

**MARKS AND SPENCER**  
**FINANCIAL SERVICES LIMITED**  
**FINANCIAL STATEMENTS**

31 March 2002

COMPANY REGISTRATION NUMBER 1772585



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# MARKS AND SPENCER FINANCIAL SERVICES LIMITED

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## **REPORT OF THE DIRECTORS**

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

### **PRINCIPAL ACTIVITIES**

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

### **REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

During the year, the company has continued 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.

### **RESULTS AND DIVIDENDS**

The Company's profit after tax for the financial year is £46.4 million (2001: £52.7 million).

The directors do not propose the payment of a dividend. (Aggregate dividends in 2001 amounted to £43.5 million).

### **DIRECTORS**

The directors of the Company were as follows:

R W C Colvill	Chairman	
L Powers-Freeling	Chief Executive	Appointed 6 November 2001
D M Towell	Chief Executive	Resigned 31 December 2001
M Dunbar		Resigned 4 January 2002
P S Fennell		Resigned 30 April 2002
G Lynott		
A Milne		Appointed 25 April 2002
J Walton		
K Culley	Non Executive	
K Knutson	Non Executive	Appointed 21 March 2002
A McWalter	Non Executive	
R Ranson	Non Executive	
B Wells	Non Executive	

Mrs Powers-Freeling and Mr McWalter are 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 Colvill, Mr Fennell, Mr Lynott, Mr Walton, Mr Culley, Mr Knutson, Mr Ranson, and Mr Wells are disclosed in note 24 on page 23.

### **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, "St Michael News". The Financial Services results are covered in the staff newsletter of Marks and Spencer Financial Services, "Kings Meadow News". The Company has a long-established Employees' Savings-Related Share Options Scheme, membership of which is service-related. During the year the Company again obtained approval for a Profit Related Bonus Scheme.

A staff forum has been established, providing 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 any member of staff who develops a disability during employment with us.

### **CHARITABLE AND POLITICAL CONTRIBUTIONS**

Direct donations to charitable organisations amounted to £10,000 (2001:£10,000). No political contributions were made during the year.

### **CREDITOR PAYMENT POLICY**

Trade creditor days of the Company for the year ended 31 March 2002 are 14 days (2001:15 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 with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 7 under Note 1 'Accounting Policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2002 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**

PricewaterhouseCoopers have indicated their willingness to continue in office as auditors of the Company and a resolution for their re-appointment is to be proposed at the meeting of the directors of the Company.

**By order of the Board**

**P H Green**  
**Secretary**

A handwritten signature in black ink, appearing to read 'P H Green', is written over the printed name of the Secretary.

13<sup>th</sup> May 2002

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

We have audited the financial statements on pages 5 to 26 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.

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.

**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 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
London

13<sup>th</sup> May 2002

**PROFIT AND LOSS ACCOUNT**  
For the year ended 31 March 2002

	Notes	2002 £000	2001 £000 Restated
Interest receivable	4	286,290	291,514
Interest payable	8	(108,837)	(120,094)
<b>Net Interest Income</b>		<hr/> 177,453	<hr/> 171,420
Fees and commissions receivable		35,912	39,190
Other operating income:			
Insurance profit share		9,834	9,661
<b>Operating Income</b>		<hr/> 223,199	<hr/> 220,271
Administrative expenses		(80,064)	(81,098)
Depreciation	7 & 13	(3,609)	(3,868)
Charge for bad and doubtful debts	12	(72,769)	(60,945)
		<hr/> 156,442	<hr/> 145,911
<b>Profit On Ordinary Activities Before Taxation</b>	7	66,757	74,360
Taxation on profit on ordinary activities	9	(20,405)	(21,615)
<b>Profit On Ordinary Activities After Taxation</b>		<hr/> 46,352	<hr/> 52,745
Dividends	10	-	(43,500)
<b>Retained Profit For The Financial Year</b>	22	<hr/> 46,352	<hr/> 9,245

All operations are continuing.

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

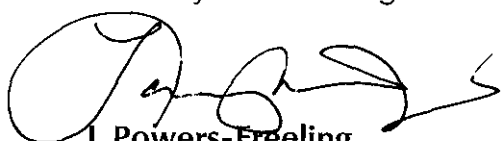
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

## BALANCE SHEET

At 31 March 2002

	Notes	2002 £000	2001 £000 Restated
<b>ASSETS</b>			
Cash and balances at Central Banks		2,768	12,727
Loans and advances to customers	11	2,182,985	2,259,334
Tangible fixed assets	13	12,504	14,808
Other assets	14	18,834	6,585
Deferred Tax	16	1,665	1,397
Prepayments and accrued income		617	4,570
<b>Total assets</b>		<b>2,219,373</b>	<b>2,299,421</b>
<b>LIABILITIES</b>			
Customer accounts	17	37,462	12,768
Other liabilities	18	1,766,648	1,900,128
Accruals and deferred income		12,681	15,496
Provisions for liabilities and charges			
- Save As You Earn	19	3,634	3,433
Subordinated liabilities	20	35,000	50,000
		<b>1,855,425</b>	<b>1,981,825</b>
Called up share capital	21	35,000	35,000
Profit and loss account	22	328,948	282,596
Equity shareholders' funds	23	363,948	317,596
<b>Total liabilities and Shareholders' funds</b>		<b>2,219,373</b>	<b>2,299,421</b>
<b>Commitments</b>			
Contract amount of other commitments:		<b>2002 £000</b>	<b>2001 £000</b>
Undrawn formal standby facilities, credit lines and other commitments to lend:			
- 1 year or less		<b>472,045</b>	<b>450,471</b>

The financial statements on pages 5 to 26 were approved by the Board of Directors on 13<sup>th</sup> May 2002 and signed on its behalf by:



**L Powers-Freeling**  
Chief Executive



**NOTES TO THE FINANCIAL STATEMENTS**

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**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") and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are described below.

There have been no changes to the company's accounting policies other than as necessitated by the adoption of FRS 17 – Retirement Benefits and FRS 19 – Deferred Tax.

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**Basis of accounting**

The financial statements are drawn up on the historical cost basis of accounting.

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**Interest receivable**

Interest is accrued on a daily basis for Chargecard and Personal Reserve balances. Where collection of a Chargecard or Personal Reserve advance is considered doubtful interest is suspended. Loan interest is earned over the period of the loan. Where collection of a loan advance is considered doubtful a provision is made against the loan and the earned interest.

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**Fees and commission receivable**

Fee income is recognised when the related transaction is charged to the customer's account.

Creditor insurance commission income is credited to the profit and loss account when the related premiums are charged to the customer's account.

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

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**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 brought forward into subsequent scheme years and no payment of profit is made until all deficits have been cleared.

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**Loans and advances to customers**

Loans and advances are classified as impaired when an instalment is in excess of 30 days 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, 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. General provisions are calculated using the same bad debt provision model and an evaluation of current economic and political factors.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1 Accounting policies (continued)****Loans and advances to customers (continued)**

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.

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**Tangible Fixed Assets**

Tangible fixed assets are stated at cost less 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
Fixtures and fittings of in-store Financial Service Centres	3 years

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**Deferred taxation**

The adoption of FRS 19 'Accounting for deferred tax' has resulted in changes in the method of accounting for deferred tax. FRS 19 requires, subject to certain exemptions, that deferred tax liabilities be provided for in respect of all timing differences that have originated but not reversed by the balance sheet date and that deferred tax assets be recognised to the extent that they are regarded as more likely than not recoverable. The Company's previous accounting policy was to account for deferred tax to the extent that it was probable that a liability or asset would crystallise.

Prior year figures have been restated to reflect the change in accounting policy. The results of this restatement are disclosed in note 27.

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**Pension costs**

The company is a member of a defined benefit scheme operated by the Marks and Spencer Group. In accordance with FRS 17, the 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, the scheme has been treated as a defined contribution scheme. The pension cost charge represents the contributions paid.

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**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.

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**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. The resulting exchange gain or loss is dealt with in the profit and loss account.

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1 Accounting policies (continued)**

**Derivatives**

The cost of options purchased to hedge equivalent liabilities for guarantees issued is written off over the period to maturity. Provision is made where the fair value of the options falls below amortised cost.

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**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 (Revised 1996).

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**3 Segmental reporting**

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

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**4 Interest receivable**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Cards	94,284	93,903
Loans	149,660	149,519
Personal Reserve	42,329	48,069
Other	17	23
	<hr/>	<hr/>
	286,290	291,514
	<hr/>	<hr/>

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

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Loans and advances to customers	25,418	25,345
Provisions	(25,418)	(25,345)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

(b) Cards and Personal Reserve

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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**5 Staff costs**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Staff costs (including directors):		
Wages and salaries	26,520	24,430
Social security costs	2,185	1,814
Other pension costs (note 25 (b))	5,608	4,215
	<hr/>	<hr/>
	34,313	30,459
	<hr/>	<hr/>

Average monthly number of employees  
(including executive directors):

	<b>2002</b>	<b>2001</b>
Selling and Distribution	357	298
Administration	1,081	1,072
	<hr/>	<hr/>
	1,438	1,370
	<hr/>	<hr/>

If the number of part-time hours worked were converted on the basis of a full working week, the equivalent average number of full-time employees would have been 1,368 (2001: 1,363).

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**NOTES TO THE FINANCIAL STATEMENTS**

**6 Directors' emoluments**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Highest paid director	133,011	275,975
Aggregate emoluments of other directors	565,122	592,062
Compensation for loss of office	140,527	29,612
	<hr/>	<hr/>
	838,660	897,649
	<hr/>	<hr/>

Retirement benefits are accruing to 4 directors (2001:5) under a defined benefit scheme. 4 directors (2001:5) are entitled to receive shares under a long-term incentive scheme.

Mr Colvill, Mrs Powers-Freeling and Mr McWalter 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 Colvill or Mr McWalter 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 Financial Services group, and the recharge relating to this Company has been included in directors' emoluments above. The remuneration of the other directors is allocated between the companies in the Marks and Spencer Financial Services group.

The amount of pension benefit accrued to the highest paid director at the end of the year is £98,700 (2001:£75,600).

**7 Profit on ordinary activities before taxation**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before taxation is stated after charging:		
Audit fees	84	109
Remuneration to auditors for non audit services	51	63
Depreciation	3,609	3,868
Operating lease rentals		
- plant and machinery	202	392
- buildings	2,473	2,473
Amortisation of options	884	951
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

**8 Interest payable**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Interest on subordinated liabilities (see note 20)	2,364	3,093
Inter-company interest	101,836	112,975
Other interest	4,637	4,026
	<u>108,837</u>	<u>120,094</u>

**9 Taxation on profit on ordinary activities**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Current Taxation		<b>Restated</b>
UK corporation tax at 30% (2001:30%)	18,952	24,005
Under/(over) provision in respect of prior years	1,721	(736)
	<u>20,673</u>	<u>23,269</u>
Deferred Taxation (see notes 16 and 27)		
Origination and reversal of timing differences	1,087	(1,685)
Adjustments to estimated recoverable amount of deferred tax arising in previous periods	(1,355)	31
	<u>(268)</u>	<u>(1,654)</u>
	<u>20,405</u>	<u>21,615</u>

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

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax	66,757	74,360
Profit on ordinary activities multiplied by standard rate in the UK 30% (2001:30%)	20,027	22,308
Effects of:		
Expenses not deductible for tax purposes	12	7
(Allowable)/non allowable movement in provisions	(1,430)	1,685
Capital allowances for period in excess of depreciation	(632)	(218)
Expenses capitalised as assets subject to capital allowances	975	223
Under/(over) provision in respect of prior years	1,721	(736)
Current tax charge for the year	<u>20,673</u>	<u>23,269</u>

Factors that may effect future tax charges:

Based on current capital investment plans, the Company expects to be able to recover deferred taxation balances arising from timing differences in respect of capital expenditure.

Deferred tax assets / liabilities have not been discounted.

**NOTES TO THE FINANCIAL STATEMENTS**

**10 Dividends**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Ordinary shares		
Interim paid of nil (2001:85.6p per share)	-	30,000
Proposed final of nil (2001:38.6p per share)	-	13,500
	<hr/>	<hr/>
Total ordinary dividend of nil (2001:124.2p per share)	-	43,500
	<hr/>	<hr/>

**11 Loans and advances to customers**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Repayable:		
- over 5 years	218,430	181,637
- 5 years or less but over 1 year	1,384,667	1,448,492
- 1 year or less but over 3 months	509,903	528,576
- 3 months or less	190,420	206,373
	<hr/>	<hr/>
	2,303,420	2,365,078
General and specific bad and doubtful debt provisions	(120,435)	(105,744)
	<hr/>	<hr/>
	2,182,985	2,259,334
	<hr/>	<hr/>

The above analysis is based on the minimum repayment required on card balances of 3% per month and on personal reserve of 3% per month.

The Company has no discernible credit risk in respect of classes of customer and does not lend to geographical locations outside the United Kingdom.

**NOTES TO THE FINANCIAL STATEMENTS**

**12 Provisions for bad and doubtful debts**

	2002			2001		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
At 1 April	99,737	6,007	105,744	74,375	5,913	80,288
Charge against profits	76,888	(703)	76,185	63,348	94	63,442
Amounts written off	(61,494)	-	(61,494)	(37,986)	-	(37,986)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March	115,131	5,304	120,435	99,737	6,007	105,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Profit and loss account</b>						
Charge against profits			76,185			63,442
Recoveries			(3,416)			(2,497)
			<hr/>			<hr/>
			72,769			60,945
			<hr/>			<hr/>

**13 Tangible fixed assets**

	Leasehold improvements £000	Fixtures fittings & equipment £000	Total £000
<b>Cost</b>			
At 1 April 2001	5,881	35,344	41,225
Additions	-	1,314	1,314
Disposals	-	(24)	(24)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	5,881	36,634	42,515
	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>			
At 1 April 2001	858	25,559	26,417
Charge for the year	318	3,291	3,609
Disposals	-	(15)	(15)
	<hr/>	<hr/>	<hr/>
At 31 March 2002	1,176	28,835	30,011
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 March 2002	4,705	7,799	12,504
	<hr/>	<hr/>	<hr/>
At 31 March 2001	5,023	9,785	14,808
	<hr/>	<hr/>	<hr/>



**NOTES TO THE FINANCIAL STATEMENTS**

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**14 Other assets**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
Amounts owed by fellow subsidiary undertakings	5,795	3,653
Derivatives	429	1,295
Other assets	11,500	1,250
VAT receivable	1,110	387
	<hr/>	<hr/>
	18,834	6,585
	<hr/>	<hr/>

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

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**NOTES TO THE FINANCIAL STATEMENTS**

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**15 Role of Financial Instruments**

The Company raises its funds 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 group as a whole. The Company does not use any derivative financial instruments to manage its credit exposures. The Company utilises FTSE 100 put options to hedge (to the extent that a risk is considered to exist) the potential liability of a fellow subsidiary company to its investors, who have received a guarantee against adverse Stock Exchange index fluctuations.

The Company does not trade in financial instruments.

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

The Company's financial instruments include the fixed and variable rate funding from St Michael Finance Limited, the options described above, customer balances and subordinated liabilities, together with loans and deposits from customers and staff.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, and foreign currency risk.

**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 potential losses in the future from existing advances.

**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 revolving credit products. The monitoring of interest rates is carried out by the Company, and funding is secured at agreed rates from St. Michael Finance Limited.

**Liquidity Rate Risk**

The Company utilises St. Michael Finance Limited 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.

**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 £1.9 million. All other material trading is carried out in sterling.

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## NOTES TO THE FINANCIAL STATEMENTS

**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 31 March 2002**

	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
<b>Assets:</b>							
Cash and balances at banks	3	-	-	-	-	-	3
Loans & advances to customers	180	171	313	1,312	173	34	2,183
Other assets	-	-	-	-	-	33	33
<b>Total assets</b>	<b>183</b>	<b>171</b>	<b>313</b>	<b>1,312</b>	<b>173</b>	<b>67</b>	<b>2,219</b>
<b>Liabilities:</b>							
Customer accounts	33	-	-	-	-	4	37
Other liabilities	598	176	346	606	6	51	1,783
Subordinated liabilities	-	-	-	35	-	-	35
Shareholders' funds	-	-	-	-	-	364	364
<b>Total liabilities</b>	<b>631</b>	<b>176</b>	<b>346</b>	<b>641</b>	<b>6</b>	<b>419</b>	<b>2,219</b>
<b>Interest rate sensitivity gap</b>	<b>(448)</b>	<b>(5)</b>	<b>(33)</b>	<b>671</b>	<b>167</b>	<b>(352)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(448)</b>	<b>(453)</b>	<b>(486)</b>	<b>185</b>	<b>352</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2001

	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
<b>Assets:</b>							
Cash and balances at banks	13	-	-	-	-	-	13
Loans & advances to customers	194	178	318	1,360	171	38	2,259
Other assets	-	-	-	-	-	26	26
<b>Total assets</b>	<b>207</b>	<b>178</b>	<b>318</b>	<b>1,360</b>	<b>171</b>	<b>64</b>	<b>2,298</b>
<b>Liabilities:</b>							
Customer accounts	10	-	-	-	-	3	13
Other liabilities	673	188	314	694	3	47	1,919
Subordinated liabilities	15	-	-	35	-	-	50
Shareholders' funds	-	-	-	-	-	316	316
<b>Total liabilities</b>	<b>698</b>	<b>188</b>	<b>314</b>	<b>729</b>	<b>3</b>	<b>366</b>	<b>2,298</b>
<b>Interest rate sensitivity gap</b>	<b>(491)</b>	<b>(10)</b>	<b>4</b>	<b>631</b>	<b>168</b>	<b>(302)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(491)</b>	<b>(501)</b>	<b>(497)</b>	<b>134</b>	<b>302</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**Hedges**

The Company has purchased FTSE 100 put options to hedge the potential liability of a fellow subsidiary company to its investors, who have received a guarantee against adverse index fluctuations. The options held are non-trading options that have a total notional principal of £49 million (2001: £52 million). The book value is the cost of the option amortised over the period to maturity. During the year two out of the five guarantees ran to maturity: the remaining three will do so in the forthcoming financial year.

Losses on hedges carried forward in the balance sheet as at 31 March, which represent the unamortised option premia, are as follows:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Losses carried forward in the balance sheet at 1 April	1,295	2,246
Additions during the year	67	-
Of which recognised in the year to 31 March	(884)	(951)
Disposals during the year	(49)	-
(Losses)/gains arising in the year to 31 March which were not recognised in the year	-	-
	<hr/>	<hr/>
Losses carried forward in the balance sheet at 31 March	429	1,295
	<hr/>	<hr/>
Of which expected to be recognised in the year to 31 March 2003/2002	429	840
	<hr/>	<hr/>

During the year options were sold generating a profit of £169,974.

The table below summarises the unrecognised gains and losses on hedges at 31 March and the movements therein during the year:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Unrecognised gains on hedges at 1 April	1,546	888
Of which recognised in the year to 31 March	-	-
	<hr/>	<hr/>
Gains arising in previous years that were not recognised in the year to 31 March	1,546	888
(Losses)/gains arising in the year to 31 March that were not recognised in that year	(687)	658
	<hr/>	<hr/>
Unrecognised gains on hedges at 31 March	859	1,546
	<hr/>	<hr/>
Of which expected to be recognised in the year to 31 March 2003/2002	-	-
	<hr/>	<hr/>

The fair values as at the balance sheet date have been provided by Barclays Global Investors, who are fund managers for the fund. All fair values of the various options are positive. A realised gain will only be recorded if the FTSE 100 put options are exercised.

**NOTES TO THE FINANCIAL STATEMENTS**

**Fair values**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
FTSE 100 put options		
Book value	429	1,295
	<hr/>	<hr/>
Fair value	1,288	2,841
	<hr/>	<hr/>

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between informed and willing parties, other than a forced liquidation sale, and excludes accrued interest.

**16 Deferred Tax**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
		<b>restated</b>
<b>Deferred Tax</b>		
At 1 April 2001 (as restated – see note 27)	1,397	(288)
Transfer from profit and loss account (see note 9)	268	1,685
	<hr/>	<hr/>
At 31 March 2002	1,665	1,397
	<hr/>	<hr/>
Accelerated capital allowances	1,401	(288)
Disallowed provisions	264	1,685
	<hr/>	<hr/>
	1,665	1,397
	<hr/>	<hr/>

**17 Customer Accounts**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Credit balances on unsecured loans and advances	5,474	4,981
ISA balances	31,988	7,787
	<hr/>	<hr/>
	37,462	12,768
	<hr/>	<hr/>

All the above are repayable on demand.

**NOTES TO THE FINANCIAL STATEMENTS**

**18 Other liabilities**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
Bank loans and overdrafts	2,984	2,750
Amounts owed to fellow subsidiary undertakings	1,674,407	1,798,877
SAYE liability	72,098	66,628
Corporation tax	14,366	15,419
Insurance Premium Tax	664	805
Other liabilities	2,129	2,149
Proposed dividend	-	13,500
	<u>1,766,648</u>	<u>1,900,128</u>

Amounts due to fellow subsidiary undertakings are unsecured.

**19 Provisions - Save As You Earn**

The amount of £3,633,815 (2001: £3,432,790) provides for the potential liability inherent in the Company's SAYE scheme. The provision is for the full amount of the bonus payable under the various schemes less an amount to recognise the effect of staff leaving either the scheme or the Company during the course of the scheme.

	<b>£000</b>
At 1 April 2001	3,433
Change in the provision	488
Payments made	<u>(287)</u>
At 31 March 2002	<u>3,634</u>

**20 Subordinated liabilities**

The subordinated liabilities consist 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 ordinary creditors.

The subordinated loan stock is repayable as follows:

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
December 2001	-	15,000
July 2005	30,000	30,000
December 2005	5,000	5,000
	<u>35,000</u>	<u>50,000</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**21 Called up share capital**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
<b>Authorised, allotted, called up and fully paid:</b>		
35,000,000 ordinary shares of £1 each	35,000	35,000
	<hr/>	<hr/>

**22 Profit and loss account**

	<b>£000</b>
	<b>Restated</b>
At 1 April 2001 as previously reported	280,911
Prior year adjustment – (see note 27)	1,685
	<hr/>
At 1 April 2001 as restated	282,596
Retained profit for the financial year	46,352
	<hr/>
At 31 March 2002	328,948
	<hr/>

**23 Reconciliation of Movements in Shareholders' Funds**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
		<b>Restated</b>
Profit for the financial year	46,352	52,745
Dividends	-	(43,500)
	<hr/>	<hr/>
Net additions to shareholders' funds	46,352	9,245
Equity shareholders' funds at 1 April (originally £315,911,000 restated for prior year adjustment of £1,685,000 (see note 27))	317,596	308,351
	<hr/>	<hr/>
Equity shareholders' funds at 31 March	363,948	317,596
	<hr/>	<hr/>



**NOTES TO THE FINANCIAL STATEMENTS**

**24 Directors' interests**

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

	<b>R Colvill Number</b>	<b>P S Fennell Number</b>	<b>G Lynott Number</b>
At 1 April 2001*			
Shares	59,010	1,194	2,583
Total options	325,662	193,615	10,817
Exercisable options	-	-	-
Options granted	-	51,718	51,268
Options exercised or lapsed	75,581	-	-
At 31 March 2002			
Ordinary Shares	51,398	1,662	2,754
B Shares	7,627	2,054	1,720
Total options	250,081	245,333	62,085
Exercisable options	-	-	-
	<b>J Walton Number</b>	<b>K Culley Number</b>	<b>R Ranson Number</b>
At 1 April 2001*			
Shares	1,148	5,000	8,334
Total options	128,347	-	-
Exercisable options	-	-	-
Options granted	51,288	-	-
Options exercised or lapsed	-	-	-
At 31 March 2002			
Ordinary Shares	928	8,095	6,746
B Shares	-	-	-
Total options	179,635	-	-
Exercisable options	-	-	-

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

\* at date of appointment where later

**NOTES TO THE FINANCIAL STATEMENTS**

**25 Commitments**

**(a) Commitments under operating leases**

At 31 March annual commitments under non-cancellable operating leases were as follows:

	<b>2002</b>	<b>Other</b>	<b>2001</b>	<b>Other</b>
	<b>Land &amp; Buildings</b>		<b>Land &amp; Buildings</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Expiring within one year	-	79	2,473	48
Expiring between one and five years	2,473	179	-	97
	<u>2,473</u>	<u>258</u>	<u>2,473</u>	<u>145</u>

**(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 funded pension schemes throughout the world. The pensions cost relating to the UK 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. The date of the last formal valuation was 1 April 2001. In the current year the cost to the company was £5,607,654 (2001: £4,214,754). 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 disclosed in the accounts of Marks and Spencer Group plc for the year ended 31 March 2002.

**NOTES TO THE FINANCIAL STATEMENTS**

**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 31 March 2002 4 (2001:4) Directors had loans with the Company totalling £151,855 (2001: £114,221).

At 31 March 2002 10 (2001:13) Officers had loans with the Company totalling £133,802 (2001: £192,560).

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 £5,781 (2001:£34,596) in respect of this engagement. The amount due to BJW International Limited at 31 March 2002 was £nil (2001:£nil).

**27 Prior year adjustment**

Note 1 refers to the adoption of FRS 19 – Deferred Tax. The effect of the change in accounting policy to adopt FRS19 was to reduce tax on profit on ordinary activities by £268,000 (2001 : £1,685,000) and to increase profit for the financial year by £268,000 (2001 : £1,685,000).

**Deferred Tax Asset**

**£ 000**

At 1 April 2001 as previously reported	(288)
Prior year adjustment	1,685
At 1 April 2001 as restated	<u>1,397</u>
Credited to the profit and loss account	<u>268</u>
At 31 March 2002	<u><u>1,665</u></u>

**28 Contingent Liabilities**

Due to recent stock market movements there is a possibility that the guarantees given to customers under the GCIP 5 product (as discussed in note 15) may be called upon.

It is not possible to quantify the potential liability.

The company has hedged this position to mitigate the risk of significant financial impact.

**NOTES TO THE FINANCIAL STATEMENTS**

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**29 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.

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