ,000
Guarantees to secure loans	676,703	617,425
Performance guarantees	34,537	70,162
Total contingent liabilities	711,240	687,587

4.2 Credit commitments

None

4.3 Off-balance sheet financial instruments

	<i>Trading instruments</i>			<i>Hedging instruments</i>		
	<i>Positive replacement values CHF ,000</i>	<i>Negative replacement values CHF ,000</i>	<i>Contract volume CHF ,000</i>	<i>Positive replacement values CHF ,000</i>	<i>Negative replacement values CHF ,000</i>	<i>Contract volume CHF ,000</i>
Currencies/Precious metals						
Forward contracts	8,171	7,852	1,061,678	–	–	–
Combined interest/currency swaps	10,819	20,105	3,178,015	–	–	–
Options (OTC)	13,111	13,111	4,258,914	–	–	–
Total	32,101	41,068	8,498,607	–	–	–
Securities						
Options (OTC)	12,124	12,124	1,253,417	–	–	–
Total	12,124	12,124	1,253,417	–	–	–
Total before netting agreements	Current year	44,225	53,192	9,752,024	–	–
	Previous year	96,132	74,358	7,949,910	–	–
				<i>Positive replace- ment values (accumulated) CHF ,000</i>		<i>Negative replace- ment values (accumulated) CHF ,000</i>
Total after netting agreements	Current year			44,225		53,192
	Previous year			96,132		74,358

4.4 Fiduciary transactions

	2010 CHF,000	2009 CHF,000
Fiduciary deposits with third-party banks	524,951	409,998
Fiduciary deposits with affiliated companies	570,065	1,270,188
Fiduciary loans and other fiduciary financial transactions	61,496	65,738
Total fiduciary transactions	1,156,512	1,745,924

4.5 Assets under management

	2010 CHF m	2009 CHF m
Asset category:		
Investment funds assets	–	–
Discretionary managed assets	7,445	8,216
Other assets	34,379	40,061
Total assets under management (incl. double counts)	41,824	48,277
<i>of which double counts</i>	–	–
Net new money outflow	-4,972	-3,188

RBS Coutts Bank Ltd is not active in custody-only business. All assets listed above are under direct or indirect (i.e. outside fund managers) management. This situation is unchanged compared to last year. The net new money outflow is calculated based on single client transaction data, whereas new money inflows are counted as well as additional money on existing clients transferred into the Bank. A new client is defined as any client who was not a client of the Bank at the beginning of the reporting year. Interest and fees charged to clients are not included within this net new money inflow calculation.

5. Information concerning the consolidated income statement

5.1 Significant income from refinancing trading activities included in interest and discount income

The interest and discount income does not include any refinancing costs for trading activities.

5.2 Result from trading operations

	2010 CHF,000	2009 CHF,000
Foreign currencies	40,985	53,910
Precious metals	-105	258
Securities	2,919	2,587
Total result from trading operations	43,799	56,755

5.3 Personnel expense

	2010 CHF,000	2009 CHF,000
Salaries	181,925	169,049
Social costs	8,283	9,151
Pension costs	14,161	16,137
Other staff-related expense	16,416	18,022
Total personnel expense	220,785	212,359

5.4 General administration expense

	2010 CHF,000	2009 CHF,000
Expenses for office space	21,265	22,777
Expenses for IT, equipment, furniture, motor vehicles and other installations	19,477	18,195
Other business expenses	49,473	53,473
Total general administration expense	90,215	94,445

5.5 Significant losses, extraordinary income (namely shareholder distributions) and expenses as well as material releases of hidden reserves, reserves for general banking risks and releases of valuation adjustments and provisions no longer required

Extraordinary income

This line consists primarily of the release of some provisions no longer required, income from unrelated accounting periods, gains made on sales of property, plant and equipment as well as recoveries from dubious loan positions and losses. In the financial year, the RBS Coutts Bank Group received CHF 23.4 million as its share from the sale of the RBS Group's asset management.

5.6 Value adjustments within financial investments and fixed assets

None of the companies included under the RBS Coutts Bank Group consolidated accounts revalued any of their financial investments and fixed assets.

5.7 Consolidated income statement from ordinary banking activities by business locations

<i>Revenues and expenses from ordinary banking activities</i>	<i>2010 Domestic in CHF ,000</i>	<i>Foreign in CHF ,000</i>	<i>2009 Domestic in CHF ,000</i>	<i>Foreign in CHF ,000</i>
Result from interest activities				
Interest and discount income	74,826	180,319	79,892	277,795
Interest and dividend income on trading portfolios	—	—	5	—
Interest and dividend income on financial investments	12,943	—	14,201	—
Interest expense	-6,209	-115,350	-14,168	-183,491
Subtotal result from interest activities	81,560	64,969	79,930	94,304
Result from commission and service fee activities				
Commission income on lending activities	2,652	180	2,639	272
Commission income on securities and investment business	158,618	40,764	163,847	45,312
Commission on other services	56,676	20,427	59,916	29,636
Commission expense	-54,075	-7,460	-60,342	-11,696
Subtotal result from commission and service fee activities	163,871	53,911	166,060	63,524
Result from trading operations	33,295	10,504	45,116	11,639
Other ordinary income				
Result from the sales of financial investments	—	—	—	—
Income from participations	1,228	—	1,496	—
<i>thereof other unconsolidated participations</i>	<i>1,228</i>	<i>—</i>	<i>1,496</i>	<i>—</i>
Income from premises	360	—	182	—
Other ordinary income	4,234	289	1,179	768
Other ordinary expense	-682	-95	-548	-74
Subtotal other ordinary income	5,140	194	2,309	694
Operating expense				
Personnel expense	-146,093	-74,692	-138,141	-74,218
General administration expense	-63,001	-27,214	-61,715	-32,730
Subtotal operating expense	-209,094	-101,906	-199,856	-106,948
Gross profit	74,772	27,672	93,559	63,213
Consolidated net profit				
Gross profit	74,772	27,672	93,559	63,213
Depreciation and amortisation of fixed assets	-12,892	-3,678	-13,497	-5,528
Valuation adjustments, provisions and losses	-2,023	-634	-9,703	-13,029
Subtotal	59,857	23,360	70,359	44,656
Extraordinary income	20,795	3,590	12,627	488
Extraordinary expenses	—	-9	-11	-614
Taxes	-18,302	-4,559	-15,480	-6,428
Consolidated net profit	62,350	22,382	67,495	38,102

5.8 Tax costs

	2010 CHF ,000	2009 CHF ,000
New provisions for deferred taxes	—	—
Charge for current taxation	22,861	21,908
Total tax costs	22,861	21,908
Tax reductions on losses carried forward and non-capitalised tax credits excluded on grounds of prudence	—	—
Hypothetical, deferred taxes on revaluation of investment, calculated at theoretical tax rates	—	—

6. Capital adequacy

	2010 CHF ,000	2009 CHF ,000
Eligible Tier 1 capital	1,322,569	1,241,159
additional hybrid instruments capital	—	—
Eligible Tier 2 capital	1,322,569	1,241,159
Required Capital		
Credit Risk	507,864	526,286
– of which rate risk from participations in the banking book	—	—
Non-counterparty related risk	61,423	34,621
Market risk	12,374	8,894
– of which for interest rate instruments (general and specific risk)	4,802	264
– of which for equity	—	—
– of which for currencies and precious metals	4,714	6,199
– of which for commodities	2,858	2,431
Operational risks	73,214	83,113
General value adjustment and provisions		
Value adjustments and provisions recognised as liabilities in the Swiss standardised approach (art. 62 Capital Ordinance)	-965	-1,056
Total Required Capital	653,910	651,858
Ratio between eligible capital/capital requirements	2.022	1.904
Total excess capital (Surplus)	668,659	589,301
BIZ Ratios		
Eligible Tier 1 capital	16.18%	15.23%
Eligible Tier 2 capital	16.18%	15.23%

The calculation of the eligible capital and the required capital is based on the Swiss Basel II regulations. The credit risk is calculated according to the basic Swiss approach. For the calculation of the market risk the standard approach was used. The calculation of the operational risk was done in compliance with the basic indicator approach.

According to the disclosing regulation RBS Coutts Bank Group as part of the RBS Group doesn't have to disclose any capital adequacy information. In terms of a voluntary publication the figures above represent the concerning situation. Reference is made to the available information from RBS Group (www.rbs.com).

Report of the Statutory Auditor

Report of the statutory auditor to the General Meeting of RBS Coutts Bank Ltd, Zurich

Report on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of RBS Coutts Bank Ltd, which comprise the balance sheet, income statement, cash flow statement and notes (pages 8 to 30) for the year ended 31 December 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in

order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

DELOITTE AG

Stephan Schmidli
Licensed audit expert
Auditor in charge

Sandro Schönenberger
Licensed audit expert

Zurich, 22 February 2011

Parent Bank Balance Sheet as at 31 December 2010

Assets

	2010 CHF,000	2009 CHF,000
Liquid assets	262,988	63,985
Money-market instruments	966,901	971,683
Due from banks	7,730,160	7,973,436
Due from customers	3,604,185	3,748,360
Mortgage loans	535,686	611,575
Financial investments	532,577	641,470
Participations	46,785	46,785
Fixed assets	122,724	69,080
Accrued income and prepaid expenses	55,260	102,972
Other assets	66,768	145,414
Total assets	13,924,034	14,374,760
Total subordinated assets	—	—
Total due from Group companies and qualified participants	218,531 3,635,329	126,835 3,178,879

Liabilities

Due to banks	3,065,798	1,982,101
Due to customers in savings and investment accounts	9,430	16,063
Other amounts due to customers	9,446,574	11,102,956
Accrued expenses and deferred income	141,193	148,095
Other liabilities	98,169	124,319
Valuation adjustments and provisions	19,337	20,018
Reserves for general banking risks	51,512	51,512
Share capital	110,000	110,000
General legal reserve	153,115	153,115
Retained earnings	666,581	529,137
Net profit	162,325	137,444
Total liabilities	13,924,034	14,374,760
Total due to Group companies and qualified participants	125,134 1,982,972	240,202 1,062,740

Off-balance sheet operations

	2010 CHF,000	2009 CHF,000
Contingent liabilities	711,240	687,587
Irrevocable commitments	16,250	14,232
Derivative financial instruments		
– Contract volume	9,752,024	7,949,910
– Positive replacement values	44,225	96,132
– Negative replacement values	53,192	74,358
Fiduciary transactions	5,552,961	7,627,858

Parent Bank Income Statement

Revenues and expenses from ordinary banking activities

	2010 CHF,000	2009 CHF,000
Result from interest activities		
Interest and discount income	164,577	197,697
Interest and dividend income on trading portfolios	–	5
Interest and dividend income on financial investments	12,943	14,199
Interest expense	-66,558	-95,833
Subtotal result from interest activities	110,962	116,068
Result from commission and service fee activities		
Commission income on lending activities	2,833	2,911
Commission income on securities and investment business	199,312	210,803
Commission on other services	76,372	87,814
Commission expense	-62,431	-72,897
Subtotal result from commission and service fee activities	216,086	228,631
Result from trading operations	44,255	56,528
Other ordinary income		
Income from participating interests	104,955	77,996
Income from premises	360	182
Other ordinary income	4,524	1,688
Other ordinary expense	-777	-622
Subtotal other ordinary income	109,062	79,244
Operating expense		
Personnel expense	-219,180	-211,330
General administration expense	-84,200	-86,430
Subtotal operating expense	-303,380	-297,760
Operating profit	176,985	182,711

Parent Bank Income Statement (continued)

Net profit

	2010 CHF,000	2009 CHF,000
Gross operating profit	176,985	182,711
Depreciation of capital assets	-16,540	-18,999
Valuation adjustments, provisions and losses	-2,575	-21,361
Subtotal	157,870	142,351
Extraordinary income	24,385	12,670
Extraordinary expenses	-9	-11
Taxes	-19,921	-17,566
Net profit	162,325	137,444

Appropriation of profit

Net profit	162,325	137,444
Retained earnings	666,581	529,137
Retained earnings carried forward	828,906	666,581

I. Business activities, accounting and valuation principles

For information on business activities, please refer to the notes of the consolidated financial statements.

The accounting and valuation principles applied to the parent bank (Head Office and domestic and foreign branches excluding subsidiaries) are the same as those applied for the Group.

The Bank's Head Office is in Zurich and it has branches in Berne, Geneva, Lugano, Hong Kong and Singapore. The Bank's staff consists of 1,238 employees (1,094 in 2009).

Subsequent events

There have been no events subsequent to the year-end which would require changes in the presentation of the financial statements.

2. Information concerning the parent bank balance sheet

2.1 Assets pledged or assigned to secure own liabilities/Assets subject to reservation of title

Balance sheet position	2010 Amount CHF ,000	of which used CHF ,000	2009 Amount CHF ,000	of which used CHF ,000
Money-market instruments	2,399	—	2,666	—
Due from banks	26,578	—	29,459	—
Financial investments	532,577	50,554	641,470	50,889
Total assets pledged	561,554	50,554	673,595	50,889

2.2 Commitments to own welfare and pension funds

Balance sheet position	2010 CHF ,000	2009 CHF ,000
Included in due to customers in savings and investment accounts	7,198	14,282
Included in other amounts due to customers	281	4,847
Total commitments to own welfare and pension funds	7,479	19,129

2.3 Valuation adjustments and provisions/ Reserves for general banking risks

	Balance end of 2009 CHF ,000	Specific usage and reversals CHF ,000	Change in definition of purpose (reclassification) CHF ,000	Recoveries doubtful interest, exchange differences CHF ,000	New creation charged to income statement CHF ,000	Reversals credited to income statement CHF ,000	Balance end of 2010 CHF ,000
Provision for deferred taxes	—	—	—	—	—	—	—
Valuation adjustments and provisions for credit and operational risks							
– Loan losses and country risks	16,410	-1,132	—	-1,943	166	-915	12,586
– Restructuring provisions	1,044	-1,290	489	—	—	—	243
– Other provisions	18,974	-975	-489	53	2,031	-500	19,094
Total valuation adjustments and provisions	36,428	-3,397	—	-1,890	2,197	-1,415	31,923
less: Valuation adjustments directly netted with assets	16,410						12,586
Total valuation adjustments and provisions as per balance sheet	20,018						19,337
Reserves for general banking risks	51,512	—	—	—	—	—	51,512

2.4 Share capital

2.4.1 Share capital

	2010 Total nominal value CHF,000	Number of units	Dividend- bearing capital CHF,000	2009 Total nominal value CHF,000	Number of units	Dividend- bearing capital CHF,000
Share capital	110,000	220,000	110,000	110,000	220,000	110,000
Total share capital	110,000	220,000	110,000	110,000	220,000	110,000

2.4.2 Significant shareholders and shareholder groups with voting rights

	2010 Nominal CHF,000	Participation in %	2009 Nominal CHF,000	Participation in %
Voting shareholders				
RBS Netherlands Holdings B.V., Houten	110,000	100.00	110,000	100.00
Ultimate holding company				
Royal Bank of Scotland Group Plc, Edinburgh		100.00		100.00

As of the end of the year, the UK government (represented by Her Majesty's Treasury) has held an 82.8% share (prior year 84.4%) in the parent company and 67.8% in voting rights (prior year 70.3%) .

2.5 Statement of changes in shareholder's equity

Shareholder's equity at beginning of 2010

	CHF,000
Share capital	110,000
General legal reserve	153,115
Reserves for general banking risks	51,512
Retained earnings	666,581
Total shareholder's equity at beginning of 2010 (before appropriation of profit)	981,208
+ Net profit current year	162,325
Total shareholder's equity at end of 2010	1,143,533
thereof	
Share capital	110,000
General legal reserve	153,115
Reserves for general banking risks	51,512
Retained earnings	828,906

2.6 Amounts due from and to affiliated companies and governing bodies

	2010 Due from CHF ,000	Due to CHF ,000	2009 Due from CHF ,000	Due to CHF ,000
Due from affiliated companies	996,974	—	767,044	—
Due to affiliated companies	—	42,162	—	38,658
Due from governing bodies	6,831	—	3,252	—
Total	1,003,805	42,162	770,296	38,658

Transactions with related parties

Most of the customer placements which are not needed for lending business are placed within the Royal Bank of Scotland Group (RBSG). This happens within the Asset and Liability Management framework on a daily basis and comprises a large number of transactions. These transactions are performed on a market rate basis. Loans to governing bodies are granted at normal staff terms.

3. Information concerning parent bank off-balance sheet transactions

3.1 Fiduciary transactions

	2010 CHF ,000	2009 CHF ,000
Fiduciary deposits with third-party banks	524,951	409,998
Fiduciary deposits with affiliated banks	570,065	1,270,188
Fiduciary deposits with Group banks	4,396,449	5,881,934
Fiduciary loans and other fiduciary financial transactions	61,496	65,738
Total fiduciary transactions	5,552,961	7,627,858

4. Information concerning the parent bank income statement

4.1 Result from trading operations

	2010 CHF ,000	2009 CHF ,000
Foreign exchange	41,441	53,683
Precious metals	-105	258
Securities	2,919	2,587
Total result from trading operations	44,255	56,528

4.2 Significant losses, extraordinary income (namely shareholder distributions) and expenses as well as material releases of hidden reserves, reserves for general banking risks and releases of valuation adjustments and provisions no longer required

Extraordinary income

This line consists primarily of the release of some provisions no longer required, income from unrelated accounting periods, gains made on sales of property, plant and equipment as well as recoveries from dubious loan positions and losses. In the financial year, the RBS Coutts Bank Ltd received CHF 23.4 m as its share from the sale of the RBS Group's asset management.

4.3 Value adjustments within financial investments and fixed assets

No financial investments and fixed assets have been revalued at the parent bank level of RBS Coutts Bank Ltd.

Report of the Statutory Auditor

Report of the statutory auditor to the General Meeting of RBS Coutts Bank Ltd, Zurich

Report on the financial statements

As statutory auditor, we have audited the accompanying financial statements of RBS Coutts Bank Ltd, which comprise the balance sheet, income statement and notes (pages 32 to 41) for the year ended 31 December 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

DELOITTE AG

Stephan Schmidli
Licensed audit expert
Auditor in charge

Sandro Schönenberger
Licensed audit expert

Zurich, 22 February 2011

