



*The Royal Bank of Scotland Group*

**delivering on  
our promises**

**strength**

**diversity**

**flexibility**



# **2003 Interim Results**

5 August 2003



*The Royal Bank of Scotland Group*

**Sir George Mathewson**  
**Chairman**

# 2003 Interim Results

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i>
Profit before tax, goodwill amortisation and integration costs (Group operating profit)	3,451	3,151	+10%
Adjusted earnings per share (pence)	76.5	69.8	+10%
Profit before tax	2,896	2,325	+25%

# Dividends

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	<i>2003</i> <i>pence</i>	<i>2002</i> <i>pence</i>	<i>Change</i>
Interim dividend per ordinary share	14.6	12.7	+15%

# 2003 Interim Results

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## *Agenda*

- Group and divisional results
- Strategy and outlook



*The Royal Bank of Scotland Group*

**Fred Watt**  
**Group Finance Director**



*The Royal Bank of Scotland Group*

# **Group and Divisional Results**



# 2003 Interim Results

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i>
Profit before tax, goodwill amortisation and integration costs (Group operating profit)	3,451	3,151	+10%
Profit before tax	2,896	2,325	+25%

# Group Operating Profit

	<i>2003</i>	<i>2002</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	9,080	8,182	898	+11%
Operating expenses	4,051	3,740	311	+8%
Income less expenses	5,029	4,442	587	+13%
Net insurance claims	836	639	197	+31%
Total provisions	742	652	90	+14%
<b>Group operating profit</b>	<b>3,451</b>	<b>3,151</b>	<b>300</b>	<b>+10%</b>

# Group Operating Profit

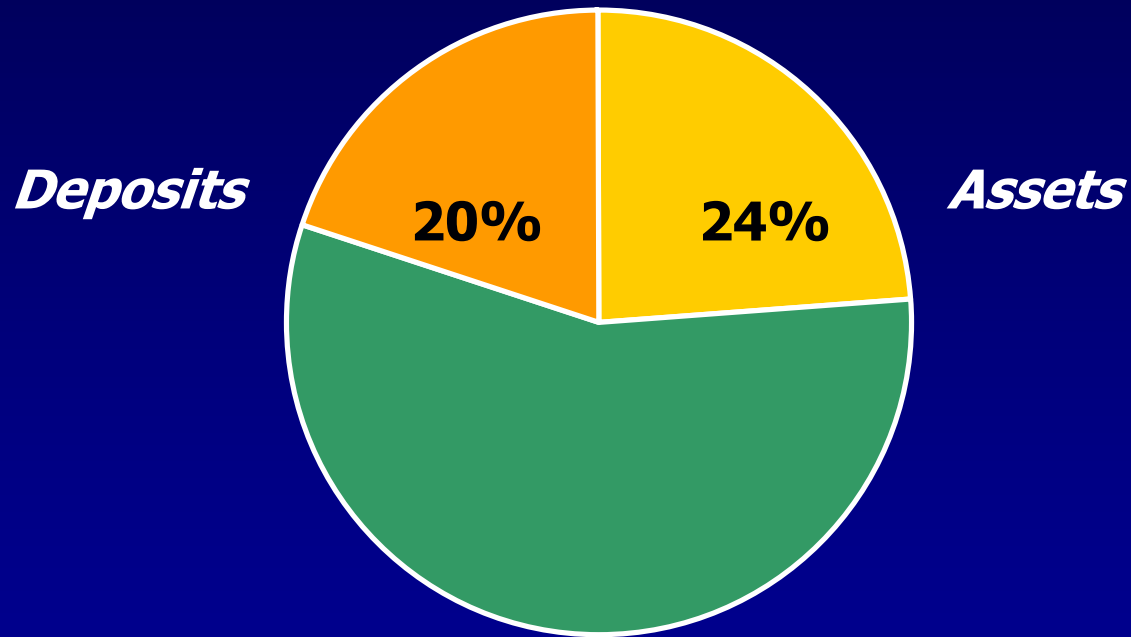
<i>Excluding Acquisitions</i>	<i>2003</i>	<i>2002</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	8,968	8,172	796	+10%
Operating expenses	3,981	3,730	251	+7%
Income less expenses	4,987	4,442	545	+12%
Net insurance claims	812	639	173	+27%
Total provisions	740	652	88	+13%
<b>Group operating profit</b>	<b>3,435</b>	<b>3,151</b>	<b>284</b>	<b>+9%</b>

# Income

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	3,294	2,934	360	+12%
Retail Banking	2,136	2,037	99	+5%
Retail Direct	868	756	112	+15%
Manufacturing	—	—	—	—
Wealth Management	429	464	(35)	-8%
Direct Line Group	1,281	989	292	+30%
Ulster Bank	281	257	24	+9%
Citizens	909	876	33	+4%
Central items	(118)	(131)	13	+10%
<b>Total income</b>	<b>9,080</b>	<b>8,182</b>	<b>898</b>	<b>+11%</b>

# First Half Income £9,080m

**Net Interest Income 44%**



**Non-Interest Income 56%**

# Net Interest Margin

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	<i>2003</i> %	<i>2002</i> %
Group	3.0	3.1

# Net Interest Margin

Net interest margin 1H 2002 3.1

## *Impact*

Competition Commission remedy



Lower base rate effect on deposits  
– UK and US



UK – Core banking lending margins



Net interest margin 1H 2003 3.0

# Net Interest Margin

## *Outlook*

### *Directional Impact on Net Interest Margin*

Competition Commission remedy



Lower base rate effect on deposits

– UK and US



UK – Core banking lending margins





# Expenses

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	1,151	997	154	+15%
Retail Banking	466	447	19	+4%
Retail Direct	314	286	28	+10%
Manufacturing	900	886	14	+2%
Wealth Management	213	228	(15)	-7%
Direct Line Group	243	197	46	+23%
Ulster Bank	132	121	11	+9%
Citizens	440	441	(1)	0%
Central items	192	137	55	+40%
<b>Operating expenses</b>	<b>4,051</b>	<b>3,740</b>	<b>311</b>	<b>+8%</b>

# Cost:Income Ratio\*

	<b><i>2003</i></b> <b><i>%</i></b>	<b><i>2002</i></b> <b><i>%</i></b>
Group	43.0	44.2
Group, excluding acquisitions	42.7	44.1

*\* Calculated after netting operating lease depreciation against rental income*

# Provisions

<i>Half Year Ending</i>	<i>Jun 2003 £m</i>	<i>Dec 2002 £m</i>	<i>Jun 2002 £m</i>
Net new provisions	776	722	686
Recoveries of amounts previously written off	34	29	34
<b>Total provisions</b>	<b>742</b>	<b>693</b>	<b>652</b>
Annualised total provisions as percentage of gross loans and advances to customers	0.59%	0.61%	0.61%

# Asset Quality

	<i>Jun 2003 £m</i>	<i>Dec 2002 £m</i>	<i>Jun 2002 £m</i>
Total provisions	3,971	3,927	3,856
Risk elements in lending	5,083	4,871	4,791
Potential problem loans	975	1,183	1,230
Provisions as percentage of risk elements in lending	78%	81%	80%
Provisions as percentage of risk elements in lending and potential problem loans	66%	65%	64%

# Group Operating Profit

	<i>2003</i>	<i>2002</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	9,080	8,182	898	+11%
Operating expenses	4,051	3,740	311	+8%
Net insurance claims	836	639	197	+31%
Operating profit before provisions	4,193	3,803	390	+10%
Total provisions	742	652	90	+14%
<b>Group operating profit</b>	<b>3,451</b>	<b>3,151</b>	<b>300</b>	<b>+10%</b>

# Corporate Banking and Financial Markets

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	1,146	1,179	-3%
Non-interest income	1,896	1,538	+23%
Total income	3,042	2,717	+12%
Direct expenses	899	780	+15%
Contribution before provisions	2,143	1,937	+11%
Provisions	404	356	+13%
<b>Contribution</b>	<b>1,739</b>	<b>1,581</b>	<b>+10%</b>

*Operating lease depreciation has been netted against rental income*

# Corporate Banking and Financial Markets

<i>Excluding Acquisitions</i>	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i>
Net interest income	1,151	1,180	-2%
Non-interest income	1,845	1,527	+21%
Total income	2,996	2,707	+11%
Direct expenses	858	770	+11%
Contribution before provisions	2,138	1,937	+10%
Provisions	404	356	+13%
<b>Contribution</b>	<b>1,734</b>	<b>1,581</b>	<b>+10%</b>

*Operating lease depreciation has been netted against rental income*

# Retail Banking

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	1,433	1,376	+4%
Non-interest income	703	661	+6%
Total income	2,136	2,037	+5%
Direct expenses	466	447	+4%
Contribution before provisions	1,670	1,590	+5%
Provisions	135	102	+32%
<b>Contribution</b>	<b>1,535</b>	<b>1,488</b>	<b>+3%</b>



# Retail Direct

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i>
Net interest income	400	370	+8%
Non-interest income	468	386	+21%
Total income	868	756	+15%
Direct expenses	314	286	+10%
Contribution before provisions	554	470	+18%
Provisions	147	140	+5%
<b>Contribution</b>	<b>407</b>	<b>330</b>	<b>+23%</b>

# Manufacturing

	<i><b>2003</b></i>	<i><b>2002</b></i>	<i><b>Change</b></i>
	<i><b>£m</b></i>	<i><b>£m</b></i>	
Group Technology	291	309	-6%
Group Purchasing and Property Operations	319	299	+7%
Customer Support and other operations	290	278	+4%
<b>Total Manufacturing costs</b>	<b>900</b>	<b>886</b>	<b>+2%</b>

# Wealth Management

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	225	228	-1%
Non-interest income	204	236	-14%
Total income	429	464	-8%
Expenses	213	228	-7%
Contribution before provisions	216	236	-8%
Net (release) of provisions	(3)	(8)	-63%
<b>Contribution</b>	<b>219</b>	<b>244</b>	<b>-10%</b>

# Direct Line Group

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i>
Insurance premium income	1,149	885	+30%
Other income	132	104	+27%
Total income	1,281	989	+30%
Expenses	243	197	+23%
Net claims	836	639	+31%
<b>Contribution</b>	<b>202</b>	<b>153</b>	<b>+32%</b>

# Ulster Bank

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	190	165	+15%
Non-interest income	91	92	-1%
Total income	281	257	+9%
Expenses	132	121	+9%
Contribution before provisions	149	136	+10%
Provisions	18	11	+64%
<b>Contribution</b>	<b>131</b>	<b>125</b>	<b>+5%</b>

# Citizens

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	638	640	0%
Non-interest income	271	236	+15%
Total income	909	876	+4%
Expenses	440	441	0%
Contribution before provisions	469	435	+8%
Provisions	44	51	-14%
<b>Contribution</b>	<b>425</b>	<b>384</b>	<b>+11%</b>

# Citizens

	<i>2003</i>	<i>2002</i>	<i>Change</i>
	<i>\$m</i>	<i>\$m</i>	
Net interest income	1,029	925	+11%
Non-interest income	436	340	+28%
Total income	1,465	1,265	+16%
Expenses	709	637	+11%
Contribution before provisions	756	628	+20%
Provisions	71	73	-3%
<b>Contribution</b>	<b>685</b>	<b>555</b>	<b>+23%</b>

# Citizens

<i>Excluding Acquisitions</i>	<i>2003</i> <i>\$m</i>	<i>2002</i> <i>\$m</i>	<i>Change</i>
Net interest income	987	925	+7%
Non-interest income	425	340	+25%
Total income	1,412	1,265	+12%
Expenses	682	637	+7%
Contribution before provisions	730	628	+16%
Provisions	69	73	-5%
<b>Contribution</b>	<b>661</b>	<b>555</b>	<b>+19%</b>



# Group Operating Profit

	<i>2003</i> <i>£m</i>	<i>2002</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	1,739	1,581	158	+10%
Retail Banking	1,535	1,488	47	+3%
Retail Direct	407	330	77	+23%
Manufacturing	(900)	(886)	(14)	-2%
Wealth Management	219	244	(25)	-10%
Direct Line	202	153	49	+32%
Ulster Bank	131	125	6	+5%
Citizens	425	384	41	+11%
Central items	(307)	(268)	(39)	-15%
<b>Group operating profit</b>	<b>3,451</b>	<b>3,151</b>	<b>300</b>	<b>+10%</b>

# Earnings Per Share

	<i>First Half 2003 pence</i>	<i>First Half 2002 pence</i>	<i>Change</i>	<i>Full Year 2002 pence</i>
Basic earnings per share	60.0	46.6	+29%	68.4
Goodwill amortisation	12.2	12.1		24.2
Integration costs	4.3	11.1		23.8
AVS dividend	—	—		27.7
Adjusted earnings per share	76.5	69.8	+10%	144.1
Dividend per share	14.6	12.7	+15%	43.7
Dividend cover	5.2x	5.4x		3.3x

*Dividend cover before goodwill amortisation, integration costs and AVS dividend*

# Capital Ratios

	<i>Jun 2003</i>	<i>Dec 2002</i>	<i>Jun 2002</i>
Tier 1	7.6%	7.3%	7.4%
Total capital	12.3%	11.7%	11.8%



**Fred Goodwin**  
**Group Chief Executive**



# **Strategy and Outlook**

# Strategy and Outlook

## What Next?

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### *Ingredients*

- Organic income growth
- Further efficiency improvement
- Stable credit quality
- Acquisition opportunities
- Strong capital generation

### *Providing*

- Multiple options for growth

# Organic Income Growth

## *Components of Income Growth*

	<i>1999 - 2002</i>	
	<i>£m</i>	<i>% Total</i>
Transaction benefits	712	12%
Acquisitions	1,036	18%
<b>Organic growth</b>	<b>4,002</b>	<b>70%</b>
Total income growth	5,750	100%

# Organic Income Growth

## *Components of Income Growth*

	<i>1H 2003</i>	
	<i>£m</i>	<i>% Total</i>
Transaction benefits	90	10%
Acquisitions	102	11%
<b>Organic growth</b>	<b>706</b>	<b>79%</b>
Total income growth	898	100%



# Organic Income Growth

	<i>% Growth 1H03 v 1H02</i>	
	<i>Total</i>	<i>Excluding Acquisitions</i>
Loans and advances to customers	12%	11%
Customer deposits	8%	7%

*Growth rates based on average balances for six months to June 2003 and average balances for six months to June 2002*

# Organic Income Growth

## Retail Banking

### *% Growth 1H03 v 1H02*

Loans and advances to customers	+12%
– Personal loans and advances	+5%
– Mortgages	+12%
– Small business loans and advances	+13%
Customer deposits	+5%

*Growth rates based on average balances for six months to June 2003 and average balances for six months to June 2002*

# Organic Income Growth

## Retail Banking

### *Net Increase since 31 Dec 02*

#### Current accounts

– Personal	203,000
– Packaged	101,000
– Small business	19,000

# Organic Income Growth

## Retail Banking

	<i>% Market Share</i>		<i>Change</i> <i>%</i>
	<i>New Business</i> <i>1H03</i>	<i>1H02</i>	
Current accounts	19%	17%	+2%
Deposits	7%	6%	+1%
Mortgages	5%	5%	—
Unsecured loans	11%	12%	-1%

# Organic Income Growth

## Corporate Banking and Financial Markets

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### *% Growth 1H03 v 1H02*

Loans and advances to customers	+9%
Customer deposits	+8%

*Growth rate based on average balances for six months to June 2003 and average balances for six months to June 2002*

# Organic Income Growth

## Corporate Banking and Financial Markets

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- Mid-corporate market share in England and Wales up from 32% to 34%
- Scotland market share up from 33% to 36%
- Lombard UK market share up from 32% to 37%

# Organic Income Growth

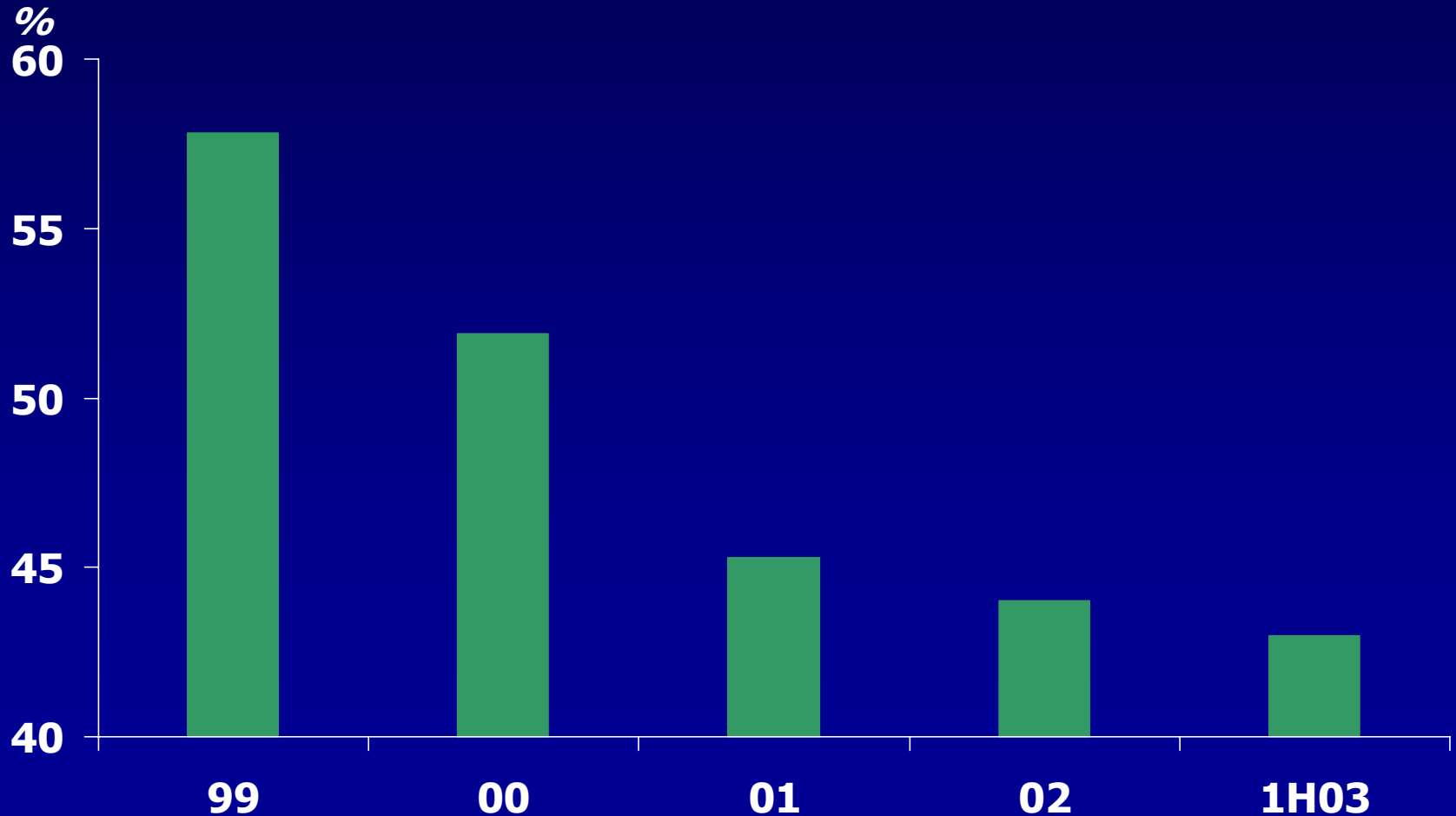
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## *Outlook*

- Lower interest rates increasing pressure on margin
- Customer and volume growth good
- Momentum across a range of products

# Further Efficiency Improvement

## *Cost:Income Ratio\**



\* Calculated after netting operating lease depreciation against rental income



# Further Efficiency Improvement

	<i><b>Cost:Income Ratio*</b></i>	<i><b>Income Growth</b></i>	<i><b>Expenses Growth</b></i>
1999	57.8%		
2000	51.9%	12%	1%
2001	45.3%	18%	3%
2002	44.0%	16%	12%
1H03	43.0%	11%	8%

*\* Calculated after netting operating lease depreciation against rental income*

# Further Efficiency Improvement

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## *Outlook*

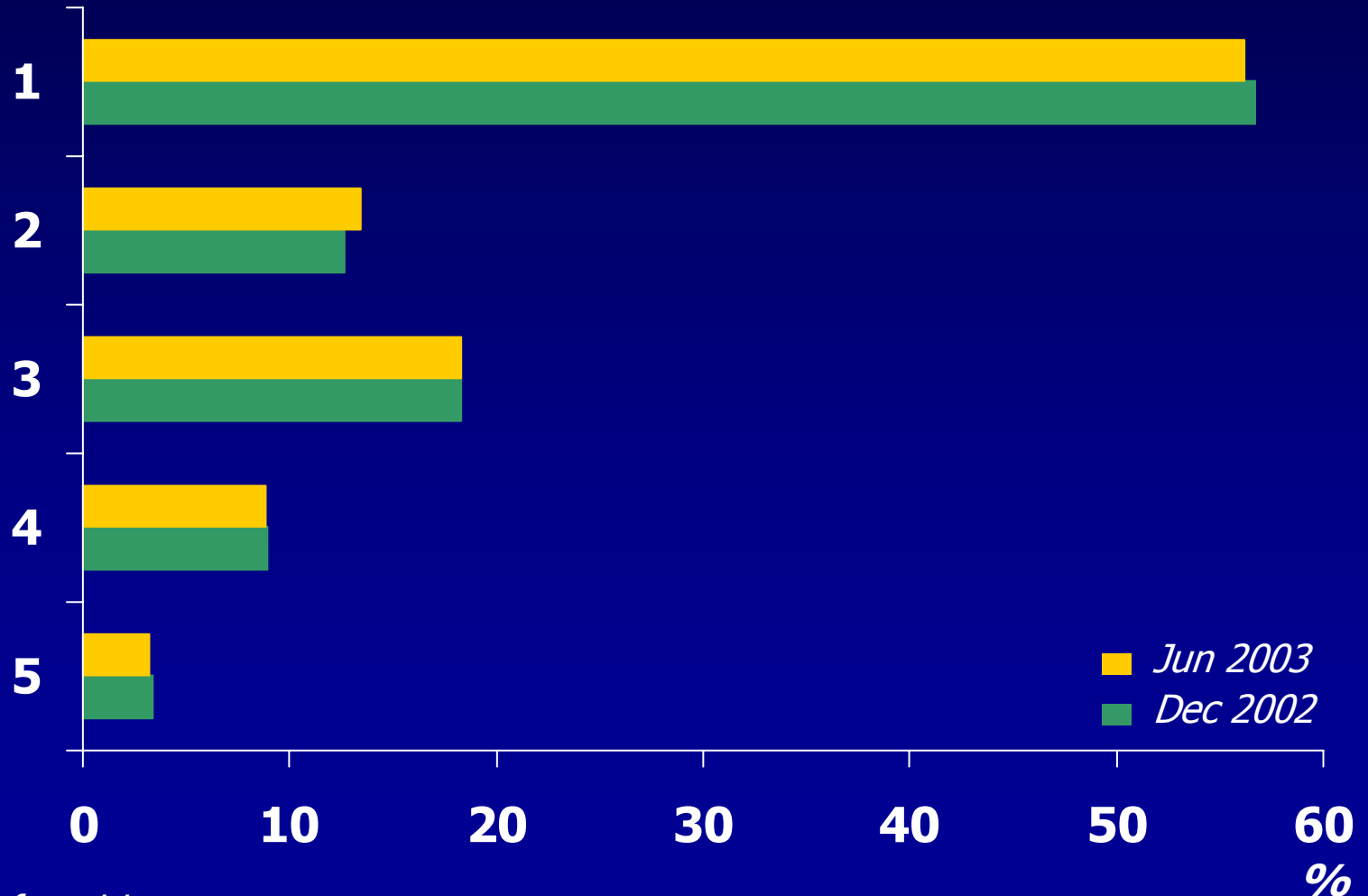
- Further progress expected
- Continue to centralise Manufacturing, where appropriate
- Eliminate duplication, simplify processes
- Projects under way

# Stable Credit Quality

<i>RBS Main Grade</i>	<i>RBS Internal Grade</i>	<i>S&amp;P Range</i>
1	A1	AAA
	A2	to
	A3	AA-
	B1	A+
	B2	to
	B3	BBB-
2	C1	BB+
	C2	to
	C3	BB
3	D1	BB-
	D2	B+
4	D3	B+/B
5	E1	B
	E4	to
	F	C

# Stable Credit Quality

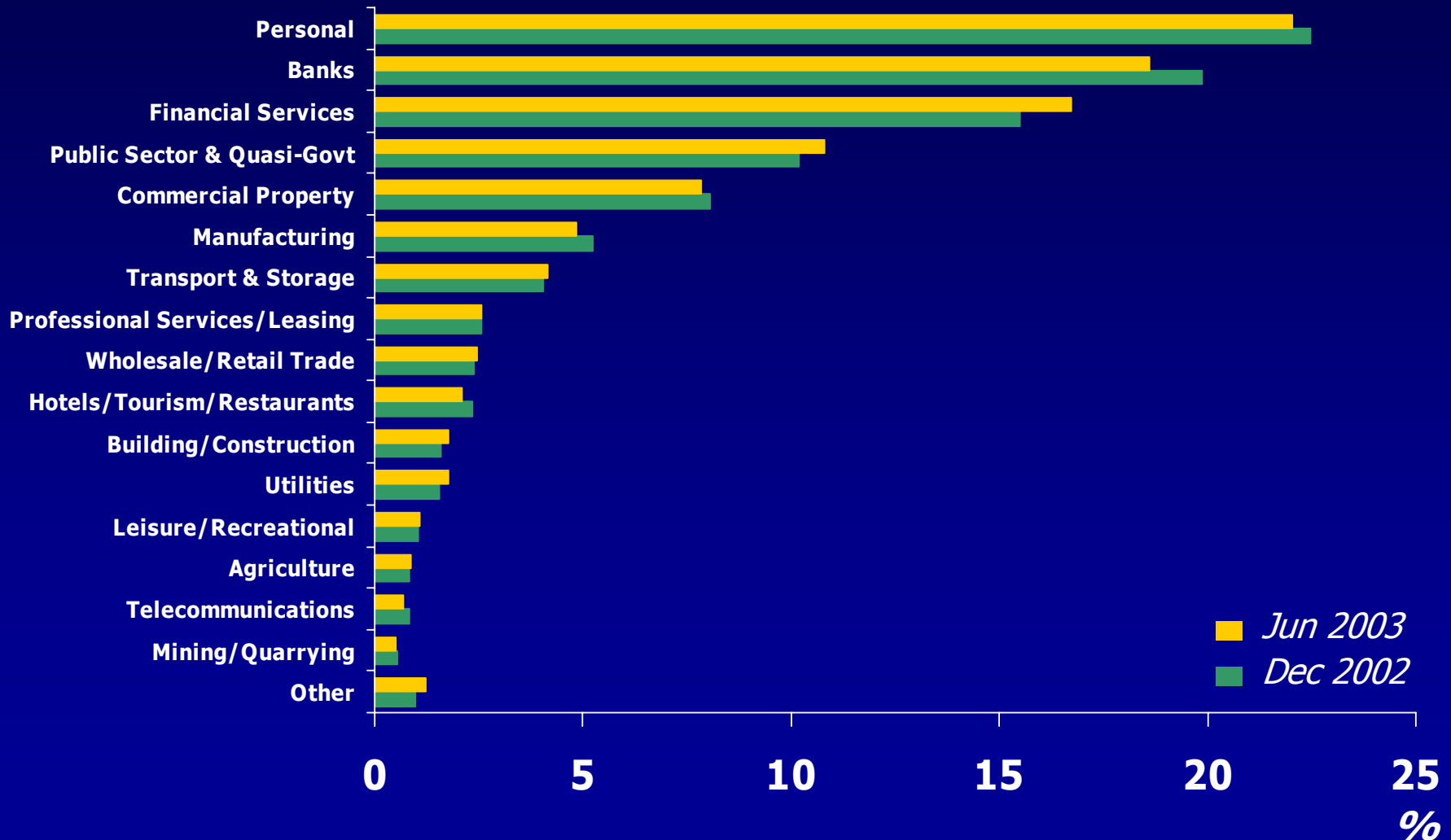
## Group Risk Assets by Credit Grade



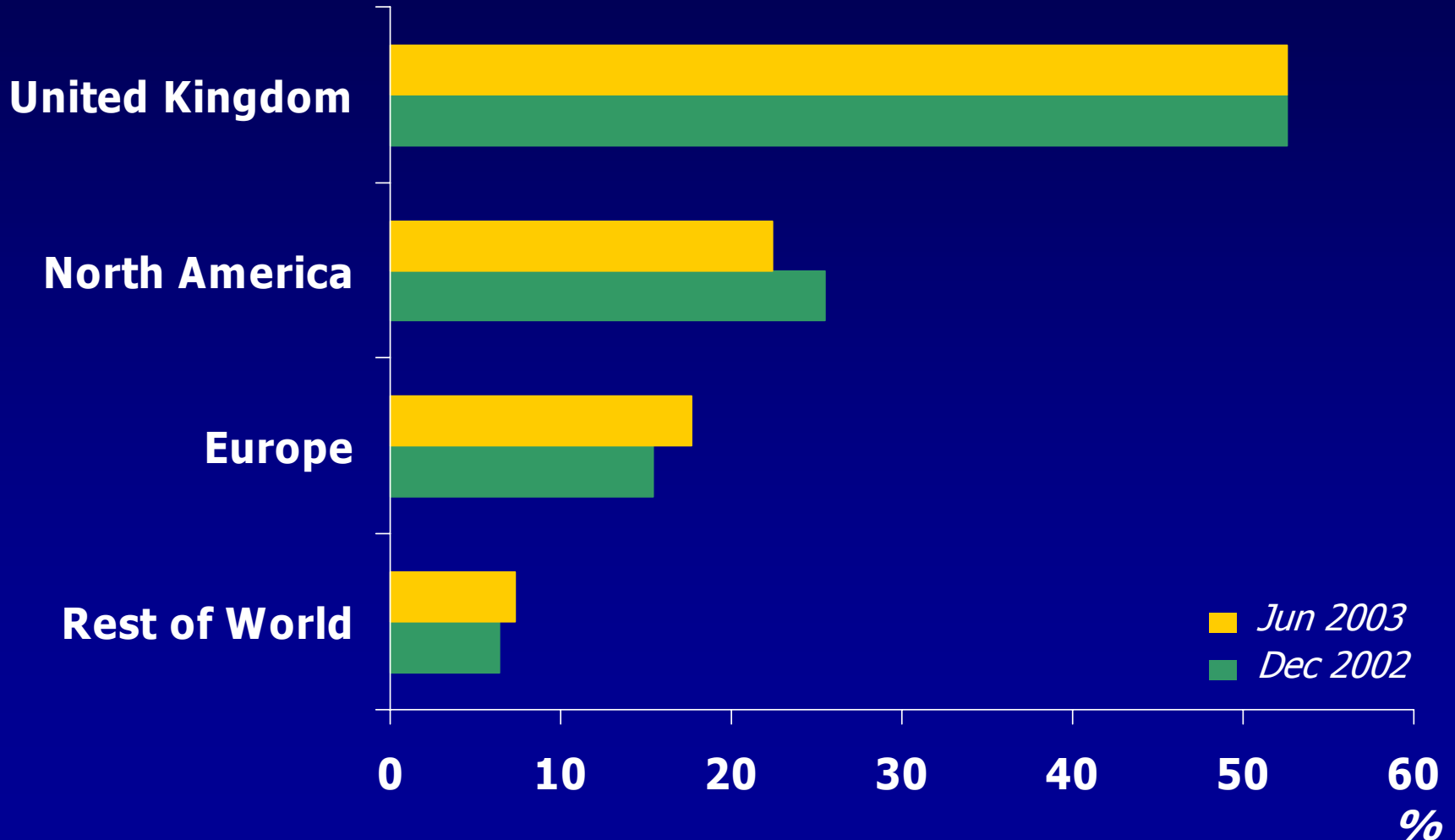
*Exposures net of provisions*

# Stable Credit Quality

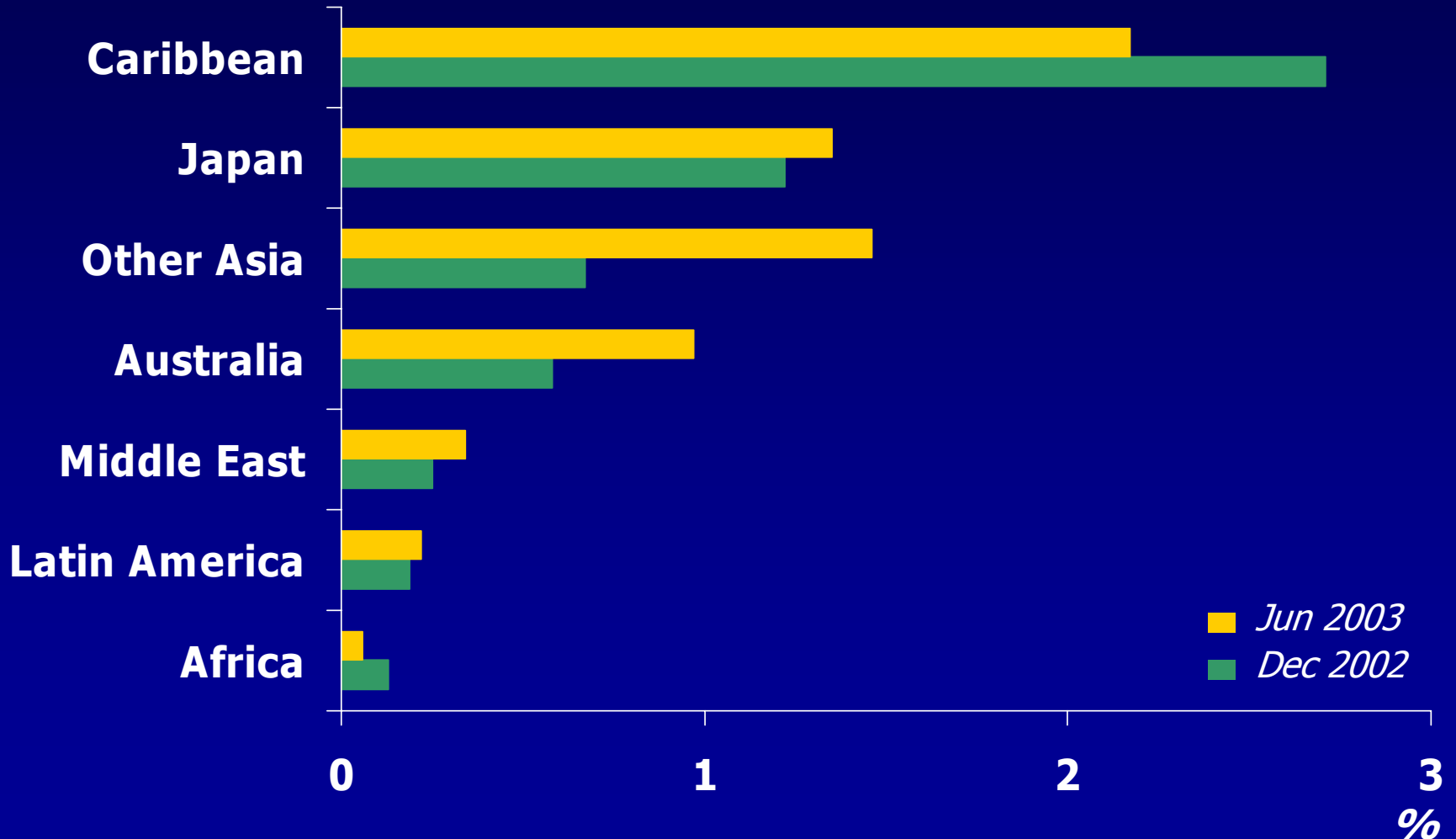
## Group Risk Assets by Industry Sector



# Stable Credit Quality Group Risk Assets by Geographic Area



# Stable Credit Quality Group Risk Assets - Rest of World



# Stable Credit Quality

## Group Risk Assets - Selected Countries

<i>£m</i>	<i>Bank</i>	<i>Non-Bank</i>	<i>Total Jun 03</i>	<i>Total Dec 02</i>	<i>Total Jun 02</i>
Argentina	29	11	40	45	51
Brazil	—	10	10	14	64
Turkey	7	83	90	90	132
Venezuela	—	108	108	115	111

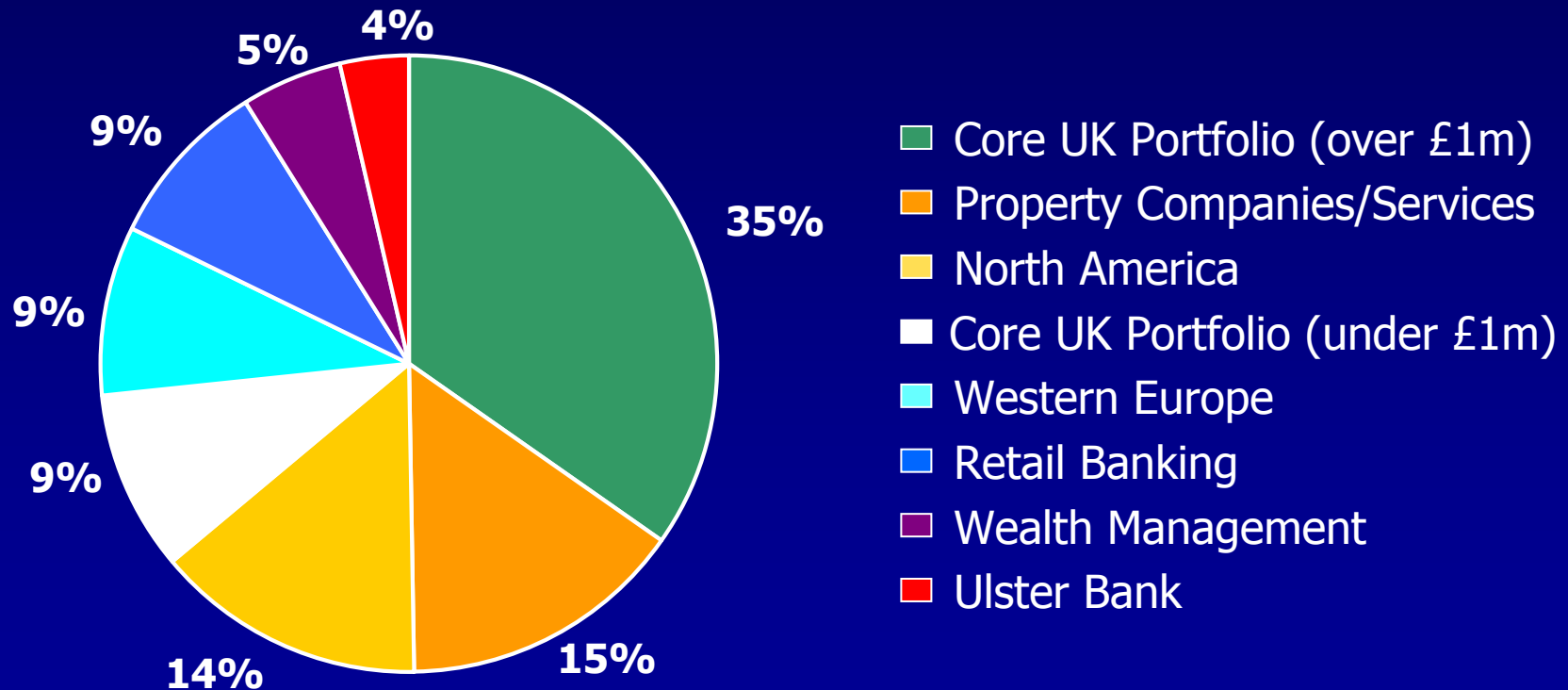


# Stable Credit Quality Commercial Property

	<i><b>30 Jun 2003</b></i>	<i><b>31 Dec 2002</b></i>	<i><b>30 Jun 2002</b></i>
Percentage of total Group risk assets	7.8%	8.1%	7.1%

# Stable Credit Quality Commercial Property

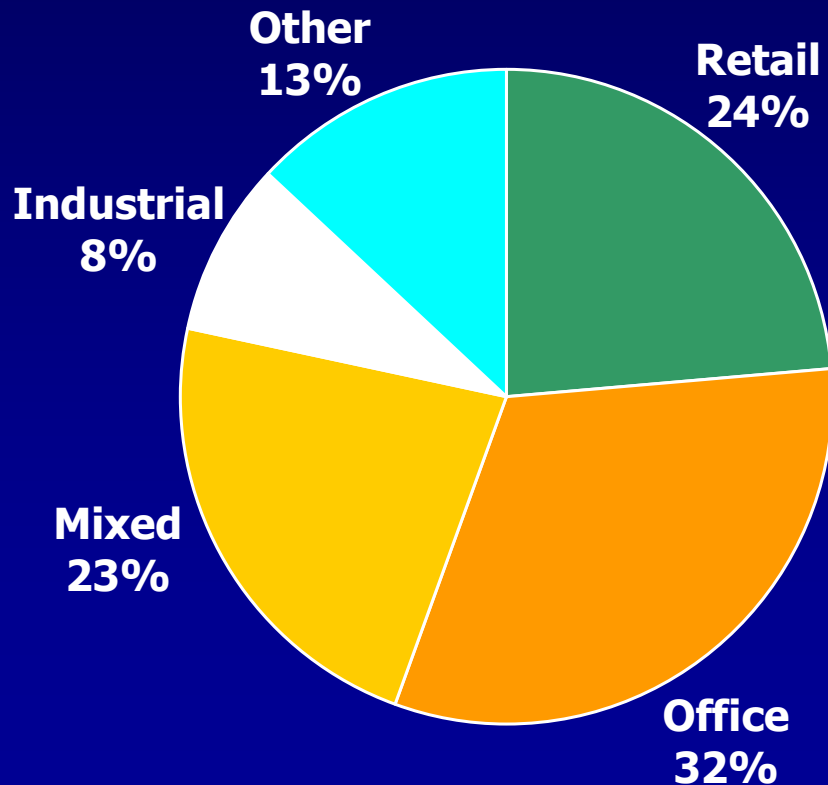
## *Commercial Property Risk Assets June 2003*



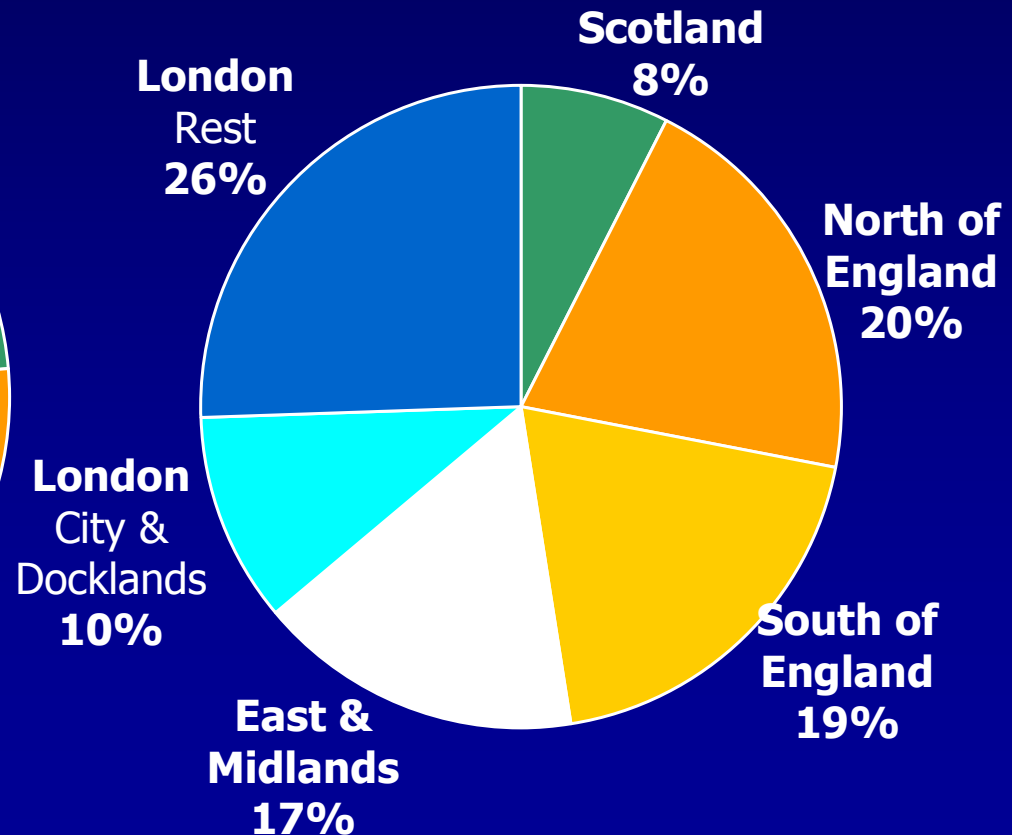
# Stable Credit Quality Commercial Property

## Core UK Portfolio (over £1m)

### Type



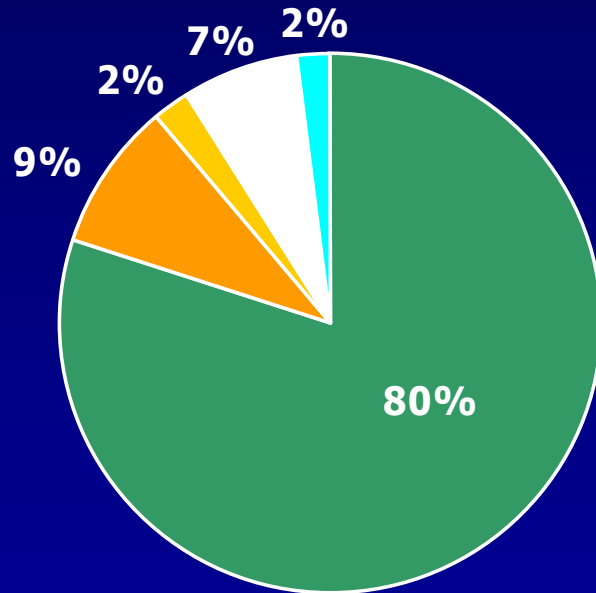
### Location



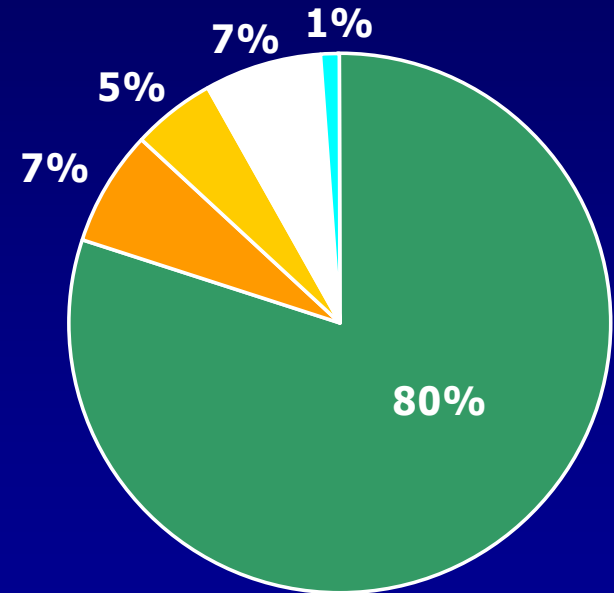
# Stable Credit Quality Commercial Property

## Core UK Portfolio (over £1m)

### RBS



### Market

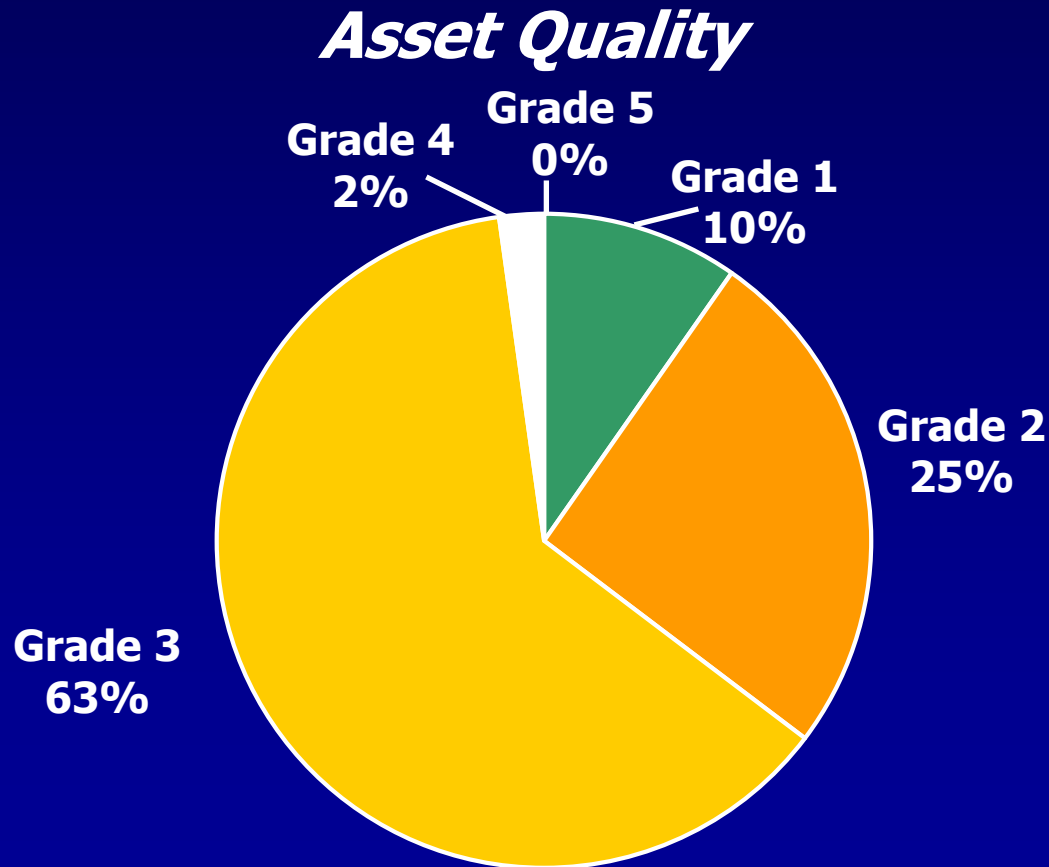


- Investment Property
- Fully Pre-let Development
- Speculative
- Secured Corporate Funding
- Other

- Investment Property
- Fully Pre-let Development
- Speculative
- Owner Occupied
- Other

# Stable Credit Quality Commercial Property

## *Core UK Portfolio (over £1m)*



# Stable Credit Quality Commercial Property

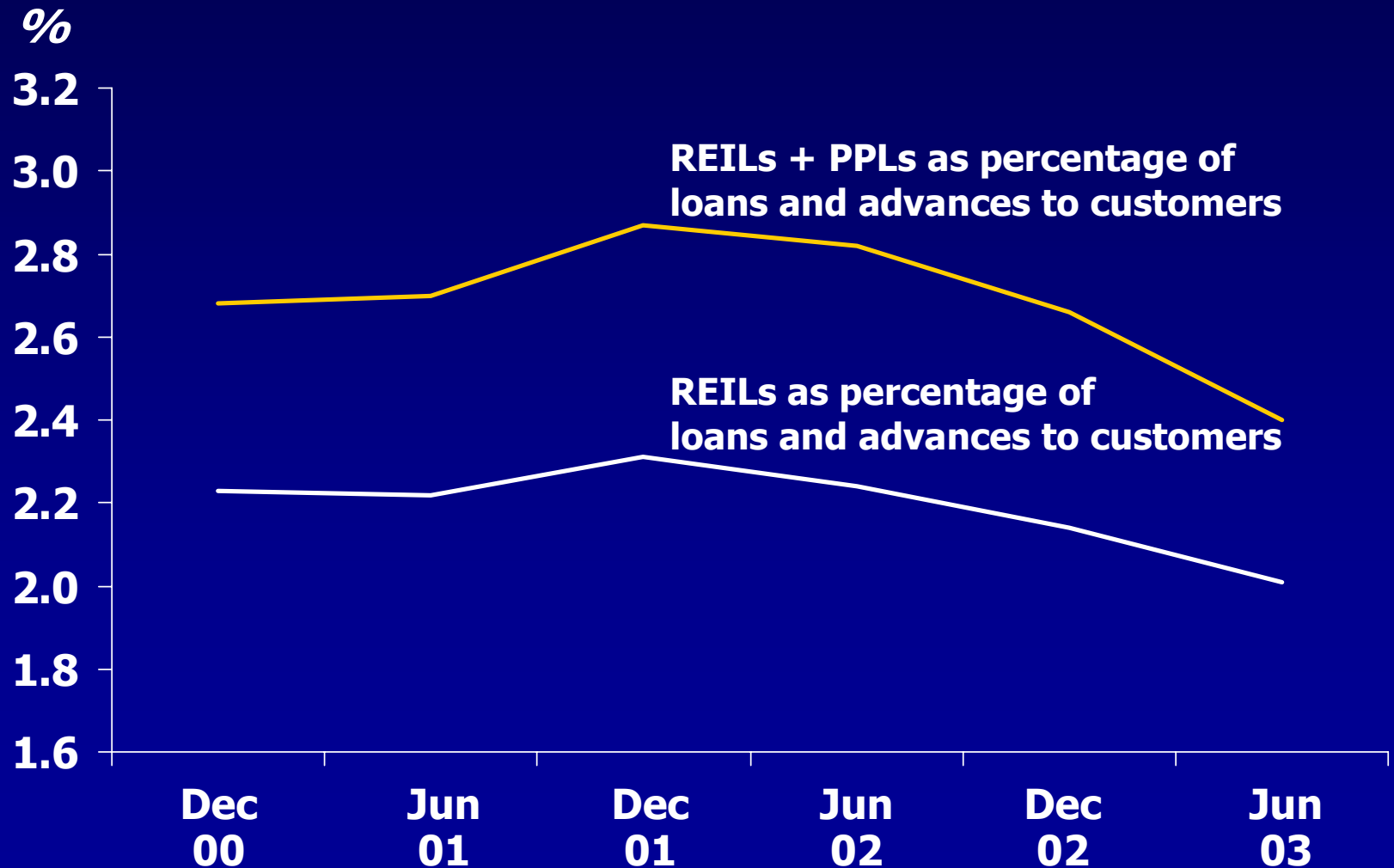
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## *Core UK Portfolio (over £1m)*

- Average loan to value (LTV) 65%
- Only 9% of portfolio has LTV above 80%

# Stable Credit Quality

## REILs + PPLs



# Stable Credit Quality

## Economic Outlook

<i>% Growth Real GDP</i>	<i>2000 Actual</i>	<i>2001 Actual</i>	<i>2002 Actual</i>	<i>2003 F'cast</i>	<i>2004 F'cast</i>
UK	3.1	2.1	1.8	1.8	2.5
US	3.8	0.3	2.4	2.2	3.6
Germany	2.9	0.6	0.2	0.1	1.5



# Stable Credit Quality

## *Outlook*

### *Directional Impact on Provisioning Charge*

Size



Mix



Economic Outlook



Recoveries



# Acquisition Opportunities

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## *January 2003*

Commonwealth Bancorp, Pennsylvania      completed

## *June 2003*

Churchill Insurance      announced

## *July 2003*

Santander Direkt Bank, Frankfurt      completed

Community Bancorp, Massachusetts      announced

Port Financial Corp, Massachusetts      completed

# Acquisition Opportunities

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## *Outlook*

- Not essential
- Could be in US, Continental Europe or UK
- Could be small, medium or large

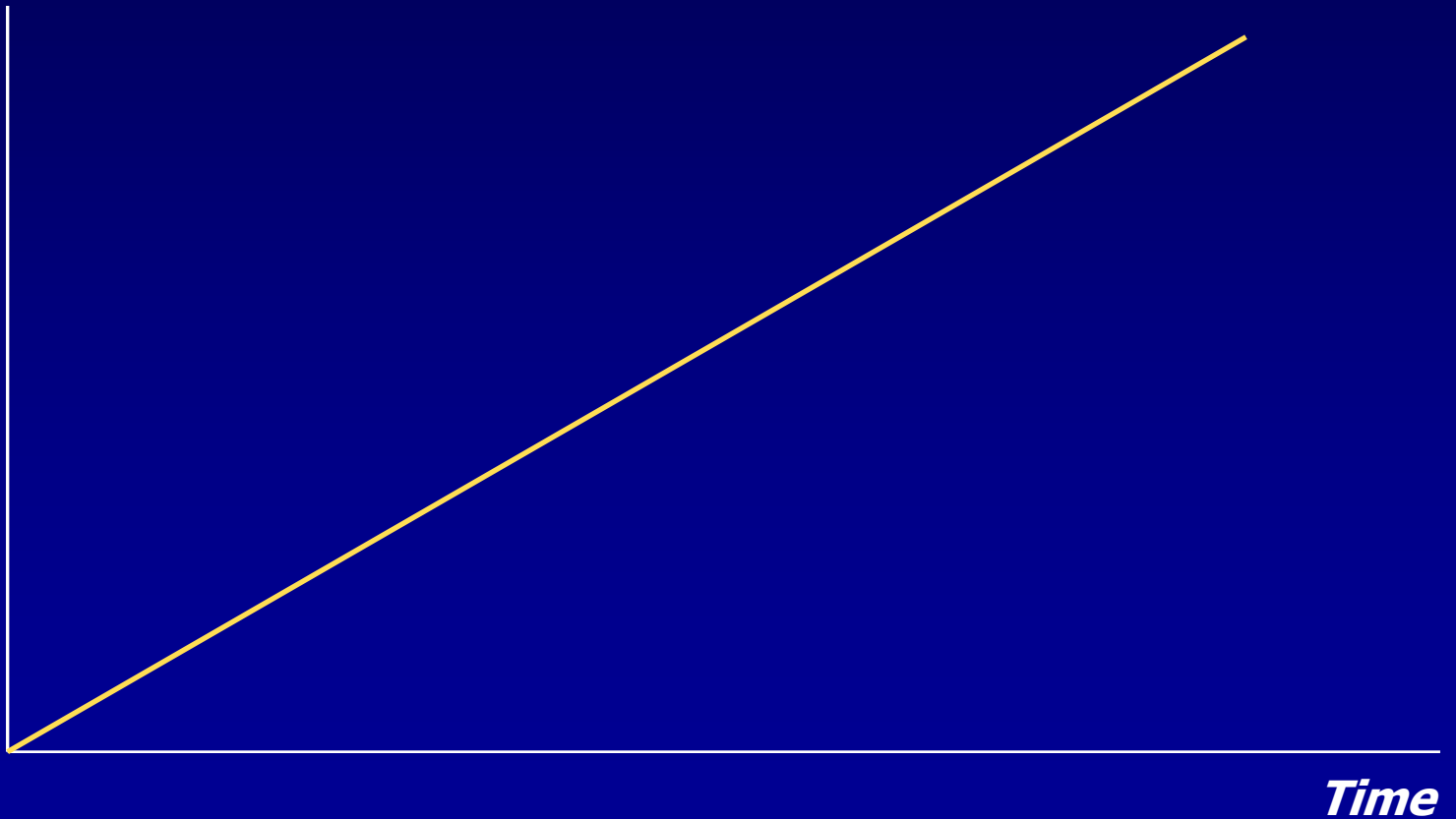
# Strong Capital Generation

<i>£bn</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Gross capital generated	3.5	4.2		
Less non-recurring items:				
Integration costs	0.6	0.7	0.1	—
AVS dividends	0.4	0.8	1.5	—
Total non-recurring items	1.0	1.5	1.6	—
Net capital generated*	2.5	2.7		

\* Profit attributable to ordinary shareholders before goodwill amortisation

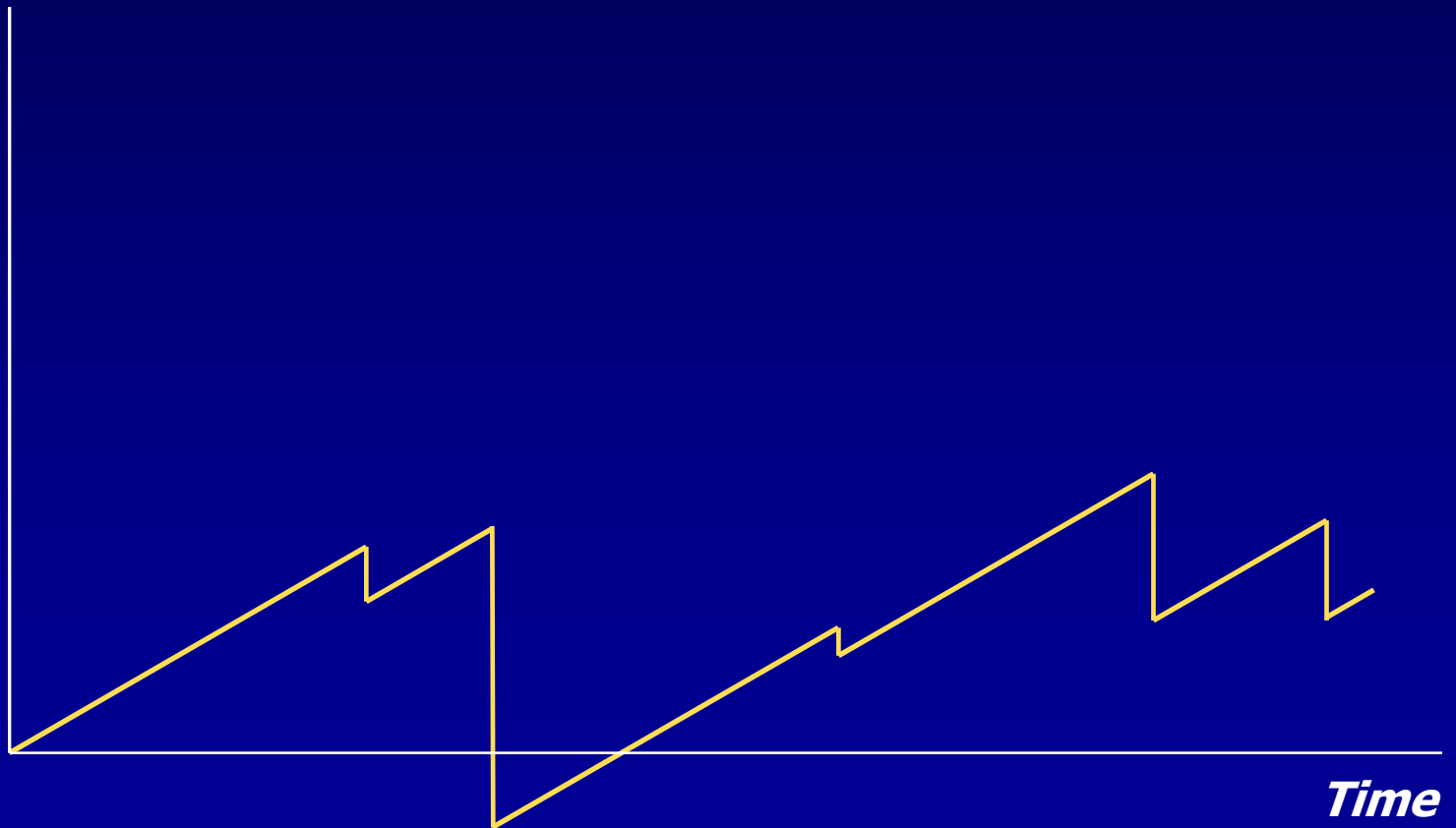
# Strong Capital Generation

*Cumulative Surplus Capital (Illustrative!)*



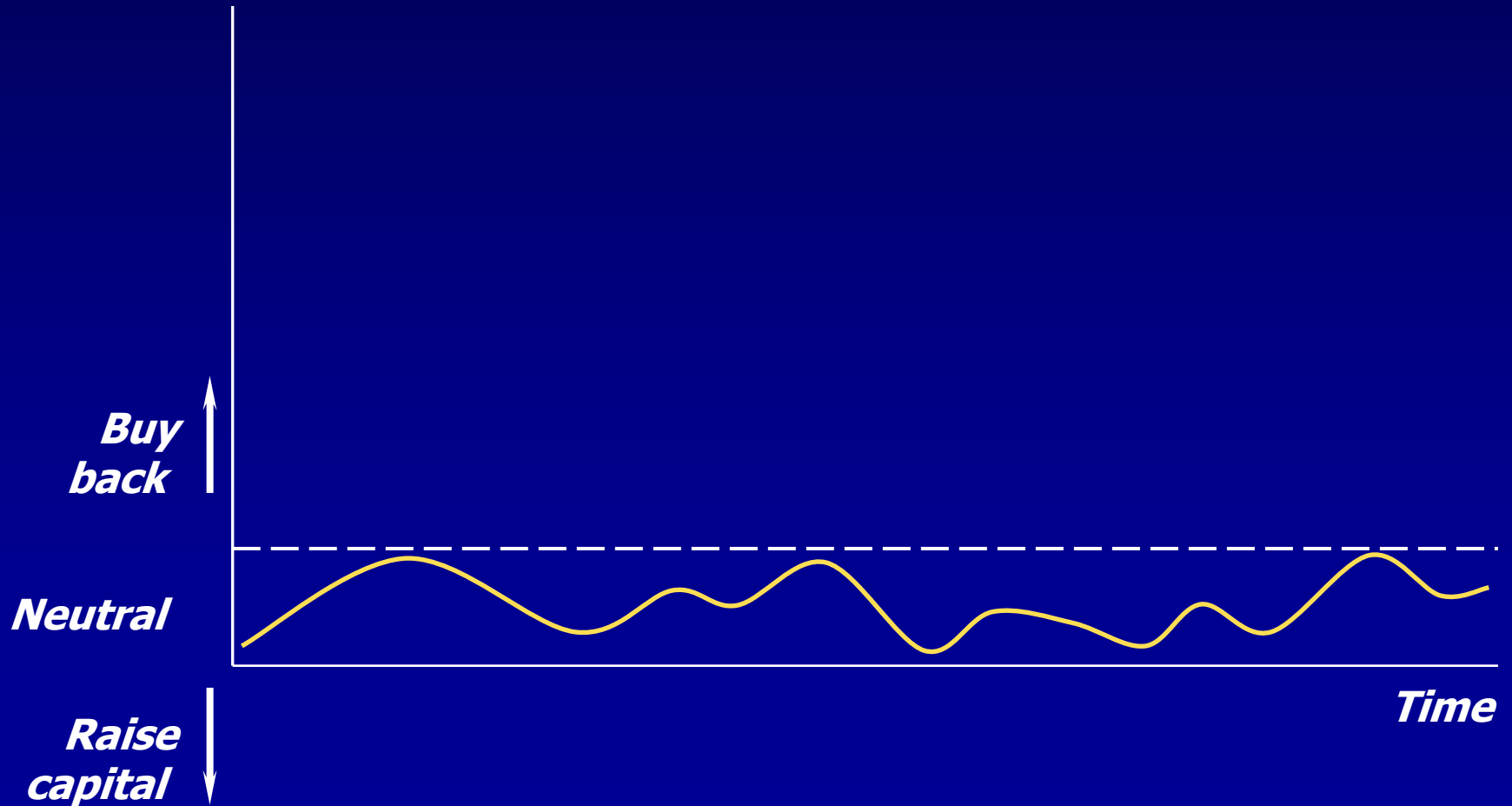
# Strong Capital Generation

*Cumulative Surplus Capital, after Acquisitions (Illustrative!)*



# Strong Capital Generation

*Cumulative Surplus Capital (Illustrative!)*



# Strong Capital Generation

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## *Outlook*

- Capital required to support acquisitions not likely to coincide with cumulative surplus capital
- Committed to maintain tight capital ratios
- May return surplus capital through share buy-backs
- May seek additional capital, for acquisitions



# Strategy and Outlook

## What Next?

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### *Ingredients*

- Organic income growth
- Further efficiency improvement
- Stable credit quality
- Acquisition opportunities
- Strong capital generation

### *Providing*

- Multiple options for growth

# Strategy and Outlook

## What Next?

### *Ingredients*

- Organic income growth ✓
- Further efficiency improvement ✓
- Stable credit quality ✓
- Acquisition opportunities ✓
- Strong capital generation ✓

### *Providing*

- Multiple options for growth

# Multiple Options for Growth United Kingdom + Ireland

## ■ Organic growth

- Retail Banking
- Corporate Banking and Financial Markets
- Retail Direct
- Wealth Management
- Direct Line
- Ulster Bank

## ■ Acquisitions

- Tactical
- Strategic

*Paused, but...*



# Multiple Options for Growth Continental Europe

- |   |   |   |
|---|---|---|
| ■ Organic growth                          |   |   |
| – Retail Banking                          |   | X |
| – Corporate Banking and Financial Markets | ✓ | ✓ |
| – Retail Direct                           | ✓ | ✓ |
| – Wealth Management                       |   | – |
| – Direct Line                             |   | ✓ |
| ■ Joint ventures                          |   | ✓ |
| ■ Acquisitions of businesses              | ✓ | ✓ |
| ■ Acquisitions of universal banks         |   | X |
| ■ Merger of equals                        |   | X |
- Paused, but...*
-

# Multiple Options for Growth United States

- Organic growth
  - Citizens ✓ ✓
  - Corporate Banking and Financial Markets ✓
- Acquisitions of businesses ✓
- Acquisitions of banks
  - In-market ✓ ✓
  - Market extension ✓
  - Out of market X

# 2003 Interim Results

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## *Summary*

- Strong income growth - mainly organic
- Further improvement in efficiency
- Stable credit quality
- Several acquisitions
- Multiple options for growth



*The Royal Bank of Scotland Group*

**delivering on  
our promises**

**strength**

**diversity**

**flexibility**