

(Company No. 2854880)

R.B. (3) INVESTMENT COMPANY

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 1997



R.B. (3) INVESTMENT COMPANY

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1997

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R.B. (3) INVESTMENT COMPANY

DIRECTORS AND OFFICERS

DIRECTORS

William Vaughan Latter
Iain Samuel Robertson
Robert Speirs
Jonathan Michael Sweetman

SECRETARY

John Albert Lea

REGISTERED OFFICE

The Quadrangle
The Promenade
Cheltenham
Gloucestershire GL50 1PX

PRINCIPAL OFFICE

The Quadrangle
The Promenade
Cheltenham
Gloucestershire GL50 1PX

R.B. (3) INVESTMENT COMPANY

DIRECTORS' REPORT

The Directors present their annual report, together with the audited financial statements for the year ended 30 September 1997.

RESULTS

The results for the year are set out on page 8. The Directors do not recommend payment of a final dividend. The retained profit for the year to 30 September 1997 amounts to £528,456.

BUSINESS REVIEW

The principal activity of the Company, which is a wholly owned subsidiary of R.B. Investment Holdings Limited, is that of an investment company. The Company will continue to operate in the investment market.

DIRECTORS

The present Members of the Board of Directors are named on page 2.

During the year to 30 September 1997 the following changes were made in the composition of the Board of Directors.

On 31 January 1997, Mr Martin Graham Brown resigned as a Director of the Company.

On 6 May 1997, Mr William Vaughan Latter was appointed as a Director of the Company.

DIRECTORS' INTERESTS

No Director had any interest in the ordinary shares of the Company.

The interests of the Directors at 30 September 1997 in the share or loan capital of the ultimate holding company, The Royal Bank of Scotland Group plc, or in the share or loan capital of its subsidiary companies are shown on page 5.

R.B. (3) INVESTMENT COMPANY

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

In the year ending 30 September 1998, the Company will adhere to the following payment policy in respect of all suppliers. The Company is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Company's policy to negotiate and agree terms and conditions with its suppliers, either directly or through its operating subsidiaries, which includes the giving of an undertaking to pay suppliers within 30 days of the date of invoice or such other agreed payment period.

The proportion which the amount owed to trade creditors at 30 September 1997 bears to the amounts invoiced by suppliers during the year then ended equated to nil days proportion of 365 days.

AUDITORS

A Resolution to reappoint the Auditors, Coopers & Lybrand and to authorise the Directors to fix their remuneration, will be proposed at the Annual General Meeting.

By Order of the Board.



J M Sweetman
Director
CHELTENHAM

18 November 1997

R.B. (3) INVESTMENT COMPANY

DIRECTORS' INTERESTS IN THE SHARE OR LOAN CAPITAL OF THE ROYAL BANK OF SCOTLAND GROUP plc AND SUBSIDIARY COMPANIES

The following Directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding company.

	At 1 October 1996 (or date of appointment if later)	At 30 September 1997
	<u>Shares</u>	<u>Shares</u>
W V Latter	2,806	2,396
I S Robertson	78,283	88,047
R Speirs	18,212	25,276
J M Sweetman	6,970	9,920

Options to subscribe for 25p ordinary shares of The Royal Bank of Scotland Group plc granted to and exercised by Directors during the year to 30 September 1997 are included in the table below:-

	At 1 October 1996 (or date of appointment if later)	<u>Options</u> Number	<u>Granted</u> Price £	<u>Options</u> Number	<u>Exercised</u> Price £	At 30 September 1997
W V Latter	4,885	-	-	-	-	4,885
I S Robertson	254,417	1,137 47,000	4.97 6.01	-	-	302,554
R Speirs	146,000	-	-	25,000	4.53	121,000
J M Sweetman	7,025	485	4.97	1,693	1.55	5,817

No other Director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 30 September 1997.

In addition, during that period, none of the Directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of any of the other subsidiaries of The Royal Bank of Scotland Group plc.

R.B. (3) INVESTMENT COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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.

R.B. (3) INVESTMENT COMPANY

ACCOUNTING POLICIES

The financial statements on pages 8 to 12 are prepared on the basis of the principal accounting policies adopted by the Company described below and applicable Accounting Standards. Accounting policies have been applied consistently.

1 ACCOUNTING CONVENTION

The financial statements of the Company are prepared under the historical cost convention. In accordance with Schedule 4 of the Companies Act 1985, the Directors have adapted the prescribed formats of the financial statements as required by the special nature of the business.

2 INVESTMENT INCOME

Investment income includes interest on dated stocks and the amortisation of discounts and premiums on the acquisition of investments.

3 DEFERRED TAXATION

Certain items of income and expenditure are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is provided on the liability method in respect of timing differences which are expected to result in a taxation liability in the foreseeable future.

4 INVESTMENTS

Premiums and discounts on the acquisition of dated stocks are amortised over the period from date of purchase to date of maturity and an appropriate proportion thereof is included in the profit and loss account. Such stocks are shown in the balance sheet at amortised cost.

5 CASH FLOW STATEMENT

As a wholly owned subsidiary of The Royal Bank of Scotland Group plc which publishes a cash flow statement, the Company is not required to produce a cash flow statement as prescribed in paragraph 8(c) of Financial Reporting Standard 1, 'Cash Flow Statements'.

R.B. (3) INVESTMENT COMPANY

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 1997

		CONTINUING OPERATIONS	
	Note	1996	1996
		£	£
Investment income	3	1,918	17,072,689
Finance income	4	219,981	230,087
Operating expenses	4	(331)	(22,678)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	221,568	17,280,098
Taxation credit/(charge) on profit on ordinary activities	5	<hr/> 306,888	<hr/> (1,643,627)
RETAINED PROFIT FOR THE YEAR	10	<hr/> <hr/> 528,456	<hr/> <hr/> 15,636,471

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

The Company has no recognised gains and losses other than those included in the profits shown above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 10 to 12 form part of these financial statements.

R.B. (3) INVESTMENT COMPANY

BALANCE SHEET
At 30 September 1997

	Note	£	1996 £
FIXED ASSETS			
Investments	6	-	91,145
CURRENT ASSETS			
Debtors	7	171,086,028	172,063,233
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	8	<u>(70,294)</u>	<u>(1,667,100)</u>
NET CURRENT ASSETS		<u>171,015,734</u>	<u>170,396,133</u>
TOTAL NET ASSETS		<u>171,015,734</u>	<u>170,487,278</u>
CAPITAL AND RESERVES			
Called up share capital	9	152,570,000	152,570,000
Reserves	10	<u>18,445,734</u>	<u>17,917,278</u>
EQUITY SHAREHOLDERS' FUNDS	11	<u>171,015,734</u>	<u>170,487,278</u>

On behalf of the Board:

Director

JM Sweetman

The notes on pages 10 to 12 form part of these financial statements.

R.B. (3) INVESTMENT COMPANY

NOTES ON THE FINANCIAL STATEMENTS

1 ULTIMATE HOLDING COMPANY

The Company is a wholly owned subsidiary of R.B. Investment Holdings Limited. The Company's ultimate holding company and hence its controlling party is The Royal Bank of Scotland Group plc. Copies of the group financial statements of The Royal Bank of Scotland Group plc may be obtained from the Company Secretary's office, The Royal Bank of Scotland Group plc, 42 St. Andrews Square, Edinburgh, EH2 2YE.

2 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions available to it in Financial Reporting Standard 8, 'Related Party Disclosures', not to disclose any transactions or balances with entities that are part of the Group or investees of the Group qualifying as related parties.

3 INVESTMENT INCOME

	£	1996 £
Interest on listed investments	3,617	3,306,525
Amortisation of discounts and premiums on acquisition of investments	(469)	(843)
Loss on sale of investments	(1,230)	-
Capital appreciation	-	13,767,007
	<u>1,918</u>	<u>17,072,689</u>

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Includes the following:

Finance income:

Interest receivable from group undertakings	<u>219,981</u>	<u>230,087</u>
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Operating expenses:

Fees and commissions	-	2,893
Management charge	235	20,346
Other	<u>96</u>	<u>(561)</u>
	<u>331</u>	<u>22,678</u>

The directors and employees are employed and remunerated by Royal Bank Leasing Limited. Costs incurred in respect of their services to the Company are included in the management charge as shown below:

Directors' emoluments	-	4,360
Auditors' remuneration - for audit services	235	3,850
Staff costs	-	5,138

R.B. (3) INVESTMENT COMPANY

NOTES ON THE FINANCIAL STATEMENTS

5	TAXATION	£	1996 £
	Group relief:		
	- current year payable	(70,711)	(1,646,754)
	- prior year receivable	377,599	-
	Deferred taxation:		
	- current year	-	3,127
		<u>306,888</u>	<u>(1,643,627)</u>

The tax charge for the current year has been based on an average Corporation Tax rate of 32% (1996 - 33%).

6 FIXED ASSET INVESTMENTS

Listed investments:

British Government Securities	-	91,145
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Market value of listed investments	-	90,131
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Movement on investments:

At 1 October 1996	91,145	91,988
Disposals	(90,676)	-
Amortisation of discounts and premiums	(469)	(843)
At 30 September 1997	-	91,145

7 DEBTORS

Amounts due by group undertakings	171,086,028	171,318,328
Income tax recoverable	-	743,593
Other debtors	-	1,312
	<u>171,086,028</u>	<u>172,063,233</u>

8 CREDITORS

Amounts falling due within one year:

Amounts due to group undertakings	70,294	1,667,100
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A right of set-off exists over the Company's bank account with The Royal Bank of Scotland plc against advances made to an intermediate holding company of the Company and its subsidiaries.

R.B. (3) INVESTMENT COMPANY

NOTES ON THE FINANCIAL STATEMENTS

9 SHARE CAPITAL

Ordinary shares of £1 each
1996

Authorised	<u>250,000,000</u>	<u>250,000,000</u>
Allotted, called up and fully paid	<u>152,570,000</u>	<u>152,570,000</u>

10 RESERVES

£

At 1 October 1996	17,917,278
Retained profit for the year	<u>528,456</u>
At 30 September 1997	<u>18,445,734</u>

11 RECONCILIATION OF SHAREHOLDERS' FUNDS

1996

£

Profit for the financial year and net addition to shareholders' funds	528,456	15,636,471
Opening shareholders' funds	<u>170,487,278</u>	<u>154,850,807</u>
Closing shareholders' funds	<u>171,015,734</u>	<u>170,487,278</u>

12 APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 7 to 12 were approved by the Board of Directors on 18 November 1997.

REPORT OF THE AUDITORS

To the members of R.B. (3) Investment Company

We have audited the financial statements on pages 7 to 12.

Respective responsibilities of directors and auditors.

As described on page 6 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

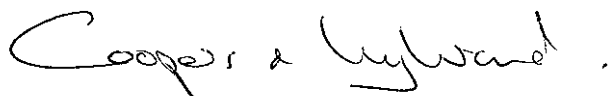
Basis of opinion.

We conducted our audit in accordance with 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 at 30 September 1997 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors

Gloucester
19 November 1997