MARKS AND SPENCER

FINANCIAL SERVICES PLC

FINANCIAL STATEMENTS

3 April 2004

COMPANY REGISTRATION NUMBER: 1772585

MARKS AND SPENCER FINANCIAL SERVICES PLC

CONTENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 3 April 2004.

PRINCIPAL ACTIVITIES

The Company provides retail credit and associated services principally to the UK market.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The Company continues to offer a range of credit and savings and protection products to both Marks and Spencer and non Marks and Spencer customers.

The Company acts as cash ISA manager and deposit-taker for Marks and Spencer Unit Trust Management Limited.

The Company will continue to look for opportunities to develop the product range currently offered and relationships with existing customers. Following successful completion of a pilot scheme in South Wales, the Credit Card product was made available nationally in October 2003. A Motor Insurance product was launched in April 2003 and a Mini Cash ISA product was launched in February 2004.

RESULTS AND DIVIDENDS

The Company's profit after tax for the financial year is £15.4 million (2003: £44.2 million).

The directors do not propose the payment of a dividend (2003: £nil).

DIRECTORS

The directors of the Company who served during the year were as follows:

R Holmes	Chairman & Non Executive	Appointed 3 October 2003
L Vandevelde	Chairman & Non Executive	Resigned 3 October 2003
L Powers-Freeling	Chief Executive	
A Milne		
E Nott		
J Walton		
P Bradshaw	Non Executive	Appointed 28 May 2003
K Culley	Non Executive	
K Knutson	Non Executive	
R Ranson	Non Executive	Resigned 28 May 2003
B Wells	Non Executive	

Mrs Powers-Freeling and Mr Holmes served as directors of Marks and Spencer Group plc and as such their share interests are disclosed in the financial statements of that company. The interests of Mr Bradshaw, Mr Culley, Mr Knutson, Mr Milne, Mr Nott, Mr Walton and Mr Wells are disclosed in note 24 on page 27.

EMPLOYEE INVOLVEMENT

A policy of providing employees with information about the Company is in place. Personnel briefings and regular meetings are held, at which employees are encouraged to present their suggestions and views on the Company's performance. All members of staff have the Marks and Spencer Group results explained in the staff newspaper, "On Your Marks". The Company participates in the Group's Inland Revenue approved Save As You Earn (SAYE) savings scheme, membership of which is service-related. The Company operates a bonus scheme based on the performance of the businesses.

The staff forum provides a framework through which staff can be consulted about business issues.

DISABLED EMPLOYEES

The Company has a policy of giving disabled people full and fair consideration for all job vacancies for which they offer themselves as suitable applicants, having regard to their particular aptitudes and abilities. Training and career development opportunities are available to all employees and if necessary we endeavour to re-train staffs who become disabled during employment with us.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Direct donations to charitable organisations amounted to £6,919 (2003: £11,882). No political contributions were made during the year.

CREDITOR PAYMENT POLICY

Trade creditor days of the Company for the year ended 3 April 2004 are 13 days (2003: 14 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

For all trade creditors, it is the Company's policy to:

- agree the terms of payment at the start of business with the supplier;
- ensure that suppliers are aware of the terms of payment;
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 3 April 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and 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.

AUDITORS

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the board meeting of the Company.

By order of the Board

P H Green
Secretary

19th May 2004

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARKS AND SPENCER FINANCIAL SERVICES PLC

We have audited the financial statements on pages 5 to 30 which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 to you 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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 3 April 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
19th May 2004

PROFIT AND LOSS ACCOUNT
For the year ended 3 April 2004

	Notes	2004 £000	2003 £000
Interest receivable	4	235,233	264,305
Interest payable	5	(80,880)	(92,912)
Net Interest Income		154,353	171,393
Fees and commissions receivable		50,720	35,788
Insurance profit share		13,612	8,407
Other operating charges		(8,866)	(193)
Operating Income		209,819	215,395
Administrative expenses		(141,749)	(97,818)
Depreciation	8 & 12	(3,037)	(2,940)
Charge for bad and doubtful debts	11	(42,489)	(51,613)
		(187,275)	(152,371)
Profit On Ordinary Activities Before Taxation	8	22,544	63,024
Taxation on profit on ordinary activities	9	(7,163)	(18,814)
Profit On Ordinary Activities After Taxation		15,381	44,210
Retained Profit for the Financial Year	22	15,381	44,210

All operations are continuing.

The Company has no recognised gains or losses other than the profit for the year.

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 notes on pages 7 to 30 form part of these accounts.

BALANCE SHEET
At 3 April 2004

	Notes	2004 £000	2003 £000
ASSETS			
Cash and balances at Central Banks		123,575	10,093
Loans and advances to customers	10	2,454,160	2,022,118
Tangible fixed assets	12	14,160	11,056
Other assets	13	19,019	10,990
Deferred tax	15	7,584	3,537
Prepayments and accrued income		2,336	869
Total assets		2,620,834	2,058,663
LIABILITIES			
Customer accounts	16	446,353	84,395
Debt securities in issue	17	569,081	75,140
Other liabilities	18	1,085,979	1,435,507
Accruals and deferred income		55,617	16,268
Provisions for liabilities and charges	19	5,265	4,195
Subordinated liabilities	20	35,000	35,000
		2,197,295	1,650,505
Called up share capital	21	35,000	35,000
Profit and loss account	22	388,539	373,158
Equity shareholders' funds	23	423,539	408,158
Total liabilities and Shareholders' funds		2,620,834	2,058,663

Commitments	2004	2003
Contractual amount of other commitments:	£000	£000
Undrawn formal standby facilities, credit lines and other commitments to lend:		
- Maturing in 1 year or less	8,040,542	699,120

The financial statements on pages 5 to 30 were approved by the Board of Directors on 19th May 2004 and signed on its behalf by:

L Powers-Freeling
Chief Executive

The notes on pages 7 to 30 form part of these accounts.

1 Accounting policies

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking companies and Schedule 9 to the Companies Act 1985 the Statements of Recommended Practice issued by the British Bankers' Association (BBA SORP's) and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently are described below.

Basis of accounting

The financial statements are drawn up on the historical cost basis of accounting. The Company adopts the same accounting reference date as its ultimate parent company, therefore the accounts have been made up to a period not exactly equal to a year.

Interest receivable

Interest is accrued on a daily basis for Chargecard, Credit Card, Personal Reserve and bank balances. Loan interest is allocated over the period of the loan to give a constant yield by reference to the outstanding balance.

Where there is significant doubt that interest receivable can be collected, it is excluded from the profit and loss account and credited to an interest suspense account. This is deducted from the carrying value of the related assets in the balance sheet.

Fees and commission receivable

Fee income, including credit card interchange fees, is recognised when the related transaction is charged to the customers' account.

Creditor insurance commission income is credited to the profit and loss account net of cancellations.

Home and contents, travel, car, wedding and pets insurance commission income is credited to the profit and loss account when the related premiums are due from the customer.

Fee income has been restated for prior year to identify separately costs now included within Other operating charges.

Insurance Profit Share

Insurance profit share in respect of creditor insurance is based on premiums earned and claims incurred over the period for which cover is provided. Profit release occurs annually. In the event that in any scheme year there is a deficit, any such deficit is carried forward into subsequent scheme years and no payment of profit is made until all deficits have been cleared. These financial statements include the profit share to the year end date.

1 Accounting policies (continued)

Loans and advances to customers

Loans and advances are classified as impaired when an instalment is in excess of 1 day overdue. Specific provisions are made against all advances identified as impaired at the balance sheet date to the extent that, in the opinion of the directors, full recovery is doubtful. Specific provisions against such exposures are calculated using a bad debt provision model, which uses the last two years' credit history to produce estimates of the likely level of asset impairment. General provisions relate to latent bad and doubtful debts which are present in any lending portfolio but have not been specifically identified by reference to overdue amounts. General provisions are calculated using the same bad debt provision model and an evaluation of current economic and political factors.

Provisions made during the year, less amounts released and recoveries of amounts written off in previous years are charged to the profit and loss account.

Loans and advances are written off when there is no realistic prospect of recovery, based on a predetermined set of criteria. Account balances written off include those where no payment has been received for a period of 12 months since the account was identified as doubtful, and in other situations such as bankruptcy, insolvency or fraud.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided so as to write off the cost of fixed assets by equal annual instalments over the following periods:

Leasehold improvements	Lease term
Fixtures, fittings and catering equipment	10 years
Computer equipment and vehicles	5 years

Deferred Taxation

Deferred tax is recognised on a non discounted basis in respect of all timing differences (which result in an obligation to pay more tax, or a right to pay less tax, in the future) that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recoverable out of anticipated levels of future taxable profits.

Pension costs

The Company is a member of defined benefit and defined contribution schemes operated by the Marks and Spencer Group. In accordance with FRS 17, the defined benefit pension contributions have not been accounted for on a defined benefit basis because it is not possible to separately identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis. Accordingly, this scheme has been treated as a defined contribution scheme, and the pension cost charge in respect of both schemes represents the contributions payable in respect of each financial year.

1 Accounting policies (continued)

Operating leases
Costs of operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Foreign currencies
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Assets and liabilities held at the year-end are translated at year-end exchange rates. Exchange gains and losses are dealt with in the profit and loss account and are included within administrative expenses.

Derivatives
Derivative financial instruments, including foreign currency swaps and interest rate swaps, are used for the purpose of hedging as part of the company's risk management process. These are used to manage the balance between fixed and floating interest rates.

All derivatives are classified as non-trading.

All derivatives are accounted for on an accruals basis. Amounts payable or receivable in respect of interest rate and foreign currency swaps are recognised as adjustments to net interest income over the period of the contract. Notional amounts of derivatives contracts are not recorded in the balance sheet. Changes in the derivatives' fair values are not recognised.

Debt & capital instrument costs
Issue costs are amortised over the period to the instrument's maturity on a straight line basis and included in interest payable.

Facility fees are charged in full as incurred.

2 Cash flow statement

The Company is a wholly owned subsidiary of a company which publishes consolidated financial statements that include a consolidated cash flow statement. Consequently the Company has taken advantage of the exemption for preparing a cash flow statement under the terms of FRS 1.

3 Segmental reporting

The Company does not operate in more than one geographical segment, or in more than one class of business.

4 Interest receivable

	2004 £000	2003 £000
Storecards	65,560	92,239
Credit Card	31,351	534
Loans	107,714	135,945
Personal Reserve	30,525	35,574
Other	83	13
	235,233	264,305

(a) The value of loans on which interest is suspended is as follows:

	2004 £000	2003 £000
Loans and advances to customers*	98,580	105,338
Provisions*	(54,103)	(63,004)
	44,477	42,334

*2003 figures have been restated to include the value of loans and advances on which interest is suspended and the associated provision, which have been referred to the internal recovery department.

Movements in the suspended interest account are as follows:

	2004 £000	2003 £000
Balance brought forward	2,326	-
Interest written off during the year	(3,491)	-
Interest suspended during the year	10,396	2,326
Balance carried forward	9,231	2,326

Comparative information for the movement in suspended interest is not available.

(b) Cards and Personal Reserve

Due to the revolving nature of these balances, it is not practicable to calculate the interest suspended on these balances.

5 Interest payable

	2004 £000	2003 £000
Interest on medium term notes (see note 17)	12,867	676
Interest on subordinated liabilities (see note 20)	1,424	1,499
Interest payable to fellow subsidiaries	54,767	83,969
Other interest	11,822	6,768
	80,880	92,912

6 Staff costs

	2004 £000	2003 £000
Staff costs (including directors):		
Wages and salaries	51,024	32,318
Social security costs	2,802	2,089
Other pension costs (note 25 (b))	5,144	5,560
	58,970	39,967

Average number of employees (including executive directors):

	2004	2003
Selling and Distribution	288	346
Administration	1,331	1,117
	1,619	1,463

If the number of part-time hours worked were converted on the basis of a full working week, the equivalent average total number of full-time employees would have been 1,432 (2003: 1,285).

7 Directors' emoluments

	2004	2003
	£	£
Highest paid director	300,032	274,000
Aggregate emoluments of other directors	908,470	620,430
Compensation for loss of office	-	215,089
	1,208,502	1,109,519

Retirement benefits are accruing to 3 directors (2003: 3) under a defined benefit scheme. Contributions were made for one director (2003: none) of £6,930 under a money purchase scheme. 3 directors (2003: 4) are entitled to receive, and have received, shares under a long-term incentive scheme (see note 24). One director has exercised share options during the year (see note 24).

Mrs Powers-Freeling, Mr Holmes and Mr Vandevelde served as directors of Marks and Spencer Group plc, and their total remuneration has been disclosed in those financial statements. No remuneration was paid to Mr Holmes or Mr Vandevelde for their services to this Company and therefore no apportionment of their emoluments has been made. In the case of Mrs Powers-Freeling 80% of her remuneration is borne by subsidiary companies within the Marks and Spencer Retail Financial Services Holdings group, and the recharge relating to this Company has been included in directors' emoluments above. The remuneration of the other directors is fully allocated between the companies in the Marks and Spencer Retail Financial Services Holdings group.

The amount of pension benefit accrued to the highest paid director at the end of the year is £5,300 (2003: £3,100).

8 Profit on ordinary activities before taxation

	2004	2003
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Credit card launch costs	58,572	26,588
Depreciation	3,037	2,940
Operating lease rentals		
- plant and machinery	286	225
- buildings	2,931	2,588
Amortisation of options	-	429
Independent auditors' fees		
- audit services	102	134
- audit related services	-	51
- tax services	17	-
- other services	86	228

9 Taxation on profit on ordinary activities

	2004 £000	2003 £000
Current Taxation		
UK corporation tax at 30% (2003: 30%)	8,304	19,849
Under provision in respect of prior years	2,906	837
	11,210	20,686
Deferred Taxation (see note 15)		
Origination and reversal of timing differences	(1,532)	(932)
Adjustments to estimated recoverable amount of deferred tax arising in previous periods	(2,515)	(940)
	(4,047)	(1,872)
	7,163	18,814

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	22,544	63,024
Taxation on profit on ordinary activities at the standard rate in the UK 30% (2003: 30%)	6,763	18,907
Effects of:		
Expenses not deductible for tax purposes	10	10
Non allowable movement in provisions	624	52
Capital allowances for period in excess of depreciation	(2,483)	(1,267)
Expenses capitalised as assets subject to capital allowances	3,390	2,147
Under provision in respect of prior years	2,906	837
Current tax charge for the year	11,210	20,686

The Company expects to be able to recover deferred taxation balances arising from timing differences in respect of capital expenditure.

10 Loans and advances to customers

	2004 £000	2003 £000
Repayable:		
- over 5 years	258,356	206,404
- 5 years or less but over 1 year	1,454,456	1,275,360
- 1 year or less but over 3 months	609,554	471,287
- 3 months or less	234,650	176,453
	2,557,016	2,129,504
General and specific bad and doubtful debt provisions (see note 11)	(102,856)	(107,386)
	2,454,160	2,022,118

The above analysis is based on the minimum repayment required of 3% on Chargecard, Credit Card and Personal Reserve balances.

11 Provisions for bad and doubtful debts

	2004			2003		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
At 1 April	101,451	5,935	107,386	115,131	5,304	120,435
Charge against profits	44,068	4,480	48,548	56,422	631	57,053
Amounts written off	(53,078)	-	(53,078)	(70,102)	-	(70,102)
At 3 April (2003: 31 March)	92,441	10,415	102,856	101,451	5,935	107,386

	2004 £000	2003 £000
Profit and loss account		
Charge against profits	48,548	57,053
Recoveries	(6,059)	(5,440)
	42,489	51,613

12 Tangible fixed assets

	Leasehold improvements	Fixtures, fittings & equipment	Total
	£000	£000	£000
Cost			
At 1 April 2003	5,881	38,115	43,996
Additions	-	6,141	6,141
At 3 April 2004	5,881	44,256	50,137
Accumulated depreciation			
At 1 April 2003	1,470	31,470	32,940
Charge for the year	294	2,743	3,037
At 3 April 2004	1,764	34,213	35,977
Net book value			
At 3 April 2004	4,117	10,043	14,160
At 31 March 2003	4,411	6,645	11,056

13 Other assets

	2004	2003
	£000	£000
Amounts falling due within one year:		
Amounts owed by fellow subsidiary undertakings	3,495	9,159
Other assets	14,192	1,274
VAT receivable	1,332	557
	19,019	10,990

Amounts owed by fellow subsidiary undertakings are unsecured, interest free and have no fixed date of repayment.

Other assets include £13,386,933 (2003: £305,954) relating to insurance underwriting profit owed by Allianz Cornhill.

14 Role of Financial Instruments

Risk Management

The Company lends to individuals in the unsecured lending market, at variable rates and terms through its Chargecard, Credit Card and Personal Reserve products, and at fixed rates and terms through Personal Loans.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, operational risk, liquidity risk, and foreign currency risk. The Company has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The structure is reviewed regularly by the Assets and Liabilities Committee (ALCO), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Group. A report of all ALCO meetings is made to the Board.

Financial Instruments

The Company's financial instruments include the fixed and variable rate funding from St Michael Finance Limited, medium term notes, interest rate swaps, foreign currency swaps, the options described below, customer balances and subordinated liabilities, together with loans and deposits from customers and staff.

The Company does not trade in financial instruments.

The Company raises its funds from medium term notes (note 17) and from St Michael Finance Limited, a fellow subsidiary company, which manages the interest liabilities and exposures on behalf of the Marks and Spencer Group plc as a whole.

During the year ended 31 March 2003, the Company exercised its remaining FTSE 100 put options to hedge the liability of a fellow subsidiary company to its investors, who received a guarantee against adverse Stock Exchange index fluctuations. At 3 April 2004 there are no remaining put options held.

Credit Risk

In making advances to customers, the Company faces a credit risk. All initial applications are subjected to credit scoring techniques and accounts in arrears are actively managed to minimise the Company's bad debt exposure. The Company further maintains a bad debt provision to recognise its estimate of potential losses in the future from existing advances.

The Company does not use any derivative financial instruments to manage its credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations as they fall due. The Company utilises St Michael Finance Limited, medium term notes and customer deposits to source its Sterling denominated funds. The Company seeks to match availability of funding to the Company's requirements, and any shortfalls are sourced at variable rates by St Michael Finance Limited at that time. The Company has an agreed overdraft denominated in Euros and a syndicated credit facility of £1.25 billion denominated in Sterling.

Operational Risk

Operational risk is the potential for loss or regulatory breach caused by a breakdown in information, communication, inexperience, transaction processing and settlement systems. The Company mitigates operational risk by maintaining a comprehensive system of internal controls, training and maintaining key back up facilities. Internal controls include the establishment of systems and procedures to monitor transactions, positions and documentation.

Interest Rate Risk

The Company seeks to match its fixed rate funding to the fixed rate loans it provides to customers, and floating rate funding to the floating rate revolving credit products. The Company manages its exposure to interest rate risks by utilising interest rate swaps. The monitoring of interest rates is carried out by the Company, and funding is obtained at agreed rates from St Michael Finance Limited and via the issue of medium term notes.

Foreign Currency Risk

The Company has a minimal exposure to currency fluctuations in the Euro, due to its trading in Ireland. The asset and liability positions naturally hedge one another, giving a net exposure of £2.3 million (2003: £2.0 million).

Where funding is raised in non Sterling currencies the liability is swapped into Sterling through the use of currency swaps.

All other material trading is carried out in Sterling.

Interest rate sensitivity gap

The table below summarises the re-pricing mismatches of the Company's financial instruments. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. The balance sheet consists entirely of non-trading activities. The table includes all short-term debtors and creditors.

At 3 April 2004

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
	£m	£m	£m	£m	£m	£m	£m
Assets:							
Cash & balances at banks	124	-	-	-	-	-	124
Loans & advances to customers	1,503	139	183	549	80	-	2,454
Other assets	-	-	-	-	-	43	43
Total assets	1,627	139	183	549	80	43	2,621
Liabilities:							
Customer accounts	441	-	-	-	-	5	446
Medium term notes	569	-	-	-	-	-	569
Other liabilities	1,028	-	25	38	-	56	1,147
Subordinated liabilities	35	-	-	-	-	-	35
Shareholders' funds	-	-	-	-	-	424	424
Total liabilities	2,073	-	25	38	-	485	2,621
On balance sheet gap	(446)	139	158	511	80	(442)	-
Off balance sheet items	884	(112)	(202)	(570)	-	-	-
Interest rate sensitivity gap	438	27	(44)	(59)	80	(442)	-
Cumulative gap	438	465	421	362	442	-	-

At 31 March 2003

	Not more than 3 months £m	More than 3 months but not more than 6 months £m	More than 6 months but not more than 1 year £m	More than 1 year but not more than 5 years £m	More than 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Cash and balances at banks	10	-	-	-	-	-	10
Loans advances to customers	1,055	194	317	456	-	-	2,022
Other assets	-	-	-	-	-	27	27
Total assets	1,065	194	317	456	-	27	2,059
Liabilities:							
Customer accounts	80	-	-	-	-	4	84
Medium term notes	75	-	-	-	-	-	75
Other liabilities	1,377	-	25	47	-	8	1,457
Subordinated liabilities	35	-	-	-	-	-	35
Shareholders' funds	-	-	-	-	-	408	408
Total liabilities	1,567	-	25	47	-	420	2,059
On balance sheet gap	(502)	194	292	409		(393)	-
Off balance sheet items	968	(222)	(250)	(496)	-	-	-
Interest rate sensitivity gap	466	(28)	42	(87)	-	(393)	-
Cumulative gap	466	438	480	393	393	-	-

The prior year numbers have been restated to reflect interest rate re-pricing mismatch.

Hedges

(a) Interest rate swaps and foreign currency swaps

The Company holds interest rate swaps and foreign currency swaps. Interest rate swaps are used to achieve an interest profile that is consistent with the maturity of the Company's assets and to manage risk of interest rate fluctuations. Foreign currency swaps are used to achieve a currency and effective sterling interest rate profile to match the maturity of the Company's assets. This has the effect of managing the Company's exposure to interest rate and foreign currency exchange rate risk.

The notional principal amounts, fair values, book values and credit risk weighted values of non-trading derivatives instruments entered into with third parties were as follows:

3 April 2004	Notional principal amount £000	Fair value net asset/ (net liability) £000	Book value £000	Credit risk weighted value £000
Interest rate contracts:				
Interest rate swaps	245,074	1,786	-	439
Exchange rate contracts:				
Foreign currency swaps	354,481	(16,681)	-	470
	599,555	(14,895)	-	909
Interest rate swaps:				
Less than 1 year	35,000	90	-	18
Between 1 and 5 years	210,074	1,696	-	421
	245,074	1,786	-	439
Exchange rate contracts:				
Less than 1 year	166,569	(4,203)	-	470
Between 1 and 5 years	187,912	(12,478)	-	-
	354,481	(16,681)	-	470

The swaps have been marked to market to arrive at fair value. All swaps counterparties are recognised banks.

31 March 2003	Notional principal amount £000	Fair value net asset/ (net liability) £000	Book value £000	Credit risk weighted value £000
Interest rate contracts:				
Interest rate swaps	61,280	(188)	-	-
Exchange rate contracts:				
Foreign currency swaps	40,140	389	-	158
	101,420	201	-	158
Interest rate swaps:				
Less than 1 year	51,280	(167)	-	-
Between 1 and 5 years	10,000	(21)	-	-
	61,280	(188)	-	-
Exchange rate contracts:				
Less than 1 year	40,140	389	-	158
Between 1 and 5 years	-	-	-	-
	40,140	389	-	158

(b) Fair and book values

For on Balance Sheet financial instruments there is no difference between book value and fair value (2003: nil).

(c) Put options

The Company purchased FTSE 100 put options to hedge the potential liability of a fellow subsidiary company to its investors, who had received a guarantee against adverse index fluctuations. During the prior year the remaining three guarantees ran to maturity.

Losses on hedges carried forward in the balance sheet as at 3 April 2004 (2003: 31 March), which represent the unamortised option premia, are as follows:

	2004 £000	2003 £000
Losses carried forward in the balance sheet at 1 April	-	429
Of which recognised in the year to 3 April (2003: 31 March)	-	(429)
Losses carried forward in the balance sheet at 3 April (2003: 31 March)	-	-
Of which expected to be recognised in the year to 2 April 2005 (2003: 3 April 2004)	-	-

During the year no options were exercised (2003: £329,651 profit).

At 3 April 2004 and 31 March 2003 no options were held and the book and fair values were nil.

(d) Summary of unrecognised gains and losses on hedges

The table below summarises the unrecognised gains and losses on hedges at 3 April (2003: 31 March) and the movements therein during the year:

	Gains	Losses	2004 Total	Gains	Losses	2003 Total
	£000	£000	£000	£000	£000	£000
Unrecognised gains on hedges at 1 April	389	(188)	201	859	-	859
Gains arising in previous years recognised in the year	(389)	167	(222)	(859)	-	(859)
Losses arising in previous years that were not recognised in the year to 3 April (2003: 31 March)	-	(21)	(21)	-	-	-
Gains/(losses) arising in the year to 3 April (2003: 31 March) that were not recognised in that year	3,690	(18,564)	(14,874)	389	(188)	201
Unrecognised gains/(losses) on hedges at 3 April (2003: 31 March)	3,690	(18,585)	(14,895)	389	(188)	201
Of which:						
Gains/(losses) expected to be recognised within one year	1,784	(5,897)	(4,113)	389	(167)	222
Gains/(losses) expected to be recognised after one year	1,906	(12,688)	(10,782)	-	(21)	(21)

15 Deferred Tax

	2004	2003
	£000	£000
Deferred Tax		
At 1 April	3,537	1,665
Transfer from profit and loss account (see note 9)	4,047	1,872
At 3 April (2003: 31 March)	7,584	3,537
Deferred capital allowances	5,934	3,130
Disallowed provisions	1,528	547
Other	122	(140)
	7,584	3,537

16 Customer Accounts

	2004 £000	2003 £000
Credit balances on unsecured loans and advances	7,001	5,746
ISA balances	439,352	78,649
	446,353	84,395

All the above are repayable on demand.

17 Debt Securities - Medium Term Notes

At the end of the year the Company had medium term notes in issue. The medium term notes are repayable as follows:

	2004 £000	2003 £000
Within less than one year	196,569	50,140
Within one to two years	259,801	15,000
Within two to five years	112,711	10,000
	569,081	75,140

Amounts due are unsecured, interest bearing and have fixed dates of repayment. The weighted average interest rate payable on medium term notes in issue at 3 April 2004 was 4.5% and the latest maturity date was February 2009.

18 Other liabilities

	2004 £000	2003 £000
Amounts falling due within one year:		
Bank loans and overdrafts	5,010	4,544
Amounts owed to fellow subsidiary undertakings	998,968	1,332,665
SAYE liability	65,703	75,949
Corporation tax	9,077	20,187
Insurance premium tax	439	331
Other liabilities	6,782	1,831
	1,085,979	1,435,507

Amounts due to fellow subsidiary undertakings are unsecured, interest bearing and £35m has a fixed date of repayment.

19 Provisions for liabilities and charges

The following table summarises the movements on the provision:

	SAYE	Fee Clawback	Total
	£000	£000	£000
At 1 April 2003	4,195	-	4,195
Change in the provision	2,195	396	2,591
Payments made	(1,521)	-	(1,521)
At 3 April 2004	4,869	396	5,265

(a) Save As You Earn (SAYE)

The amount of £4,868,782 (2003: £4,195,042) provides for the full amount of the bonus payable under the rules of the scheme less an amount to recognise the estimated effect of staff leaving either the scheme or the Company. Full disclosure of the SAYE scheme is available in the accounts of Marks and Spencer Group plc.

(b) Fee Clawback

The amount of £395,700 (2003: nil) provides for the potential obligation to refund certain fees received in connection with credit card operations, which is dependent on future performance criteria.

20 Subordinated Liabilities

Subordinated liabilities consist of subordinated loan stock, which is repayable as follows:

	2004	2003
	£000	£000
July 2005	30,000	30,000
December 2005	5,000	5,000
	35,000	35,000

This consists wholly of Sterling subordinated loan stock due to an intermediate holding company. The Stockholder shall, subject to the subordination provisions, be entitled to demand early repayment of the loan stock in any voluntary or compulsory winding up of the Company. In the event of the winding up of the Company, the claims of the Stockholder in respect of the stock shall be subordinated to the claims of the Company's unsecured creditors.

Interest on subordinated loans is payable at rates of LIBOR up to LIBOR + 1/16%.

21 Share capital

	2004 £000	2003 £000
Authorised, allotted, called up and fully paid:		
35,000,000 ordinary shares of £1 each	35,000	35,000

22 Profit and loss account

	£000
At 1 April 2003	373,158
Retained profit for the financial year	15,381
At 3 April 2004	388,539

23 Reconciliation of Movements in Shareholders' Funds

	2004 £000	2003 £000
Profit for the financial year	15,381	44,210
Net addition to shareholders' funds	15,381	44,210
Equity shareholders' funds at 1 April	408,158	363,948
Equity shareholders' funds at 3 April (2003: 31 March)	423,539	408,158

24 Directors' interests

Directors' beneficial interest in the ordinary shares of Marks and Spencer Group plc:

	K Culley Number	A Milne Number	E Nott Number	J Walton Number	P Bradshaw Number
At 1 April 2003*					
Ordinary Shares	8,095	-	-	1,762	544
Total options		158,571	161,472	245,499	-
Exercisable options	-	-	-	-	-
Options granted	-	93,434	95,958	83,332	-
Options exercised or lapsed	-	-	-	6,209	-
At 3 April 2004					
Ordinary Shares	8,095	-	-	1,833	544
Total options	-	252,005	257,430	322,622	-
Exercisable options	-	-	-	-	-

Mr Knutson and Mr Wells held no shares or share options during the year. The interests of Mrs Powers-Freeling and Mr Holmes are shown in the accounts of Marks and Spencer Group plc.

* at date of appointment where later

25 Commitments

(a) Commitments under operating leases

At 3 April 2004 (2003: 31 March) annual commitments under non-cancellable operating leases were as follows:

	2004 Land & Buildings £000	2004 Other £000	2003 Land & Buildings £000	2003 Other £000
Expiring within one year	-	54	-	42
Expiring between one and five years	2,931	171	2,588	179
	2,931	225	2,588	221

25 Commitments (continued)

(b) Pensions

The Company is a member of the Marks and Spencer Group pension scheme in the United Kingdom.

The Marks and Spencer Group operates a number of defined benefit and defined contribution funded pension schemes throughout the world. The pensions cost relating to the UK defined benefit scheme is assessed in accordance with the advice of an independent firm of qualified actuaries using the projected unit method, on the basis of triennial valuations. In the current year the cost to the Company was £5,143,506 (2003: £5,560,249). Contributions are based on pensions costs across the group as a whole.

Details of the pension scheme and the results of the latest actuarial valuation, as required by FRS17, are set out below. This information is disclosed in the accounts of Marks and Spencer Group plc for the year ended 3 April 2004.

A full actuarial valuation of the UK defined benefit pension scheme was carried out at 31 March 2003 and showed a deficit of £585m. This valuation, and the most recent actuarial valuations of the other defined benefit pension schemes, have been updated by independent qualified actuaries to take account of the requirements of FRS17 in order to assess the liabilities for the schemes at 3 April 2004. The major assumptions used for FRS17 purposes were:

	2004 %	2003 %	2002 %
Rate of increase in salaries	3.5	3.5	4.0
Rate of increase of pensions in payment	2.7	2.5	2.5
Discount rate	5.6	5.5	5.9
Inflation rate	2.7	2.5	2.5
Long-term healthcare cost increases	7.7	7.5	7.5

25 Commitments (continued)

(b) Pensions (continued)

The market value of the assets in the Group defined benefit pension schemes and the expected long-term rates of return as at 3 April 2004 were:

	Expected long- term rate of return p.a.			Value		
	2004 %	2003 %	2002 %	2004 £m	2003 as restated £m	2002 as restated £m
UK equities	8.1	8.7	7.9	974.7	757.0	1,113.0
Overseas equities	8.6	9.0	8.3	1,011.4	777.2	956.0
Government bonds	4.8	4.6	5.3	833.4	500.2	290.0
Corporate bonds (Triple B or above)	5.6	5.5	5.9	483.3	561.1	741.0
Other	3.7	4.0	4.6	331.4	43.0	9.0
Total market value of assets[1]	6.8	7.3	7.3	3,634.2	2,638.5	3,109.0
Present value of scheme liabilities				(4,280.1)	(3,888.1)	
Pension scheme deficit				(645.9)	(1,249.6)	
Unfunded pension plans				(3.3)	(3.9)	
Post-retirement healthcare				(20.4)	(24.7)	
Total post-retirement liabilities				(669.5)	(1,278.2)	
Less related deferred tax asset				200.0	382.4	
Net post-retirement liability				(469.5)	(895.8)	

[1] The expected return on assets of 6.8% in 2004 is based on the assumption that cash flow of £306m (included in "Other") was invested in government bonds immediately following the year end.

The FRS 17 data for 2003 and 2002 has been restated to include the defined benefit pension scheme at Kings Super Markets. This was excluded in the prior year , pending anticipated disposal of the business by the group. More information is disclosed in the accounts of Marks and Spencer Group plc for the year ended 3 April 2004.

26 Related party transactions

The Company has taken advantage of the exemption under FRS8 not to disclose any transactions with entities that are 90% or more owned within the same group.

At 3 April 2004 3 Directors (31 March 2003: 3) and a former Director had loans with the Company totalling £32,000 (2003: £99,000).

At 3 April 2004 23 Officers and a former Officer (31 March 2003: 9) had loans with the Company totalling £162,000 (2003: £137,000).

In year ended 31 March 2003 the Company engaged BJW International Ltd (a company wholly owned by Mr Wells, a non-executive director of the Company) to provide consultancy services in respect of the Company's decision to enter the Personal Lines Insurance market. The Company paid BJW International £960 in respect of this engagement. There was no balance due to BJW International Limited at 3 April 2004.

27 Ultimate holding company

The ultimate parent undertaking and ultimate controlling party is Marks and Spencer Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Marks and Spencer plc is the parent undertaking of the smallest group to consolidate these financial statements. The immediate parent undertaking is Marks and Spencer Retail Financial Services Holdings Limited. All companies are registered in England and Wales. Copies of Marks and Spencer Group plc consolidated financial statements can be obtained from the Company Secretary at Michael House, Baker Street, London, W1A 1DN.