

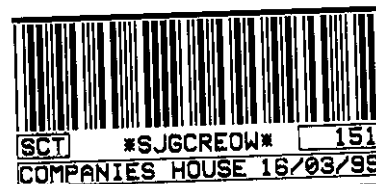
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ROYAL BANK GROUP SERVICES LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 SEPTEMBER 1998

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ROYAL BANK GROUP SERVICES LIMITED

DIRECTORS:

Hew Campbell
Dr George Ross Mathewson
Miller Roy McLean

SECRETARY:

Shirley Margaret MacGillivray

REGISTERED OFFICE:

36 St Andrew Square
EDINBURGH
EH2 2YB

TELEPHONE NUMBER:

0131 556 8555

Registered in Scotland No 80244

ROYAL BANK GROUP SERVICES LIMITED

1. Report of the Directors

The directors present their annual report and the audited accounts for the year ended 30 September 1998.

2. State of Affairs

As the Company was not active during the accounting period, received no income and incurred no expenditure, a profit and loss account is not presented.

3. Directors

The names of the present directors are as listed on page 1.

4. 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.

The directors confirm that these financial statements comply with the aforementioned requirements.

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ROYAL BANK GROUP SERVICES LIMITED

5. Directors' Interests

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

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

	<u>At 1 October 1997</u> <u>(or date of appointment</u> <u>if later)</u>	<u>At 30</u> <u>September 1998</u>
H Campbell	1,737	2,542
G R Mathewson	65,918	62,094
M R McLean	136,458	132,729

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised by directors during the year to 30 September 1998 are included in the table below:-

	<u>At 1</u> <u>October 1997</u> <u>(or date of</u> <u>appointment</u> <u>if later)</u>	<u>Options Granted</u>		<u>Options Exercised</u>		<u>At 30</u> <u>September</u> <u>1998</u>
		<u>Number</u>	<u>Price</u> <u>£</u>	<u>Number</u>	<u>Price</u> <u>£</u>	
H Campbell	2,868	244	7.99	-	-	3,112
G R Mathewson	430,961	64,200	10.065	-	-	495,161
M R McLean	136,638	15,900	10.065	4,035	2.12	
		1,070	7.99	-	-	149,573

No director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 30 September 1998.

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, including the company.

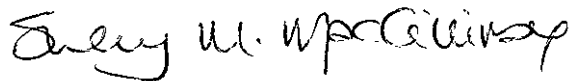
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ROYAL BANK GROUP SERVICES LIMITED

6. **Auditors**

Messrs Coopers & Lybrand resigned as Auditors of the Company on 29 July 1998 and, were replaced by Messrs PricewaterhouseCoopers who have indicated their willingness to continue in office and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Mrs S M MacGillivray
Secretary
20 November 1998

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ROYAL BANK GROUP SERVICES LIMITED**

We have audited the financial statements on pages 6 and 7 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective Responsibilities of Directors and Auditors

As described on page 2 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.

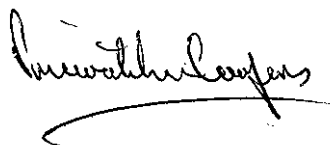
Basis of Opinion

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 1998 and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh

20 November 1998

27

ROYAL BANK GROUP SERVICES LIMITED**BALANCE SHEET AT 30 SEPTEMBER 1998**

	<u>Note</u>	<u>1998</u> £	<u>1997</u> £
CURRENT ASSETS			
Debtors:		<u>100</u>	<u>100</u>
Amounts owed by Group Company - (The Royal Bank of Scotland plc)			
NET ASSETS		<u>100</u>	<u>100</u>
CAPITAL			
Called up share capital	3	<u>100</u>	<u>100</u>

NOTES**1. Principal Accounting Policies**

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of Accounting

The accounts have been prepared under the historical cost convention and in compliance with the Companies Act 1985.

2. Ultimate Holding Company

The Company's ultimate holding company is The Royal Bank of Scotland Group plc which is incorporated in Scotland. Accounts for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh.

3. Called up Share Capital

	<u>Authorised</u>	<u>Capital Stock allotted, called up and fully paid</u>
At 30 September 1998 and 1997:		
Ordinary Shares of £1 each	<u>£1,000,000</u>	<u>£100</u>

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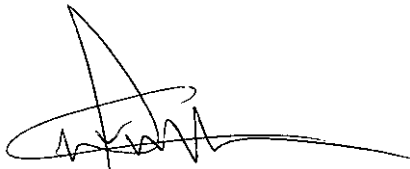
ROYAL BANK GROUP SERVICES LIMITED

4. Profit and Loss Account

The Company has not traded during the accounting period, has received no income and incurred no expenditure and consequently has made neither a profit nor a loss. A profit and loss account is, therefore, not presented. None of the directors received any remuneration. The company has no employees.

5. Approval of Accounts

The accounts were approved at a meeting of the board of directors on 20 November 1998.



Director

Date: 20 November 1998