

LOMBARD DISCOUNT LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002



Lombard Discount Limited is registered in England and Wales No. 522511.
Registered Office: 3 Princess Way, Redhill, Surrey, RH1 1NP.

LOMBARD DISCOUNT LIMITED

DIRECTORS

G C Clemett
N T J Clibbens
C G Knowles
C P Sullivan

SECRETARY

C J Whittaker

LOMBARD DISCOUNT LIMITED

DIRECTORS' REPORT

The directors have pleasure in submitting their report and the financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of credit finance by way of leasing.

BUSINESS REVIEW

The net amount financed under all forms of financial agreements entered into during the year was £nil (2001: £nil). The results for the year are set out in the profit and loss account on page 6. The directors have approved an interim dividend of £900,000 (2001: £2500,000).

The profit before taxation for the year under review was £1,698,000 (2001: £1,368,000). The directors expect the company to trade profitably in the future.

DIRECTORS

The present directors are as shown on page 1.

From 1 January 2002 to date the following changes have taken place:

Directors	Appointed	Resigned
Mr N Pearce		31 May 2003
Mr J D Stuart		31 May 2003
Mr G C Clemett	1 June 2003	
Mr N T J Clibbens	1 June 2003	

DIRECTORS' INTERESTS

No director had an interest in the shares of the company.

The following director was beneficially interested in:

The Royal Bank of Scotland Group plc ("RBSG") Ordinary shares of £0.25 each

	Shareholdings			Share Options				
	As at 1	As at 31	As at 1	Granted		Exercised		As at 31
	January	December	January	during the period		during the period		December
	2002	2002	2002	Options	Price	Options	Price	2002
	No.	No.	No.	No.	£	No.	£	No.
J D Stuart	1,406	1,769	18,565	349	12.35	515	4.01	22,299
				3,900	18.18			

The opening balance has been restated to include options granted in the previous year not yet disclosed in the statutory accounts.

LOMBARD DISCOUNT LIMITED

DIRECTORS' REPORT

DIRECTORS' INTERESTS (CONTINUED)

As at 1 January 2002 and 31 December 2002 Mr J D Stuart also held 1,186 Additional Value Shares ('AVS') and 2,148 Floating Rate Unsecured Loan Notes 2005 in RBSG.

At the year end Mr C G Knowles, Mr N Pearce and Mr C P Sullivan were also directors of the immediate parent undertaking, Lombard North Central PLC, a company which is itself required to keep a register of directors' interests. Their interest in the shares of The Royal Bank of Scotland Group plc are disclosed in the accounts of Lombard North Central PLC.

No other interests in the share or loan capital of The Royal Bank of Scotland Group plc group undertakings have been notified by any director.

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 15 September 2003 under the provisions of Section 26 (5) of the Companies Act 1989. The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of Section 386(2) of the Companies Act 1985.

By order of the board



Carolyn J Whittaker
Secretary

5 January 2004

LOMBARD DISCOUNT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company at the end of the financial period and of the profit or loss for that period. In preparing those financial statements, the directors are required to:-

- i. select suitable accounting policies and then apply them consistently;
- ii. make judgements and estimates that are reasonable and prudent;
- iii. state whether applicable accounting standards have been followed; and
- iv. 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

LOMBARD DISCOUNT LIMITED

We have audited the financial statements of Lombard Discount Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, 5 January 2004

LOMBARD DISCOUNT LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 <u>£'000</u>	2001 <u>£'000</u>
Turnover	2	1,641	1,624
Depreciation on tangible fixed assets	8	(184)	(150)
Operating charges		<u>(44)</u>	<u>(66)</u>
Operating profit	3	1,413	1,408
Income/(deficit) from leasing partnerships	10	<u>179</u>	<u>(239)</u>
		1,592	1,169
Interest receivable	4	<u>106</u>	<u>199</u>
Profit on ordinary activities before taxation		1,698	1,368
Taxation (charge)/credit on profit on ordinary activities	7	(2,064)	2,024
(Loss)/profit on ordinary activities after taxation		<u>(366)</u>	<u>3,392</u>
Dividends	6	(900)	(2,500)
Retained (loss)/profit for the financial year	13	<u><u>(1,266)</u></u>	<u><u>892</u></u>

All items dealt with in arriving at profit on ordinary activities before taxation for 2002 and 2001 arise from continuing operations.

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £366,000 in the year ended 31 December 2002 and the profit of £3,392,000 in the year ended 31 December 2001.

The notes on pages 8 to 15 form part of these financial statements.

LOMBARD DISCOUNT LIMITED

BALANCE SHEET

AT 31 DECEMBER 2002

	Note	2002 <u>£'000</u>	2001 <u>£'000</u>
<u>ASSETS</u>			
FIXED ASSETS			
Tangible assets	8	2,198	2,382
Investments	9	-	-
Investments in leasing partnerships	10	<u>4,349</u>	<u>4,170</u>
		6,547	6,552
CURRENT ASSETS			
Debtors falling due within one year	11	2,605	10,652
Debtors falling due after more than one year	11	<u>1,701</u>	<u>2,629</u>
		<u>10,853</u>	<u>19,833</u>
<u>LIABILITIES</u>			
CAPITAL AND RESERVES			
Called up share capital	12	-	-
Profit and loss account	13	<u>154</u>	<u>1,420</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	14	154	1,420
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	15	1,701	2,311
CREDITORS	16	<u>8,998</u>	<u>16,102</u>
		<u>10,853</u>	<u>19,833</u>

The financial statements were approved at a meeting of the board of directors on 5 January 2004 and were signed on their behalf by:



Graham Colin Clemett

Director

The notes on pages 8 to 15 form part of these financial statements.

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a. Accounting Convention

The financial statements have been prepared upon the basis of historical cost and in accordance with applicable United Kingdom law and accounting standards.

The company's accounts fall within the scope of Statements of Recommended Practice ("SORP") issued by the Finance & Leasing Association. The accounts have been prepared in accordance with all relevant SORPs currently in effect, in all material aspects.

b. Finance Leases

Income from finance leases is recognised over the primary period of the lease in order that pre tax and post tax profits are allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment. Finance lease receivables are stated at the amount of the net investment in the lease.

The balance sheet carrying values of finance lease assets include balances in respect of residual values. Unguaranteed residual values are subject to regular review. Details in respect of unguaranteed residual values are given in note 17.

c. Operating Leases

Assets held for use in operating leases are recorded as tangible fixed assets.

Net income from operating leases, after charging interest, depreciation, maintenance and other costs, is credited to the profit and loss account to give a constant periodic return on the operating lease fixed asset throughout the period of the lease.

d. Depreciation

Depreciation is provided on tangible fixed assets so as to write them down to their estimated residual value over their estimated useful lives, as follows:-

	<u>Basis</u>	<u>Estimated Useful Life</u>
Assets held for use in Operating leases	Actuarial	Term of contract

e. Operating charges

Operating charges includes provisions for bad and doubtful debts and other operating charges. Specific provisions are made against advances for which recovery is considered to be doubtful. General provision is made in respect of losses which, although not separately identified, are from experience to be present in any portfolio of leasing/hire purchase assets. Other operating charges are accounted for on an accruals basis.

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

f. Investments

Interests in subsidiary undertakings and in the company's partnerships are stated at cost less provision for any impairment in value.

g. Deferred Taxation

The company has implemented Financial Reporting Standard 19, 'Deferred Tax'. Deferred tax is now provided in full, without discounting, in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

The previous policy was to provide deferred tax using the liability method on all timing differences to the extent that a tax liability or asset was expected to arise in the future. The change in the accounting policy has not had a material financial effect.

h. Related Party Transactions/Cash flow statement

As a wholly owned subsidiary of The Royal Bank of Scotland Group plc, the company has taken advantage of the exemption permitted by Financial Reporting Standard 8, 'Related Party Disclosures', and does not disclose inter company transactions. Similarly, the company is exempted under Financial Reporting Standard 1, 'Cash Flow Statements', from the requirement to prepare a cash flow statement.

2. TURNOVER

- (i) Turnover represents lease income and termination adjustments credited to the profit and loss account during the year, all of which arises in the United Kingdom and is from continuing activities.

	2002 <u>£'000</u>	2001 <u>£'000</u>
(ii) Aggregate rentals (payable)/receivable during the year were as follows:		
Finance Leases	(3,581)	(2,437)
Operating leases	292	288
	<u>(3,289)</u>	<u>(2,149)</u>

Aggregate rentals payable include rebates of rentals.

3. OPERATING PROFIT

There is no charge in this year's financial statements for auditors' remuneration as the fee is to be charged in the financial statements of the immediate parent undertaking (2001 - £nil).

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. INTEREST RECEIVABLE	2002	2001
	<u>£'000</u>	<u>£'000</u>
From group undertakings	<u>106</u>	<u>199</u>

5. DIRECTORS' REMUNERATION AND INTERESTS

No emoluments were paid to any director by the company during the year (2001 - £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the company (2001 - £nil).

Employee costs are incurred by the immediate parent company, Lombard North Central PLC, and allocated together with other overheads by way of management charge to the company.

6. DIVIDENDS	2002	2001
	<u>£'000</u>	<u>£'000</u>
Ordinary shares:		
Dividend proposed - £300,000 per ordinary share (2001- £833,333)	<u>900</u>	<u>2,500</u>

7. TAXATION CHARGE/(CREDIT) ON PROFIT ON ORDINARY ACTIVITIES	2002	2001
	<u>£'000</u>	<u>£'000</u>

A) Analysis of charge in the year

Current taxation:

Group relief payable*	1,372	3,798
Adjustments in respect of prior years	1,302	(2,020)

Deferred taxation:

Origination and reversal of timing differences (note 15)	(862)	(3,848)
Adjustments in respect of prior years (note 15)	<u>252</u>	<u>46</u>
	<u>2,064</u>	<u>(2,024)</u>

* Provision for group relief is made on the assumption that the claimant companies will make payment to the surrendering companies at rates appropriate to the periods in which the losses claimed are utilised.

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TAXATION CHARGE/(CREDIT) ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

B) Factors affecting the tax charge for the year

Current tax charged for the year is higher than that resulting from applying the standard rate of corporation tax in the UK: 30% (2001: 30%). The differences are explained below:

	2002 <u>£'000</u>	2001 <u>£'000</u>
Profit on ordinary activities before tax	<u>1,698</u>	<u>1,368</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	509	410
Effects of:		
Capital allowances for the year in excess of depreciation	862	3,245
Adjustments in respect of prior years	1,302	(2,020)
Other timing differences	<u>1</u>	<u>143</u>
Current tax charge for the year	2,674	1,778
Deferred taxation:		
Origination and reversal of timing differences (note 15)	(862)	(3,848)
Adjustments in respect of prior years (note 15)	<u>252</u>	<u>46</u>
	<u>2,064</u>	<u>(2,024)</u>

8. TANGIBLE FIXED ASSETS

Assets held
for use in
operating
leases
£'000

Cost

At 1 January 2002 and 31 December 2002

2,778

Depreciation

At 1 January 2002

396

Charge for the year

184

At 31 December 2002

580

Net book value at

31 December 2002

2,198

Net book value at

31 December 2001

2,382

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. INVESTMENT

	2002	2001
	£	£
Shares in subsidiary undertakings at cost:-		
"B" Ordinary shares of £1 each	<u>3</u>	<u>3</u>

The company holds 75% of the ordinary share capital and 50% of the voting rights of GL Lease Company No. 4 Limited, which provides residual value guarantees, is registered in England and Wales and has an accounting reference date of 31 December.

The company is exempt under Section 228 of the Companies Act 1985 from the obligation to prepare group financial statements as the company is itself a wholly owned subsidiary of Lombard North Central PLC, which is registered in England and Wales. The financial statements present information about the company as an individual undertaking and not about its group.

10. INVESTMENTS IN LEASING PARTNERSHIPS

The company is a partner in certain partnerships and its share of the partnerships' profit is based on management accounts made up to 31 December 2002.

	£'000
Balance at 1 January 2002	4,170
Attributable profit for the year	179
Balance at 31 December 2002	<u>4,349</u>

The company's share of the net assets of the partnerships is as follows:

	2002	2001
	£'000	£'000
Leasing assets	6	21
Net assets	<u>4,343</u>	<u>4,149</u>
	<u>4,349</u>	<u>4,170</u>

The company's principal investment is a 50% interest in Lombard Equipment Leasing Company, a partnership governed by English law. The head office of this partnership is: 3 Princess Way, Redhill, Surrey, RH1 1NP. The results and financial position of Lombard Equipment Leasing Company are included on a consolidated basis in the financial statements of Lombard North Central PLC.

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. DEBTORS	2002 <u>£'000</u>	2001 <u>£'000</u>
Amounts falling due:		
i) Within one year		
Trade debtors	-	6,615
Net investment in finance leases	2,098	3,855
Other debtors	381	62
Prepayments and accrued income	<u>126</u>	<u>120</u>
	2,605	10,652
ii) After more than one year		
Net investment in finance leases	1,701	2,629
Total debtors	<u><u>4,306</u></u>	<u><u>13,281</u></u>

12. CALLED UP SHARE CAPITAL

	2002		2001	
	<u>Authorised</u>	Allotted, called up and <u>fully paid</u>	<u>Authorised</u>	Allotted, called up and <u>fully paid</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Ordinary shares of £1 each	<u>100</u>	<u>3</u>	<u>100</u>	<u>3</u>

All of the above share capital relates to equity funds.

13. PROFIT AND LOSS ACCOUNT

	<u>£'000</u>
Balance at 1 January 2002	1,420
Retained loss for the financial year	(1,266)
Balance at 31 December 2002	<u><u>154</u></u>

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002	2001
	<u>£'000</u>	<u>£'000</u>
(Loss)/Profit attributable to members of the company	(366)	3,392
Dividends	(900)	(2,500)
Net movement in shareholders' funds	(1,266)	892
Opening shareholders' funds	1,420	528
Closing shareholders' funds	<u>154</u>	<u>1,420</u>

15. DEFERRED TAXATION

	2002	2001
	<u>£'000</u>	<u>£'000</u>
Accelerated capital allowances	<u>1,701</u>	<u>2,311</u>
Balance at 1 January 2002	2,311	
Transfer from profit and loss account (note 7)	(610)	
Balance at 31 December 2002	<u>1,701</u>	

16. CREDITORS

	2002	2001
	<u>£'000</u>	<u>£'000</u>
Amounts falling due within one year:		
Trade creditors	250	7,567
Amounts owed to group undertakings	7,418	5,687
Other creditors	170	85
Accruals and deferred income	260	263
Declared dividend	900	2,500
	<u>8,998</u>	<u>16,102</u>

LOMBARD DISCOUNT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. RESIDUAL VALUE EXPOSURES

The table below gives details in respect of unguaranteed residual values included in the carrying value of finance lease assets at the balance sheet date.

	Year in which residual value will be recovered				Total
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
At 31 December 2002	<u>337</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>368</u>
At 31 December 2001	<u>393</u>	<u>-</u>	<u>208</u>	<u>31</u>	<u>632</u>

18. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is Lombard North Central PLC.

The company's ultimate holding company, ultimate controlling party, and the parent of the largest group into which the company is consolidated is The Royal Bank of Scotland Group plc that is incorporated in Great Britain and registered in Scotland. Financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE.

The smallest subgroup into which the company is consolidated has as its parent company Lombard North Central PLC, a company incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements for this subgroup can be obtained from Lombard North Central PLC, 3 Princess Way, Redhill, Surrey, RH1 1NP.