

(Company No. 80104)

ROYAL SCOT LEASING LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 1996



ROYAL SCOT LEASING LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1996

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ROYAL SCOT LEASING LIMITED

DIRECTORS AND OFFICERS

CHAIRMAN

Martin Graham Brown

DIRECTORS

Thomas Carr
Adrian Colin Farnell
Jonathan Michael Sweetman

SECRETARY

John Albert Lea

REGISTERED OFFICE

42 St Andrew Square
Edinburgh
EH2 2YE

PRINCIPAL OFFICE

The Quadrangle
The Promenade
Cheltenham
Gloucestershire GL50 1PX

ROYAL SCOT LEASING LIMITED

DIRECTORS' REPORT

The Directors present their annual report, together with the audited financial statements for the year ended 30 September 1996.

RESULTS

The results for the year are set out on page 9. The Directors recommend that a final dividend of £800,000 be paid (1995 : £825,000). If this recommendation is approved at the Annual General Meeting, the accumulated loss for the year to 30 September 1996 will amount to £487,873.

BUSINESS REVIEW

The principal activity of the Company, which is a wholly owned subsidiary of Royal Bank Leasing Limited, is the provision of fixed asset finance usually involving individually structured facilities.

The Company will continue to operate in the fixed asset financing market.

DIRECTORS

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

At 30 September 1996, the Members of the Board of Directors were:-

Mr Martin Graham Brown
Mr Thomas Carr
Mr Adrian Colin Farnell
Mr Jonathan Michael Sweetman

During the year to 30 September 1996, no changes were made in the composition of the Board of Directors.

DIRECTORS' INTERESTS

No Director had any interest in the ordinary shares of the Company on 30 September 1996 nor on 1 October 1995.

The interests of the Directors at 30 September 1996 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.

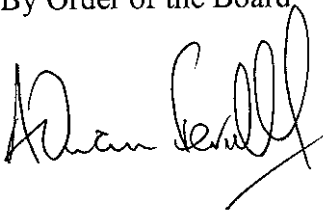
SUPPLIER PAYMENT POLICY

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, which includes the giving of an undertaking by the Company to pay suppliers within 30 days of the date of invoice or such other agreed payment period.

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

A handwritten signature in black ink, appearing to read 'A C Farnell', with a long horizontal stroke extending to the right.

A C Farnell
Director
CHELTENHAM

20 November 1996

**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 1995 (or date of appointment if later)	At 30 September 1996
	<u>Shares</u>	<u>Shares</u>
M G Brown	3,077	6,028
T Carr	3,758	3,666
A C Farnell	630	1,420
J M Sweetman	4,430	6,970

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 1996 are included in the table below:-

	At 1 October 1995 (or date of appointment if later)	<u>Options</u> <u>Number</u>	<u>Granted</u> <u>Price</u> <u>£</u>	<u>Options</u> <u>Number</u>	<u>Exercised</u> <u>Price</u> <u>£</u>	At 30 September 1996
M G Brown	5,561	1,403 5,607 22,393	4.18 5.35 5.35	1,726	1.52	33,238
T Carr	3,030	373	4.18	-	-	3,403
A C Farnell	3,291	825	4.18	-	-	4,116
J M Sweetman	8,404	693	4.18	2,072	1.52	7,025

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 1996.

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.

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.

ROYAL SCOT LEASING LIMITED

ACCOUNTING POLICIES

The financial statements on pages 9 to 14 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 GROSS EARNINGS UNDER FINANCE LEASES

Gross earnings under finance leases are recognised according to the actuarial after tax method whereby 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. In order to preserve a consistent relationship between pre-tax profits and the taxation charge, equalisation adjustments are made between taxation and gross earnings which remove the distorting effects of the structure of some transactions and changes in the rate of Corporation Tax.

3 HIRE PURCHASE INCOME

Total gross earnings under hire purchase contracts are allocated to accounting periods to give a constant periodic rate of return on the net cash investment.

4 PROGRESS PAYMENTS INCOME RECOGNITION

Where assets are subject to progress payments being made prior to the commencement of the primary lease period, anticipated rental income is credited to the profit and loss account during the construction period equivalent to an appropriate interest rate on the outstanding investment.

5 REGIONAL DEVELOPMENT GRANTS

Regional development grant income is credited to the profit and loss account in proportion to net cash invested.

6 FOREIGN CURRENCY

Assets or liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at an average rate for the period. Exchange differences arising on trading activities are included in operating profit.

7 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.

ACCOUNTING POLICIES (Continued)

8 AMOUNTS RECEIVABLE UNDER FINANCE LEASES

Finance lease receivables are stated in the balance sheet at the amounts of the net cash investment in the leases.

9 HIRE PURCHASE RECEIVABLES

Hire purchase receivables are stated at rentals receivable less unexpired finance income.

10 CASH FLOW STATEMENT

The Company's ultimate holding company is The Royal Bank of Scotland Group plc, a company incorporated in Great Britain and registered in Scotland. Accordingly 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.

ROYAL SCOT LEASING LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 30 September 1996

	Note	CONTINUING OPERATIONS	
		£'000	1995 £'000
Gross earnings under finance leases	3	3,076	5,924
Other income	4	<u>2,343</u>	<u>2,351</u>
		5,419	8,275
Finance charges	4	(3,538)	(2,190)
Operating expenses	4	<u>(1,414)</u>	<u>(602)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	467	5,483
Taxation charge on profit on ordinary activities	5	<u>(155)</u>	<u>(1,863)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		312	3,620
Dividend for the year		<u>(800)</u>	<u>(825)</u>
(ACCUMULATED LOSS)/RETAINED PROFIT FOR THE YEAR	12	<u><u>(488)</u></u>	<u><u>2,795</u></u>

There is no difference between the profit on ordinary activities before taxation and the accumulated loss 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.

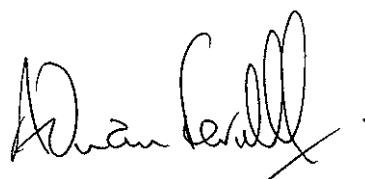
The notes on pages 11 to 14 form part of these accounts.

ROYAL SCOT LEASING LIMITED

BALANCE SHEET At 30 September 1996

	Note	£'000	1995 £'000
CURRENT ASSETS			
Finance lease and hire purchase receivables due within one year	6	8,117	14,995
Finance lease and hire purchase receivables due after more than one year	6	61,798	58,402
Debtors	7	<u>1,946</u>	<u>4,426</u>
		71,861	77,823
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	8	<u>(9,436)</u>	<u>(12,933)</u>
NET CURRENT ASSETS		<u>62,425</u>	<u>64,890</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		62,425	64,890
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	8	(48,176)	(50,986)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	9	(6,603)	(5,768)
Deferred income	10	<u>(5)</u>	<u>(7)</u>
TOTAL NET ASSETS		<u>7,641</u>	<u>8,129</u>
CAPITAL AND RESERVES			
Called up share capital	11	10	10
Reserves	12	<u>7,631</u>	<u>8,119</u>
EQUITY SHAREHOLDER'S FUNDS	13	<u>7,641</u>	<u>8,129</u>

On behalf of the Board:


Director

The notes on pages 11 to 14 form part of these accounts.

ROYAL SCOT LEASING LIMITED

NOTES ON THE ACCOUNTS

1 ULTIMATE HOLDING COMPANY

The Company is a wholly owned subsidiary of Royal Bank Leasing Limited. The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the group accounts 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 Andrew Square, Edinburgh, EH2 2YE.

2 TURNOVER

	1995	1994
	£'000	£'000
Capital cost of assets financed:		
Finance leases	-	35,910
Hire purchase	16,004	9,376
	<u>16,004</u>	<u>45,286</u>

3 GROSS EARNINGS UNDER FINANCE LEASES

Rentals receivable	6,745	11,308
Pre-tax equalisation	26	34,712
Amortisation	<u>(3,695)</u>	<u>(40,096)</u>
	<u>3,076</u>	<u>5,924</u>

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Includes the following:

Other income:		
Hire purchase income	2,260	2,199
Regional development grants	2	4
Other income	<u>81</u>	<u>148</u>
	<u>2,343</u>	<u>2,351</u>
Finance charge:		
Interest payable to group undertakings	<u>3,538</u>	<u>2,190</u>
Operating expenses:		
Bad debt charge/(credit)	1,000	(298)
Management charge	413	390
Other	<u>1</u>	<u>510</u>
	<u>1,414</u>	<u>602</u>

ROYAL SCOT LEASING LIMITED

NOTES ON THE ACCOUNTS

4	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued..)		1995
		£	£
	Included in the management charge from Royal Bank Leasing Limited are:		
	Directors' emoluments	44,411	38,206
	Auditors' remuneration - for audit services	7,870	7,665
	Staff costs	205,111	183,946
5	TAXATION		
		£'000	£'000
	Group relief:		
	- current year receivable	(683)	(284)
	- prior year (receivable)/payable	(7)	48
	Taxation equalisation	10	33,770
	Deferred taxation:		
	- current year	828	(31,623)
	- prior year	7	(48)
		<u>155</u>	<u>1,863</u>
	The tax charge for the current year has been based on a Corporation Tax rate of 33% (1995 - 33%).		
6	FINANCE LEASE AND HIRE PURCHASE RECEIVABLES		
	Amounts falling due within one year:		
	Finance leases	1,906	3,678
	Hire purchase receivables	<u>6,211</u>	<u>11,317</u>
		<u>8,117</u>	<u>14,995</u>
	Amounts falling due after more than one year:		
	Finance leases	39,571	42,446
	Hire purchase receivables	<u>22,227</u>	<u>15,956</u>
		<u>61,798</u>	<u>58,402</u>
7	DEBTORS		
	Amounts falling due within one year:		
	Trade debtors	119	13
	Amounts due by group undertakings	791	2,568
	Other debtors	<u>1,036</u>	<u>1,845</u>
		<u>1,946</u>	<u>4,426</u>

ROYAL SCOT LEASING LIMITED

NOTES ON THE ACCOUNTS

8	CREDITORS		1995
		£'000	£'000

Amounts falling due within one year:

Payments on account	765	2,588
Amounts due to group undertakings	8,240	9,609
Other creditors	431	736
	<u>9,436</u>	<u>12,933</u>

Amounts falling due after more than one year:

Amounts due to group undertakings		
Between one and two years	5,969	4,719
Between two and five years	14,315	5,478
After more than five years	27,892	40,789
	<u>48,176</u>	<u>50,986</u>

A right of set-off exists over the Company's bank account with The Royal Bank of Scotland plc against advances made to the Company's immediate holding company and its subsidiaries.

The rates of interest applicable to those amounts due after more than five years will be by reference to inter bank rates for periods of three, six and twelve months.

9 DEFERRED TAXATION

Full provision has been made for the potential amount of deferred taxation shown below:

Capital allowances on finance lease receivables	6,933	5,768
Other short term timing differences	(330)	-
	<u>6,603</u>	<u>5,768</u>

Movements during the year:

At 1 October 1995	5,768
Charge to profit and loss account	835
	<u>6,603</u>

At 30 September 1996

10 DEFERRED INCOME

Regional development grants:

At 1 October 1995	7
Credit to profit and loss account	(2)
	<u>5</u>

At 30 September 1996

ROYAL SCOT LEASING LIMITED

NOTES ON THE ACCOUNTS

11 SHARE CAPITAL

Ordinary shares of £1 each
1995

£ £

Authorised	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid	<u>10,000</u>	<u>10,000</u>

12 RESERVES

£'000

At 1 October 1995	8,119
Accumulated loss for the year	<u>(488)</u>
At 30 September 1996	<u>7,631</u>

13 RECONCILIATION OF SHAREHOLDER'S FUNDS

1995
£'000

Profit for the financial year	312	3,620
Dividend	<u>(800)</u>	<u>(825)</u>
Net (reduction in)/addition to shareholder's funds	(488)	2,795
Opening shareholder's funds	<u>8,129</u>	<u>5,334</u>
Closing shareholder's funds	<u>7,641</u>	<u>8,129</u>

14 APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 7 to 14 were approved by the Board of Directors on 20 November 1996.

REPORT OF THE AUDITORS

To the members of Royal Scot Leasing Limited

We have audited the financial statements on pages 7 to 14.

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 1996 and of its loss and total recognised gains and losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand.

Coopers & Lybrand
Chartered Accountants and Registered Auditors

Gloucester
22 November 1996