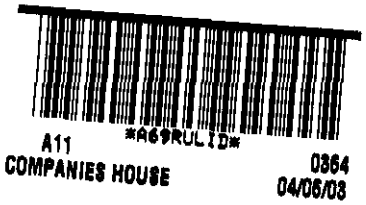
Company Registration No: 662221

THE ROYAL BANK OF SCOTLAND COMMERCIAL SERVICES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2002



Group Secretary's Department
The Royal Bank of Scotland Group plc
1 Princes Street
London EC2R 8PB

THE ROYAL BANK OF SCOTLAND COMMERCIAL SERVICES LIMITED

CONTENTS **Page**

Officers and Professional Advisers	2
Directors' Report	3 - 6
Independent Auditors' Report	7
Profit and Loss Account	8
Balance Sheet	9
Notes to the Accounts	10 - 18

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:	James Frederick Beck Neil Joseph Bradley Peter Nigel Comfort Alan Peter Dickinson Stuart Antony Holloway Stephen John Lent Paul Marrow Ross William McFarlane Nigel Patrick Mills Lawrence Edward de Lisle Nichols Jason Sam Oakley Alexander Arthur George Rankin Kathryn Elizabeth Singleton Peter William Torrance David Brian Wilcox
SECRETARY:	John Albert Lea
REGISTERED OFFICE:	Smith House P.O. Box 50 Elmwood Avenue Feltham Middlesex TW13 7QH
AUDITORS:	Deloitte & Touche London

Registered in England and Wales.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is the discounting and factoring of domestic and export debts.

The retained profit for the year was £9,349,000 (2001: £6,519,000 profit) and this was transferred to reserves. The directors do not recommend that a final dividend be paid (2001: £Nil).

An interim dividend of £5,000,000 (2001: £Nil) was paid on 20 March 2002.

The directors do not anticipate any material change in the type of activities of the company.

DIRECTORS

The names of the present directors are as listed on page 2.

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

Directors	***Appointed***	**Resigned**
John Thornton		1 July 2002
Peter Richard Ibbetson		6 November 2002
Kathryn Elizabeth Singleton	25 April 2002	
Alan Peter Dickinson	1 July 2002	
Neil Joseph Bradley	16 September 2002	
Jason Sam Oakley	30 September 2002	
Paul Marrow	6 November 2002	

DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing the 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; and
- 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 the systems internal control, 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.

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

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

The following directors were beneficially interested in the ordinary shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2002*	As at 31 December 2002
J F Beck	289	650
N J Bradley	6,066	6,630
P N Comfort	289	1,165
A P Dickinson	8,479	3,238
S A Holloway	5,565	9,080
S J Lent	16,923	17,094
P Marrow	7,141	7,141
R W McFarlane	3,908	4,771
N P Mills	2,168	3,751
L E Nichols	3,379	4,462
J S Oakley	3,400	3,423
A A G Rankin	1,608	1,408
K E Singleton	871	887
P W Torrance	311	3,904
D B Wilcox	2,863	8,592

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised during the period by the following directors of the Company and members of their immediate family are:

	As at 1 January 2002*	Granted During the Period		Exercised during the period		As at 31 December 2002
		Options	Price	Options	Price	
J F Beck	4,115	268	12.35	515	4.01	3,868
N J Bradley	2,824	-	-	515	4.01	2,309
P N Comfort	6,288	160	12.35	515	4.01	5,933
A P Dickinson	62,688	562	12.35	-	-	63,250
S A Holloway	27,785	6,100	18.18	3,203	5.01	30,327
		160	12.35	515	4.01	
S J Lent	22,383	4,500	18.18	1,603	11.18	25,587
		307	12.35			
P Marrow	22,289	-	-	-	-	22,289
R W McFarlane	835	268	12.35	224	4.61	764
				115	10.06	

* or date of appointment, if later

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS (continued)

	As at 1 January 2002*	Granted During the Period		Exercised during the period		As at 31 December 2002
		Options	Price	Options	Price	
N P Mills	3,752	160	12.35	599	3.45	2,798
				515	4.01	
L E Nichols	4,132	268	12.35	1,582	6.85	1,708
				546	8.88	
				564	9.24	
J S Oakley	2,354	-	-	-	-	2,354
A A G Rankin	1,295	246	12.35	-	-	1,541
K E Singleton	635	153	12.35	-	-	788
P W Torrance	9,792	536	12.35	5,106	3.12	5,222
D B Wilcox	29,444	349	12.35	5,096	3.12	23,583
				599	3.45	
				515	4.01	

No director had an interest in any of the preference shares during the year to 31 December 2002.

The following directors were beneficially interested in the Additional Value Shares of The Royal Bank of Scotland Group plc:

	As at 1 January 2002*	As at 31 December 2002
N J Bradley	485	485
A P Dickinson	6,844	1,603
S A Holloway	1,823	1,613
S J Lent	6,169	5,119
P Marrow	7,104	10,357
R W McFarlane	2,789	2,789
N P Mills	3,352	4,068
L E Nichols	3,039	3,039
J S Oakley	1,443	1,443
A A G Rankin	1,196	596
K E Singleton	301	301
D B Wilcox	3,260	3,260

* **or date of appointment, if later**

DIRECTORS' REPORT (continued)

The following directors were beneficially interested in the Floating Rate Unsecured Loan Notes 2005 of The Royal Bank of Scotland Group plc:

	As at 1 January 2002*	As at 31 December 2002
N J Bradley	1,092	1,092
S A Holloway	2,184	2,184
N P Mills	2,012	2,012

Other than the loan notes detailed above, none of the directors in office at 31 December 2002 held any interest in the share or loan capital of the company or any other group company.

ELECTIVE RESOLUTIONS

The company has passed elective resolutions pursuant to Section 379A of the Companies Act 1985, dispensing with the holding of annual general meetings, the laying of annual reports and accounts before the shareholders in general meeting, and the obligation to re-appoint auditors annually.

Approved by the Board of Directors
and signed on behalf of the Board

David Brian Wilcox Director

Date: 30 May 2003

* or date of appointment, if later

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE ROYAL BANK OF SCOTLAND COMMERCIAL SERVICES LIMITED

We have audited the financial statements of The Royal Bank of Scotland Commercial Services Limited for the year ended 31 December 2002 which comprise the profit & loss account, statement of total recognised gains and losses, the balance sheet and the related notes 1 to 19. 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors

Date

30 May 2003

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	Year ended 31 December 2002	Year ended 31 December 2001 as restated
		£'000	£'000
Turnover	2	145,549	118,990
Administration expenses		(46,867)	(50,356)
Operating profit	3	98,682	68,634
Interest payable	6	(77,825)	(60,229)
Profit on ordinary activities before taxation		20,857	8,405
Tax charge on profit on ordinary activities	7	(6,508)	(1,886)
Profit on ordinary activities after taxation		14,349	6,519
Ordinary dividends payable		(5,000)	-
Retained profit for the financial year	14	9,349	6,519

All of the above relate to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December 2002	Year ended 31 December 2001 as restated
	£'000s	£'000s
Profit for the financial year	9,349	6,519
Total recognised gains and losses for the year	9,349	6,519
Prior year adjustment (see note 9)	1,318	-
Total gains and losses recognised since last annual report	10,667	6,519

BALANCE SHEET

AS AT 31 DECEMBER 2002

	Notes	31 December 2002 £'000	31 December 2001 as restated £'000
FIXED ASSETS			
Tangible assets	8	1,197	1,546
CURRENT ASSETS			
Deferred tax	9	1,336	1,318
Debtors	10	1,628,178	1,231,841
Cash at bank and in hand	11	30,178	53,193
		1,659,692	1,286,352
Creditors: amount falling due within one year	12	(1,637,342)	(1,273,700)
Net current assets		22,350	12,652
Total assets less current liabilities		23,547	14,198
CAPITAL AND RESERVES			
Called up share capital	13	1,000	1,000
Profit and loss account	14	22,547	13,198
Equity shareholders' funds	15	23,547	14,198

These financial statements were approved by the Board on 30 May 2003 and signed on their behalf by:

Stuart Antony Holloway Director

David Brian Wilcox Director

The notes on pages 10 to 18 form part of these financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 2002

1. ACCOUNTING POLICIES

(a) Turnover

Turnover represents services to other group companies, discount, service and other charges to clients, all of which arises in the United Kingdom from continuing activities, and its recognised on an accruals basis.

(b) 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.

(c) Foreign currencies

Monetary assets and liabilities in foreign currencies have been translated into sterling at the rates ruling at the balance sheet date. Transactions are translated at either the rate of exchange ruling on the day, or at the rate specified by a matching forward contract.

All realised exchange differences are dealt with in arriving at the profit on ordinary activities.

(d) Debtors

Trade debtors represent assigned debts receivable for which the benefits and risks of ownership have been transferred to the company, with no recourse back to the client. The trade debtors are therefore shown net of recourse debts due to clients on collection, as the benefits and risks relating to the recourse debts are those of the client.

(e) Depreciation

Depreciation is provided using the straight line basis over their estimated useful lives, as follows:

	Estimated Useful Life
Motor vehicles	4 years
Computer and office equipment	3 to 5 years
Office furniture and fittings	6 years and 8 months

(f) Operating leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

(g) Pension scheme

The company participates in The Royal Bank of Scotland Group Pension Fund, which is a funded defined benefit scheme whose assets are independent of the Group's finances. This scheme was formed from the merger of the National Westminster Bank Pension Fund and The Royal Bank of Scotland Staff Pension Scheme on 1 April 2002. Scheme valuations are carried out by independent professionally qualified actuaries to determine pension costs, using the projected unit method, any imbalance between assets and liabilities is adjusted over the average future service life of members of the scheme. The latest full valuation was carried out as at 31 March 2001 on a basis that assumed the merger would occur and showed scheme assets representing 108% of scheme liabilities. The pension costs of this scheme are assessed across its membership as a

NOTES TO THE ACCOUNTS (continued)

whole, and it is not possible to determine the share of the scheme's assets and liabilities that relates to The Royal Bank of Scotland Commercial Services Limited. Accordingly, the requirements of FRS 17 'Pension Costs' relating to multi-employer schemes apply. The pension costs included in the profit and loss account are £1,139,000 (2001: £1,055,000). At 31 December 2002 there was a pension costs accrual of £857,000 (2001: £413,000). In accordance with FRS 17, a valuation of the whole scheme was prepared as at 31 December 2002, using actuarial bases and assumptions consistent with the requirements of that standard, and showed scheme assets representing 86% of scheme liabilities. Further information on the scheme and the actuarial valuations is given in the financial statements of Royal Bank of Scotland Group Plc.

(h) Related party transactions/Cash flow statements

The company is exempt from the inter-company disclosure requirements of Financial Reporting Standard 8, Related Party Disclosures, as it is a wholly owned subsidiary undertaking of The Royal Bank of Scotland Group plc. Similarly, as a wholly owned subsidiary undertaking, the company is exempt under Financial Reporting Standard 1 (revised), Cash Flow Statements, from the requirement to prepare a cash flow statement.

(i) Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2. TURNOVER

Turnover represents services to other group companies, discount, service and other charges to clients, all of which arises in the United Kingdom from continuing activities, and its recognised on an accruals basis.

3. OPERATING PROFIT

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Operating profit is after charging:		
Depreciation on tangible fixed assets	876	1,839
Auditors' remuneration (audit services)	24	73

NOTES TO THE ACCOUNTS (continued)

4. DIRECTORS' REMUNERATION AND INTERESTS

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Directors' emoluments excluding pension contributions:	1,337	804
Pension contributions	61	30
	1,398	834
Highest paid directors' emoluments:		
Highest paid director	240	158
Pension contributions	7	1
	247	159

In 2002 there were 11 directors accruing retirement benefits under the pension scheme (2001: 8).

None of the directors had any material interest in any contract of significance in relation to the business of the group.

5. EMPLOYEES AND STAFF COSTS

The average number of persons employed during the financial year was as follows:

	Year ended 31 December 2002 No.	Year ended 31 December 2001 No.
	784	699

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Staff costs were as follows:		
Wages and salaries	19,284	18,891
Social security costs	1,594	1,765
Pension costs	1,139	1,055
Profit sharing scheme	1,425	1,423
	23,442	23,134

NOTES TO THE ACCOUNTS (continued)

6. INTEREST PAYABLE

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
On bank loans and overdrafts, and other loans wholly repayable within one year:		
Unsecured lending from The Royal Bank of Scotland Group plc undertakings	77,825	60,229

7. TAX CHARGE ON ORDINARY ACTIVITIES

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 as restated £'000
UK Corporation tax based on the results for the year at 30% (2001 – 30%)	6,365	3,211
Deferred tax	(18)	(1,318)
Prior year – UK Corporation tax	161	(7)
	6,508	1,886

Factors Affecting Tax Charge for the Current Period

The tax assessed for the period is higher/lower than that resulting from applying the standard rate of corporation tax in the UK: (Last period: 30%)

The differences are explained below:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 as restated £'000
Profit on ordinary activities before tax	20,857	8,405
Tax at 30% thereon:	6,257	2,522
Effects of:		
Expenses not deductible for tax purposes	90	300
Capital allowances in excess of depreciation	(111)	102
Other deferred tax movements	129	273
Prior period adjustments	161	7
Current tax charge for period	6,526	3,204

NOTES TO THE ACCOUNTS (continued)

8. TANGIBLE FIXED ASSETS

	Fixtures, Fittings and Equipment	Vehicles	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002	9,133	1,823	10,956
Additions	580	79	659
Disposals	-	(1,273)	(1,273)
At 31 December 2002	9,713	629	10,342
Depreciation			
At 1 January 2002	7,891	1,519	9,410
Charge for the year	695	181	876
Disposals	(2)	(1,139)	(1,141)
At 31 December 2002	8,584	561	9,145
Net book value at 31 December 2002	1,129	68	1,197
Net book value at 31 December 2001	1,242	304	1,546

NOTES TO THE ACCOUNTS (continued)

9. DEFERRED TAXATION

Restatements

The Group has implemented Financial Reporting Standard 19 'Deferred Tax '("FRS 19") which requires recognition of deferred tax assets and liabilities on all timing differences, with specified exceptions. Previously, provision was made for deferred tax only to the extent that timing differences were expected to reverse and the deferred tax liability crystallise in the foreseeable future. The effect of adopting the new policy is to decrease the tax charge for 2002 by £18,000 and to increase profit and loss account reserves at 31 December 2002 by £18,000.

The year ended 31 December 2001 has been restated, the effect is to decrease the tax charge by £1,318,000 and to increase the profit and loss account reserves by £1,318,000.

	31 December 2002 £'000	31 December 2001 as restated £'000
General provision	389	389
Other provisions	422	293
Accelerated capital allowances	525	636
Deferred tax asset	1,336	1,318
The movement on the deferred taxation account is as follows:		
Balance as at 1 January	1,318	-
Charge for year	18	1,318
Balance as at 31 December	1,336	1,318

10. DEBTORS

	31 December 2002 £'000	31 December 2001 £'000
Amounts falling due within one year:		
Amounts owed by The Royal Bank of Scotland Group plc undertakings	799,198	789,450
Trade debtors	826,177	439,613
Other debtors	2,803	2,778
	1,628,178	1,231,841
Trade debtors comprise:		
Assigned debts receivable	1,685,487	939,397
Less: recourse debts due to clients on collection	(859,310)	(499,784)
	826,177	439,613

NOTES TO THE ACCOUNTS (continued)

11. CASH AT BANK AND IN HAND

	31 December 2002 £'000	31 December 2001 £'000
With The Royal Bank of Scotland Group plc undertakings	25,942	48,903
Other	4,236	4,290
	30,178	53,193

12. CREDITORS

	31 December 2002 £'000	31 December 2001 £'000
Amounts falling due within one year:		
Trade creditors	149,109	28,227
Amounts owed to The Royal Bank of Scotland Group plc undertakings	1,431,249	1,215,617
Other creditors	37,085	13,888
Corporation tax	6,332	571
Group relief payable	2,008	1,377
Accruals and deferred income	11,559	14,020
	1,637,342	1,273,700

13. CALLED UP SHARE CAPITAL

	31 December 2002		31 December 2001	
	Authorised	Allotted, called up and fully paid	Authorised	Allotted, called up and fully paid
	£'000	£'000	£'000	£'000
Ordinary Shares of £1 each	1,000	1,000	1,000	1,000

NOTES TO THE ACCOUNTS (continued)

14. PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 2002 as restated	13,198
Retained profit for the financial year	9,349
Balance at 31 December 2002	22,547

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 as restated £'000
Profit attributable to members of the company	14,349	6,519
Dividends	(5,000)	-
Net addition to shareholders' funds	9,349	6,519
Opening shareholders' funds	14,198	7,679
Closing shareholders' funds	23,547	14,198

16. COMMITMENTS

	31 December 2002 £'000	31 December 2001 £'000
At the balance sheet date there were the following commitments:		
Outstanding contracts for the sale of foreign currencies	2,613	4,361

NOTES TO THE ACCOUNTS (continued)

17. OPERATING LEASE COMMITMENTS

The company is committed to make the following payments during the next year under operating leases expiring:

		31 December 2002		31 December 2001	
		Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Within	1 year	-	48	-	62
Within	2-5 years	-	-	-	257
After	5 years	1,172	-	1,172	-
		1,172	48	1,172	319

18. CONTINGENT LIABILITIES

	31 December 2002	31 December 2001
	£'000	£'000
Liability under the group VAT registration	2,008	1,375

19. IMMEDIATE AND ULTIMATE PARENT COMPANY

The company's ultimate parent and controlling company is The Royal Bank of Scotland Group plc which 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 The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, 42 St Andrew Square, Edinburgh, EH2 2YE. The immediate parent of the company is The Royal Bank of Scotland Commercial Services (Holdings) Ltd.