ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
March 05, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of February 2003

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

42 St Andrew Square
Edinburgh EH2 2YE
Scotland

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F _X_ Form 40-F ___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No _X_

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

The following information was issued as Company announcements, in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

SCHEDULE 10

NOTIFICATION OF MAJOR INTERESTS IN SHARES

1. Name of company

The Royal Bank of Scotland Group plc

2. Name of shareholder having a major interest

Barclays plc

3. Please state whether notification indicates that it is in respect of holding of the shareholder named in 2 above or in respect of a non-beneficial interest or in the case of an individual holder if it is a holding of that person's spouse or children under the age of 18

Barclays plc - non-beneficial interest, except those holdings indicated*

4. Name of the registered holder(s) and, if more than one holder, the number of shares held by each of them

Barclays Global Investors Ltd	44,620,840
Barclays Global Investors Japan Trust &	2,800,872
Barclays Life Assurance Co Ltd	5,124,064
Barclays Global Fund Advisors	810,937
Barclays Capital Securities Ltd *	616,861
Barclays Nikko Global Investors Ltd	1,009,849
Barclays Private Bank and Trust Ltd	48,054
Barclays Global Investors Australia Ltd	880,642
Woolwich Pension Fund Trust Co Ltd *	91,079
Barclays Bank Trust Company Ltd	410,376
Barclays Global Investor, N.A.	29,178,823
Barclays Private Bank and Trust Ltd	5,321
Barclays Private Bank and Trust Ltd	223,333
Barclays Private Bank Ltd	1,302,626
Woolwich Life Ltd *	400,000

Barclays Global Investors Japan	68,367
Total	**87,592,044**

5. Number of shares / amount of stock acquired

n/a

6. Percentage of issued class

n/a

7. Number of shares / amount of stock disposed

n/a

8. Percentage of issued class

n/a

9. Class of security

Ordinary 25p

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10. Date of transaction

n/a

11. Date company informed

17 February 2003

12. Total holding following this notification

87,592,044

13. Total percentage holding of issued class following this notification

3.019%

14. Any additional information

n/a

15. Name of contact and telephone number for queries

Hew Campbell, Head of Group Secretariat, 0131 523 2002

16. Name and signature of authorised company official responsible for making this notification

Hew Campbell, Head of Group Secretariat, 0131 523 2002

Date of notification

18 February 2003

NATIONAL WESTMINSTER BANK Plc

Results for the Year Ended 31 December 2002

National Westminster Bank Plc ("NatWest") was acquired by The Royal Bank of Scotland Group plc ("RBS") on 6 March 2000. From that date, the main businesses of NatWest have been run as components of RBS's business divisions. In addition, a number of NatWest businesses have been transferred to other RBS group companies. As a consequence of this reorganisation and disposals, the figures for the prior year are not directly comparable.

These results of NatWest are published to meet the requirements of the Listing Rules of the Financial Services Authority in respect of NatWest's preference shares, which continue to be listed on the London Stock Exchange.

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NATIONAL WESTMINSTER BANK Plc

Overview of results

Comparisons with the prior year are affected by business reorganisations. During the year ended 31 December 2001, Financial Markets migrated substantial parts of its business to The Royal Bank of Scotland plc. In addition, NatWest Offshore Limited and the overseas Private Banking operations of Wealth Management were transferred to The Royal Bank of Scotland International (Holdings) Limited on 1 November 2001.

Profit before tax at £2,584 million was similar to the prior year notwithstanding the disposal of businesses during 2001.

Total income was 1%, £70 million, higher at £7,694 million.

Operating expenses at £4,594 million were up 2%, £69 million.

Provisions for bad and doubtful debts and amounts written off fixed asset investments at £516 million were the same as the prior year.

Total assets at £172 billion were down 1%, £1 billion. Loans and advances to customers were up 11%, £11 billion at £112 billion. Loans and advances to banks decreased by £8 billion to £24 billion.

Restatement

NatWest has implemented Financial Reporting Standard 19 'Deferred Tax', which requires recognition of deferred tax assets and liabilities on all timing differences, with specified exceptions. Previously, provision was made for deferred tax only to the extent that timing differences were expected to reverse and the deferred tax liability crystallise in the foreseeable future. Prior periods have been restated.

Recent Developments

On 31 January 2003, ownership of the entire ordinary share capital of NatWest was transferred from The Royal Bank of Scotland Group plc to The Royal Bank of Scotland plc. As a result, NatWest is now a wholly-owned subsidiary of The Royal Bank of Scotland plc.

NATIONAL WESTMINSTER BANK Plc

Summary consolidated profit and loss account

	Year ended 31 December 2002 £m	31 December 2001 (restated) £m
Total income	**7,694**	7,624
Operating expenses	**(4,594)**	(4,525)
Profit before provisions for bad and doubtful debts	**3,100**	3,099
Provisions for bad and doubtful debts and amounts written off fixed asset investments	**(516)**	(516)
Profit on ordinary activities before tax	**2,584**	2,583
Tax on profit on ordinary activities	**(713)**	(733)
Profit on ordinary activities after tax	**1,871**	1,850
Minority interests equity	**(5)**	(5)
Preference dividends non-equity	**(41)**	(43)
Profit attributable to ordinary shareholders	**1,825**	1,802

Summary consolidated balance sheet

	31 December 2002 £m	31 December 2001 (restated) £m
Assets		
Cash and balances at central banks and items in the course of collection from other banks	**3,336**	3,572
Treasury bills and other eligible bills	**1,724**	1,475
Loans and advances to banks	**23,664**	31,269
Loans and advances to customers	**112,122**	100,618
Debt securities and equity shares	**17,913**	21,208
Other assets	**13,128**	14,585
Total assets	**171,887**	172,727
Liabilities		
Deposits by banks and items in the course of transmission to other banks	**18,932**	26,654
Customer accounts	**111,477**	99,951
Debt securities in issue	**208**	5,222
Other liabilities	**26,087**	26,288
Subordinated liabilities	**5,933**	6,396
Minority interests, including non-equity interests	**47**	110
Shareholders' funds, including non-equity interests	**9,203**	8,106
Total liabilities	**171,887**	172,727

NATIONAL WESTMINSTER BANK Plc

Summary cash flow statement

	Year ended **31 December 2002 £m**	31 December 2001 £m
Net cash outflow from operating activities	**(3,506)**	(2,534)
Dividends received from associated undertakings	**1**	1
Net cash outflow from returns on investments and servicing of finance	**(378)**	(466)
Net cash outflow from taxation	**(332)**	(739)
Net cash inflow from capital expenditure and financial investment	**780**	7,265
Net cash outflow from acquisitions and disposals	**(80)**	(245)
Ordinary equity dividends paid	**(1,095)**	(999)
Net cash (outflow)/inflow before financing	**(4,610)**	2,283
Net cash outflow from financing	**(162)**	(617)

(Decrease)/increase in cash	**(4,772)**	1,666

Notes

1. Accounting policies

There have been no changes to the principal accounting policies as set out on pages 7 and 8 of NatWest's 2001 Report and Accounts, except as discussed below.

NatWest has implemented Financial Reporting Standard 19 'Deferred Tax' which requires recognition of deferred tax assets and liabilities on all timing differences, with specified exceptions. Previously, provision was made for deferred tax only to the extent that timing differences were expected to reverse and the deferred tax liability crystallise in the foreseeable future.

The prior period data have been restated resulting in an increase in intangible fixed assets of £116 million, increase in profit and loss reserves of £30 million, an increase in the deferred tax liability of £119 million and an increase in the deferred tax asset of £33 million. The tax charge for 2001 decreased by £20 million.

2. Ordinary dividends

	Year ended	
	31 December 2002 £m	31 December 2001 £m
Paid	**695**	399
Proposed	**-**	400
	695	799

3. Date of approval

The results for the year ended 31 December 2002 were approved by the Board of Directors on 26 February 2003.

Notes (continued)

4. Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 ("the Act"). The statutory accounts for the year ended 31 December 2002 will be filed with the Registrar of Companies following the company's annual general meeting. The auditors have reported on these accounts; their report was unqualified and did not contain a statement under Sections 237(2) or (3) of the Act.

Contacts

Fred Watt	Group Finance Director	020 7427 9760 0131 523 2028

27 February 2003

The Royal Bank of Scotland Group plc is pleased to attach a copy of the results of Citizens Financial Group, Inc., its U.S. banking subsidiary.

The financial information contained in the attached release has been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Citizens' operating earnings before taxation, amortization of goodwill and core deposit intangible and their one-time costs of their acquisitions and other one time costs for the years ended December 31, 2002 and December 31, 2001 based on U.K. GAAP and U.S. GAAP were as follows:

$ In Millions	Year Ended December 31	
	2002	2001
U.K. GAAP	$1,151	$720
U.S. GAAP	$1,092	$703

Citizens Reports 10th Consecutive Year of Record Growth and Earnings

Double-digit organic growth; cash operating earnings increase 52%

FOR IMMEDIATE RELEASE

27 February 2003

PROVIDENCE, RI Citizens Financial Group, Inc. (“Citizens”) today reported record cash operating earnings of $724 million for the year 2002, up 52% from $475 million for 2001. This was the company's tenth consecutive year of record cash operating earnings. The earnings for 2002 include the full year impact of the purchase of the retail, small business and certain middle market commercial banking businesses of Mellon Financial Corporation on December 1, 2001.

At December 31, 2002, Citizens’ total assets were $62.3 billion compared with $53.1 billion at December 31, 2001, growth of 17%. Approximately 85% of this asset growth was organic; the Medford acquisition accounted for the remainder.

Citizens had strong year over year organic loan and deposit growth. Deposits increased 15%, or $5.9 billion; loans and leases, excluding consumer mortgages, increased 20%, or $4.9 billion, both excluding the impact of Medford.

"Given the current economic environment, Citizens is particularly proud of our strong performance in 2002," said Lawrence K. Fish, Chairman, President and CEO of Citizens Financial Group, Inc. "Our team produced outstanding organic growth in deposits and loans."

"In the Mid-Atlantic region, the integration of our Mellon Bank acquisition is complete, we are delivering the financial performance predicted and have grown our customer base by approximately 16%," said Fish. "In New England, we increased our number of customers in 2002 by roughly 11%. Organic growth, the acquisition of Medford Savings Bank and the addition of more than 100 convenient, full service branches in Stop & Shop supermarkets over the past two years have fueled this success."

For the year, net interest income increased $678 million, or 58%, primarily due to the impact of the Mellon transaction and strong organic loan and deposit growth.

Noninterest income increased $245 million, or 55%, for 2002. In addition to the aforementioned impact of the Mellon transaction, the growth in noninterest income was driven by strong performance in Citizens' major business lines.

Noninterest operating expense was $1.3 billion for 2002, a $519 million increase over 2001 primarily due to the Mellon transaction. This excludes the impact of one-time merger and other costs and the amortization of goodwill and core deposit intangible.

Citizens recorded pre-tax costs for amortization of goodwill and core deposit intangible of $81 million for 2002 compared with $123 million for 2001. Citizens recorded one-time merger and other costs of $186 million, $121 million after tax, during 2002 connected with the Mellon and Medford transactions. Including the impact of the one-time costs, one-time gains, amortization and cumulative effect of accounting changes, net income was $545 million for 2002 and $319 million for 2001.

Cash operating earnings exclude the amortization of intangible assets related to various acquisitions, principally goodwill and core deposit intangible, one-time merger and other costs, gains from the sale of business lines and the cumulative effect of accounting changes. This reporting is consistent with Citizens' parent, The Royal Bank of Scotland Group plc.

On October 15, 2002, Citizens completed the purchase of Medford Bancorp, Inc., the parent company of Medford Savings Bank. This transaction included $1.2 billion in deposits, 19 branches and 24 ATMs in eastern Massachusetts. The Medford transaction had minimal impact on 2002 earnings.

On January 17, 2003, Citizens completed the purchase of Commonwealth Bancorp, Inc., a $1.8 billion banking company headquartered in Norristown, Pennsylvania. This transaction included 60 branches and 61 ATMs and is Citizens' first introduction into the Reading, Pennsylvania market.

Following the January 2003 acquisition of Commonwealth, Citizens Financial Group, Inc. is a $64 billion commercial bank holding company. It is headquartered in Providence, RI, and now has more than 850 offices, approximately 1,700 ATMs and more than 15,000 employees in seven states. It operates as Citizens Bank in Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, Pennsylvania, and Rhode Island. Citizens is one of the 20 largest commercial banks in the United States. Citizens is owned by The Royal Bank of Scotland Group plc. Our website is citizensbank.com.

CONSOLIDATED BALANCE SHEETS
(unaudited)

(In Millions)	DECEMBER 31 2002	2001
Assets		
Cash and due from banks	$1,692	$1,126
Short-term investments	132	371
Securities	22,930	19,256
Loans and leases	30,852	26,008
Less: Allowance for possible credit losses	428	425
Net loans and leases	30,424	25,583
Goodwill and core deposit intangible	4,361	4,205
Other assets	2,771	2,571
Total assets	$62,310	$53,112
Liabilities and Stockholder's Equity		
Deposits	$46,852	$39,865

Borrowed funds	7,948	6,909
Other liabilities	966	608
Total liabilities	55,766	47,382
Stockholder's equity	6,544	5,730
Total liabilities and stockholder's equity	$62,310	$53,112

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

(In Millions)	YEAR ENDED DECEMBER 31 2002	2001
Net interest income	$1,849	$1,171
Provision for credit losses	111	96
Net interest income after provision for credit losses	1,738	1,075
Noninterest income	692	447
Noninterest expense		
Operating	1,338	819
Amortization of goodwill and core deposit intangible	81	123
Total noninterest expense	1,419	942
Earnings before income taxes	1,011	580
Income taxes	345	215
Net income-operating	666	365
Cumulative effect of accounting change, net of tax	-	1
One-time gain from the sale of business line, net of tax	-	6
One-time merger and other costs, net of tax	121	53
Net Income	545	319
Cash basis and one-time adjustment, net of tax	179	156
Cash basis-operating earnings	$ 724	$ 475

27 February 2003

Annual Results 2002

THE ROYAL BANK OF SCOTLAND GROUP plc

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THE ROYAL BANK OF SCOTLAND GROUP plc

RESULTS SUMMARY

	2002 **£m**	2001 (restated) £m	**Increase**
Total income	**16,815**	14,558	**16%**
Operating expenses	**7,669**	6,841	**12%**
Operating profit before provisions	**7,796**	6,769	**15%**
Profit before tax, goodwill amortisation and integration costs	**6,451**	5,778	**12%**
Profit before tax	**4,763**	4,252	**12%**
Cost:income ratio	**45.6%**	47.0%	**-**

Adjusted earnings per ordinary share	**144.1p**	127.9p	**13%**
Dividends per ordinary share	**43.7p**	38.0p	**15%**

Sir George Mathewson, Chairman of The Royal Bank of Scotland Group plc, said:-

In 2002 the Group continued to make good progress. The undoubted highlight was the completion of the NatWest IT integration on to the Royal Bank platform. This project one of the largest integration projects ever undertaken worldwide was completed ahead of schedule, with benefits well in excess of those promised to shareholders during the bid for NatWest.

On a range of key measures of success including income, profitability, customer numbers, credit quality and return on capital the Group continues to perform well. This is particularly pleasing given that 2002 was by any standard a challenging year.

We remain focussed on building strategic options for the Group and growing income in ways which will provide value for our shareholders, customers and staff. I am confident that the strength, diversity and flexibility of the Group provides us with an excellent platform from which to build value in the future."

THE ROYAL BANK OF SCOTLAND GROUP plc

2002 HIGHLIGHTS

Profit* up 12% to £6,451 million.

Income up 16% to £16,815 million.

Expenses up 12% to £7,669 million.

Excluding acquisitions, income up 12%, expenses up 7%.

Customer growth in all divisions.

Net interest margin stable at 3.1%.

Further efficiency gains - cost:income ratio 45.6%, improved from 47.0%.

Profit and loss charge for provisions £1,345 million against £991 million in 2001. The trend in provisions has been broadly consistent for three consecutive half years.

Completion of the NatWest IT integration on to the Royal Bank platform one of the largest integration projects ever undertaken worldwide with increased targets for NatWest integration met.

In the US, the Mellon Regional Franchise was successfully integrated on to the Citizens platform, also completed ahead of schedule.

Credit quality remains strong.

Balance sheet provision coverage of risk elements in lending maintained at 81%.

Adjusted earnings per share up 13%.

Dividend 43.7p per share, up 15%.

* before tax, goodwill amortisation and integration costs

THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE'S REVIEW

The Group continued to make good progress both financially and operationally during 2002. As a result, we increased our Group profit before tax, goodwill amortisation and integration costs by 12%, adjusted earnings per share by 13% and our dividend per share by 15%.

Our business model recognises that, to deliver superior sustainable value to our shareholders, we need to do the same for our customers and our people.

Our customers

All divisions of the Group increased their customer numbers during 2002, arguably the clearest evidence that we are delivering value for our customers. Our divisions achieved consistently good results in various surveys of customer satisfaction, and won a number of awards for customer service. For example, in the important area of small businesses, NatWest was voted Best Bank that I would recommend to a small business in the NOP Opinion Formers Survey, while The Royal Bank of Scotland won the award for Best Small Business Bank from the Chartered Institute of Management Accountants.

Notwithstanding these pleasing results, there is, as always, no room for complacency and we continue to strive for improvements.

Our people

As ever, the success of the Group is only made possible by the efforts and achievements of our people. Each year, a survey is carried out by the independent firm International Survey Research, which evaluates employee opinion under a number of criteria and relative to various external benchmarks. The response rate to the latest survey was our best ever at 83%, significantly higher than the response rate of 75% to the previous survey.

The latest survey shows that we have further improved our performance from the very good level achieved in the last survey and continue to perform as well as a number of the world s best companies. I am also pleased to report that we are again ahead of the UK financial services sector in every category and improved our performance relative to both the global financial services and global high performance norms.

Our shareholders

To create value for our shareholders, we concentrate on the simple fundamentals of growing our income and improving our efficiency, whilst disciplining ourselves to retain a bias away from activities and geographies which may bring undue volatility to our results.

During 2002 we grew income across the Group as a whole by 16%. Income growth was particularly strong in Citizens, Direct Line and Retail Direct. This growth was supported by increased customer numbers and business volumes: the Group s net interest margin remained stable at 3.1% (2001 3.1%). A more detailed review of the performance of our individual businesses is outlined later in this announcement.

In addition to growing its income, the Group improved its efficiency in 2002. On a comparable basis, the Group cost:income ratio improved further to 45.0% (2001 47.0%), and to 45.6% including acquisitions, a level that keeps us at the forefront of efficiency when compared to similar banks in the UK and internationally. This represents a substantial improvement since 1999, when the pro forma cost:income ratio for the enlarged Group, including NatWest, was almost 60%.

Provisions for bad debts were higher in 2002 than in 2001, reflecting the deterioration in the short-term economic environment. However, during 2002, provisions continued at a rate consistent with the second half of 2001 and the growth in our loan portfolio. As ever we remain focussed on ensuring that our balance sheet carries adequate provision for bad debts and our provision coverage remains at 81% of risk elements in lending.

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THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE'S REVIEW (continued)

Integration

The large and complex NatWest IT integration was completed successfully in October 2002, several months ahead of schedule. In recognition of this outstanding achievement, an integration bonus amounting to 5% of salary was paid to all employees whose business units were involved in integration.

Last year we announced increased targets for annual transaction benefits amounting to £2,030 million (formerly £1,730 million). These transaction benefits had been fully implemented by February 2003, although their full impact will not show through to profits until 2004.

REVIEW OF DIVISIONS

Corporate Banking and Financial Markets increased its contribution before manufacturing costs by 6% to £3,203 million (2001 £3,024 million). Corporate Banking and Financial Markets maintained leading positions in the UK in corporate lending, leasing, deposits, payments, derivatives and foreign exchange and across a wide range of specialised corporate banking activities. Outside the UK, the division achieved good growth in Continental Europe through its offices in Paris, Frankfurt, Milan and Madrid. In the US, the division improved its already strong position in US treasuries and asset-backed securities.

Retail Banking increased its contribution before manufacturing costs by 8% to £3,019 million (2001 £2,807 million). Retail Banking increased its total personal customers by 3% to 13.1 million (2001 12.7 million) and total small business customers by 3% to 1.1 million. Both The Royal Bank of Scotland and NatWest achieved good growth in current accounts, including packaged current accounts, mortgages, personal loans and deposits and small business loans and deposits. NatWest maintained its market leading position for small business relationships.

Retail Direct increased its contribution before manufacturing costs by 27% to £701 million (2001 £551 million). Retail Direct increased its credit card accounts by 4% to 9.5 million (2001 9.1 million), while increasing both credit card balances and fee income associated with these accounts. Tesco Personal Finance grew its customer account base by 29% to 3.4 million (2001 2.6 million). The One account s (formerly Virgin One) average mortgage balances increased by 36% to £4.3 billion (2001 £3.1 billion).

Manufacturing costs increased by 7% to £1,682 million (2001 £1,568 million). Within this amount, technology costs were up by 5% to £662 million (2001 £632 million) and customer support and other operations were also up by 5% to £492 million (2001 £469 million), both reflecting increased volumes and scope across a wide range of activities. Manufacturing completed the conversion of NatWest systems on to the RBS IT platform in October 2002, some months ahead of the original target.

Wealth Management contribution declined by 6% to £432 million (2001 £459 million), principally due to reduced fee income reflecting lower stock market values. However, Coutts, which is investing in its UK regional branch network, increased its total customer base by 5% to over 75,000. Offshore Banking launched a new expatriate service offering a full range of banking and investment services.

Direct Line Group increased its contribution by 36% to £355 million (2001 £261 million). Direct Line Group increased its UK motor insurance policies (including those sold through Tesco Personal Finance) by 16%, to 4.7 million (2001 4.0 million) and its UK home insurance policies by 17%, to 1.6 million (2001 1.4 million). In Continental Europe, Direct Line businesses in Spain, Italy and Germany doubled their total policy numbers to 1.2 million (2001 0.6 million).

GROUP CHIEF EXECUTIVE'S REVIEW (continued)

Ulster Bank increased its contribution by 7% to £244 million (2001 £229 million). Ulster Bank increased its personal current accounts by 5% and business current accounts by 2%, mainly in the Republic of Ireland. During the year Ulster Bank completed its transformation programme, Project Horizon, which was designed to increase focus on customers across its branch network.

Citizens increased its contribution by 53% to £766 million (2001 £501 million). Citizens increased its personal customer base by 13% to 2.0 million (2001 1.8 million), partly by increasing its distribution capacity through supermarkets. Citizens also increased its business customers by 6% to 197,000 (2001 185,000). In August 2002, Citizens successfully completed the conversion to its own systems of Mellon Financial Corporation s regional banking franchise. Citizens also acquired Medford Bancorp, New England completing conversion in December 2002 and announced the acquisition of Commonwealth Bancorp, Pennsylvania in September 2002.

Outlook

International uncertainty inevitably casts something of a shadow over an otherwise reasonable prognosis for the key economies in which we operate. Whilst we have no particular insights as to how events might unfold, it is clear that the strength, diversity and flexibility of our Group present many options for future growth not only in the UK, but also in the US and in Continental Europe.

By continuing to focus on the fundamentals of credit quality, income growth and improving efficiency, we are confident that we can continue to deliver superior sustainable value to our shareholders, our customers and our people.

Fred Goodwin
Group Chief Executive

THE ROYAL BANK OF SCOTLAND GROUP plc

FINANCIAL REVIEW

Profit

RBS increased its profit before tax, goodwill amortisation and integration costs by 12%, or £673 million, from £5,778 million to £6,451 million.

After goodwill amortisation and integration costs, profit before tax was up 12%, from £4,252 million to £4,763 million. Integration costs relating to NatWest, the Mellon Regional Franchise and Medford Bancorp Inc. (Medford) were £957 million against £875 million in 2001.

Total income

RBS continued to achieve strong growth in income. Total income at £16,815 million was up by 16%, or £2,257 million. Excluding acquisitions, total income rose by 12%.

Citizens increased its income by 53% (15% underlying growth, excluding the effect of acquisitions and exchange rate fluctuations), Direct Line Group by 39% (34% excluding acquisitions) and Retail Direct by 16%.

Corporate Banking and Financial Markets income was up by 11%, notwithstanding Financial Markets strong performance in 2001 when it benefited from market volatility and falling interest rates.

Retail Banking grew its income by 8% and Ulster Bank by 8%. Income in Wealth Management declined 3% as the effect of lower stock market values on activity levels and fees more than offset the benefit from increased customer numbers and volumes.

Net interest income

Net interest income increased by 15%, or £1,003 million, to £7,849 million. Net interest income accounted for 47% of total income. Average interest-earning assets of the banking business increased by 14%.

Net interest margin

The Group s net interest margin remained stable at 3.1%. Improved lending margins offset the downward pressure on deposit margins arising from lower interest rates.

Non-interest income

Non-interest income increased by 16%, or £1,254 million, to £8,966 million. Non-interest income accounted for 53% of total income.

Fees and commissions receivable were up 12%, or £573 million. Volume driven increases in lending fees and continued strong growth in fee paying current accounts contributed to the increase. Dealing profits at £1,462 million were up £36 million, 3%, on the strong performance in 2001. The increase in dealing profits resulted from customer led business growth and higher revenues from trading in interest rate instruments. Other operating income was £157 million, 15% higher mainly due to the expansion of CBFM s operating lease business. General insurance premium income, after reinsurance, rose by 38%, or £519 million reflecting Direct Line Group s organic growth and acquisitions in Continental Europe.

Operating expenses

Operating expenses, excluding goodwill amortisation and integration costs, rose by 12%, or £828 million, to £7,669 million. Excluding acquisitions, operating expenses were up 7%, £469 million in support of strong growth in business volumes.

Cost:income ratio

Strong income growth coupled with tight cost management resulted in a further improvement in the Group s cost:income ratio, to 45.6% from 47.0%. Excluding the effect of acquisitions, the cost:income ratio improved to 45.0%.

Net insurance claims

General insurance claims, after reinsurance, increased by 42%, or £402 million, to £1,350 million reflecting significant volume growth and acquisitions at Direct Line.

Provisions

The profit and loss charge for provisions was £1,345 million compared with £991 million in 2001. The charge for the two halves of the year was consistent with the second half of 2001.

Bad debt provisions amounted to £1,286 million compared with £984 million in 2001. The charge reflects overall growth in lending and, as in the second half of 2001, is particularly influenced by provisions required against a number of specific corporate situations. Amounts written off fixed asset investments, largely in the first half of the year, were £59 million against £7 million in 2001.

Total balance sheet provisions for bad debts amounted to £3,927 million at 31 December 2002, up 8% from £3,653 million at 31 December 2001.

Credit quality

Overall credit quality remains strong with no material change in the distribution by grade of the Group s total risk assets compared with the position at the previous year end.

Risk elements in lending amounted to £4,871 million at 31 December 2002, up 8% from £4,493 million at 31 December 2001, and up 2% from £4,791 million at 30 June 2002.

Total provision coverage (the ratio of total balance sheet provisions to risk elements in lending) at 31 December 2002 was maintained at 81%.

Risk elements in lending and potential problem loans in aggregate amounted to £6,054 million an increase of 9% over 31 December 2001 and 1% over 30 June 2002.

Integration

The Group successfully completed the conversion of NatWest IT systems on to the RBS technology platform in October 2002. This programme ran for 30 months and involved more than 4,000 staff, culminating in the migration of a customer base three times the size of the Royal Bank of Scotland on to a single technology platform. The scale and complexity of this project are without precedent.

Annualised revenue benefits of £805 million and annualised cost savings of £1,350 million were delivered by December 2002. In addition, by February 2003 all integration initiatives had been completed. As a result the full programme annualised benefits, comprising £890 million revenue benefits and £1,440 million cost savings, have been achieved less than three years after the acquisition of NatWest.

Cumulative combined revenue and cost benefits to the profits for the period 2000 to 2002 amounted to £3.6 billion, which is £1.1 billion ahead of the original plan.

In the US, Citizens completed the IT integration of the Mellon Regional Franchise in August 2002, earlier than planned. Benefits from this transaction have been delivered more quickly than was envisaged, and are on track to be delivered in full.

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THE ROYAL BANK OF SCOTLAND GROUP plc

FINANCIAL REVIEW (continued)

Earnings and dividends

Earnings per ordinary share, adjusted for goodwill amortisation, integration costs and the dividend on Additional Value Shares (AVS) increased by 13%, from 127.9p to 144.1p. Basic earnings per ordinary share increased by 1%, from 67.6p to 68.4p reflecting the increase in the AVS dividend paid during the year.

A second dividend of 30.0p per share was paid on 2 December 2002 to the holders of AVS issued in connection with the acquisition of NatWest. By the end of 2002, a total of 45.0p per AVS had been paid, in accordance with the original payment schedule. The third and final AVS dividend, if declared by the directors, of 55.0p per AVS will be paid on 1 December 2003.

A final dividend of 31.0p per ordinary share is recommended, resulting in a total ordinary dividend for the year of 43.7p per ordinary share, an increase of 15%. The total dividend is covered 3.3 times by earnings before goodwill amortisation, integration costs and the AVS dividend.

Balance sheet

Total assets were £412 billion at 31 December 2002, 12% higher than total assets of £369 billion at 31 December 2001. Of the total assets, £311 billion (76%) related to banking business and £101 billion (24%) to trading business (31 December 2001: £285 billion (77%) banking business and £84 billion (23%) trading business).

Lending to customers excluding repurchase agreements and stock borrowing (reverse repos) increased by 13%, £22 billion. Including reverse repos, loans and advances to customers were up 17%. Customer deposits increased by 10%, from £199 billion at 31 December 2001 to £219 billion at 31 December 2002. Excluding repurchase agreements and stock lending (repos), customer deposits grew by 7%, £13 billion.

Capital ratios at 31 December 2002 were 7.3% (tier 1) and 11.7% (total), against 7.1% (tier 1) and 11.5% (total) at 31 December 2001.

Profitability

The adjusted after-tax return on ordinary equity was 17.6% compared with 16.8% for 2001. This is based on profit attributable to ordinary shareholders before integration costs, goodwill amortisation and the AVS dividend, and average ordinary equity.

Acquisitions

In May 2002, Lombard, the leasing arm of CBFM, completed the acquisition of Dixon Motors PLC for a consideration of £118 million.

In July 2002, Citizens announced the acquisition of Medford Bancorp Inc., a Massachusetts savings bank for a cash consideration of US$273 million and in September 2002 announced the acquisition of Pennsylvania based commercial bank, Commonwealth Bancorp Inc for a cash consideration of US$450 million. These acquisitions were completed in October 2002 and January 2003 respectively.

THE ROYAL BANK OF SCOTLAND GROUP plc

SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

The profit and loss account set out below shows goodwill amortisation and integration costs separately. In the statutory profit and loss account on page 25, these items are included in the captions prescribed by the Companies Act.

	2002	2001 (restated)
	£m	£m
Net interest income	**7,849**	6,846
Dividend income	**58**	54
Fees and commissions receivable	**5,308**	4,735
Fees and commissions payable	**(965)**	(930)
Dealing profits	**1,462**	1,426
Other operating income	**1,209**	1,052
	7,072	6,337
General insurance premium income	**1,894**	1,375
Non-interest income	**8,966**	7,712
Total income	**16,815**	14,558
Staff costs	**3,942**	3,461
Other operating expenses	**3,727**	3,380
Operating expenses	**7,669**	6,841

Profit before other operating charges	**9,146**	7,717
General insurance claims	**1,350**	948
Operating profit before provisions	**7,796**	6,769
Provisions for bad and doubtful debts	**1,286**	984
Amounts written off fixed asset investments	**59**	7
Profit before goodwill amortisation and integration costs	**6,451**	5,778
Goodwill amortisation	**731**	651
Integration costs	**957**	875
Profit before tax	**4,763**	4,252
Tax	**1,556**	1,537
Profit after tax	**3,207**	2,715
Minority interests (including non-equity)	**133**	90
Preference dividends	**305**	358
	2,769	2,267
Additional Value Shares dividend	**798**	399
Profit attributable to ordinary shareholders	**1,971**	1,868
Ordinary dividends	**1,267**	1,085
Retained profit	**704**	783
Basic earnings per ordinary share (Note 5)	**68.4p**	67.6p
Adjusted earnings per ordinary share (Note 5)	**144.1p**	127.9p

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THE ROYAL BANK OF SCOTLAND GROUP plc

DIVISIONAL PERFORMANCE

The contribution of each division before goodwill amortisation and integration costs and, where appropriate, Manufacturing costs is detailed below.

	2002 £m	2001 £m	Increase/ (decrease) %
Corporate Banking and Financial Markets	**3,203**	*3,024	6
Retail Banking	**3,019**	2,807	8
Retail Direct	**701**	551	27
Manufacturing	**(1,682)**	(1,568)	(7)
Wealth Management	**432**	459	(6)
Direct Line Group	**355**	261	36

Ulster Bank	**244**	*229	7
Citizens	**766**	501	53
Central items	**(587)**	**(486)	(21)
Profit before goodwill amortisation and Integration costs	**6,451**	5,778	12

* Restated to reflect the transfer of Ulster Bank s leasing business to Corporate Banking and Financial Markets with effect from 1 January 2002.

** Restated following the implementation of UITF 33.

THE ROYAL BANK OF SCOTLAND GROUP plc

CORPORATE BANKING AND FINANCIAL MARKETS

	2002 **£m**	2001 (restated) £m
Net interest income	**2,349**	2,138
Non-interest income	**3,703**	3,319
Total income	**6,052**	5,457
Direct expenses		
- staff costs	**1,271**	1,131
- operating lease depreciation	**461**	434
- other	**392**	366
Contribution before provisions	**3,928**	3,526
Provisions	**725**	502
Contribution	**3,203**	3,024
Direct cost:income ratio (%)	**35.1**	35.4
Total assets* - Corporate Banking (£bn)	**104.7**	96.1
- Financial Markets (£bn)	**98.8**	91.6
Loans and advances to customers* - gross (£bn)	**95.7**	83.7
Customer deposits* (£bn)	**62.2**	56.4
Weighted risk assets (£bn)	**136.5**	118.3

*excluding repos and reverse repos

Corporate Banking and Financial Markets (CBFM) *is the largest provider of banking services to medium and large businesses in the UK and the leader in the UK in asset finance. It provides an integrated range of products and services to mid-sized and large corporate and institutional customers in the UK and overseas, including corporate and commercial banking, treasury and capital markets products, structured and leveraged finance, trade finance, leasing and factoring. Treasury and capital markets products are provided through Financial Markets which is a leading player in debt, foreign exchange and derivatives products. Ulster Bank s leasing business was transferred to CBFM on 1 January 2002; the prior year has been restated to reflect this. In May 2002, Lombard, the leasing arm of CBFM, completed the acquisition of Dixon Motors PLC.*

Contribution increased by 6% or £179 million to £3,203 million. Contribution before provisions was up by 11%, £402 million to £3,928 million.

Total income was up 11% or £595 million to £6,052 million. Excluding acquisitions, which added £67 million, total income increased 10%.

Net interest income rose by 10% or £211 million to £2,349 million, reflecting customer lending growth in Corporate Banking and continued good performance by Financial Markets from strong wholesale money market activity. Average loans and advances to customers of the banking business increased by 12%, £9.3 billion to £86.9 billion.

Non-interest income rose by 12% or £384 million to £3,703 million, mainly as a result of increased fees, reflecting growth in lending and in payment and electronic banking activities. Dealing profits benefited from continued customer led business growth and higher revenues from trading in interest rate instruments and matched the strong performance of 2001. Operating lease business expanded significantly during 2002 with average assets increasing by 23% from £3.5 billion to £4.3 billion resulting in higher income, up 16%, £112 million.

Direct expenses increased by 10% or £193 million to £2,124 million. Excluding acquisitions, expenses were up £133 million or 7%, of which £106 million was higher staff costs reflecting business growth and £27 million was higher operating lease depreciation. The direct cost:income ratio improved from 35.4% to 35.1%.

Provisions amounted to £725 million compared with £502 million in 2001. The increase reflected growth in lending and, as in the second half of 2001, provisions required against a number of specific corporate situations, and higher investment provisions.

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THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL BANKING

	2002 **£m**	2001 £m
Net interest income	**2,840**	2,622
Non-interest income	**1,353**	1,277
Total income	**4,193**	3,899
Direct expenses		
- staff costs	**707**	702
- other	**254**	226
Contribution before provisions	**3,232**	2,971
Provisions	**213**	164

Contribution	**3,019**	2,807

Direct cost:income ratio (%)	**22.9**	23.8
Total assets (£bn)	**66.1**	61.1
Loans and advances to customers - gross		
- mortgages (£bn)	**31.7**	28.5
- other (£bn)	**23.5**	20.5
Customer deposits (£bn)	**61.7**	56.8
Weighted risk assets (£bn)	**38.6**	35.2

Retail Banking *provides a wide range of banking, insurance and related financial services to individuals and small businesses. These services are delivered from a network of Royal Bank of Scotland and NatWest branches throughout Great Britain and through the telephone, ATMs and the internet.*

Contribution increased by 8% or £212 million to £3,019 million.

Total income was up 8% or £294 million to £4,193 million. The increase in income reflected continued growth in customer numbers. The number of personal current accounts increased by 4% to 10.63 million. Retail Banking is the leading provider of services to small businesses and has 1.10 million customers.

Net interest income rose by 8% or £218 million to £2,840 million, reflecting strong growth in customer loans and deposits. Average loans to customers, excluding mortgages, grew by 14% or £2.7 billion to £21.8 billion. Average mortgage lending was up 10% or £2.7 billion to £29.8 billion. Average customer deposits increased by 6% or £3.1 billion to £57.2 billion.

Non-interest income rose by 6% or £76 million to £1,353 million, reflecting growth in packaged current accounts, transmission income and higher volumes of general insurance products sold through the Royal Bank of Scotland and NatWest networks. Strong sales performance was seen in Bancassurance with new business up 30% although the sharp fall in equity markets depressed Bancassurance income.

Direct expenses increased by 4% or £33 million to £961 million. Staff costs were up £5 million, 1% to £707 million. Other costs rose £28 million, 12% to £254 million partly due to increased incidence of fraud losses.

The direct cost:income ratio improved from 23.8% to 22.9%.

Provisions increased by £49 million to £213 million, reflecting recent growth in lending.

THE ROYAL BANK OF SCOTLAND GROUP plc

RETAIL DIRECT

	2002 £m	2001 £m
Net interest income	**749**	674
Non-interest income	**841**	696

Total income	**1,590**	1,370
Direct expenses		
- staff costs	**190**	164
- other	**418**	400
Contribution before provisions	**982**	806
Provisions	**281**	255
Contribution	**701**	551
Direct cost:income ratio (%)	**38.2**	41.2
Total assets (£bn)	**19.8**	17.2
Loans and advances to customers - gross		
- mortgages (£bn)	**7.4**	5.9
- other (£bn)	**12.4**	11.2
Customer deposits (£bn)	**4.4**	4.3
Weighted risk assets (£bn)	**14.6**	12.5

Retail Direct *issues a comprehensive range of credit, charge and debit cards to personal and corporate customers and engages in merchant acquisition and processing facilities for retail businesses. It also includes: Tesco Personal Finance (TPF), The One account, (formerly Virgin Direct Personal Finance), Direct Line Financial Services (DLFS), Lombard Direct, the Group s internet banking platform, the Primeline brand and in Europe, the Comfort Card businesses, all of them offering products to customers through direct channels. In June 2002, Retail Direct completed the acquisition of the remaining interest that it did not previously own in WorldPay Limited, a well established provider of payment services to businesses trading through the internet.*

Contribution increased by 27% or £150 million to £701 million.

Total income was up 16% or £220 million to £1,590 million, reflecting continued strong growth in the Cards Business and in TPF. The number of active credit card accounts increased during the year to 9.5 million. TPF continued its strong growth, increasing customer accounts across all products to 3.4 million.

Net interest income was up 11% or £75 million to £749 million. Average customer lending increased by 16% to £17.9 billion. In TPF, average personal loans rose by 29% to £1.1 billion and average customer deposits rose by 26% to £1.9 billion. Average mortgage lending in The One account was 36% higher at £4.3 billion and in DLFS was up 10% to £2.3 billion. Average personal lending in DLFS and Lombard Direct increased by 20% to £2 billion.

Non-interest income was up 21% or £145 million to £841 million mainly as a result of higher fee income reflecting growth in volumes, especially in TPF, where the total number of general insurance policies increased during the year to 1.3 million.

Direct expenses increased by 8% or £44 million to £608 million reflecting increased volumes and higher marketing activity to support strong business expansion.

The direct cost:income ratio improved from 41.2% to 38.2%.

Provisions increased by £26 million to £281 million due to the growth in lending volumes.

MANUFACTURING

	2002 £m	2001 £m
Staff costs	**479**	428
Other costs	**1,203**	1,140
Total manufacturing costs	**1,682**	1,568
Analysis:		
Group Technology	**662**	632
Group Purchasing and Property Operations	**528**	467
Customer Support and other operations	**492**	469
Total manufacturing costs	**1,682**	1,568

Manufacturing *supports the customer facing businesses, mainly Corporate Banking and Financial Markets, Retail Banking and Retail Direct, and provides operational technology, customer support in telephony, account management and money transmission, global purchasing, property and other services.*

The expenditure incurred by Manufacturing relates to shared costs in respect of the Group s UK banking operations. These costs reflect, inter alia, operational technology, account processing and management, and money transmission activities which are shared between the various customer-facing divisions. Consequently, these joint costs cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets.

Manufacturing drives optimum efficiencies in high volume processing activities, leverages the Group s purchasing power and has become the centre of excellence for managing large scale and complex change such as integration.

Total manufacturing costs at £1,682 million were 7% or £114 million higher than 2001.

The increase in costs reflects growth in business volumes arising from customer accounts, mortgage applications, personal loans and ATM transactions, and initiatives to enhance customer service, particularly in NatWest telephony. Extending the scope of Manufacturing with transfers from other parts of the Group also contributed to this increase.

Manufacturing successfully completed the integration of NatWest on to the RBS technology platform in October 2002, ahead of schedule.

WEALTH MANAGEMENT

	2002 £m	2001 £m
Net interest income	**460**	464

Non-interest income	**447**	469
Total income	**907**	933
Expenses		
- staff costs	**317**	298
- other	**169**	181
Contribution before provisions	**421**	454
Net release of provisions	**11**	5
Contribution	**432**	459
Cost:income ratio (%)	**53.6**	51.3
Total assets (£bn)	**13.4**	12.5
Investment management assets - excluding deposits (£bn)	**20.5**	21.4
Customer deposits (£bn)	**29.1**	29.1
Weighted risk assets (£bn)	**8.4**	7.8

Wealth Management *comprises Coutts Group, Adam & Company and the offshore banking businesses, The Royal Bank of Scotland International and NatWest Offshore. The Coutts Group focuses on private banking. The offshore businesses provide retail banking services to local and expatriate customers, and corporate banking and treasury services to corporate, intermediary and institutional clients. Adam & Company is a private bank operating primarily in Scotland.*

Contribution at £432 million was £27 million, 6% lower primarily due to the effect of the fall in equity markets on the level of activity and ad valorem fee income.

Total income was down 3% or £26 million to £907 million.

Net interest income declined by 1% or £4 million to £460 million, as a result of a slight contraction in deposit margins due to lower interest rates. Average customer deposits increased from £28.5 billion to £28.7 billion.

Non-interest income was £22 million, 5% lower at £447 million. This reflected lower equity markets which continued adversely to affect fees and commissions. Investment management assets at £20.5 billion were £0.9 billion, 4% lower as new business inflow was more than offset by the significant decline in equity markets.

Expenses were up 1% or £7 million to £486 million.

The cost:income ratio was adversely affected by the fall in income, increasing to 53.6% from 51.3%.

Releases and recoveries of provisions exceeded gross new provisions required. As a result, there was a net release of provisions of £11 million, against a net release of £5 million in 2001.

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DIRECT LINE GROUP

	2002 £m	2001 £m
Earned premiums	**2,383**	1,804
Reinsurers' share	**(489)**	(429)
Insurance premium income	**1,894**	1,375
Other income	**245**	168
Total income	**2,139**	1,543
Expenses		
- staff costs	**178**	152
- other	**256**	182
Gross claims	**1,693**	1,263
Reinsurers' share	**(343)**	(315)
Contribution	**355**	261
In-force policies (000)		
- motor: UK	**4,668**	4,017
- motor: International	**1,224**	601
- home: UK	**1,587**	1,360
Combined operating ratio - UK (%)	**89.4**	88.0
Insurance reserves - UK (£m)	**1,946**	1,541

Direct Line Group *sells and underwrites retail and wholesale insurance on the telephone and the internet. The Retail Division sells general insurance and motor breakdown services direct to the customer and UKI Partnerships (formerly Green Flag) is a leading wholesale provider of insurance and motoring related services. Through its International Division, Direct Line sells insurance in Spain, Germany, Italy and Japan. The acquisition of Royal & Sun Alliance s direct motor insurance operation in Italy was completed in September 2002, making Direct Line the leading direct motor insurer in Italy.*

Contribution increased by 36% or £94 million to £355 million.

Total income was up 39% or £596 million to £2,139 million. Excluding acquisitions, which added £73 million, total income was up 34% or £523 million.

After reinsurance, insurance premium income was up 38% or £519 million to £1,894 million, reflecting strong growth in customer numbers. The leading position in the UK direct motor insurance market was maintained with motor insurance policies increasing 16%, or 651,000 to 4.67 million. The number of UK in-force home insurance policies increased by 17% or 227,000 to 1.59 million. The number of international in-force motor policies more than doubled to 1.22 million, including 280,000 from acquisitions.

Other income increased by 46% or £77 million to £245 million. Higher investment income and profit commissions contributed to this increase.

Expenses increased by 30% or £100 million to £434 million. Excluding acquisitions, which added £35 million, expenses were up by 20% or £65 million reflecting business expansion.

Net claims, after reinsurance, increased by 42% or £402 million to £1,350 million reflecting increased volumes.

THE ROYAL BANK OF SCOTLAND GROUP plc

ULSTER BANK

	2002	2001 (restated)
	£m	£m
Net interest income	**339**	313
Non-interest income	**181**	170
Total income	**520**	483
Expenses		
- staff costs	**145**	135
- other	**109**	104
Contribution before provisions	**266**	244
Provisions	**22**	15
Contribution	**244**	229
Cost:income ratio (%)	**48.8**	49.5
Total assets (£bn)	**12.7**	10.8
Loans and advances to customers - gross (£bn)	**9.1**	7.6
Customer deposits (£bn)	**8.8**	7.7
Weighted risk assets (£bn)	**9.0**	7.7
Average exchange rate - /£	**1.591**	1.609
Spot exchange rate - /£	**1.536**	1.637

Ulster Bank *provides a comprehensive range of retail and wholesale financial services in Northern Ireland and the Republic of Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, commercial and wealth management sectors. Corporate Banking and Financial Markets provides a wide range of services in the corporate and institutional markets. Ulster Bank s leasing business was transferred to CBFM on 1 January 2002; the prior year has been restated to reflect this.*

Contribution increased by 7%, or £15 million to £244 million.

Total income increased by 8%, £37 million to £520 million.

Net interest income rose by 8% or £26 million to £339 million, reflecting good growth in loans and deposits despite a less buoyant economic environment in the Republic of Ireland. Average customer lending and deposits of the banking business increased by 10%, £0.7 billion, to £8.0 billion, and by 7%, £0.5 billion, to £7.9 billion respectively. Average mortgage lending grew by 23% to £1.5 billion and the number of current accounts increased by 5%.

Non-interest income rose by 6% or £11 million to £181 million. Increases of £7 million in net fees and commissions and £6 million in other operating income were partially offset by a £2 million reduction in dealing profits.

Expenses increased by 6% or £15 million to £254 million to support higher business volumes and pay awards.

The cost:income ratio improved from 49.5% to 48.8%.

Provisions were up by £7 million to £22 million reflecting a small number of specific situations.

THE ROYAL BANK OF SCOTLAND GROUP plc

CITIZENS

	2002 **£m**	2001 £m
Net interest income	**1,248**	814
Non-interest income	**468**	306
Total income	**1,716**	1,120
Expenses		
- staff costs	**485**	305
- other	**370**	245
Contribution before provisions	**861**	570
Provisions	**95**	69
Contribution	**766**	501
Cost:income ratio (%)	**49.8**	49.1
Total assets ($bn)	**61.1**	52.4
Loans and advances to customers - gross ($bn)	**31.4**	26.3
Customer deposits ($bn)	**51.1**	42.8
Weighted risk assets ($bn)	**38.8**	35.8
Average exchange rate - US$/£	**1.503**	1.440
Spot exchange rate - US$/£	**1.613**	1.450

Citizens *is engaged in retail and corporate banking activities through its branch network in the states of Rhode Island, Connecticut, Massachusetts and New Hampshire and is the second largest bank in New England. The acquisition of the Mellon Regional Franchise in December 2001 extended Citizens presence to the states of Pennsylvania, Delaware and New Jersey. In July 2002, Citizens announced the acquisition of Medford Bancorp, Inc., a Massachusetts savings bank and in September 2002, announced the acquisition of Pennsylvania based commercial bank, Commonwealth Bancorp, Inc. These acquisitions were completed in October 2002 and January 2003 respectively.*

Contribution increased by 53% or £265 million to £766 million. Excluding the incremental contribution of £219 million from the Mellon Regional Franchise and Medford (the acquisitions) and a £21 million adverse impact of exchange rate translation, contribution increased by 14% or £67 million.

Total income was up 53% or £596 million to £1,716 million. Excluding acquisitions and exchange rate fluctuations, organic income growth was 15% or £158 million.

Net interest income rose by 53% or £434 million to £1,248 million. Excluding acquisitions, which added £364 million, and exchange rate fluctuations, net interest income was up 14% or £104 million, as a result of strong organic growth in customer loans and deposits.

Non-interest income rose by 53% or £162 million to £468 million. Excluding acquisitions, which added £121 million, and movements in exchange rates, non-interest income was up 19% or £54 million, as a result of growth in deposit service charges and mortgage banking.

Expenses increased by 55% or £305 million to £855 million. Excluding acquisitions, which added £256 million, and exchange rate fluctuations, expenses increased by 14% or £72 million, to support higher business volumes. Citizens increased its in-store banking activities by opening new branches in 58 Stop&Shop supermarkets. The cost of establishing presence in these stores contributed to the increase in operating expenses.

The cost:income ratio increased from 49.1% to 49.8%. Excluding acquisitions and the impact of exchange rate translation, the underlying cost:income ratio improved from 48.7% to 48.2%.

Provisions were up from £69 million to £95 million. Excluding the Mellon Regional Franchise which added £10 million, provisions were broadly consistent with the second half of 2001.

THE ROYAL BANK OF SCOTLAND GROUP plc

CENTRAL ITEMS

	2002	2001 (restated)
	£m	£m
Funding costs	**215**	211
Central department costs		
- staff costs	**108**	99
- other	**102**	93
Other corporate items - net	**162**	83
Total Central items	**587**	486

The Centre *comprises group and corporate functions which provide services to the operating divisions.*

Total Central items increased by £101 million to £587 million.

Funding costs, which include interest on the perpetual regulatory tier one securities issued in August 2001 of £60 million (2001 £23 million) were similar to the previous year. This reflected the benefit of retained earnings and lower interest rates.

Other corporate items increased to £162 million compared with £83 million in 2001, which benefited from certain one off items.

THE ROYAL BANK OF SCOTLAND GROUP plc

AVERAGE BALANCE SHEET

	2002 Average balance £m	2002 Interest £m	2002 Rate %	2001 (restated) Average balance £m	2001 (restated) Interest £m	2001 (restated) Rate %
Assets						
Treasury and other eligible bills						
UK	**910**	**24**	**2.6**	231	11	4.8
Overseas	**351**	**6**	**1.7**	277	8	2.9
Loans and advances to banks						
UK	**13,439**	**532**	**4.0**	18,214	834	4.6
Overseas	**9,811**	**304**	**3.1**	7,467	421	5.6
Loans and advances to customers						
UK	**154,202**	**9,141**	**5.9**	137,232	9,584	7.0
Overseas	**35,759**	**1,963**	**5.5**	28,847	1,981	6.9
Debt securities						
UK	**17,950**	**675**	**3.8**	16,632	931	5.6
Overseas	**18,188**	**916**	**5.0**	11,427	651	5.7
Interest-earning assets - banking business						
UK	**186,501**	**10,372**	**5.6**	172,309	11,360	6.6
Overseas	**64,109**	**3,189**	**5.0**	48,018	3,061	6.4
	250,610	**13,561**	**5.4**	220,327	14,421	6.6
- trading business	**78,380**			66,545		
Total interest-earning assets	**328,990**			286,872		
Non-interest-earning assets	**65,898**			63,385		
Total assets	**394,888**			350,257		
Percentage of assets applicable to overseas operations	**32.0%**			27.1%		
Liabilities						
Deposits by banks						
UK	**21,090**	**544**	**2.6**	18,360	760	4.1
Overseas	**9,058**	**215**	**2.4**	8,779	382	4.4
Customer accounts						
UK	**120,522**	**3,067**	**2.5**	113,290	4,137	3.7
Overseas	**36,281**	**790**	**2.2**	26,239	927	3.5
Debt securities in issue						
UK	**24,154**	**965**	**4.0**	20,140	1,031	5.1
Overseas	**8,693**	**209**	**2.4**	8,407	384	4.6
Loan capital						
UK	**13,154**	**640**	**4.9**	10,779	657	6.1
Overseas	**166**	**17**	**10.2**	171	14	8.2
Internal funding of trading business	**(21,430)**	**(735)**	**3.4**	(16,202)	(717)	4.4
Interest-bearing liabilities - banking business						
UK	**158,791**	**4,507**	**2.9**	147,943	5,931	4.0
Overseas	**52,897**	**1,205**	**2.3**	42,020	1,644	3.9
	211,688	**5,712**	**2.7**	189,963	7,575	4.0
- trading business	**75,059**			63,159		
Total interest-bearing liabilities	**286,747**			253,122		

Non-interest-bearing liabilities		
- demand deposits	**28,249**	25,538
- other liabilities	**52,600**	46,249
Shareholders' funds	**27,292**	25,348
Total liabilities and shareholders' funds	**394,888**	350,257
Percentage of liabilities applicable to overseas operations	**30.4%**	27.5%

The analysis between UK and Overseas has been compiled on the basis of location of office.
Interest receivable and interest payable on trading assets and liabilities are included in dealing profits.

THE ROYAL BANK OF SCOTLAND GROUP plc

AVERAGE INTEREST RATES, YIELDS, SPREADS AND MARGINS

	2002 Average rate %	2001 Average rate %
The Group's base rate	**4.0**	5.1
London inter-bank three month offered rates:		
Sterling	**4.1**	5.0
Eurodollar	**1.8**	3.8
Euro	**3.3**	4.3
Yields, spreads and margins of the banking business:		
Gross yield (1)		
Group	**5.4**	6.6
UK	**5.6**	6.6
Overseas	**5.0**	6.4
Interest spread (2)		
Group	**2.7**	2.6
UK	**2.7**	2.6
Overseas	**2.7**	2.5
Net interest margin (3)		
Group	**3.1**	3.1
UK	**3.1**	3.2
Overseas	**3.1**	3.0

(1) Gross yield is the interest rate earned on average interest-earning assets of the banking business.

(2) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.

(3)

Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

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THE ROYAL BANK OF SCOTLAND GROUP plc

INTEGRATION INFORMATION

1. NATWEST INTEGRATION

In the Offer Document for NatWest issued on 16 December 1999, the Group made various estimates in respect of revenue benefits, cost savings and staff reductions. Those estimates were based on the latest available published information at that time, namely NatWest interim accounts for the half year to 30 June 1999 and the Group s accounts for the year to 30 September 1999. On 19 April 2000, the Group revised its estimates upwards as a consequence of the experience gained by having detailed access to NatWest following the acquisition on 6 March 2000. These revised estimates are shown in the tables below as plan . Subsequently, the Group further revised the integration targets upwards in February 2002 for the remainder of the programme based on actual achievements. These targets are shown in the tables below as revised plan .

In February 2003 all integration initiatives were completed and the annualised benefits of £890 million for revenue benefits and £1,440 million for cost savings from the full programme achieved.

	Period ending			
REVENUE BENEFITS	December 2000	December 2001	December 2002	March 2003
Cumulative gross revenue initiatives implemented at the end of each period (£m)				
Plan	120	350	550	595
revised plan			800	890
actual	147	605	805	
				December 2003
Impact on profit before tax (£m)				
Plan	50	120	240	390
revised plan			460	590
actual	52	312	472	

The gross revenue initiatives generated income of £712 million in the year to 31 December 2002 which, net of costs, claims and provisions, added £472 million to profit before tax.

	Period ending			
COST SAVINGS	December 2000	December 2001	December 2002	March 2003
Cumulative cost savings implemented at the end of each period (£m)				
Plan	550	900	1,200	1,340
revised plan			1,340	1,440
actual	653	1,205	1,350	

				December 2003
Impact on profit before tax (£m)				
Plan	290	700	1,050	1,300
revised plan			1,280	1,400
actual	448	1,008	1,284	

	Period ending			
STAFF REDUCTIONS	December 2000	December 2001	December 2002	March 2003
Cumulative total				
Plan	9,000	14,000	16,000	18,000
revised plan			18,000	18,000
actual	13,000	17,000	18,000	

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INTEGRATION INFORMATION (continued)

	Period ending			
INTEGRATION COSTS	December 2000	December 2001	December 2002	March 2003
Cumulative charge (£m)				
Plan	650	1,150	1,350	1,400
revised plan			2,200	2,300
actual	547	1,394	2,204	

2. MELLON REGIONAL FRANCHISE INTEGRATION

In the announcement relating to the acquisition of the Mellon Regional Franchise issued on 17 July 2001, the Group disclosed various estimates in respect of cost savings and revenue benefits. Those estimates were based on the unaudited management accounts of the Mellon Regional Franchise for the four months ended 20 April 2001 and Citizens financial statements for the year ended 31 December 2000. These estimates were confirmed as part of the Group s 2001 year end reporting.

	Period ending		
REVENUE BENEFITS	December 2002	December 2003	December 2004
Cumulative gross revenue initiatives implemented at the end of each period (US$m)			
Plan	57	136	242
actual	70		
Impact on profit before tax (US$m)			
Plan	2	34	104
actual	19		

The gross revenue initiatives generated income of US$43 million in the year to 31 December 2002 which, net of costs and provisions, added US$19 million to profit before tax.

COST SAVINGS	Period ending December 2002	December 2003	December 2004
Cumulative cost savings implemented at the end of each period (US$m)			
Plan	71	95	101
actual	95		
Impact on profit before tax (US$m)			
Plan	46	83	98
actual	70		

INTEGRATION COSTS	Period ending December 2001	December 2002	December 2003	March 2004
Cumulative charge (US$m)				
Plan	101	241	260	267
actual	41	239		

3. MEDFORD

Integration costs relating to the Medford acquisition amounted to US$22 million.

The above discussions should be read in light of the Forward-looking statements on page 48.

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STATUTORY CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

In the consolidated profit and loss account set out below, goodwill amortisation and integration costs are included in the captions prescribed by the Companies Act.

	2002 **£m**	2001 (restated) £m
Interest receivable	**13,561**	14,421
Interest payable	**5,712**	7,575
Net interest income	**7,849**	6,846
Dividend income	**58**	54
Fees and commissions receivable	**5,308**	4,735
Fees and commissions payable	**(965)**	(930)
Dealing profits	**1,462**	1,426
Other operating income	**1,209**	1,052

	7,072	6,337
General insurance		
- earned premiums	**2,383**	1,804
- reinsurance	**(489)**	(429)
Non-interest income	**8,966**	7,712
Total income	**16,815**	14,558
Administrative expenses		
- staff costs*	**4,472**	4,059
- premises and equipment*	**1,006**	873
- other*	**2,253**	1,903
Depreciation and amortisation		
- tangible fixed assets*	**895**	881
- goodwill	**731**	651
Operating expenses	**9,357**	8,367
Profit before other operating charges	**7,458**	6,191
General insurance		
- gross claims	**1,693**	1,263
- reinsurance	**(343)**	(315)
Operating profit before provisions	**6,108**	5,243
Provisions for bad and doubtful debts	**1,286**	984
Amounts written off fixed asset investments	**59**	7
Profit on ordinary activities before tax	**4,763**	4,252

THE ROYAL BANK OF SCOTLAND GROUP plc

STATUTORY CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002 (continued)

	2002	2001 (restated)
	£m	£m
Profit on ordinary activities before tax	**4,763**	4,252
Tax on profit on ordinary activities	**1,556**	1,537
Profit on ordinary activities after tax	**3,207**	2,715
Minority interests (including non-equity)	**133**	90
Profit for the financial year	**3,074**	2,625
Preference dividends	**305**	358

	2,769	2,267
Additional Value Shares dividend	**798**	399
Profit attributable to ordinary shareholders	**1,971**	1,868
Ordinary dividends	**1,267**	1,085
Retained profit	**704**	783
Basic earnings per ordinary share (Note 5)	**68.4p**	67.6p
Adjusted earnings per ordinary share (Note 5)	**144.1p**	127.9p
Diluted earnings per ordinary share (Note 5)	**67.4p**	66.3p

* Integration costs included in operating expenses comprised:

	2002	2001
	£m	£m
Staff costs	**530**	598
Premises and equipment	**127**	64
Other administrative expenses	**298**	188
Depreciation	**2**	25
	957	875

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THE ROYAL BANK OF SCOTLAND GROUP plc

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2002

	2002	2001 (restated)
	£m	£m
Assets		
Cash and balances at central banks	**3,481**	3,093
Items in the course of collection from other banks	**2,741**	3,288
Treasury bills and other eligible bills	**11,459**	10,136
Loans and advances to banks	**44,296**	38,513
Loans and advances to customers	**223,324**	190,492
Debt securities	**67,042**	64,040
Equity shares	**1,886**	1,557
Interests in associated undertakings	**94**	108
Intangible fixed assets	**12,697**	13,325

Tangible fixed assets	**10,485**	8,813
Other assets	**21,031**	21,550
Prepayments and accrued income	**4,353**	3,696
	402,889	358,611
Long-term assurance assets attributable to policyholders	**9,111**	10,248
Total assets	**412,000**	368,859
Liabilities		
Deposits by banks	**54,720**	40,038
Items in the course of transmission to other banks	**1,258**	2,109
Customer accounts	**219,161**	198,995
Debt securities in issue	**33,938**	30,669
Other liabilities	**40,166**	37,357
Accruals and deferred income	**8,626**	7,669
Provisions for liabilities and charges		
- deferred taxation	**1,834**	1,650
- other provisions	**330**	341
Subordinated liabilities		
- dated loan capital	**7,602**	6,681
- undated loan capital including convertible debt	**6,363**	5,849
Minority interests		
- equity	**(11)**	5
- non-equity	**1,850**	580
Shareholders' funds		
- equity	**23,545**	22,287
- non-equity	**3,507**	4,381
	402,889	358,611
Long-term assurance liabilities attributable to policyholders	**9,111**	10,248
Total liabilities	**412,000**	368,859
Memorandum items		
Contingent liabilities and commitments	**144,180**	138,844

THE ROYAL BANK OF SCOTLAND GROUP plc

OVERVIEW OF CONSOLIDATED BALANCE SHEET

Total assets of £412.0 billion at 31 December 2002 were up £43.1 billion, 12%, compared with 31 December 2001 due to business growth.

Treasury bills and other eligible bills increased by £1.3 billion, 13%, to £11.5 billion reflecting liquidity management partially offset by reduced trading activity.

Loans and advances to banks rose £5.8 billion, 15%, to £44.3 billion. Bank placings were up £2.9 billion, 14% to £23.7 billion and reverse repos increased by £2.9 billion, 16%, to £20.6 billion.

Loans and advances to customers were up £32.8 billion, 17%, to £223.3 billion, including reverse repos which increased £10.3 billion to £21.9 billion. Excluding reverse repos, lending increased by £22.5 billion, 13% to £201.4 billion. Growth in customer lending was across all divisions with increases of £11.8 billion in CBFM, £6.3 billion in Retail Banking, £2.6 billion in Retail Direct, £1.4 billion in Ulster Bank and £1.3 billion in Citizens. In US$ terms, customer lending in Citizens was up 20% or US$5.1 billion, including US$0.6 billion arising from the acquisition of Medford.

Debt securities and equity shares increased by £3.3 billion, 5%, to £68.9 billion, principally due to increased holdings in Financial Markets, together with growth in Wealth Management's investment portfolio of investment grade asset-backed securities and Citizens' portfolio of US government securities.

Intangible fixed assets declined by £0.6 billion, 5% to £12.7 billion, primarily because of amortisation. Goodwill arising on acquisitions during the year, £0.4 billion, was largely offset by the effect of exchange rate movements.

All other assets rose by £1.6 billion, 4%, to £42.2 billion. Tangible fixed assets were up £1.7 billion, 19% to £10.5 billion mainly reflecting increased operating lease assets in CBFM. Growth in the mark-to-market value of trading derivatives, up £2.4 billion as a result of increased trading activity, was largely offset by lower settlement balances and other assets.

Long term assurance assets and liabilities attributable to policyholders declined £1.1 billion, 11% to £9.1 billion reflecting the fall in equity markets, partially offset by increased investments.

Deposits by banks increased by £14.7 billion, 37% to £54.7 billion, with repos up £9.7 billion, to £20.1 billion and inter-bank deposits up £5.0 billion, 17% to £34.6 billion.

Customer accounts were up £20.2 billion, 10% at £219.2 billion, including repos up £7.6 billion, 44% to £25.1 billion. Excluding repos, deposits rose £12.6 billion, 7% to £194.1 billion with increases of £5.8 billion in CBFM, £4.9 billion in Retail Banking and £1.6 billion in Citizens. In US$ terms, Citizens grew by US$7.0 billion, 18%, of which US$1.1 billion related to Medford.

Debt securities in issue were up £3.3 billion, 11%, to £33.9 billion primarily to meet the Group's funding requirements.

All other liabilities increased by £3.1 billion, 6% to £52.2 billion. Higher mark-to-market value of trading derivatives, up £3.7 billion, short positions, up £1.8 billion and accruals and deferred income, up £1.0 billion, were partially offset by lower settlement balances.

THE ROYAL BANK OF SCOTLAND GROUP plc

OVERVIEW OF CONSOLIDATED BALANCE SHEET (continued)

Subordinated liabilities were up £1.4 billion, 11% to £14.0 billion. The issue of £1.2 billion (US$1,850 million) US$ denominated and £0.1 billion (230 million) euro denominated dated loan capital and £0.8 billion sterling denominated undated loan capital were partially offset by the £0.2 billion (US$250 million and £40 million) redemption of dated loan capital and the effect of exchange rate movements of £0.5 billion.

Minority interests increased by £1.3 billion to £1.8 billion principally reflecting the issues of 1,250 million and US$750 million trust preferred securities by subsidiaries of the Group.

Shareholders' funds rose £0.4 billion to £27.1 billion principally due to retentions of £0.7 billion and the issue of £0.6 billion of equity shares in respect of scrip dividend and the exercise of share options, partly offset by the redemption of £0.6 billion non-equity preference shares in January 2002 and the adverse effect of exchange rate movements on share premium account, £0.3 billion.

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THE ROYAL BANK OF SCOTLAND GROUP plc

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 **£m**	2001 £m
Profit attributable to ordinary shareholders	**1,971**	1,868
Currency translation adjustments and other movements	**36**	(3)
Revaluation of premises	**(33)**	72
Total recognised gains and losses in the year	**1,974**	1,937
Prior year adjustment arising from the implementation of FRS 19	**(117)**	
Total recognised gains and losses since 31 December 2001	**1,857**	

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 **£m**	2001 £m
Profit attributable to ordinary shareholders	**1,971**	1,868
Ordinary dividends	**(1,267)**	(1,085)
Retained profit for the year	**704**	783
Issue of ordinary and preference shares	**560**	2,759
Perpetual regulatory tier one securities	**-**	835
Redemption of preference shares	**(600)**	-
Other recognised gains and losses	**3**	69
Currency translation adjustment on share premium account	**(283)**	58
Net increase in shareholders' funds as previously reported	**384**	4,504
Perpetual regulatory tier one securities	**-**	(835)

Net increase in shareholders' funds as restated	**384**	3,669
Opening shareholders' funds as previously reported	**27,620**	23,116
Prior year adjustments arising from the implementation of:		
- FRS 19	**(117)**	(117)
- UITF 33	**(835)**	-
Opening shareholders' funds as restated	**26,668**	22,999
Closing shareholders' funds	**27,052**	26,668

THE ROYAL BANK OF SCOTLAND GROUP plc

CONSOLIDATED CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2002

	2002	2001 (restated)
	£m	£m
Net cash inflow from operating activities (note 12)	**13,737**	7,287
Dividends received from associated undertakings	**1**	1

Foreign exchange contracts	-	458	-	458
Interest rate contracts	-	(79)	-	(79)
Commodity contracts	(9)	2	(12)	(19)
Other contracts	-	-	1	1
	(9)	381	(11)	361

Changes in net fair value of derivative assets and liabilities classified as Level 3 in the fair value hierarchy were as follows.

	Six months ended June 30, 2011	2010
(unaudited; millions of Canadian dollars)		
Level 3 net derivative asset/(liability) at beginning of year	**(11)**	(28)
Total unrealized gains/(losses)		
Included in earnings1	**40**	84
Included in OCI	**-**	3
Settlements2	**-**	(7)
Level 3 net derivative asset/(liability) at end of year	**29**	52

1 Gain/(loss) reported within Commodity costs in the Consolidated Statements of Earnings.
2 Represents the realized fair value of Level 3 derivative instruments settled during the six months ended June 30, 2011 and 2010.
3 The Company s policy is to recognize transfers as of the last day of the reporting period. There were no transfers between levels as of June 30, 2011 or 2010.

6. EMPLOYEE FUTURE BENEFITS

Contributions paid and expected to be paid by the Company to the pension and Post-Employment Benefits Other than Pensions (OPEB) plans during 2011 are as follows.

	Pension Benefits		OPEB	
(unaudited; millions of Canadian dollars)	**June 30, 2011**	December 31, 2010	**June 30, 2011**	December 31, 2010
Contributions paid	**29**	89	**2**	9
Contributions expected to be paid in the next six months	**45**		**8**	
Total contributions expected to be paid in 2011	**74**		**10**	