

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
August 12, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 6-K**

Report of Foreign Private Issuer

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

12 August 2004

**The Royal Bank of Scotland Group plc**

42 St Andrew Square  
Edinburgh EH2 2YE  
Scotland  
United Kingdom

(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

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

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-100661) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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**RESULTS SUMMARY**

	First half 2003 £m	<b>Increase</b>		Full year 2003 £m
		<b>£m</b>	<b>%</b>	
Total income	9,080	<b>1,860</b>	<b>20</b>	19,229
Operating expenses	4,606	<b>479</b>	<b>10</b>	9,381
Operating profit before provisions	3,638	<b>494</b>	<b>14</b>	7,653
Profit before tax	2,896	<b>485</b>	<b>17</b>	6,159
Cost:income ratio	50.7%			48.8%
Basic earnings per ordinary share	60.0p	<b>9.9p</b>	<b>17</b>	79.0p
Dividends per ordinary share	14.6p	<b>2.2p</b>	<b>15</b>	50.3p

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**2004 FIRST HALF HIGHLIGHTS**

Income up 20% to £10,940 million.

Underlying margin stable and in line with expectations.

Further efficiency gains - cost:income ratio 46.5%, improved from 50.7% in 2003.

Profit before tax up 17% to £3,381 million.

Customer growth in all divisions.

Average loans and advances to customers up 15%.

Average customer deposits up 8%.

Credit quality remains strong and problem loan metrics continue to improve.

Basic earnings per ordinary share up 17%.

Interim dividend 16.8p per ordinary share, up 15%.

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## **GROUP CHIEF EXECUTIVE'S REVIEW**

Our results for the first half of 2004 demonstrate continuing strong organic growth and the positive impact of recent acquisitions. By delivering strong income growth, a further improvement in our cost:income ratio and stable provisions for bad debts, we increased our profit before tax by 17% to £3,381 million.

It is a positive reflection of the ongoing commitment of our employees that we maintained the momentum of our income growth on top of the substantial increase already delivered since the acquisition of NatWest, and achieved a further improvement in efficiency beyond the very competitive position already established, while managing successfully important acquisitions in a number of divisions. These acquisitions have already strengthened the market position of these divisions and are enhancing their ability to continue to grow their income in future.

In the first half of 2004 we increased our total income by 20%, or 23% on a constant exchange rate basis. All divisions achieved good income growth, reflecting increased customer numbers across the Group, although the results of our US businesses reported in sterling have been impacted by the decline of the US dollar relative to sterling.

The diversity of our income has contributed to the consistency of its growth over recent years. In the first half of 2004, the proportion of total income in the form of non-interest income increased to 60% - a level higher than that achieved by most large banks in the UK and internationally. Furthermore, the composition of our net interest income and non-interest income is well spread. This diversity means that our future income growth is not unduly dependent on any single activity. In particular, the amount of our net interest income derived from UK personal lending amounts to only 9% of our total income.

Net interest income increased by 9%, reflecting strong growth in average loans and advances to customers, which were up by 15%, and in average customer deposits, up by 8%. The Group net interest margin was 2.92%, four basis points lower than in the first half of 2003. Several factors contributed to this small reduction in the Group net interest margin, including increased funding of rental assets, strong organic growth in mortgages, the successful launch of the MINT credit card which attracted significant balances with a 0% interest rate for nine months and the acquisition of First Active plc ('First Active'), with its portfolio of low-risk mortgages. Against this, the Group net interest margin benefited from the growth in lending to commercial and mid-corporate customers and from the impact of rising interest rates. Non-interest income increased by 30%, as a result of both higher insurance premium income, reflecting organic growth in motor and home insurance and the acquisition in September 2003 of Churchill Insurance Group PLC ('Churchill'), and good growth in fees and commissions.

Our Group cost:income ratio improved from 50.7% in the first half of 2003 to 46.5% in the first half of 2004. This improvement has been achieved despite two areas of increased investment activity. First, as indicated previously, we have continued to invest in the three-year Group Efficiency Programme which was launched last year. A number of initiatives have been introduced in the first half of 2004 and others will follow in the second half. These initiatives will make significant improvements to our processes, which will be visible to our employees and our customers. To date, the Group Efficiency Programme has been self-financing. We remain confident that it will now begin to deliver good payback on the investment made, and will lead to a long term improvement in the Group cost:income ratio. Secondly, CBFM has been investing to enhance its debt capital market capability overseas, particularly in the US. In the first half of 2004, the Group cost:income ratio benefited from the acquisition of Churchill.

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### **GROUP CHIEF EXECUTIVE'S REVIEW (continued)**

The charge for provisions for bad and doubtful debts in the first half of 2004 was similar to the second half of 2003, and represented a smaller proportion of total loans and advances to customers. Credit metrics continue to point to stable credit quality overall, with improvements in some areas. The total of risk elements in lending and potential problem loans continues to decline, despite the strong growth in loans and advances. Balance sheet provisions as a percentage of risk elements in lending and potential problem loans have increased from 65% in June 2003 to 68% in December 2003 and 71% in June 2004.

At 30 June 2004 our tier 1 capital ratio was 8.1% and our total capital ratio was 12.5%; both ratios have been increased by the placing of new ordinary shares in May, when the acquisition of Charter One Financial, Inc (Charter One') was announced.

### **REVIEW OF DIVISIONS**

**Corporate Banking and Financial Markets (CBFM)** increased its income by 12% and its contribution by 17% to £2,041 million (2003 - £1,739 million). At constant exchange rates, CBFM's income was up by 14% and its contribution by 20%.

Net interest income was up by 7% (or by 10%, excluding the cost of funding rental assets), non-interest income by 14%. The increase in net interest income reflects 7% growth in average loans and advances to customers and 7% growth in average customer deposits. Within loans and advances CBFM achieved good growth in lending to commercial and mid-corporate customers, while lending to large corporates remained subdued. Net interest margin was higher, as a result of the change in mix between corporate and commercial lending. The growth in non-interest income reflects increases in net fees and commissions, dealing profits and income from rental assets.

CBFM's expenses were up by 15% (or by 14%, excluding operating lease depreciation). This increase included costs necessary to support strong growth in overseas operations and investments in revenue-growth initiatives, particularly in the US. Provisions were down from £404 million in the first half of 2003 to £315 million in the first half of 2004.

**Retail Banking** increased its income by 8% and its contribution by 6% to £1,642 million (2003 - £1,554 million).

Net interest income was up by 5%, non-interest income by 12%. The increase in net interest income reflects 15% growth in average loans and advances to customers, within which mortgages were up by 18%, personal loans by 12% and business loans by 11%. Average customer deposits were up by 8%. The mix effect of the increased proportion of mortgages resulted in a reduction in Retail Banking's net interest margin. The increase in non-interest income reflects good growth in the distribution of general insurance and bancassurance and other long-term savings products. The number of Retail Banking personal customers increased by 459,000, and small business customers by 26,000, since June 2003.

Against the 8% growth in income, the increase in Retail Banking's costs was contained to 5%. Provisions were up from £135 million in the first half of 2003 to £186 million in the first half of 2004, reflecting the seasoning of the NatWest personal loan portfolio which had grown strongly in previous years, together with a higher incidence of fraud.

**Retail Direct** increased its income by 15% and its contribution by 17% to £480 million (2003 - £411 million). Higher interest income reflected 21% growth in average loans and advances to customers, spread across credit cards, mortgages and personal loans. The new MINT branded credit card was launched successfully in December 2003 to replace RBS Advanta. By the end of June, MINT had issued 560,000 credit cards and had attracted significant balances with a 0% introductory interest rate for nine months, leading to a reduction in Retail Direct's

net interest margin in the first half of 2004. Retail Direct increased its customer accounts by 3.1 million since June 2003 (including through acquisitions). Retail Direct acquired the US credit card business of People's Bank in March 2004 and the leading European internet payment specialist Bibit in May 2004. Since the end of June, Retail Direct has reached agreement to acquire Lynk Systems, Inc., a merchant acquisition business in the United States.

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**GROUP CHIEF EXECUTIVE'S REVIEW (continued)**

**Manufacturing's** costs increased by 17% to £1,122 million (2003 - £962 million). Of the £160 million increase, £50 million reflects manufacturing activities transferred from Churchill with effect from January 2004 to Manufacturing, which is now supporting both Direct Line and Churchill. The balance of the increase in costs was required to support higher business volumes, to upgrade the Group's regional property portfolio and to invest in Group Efficiency Programme initiatives which are expected to improve the Group's efficiency in future. A number of initiatives were introduced in the first half of 2004, including a sales prompt system on screens in NatWest branches and in RBS and NatWest telephony, enhanced fraud prevention and the conversion of branch reports from paper to screen. Further initiatives planned for the second half of 2004 include the roll-out of image and workflow capability to service centres, the introduction of a new mortgage platform (replacing seven separate mortgage platforms across the Group) and the introduction of an on-line customer query management system.

**Wealth Management** increased its income by 14% and its contribution by 13% to £231 million (2003 - £204 million). These results reflect good growth in business volumes, higher net interest margin, higher fee income related to improving stock markets and the initial contribution from Bank von Ernst, which was acquired in November 2003. Investment assets under management increased to £21.9 billion (2003 - £16.8 billion).

**RBS Insurance** increased its income by 89% and its contribution by 55% to £395 million (2003 - £255 million). As a result of organic growth in Direct Line and the acquisition of Churchill, RBS Insurance increased the numbers of its in-force motor and home insurance policies which both grew by 3.5 million since June 2003. RBS Insurance now has 13.2 million motor and home policies in the UK and 1.5 million motor policies in Continental Europe, and is the second largest general insurer in the UK. The first stages of the technology conversion from Churchill's to Direct Line's technology platform have been completed successfully. Excluding Churchill, which was acquired in September 2003, RBS Insurance increased its income by 17% and its contribution by 13%.

**Ulster Bank** increased its income by 25% and its contribution by 30% to £170 million (2003 - £131 million). As a result of organic growth in Ulster Bank and the acquisition of First Active, which was completed on 5 January 2004, average loans and advances grew by 67% and average customer deposits by 37%, while customers increased by 431,000 since June 2003. Direct mortgages branded First Active were launched in the UK in June. The inclusion of First Active, with its focus on personal mortgages and deposits, and strong organic growth in mortgage lending gave rise to a reduction in Ulster Bank's net interest margin. Excluding the acquisition of First Active and the disposal of NCB Stockbrokers in October 2003, Ulster Bank increased its income by 9% and its contribution by 12%.

**Citizens** contribution was affected by the weakening of the US dollar relative to Sterling and at £423 million was down £2 million. Citizens increased its US dollar income by 11% and its contribution by 13% to \$771 million (2003 - \$685 million). Average loans and advances to customers grew by 32% and average customer deposits by 19%, while personal customers increased by 262,000 and business customers by 34,000 since June 2003. Between the first half of 2003 and the first half of 2004, the average US dollar/sterling exchange rate declined from 1.611 to 1.822. As a result, Citizens' income in sterling was down by 2% and its contribution was flat at £423 million (2003 - £425 million). In May 2004, Citizens announced the acquisition of Charter One, subject to regulatory and shareholder approvals. The acquisition will extend its branch network into adjacent north-eastern and mid-western states. The combination of Citizens and Charter One will create a top ten bank in the United States, by assets and by deposits.

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**GROUP CHIEF EXECUTIVE'S REVIEW (continued)**

**Acquisitions**

In the first half of 2004 we completed the acquisitions of First Active in Ireland, Roxborough Manayunk Bank and the credit card business of People's Bank in the United States and the internet payment specialist Bibit in Continental Europe. The integrations of these acquisitions, and the various acquisitions made last year, are fully on track, and we remain confident that they will deliver the benefits expected at the time of their acquisitions. In May, we announced the acquisition of Charter One, which is expected to be completed by the fourth quarter of 2004. In addition to these acquisitions, we have reached agreement to distribute credit cards to the customers of Kroger, one of the largest supermarket groups in the United States, and to distribute consumer loan products to the customers of Tchibo, a leading retailer in Germany. Since the end of June, we have reached agreement to acquire Lynk Systems, Inc., a merchant acquisition business in the United States.

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

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**FINANCIAL REVIEW**

**Profit**

Profit before tax was up 17%, from £2,896 million to £3,381 million.

**Total income**

The Group achieved strong growth in income during the first half of 2004. Total income was up 20% or £1,860 million to £10,940 million. Excluding acquisitions and at constant exchange rates, total income was up by 11%, £1,022 million.

**Net interest income** increased by 9% to £4,378 million and represents 40% of total income (2003 - 44%). Excluding acquisitions and at constant exchange rates, net interest income was up 8%. Average loans and advances to customers and average customer deposits grew by 15% and 8% respectively.

**Non-interest income** increased by 30% to £6,562 million and represents 60% of total income (2003 - 56%). Excluding acquisitions and at constant exchange rates, non-interest income was up 14%. Fees receivable were up 14% with good growth in lending, transmission and card related fees reflecting higher volumes. General insurance premium income more than doubled, reflecting volume growth in both motor and home insurance products, and the acquisition of Churchill in September 2003. In Financial Markets, volumes increased reflecting growth in customer-driven products such as interest rate protection, mortgage securitisation and foreign exchange. Income

from rental assets grew by 22% to £618 million, reflecting growth in both the operating lease and investment property portfolios.

### **Net interest margin**

The Group's net interest margin at 2.92% was in line with expectations. Excluding the acquisition of First Active, the Group's net interest margin was 2.94% down from 2.96% in 2003, principally as a result of the increased levels of mortgage business and the funding cost of growth in rental assets, the income from which is included in other income.

### **Operating expenses**

Operating expenses rose by 10% to £5,085 million in support of strong growth in business volumes together with investment expenditure relating to efficiency enhancement and business development initiatives. Within operating expenses, integration costs relating to Churchill and Citizens acquisitions were £57 million compared with £182 million in 2003, a large proportion of which relates to the integration of NatWest.

### **Cost:income ratio**

As income growth has exceeded the growth in expenses, the Group's ratio of operating expenses to total income improved further to 46.5% from 50.7% .

### **Net insurance claims**

General insurance claims, after reinsurance, increased by 106% to £1,723 million. Excluding Churchill, the increase was 21%, consistent with volume growth in the component parts of RBS Insurance.

### **Provisions**

The profit and loss charge for bad and doubtful debts and amounts written off fixed asset investments was £751 million compared with £742 million in the first half of 2003. This reflects an improving trend overall, with the annualised charge for bad and doubtful debts in 2004 representing 0.49% of gross loans and advances to customers compared with 0.59% for the first half of 2003.

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## **FINANCIAL REVIEW (continued)**

### **Credit quality**

There has been no material change during the first half of 2004 in the distribution by grade of the Group's total risk assets.

The ratio of risk elements in lending to gross loans and advances to customers improved to 1.76% at 30 June 2004 (31 December 2003 □ 2.01%; 30 June 2003 □ 2.01%) .

Risk elements in lending and potential problem loans represented 1.92% of gross loans and advances to customers at 30 June 2004 (31 December 2003 □ 2.24%; 30 June 2003 □ 2.40%) .



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Provision coverage of risk elements in lending and potential problem loans improved to 71% at 30 June 2004 (31 December 2003 □ 68%; 30 June 2003 □ 65%).

### **Earnings and dividends**

Basic earnings per ordinary share increased by 17%, from 60.0p to 69.9p.

An interim dividend of 16.8p per ordinary share, an increase of 15%, will be paid on 8 October 2004 to shareholders registered on 13 August 2004. The interim dividend is covered 4.0 times by earnings attributable to ordinary shareholders.

### **Balance sheet**

Total assets were £519 billion at 30 June 2004, 14% higher than total assets of £455 billion at 31 December 2003.

Lending to customers, excluding repurchase agreements and stock borrowing ("reverse repos"), increased in the first half of 2004 by 12% or £27 billion to £255 billion. Customer deposits, excluding repurchase agreements and stock lending ("repos"), grew in the first half of 2004 by 5% or £11 billion to £221 billion. Compared with 30 June 2003, average loans and advances to customers increased by 15%, £30 billion, and average customer deposits were up 8%, £15 billion.

Capital ratios at 30 June 2004 were 8.1% (tier 1) and 12.5% (total), against 7.4% (tier 1) and 11.8% (total) at 31 December 2003.

### **Profitability**

The after-tax return on ordinary equity was 15.7% compared with 14.3% for the first half of 2003. This is based on profit attributable to ordinary shareholders and average ordinary equity.

### **Acquisitions**

The Group made a number of acquisitions during the first half of 2004. These included:

In January 2004, Ulster Bank completed the acquisition of First Active plc, for a cash consideration of €887 million.

In March 2004, RBS completed the purchase of the credit card portfolio of People's Bank in the US.

In May 2004, Citizens announced the acquisition of Charter One Financial, Inc. for a cash consideration of approximately US\$10.5 billion. This transaction is subject to regulatory and Charter One shareholder approval and is expected to be completed by the fourth quarter of 2004.

In August 2004, the Group agreed to acquire Lynk Systems Inc., a merchant acquiring business in the United States for a total consideration of \$525 million. The transaction is subject to regulatory approvals and is expected to be completed in the third quarter of 2004.

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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 1985.

	First half 2003	Full year 2003 (Audited)
	£m	£m
<b>Net interest income</b>	4,025	8,301
Non-interest income (excluding general insurance)	3,878	7,805
General insurance net premium income	1,177	3,123
<b>Non-interest income</b>	5,055	10,928
<b>Total income</b>	9,080	19,229
Administrative expenses	3,784	7,699
Depreciation and amortisation		
- tangible fixed assets	449	919
- goodwill	373	763
<b>Operating expenses*</b>	4,606	9,381
<b>Profit before other operating charges</b>	4,474	9,848
General insurance net claims	836	2,195
<b>Operating profit before provisions</b>	3,638	7,653
Provisions	742	1,494
<b>Profit on ordinary activities before tax</b>	2,896	6,159
Tax on profit on ordinary activities	927	1,910
<b>Profit on ordinary activities after tax</b>	1,969	4,249
Minority interests (including non-equity)	87	210
<b>Profit after minority interests</b>	1,882	4,039
Preference dividends	137	261
Additional Value Shares dividend	1,745	3,778
	-	1,463
<b>Profit attributable to ordinary shareholders</b>	1,745	2,315
Ordinary dividends	431	1,490
<b>Retained profit</b>	1,314	825
<b>Basic earnings per ordinary share (Note 4)</b>	60.0p	79.0p

**Diluted earnings per ordinary share (Note 4)**

	59.5p	78.4p
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\* Integration costs included in operating expenses comprise:

	£m	£m
Administrative expenses	181	229
Depreciation	1	-
	<u>182</u>	<u>229</u>

## 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.

	First half 2003 £m	Increase %	Full year 2003 £m
Corporate Banking and Financial Markets	1,739	17	3,620
Retail Banking*	1,554	6	3,170
Retail Direct*	411	17	881
Manufacturing*	(962)	(17)	(2,033)
Wealth Management*	204	13	402
RBS Insurance*	255	55	609
Ulster Bank	131	30	273
Citizens	425	-	857
Central items	(306)	(34)	(628)
	<u>3,451</u>		<u>7,151</u>
Profit before goodwill amortisation and integration costs	3,451	12	7,151
Goodwill amortisation	(373)		(763)
Integration costs	(182)		(229)
	<u>2,896</u>	17	<u>6,159</u>

\*prior periods have been restated to reflect the transfer in 2004 of certain activities from Wealth Management to Retail Banking and from other divisions, principally RBS Insurance, to Manufacturing (see page 55).

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**CORPORATE BANKING AND FINANCIAL MARKETS**

	First half 2003 £m	Full year 2003 £m
Net interest income excluding funding cost of rental assets	1,297	2,653
Funding cost of rental assets	(151)	(329)
Net interest income	1,146	2,324
Fees and commissions receivable	704	1,537
Fees and commissions payable	(101)	(220)
Dealing profits (before associated direct costs)	913	1,661
Income on rental assets	507	1,088
Other operating income	125	307
Non-interest income	2,148	4,373
Total income	3,294	6,697
Direct expenses		
- staff costs	710	1,410
- other	189	394
- operating lease depreciation	252	518
	1,151	2,322
Contribution before provisions	2,143	4,375
Provisions	404	755
Contribution	1,739	3,620
	£bn	£bn
Total assets**	234.4	219.0
Loans and advances to customers □ gross**		
- banking book	98.1	99.3
- trading book	5.9	5.0

Rental assets		7.7	10.1
Customer deposits**		67.6	68.6
Weighted risk assets	□ banking	139.9	140.0
	□ trading	13.2	12.6
		<hr/>	<hr/>

\*\* excluding reverse repos and repos

**Corporate Banking and Financial Markets ("CBFM")** is the largest provider of banking services and structured financing to medium and large businesses in the UK with a growing presence for debt financing and risk management solutions to large businesses in Europe and North America. It supplies 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 acquisition finance, trade finance, leasing and factoring. Treasury and capital markets products are offered through Financial Markets, which is a leading provider of debt, foreign exchange and derivatives products.

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### **CORPORATE BANKING AND FINANCIAL MARKETS (continued)**

Contribution increased compared with the first half of 2003 by 17% or £302 million to £2,041 million reflecting growth in all business areas.

Total income was up 12% or £388 million to £3,682 million. Strong growth in all locations was partially masked by the effect of stronger sterling on the translation of income from businesses in Europe and North America. At constant exchange rates, income rose by 14% and contribution was up by 20%.

Net interest income, excluding the cost of funding rental assets, increased 10% or £128 million to £1,425 million. In the banking businesses, average loans and advances to customers increased by 7% or £6.6 billion to £99.6 billion and average customer deposits increased by 7% or £4.4 billion to £64.1 billion. Net interest margin improved due to strong growth in our UK small and medium sized relationships.

Despite subdued demand from the large corporate sector, fees receivable rose by £104 million, 15% to £808 million with growth driven by lending, structured finance and capital markets activities. Fees payable including brokerage were up £36 million to £137 million due to greater volumes in the trading and structuring businesses.

Dealing profits, which is income before associated direct costs from our role in servicing customer demand for interest and currency rate protection and asset-backed securitisation, rose by 10% to £1,005 million. Favourable customer activity resulting from the movements in the major world currencies assisted the growth in the currency rate protection business. In addition, increased diversification in customer dealing revenues in the US compensated for lower market volumes for residential mortgage re-financing than in the same period in 2003.

The asset rental business, comprising operating lease assets and investment properties continued to grow strongly. Average rental assets increased to £10.6 billion and net income after deducting funding costs and operating lease depreciation increased by 13%, £14 million to £118 million.

Other operating income also grew strongly, up £35 million, 28% to £160 million.

Direct expenses increased by 15% or £175 million to £1,326 million. Excluding operating lease depreciation, operating expenses were up 14%, £124 million. This was mainly due to the mix effect of faster growth in businesses with inherently higher cost income ratios, such as Capital Markets and our overseas businesses together with the impact of investment spend in new revenue initiatives in the US. Revenue in our UK franchise continued to grow at a rate faster than costs.

The charge for provisions for bad debts and amounts written off fixed asset investments amounted to £315 million, a decrease of 22%, £89 million compared with the first half of 2003. The reduction reflects a continuing improvement in corporate credit quality and economic environment.

## THE ROYAL BANK OF SCOTLAND GROUP plc

**RETAIL BANKING**

	<b>First half 2004 £m</b>	First half 2003* £m	Full year 2003* £m
Net interest income	<b>1,514</b>	1,437	2,959
Non-interest income	<b>817</b>	731	1,514
Total income	<b>2,331</b>	2,168	4,473
Direct expenses			
- staff costs	<b>403</b>	381	793
- other	<b>100</b>	98	237
	<b>503</b>	479	1,030
Contribution before provisions	<b>1,828</b>	1,689	3,443
Provisions	<b>186</b>	135	273
Contribution	<b>1,642</b>	1,554	3,170
	<b>£bn</b>	£bn	£bn
Total banking assets	<b>70.2</b>	60.0	63.9
Loans and advances to customers □ gross			
- mortgages	<b>41.2</b>	33.6	36.6
- other	<b>26.9</b>	24.2	25.2
Customer deposits	<b>68.9</b>	64.2	66.5
Weighted risk assets	<b>47.6</b>	41.2	42.9

\*prior periods have been restated to reflect the transfer in 2004 of certain activities from Wealth Management.

**Retail Banking** comprises both The Royal Bank of Scotland and NatWest retail brands. It offers a full range of banking products and related financial services to the personal, premium and small business markets through a network of branches, telephone, ATMs and the internet.

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The division continued to achieve strong volume growth across all key product areas - current accounts, mortgages, loans and savings. Income increased by 8% or £163 million to £2,331 million, and contribution by 6% or £88 million to £1,642 million.

Net interest income rose by 5% or £77 million to £1,514 million, reflecting the continued growth in customer advances and the strong growth in mortgage lending which is lower risk and finer margin. Average loans to customers, excluding mortgages, grew by 11% or £2.5 billion to £25.7 billion. Average mortgage lending grew by 18% or £6.0 billion to £38.6 billion. Average customer deposits increased by 8% or £4.9 billion to £64.6 billion. A change in the mix with a higher bias towards mortgage lending led to a reduction in net interest margin. The number of personal customers increased by 459,000 and small business customers by 26,000 since June 2003.

Non-interest income rose by 12% or £86 million to £817 million. This reflected solid growth in general insurance commission income and higher investment business income, including bancassurance.

Direct expenses increased by 5% or £24 million to £503 million. Staff expenses increased 6% or £22 million to £403 million partly due to investment in additional customer facing staff. Other expenses increased by 2% or £2 million to £100 million reflecting tight cost management.

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THE ROYAL BANK OF SCOTLAND GROUP plc

### RETAIL BANKING (continued)

The charge for provisions for bad and doubtful debts increased by £51 million to £186 million. The increased charge reflects growth in lending over recent years particularly in NatWest since its acquisition, together with a higher incidence of fraud, which has resulted in some deterioration in recovery rates.

The overall quality of the loan portfolio, by probability of default gradings, is in line with expectations.

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THE ROYAL BANK OF SCOTLAND GROUP plc

### RETAIL DIRECT

	<b>First half 2004 £m</b>	First half 2003* £m	Full year 2003* £m
Net interest income	<b>453</b>	400	849
Non-interest income	<b>544</b>	468	986

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Total income	<b>997</b>	868	1,835
Direct expenses			
- staff costs	<b>120</b>	101	211
- other	<b>225</b>	209	446
	<b>345</b>	310	657
Contribution before provisions	<b>652</b>	558	1,178
Provisions	<b>172</b>	147	297
Contribution	<b>480</b>	411	881
	<b>£bn</b>	£bn	£bn
Total assets	<b>25.9</b>	20.3	21.9
Loans and advances to customers - gross			
- mortgages	<b>8.8</b>	7.6	8.2
- other	<b>16.4</b>	12.9	13.8
Customer deposits	<b>4.4</b>	4.5	4.4
Weighted risk assets	<b>20.4</b>	15.3	16.8

\*prior periods have been restated to reflect the transfer in 2004 of certain activities to Manufacturing.

**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, Direct Line Financial Services, Lombard Direct, WorldPay Limited, the Group's internet banking platform, the Primeline brand, and the consumer lending business in Continental Europe, all of them offering products to customers through direct channels. In March 2004, RBS completed the purchase of the credit card portfolio from People's Bank in the US and, in May 2004, completed the acquisition of Bibit, the international internet payment specialist.

Contribution increased by 17% or £69 million to £480 million.

Total income was up 15% or £129 million to £997 million, reflecting continued strong growth in cards, supermarket banking (TPF), mortgages and personal loans. Net interest income was up 13% or £53 million to £453 million. Average lending rose by 21% to £23.4 billion, of which average mortgage lending was 18% higher at £8.5 billion mainly in The One account. Average customer deposits were £4.3 billion. The new MINT branded credit card was launched successfully in December 2003 to replace RBS Advanta. By the end of June, MINT had issued 560,000 credit cards and had attracted significant balances with a 0% introductory interest rate for nine months, leading to a reduction in Retail Direct's net interest margin in the first half of 2004. During the twelve months to 30 June 2004, the total number of customer accounts increased by 3.1 million, of which 1.9 million was in the first half of 2004.

Non-interest income was up 16% or £76 million to £544 million. Increased volumes led to good growth in fee income generally.

Direct expenses increased by 11% or £35 million to £345 million. Staff costs were up 19%, due to increased headcount to support higher business volumes and the impact of acquisitions. Other expenses increased by 8%, with increased processing and operational costs in support of significantly higher business levels.

The charge for provisions for bad debts increased by £25 million or 17% to £172 million, reflecting the growth in lending volumes and the acquisition of the credit card portfolio from People's Bank. Credit metrics across the



portfolio remain stable.

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THE ROYAL BANK OF SCOTLAND GROUP plc

## MANUFACTURING

	<b>First half 2004 £m</b>	First half 2003* £m	Full year 2003* £m
Staff costs	<b>377</b>	293	644
Other costs	<b>745</b>	669	1,389
Total manufacturing costs	<b>1,122</b>	962	2,033
Analysis:			
Group Technology	<b>391</b>	319	686
Group Purchasing and Property Operations	<b>403</b>	352	718
Customer Support and other operations	<b>328</b>	291	629
Total manufacturing costs	<b>1,122</b>	962	2,033

\*prior periods have been restated to reflect the transfer in 2004 of certain activities from RBS Insurance. These increased costs by £78 million in the first half of 2004; £37 million in the first half of 2003 and £109 million for the full year 2003.

**Manufacturing** supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services.

*Manufacturing drives optimum efficiencies and supports income growth across multiple brands and channels by using a single scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and has become the centre of excellence for managing large scale and complex change.*

*The expenditure incurred by Manufacturing relates to shared costs principally in respect of the Group's UK banking and insurance operations. These costs reflect activities which are shared between the various customer-facing divisions and consequently 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's costs increased by £160 million, 17% to £1,122 million.

Of the £160 million increase, £50 million reflects technology and property operations transferred from Churchill with effect from January 2004 to Manufacturing, which is now supporting both Direct Line and Churchill. The balance of the increase in costs was required to support higher business volumes, to upgrade the Group's regional

property portfolio and to invest in Group Efficiency Programme initiatives which are expected to improve the Group's efficiency in future. A number of initiatives were introduced in the first half of 2004, including a sales prompt system on screens in NatWest branches and in RBS and NatWest telephony, enhanced fraud prevention and the conversion of branch reports from paper to screen. Further initiatives planned for the second half of 2004 include the roll-out of image and workflow capability to service centres, the introduction of a new mortgage platform which will replace seven separate mortgage platforms across the Group and the introduction of an on-line customer query management system.

## THE ROYAL BANK OF SCOTLAND GROUP plc

**WEALTH MANAGEMENT**

	<b>First half 2004 £m</b>	First half 2003* £m	Full year 2003* £m
Net interest income	<b>243</b>	221	457
Non-interest income	<b>210</b>	176	352
Total income	<b>453</b>	397	809
Expenses			
- staff costs	<b>141</b>	131	259
- other	<b>79</b>	65	139
	<b>220</b>	196	398
Contribution before provisions	<b>233</b>	201	411
Provisions	<b>(2)</b>	3	(9)
Contribution	<b>231</b>	204	402
	<b>£bn</b>	£bn	£bn
Total assets	<b>14.4</b>	14.0	15.2
Investment management assets <input type="checkbox"/> excluding deposits	<b>21.9</b>	16.8	22.3
Customer deposits	<b>30.7</b>	29.5	29.1
Weighted risk assets	<b>8.8</b>	8.7	9.1

\*prior periods have been restated to reflect the transfer in 2004 of certain activities to Retail Banking and Manufacturing. This includes £5 billion of investment assets managed by the Affluent Banking business.

**Wealth Management** comprises Coutts Group, Adam & Company, The Royal Bank of Scotland International, and NatWest Offshore. The Miami based private banking operations of Coutts Group were sold to Santander Central Hispano in July 2003, and in November 2003, Coutts Group completed the acquisition of Bank von Ernst.

Contribution at £231 million was £27 million or 13% higher than 2003.

Total income increased by 14% or £56 million to £453 million.

Net interest income increased by 10% or £22 million to £243 million. The increase is largely due to growth in lending volumes and the benefit of higher interest rates on deposit income together with the initial contribution from Bank von Ernst, which was acquired in November 2003.

Non-interest income increased by 19% or £34 million to £210 million, reflecting higher fee income as a result of the improvement in equity markets.

Investment management assets increased by £5.1 billion or 30% to £21.9 billion.

Expenses were up by 12% or £24 million to £220 million, reflecting inflation related increases together with the impact of the acquisition of Bank von Ernst.

The charge for provisions for bad and doubtful debts was £2 million compared with a net release of provisions of £3 million in the first half of 2003.

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THE ROYAL BANK OF SCOTLAND GROUP plc

**RBS INSURANCE**

	<b>First half 2004 £m</b>	First half 2003* £m	Full year 2003* £m
Earned premiums	<b>2,631</b>	1,387	3,627
Reinsurers' share	<b>(215)</b>	(210)	(504)
	<b>2,416</b>	1,177	3,123
Insurance premium income	<b>(210)</b>	(7)	(161)
Net fees and commissions	<b>213</b>	111	283
Other income	<b>2,419</b>	1,281	3,245
Total income	<b>2,419</b>	1,281	3,245
Expenses			
- staff costs	<b>152</b>	90	222
- other	<b>149</b>	100	219
	<b>301</b>	190	441

Gross claims	<b>1,827</b>	1,002	2,644
Reinsurers' share	<b>(104)</b>	(166)	(449)
Net claims	<b>1,723</b>	836	2,195
Contribution	<b>395</b>	255	609
In-force policies (000)			
- motor: UK	<b>8,109</b>	4,861	8,086
- motor: Continental Europe	<b>1,538</b>	1,308	1,425
- home: UK	<b>5,125</b>	1,647	5,154
Gross insurance reserves □ total (£m)	<b>7,024</b>	3,323	6,582

\*prior periods have been restated to reflect the transfer in 2004 of certain activities to Manufacturing and to recognise a reclassification of income from net fees and commissions to insurance premium income.

**RBS Insurance** comprising Direct Line Group and Churchill Insurance Group, which was acquired in September 2003, sells and underwrites retail, commercial and wholesale insurance on the telephone, the internet, and through brokers and intermediaries. The Retail Divisions of Direct Line and Churchill sell general insurance and motor breakdown services direct to the customer. The Partnership Division is a leading wholesale provider of insurance and motoring related services. Through its International Division, Direct Line sells insurance in Spain, Germany and Italy. The Intermediary and Broker Division sells general insurance products through its network of brokers and intermediaries.

Contribution was boosted by the acquisition of Churchill and increased by 55% or £140 million to £395 million.

Total income was up 89% or £1,138 million to £2,419 million. Excluding Churchill, total income grew by 17%.

After reinsurance, insurance premium income was up 105% or £1,239 million to £2,416 million. Excluding Churchill, insurance premium income (net of reinsurance) grew by 18%. At 30 June 2004, the number of UK in-force motor insurance policies was 8.1 million, the number of UK in-force home insurance policies was 5.1 million and the number of in-force motor policies in Continental Europe was 1.5 million.

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**RBS INSURANCE (continued)**

Other income net of commissions payable was down from £104 million to £3 million. Excluding Churchill, which included £180 million commissions payable to brokers and intermediaries, other income was up 7% due to higher investment income.

Expenses increased by 58% or £111 million to £301 million. Excluding Churchill, expenses increased by 4%.

Net claims, after reinsurance, increased by 106% or £887 million to £1,723 million. Excluding Churchill, net claims increased by 21%, consistent with volume growth in the component parts and reflect a slight change in the mix of

products.

The UK combined operating ratio, which includes manufacturing costs, was 92.7% compared with 91.2% for the full year 2003. Excluding Churchill, the UK ratio improved from 89.1% for the first half of 2003 to 89.0%.

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THE ROYAL BANK OF SCOTLAND GROUP plc

**ULSTER BANK**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Net interest income	<b>256</b>	190	396
Non-interest income	<b>95</b>	91	185
Total income	<b>351</b>	281	581
Expenses			
- staff costs	<b>95</b>	79	164
- other	<b>68</b>	53	112
	<b>163</b>	132	276
Contribution before provisions	<b>188</b>	149	305
Provisions	<b>18</b>	18	32
Contribution	<b>170</b>	131	273
	<b>£bn</b>	£bn	£bn
Total assets	<b>22.8</b>	14.2	15.6
Loans and advances to customers - gross			
- mortgages	<b>6.6</b>	2.2	2.8
- other	<b>11.1</b>	8.2	8.8
Customer deposits	<b>11.9</b>	9.0	9.7
Weighted risk assets	<b>15.7</b>	10.3	11.0
Average exchange rate - €/£	<b>1.485</b>	1.460	1.445
Spot exchange rate - €/£	<b>1.490</b>	1.437	1.416

**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. In January 2004, Ulster Bank completed the acquisition of First Active plc.

Contribution increased by 30% or £39 million to £170 million.

Total income increased by 25% or £70 million to £351 million reflecting strong volume growth, particularly in residential mortgages. Adjusting for First Active and the disposal in October 2003 of NCB Stockbrokers ('NCB'), income increased by 9%. The number of customers increased since June 2003 by 431,000, of which 376,000 relate to First Active.

Net interest income rose by 35% or £66 million to £256 million, reflecting strong growth in both average customer lending and deposits. Excluding First Active and NCB, net interest income increased by 9%. Overall net interest margin declined reflecting organic growth in mortgage loans together with the acquisition of First Active which has a preponderance of mortgage lending.

Non-interest income increased by £4 million to £95 million. Strong growth in lending fees and sales of treasury products was partially offset by reduced brokerage fees following the disposal of NCB.

Expenses increased by 23% or £31 million to £163 million. This reflected the annual pay award, additional costs to support the growth in business and the acquisition of First Active.

The charge for provisions for bad debts including First Active, was unchanged at £18 million reflecting improved asset quality.

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**CITIZENS**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Net interest income	<b>645</b>	638	1,310
Non-interest income	<b>244</b>	271	514
Total income	<b>889</b>	909	1,824
Expenses			
- staff costs	<b>242</b>	254	505
- other	<b>184</b>	186	374
	<b>426</b>	440	879

Contribution before provisions	<b>463</b>	469	945
Provisions	<b>40</b>	44	88
Contribution	<b>423</b>	425	857
	<b>\$bn</b>	\$bn	\$bn
Total assets	<b>79.5</b>	68.2	76.8
Loans and advances to customers □ gross	<b>47.4</b>	37.5	43.5
Customer deposits	<b>66.4</b>	57.5	62.8
Weighted risk assets	<b>52.6</b>	44.1	50.8
Average exchange rate - US\$/£	<b>1.822</b>	1.611	1.635
Spot exchange rate - US\$/£	<b>1.814</b>	1.650	1.786

**Citizens** is engaged in retail and corporate banking activities through its branch network in the states of Rhode Island, Connecticut, Massachusetts, New Hampshire, Pennsylvania, Delaware and New Jersey. Citizens was ranked eleventh largest commercial banking organisation in the US based on deposits as at 31 March 2004. In January 2004, Citizens completed the acquisition of Thistle Group Holdings, Co. the holding company of Roxborough Manayunk Bank which was converted to Citizens' systems in February 2004. In May 2004, Citizens announced the acquisition of Charter One Financial, Inc. This transaction is subject to regulatory and Charter One shareholder approval and is expected to be completed by the fourth quarter of 2004.

Contribution was affected by the weakening of the US dollar relative to sterling and at £423 million was down £2 million. In US dollar terms, contribution increased by 13% or \$86 million to \$771 million.

Total income was up 11% or \$155 million to \$1,620 million. Since June 2003, Citizens increased its personal customer base by 262,000 accounts and its business customers by 34,000 due to growth through both traditional and supermarket branches, and the acquisitions of Port Financial, Community Bancorp and Roxborough Manayunk Bank.

Net interest income increased by 14% or \$147 million to \$1,176 million, reflecting strong organic growth in personal loans and deposits. Excluding the acquisitions, average loans were up 28% or \$9.6 billion and average deposits were up 15% or \$8.3 billion. The benefit from higher volumes more than offset the impact of lower interest rates on margins.

Non-interest income rose by 2% or \$8 million to \$444 million, reflecting growth in customer fees and a lower level of securities gains than in 2003.

Expenses increased by 9% or \$67 million to \$776 million, to support higher business volumes, a branch automation programme, and the expansion of traditional and supermarket banking in Mid Atlantic and New England.

Provisions were up \$2 million from \$71 million to \$73 million. Credit quality metrics remain strong.

THE ROYAL BANK OF SCOTLAND GROUP plc

**CENTRAL ITEMS**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Funding costs	<b>122</b>	85	215
Departmental and corporate costs	<b>287</b>	221	413
Total Central items	<b>409</b>	306	628

**The Centre** comprises group and corporate functions, such as capital raising, finance and human resources, which manage capital requirements and provide services to the operating divisions.

Total Central items increased by £103 million to £409 million.

Funding costs at £122 million, were up 44% or £37 million reflecting the funding of the various acquisitions undertaken by the Group since June 2003.

Central departmental costs and other corporate items at £287 million were £66 million or 30% higher than the first half of 2003. This is principally due to the centralisation of certain functions, higher pension costs and expenditure on Group-wide projects such as International Accounting Standards and Basel II.

THE ROYAL BANK OF SCOTLAND GROUP plc

**AVERAGE BALANCE SHEET**

**First half 2004**

First half 2003



	<b>Average balance £m</b>	<b>Interest £m</b>	<b>Rate %</b>	<b>Average balance £m</b>	<b>Interest £m</b>	<b>Rate %</b>
<b>Assets</b>						
Treasury and other eligible bills						
UK	<b>620</b>	<b>11</b>	<b>3.55</b>	1,656	27	3.26
Overseas	<b>63</b>	<b>1</b>	<b>3.17</b>	-	-	-
Loans and advances to banks						
UK	<b>13,870</b>	<b>255</b>	<b>3.68</b>	13,212	230	3.48
Overseas	<b>9,617</b>	<b>107</b>	<b>2.23</b>	9,406	107	2.28
Loans and advances to customers						
UK	<b>181,086</b>	<b>5,187</b>	<b>5.73</b>	166,743	4,671	5.60
Overseas	<b>56,105</b>	<b>1,332</b>	<b>4.75</b>	40,023	1,020	5.10
Debt securities						
UK	<b>21,152</b>	<b>373</b>	<b>3.53</b>	22,683	382	3.37
Overseas	<b>17,352</b>	<b>362</b>	<b>4.17</b>	18,160	413	4.55
Interest-earning assets - banking business						
UK	<b>216,728</b>	<b>5,826</b>	<b>5.38</b>	204,294	5,310	5.20
Overseas	<b>83,137</b>	<b>1,802</b>	<b>4.34</b>	67,589	1,540	4.56
	<b>299,865</b>	<b>7,628</b>	<b>5.09</b>	271,883	6,850	5.04
business - trading	<b>116,605</b>			91,946		
Total interest-earning assets	<b>416,470</b>			363,829		
Non-interest-earning assets	<b>68,672</b>			67,300		
Total assets	<b>485,142</b>			431,129		
Percentage of assets applicable to Overseas operations	<b>31.9%</b>			32.0%		
<b>Liabilities</b>						
Deposits by banks						
UK	<b>33,253</b>	<b>455</b>	<b>2.74</b>	26,515	338	2.55
Overseas	<b>13,628</b>	<b>146</b>	<b>2.14</b>	9,819	110	2.24
Customer accounts						
UK	<b>139,263</b>	<b>1,726</b>	<b>2.48</b>	130,902	1,513	2.31
Overseas	<b>45,604</b>	<b>360</b>	<b>1.58</b>	40,953	366	1.79
Debt securities in issue						
UK	<b>34,054</b>	<b>519</b>	<b>3.05</b>	29,034	495	3.41
Overseas	<b>11,474</b>	<b>88</b>	<b>1.53</b>	9,674	64	1.32
Loan capital						
UK	<b>16,834</b>	<b>302</b>	<b>3.59</b>	14,435	228	3.16
Overseas	<b>164</b>	<b>5</b>	<b>6.10</b>	156	8	10.26
Internal funding of trading business	<b>(30,993)</b>	<b>(351)</b>	<b>2.27</b>	(22,218)	(297)	2.67

Interest-bearing liabilities - banking business							
	UK	<b>193,325</b>	<b>2,661</b>	<b>2.75</b>	180,767	2,292	2.54
	Overseas	<b>69,956</b>	<b>589</b>	<b>1.68</b>	58,503	533	1.82
		<b>263,281</b>	<b>3,250</b>	<b>2.47</b>	239,270	2,825	2.36
	- trading business	<b>114,402</b>			88,778		
Total interest-bearing liabilities		<b>377,683</b>			328,048		
Non-interest-bearing liabilities							
- demand deposits		<b>26,060</b>			24,130		
- other liabilities		<b>51,660</b>			51,326		
Shareholders' funds		<b>29,739</b>			27,625		
Total liabilities		<b>485,142</b>			431,129		
Percentage of liabilities applicable to Overseas operations		<b>30.3%</b>			31.1%		

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.

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#### **AVERAGE INTEREST RATES, YIELDS, SPREADS AND MARGINS**

<b>Average rate</b>	<b>First half 2004 %</b>	First half 2003 %
The Group's base rate	<b>4.06</b>	3.80
London inter-bank three month offered rates:		
Sterling	<b>4.37</b>	3.72
Eurodollar	<b>1.21</b>	1.29
Euro	<b>2.07</b>	2.52
Yields, spreads and margins of the banking business:		
Gross yield	<b>5.09</b>	5.04
Group	<b>5.38</b>	5.20

UK	<b>4.34</b>	4.56
Overseas		
Interest spread		
Group	<b>2.62</b>	2.68
UK	<b>2.63</b>	2.66
Overseas	<b>2.66</b>	2.74
Net interest margin		
Group	<b>2.92</b>	2.96
UK	<b>2.92</b>	2.95
Overseas	<b>2.92</b>	2.98
	<b>First half 2004 %</b>	First half 2003 %
		Full year 2003 %
Gross yield on interest-earning assets of banking business	<b>5.09</b>	5.04
Cost of interest-bearing liabilities of banking business	<b>(2.47)</b>	(2.36)
<b>Interest spread of banking business</b>	<b>2.62</b>	2.68
Benefit from interest-free funds	<b>0.30</b>	0.28
<b>Net interest margin of banking business</b>	<b>2.92</b>	2.96
<b>Group</b>		

The net interest margin decreased from 2.96% to 2.92%. The interest spread declined 6 basis points from 2.68% to 2.62% principally reflecting a change in mix towards relatively lower margin mortgage business including the acquisition of First Active. This was partially offset by an increase in the benefit from interest-free funds, 2 basis points higher, reflecting both increased volumes, up £4 billion, and movements in interest rates.

## UK

Interest spread decreased by 3 basis points to 2.63% reflecting growth in the mortgage business partly offset by improvements in corporate lending margins. The benefit from interest-free funds was unchanged with a small decline in volumes compensated by movements in interest rates.

## Overseas

The continued tightening of asset spreads in the US, together with the growth in mortgage business following the acquisition of First Active, has resulted in an 8 basis point reduction in spread to 2.66%. This was partially offset by an increase in the benefit from interest-free funds, with higher volumes more than offsetting the effect of lower US dollar and Euro interest rates.

THE ROYAL BANK OF SCOTLAND GROUP plc

**CONSOLIDATED BALANCE SHEET  
AT 30 JUNE 2004 (unaudited)**

	<b>30 June 2004</b>	31 December 2003 (Audited)	30 June 2003
	<b>£m</b>	£m	£m
<b>Assets</b>			
Cash and balances at central banks	<b>3,140</b>	3,822	3,268
Items in the course of collection from other banks	<b>3,149</b>	2,501	3,729
Treasury bills and other eligible bills	<b>6,902</b>	4,846	7,047
Loans and advances to banks	<b>60,152</b>	51,891	44,923
Loans and advances to customers	<b>290,154</b>	252,531	248,726
Debt securities	<b>89,813</b>	79,949	73,328
Equity shares	<b>2,315</b>	2,300	2,150
Interests in associated undertakings	<b>122</b>	106	91
Intangible fixed assets	<b>13,589</b>	13,131	12,514
Tangible fixed assets	<b>14,866</b>	13,927	11,638
Settlement balances	<b>10,288</b>	2,857	15,169
Other assets	<b>14,997</b>	18,436	19,026
Prepayments and accrued income	<b>6,060</b>	5,421	4,074
	<b>515,547</b>	451,718	445,683
Long-term assurance assets attributable to policyholders	<b>3,531</b>	3,557	3,462
<b>Total assets</b>	<b>519,078</b>	455,275	449,145
<b>Liabilities</b>			
Deposits by banks	<b>84,120</b>	67,323	62,039
Items in the course of transmission to other banks	<b>996</b>	958	1,367
Customer accounts	<b>253,949</b>	236,963	225,697
Debt securities in issue	<b>51,721</b>	41,016	40,156
Settlement balances and short positions	<b>38,058</b>	21,369	36,749
Other liabilities	<b>17,301</b>	20,584	22,343
Accruals and deferred income	<b>13,945</b>	13,173	8,399
Provisions for liabilities and charges	<b>2,532</b>	2,522	2,202
Subordinated liabilities	<b>17,832</b>	16,998	15,696
Minority interests			
- equity	<b>27</b>	(11)	(23)
- non-equity	<b>2,658</b>	2,724	2,444
Shareholders' funds			
- equity	<b>29,541</b>	25,176	25,496
- non-equity	<b>2,867</b>	2,923	3,118
	<b>515,547</b>	451,718	445,683
Long-term assurance liabilities attributable to policyholders	<b>3,531</b>	3,557	3,462
<b>Total liabilities</b>	<b>519,078</b>	455,275	449,145

**Memorandum items**

Contingent liabilities and commitments

**173,316**

154,557

138,933

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THE ROYAL BANK OF SCOTLAND GROUP plc

**OVERVIEW OF CONSOLIDATED BALANCE SHEET**

Total assets of £519.1 billion at 30 June 2004 were up £63.8 billion, 14%, compared with 31 December 2003, reflecting business growth and acquisitions.

Treasury bills and other eligible bills increased by £2.1 billion, 42%, to £6.9 billion, reflecting trading activity.

Loans and advances to banks rose £8.3 billion, 16%, to £60.2 billion. Bank placings were up £5.1 billion, 20% to £30.5 billion, and reverse repurchase agreements and stock borrowing ("reverse repos"), were up £3.1 billion, 12%, to £29.7 billion.

Loans and advances to customers were up £37.6 billion, 15%, to £290.2 billion. Within this, reverse repos increased by 45%, £10.8 billion to £34.9 billion. Excluding reverse repos, lending increased by £26.8 billion, 12% to £255.3 billion reflecting organic growth across all divisions and £5.4 billion arising from acquisitions, principally First Active, £4.1 billion, and the People's Bank credit card business, £1.0 billion. Compared with 30 June 2003, loans and advances to customers were up £41.4 billion, 17%; excluding acquisitions, the growth was £34.5 billion, 14%.

Debt securities increased by £9.9 billion, 12%, to £89.8 billion, principally due to increased holdings in Financial Markets and the acquisition of First Active. This was partially offset by a reduction in Wealth Management's investment portfolio of investment grade asset-backed securities.

Intangible fixed assets increased by £0.5 billion, 3% to £13.6 billion. Goodwill arising on the acquisitions made during the first half of 2004 amounted to £0.9 billion. This was partially offset by goodwill amortisation, £0.4 billion and the adverse effect of exchange rate movements, £0.1 billion.

Tangible fixed assets were up £0.9 billion, 7% to £14.9 billion, reflecting growth in operating lease assets, up £0.8 billion, 12% to £7.1 billion.

Settlement balances increased by £7.4 billion to £10.3 billion as a result of increased levels of customer activity.

Other assets declined by £3.4 billion, 19% to £15.0 billion, mainly due to a decrease in the mark-to-market value of trading derivatives.

Deposits by banks increased by £16.8 billion, 25% to £84.1 billion to fund business growth, with repurchase agreements and stock lending ("repos") up £6.0 billion, 22%, to £33.1 billion and inter-bank deposits up £10.8 billion, 27% to £51.0 billion.

Customer accounts were up £17.0 billion, 7% at £253.9 billion. Within this, repos were up £6.3 billion, 23% to £33.3 billion. Excluding repos, deposits rose by £10.7 billion, 5%, to £220.6 billion with growth in CBFM, £2.7 billion, Retail Banking, £2.4 billion, Wealth Management, £1.6 billion, Citizens, £1.7 billion and Ulster Bank £2.5 billion, including First Active. In \$ terms, Citizens grew US\$4.0 billion, 7%, including US\$0.6 billion related to

acquisitions. Customer accounts were up £28.3 billion, 13% compared with 30 June 2003; excluding acquisitions the increase was £23.9 billion, 11%.

Debt securities in issue increased by £10.7 billion, 26%, to £51.7 billion primarily to meet the Group's funding requirements.

The increase in settlement balances and short positions reflected growth in customer activity.

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THE ROYAL BANK OF SCOTLAND GROUP plc

**OVERVIEW OF CONSOLIDATED BALANCE SHEET (continued)**

Other liabilities declined by £3.3 billion, 16% to £17.3 billion, mainly due to a decrease in the mark-to-market value of trading derivatives.

Subordinated liabilities were up £0.8 billion, 5% to £17.8 billion. This reflected the issue of £0.7 billion (US\$1,250 million) US\$ denominated dated loan capital, and £0.5 billion undated loan capital, together with £0.1 billion of dated and undated loan capital arising from the acquisition of First Active. This was partially offset by the redemption of dated loan capital, £0.2 billion (US\$250 million and £40 million) and the effect of exchange rate movements, £0.3 billion.

Shareholders' funds increased by £4.3 billion, 15% to £32.4 billion including £2.6 billion from the placing of 165 million ordinary shares in connection with the proposed acquisition of Charter One. The remainder reflects retentions of £1.6 billion and the issue of £0.2 billion of ordinary shares in respect of scrip dividends and the exercise of share options which were partly offset by the adverse effect of exchange rate movements on share premium account, £0.1 billion.

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THE ROYAL BANK OF SCOTLAND GROUP plc

**STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE HALF YEAR ENDED 30 JUNE 2004 (unaudited)**

	<b>First half 2004</b>	First half 2003	Full year 2003 (Audited)
	<b>£m</b>	£m	£m
Profit attributable to ordinary shareholders	<b>2,106</b>	1,745	2,315

Currency translation adjustments and other movements	<b>(30)</b>	47	43
Revaluation of premises	-	-	(69)
	<b>2,076</b>	1,792	2,289

**RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS  
FOR THE HALF YEAR ENDED 30 JUNE 2004 (unaudited)**

	<b>First half 2004</b>	First half 2003	Full year 2003 (Audited)
	<b>£m</b>	£m	£m
Profit attributable to ordinary shareholders	<b>2,106</b>	1,745	2,315
Ordinary dividends	<b>(529)</b>	(431)	(1,490)
	<b>1,577</b>	1,314	825
Retained profit for the period	<b>1,577</b>	1,314	825
Issue of ordinary shares	<b>2,829</b>	555	775
Redemption of preference shares	-	(364)	(364)
Own shares held in relation to employee share schemes	<b>(7)</b>	-	-
Goodwill previously written off to reserves	-	40	40
Other recognised gains and losses	<b>(30)</b>	47	(26)
Currency translation adjustment on share premium account	<b>(60)</b>	(30)	(203)
	<b>4,309</b>	1,562	1,047
Net increase in shareholders' funds	<b>4,309</b>	1,562	1,047
Opening shareholders' funds	<b>28,099</b>	27,052	27,052
	<b>32,408</b>	28,614	28,099
Closing shareholders' funds	<b>32,408</b>	28,614	28,099

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THE ROYAL BANK OF SCOTLAND GROUP plc

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 30 JUNE 2004 (unaudited)**

	<b>First half 2004</b>	First half 2003	Full year 2003 (Audited)
	<b>£m</b>	£m	£m
Net cash inflow from operating activities (note 10)	<b>3,689</b>	14,428	19,708
Dividends received from associated undertakings	<b>8</b>	1	9

<b>Returns on investments and servicing of finance</b>			
Preference dividends paid	<b>(136)</b>	(140)	(269)
Additional Value Shares dividend paid	-	-	(1,463)
Dividends paid to minority shareholders in subsidiary undertakings	<b>(72)</b>	(60)	(130)
Interest paid on subordinated liabilities	<b>(340)</b>	(322)	(557)
Net cash outflow from returns on investments and servicing of finance	<b>(548)</b>	(522)	(2,419)
<b>Taxation</b>			
UK tax paid	<b>(212)</b>	(359)	(933)
Overseas tax paid	<b>(237)</b>	(233)	(521)
Net cash outflow from taxation	<b>(449)</b>	(592)	(1,454)
<b>Capital expenditure and financial investment</b>			
Purchase of investment securities	<b>(22,068)</b>	(24,343)	(44,861)
Sale and maturity of investment securities	<b>22,485</b>	20,775	41,805
Purchase of tangible fixed assets	<b>(2,330)</b>	(1,533)	(5,017)
Sale of tangible fixed assets	<b>853</b>	395	1,108
Net cash outflow from capital expenditure and financial investment	<b>(1,060)</b>	(4,706)	(6,965)
<b>Acquisitions and disposals</b>			
Purchases of businesses and subsidiary undertakings (net of cash acquired)	<b>(2,098)</b>	(318)	(1,748)
Investment in associated undertakings	<b>(25)</b>	(3)	(2)
Sale of subsidiary and associated undertakings (net of cash sold)	<b>3</b>	105	179
Net cash outflow from acquisitions and disposals	<b>(2,120)</b>	(216)	(1,571)
Ordinary equity dividends paid	<b>(999)</b>	(396)	(772)
Net cash (outflow)/inflow before financing	<b>(1,479)</b>	7,997	6,536
<b>Financing</b>			
Proceeds from issue of ordinary share capital	<b>2,769</b>	9	184
Proceeds from issue of trust preferred securities	-	512	883
Redemption of preference share capital	-	(364)	(364)
Issue of subordinated liabilities	<b>1,193</b>	1,731	3,817
Repayment of subordinated liabilities	<b>(174)</b>	(40)	(336)
(Decrease)/increase in minority interests	<b>(1)</b>	19	(56)
Net cash inflow from financing	<b>3,787</b>	1,867	4,128
Increase in cash	<b>2,308</b>	9,864	10,664



THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES

### 1. Accounting policies

There have been no changes to the Group's principal accounting policies as set out on pages 87 to 90 of the annual report on Form 20-F for the year ended 31 December 2003 (the "2003 Form 20-F").

### 2. Provisions for bad and doubtful debts

Operating profit is stated after charging provisions for bad and doubtful debts of £719 million (30 June 2003 - £746 million) and amounts written off fixed asset investments of £32 million (30 June 2003 - recovery of £4 million). The balance sheet provisions for bad and doubtful debts increased in the six months to 30 June 2004 from £3,929 million to £4,038 million, and the movements thereon were:

	Specific £m	General £m	First half 2004 £m	First half 2003 £m
At 1 January	3,363	566	3,929	3,927
Currency translation and other adjustments	29	(71)	(42)	(6)
Acquisitions	72	28	100	10
Amounts written off	(712)	-	(712)	(740)
Recoveries of amounts previously written off	44	-	44	34
Charge to profit and loss account	691	28	719	746
	<b>3,487</b>	<b>551</b>	<b>4,038</b>	<b>3,971</b>

The provision at 30 June 2004 includes provision against loans and advances to banks of £6 million (31 December 2003 - £7 million; 30 June 2003 - £7 million).

### 3. Taxation

The charge for taxation is based on a UK corporation tax rate of 30% and comprises:

	First half 2004 £m	First half 2003 £m	Full year 2003 £m
Tax on profit before goodwill amortisation and integration costs	1,081	1,001	2,012
Tax relief on goodwill amortisation and integration costs	(33)	(74)	(102)
	<b>1,048</b>	<b>927</b>	<b>1,910</b>

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The actual tax charge differs from the expected tax charge computed by applying the standard UK corporation tax rate of 30% as follows:

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Expected tax charge	<b>1,014</b>	869	1,848
Goodwill amortisation	<b>109</b>	95	203
Non-deductible items	<b>27</b>	3	106
Non-taxable items	<b>(8)</b>	(34)	(111)
Other	<b>(14)</b>	(1)	(24)
Adjustments in respect of prior periods	<b>(80)</b>	(5)	(112)
	<b>1,048</b>	927	1,910

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**NOTES (continued)**

**4. Earnings per share**

Earnings per share have been calculated based on the following:

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
<b>Earnings</b>			
Profit attributable to ordinary shareholders	<b>2,106</b>	1,745	2,315
<b>Weighted average number of ordinary shares</b>			
In issue during the period	<b>3,013</b>	2,908	2,931
Effect of dilutive share options and convertible non-equity shares	<b>18</b>	26	22
Diluted weighted average number of ordinary shares during the period	<b>3,031</b>	2,934	2,953
<b>Basic earnings per share</b>	<b>69.9p</b>	60.0p	79.0p
<b>Diluted earnings per share</b>	<b>69.5p</b>	59.5p	78.4p

**5. Interim dividend**

The directors have declared an interim dividend of 16.8p per ordinary share which will be paid on 8 October 2004 to shareholders registered on 13 August 2004. As an alternative to cash, a scrip dividend election is to be offered and shareholders will receive details of this by letter.

**6. Analysis of repurchase agreements**

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
<b>Reverse repurchase agreements and stock borrowing</b>			
Loans and advances to banks	<b>29,659</b>	26,522	15,140
Loans and advances to customers	<b>34,892</b>	24,069	30,443
<b>Repurchase agreements and stock lending</b>			
Deposits by banks	<b>33,067</b>	27,044	20,644
Customer accounts	<b>33,343</b>	27,021	19,595

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THE ROYAL BANK OF SCOTLAND GROUP plc

**NOTES (continued)****7. Contingent liabilities and commitments**

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
<b>Contingent liabilities</b>			
Acceptances and endorsements	<b>349</b>	595	2,268
Guarantees and assets pledged as collateral security	<b>8,872</b>	8,787	5,683
Other contingent liabilities	<b>5,827</b>	5,482	8,232
	<b>15,048</b>	14,864	16,183
<b>Commitments</b>			
Documentary credits and other short-term trade related transactions	<b>618</b>	605	244
Undrawn formal standby facilities, credit lines and other commitments to lend	<b>155,726</b>	137,251	121,515
Other commitments	<b>1,924</b>	1,837	991

	<b>158,268</b>	139,693	122,750
Total contingent liabilities and commitments	<b>173,316</b>	154,557	138,933

**8. Derivatives****Replacement cost of over-the-counter contracts (trading and non-trading)**

The following table shows the gross replacement cost, which is the sum of the fair values, of all over-the-counter contracts with third parties (trading and non-trading) with positive value. This measure makes no allowance for netting arrangements.

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
Exchange rate contracts	<b>16,269</b>	28,163	20,941
Interest rate contracts	<b>48,686</b>	54,974	76,548
Credit derivatives	<b>185</b>	272	335
Equity and commodity contracts	<b>1,437</b>	1,020	924
	<b>66,577</b>	84,429	98,748

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THE ROYAL BANK OF SCOTLAND GROUP plc

**NOTES (continued)****8. Derivatives (continued)****Derivatives held for trading purposes**

The table below shows the notional principal amounts of trading instruments entered into with third parties.

	<b>30 June 2004 £bn</b>	31 December 2003 £bn	30 June 2003 £bn
Exchange rate contracts	<b>1,542.7</b>	1,144.7	1,241.8
Interest rate contracts	<b>6,441.7</b>	5,307.8	5,046.6
Credit derivatives	<b>32.3</b>	28.5	25.6
Equity and commodity contracts	<b>47.8</b>	34.1	28.3

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The table below shows the fair values (which, after netting, are the balance sheet values) of trading instruments entered into with third parties.

	<b>30 June 2004</b>		31 December 2003		30 June 2003	
	<b>Fair value</b>		Fair value		Fair value	
	<b>Assets</b>	<b>Liabilities</b>	Assets	Liabilities	Assets	Liabilities
	<b>£m</b>	<b>£m</b>	£m	£m	£m	£m
Exchange rate contracts	<b>16,219</b>	<b>17,066</b>	28,102	29,564	20,905	22,392
Interest rate contracts	<b>48,006</b>	<b>48,757</b>	54,266	54,212	76,030	76,418
Credit derivatives	<b>185</b>	<b>114</b>	273	155	334	138
Equity and commodity contracts	<b>1,315</b>	<b>917</b>	924	720	867	599
	<b>65,725</b>	<b>66,854</b>	83,565	84,651	98,136	99,547
Netting	<b>(55,319)</b>	<b>(55,319)</b>	(69,478)	(69,478)	(83,374)	(83,374)
	<b>10,406</b>	<b>11,535</b>	14,087	15,173	14,762	16,173

**Derivatives held for purposes other than trading**

The Group uses derivatives to manage specific interest rate positions relating to assets and liabilities and to hedge foreign currency exposures. The Group establishes non-trading derivative positions with third parties and through intra-company and intra-Group transactions with the Group's independent trading operations. The table below shows the notional principal amounts of the Group's non-trading derivatives (third party and internal).

	<b>30 June 2004</b>	31 December 2003	30 June 2003
	<b>£bn</b>	£bn	£bn
Exchange rate contracts	<b>22.4</b>	26.5	16.3
Interest rate contracts	<b>158.6</b>	135.1	126.1
Credit derivatives	<b>1.2</b>	1.0	1.5
Equity and commodity contracts	<b>2.1</b>	1.7	1.7

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**NOTES (continued)**

**9. Analysis of consolidated shareholders' funds**

<b>First half 2004</b>	First half 2003	Full year 2003
<b>£m</b>	£m	£m

<b>Called-up share capital</b>			
At beginning of period	<b>769</b>	754	754
Shares issued during the period	<b>44</b>	10	15
	<hr/>	<hr/>	<hr/>
At end of period	<b>813</b>	764	769
	<hr/>	<hr/>	<hr/>
<b>Share premium account</b>			
At beginning of period	<b>8,175</b>	7,608	7,608
Currency translation adjustments	<b>(60)</b>	(30)	(203)
Shares issued during the period	<b>2,785</b>	557	760
Other movements	<b>4</b>	6	10
	<hr/>	<hr/>	<hr/>
At end of period	<b>10,904</b>	8,141	8,175
	<hr/>	<hr/>	<hr/>
<b>Merger reserve</b>			
At beginning of period	<b>10,881</b>	11,455	11,455
Transfer to profit and loss account	<b>(287)</b>	(287)	(574)
	<hr/>	<hr/>	<hr/>
At end of period	<b>10,594</b>	11,168	10,881
	<hr/>	<hr/>	<hr/>
<b>Revaluation reserve</b>			
At beginning of period	<b>7</b>	80	80
Revaluation of premises	-	-	(69)
Transfer to profit and loss account	-	-	(4)
	<hr/>	<hr/>	<hr/>
At end of period	<b>7</b>	80	7
	<hr/>	<hr/>	<hr/>
<b>Other reserves</b>			
At beginning of period	<b>419</b>	387	387
Transfer of increase in value of long-term assurance business	<b>17</b>	10	32
	<hr/>	<hr/>	<hr/>
At end of period	<b>436</b>	397	419
	<hr/>	<hr/>	<hr/>
<b>Profit and loss account</b>			
At beginning of period	<b>7,848</b>	6,768	6,768
Currency translation adjustments and other movements	<b>(34)</b>	29	33
Retention for the period	<b>1,577</b>	1,314	825
Own shares held in relation to employee share schemes	<b>(7)</b>	-	-
Redemption of preference shares	-	(364)	(364)
Goodwill previously written off	-	40	40
Transfer from merger reserve	<b>287</b>	287	574
Transfer from revaluation reserve	-	-	4
Transfer of increase in value of long-term assurance business	<b>(17)</b>	(10)	(32)
	<hr/>	<hr/>	<hr/>
At end of period	<b>9,654</b>	8,064	7,848
	<hr/>	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>32,408</b>	28,614	28,099
	<hr/>	<hr/>	<hr/>

THE ROYAL BANK OF SCOTLAND GROUP plc

**NOTES (continued)**

**10. Analysis of net cash inflow from operating activities**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Net cash inflow from trading activities	<b>4,674</b>	3,920	9,028
Increase in loans and advances to banks and customers	<b>(37,416)</b>	(14,452)	(23,343)
Increase in deposits by banks and customers	<b>28,754</b>	11,677	26,857
Increase in securities	<b>(9,322)</b>	(2,901)	(9,871)
Increase in debt securities in issue	<b>10,014</b>	6,218	7,078
Increase in settlement balances and short positions	<b>9,258</b>	6,270	3,202
(Decrease)/increase in other assets and liabilities	<b>(2,273)</b>	3,696	6,757
	<b>3,689</b>	14,428	19,708

**11. Litigation**

In December 2003, members of the Group were joined as defendants in a number of legal actions in the United States following the collapse of Enron. Collectively the claims are, to a substantial degree, unquantified and in each case they are made against large numbers of defendants. The Group intends to defend these claims vigorously. The US Courts dealing with the main Enron actions have ordered that the Group join the non-binding, multi-party mediation which commenced in late 2003. Based on current knowledge including applicable defences and given the unquantified nature of these claims, the directors are unable at this stage to predict with certainty the eventual loss, if any, in these matters. In addition, pursuant to requests received from the US Securities and Exchange Commission and the US Department of Justice, the Group has been providing copies of Enron-related materials to these authorities and the Group continues to co-operate fully with them.

Members of the Group are engaged in other litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them arising in the ordinary course of business. The directors of the company have reviewed these other actual, threatened and known potential claims and proceedings and, after consulting with the Group's legal advisers are satisfied that the outcome of these claims and proceedings will not have a material adverse effect on the Group's consolidated net assets, results of operations or cash flows.

**12. International Financial Reporting Standards**

The Group's 2005 interim and annual accounts will be prepared in accordance with International Reporting Financial Standards (IFRS). In the first half of 2004 IFRS implementation activities have included building IT solutions, revising processes and reporting structures, Group-wide IFRS training and analysis of new standards and amendments to existing standards. The Group remains on track to produce IFRS compliant accounts in 2005. A summary of the key differences between the Group's current accounting policies and IFRS is included in the Group's 2003 Form 20-F under "Accounting Developments".

**13. 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 2003 have been filed with the Registrar of Companies and have been reported on by the auditors under section 235 of the Act. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

THE ROYAL BANK OF SCOTLAND GROUP plc

**ANALYSIS OF INCOME, EXPENSES AND PROVISIONS**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
<b>Non-interest income</b>			
<b>Dividend income</b>	<b>31</b>	30	58
Fees and commissions receivable	<b>3,065</b>	2,691	5,693
Fees and commissions payable - banking	<b>(632)</b>	(527)	(1,099)
- insurance related	<b>(208)</b>	(27)	(238)
<b>Net fees and commissions</b>	<b>2,225</b>	2,137	4,356
Foreign exchange	<b>295</b>	267	540
Securities	<b>501</b>	486	798
Interest rate derivatives	<b>252</b>	232	455
<b>Dealing profits</b>	<b>1,048</b>	985	1,793
Income on rental assets	<b>618</b>	507	1,088
Embedded value profits	<b>42</b>	23	73
Other	<b>182</b>	196	437
<b>Other operating income</b>	<b>842</b>	726	1,598
<b>Non-interest income (excluding general insurance premiums)</b>	<b>4,146</b>	3,878	7,805
<b>General insurance net premium income</b>	<b>2,416</b>	1,177	3,123
<b>Total non-interest income</b>	<b>6,562</b>	5,055	10,928
Staff costs - wages, salaries and other staff costs	<b>2,184</b>	1,973	3,997
- social security costs	<b>152</b>	131	248



- pension costs	<b>185</b>	134	273
Premises and equipment	<b>530</b>	520	1,073
Other	<b>1,112</b>	1,026	2,108
<b>Administrative expenses*</b>	<b>4,163</b>	3,784	7,699
*Integration costs included in administrative expenses comprise:			
Staff costs	<b>35</b>	112	125
Premises and equipment costs	<b>3</b>	31	31
Other administrative costs	<b>17</b>	38	73
	<b>55</b>	181	229
Provisions for bad and doubtful debts	<b>719</b>	746	1,461
Amounts written off fixed asset investments	<b>32</b>	(4)	33
<b>Provisions</b>	<b>751</b>	742	1,494

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**ASSET QUALITY****Analysis of loans and advances to customers**

The following table analyses loans and advances to customers (including reverse repurchase agreements and stock borrowing) by industry.

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
Central and local government	<b>2,378</b>	2,100	1,714
Finance	<b>52,549</b>	38,936	43,018
Individuals - home	<b>73,649</b>	61,960	56,438
Individuals - other	<b>39,580</b>	35,027	32,657
Other commercial and industrial comprising:			
Manufacturing	<b>13,385</b>	12,769	13,635
Construction	<b>6,946</b>	5,839	5,881
Service industries and business activities	<b>50,800</b>	50,772	51,419
Agriculture, forestry and fishing	<b>3,091</b>	3,081	3,387
Property	<b>36,654</b>	31,629	30,253
Finance leases and instalment credit	<b>15,154</b>	14,340	14,288

<b>Loans and advances to customers</b> □ gross	<b>294,186</b>	256,453	252,690
<b>Provisions for bad and doubtful debts</b>	<b>(4,032)</b>	(3,922)	(3,964)
<b>Total loans and advances to customers</b>	<b>290,154</b>	252,531	248,726
<b>Reverse repurchase agreements included in the analysis above:</b>			
Central and local government	<b>1,389</b>	1,079	358
Finance	<b>33,464</b>	22,883	30,085
Service industries and business activities	<b>39</b>	107	-
<b>Total</b>	<b>34,892</b>	24,069	30,443
<b>Loans and advances to customers excluding reverse repurchase agreements - net</b>	<b>255,262</b>	228,462	218,283

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**ASSET QUALITY (continued)****Cross border outstandings**

The table below sets out the Group's cross border outstandings in excess of 0.75% of Group total assets (including acceptances) of £519.4 billion (31 December 2003 - £455.9 billion; 30 June 2003 -£451.4 billion). None of these countries have experienced repayment difficulties which have required refinancing of outstanding debt.

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
US	<b>20,135</b>	14,618	14,504
Germany	<b>16,020</b>	15,073	10,648
France	<b>13,433</b>	7,524	7,242
Netherlands	<b>6,686</b>	6,830	7,090
Cayman Islands	<b>6,478</b>	6,666	6,611
Japan	<b>4,023</b>	4,141	5,250
Belgium	<b>3,918</b>	*	*
Spain	*	3,421	3,997
Italy	*	*	3,978
Canada	*	*	3,426

\* less than 0.75% of Group total assets (including acceptances).

**Selected country exposures**

The table below details exposures to countries that are sometimes considered as having a higher credit and foreign exchange risk.

	30 June 2004			31 December 2003			30 June 2003		
	Bank £m	Non- bank £m	Total £m	Bank £m	Non- bank £m	Total £m	Bank £m	Non- bank £m	Total £m
Argentina	<b>16</b>	-	<b>16</b>	26	4	30	29	11	40
Brazil	<b>29</b>	<b>7</b>	<b>36</b>	15	2	17	-	10	10
Turkey	<b>6</b>	<b>78</b>	<b>84</b>	5	65	70	7	83	90
Venezuela	-	<b>80</b>	<b>80</b>	-	87	87	-	108	108
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**ASSET QUALITY (continued)**
**Risk elements in lending**

The Group's loan control and review procedures do not include the classification of loans as non-accrual, accruing past due, restructured and potential problem loans, as defined by the Securities and Exchange Commission ("SEC") in the US. The following table shows the estimated amount of loans which would be reported using the SEC's classifications. The figures are stated before deducting the value of security held or related provisions.

	30 June 2004 £m	31 December 2003 £m	30 June 2003 £m
Loans accounted for on a non-accrual basis (2):			
Domestic	<b>3,442</b>	3,221	3,404
Foreign	<b>1,043</b>	1,211	1,177
	<b>4,485</b>	<u>4,432</u>	<u>4,581</u>
Accruing loans which are contractually overdue 90 days or more as to principal or interest (3):			
Domestic	<b>554</b>	561	306
Foreign	<b>73</b>	81	61
	<b>627</b>	<u>642</u>	<u>367</u>
Loans not included above which are troubled			

debt restructurings as defined by the SEC:			
Domestic	<b>38</b>	53	96
Foreign	<b>19</b>	30	39
	<b>57</b>	83	135
Total risk elements in lending	<b>5,169</b>	5,157	5,083
Potential problem loans (4)			
Domestic	<b>319</b>	492	871
Foreign	<b>163</b>	99	104
	<b>482</b>	591	975
Closing provisions for bad and doubtful debts as a % of total risk elements in lending	<b>78%</b>	76%	78%
Closing provisions for bad and doubtful debts as a % of total risk elements in lending and potential problem loans	<b>71%</b>	68%	65%
Risk elements in lending as a % of gross loans and advances to customers	<b>1.76%</b>	2.01%	2.01%

## Notes:

- 1) For the analysis above, 'Domestic' consists of the United Kingdom domestic transactions of the Group. 'Foreign' comprises the Group's transactions conducted through offices outside the UK and through those offices in the UK specifically organised to service international banking transactions.
- 2) The Group's UK banking subsidiary undertakings account for loans on a non-accrual basis from the point in time at which the collectability of interest is in significant doubt. Certain subsidiary undertakings of the Group generally account for loans on a non-accrual basis when interest or principal is past due 90 days.
- 3) Overdrafts generally have no fixed repayment schedule and consequently are not included in this category.
- 4) Loans that are current as to payment of principal and interest but in respect of which management has serious doubts about the ability of the borrower to comply with contractual repayment terms. Substantial security is held in respect of these loans and appropriate provisions have already been made in accordance with the Group's provisioning policy for bad and doubtful debts.

**ASSET QUALITY (continued)****Provisions for bad and doubtful debts**

	<b>First half 2004 £m</b>	Full year 2003 £m	First half 2003 £m
Provisions at beginning of period	<b>3,929</b>	3,927	3,927
Currency translation and other adjustments	<b>(42)</b>	(62)	(6)
Acquisitions	<b>100</b>	50	10
Amounts written-off			
- Domestic	<b>(452)</b>	(1,097)	(506)
- Foreign	<b>(260)</b>	(422)	(234)
	<b>(712)</b>	(1,519)	(740)
Recoveries			
- Domestic	<b>25</b>	38	15
- Foreign	<b>19</b>	34	19
	<b>44</b>	72	34
Sub-total	<b>3,319</b>	2,468	3,225
Provisions charged against profit:			
Net specific provisions			
- Domestic	<b>463</b>	926	482
- Foreign	<b>228</b>	533	259
	<b>691</b>	1,459	741
General provision	<b>28</b>	2	5
Total bad and doubtful debt provisions charge to profit	<b>719</b>	1,461	746
Provisions at end of period	<b>4,038</b>	3,929	3,971
Provisions at end of period comprise:			
Specific			
- Domestic	<b>2,232</b>	2,097	2,227
- Foreign	<b>1,255</b>	1,266	1,140
Total specific provisions	<b>3,487</b>	3,363	3,367
General provisions	<b>551</b>	566	604
	<b>4,038</b>	3,929	3,971

The closing provisions include provision against loans and advances to banks of £6 million (31 December 2003 - £7 million; 30 June 2003 - £7 million).

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**MARKET RISK**

The Group is exposed to market risk because of positions held in its trading portfolios and its non-trading business including the Group's treasury operations.

The Group manages the market risk in its trading and treasury portfolios through value-at-risk (VaR) limits as well as stress testing, scenario analysis and position and sensitivity limits. VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include:

Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.

VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.

VaR using a 95% confidence level does not reflect the extent of potential losses beyond that percentile.

The Group largely computes the VaR of the trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Group's intra-day exposure such as the calculation of VaR for selected portfolios.

These limitations and the nature of the VaR measure mean that the Group cannot guarantee that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in 20 business days.

**Trading**

The principal focus of the Group's trading activities is client facilitation – providing products to the Group's client base at competitive prices. The Group also undertakes market making, arbitrage and proprietary trading. The main risk factors are interest rates credit spreads and foreign exchange.

The VaR for the Group's trading portfolios segregated by type of market risk exposure is presented below.

	Period end £m	Maximum £m	Minimum £m	Average £m
Interest rate (includes credit spreads)	<b>13.7</b>	<b>14.1</b>	<b>6.9</b>	<b>10.1</b>
Currency	<b>0.9</b>	<b>1.9</b>	<b>0.6</b>	<b>1.0</b>
Equity	<b>0.4</b>	<b>2.1</b>	<b>0.3</b>	<b>0.9</b>
Diversification effects	<b>(1.9)</b>			
30 June 2004	<b>13.1</b>	<b>13.6</b>	<b>6.4</b>	<b>9.5</b>
31 December 2003	7.4	14.2	5.6	9.4
30 June 2003	11.5	12.8	8.0	10.8

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**MARKET RISK (continued)**

**Non-trading**

The principal market risks arising from the Group's non-trading activities are interest rate risk, currency risk and equity risk. Treasury activity and mismatches between the repricing of assets and liabilities in retail and corporate banking activities account for most of the non-trading interest rate risk. Non-trading currency risk derives from the Group's investments in overseas subsidiaries, associates and branches. The Group's venture capital portfolio, investments held by its general insurance business and its strategic equity investments are the principal sources of non-trading equity risk.

**Interest rate risk**

Non-trading interest rate VaR for the Group's treasury portfolios (see below) and retail and corporate banking activities was £64.3 million (31 December 2003 - £78.1 million; 30 June 2003 -£30.5 million). During the period, the maximum VaR was £80.0 million at 30 June 2004 (31 December 2003 - £78.1 million; 30 June 2003 - £52.7 million), the minimum £51.4 million (31 December 2003 and 30 June 2003 - £29.9 million) and the average £67.5 million (31 December -£51.7 million; 30 June 2003 - £39.8 million).

VaR for the Group's treasury portfolios, which relates mainly to interest rate risk was £7.8 million at 30 June 2004 (31 December 2003 - £8.1 million; 30 June 2003 - £10.0 million). During the period the maximum VaR was £8.3 million (31 December 2003 - £11.0 million; 30 June 2003 - £10.0 million), the minimum £5.7 million (31 December 2003 and 30 June 2003 - £5.6 million) and the average £7.0 million (31 December 2003 - £8.3 million; 30 June 2003 - £7.3 million).

**Currency risk**

The table below sets out the Group's structural foreign currency exposures.

	<b>30 June 2004</b>			<b>31 December 2003</b>	<b>30 June 2003</b>
	<b>Net investments in overseas operations £m</b>	<b>Foreign currency borrowings hedging net investments £m</b>	<b>Structural foreign currency exposures £m</b>	<b>Structural foreign currency exposures £m</b>	<b>Structural foreign currency exposures £m</b>
US Dollar	<b>7,741</b>	<b>5,554</b>	<b>2,187</b>	131	95
Euro	<b>1,871</b>	<b>1,214</b>	<b>657</b>	596	523
Swiss franc	<b>359</b>	<b>365</b>	<b>(6)</b>	-	8
Other non-sterling	<b>107</b>	<b>105</b>	<b>2</b>	4	4
	<b>10,078</b>	<b>7,238</b>	<b>2,840</b>	731	630

The structural foreign currency exposure in US dollars has been established in order to reduce the sensitivity of the Group's Tier 1 capital ratio to possible movements in the exchange rate between the US dollar and sterling. The structural foreign currency exposure in euros is principally due to Ulster Bank running an open structural foreign exchange position to minimise the sensitivity of its capital ratios to possible movements in the Euro exchange rate against sterling.

**Equity risk**

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The VaR of the equity element of this portfolio was £9.9 million at 30 June 2004 (31 December 2003 - £9.9 million; 30 June 2003 - £10.5 million). During the period, the maximum VaR was £10.1 million (31 December 2003 - £11.1 million; 30 June 2003 - £10.5 million), the minimum £9.8 million (31 December 2003 and 30 June 2003 - £8.3 million and the average £9.9 million (31 December 2003 - £9.6 million; 30 June 2003 - £9.2 million).

More details are set out in the Risk management section of the Group's 2003 annual report on Form 20-F.  
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**REGULATORY RATIOS AND OTHER INFORMATION**

	<b>30 June 2004</b>	31 December 2003	30 June 2003
<b>Capital base (£m)</b>			
Ordinary shareholders' funds and minority interests	<b>17,268</b>	13,235	13,321
Preference shares and tax deductible securities	<b>6,048</b>	6,164	6,137
	<b>23,316</b>	19,399	19,458
Tier 1 capital	<b>17,252</b>	16,439	14,941
Tier 2 capital	<b>40,568</b>	35,838	34,399
Less: investments in insurance companies, associated undertakings and other supervisory deductions	<b>(4,718)</b>	(4,618)	(2,707)
	<b>35,850</b>	31,220	31,692
<b>Weighted risk assets (£m)</b>			
Banking book			
- on-balance sheet	<b>232,600</b>	214,400	209,500
- off-balance sheet	<b>41,300</b>	36,400	34,200
Trading book	<b>13,700</b>	12,900	13,400
	<b>287,600</b>	263,700	257,100
<b>Risk asset ratio</b>			
- tier 1	<b>8.1%</b>	7.4%	7.6%
- total	<b>12.5%</b>	11.8%	12.3%
<b>Share price</b>	<b>£15.88</b>	£16.46	£17.00
<b>Number of shares in issue</b>	<b>3,141m</b>	2,963m	2,942m
<b>Market capitalisation</b>	<b>£49.9bn</b>	£48.8bn	£50.0bn
<b>Net asset value per ordinary share</b>	<b>£9.40</b>	£8.50	£8.67



<b>Employee numbers</b>			
Corporate Banking and Financial Markets	<b>16,100</b>	15,900	16,100
Retail Banking*	<b>30,600</b>	31,100	30,400
Retail Direct	<b>8,400</b>	7,300	7,000
Manufacturing*	<b>24,000</b>	22,400	21,400
Wealth Management*	<b>5,200</b>	5,200	5,100
RBS Insurance*	<b>19,500</b>	18,800	10,800
Ulster Bank	<b>5,200</b>	4,400	4,500
Citizens	<b>14,200</b>	14,100	13,800
Centre	<b>1,900</b>	1,700	1,700
<b>Group total</b>	<b>125,100</b>	120,900	110,800
Acquisitions in the year ended 30 June 2004	<b>(10,700)</b>	(9,100)	-
<b>Underlying</b>	<b>114,400</b>	111,800	110,800

\* prior periods have been restated to reflect the transfer in 2004 of certain activities from Wealth Management to Retail Banking and from RBS Insurance to Manufacturing.

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## **ADDITIONAL FINANCIAL DATA FOR US INVESTORS**

### **Reconciliation between UK and US GAAP**

The Group prepares its financial statements in accordance with UK generally accepted accounting principles (UK GAAP) which differ in certain material respects from US GAAP. The significant differences are set out in our 2003 Form 20-F. The following tables summarise the significant adjustments, which would result from the application of US GAAP instead of UK GAAP.

<b>Consolidated statement of income</b>	<b>First half 2004</b>	First half	Full year
	<b>£m</b>	2003	2003
		£m	£m
Profit attributable to ordinary shareholders - UK GAAP	<b>2,106</b>	1,745	2,315
Amortisation of goodwill	<b>375</b>	366	721
Pension costs	<b>(138)</b>	(168)	(369)
Securities, derivatives and hedging	<b>278</b>	(243)	281
Software development costs	<b>(81)</b>	(123)	(300)
Others (net)	<b>(168)</b>	(56)	(258)
Taxation	<b>18</b>	160	174
<b>Net income available for ordinary shareholders - US GAAP</b>	<b>2,390</b>	1,681	2,564

	<b>30 June 2004 £m</b>	31 December 2003 £m	30 June 2003 £m
<b>Consolidated shareholders' equity</b>			
Shareholders' funds - UK GAAP	<b>32,408</b>	28,099	28,614
Goodwill	<b>2,597</b>	2,222	1,867
Proposed dividend	<b>529</b>	1,059	431
Recognition of pension scheme minimum liability	-	-	(3,393)
Perpetual regulatory tier one securities	<b>668</b>	678	733
Securities, derivatives and hedging	<b>(49)</b>	393	790
Software development costs	<b>579</b>	660	837
Pension costs	<b>(165)</b>	(27)	174
Taxation	<b>69</b>	(166)	565
Others (net)	<b>(743)</b>	(575)	(442)
Shareholders' equity - US GAAP	<b>35,893</b>	32,343	30,176
<b>Total assets</b>			

Total assets under US GAAP, which include acceptances and the grossing-up of certain repurchase balances offset under UK GAAP, together with the effect of adjustments made to net income and shareholders' equity were £556 billion (31 December 2003 - £488 billion; 30 June 2003 - £472 billion).

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#### **ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

##### **Earnings per share**

Basic and diluted earnings per share ("EPS") under US GAAP differs from UK GAAP only to the extent that the income calculated under US GAAP differs from that under UK GAAP.

	<b>First half 2004</b>			First half 2003			Full year 2003		
	<b>Income £m</b>	<b>No. of shares million</b>	<b>Per share amount Pence</b>	Income £m	No. of shares million	Per share amount Pence	Income £m	No. of shares million	Per share amount Pence
Basic EPS	<b>2,390</b>	<b>3,013</b>	<b>79.3</b>	1,681	2,908	57.8	2,564	2,931	87.5
Dilutive effect of share	-	<b>18</b>	<b>(0.4)</b>	-	26	(0.5)	-	22	(0.7)

options outstanding									
Diluted EPS	<b>2,390</b>	<b>3,031</b>	<b>78.9</b>	1,681	2,934	57.3	2,564	2,953	86.8

Convertible preference shares totalling £200 million (2003 □ £200 million), €750 million (2003 □ €750 million) and \$1,900 million (2003 □ \$1,900 million) have not been included in the computation of diluted earnings per share as their effect is anti-dilutive. Interest payments on the \$1,200 million (2003 □ \$1,200 million) perpetual regulatory securities may be settled by the issue of ordinary shares at the option of the company and have not been included in the computation of diluted earnings per share as their effect is also anti-dilutive.

Outstanding options to purchase shares are excluded from the computation of diluted EPS where the exercise prices of the options are greater than the average market price of the ordinary shares during the relevant period. At 30 June 2004, there were 4.4 million such options outstanding (30 June 2003 □ 16.4 million; 31 December 2003 □ 5.2 million).

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#### **ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

##### **Stock based compensation**

If the compensation cost for the share option schemes had been determined on the fair value at the grant dates consistent with the fair value of SFAS 123, net income and earnings per share as adjusted to include stock compensation would have been as follows:

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
<b>Net income under US GAAP</b>			
As reported	<b>2,390</b>	1,681	2,564
Adjusted to include stock compensation	<b>2,364</b>	1,641	2,503
<b>Basic earnings per share under US GAAP</b>			
As reported	<b>79.3p</b>	57.8p	87.5p
Adjusted to include stock compensation	<b>78.5p</b>	56.4p	85.4p
<b>Diluted earnings per share under US GAAP</b>			
As reported	<b>78.9p</b>	57.3p	86.8p
Adjusted to include stock compensation	<b>78.0p</b>	55.9p	84.8p
<b>Intangible fixed assets other than goodwill</b>			

A summary of the carrying value of intangible assets other than goodwill is as follows:

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	30 June 2004			31 December 2003			30 June 2003		
	Gross carrying amount £m	Accumulated amortisation £m	Net carrying amount £m	Gross carrying amount £m	Accumulated amortisation £m	Net carrying amount £m	Gross carrying amount £m	Accumulated amortisation £m	Net carrying amount £m
Core deposit intangibles	458	(173)	285	459	(149)	310	473	(126)	347
Customer relationships	187	(17)	170	128	(6)	122	-	-	-
Other Brands	338	-	338	338	-	338	-	-	-
	<b>983</b>	<b>(190)</b>	<b>793</b>	<b>925</b>	<b>(155)</b>	<b>770</b>	<b>473</b>	<b>(126)</b>	<b>347</b>

The weighted average amortisation period of intangible assets other than goodwill are:

	Years
Core deposit intangibles	7
Customer relationships	9
Other Brands	-

Amortisation charge on intangibles during the first half of 2004 was £38 million (year ended 31 December 2003 - £62 million; six months ended 30 June 2003 - £26 million). The Group estimates that the annual amortisation expense on the intangibles for the next five years will be:

	£m
2004	76
2005	76
2006	76
2007	76
2008	74

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**ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

**Segmental analysis of goodwill (UK GAAP)**

	CBFM £m	Retail Banking £m	Retail Direct £m	Wealth Mgmt £m	RBS Ins £m	Ulster Bank £m	Citizens £m	Centre £m	Total £m
Cost: At 1 January 2004 Currency translation and	191	-	114	153	1,011	-	2,668	11,621	15,758

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other adjustments	(2)	-	1	(4)	-	(22)	(41)	-	(68)
Arising on acquisitions during the period	3	94	282	3	-	489	63	-	934
At 30 June 2004	192	94	397	152	1,011	467	2,690	11,621	16,624
Amortisation:									
At 1 January 2004	14	-	6	1	69	-	331	2,206	2,627
Currency translation and other adjustments	-	-	-	-	-	-	(5)	-	(5)
Charge for the period	5	-	7	3	27	12	67	292	413
At 30 June 2004	19	-	13	4	96	12	393	2,498	3,035
Net Book Value:									
At 30 June 2004	173	94	384	148	915	455	2,297	9,123	13,589
At 31 December 2003	177	-	108	152	942	-	2,337	9,415	13,131

**Contingent liabilities, commitments and contractual obligations**

	30 June 2004					31 December 2003	30 June 2003
	Less than 1 year £m	More than 1 year but less than 3 years £m	More than 3 years but less than 5 years £m	Over 5 years £m	Total £m	Total £m	Total £m
<b>Contingent liabilities</b>							
Acceptances and endorsements	349	-	-	-	349	595	2,268
Guarantees and assets pledged as collateral security	4,275	1,550	828	2,219	8,872	8,787	5,683
Other contingent liabilities	2,531	753	354	2,189	5,827	5,482	8,232
<b>Total</b>	<b>7,155</b>	<b>2,303</b>	<b>1,182</b>	<b>4,408</b>	<b>15,048</b>	14,864	16,183
<b>Commitments</b>							
Documentary credits and other short-term trade related transactions	339	218	1	60	618	605	244
Undrawn formal standby facilities, credit lines and other commitments to lend	103,338	18,895	18,323	15,170	155,726	137,251	121,515
Other commitments	1,317	596	11	-	1,924	1,837	991
<b>Total</b>	<b>104,994</b>	<b>19,709</b>	<b>18,335</b>	<b>15,230</b>	<b>158,268</b>	139,693	122,750

<b>Contractual cash obligations</b>							
Dated loan capital	<b>846</b>	<b>510</b>	<b>1,283</b>	<b>7,019</b>	<b>9,658</b>	9,312	8,151
Operating leases	<b>316</b>	<b>589</b>	<b>550</b>	<b>2,427</b>	<b>3,882</b>	3,299	3,677
Finance leases	<b>16</b>	<b>40</b>	<b>8</b>	<b>127</b>	<b>191</b>	182	209
Unconditional obligations to purchase goods or services	<b>567</b>	<b>119</b>	<b>8</b>	-	<b>694</b>	875	886
<b>Total</b>	<b>1,745</b>	<b>1,258</b>	<b>1,849</b>	<b>9,573</b>	<b>14,425</b>	13,668	12,923

In May 2004, Citizens announced the acquisition of Charter One Financial Inc, for a cash consideration of approximately \$10.5 billion. This transaction is subject to regulatory and Charter One shareholder approval and is expected to be completed by the fourth quarter of 2004.

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#### **ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

##### **Pensions**

	<b>First half 2004 £m</b>	First half 2003 £m	Full year 2003 £m
Service cost	<b>192</b>	151	340
Interest cost	<b>382</b>	353	706
Expected return on plan assets	<b>(415)</b>	(378)	(757)
Amortisation of prior service cost	<b>1</b>	1	1
Amortisation of net loss	<b>131</b>	287	287
Amortisation of net transition asset	<b>(4)</b>	(4)	(8)
<b>Net periodic pension cost</b>	<b>287</b>	266	569

Contribution to the Group's main pension scheme for the six months ended 30 June 2004 were £73 million. The triennial actuarial valuation of this scheme is currently in progress and the amount of any contributions for the six months to 31 December 2004 will be determined once the valuation has been finalised.

##### **Selected financial data**

The dollar financial information included below has been translated for convenience at the rate of £1.00 to US\$1.8126, the Noon Buying Rate on 30 June 2004.

##### **Profit and loss account data**

	First half 2004		First half	Full year
	\$m	£m	2003	2003
			£m	£m
<b>Amounts in accordance with UK GAAP</b>				
Total income	19,830	10,940	9,080	19,229
Expenses	12,341	6,808	5,442	11,576
Provisions	1,361	751	742	1,494
Profit before tax	6,128	3,381	2,896	6,159
Tax	1,899	1,048	927	1,910
Minority interests	202	111	87	210
Non-equity dividends	210	116	137	1,724
Profit attributable to ordinary shareholders	3,817	2,106	1,745	2,315
<b>Ordinary dividends</b>				
Interim	30.5c	16.8p	14.6p	14.6p
Proposed final	-	-	-	35.7p
	30.5c	16.8p	14.6p	50.3p
<b>Amounts in accordance with US GAAP</b>				
Net income available for ordinary shareholders	4,332	2,390	1,681	2,564

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**ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

**Balance sheet data**

	30 June 2004		31	30 June
	\$m	£m	December	2003
			2003	2003
			£m	£m
<b>Amounts in accordance with UK GAAP</b>				
Loans and advances	634,965	350,306	304,422	293,649
Debt securities and equity shares	166,991	92,128	82,249	75,478
Other assets	138,925	76,644	68,604	80,018
Total assets	940,881	519,078	455,275	449,145

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Shareholders' funds	58,743	32,408	28,099	28,614
Minority interests	4,867	2,685	2,713	2,421
Subordinated liabilities	32,322	17,832	16,998	15,696
Total capital resources	95,932	52,925	47,810	46,731
Deposits - banks and customers	612,784	338,069	304,286	287,736
Other liabilities	232,165	128,084	103,179	114,678
Total liabilities	940,881	519,078	455,275	449,145
<b>Amounts in accordance with US GAAP</b>				
Shareholders equity	65,060	35,893	32,343	30,176
Total assets	1,007,586	555,879	488,287	472,467

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**ADDITIONAL FINANCIAL DATA FOR US INVESTORS (continued)**

**Selected financial data (continued)**

**Other financial data**

	<b>30 June 2004</b>	30 June 2003	31 December 2003
<b>Based upon UK GAAP</b>			
Earnings per ordinary share	69.9p	60.0p	79.0p
Diluted earnings per ordinary share	69.5p	59.5p	78.4p
Dividends per ordinary share	16.8p	14.6p	50.3p
Return on average total assets*	0.87%	0.81%	0.52%
Return on average equity shareholders' funds*	15.7%	14.3%	9.30%
Ratio of earnings to fixed charges and preference dividends			
- including interest on deposits	1.95	1.90	1.97
- excluding interest on deposits	7.39	6.97	7.16
Ratio of earnings to fixed charges only			
- including interest on deposits	2.02	1.99	2.05
- excluding interest on deposits	9.56	9.91	9.85
<b>Based upon US GAAP</b>			
Earnings per ordinary share	79.3p	57.8p	87.5p
Diluted earnings per ordinary share	78.9p	57.3p	86.8p
Dividends per ordinary share	35.7p	31.0p	45.6p
Return on average total assets*	0.92%	0.78%	0.55%



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Return on average equity shareholders' funds*	17.5%	12.2%	9.5%
Ratio of earnings to fixed charges and preference dividends			
- including interest on deposits	2.02	1.83	1.98
- excluding interest on deposits	7.90	6.49	7.24
Ratio of earnings to fixed charges only			
- including interest on deposits	2.09	1.92	2.07
- excluding interest on deposits	10.22	9.22	9.96

\*30 June 2004 and 30 June 2003 have been annualized.

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THE ROYAL BANK OF SCOTLAND GROUP plc

### FORWARD-LOOKING STATEMENTS

Certain sections in this document contain "forward-looking statements" as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words "expect", "estimate", "project", "anticipate", "should", "intend", "plan", "probability", "risk", "Value-at-Risk ("VaR")", "target", "goal", "object", "endeavour", "outlook", 'optimistic', 'prospects' and similar expressions or variations on such expressions and sections such as "Group Chief Executive's review" and "Financial review".

In particular, this document includes forward-looking statements relating, but not limited, to the Group's potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G-7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes; changes in competition and pricing environments; natural and other disasters; the inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this report, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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## THE ROYAL BANK OF SCOTLAND GROUP plc

**RESTATEMENTS**

During the first half of 2004, a number of activities were transferred between divisions. The Affluent Banking business was transferred from Wealth Management to Retail Banking; further activities were transferred from Retail Direct, Wealth Management and RBS Insurance to Manufacturing; and, within RBS Insurance, certain income has been re-classified from net fees and commissions to insurance premium income in order to conform the accounting policies of Direct Line and Churchill.

	<b>First half 2003</b>			<b>Full year 2003</b>		
	Previously reported £m	Transfer £m	<b>Restated £m</b>	Previously reported £m	Transfer £m	<b>Restated £m</b>
<b>Retail Banking</b>						
- Net interest income	1,433	4	<b>1,437</b>	2,951	8	<b>2,959</b>
- Non-interest income	703	28	<b>731</b>	1,452	62	<b>1,514</b>
- Staff costs	373	8	<b>381</b>	777	16	<b>793</b>
- Other costs	93	5	<b>98</b>	227	10	<b>237</b>
<b>Contribution</b>	<b>1,535</b>	<b>19</b>	<b>1,554</b>	<b>3,126</b>	<b>44</b>	<b>3,170</b>
<b>Retail Direct</b>						
- Other costs	213	(4)	<b>209</b>	454	(8)	<b>446</b>
<b>Contribution</b>	<b>407</b>	<b>4</b>	<b>411</b>	<b>873</b>	<b>8</b>	<b>881</b>
<b>Manufacturing</b>						
- Staff costs	287	6	<b>293</b>	625	19	<b>644</b>
- Other costs	613	56	<b>669</b>	1,250	139	<b>1,389</b>
<b>Contribution</b>	<b>(900)</b>	<b>(62)</b>	<b>(962)</b>	<b>(1,875)</b>	<b>(158)</b>	<b>(2,033)</b>
<b>Wealth Management</b>						
- Net interest income	225	(4)	<b>221</b>	465	(8)	<b>457</b>
- Non-interest income	204	(28)	<b>176</b>	414	(62)	<b>352</b>
- Staff costs	139	(8)	<b>131</b>	275	(16)	<b>259</b>
- Other costs	74	(9)	<b>65</b>	157	(18)	<b>139</b>
<b>Contribution</b>	<b>219</b>	<b>(15)</b>	<b>204</b>	<b>438</b>	<b>(36)</b>	<b>402</b>
<b>RBS Insurance</b>						
- Insurance premium income	1,149	28	<b>1,177</b>	3,061	62	<b>3,123</b>
- Net fees and commissions	21	(28)	<b>(7)</b>	(99)	(62)	<b>(161)</b>
- Staff costs	96	(6)	<b>90</b>	241	(19)	<b>222</b>
- Other costs	147	(47)	<b>100</b>	341	(122)	<b>219</b>
<b>Contribution</b>	<b>202</b>	<b>53</b>	<b>255</b>	<b>468</b>	<b>141</b>	<b>609</b>

Group profit is unaffected by these changes.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

**The Royal Bank of Scotland Group plc  
Registrant**

/s/ Fred Watt  
Fred Watt  
Group Finance Director  
12 August 2004