The Royal Bank of Scotland Group plc

Report and Accounts 1999

contents

corporate statement

The Royal Bank of Scotland Group, headquartered in Edinburgh, provides high quality, competitively priced banking, insurance and related financial services.

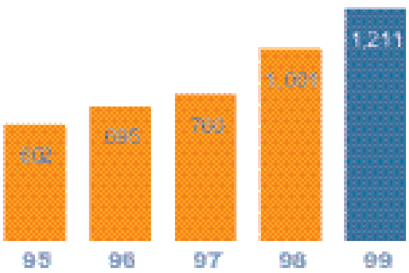
Our core market is the United Kingdom. We are active in Europe to serve and develop our UK banking customer base, and in the north-east USA to diversify our earnings.

We aim to be recognised as the best performing financial services group in the United Kingdom. In striving towards that aim we are mindful of the responsibilities to shareholders, customers, employees and the communities in which we operate.

Achieving our aim while successfully balancing these responsibilities is the primary challenge. We believe that we can best respond to this challenge by remaining independent.

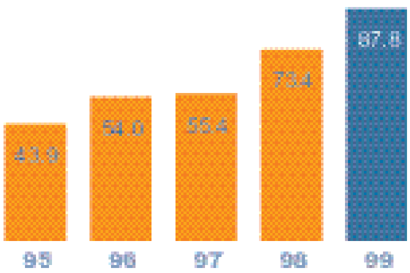
financial highlights

Profit before tax (£m)



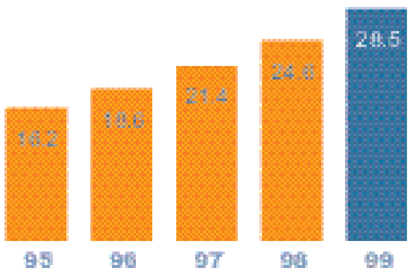
The Group's profit before tax rose by 21% to a record level of £1,211 million.

Earnings per share (pence)



Earnings per share increased to 87.8p. Adjusted earnings per share, which shows the effect of excluding exceptional items in 1998, increased by 21% to 87.8p.

Dividend per ordinary share (pence)



The directors have recommended a final dividend of 20.3p which, when added to the interim dividend of 8.2p, will produce a total for the year of 28.5p, an increase of 16%. The dividend is covered 3.1 times.

for the year ended 30 September	1999 £m	1998 £m
Profit before provisions and exceptional items	**1,500**	1,217
Profit before tax and exceptional items	**1,211**	1,007
Profit before tax	**1,211**	1,001
Profit attributable to ordinary shareholders	**776**	637
Cost:income ratio – Group	**49.5%**	52.0%
– UK Bank	**51.9%**	55.3%
Return on ordinary shareholders' equity – pre-tax*	**47%**	41%
– post-tax*	**32%**	28%
Earnings per share – unadjusted	**87.8p**	73.4p
– adjusted	**87.8p**	72.3p
Dividend per ordinary share	**28.5p**	24.6p
Dividend cover (times)	**3.1**	3.0
Total assets	**88,852**	79,676
Total shareholders' funds – equity	**2,852**	2,115
– non-equity	**1,350**	838
Risk asset ratio – tier 1	**8.1%**	6.6%
– total	**12.1%**	11.2%

*including exceptional items

chairman's statement

These are excellent results. They are in line with our consistent performance which made us the fastest growing, in terms of income, of the UK banking groups over the five years to 1998. We again achieved record profits, reflecting our success in building our core businesses, in developing new businesses which use a range of brands to exploit fresh opportunities and markets, and in integrating and developing acquisitions. Strong growth was achieved in all our main business areas, and our Group cost:income ratio improved from 52.0% to 49.5%. Our focus on providing highly competitive financial services products to our customers has resulted in consistent profits growth in increasingly competitive markets. Indeed, The Royal Bank of Scotland Group has made an enormous contribution to financial services in the UK.

Financial performance Profit before tax rose by 21% to £1,211 million (1998 – £1,001 million). Our total income, excluding exceptional items in 1998, grew by 14%, or £524 million, while our total costs grew by 9%, or £169 million. Profit has doubled in only four years. In the same period our UK Bank cost:income ratio has improved from 64.8% to 51.9%. Our total provisioning, excluding last year's exceptional provision for bad debts in the Far East, increased from £200 million to £276 million, reflecting the continued growth in our balance sheet. No further provisions have proved necessary in the Far East.

Dividend The directors have recommended a final dividend of 20.3p which, together with the interim dividend of 8.2p, makes a total for the year of 28.5p, an increase of 16%. The dividend is covered 3.1 times.

Staff profit sharing Our continuing record of success is made possible by the determination and hard work of staff throughout the Group, and I wish to pay full tribute to their achievements. Staff entitled to participate in the Group's profit sharing schemes will receive a profit share of 10% of basic salaries as at 30 September 1999. The total payment to be made will be £47 million (1998 – £43 million).

Business developments We agreed in March to sell our main investor services subsidiary, RBS Trust Bank Ltd., to The Bank of New York. The transaction was completed in October 1999. Direct Line completed in November 1999 the acquisition of the roadside rescue specialist, Green Flag, which, with the rapidly growing Direct Line Rescue business, will position us as the UK's third largest operator with almost 3 million customers. In the United States, Citizens completed the acquisition of the commercial banking business of State Street Corporation in October 1999. In June, Citizens announced the agreement to acquire UST Corp. of Boston. The acquisition is expected to complete in early 2000.

Board of directors In January it was announced in the New Year Honours that our Group Chief Executive, Sir George Mathewson, had been awarded a knighthood for his services to economic development in Scotland and to Scottish banking. The award recognised Sir George's achievements over many years in transforming the Scottish Development Agency and The Royal Bank of Scotland Group.

Sir Robin Duthie retired from the board at the annual general meeting in January 1999 with our warmest thanks, having been a director of the Bank since 1978.

On 26 November 1999, I announced that Sir George Mathewson will succeed me as Chairman following our annual general meeting on 18 January 2001, when I will retire from the board. On the same date Fred Goodwin will succeed Sir George as Group Chief Executive. In George Mathewson and Fred Goodwin we have a team with the vision, leadership and drive to meet the wider challenges and exploit the opportunities that lie ahead of us.

Economic situation The UK economy has recovered strongly, after a slowdown around the turn of the year. The upswing has been strongest in the consumer sector, prompted by a series of cuts in interest rates. In recent months, underlying inflation has dipped below its 2.5% target. However, the stronger than expected recovery, both at home and in the global economy, has led to a re-emergence of inflationary pressures and an upturn in the UK interest rate cycle.

The outlook for the business and corporate sector remains relatively subdued. The US economy may be nearing the end of its lengthy upswing, although a return to global stability and any sterling weakness may assist relatively hard pressed exporters.

Prospects These results maintain a consistent pattern of outstanding performance by The Royal Bank of Scotland Group over a number of years.

On 29 November 1999, we announced the terms of an offer for National Westminster Bank plc which we believe will, if successful, create a new force in banking, combining NatWest's scale and presence with our management, innovation and growth culture. The combination will create substantial value for shareholders in both groups through cost savings, revenue growth and wider opportunities in the UK, Europe and the US.

chief executive's review

Each of our main businesses made excellent progress. This enabled us to achieve an increase of 21% in our Group profit before tax and in our adjusted earnings per share.

UK Bank In the largest part of our business, the UK Bank, we increased our profit before exceptional items by 18% to £736 million (1998 – £626 million), while the cost:income ratio improved to 51.9% (1998 – 55.3%). Cost growth was limited to 4% in 1999. The UK Bank figures for 1998 have been restated to exclude RBS Cards, which is now shown separately.

In Retail Banking, we achieved good volume growth in mortgages, personal lending and deposits. We expanded our internet banking services by introducing personal savings and loan accounts and we launched our internet-based service, Business Banking Direct, to meet the needs of small businesses.

In Corporate and Institutional Banking, strong growth came from an increase in penetration of our large corporate market and further growth in business volumes across the mid-corporate market. In our specialist areas we maintained a leading position in leveraged finance, with good performances from our new operations in France and Germany.

New Retail Financial Services Businesses These new businesses made good progress. Customer numbers grew from 1.25 million to 2 million. Direct Line Financial Services expanded its personal loan portfolio by 60% to £343 million (1998 – £214 million). Tesco Personal Finance grew its advances to £846 million (1998 – £259 million) and its deposits to £978 million (1998 – £735 million). Advances by Virgin Direct Personal Finance increased to £790 million (1998 – £155 million). Losses on these latter two businesses reflect start-up and customer acquisition costs. By the end of the year, Tesco Personal Finance was trading profitably.

Angel Trains, which we acquired in December 1997, met our expectations with a profit of £53 million. Angel Trains continued to be successful in winning new business, in particular to supply rolling stock for Virgin Rail for the West Coast main line.

RBS Cards increased its profit before tax by 39% to £85 million (1998 – £61 million). RBS Cards comprises the credit card businesses previously included in the UK Bank, and RBS Advanta. At 30 September 1999, credit card balances were over £2.2 billion and the number of accounts over 2.2 million.

Investor Services increased its profit before tax to £14 million (1998 – £5 million). In October 1999, we completed the sale of our main investor services businesses to The Bank of New York.

Direct Line Insurance The profit before tax of Direct Line Insurance increased by 58% to £101 million (1998 – £64 million). This reflected further growth in policy numbers and a continuing improvement in premium rates, particularly for motor insurance. Direct Line Rescue expanded its number of policies to 330,000 (1998 – 94,000). In November 1999, Direct Line completed the acquisition of Green Flag, the roadside rescue specialist.

Citizens' profit before tax of £242 million is 13% higher than last year's profit, adjusted for the one-off gain of £33 million on the sale of its consumer credit card portfolio in 1998.

During the year, Citizens announced two significant acquisitions in Massachusetts. In October 1999, Citizens completed the acquisition of the major part of the commercial banking business of State Street Corporation. The acquisition of UST Corp. of Boston is expected to be completed in early 2000.

The Royal Bank of Scotland International In our offshore business profit before tax increased by 27% to £70 million (1998 – £55 million).

Staff Throughout the Group our staff have been the key component of our success. Their confidence in our prospects and their high morale was confirmed in the 1999 survey of Royal Bank employees, which showed that they were significantly more positive than the industry average in all 15 categories covered.

Banco Santander Central Hispano Following the merger between Banco Santander and Banco Central Hispanoamericano in April 1999, the Group now holds 2.23% in the enlarged company, Banco Santander Central Hispano (BSCH). We have an excellent relationship with BSCH and continue to work with them in a number of areas of mutual benefit.

Outlook We have shown with these results that we continue to succeed in increasingly competitive markets. This is due in no small part to our wide range of diverse businesses and to our willingness and ability to grow new businesses to meet new challenges and make the most of new opportunities. The Royal Bank of Scotland Group is well positioned to take maximum advantage of whatever the future has in store.

operating and financial review

The following review is based on the financial statements on pages 39 to 83 of this report and accounts. It discusses and analyses the Group's performance for the year to 30 September 1999 and it addresses the factors underlying the results of operations and financial condition in order to assist users in their assessment of the future prospects of the Group.

1 Operating review

Group profit before tax rose by 21%, from £1,001 million to £1,211 million. Profit before tax and exceptional items increased by 20%, from £1,007 million to £1,211 million.

Net interest income grew by 10% to £1,756 million. Strong growth was achieved in both corporate and personal lending. Group average interest-earning assets increased by 12%. The interest margin was maintained at 2.5%.

Non-interest income, excluding general insurance and the exceptional items in 1998, grew by £256 million to £1,672 million, an increase of 18%. Of this increase, £63 million came from Angel Trains. The balance primarily came from increased fees and commissions.

General insurance premium income, after reinsurance, increased by 18% to £710 million.

Total income, excluding exceptional items in 1998, increased by 14% to £4,138 million.

Operating expenses were up by 9% to £2,048 million. Excluding Angel Trains, the increase was 7%, reflecting growth in business volumes.

Group cost:income ratio improved from 52.0% to 49.5%.

General insurance claims, after reinsurance, increased by 14% to £590 million. In Direct Line Insurance, claims increased by 9%.

Provisions for bad debts, excluding exceptional provisions for bad debts in the Far East in 1998, increased to £276 million principally as a consequence of continued strong growth in credit cards, personal loans and corporate advances.

The tax charge was £361 million on profit before tax of £1,211 million, an effective rate of 29.8%.

Profit attributable to ordinary shareholders, after tax, minority interests and preference dividends, increased by 22%, from £637 million to £776 million.

Earnings per share increased by 20%, from 73.4p to 87.8p. After adjusting for the exceptional items in 1998, earnings per share increased by 21%, from 72.3p to 87.8p.

Group return on equity, after tax, increased from 28% to 32%.

Group total assets increased by 12% to £88.9 billion. Within this, loans and advances to customers grew by 20% to £49.3 billion.

Group risk-weighted assets increased from £49.1 billion to £56.8 billion. At 30 September 1999, the capital ratios were 8.1% (tier 1) and 12.1% (total).

The Year 2000 problem concerns the inability of information systems, primarily computer software programs, properly to recognise and process date sensitive information prior to, during and after the Year 2000. The Group, many of its customers and the third parties it deals with, use software and related technology throughout their businesses that could be affected by the Year 2000 problem and may therefore not be Year 2000 compliant.

The Group's management recognised early the significance of the Year 2000 issue and started its compliance programme in mid 1996. Each of the Group's main entities has monitored closely its progress via a Year 2000 Steering Group reporting to a senior executive of the entity. In addition, the overall Group's Year 2000 compliance programme is monitored on a monthly basis by the Group Board.

The Group has conducted a Year 2000 compliance programme designed to achieve Year 2000 compliance by:

(a) testing and obtaining assurances that existing IT business critical systems and business critical processes (“Systems”) operate through critical dates including testing new products before purchase and implementation;

(b) reviewing customer credit risk in the light of their Year 2000 preparations;

(c) liaising with key third parties to determine the Year 2000 compliance of their Systems;

(d) conducting interface testing to ensure the continued operation of third party interface systems through the critical dates; and

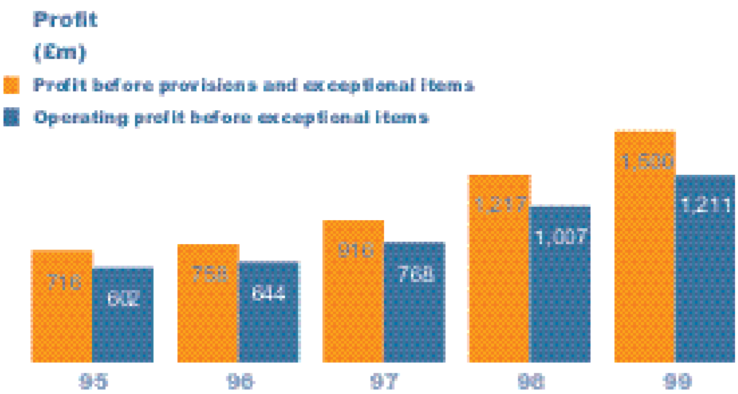
(e) preparing contingency plans to ensure business continuity including the development of an incident management structure and command centre to monitor and manage the operation of the Group through the critical dates.

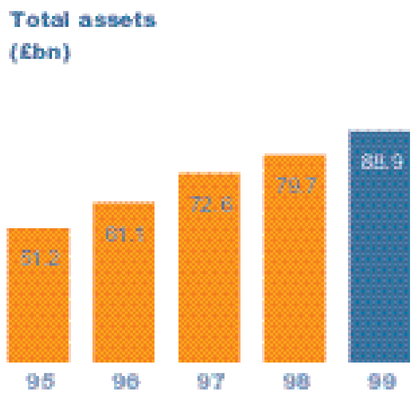
As a result of the measures undertaken and described above, the directors believe that the Group’s Systems are, and will remain, Year 2000 compliant. In forming this view, the directors have relied on assurances given by third parties including hardware and software suppliers, experts and key third parties with which the Group deals. However, there can be no assurance that the Systems of any company will perform as expected or that measures taken or to be taken by the Group or by third parties will successfully minimise or eliminate the effects of the Year 2000 problem. Any failure could have a materially adverse impact on the financial condition and results of the Group and may not be embraced by the Group’s contingency plans.

The total estimated cost of the Group’s Year 2000 compliance programme is expected to be £66 million. Of this amount, £62 million has been expended to 30 September 1999.

EMU The UK Bank was in a position to fully meet customers’ EMU requirements from January 1999, when the euro came into being as the currencies of the eleven participating states were irrevocably locked. We continue to monitor demand levels for euro products and services to ensure that we are meeting customers’ requirements as the transition phase unfolds for the first-wave participants.

Following our successful preparations for the ‘UK out’ period, attention has been focussed on the potential implications for the Group and our customers of the UK joining EMU. Publication of the first Outline National Changeover Plan in February 1999 confirmed that the Government’s formal stance on the UK’s position had not changed. Subsequently, whilst the commitment in principle appears unchanged, the uncertainties on timing have tended to increase. This makes planning for banking sector preparations increasingly problematic. The Group is continuing its planning work to ascertain the detailed requirements in the event that the UK should decide to join, but timing of entry will need to be more certain before we commit the investment required for full scale euro preparation.





Divisional performances
UK Bank

	1999 £m	1998 £m
Net interest income	**1,082**	1,001
Non-interest income	**829**	715
Total income	**1,911**	1,716
Expenses	**991**	949
Profit before provisions	**920**	767
Provisions for bad and doubtful debts	**171**	132
Amounts written off investments	**13**	9
Profit before exceptional items	**736**	626

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995* £m
Profit before provisions	**920**	767	638	553	444
Provisions and investment write-offs	**(184)**	(141)	(97)	(98)	(89)
Profit before exceptional items	**736**	626	541	455	355
Cost:income ratio (%)	**51.9**	55.3	58.2	59.7	64.8
Pre-tax return on ordinary equity (%)	**39**	38	37	33	30
Total assets (£bn)	**57.9**	51.8	50.7	44.8	40.0
Shareholder's funds (£m)	**2,460**	2,178	2,192	1,791	1,715
Employees at 30 September	**18,160**	17,830	17,670	16,810	17,480

*pro-forma

The UK Bank figures have been restated to exclude RBS Cards, which is now shown separately.

The UK Bank increased its profit before exceptional items by 18%, from £626 million to £736 million.

Income increased by 11%, mainly due to higher corporate advances and increased fee income, whilst costs increased by only 4%. As a result, the UK Bank's cost:income ratio improved further, from 55.3% to 51.9%.

UK Bank provisions for bad debts increased from £132 million to £171 million due to higher volumes in both corporate and personal advances.

Notes: The UK Bank excludes RBSI, Angel Trains, RBS Cards, Investor Services (i.e. RBS Trust Bank and RBS Global Custody), Tesco Personal Finance and Virgin Direct Personal Finance, which are disclosed separately.

The figures for the UK Bank assume that it had a total risk asset ratio of 10% and that the tier 1 element was 6%, split between ordinary equity and preference shares in the same ratio as the Group.

New Retail Financial Services Businesses

	1999 £m	1998 £m
Net interest income	**82**	50
Non-interest income – associated companies	**—**	(4)
– other	**31**	16
Insurance premium income	**76**	47
Total income	**189**	109
Expenses	**130**	117
General insurance claims	**75**	45
Loss before provisions	**(16)**	(53)
Provisions for bad and doubtful debts	**19**	6
Loss before tax	**(35)**	(59)

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Loss before provisions	**(16)**	(53)	(31)	(37)	(14)
Provisions for bad and doubtful debts	**(19)**	(6)	(2)	(1)	(1)
Loss before tax	**(35)**	(59)	(33)	(38)	(15)
Ordinary shareholders' funds: Group's share (£m)	**119**	97	42	35	22
Total assets (£m)	**3,748**	2,293	1,472	716	273
Employees at 30 September	**2,440**	2,350	1,800	660	220

All of the New Retail Financial Services Businesses are treated as subsidiaries, except Direct Line Life/Unit Trusts and Linea Directa, which are treated as associated companies. RBS Advanta, which had previously been included in New Retail Financial Services Businesses, is now integrated with RBS cards. The comparative figures have been adjusted to reflect this.

Direct Line Financial Services

	Commenced trading	% owned	1999 £m	1998 £m
Profit before tax	March 1993	100	**8**	6

Direct Line Financial Services has continued to make progress and increased its profit to £8 million. Personal loans grew by 60%, from £214 million to £343 million and mortgages were maintained at £1.4 billion.

Privilege Insurance

	Commenced trading	% owned	1999 £m	1998 £m
Loss before tax	October 1994	100	**(9)**	(4)

Privilege Insurance increased its policy numbers from 264,000 to 445,000, a rise of 69%. Increased losses reflect a higher level of claims during the year.

Direct Line Life/Unit Trusts

	Commenced trading	% owned	1999 £m	1998 £m
Profit/(loss) before tax	February 1995	50	1	(2)

Direct Line Life/Unit Trusts made a profit of £1 million in 1999 compared with a loss of £2 million in the previous year. The number of policyholders was 36,800 at 30 September 1999.

Linea Directa

	Commenced trading	% owned	1999 £m	1998 £m
Loss before tax	June 1995	50	(1)	(2)

Linea Directa increased its policy numbers from 177,000 to 212,000. The Group's share of its losses was £1 million in 1999, compared with a loss of £2 million in the previous year.

Direct Line Accident Management

	Commenced trading	% owned	1999 £m	1998 £m
Loss before tax	August 1995	100	(7)	(9)

Direct Line Accident Management made a loss of £7 million, £5 million of which related to the loss incurred on two discontinued repair centres.

Tesco Personal Finance

	Commenced trading	% owned	1999 £m	1998 £m
Loss before tax	July 1997	50	(12)	(35)

Tesco Personal Finance made a loss of £12 million in 1999 compared with a loss of £35 million in the previous year. By the end of the year the venture was trading profitably. At 30 September 1999, Tesco Personal Finance had advances of £846 million (1998 – £259 million) and deposits of £978 million (1998 – £735 million).

Virgin Direct Personal Finance

	Commenced trading	% owned	1999 £m	1998 £m
Loss before tax	October 1997	50	(15)	(13)

Virgin Direct Personal Finance made a loss of £15 million in 1999 mainly due to marketing costs, compared with a loss of £13 million in the previous year. At 30 September 1999, Virgin Direct Personal Finance had advances of £790 million compared with £155 million at 30 September 1998.

Angel Trains

	1999 £m	1998 £m
Operating lease rentals	**291**	228
Interest payable	**(62)**	(45)
Total income	**229**	183
Depreciation and maintenance	**150**	118
Administrative expenses	**26**	19
Profit before tax	**53**	46
Cost:income ratio (%)	**77**	75
Total assets (£m)	**1,642**	887
Shareholder's funds (£m)	**291**	235
Employees at 30 September	**110**	80

Angel Trains has contributed a profit of £53 million, 15% higher than 1998, which represented nine and a half months trading.

Angel Trains continued its success in winning new business by negotiating an agreement with Virgin Rail to supply the rolling stock for the West Coast main line. This transaction, together with the previously announced order for English, Welsh and Scottish Railways, accounted for most of the increase in total assets during the year.

Note: The purchase of Angel Trains in December 1997 for £395 million was funded by equity of £200 million and borrowings of £195 million. A further payment of £13 million representing contingent consideration was made during the year. The interest on the borrowings has been deducted in arriving at the profit disclosed above.

RBS Cards

	1999 £m	1998 £m
Net interest income	**144**	98
Non-interest income	**125**	109
Total income	**269**	207
Expenses	**113**	99
Profit before provisions	**156**	108
Provisions for bad and doubtful debts	**71**	47
Profit before tax	**85**	61

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit before provisions	**156**	108	80	55	41
Provisions	**(71)**	(47)	(32)	(18)	(5)
Profit before tax	**85**	61	48	37	36
Cost:income ratio (%)	**42.0**	47.8	49.0	50.9	52.9
Total assets (£m)	**2,286**	1,944	1,360	803	468
Shareholder's funds (£m)	**201**	148	53	35	14
Employees at 30 September	**1,200**	1,080	750	580	500

RBS Cards comprises the credit card businesses previously included in the UK Bank, and RBS Advanta, which was previously included as part of the New Retail Financial Services Businesses.

RBS Cards has made a profit of £85 million compared with £61 million in 1998, an increase of 39%.

Total income increased by 30% and expenses increased by only 14%. As a result the cost:income ratio improved from 47.8% to 42.0%. Provisions for bad debts were £24 million higher than the prior year reflecting the growth in credit card advances in recent years.

At 30 September 1999, credit card balances were over £2.2 billion and the number of accounts over 2.2 million.

Investor Services

	1999 £m	1998 £m
Net interest income	**6**	17
Non-interest income	**154**	120
Total income	**160**	137
Expenses	**146**	132
Profit before tax	**14**	5

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit/(loss) before tax	**14**	5	(12)	(17)	(13)
Cost:income ratio (%)	**91**	96	111	134	127
Shareholder’s funds (£m)	**64**	55	48	5	3
Employees at 30 September	**1,310**	1,190	2,020	1,240	1,170

On 31 October 1999, the Group completed the sale of its main investor services businesses to The Bank of New York.

Direct Line Insurance

	1999 £m	1998 £m
Earned premiums	**754**	672
Reinsurers' share	**(120)**	(119)
Insurance premium income	**634**	553
Net interest income	**60**	66
Non-interest income	**69**	46
Total income	**763**	665
Expenses	**147**	128
Gross claims	**611**	561
Reinsurers' share	**(96)**	(88)
Profit before tax	**101**	64

In-force policies (000)		
Motor	**2,179**	2,053
Home	**894**	863
Total	**3,073**	2,916

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit before tax	**101**	64	36	26	112
Operating ratio (%)	**96**	101	106	107	89
Pre-tax return on equity (%)	**28**	18	11	8	39
Total assets (£m)	**1,411**	1,201	1,124	1,042	911
Insurance reserves – net (£m)	**997**	872	773	720	620
Shareholder's funds (£m)	**362**	315	343	326	311
Employees at 30 September	**3,290**	3,200	3,020	2,690	2,850

Direct Line Insurance increased its profit from £64 million to £101 million, an increase of 58%. Overall, premium income was up by 15%, while expenses were also up by 15%. Claims increased by 9%.

In motor insurance, policy numbers increased by 6%. Average written motor premiums were up by 8%. In motor insurance, the operating ratio (the total of expense ratio and claims ratio) improved from 109% to 102%.

In home insurance, the policy numbers increased from 863,000 to 894,000. The increase in average written premiums was 1%. In home insurance, the operating ratio increased from 85% to 90%.

In Direct Line Rescue, the number of policies has grown to 330,000. In October 1999, Direct Line announced the acquisition of Green Flag, which has over 2.5 million customers. Direct Line completed the acquisition on 26 November 1999.

Note: These accounts are prepared on the basis of the Group's normal accounting policies. Direct Line Insurance's own accounts are prepared in line with normal insurance industry practice.

Citizens

	1999 £m	1998 £m
Net interest income	**408**	376
Non-interest income	**141**	117
Total income	**549**	493
Expenses	**292**	264
Profit before provisions	**257**	229
Provisions for bad and doubtful debts	**15**	15
	242	214
Gain on sale of consumer credit card portfolio	**—**	33
Profit before tax	**242**	247

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit before provisions	**257**	262	205	166	125
(Provisions)/net releases	**(15)**	(15)	(16)	2	(18)
Profit before exceptional items	**242**	247	189	168	107
US$/£ rate of exchange – average	**1.63**	1.65	1.63	1.54	1.58
Cost:income ratio (%)	**53.2**	50.2	54.4	54.9	56.6
Pre-tax return on equity (%)	**31**	39	37	41	32
Total assets (£m)	**11,824**	9,714	9,565	8,854	6,148
Shareholder's funds (£m)	**905**	707	575	522	337
Employees at 30 September	**5,190**	5,010	4,910	4,580	3,160

Citizens' profit of £242 million is a 13% increase over the prior year profit adjusted for the one-off gain of £33 million in 1998. Excluding this gain the cost:income ratio shows an improvement from 53.5% to 53.2%.

Income, excluding the one-off gain in 1998, was up by 11%, and expenses were also up by 11%. The increase in Citizens' income reflects strong volume growth in both commercial and consumer loans and increased income from service fees.

In October 1999, Citizens completed the acquisition of the major part of the commercial banking business of State Street Corporation for a cash premium of US$350 million. This business has commercial loans totalling US$2.3 billion and deposits of US$1.1 billion.

In June 1999, Citizens announced that it had entered into an agreement to acquire, by way of merger, the entire issued share capital of UST Corp. of Boston, Massachusetts for a consideration of approximately US$1.4 billion. The acquisition is expected to complete in early 2000.

The Royal Bank of Scotland International (RBSI)

	1999 £m	1998 £m
Net interest income	**85**	68
Non-interest income	**44**	36
Total income	**129**	104
Expenses	**59**	49
Profit before provisions	**70**	55
Provisions for bad and doubtful debts	**—**	—
Profit before tax	**70**	55

Five-year financial summary	1999 £m	1998 £m	1997 £m	1996 £m	1995* £m
Profit before provisions	**70**	55	46	38	29
Provisions	**—**	—	(1)	—	(2)
Profit before tax	**70**	55	45	38	27
Cost:income ratio (%)	**45.7**	47.1	46.5	44.1	38.3
Pre-tax return on ordinary equity (%)	**22**	20	20	22	19
Total assets – gross (£m)	**7,877**	7,259	6,130	4,511	3,237
Shareholder's funds (£m)	**359**	299	254	194	147
Employees at 30 September	**920**	890	680	590	440

*pro-forma

RBSI, headquartered in Jersey, increased its profit from offshore banking by 27% to £70 million (1998 – £55 million).

Income rose by 24%, and costs by 20%, reflecting growth in the business.

RBSI continues to make good progress in each of its four main activities: offshore personal banking, investor services, the treasury operation and its corporate banking services.

On 31 October 1999, RBSI completed the sale of 30% of its investor services businesses to The Bank of New York.

Central items

The Centre's deficit for the year ended 30 September 1999 was as follows:

	1999 £m	1998 £m
Central income less expenses	**16**	2
Funding costs	**(71)**	(40)
Deficit before exceptional items	**(55)**	(38)

The Centre's balance sheet at 30 September 1999 was as follows:

	1999 £m	1998 £m
Book value of the shareholders' funds of business units:		
UK Bank	**2,460**	2,178
New Retail Financial Services Businesses	**119**	97
Angel Trains	**291**	235
RBS Cards	**201**	148
Investor Services	**64**	55
Direct Line Insurance	**362**	315
Citizens	**905**	707
RBSI	**359**	299
	4,761	4,034
Net borrowing by the Centre	**(559)**	(1,081)
	4,202	2,953
Funded by Group shareholders' funds:		
Preference shares	**1,350**	838
Ordinary shareholders' funds	**2,852**	2,115
	4,202	2,953

Investment in Banco Santander Central Hispano ("BSCH") The investment in BSCH is held in the Centre and at 30 September 1999 the unrecognised surplus over book value was £354 million (1998 – £230 million).

Future development of the business The Group's principal objective is to create value for shareholders. It seeks to achieve this by allocating capital to develop established businesses and to create new businesses, and through acquisitions, disposals and joint ventures.

In the UK Bank, there is a clear separation between corporate and retail banking, and activities are divided into customer facing businesses. Retail Banking focuses entirely on small businesses and personal customers. Corporate and Institutional Banking covers all corporate and commercial customers throughout the UK and through its overseas branches. Each area within the UK Bank has the appropriate structure, products, people and skills, culture and incentives to enable it to meet the needs of its customers. This provides a solid base for further growth. It also provides the UK Bank with opportunities for broader product growth across the UK population and through different brands using low cost distribution channels.

Retail Banking has a wide product range and an excellent reputation for customer service. It will expand its business through the branch network. It will also grow its customer base through alternative distribution channels such as the Internet, where it has already established a leading position in on-line banking, telephone and postal accounts. Having completed a comprehensive programme for change, Retail Banking is in a position to extend its customer base and to develop opportunities to cross-sell products such as mortgages and life insurance.

To develop its business, Corporate and Institutional Banking will continue to build on its relationship management culture. It will seek to continue to grow customer numbers and to deepen its relationships with them by offering a product range and infrastructure expected from a successful corporate bank. The Bank has already achieved lead or important bank status with many corporate customers. This year has also seen the successful expansion into Europe of its Structured Finance business. Opportunities exist for growing the Bank's existing businesses and expanding its franchise in the mid-corporate and commercial sectors. Further European and new product development will also provide growth opportunities.

RBS Cards, which comprises the credit card businesses previously included in the UK Bank, and RBS Advanta, will continue to grow its business through a range of credit card products which appeal to different customer segments.

Offshore, The Royal Bank of Scotland International has just launched a new web enabled, networkable, multi-currency electronic banking service for its corporate and trust clients that provides real time access to a wide range of the bank's services. In addition, RBSI will continue to develop new added-value products and services for the offshore market.

Angel Trains, one of three rolling stock leasing companies which were privatised in 1996, continues to be successful in winning new business.

Direct Line Insurance has excellent prospects. It is cost efficient and has an expense ratio of 16% (expenses divided by gross written premiums) which is half that of many of its competitors and, over time, it is benefiting as motor insurance premiums rise. Direct Line Rescue has made a successful start and it is expected to grow in the future, particularly in conjunction with the acquisition of Green Flag. The Group's growing customer base will also provide opportunities to expand the home insurance business.

The New Retail Financial Services Businesses continue to introduce new customers and markets to the Group and help develop the customer base. Direct Line Financial Services and Direct Line Life and Unit Trusts have already demonstrated their ability to sell a wider product range by telephone. They will seek to develop the brand name, to build loyalty and confirm Direct Line as a supplier of a broad range of financial services. Tesco Personal Finance has continued to attract business and is now trading profitably. The Virgin *One* Account at Virgin Direct Personal Finance has grown rapidly during the year.

Over the past five years, total assets at Citizens have grown from US$9.4 billion to US$19.5 billion. With the October 1999 acquisition of State Street's commercial banking business and the expected closing of the UST Corp. of Boston transaction in early 2000, total assets will reach US$28 billion, reinforcing Citizens' position as the second largest bank in New England. This accelerated transition into a full-service commercial bank will enable Citizens to better serve its primary markets, including retail and small business customers.

Investment for the future The Group allocates capital to its various businesses to create value for shareholders. Investment is made to grow the customer base and to improve the product range available through multiple distribution channels. In assessing the extent to which this investment has been successful in creating value, the Group uses a variety of performance indicators such as economic value added, discounted cash flows, return on equity, cost:income ratios and return on risk weighted assets.

Improvements to the Group's infrastructure continue with increased expenditure on premises. Total capital expenditure on premises, computers and other equipment for the year ended 30 September 1999 was £246 million (1998 – £254 million). Contracts entered into for future capital expenditure but not provided for in the accounts for the year ended 30 September 1999 amounted to £8 million (1998 – £18 million).

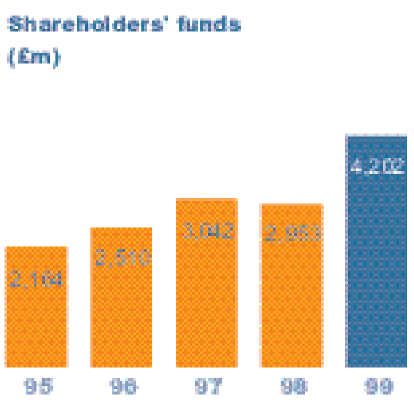
Shareholder value The Group's profits have again improved to record levels and the increased dividend is comfortably covered at 3.1 times.

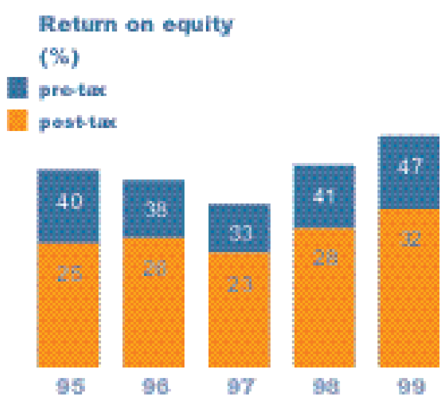
Shareholders' funds at 30 September 1999 were £4,202 million (1998 – £2,953 million). The principal elements in the movement on shareholders' funds during the year were the retained profit of £522 million and the proceeds of £613 million from the issues of ordinary and preference share capital.

Earnings per share increased by 20% to 87.8p. The adjusted earnings per share, which excludes exceptional items, increased by 21% from 72.3p to 87.8p. The return on ordinary shareholders' equity (excluding the share premium account for dollar preference shares) continues to be high at 47% pre-tax and 32% post-tax.

The Group will endeavour to maintain its dividend and to seek to increase it annually, taking into account the annual increase in adjusted earnings per share and the future needs of, and prospects for, the business. Normally, it will seek to pay an interim dividend equal to one third of the preceding year's total dividend.

Going concern The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing the accounts.





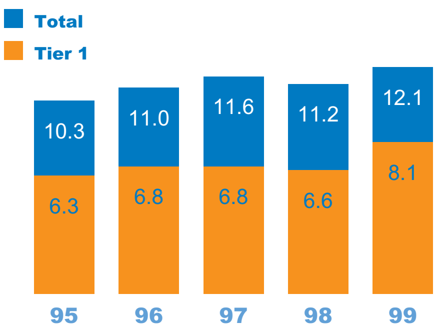
2 Financial review

(a) Capital resources The following table analyses the Group's capital resources at 30 September for each of the last five years, in accordance with supervisory requirements:

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Capital base					
Tier 1 capital	**4,605**	3,235	3,107	2,539	2,092
Tier 2 capital	**3,256**	2,950	2,699	2,388	1,929
Total capital	**7,861**	6,185	5,806	4,927	4,021
Less investments in insurance subsidiaries, associated undertakings and other supervisory deductions	**(1,011)**	(703)	(489)	(812)	(596)
	6,850	5,482	5,317	4,115	3,425
Weighted risk assets					
On-balance sheet	**51,485**	44,354	41,750	34,367	30,082
Off-balance sheet	**5,270**	4,736	4,066	3,114	3,230
	56,755	49,090	45,816	37,481	33,312
Risk asset ratio	%	%	%	%	%
Tier 1	**8.1**	6.6	6.8	6.8	6.3
Total	**12.1**	11.2	11.6	11.0	10.3

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, a guiding factor is the supervisory requirements of the Financial Services Authority ("FSA") which applies a risk asset ratio as the principal measure of capital adequacy in the UK banking sector. This ratio compares a bank's capital, which is divided into tiers, with its assets and off-balance sheet exposures weighted according to broad categories of relative credit risk and, in the trading book, market risk. An internationally agreed minimum risk asset ratio of 8% and a minimum tier 1 ratio of 4% are the base standards from which the FSA sets individual ratios reflecting each bank's particular circumstances and in most cases it requires a minimum risk asset ratio in excess of 8%. At 30 September 1999, the Group's risk asset ratio was 12.1% (1998 – 11.2%) and the tier 1 ratio was 8.1% (1998 – 6.6%).

Capital ratios
(%)



(b) Risk management Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk; responsibility for these is vested in the Group Executive Management Committee ("GEMC"), a sub committee of the Board of Directors. Beneath this, Group Risk Management are responsible for formulating high level risk policies, setting standards, monitoring concentrations and providing an independent review. The Group Asset and Liability Management Committee also operates as a sub-committee of the GEMC and sets policy for the management of the overall Group balance sheet in relation to capital ratios, structural hedging and liquidity. Operational responsibility for asset and liability management is in turn delegated to sub-committees or equivalent management bodies in each major business grouping.

Liquidity risk In the UK, the FSA requires that the Group should be able to meet its sterling obligations without recourse to the wholesale money market for a period of at least five business days. The Group also maintains a similar policy for its currency obligations in the UK. Monthly reports are made to the FSA for both sterling and other currency liquidity. Subsidiaries and branches of the Group in other countries operate similar policies in compliance with their local regulatory requirements. In order to meet these requirements, the Group measures and manages its cashflow commitments on a daily basis, and maintains a diversified portfolio of high quality liquid and marketable assets. Liquidity risk is also mitigated through the Group's well diversified retail and corporate customer deposit base and through the raising of longer term funds of appropriate maturities via its Euro Medium Term Note Programme.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal risk policy limits.

Credit risk Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The Group's strong credit culture extends to the management of resultant exposures via individual counterparty and concentration limits and the monitoring of counterparty credit worthiness as described below.

The day-to-day management of credit risk is devolved to individual business units, each of which has specialist credit functions which perform regular appraisals of counterparty credit quality through the analysis of qualitative and quantitative information. Credit authority is based on defined limits with responsibility for significant transactions residing with a Group Credit Committee.

If the Group requires collateral, this may be cash, or more commonly, security over a customer's assets.

Transactions with the same counterparty are netted where the Group has the legal right to insist on net settlement.

Operational risk Operational risk arises from the potential for inadequate systems (including systems breakdown), errors, poor management, breaches in internal controls, fraud and external events to result in financial loss or reputational damage. The Group's business units manage this risk through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal controls and business continuity arrangements.

Group Risk Management ensure progress occurs on significant risk issues and provide the businesses with the assistance, tools and techniques to improve operational risk management.

Market risk Market risk is the risk that changes in the level of interest rates, the levels of exchange between currencies or the price of securities and other financial contracts, including derivatives, will have an adverse financial impact. The primary risks within the Group's activities are interest rate and currency risk.

The Group's management of its exposure to market risk recognises a fundamental distinction between the core (non-trading) balance sheet and the Group's foreign exchange, money market and trading activities.

- **Non-trading market risk** Interest rate risk arises in the Group's core balance sheet as a result of fixed rate, variable rate and non-interest bearing assets and liabilities. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. The composition of non-trading interest rate risk in each Group company and division is closely monitored and managed, by either the Group Treasury function or local treasury units (in the case of Citizen and RBSI) where professional treasury expertise and systems exist to control the risk taken on a day to day basis. Interest rate risk is managed by Group Treasury within approved total Value at Risk (see below) limits, or in certain entities by using asset and liability management models which look at the sensitivity of earnings to movements in interest rates to measure overall exposure which may then be hedged in accordance with policy limits.

The most significant foreign currencies in which the Group has transactions are US dollars and the euro. Non-trading currency risk exposure arises primarily out of the Group's investments in overseas branches, subsidiaries and other foreign currency investments, (principally Citizens and Banco Santander Central Hispano). As a result the Group's consolidated balance sheet is affected by movements in the exchange rates between the functional (or operational) currencies of these activities and sterling. These currency exposures are referred to as structural currency exposures. Translation gains and losses arising from these exposures are recognised in the statement of total recognised gains and losses. The Group mitigates the effect of these exposures by financing a significant proportion of its net investment in its overseas operations with borrowings in the same currencies as the functional currencies involved. The Group also has currency exposures relating to transactional (or non-structural) positions. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations and investments. Foreign currency exposures in the non-trading book are transferred to the trading book where professional treasury expertise and systems enable risks to be managed within mandated risk limits. Details of non-trading currency risk exposures are presented in Note 38, page 69 of the accounts.

The Group does not have any material exposure to adverse movements in the value of equities and commodities other than its holdings of equity shares as shown in Note 19 on the accounts. At 30 September 1999, equity shares held as investment securities had a book value of £804 million (1998 – £766 million) and a valuation of £1,264 million (1998 – £956 million).

- **Trading market risk** The Group's primary mechanism for estimating potential losses is a mathematical methodology, Value at Risk ("VaR") which estimates the Group's exposure to market risk within a given level of confidence, over a defined time period. This is regularly reviewed to ensure it remains relevant and captures all significant risks. The Group uses a 97.5% confidence interval. This means that daily losses exceeding the VaR figure are likely to occur, on average, in only one in every 40 business days. All exposure arising from trading activities is assessed over a one day holding period and an historic market rate data observation period of one year.

The instruments covered by the VaR include all money market products, foreign exchange products, securities and derivatives within the Group's trading units. The value of these instruments is assumed to vary in a linear fashion with changes in the market rates used to compute the present value of the cash flows associated with those instruments. This type of linear relationship does not hold for options. Optionality is dealt with using scenario analysis by identifying the greatest loss arising on varying both the price and volatility of the underlying instrument. Risk of changes in credit spreads for positions in corporate securities is also included in the VaR.

Known limitations of the VaR methodology include the fact that changes in market rates may not tend to a normal distribution (specifically, that very large movements are more likely than predicted by the normal distribution assumption), that correlations between market rate movements can vary (especially during periods of stress in the markets), that the changes in present values are not perfectly linearly related to changes in market rates and that the use of a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated in one day. Additionally, the models are based on past movements and may not be indicative of future market conditions, irrespective of the historical time period selected. As a result of these limitations, the Group has a research and development programme to refine the techniques used to quantify market risk. This includes the use of historical simulations and stress testing with specified scenarios. A major objective of this research is to understand the shortcomings of the VaR methodology and to ensure that other complementary measures are used where appropriate. The Group has adopted stress testing to simulate extreme conditions. An analyses of trading market risk related VaR for the Group is shown in Note 38, page 70 of the accounts.

Other risk management controls used to manage trading market risk include more detailed limits and individual trader mandates, designed to supplement the VaR framework. This enables market risk exposure to be monitored throughout the day at a detailed, disaggregated level and on a consolidated basis.

(c) Financial instruments Financial instruments are fundamental to the Group's business and constitute the core element of its operations. The risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Group's balance sheet. Each of these risks and the Group's policies and objectives for managing such risks are discussed above.

The purpose for which the Group holds or issues financial instruments can be classified into five main categories.

- **Customer loans and deposits** Customer loans and deposits (both retail and institutional) form a substantial part of the Group's business. The customer loan portfolio is the Group's largest asset and the interest received from such loans is the Group's core source of income.

  The Group has detailed policies and strategies in respect of its customer loans and deposits which seek to minimise the risks associated with these financial instruments.

- **Investments (equity shares and debt securities)** The Group holds shares and other securities, excluding strategic investments, for use on an continuing basis in the Group's activities. The objective of holding such financial instruments, is to generate funds over the term of the investment, in the form of distributions and/or appreciation in value. Funds generated are used in the Group's operations.

  Control over quoted investments is held by the Group Investment Committee ("GIC"). The GIC determines which Group entity holds the investment and whether the investment is strategic. The GIC also sets guidelines for the disposal and hedging of non-strategic investments.

- **Finance (money market loans and deposits, loan capital, debt securities in issue, preference shares)** The Group issues financial instruments to fund that portion of the Group's assets not funded by customer deposits. The objective of using financial instruments for financing purposes is to manage the Group's balance sheet in terms of minimising market risk. Responsibility for overseeing and implementing balance sheet management lies with Group Treasury Services.

- **Trading (foreign exchange, derivatives, debt securities, loans and deposits)** The Group trades in financial instruments for customer facilitation and as principal. The objective of trading in financial instruments is to maximise short term gains for both the customer and/or the Group. Trading activity is restricted to certain areas in the Group and is subject to strict policies and limits. Responsibility for setting trading policies and monitoring adherence thereto lies with Group Risk Management. Derivatives used for trading purposes are discussed in more detail below.

- **Hedging (derivatives, loans and deposits, debt securities)** Where financial instruments form part of the Group's risk management strategy they are classified as hedges. The objective for holding financial instruments as hedges is to match or eliminate the risk arising because of adverse movements in interest rates, exchange rates, credit ratings, equity prices or commodity prices. Derivatives are the main instruments used for hedging and are discussed further below.

  Funding in the form of loans and deposits and preference shares is used to hedge certain of the Group's equity investments. Fixed rate debt securities are periodically used to hedge issued preference shares.

(d) Derivatives In the normal course of business, the Group enters into a variety of derivative transactions principally in the foreign exchange and interest rate markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including lending and securities investment. The majority of the counterparties in the Group's derivative transactions are banks and other financial institutions. The risks involved in derivatives include market, credit and liquidity risk. Analyses of the derivatives entered into by the Group both for trading and non-trading purposes are provided in Note 38 on the accounts.

The principal types of derivative contracts into which the Group enters are described below.

Swaps These are over-the-counter ("OTC") agreements between two parties to exchange periodic payments of interest, or payments for the change in value of a commodity, or related index, over a set period based on notional principal amounts. The Group enters into swap transactions in several markets. Interest rate swaps exchange fixed rates for floating rates of interest based on notional amounts. Basis swaps exchange floating or fixed interest calculated using different bases. Cross currency swaps are the exchange of interest based on notional values of different currencies. Equity and commodity swaps exchange interest for the return on an equity or commodity, or equity or commodity index.

Options Currency and interest rate options confer the right, but not the obligation, on the buyer to receive or pay a specific quantity of an asset or financial instrument for a specified price at or before a specified date. Options may be exchange traded or OTC agreements. The Group principally buys and sells currency and interest rate options.

Futures and forwards Short term interest rate futures, bond futures and forward foreign exchange contracts are all agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on the specified rate, price or index applied against the underlying asset or financial instrument, at a specified date. Futures are exchange traded at standardised amounts of the underlying asset or financial instrument. Forward contracts are OTC agreements and are principally dealt in by the Group in interest rates as forward rate agreements and in currency as forward foreign exchange contracts.

Collateral The Group may require collateral in respect of the credit risk in derivative transactions. The amount of credit risk is principally the positive fair value of contracts. Collateral may be in the form of cash or more commonly in the form of a lien over a customer's assets entitling the Group to make a claim for current and future liabilities.

The following table sets forth activities of a non-trading nature undertaken by the Group, the related risks associated with such activities and provides details of the types of derivatives used in managing such risks.

Activity	Risk	Type of Hedge
Management of the return on variable rate assets funded by shareholders' funds and net non-interest bearing liabilities	Reduced profitability due to falls in short-term interest rates	Receive fixed interest rate swaps Purchased interest rate options
Fixed-rate lending funded by floating rate liabilities	Sensitivity to increases in short-term interest rates Sensitivity to decreases in medium/long term interest rates, due to prepayment	Pay fixed interest rate swaps Purchased interest rate caps
Fixed-rate retail and wholesale funding	Sensitivity to falls in short-term interest rates	Receive fixed interest rate swaps
Fixed-rate asset investments	Sensitivity to increases in short-term interest rates	Pay fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to strengthening of sterling against other currencies	Cross-currency swaps Foreign currency funding
Profit earned in foreign currencies	Sensitivity to strengthening of sterling against other currencies	Forward foreign exchange contracts Purchased currency options

five-year financial summary

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Profit before provisions and exceptional items	**1,500**	1,217	916	758	716
Provisions	**(276)**	(200)	(146)	(113)	(112)
Investment write-offs	**(13)**	(10)	(2)	(1)	(2)
Profit before exceptional items	**1,211**	1,007	768	644	602
Gain on Superdiplo	**—**	96	—	—	—
Far East bad debt provisions	**—**	(132)	—	—	—
Far East investment write-offs	**—**	(14)	—	—	—
Write-down of finance leases	**—**	(13)	(41)	—	—
Provision for Year 2000 costs	**—**	—	(29)	—	—
Restructuring costs – Citizens Bank New Hampshire	**—**	—	—	(21)	—
Group operating profit	**1,211**	944	698	623	602
Profit on sale of fixed asset investment	**—**	57	34	—	—
Profit on sale of US mortgage servicing business	**—**	—	28	—	—
Profit on sale of investment in associated undertakings	**—**	—	—	72	—
Profit on ordinary activities before taxation	**1,211**	1,001	760	695	602
Tax on profit on ordinary activities	**(361)**	(286)	(219)	(191)	(202)
Profit on ordinary activities after taxation	**850**	715	541	504	400

	1999	1998	1997	1996	1995
Earnings per 25p ordinary share					
before exceptional items	**87.8p**	72.3p	53.5p	46.4p	43.9p
after exceptional items	**87.8p**	73.4p	55.4p	54.0p	43.9p
Dividend per 25p ordinary share	**28.5p**	24.6p	21.4p	18.6p	16.2p
Dividend cover (times)	**3.1**	3.0	2.6	2.9	2.7
Cost:income ratio – Group	**49.5%**	52.0%	52.5%	50.0%	51.7%
– UK Bank	**51.9%**	55.3%	58.2%	59.7%	64.8%
Return on ordinary shareholders' equity – pre-tax	**47%**	41%	33%	38%	40%
(including exceptional items) – post-tax	**32%**	28%	23%	26%	25%
Net asset value per 25p ordinary share	**320p**	242p	268p	229p	192p
Share price at 30 September	**1303p**	670p	690p	489p	450p
Average base rate	**5.7%**	7.3%	6.3%	6.2%	6.5%
Interest spread	**2.1%**	2.0%	2.0%	2.0%	2.1%
Interest margin	**2.5%**	2.5%	2.5%	2.5%	2.6%

	£m	£m	£m	£m	£m
Shareholders' funds	**4,202**	2,953	3,042	2,510	2,164
Minority interests	**146**	92	190	150	19
Dated loan capital	**1,917**	1,391	1,383	1,241	1,075
Undated loan capital	**1,115**	1,220	1,167	1,009	714
Capital resources	**7,380**	5,656	5,782	4,910	3,972

	£bn	£bn	£bn	£bn	£bn
Customer accounts – deposits	**55.2**	50.7	47.6	38.1	32.7
Loans and advances to customers	**49.3**	41.0	38.6	33.4	29.2
Total assets	**88.9**	79.7	72.6	61.1	51.2

Bank branches	**933**	984	959	930	849
Other branches	**73**	69	67	53	69
Number of employees at 30 September – Group	**32,670**	31,680	30,900	27,200	25,870
– UK Bank	**18,160**	17,830	17,670	16,810	17,480

Viscount Younger of Leckie ✻†Ø
KT, KCVO, TD, DL
Chairman
(age 68), is a Privy Councillor and has held the offices of Secretary of State for Defence and Secretary of State for Scotland. He was appointed chairman in January 1991 having been appointed a director in October 1989. He holds a number of other directorships including Banco Santander Central Hispano S.A. He is also chairman of two of the Murray Johnstone Investment Trusts. (Chairman of the Remuneration Committee and the Nomination Committee)

Sir Iain Vallance ∆†Ø#
Vice-chairman
(age 56), was appointed a director in January 1993 and became a vice-chairman in March 1994. He is chairman of British Telecommunications plc and a non-executive director of Mobil Corporation. He is Deputy President of the Confederation of British Industry, a member of the President's Committee and Advisory Council of Business in the Community and of the governing body of the London Business School.

Sir Angus Grossart ∆†◊Ø#
CBE, LLD, FRSE, DL, FCIBS
Vice-chairman
(age 62), was appointed a director in September 1985 and became a vice-chairman in April 1996. He is chairman and managing director of Noble Grossart Limited. He is chairman of Scottish Investment Trust PLC and deputy chairman of Edinburgh Fund Managers plc. He is a director of other public companies including Scottish and Newcastle PLC and Trinity Mirror Group Newspapers plc. He is a former chairman of the Trustees of the National Galleries of Scotland and is a Trustee of the National Heritage Memorial Fund.

Executive directors

Sir George Mathewson ✻□#
CBE, LLD, FRSE, FCIBS
Group Chief Executive
(age 59), was appointed a director in September 1987 and to his present position in January 1992. He is a former chief executive of the Scottish Development Agency and his current directorships include Citizens Financial Group, Inc., Interbank On-Line System Limited, Direct Line Group Limited, of which he is chairman, and Scottish Investment Trust PLC.

Fred Goodwin ✻#
DUniv, FCIBS
(age 41), was appointed Deputy Group Chief Executive on 1 August 1998. He was formerly Chief Executive and Director, Clydesdale Bank PLC and Yorkshire Bank PLC. He is Chairman of The Prince's Trust: Scotland and a member of The Prince's Trust Council, and is on the Council of Strathclyde Business School. He is a Director of Scottish Financial Enterprise and is a former president of the Chartered Institute of Bankers in Scotland.

Iain Robertson ✻#
FCIBS
(age 53), was appointed a director in January 1993. He was appointed Chief Executive, UK Bank on 1 July 1998 and is chairman of Royal Bank Development Capital Limited and RBS Mezzanine Limited. He is also a director of British Empire Securities and General Trust plc.

Lawrence Fish ✻
(age 55), was appointed a director in January 1993. He is chairman, president and chief executive officer of Citizens Financial Group, Inc. He is also a director of Textron, Inc., a trustee of The Brookings Institution, a member of the Federal Reserve Bank Advisory Council, and a director of numerous community organisations in the USA.

Norman McLuskie ✻□
FCIBS
(age 55), was appointed a director in June 1992 and is Deputy Chief Executive, UK Bank. He is chairman of RBS Advanta, RBS Cards Limited, RoyScot Financial Services Limited, Virgin Direct Personal Finance Limited and the Bank's Pension Fund Trustees. He is deputy chairman of APACS and Tesco Personal Finance Limited. He also holds directorships in Tesco Personal Finance Group Limited, Visa International and Visa European Union Regional Boards.

Non-executive directors

Emilio Botin
(age 65), is chairman of Banco Santander Central Hispano S.A. He is also chairman of several Banco Santander Central Hispano Group subsidiaries and a director of a number of Spanish companies.

Ian Grant Δ□
JP, DL
(age 60), is managing director of Glenmoriston Estates Limited and is Trustee of the Bartlett Funds. He is a director of a number of British and overseas public companies in Hong Kong and the USA. (Chairman of the Personnel Committee)

Juan Rodriguez Inciarte
(age 47), is a director and general manager of Banco Santander Central Hispano S.A. He is also a director of several Banco Santander Central Hispano S.A. subsidiaries and a number of Spanish companies, as well as a director of Instituto Bancario San Paolo di Torino.

Eileen Mackay Δ◊
CB
(age 56), was formerly principal finance officer at The Scottish Office. She is a director of Edinburgh Investment Trust plc, Lothian and Edinburgh Enterprise Limited and Scottish Television (Regional) Limited. She is a member of the Economic and Social Research Council, Scottish Screen and the Court of the University of Edinburgh.

Cameron McLatchie Δ
CBE
(age 52), is chairman and chief executive of British Polythene Industries PLC and deputy chairman of Scottish Enterprise.

Murray Stuart Δ†◊□
CBE
(age 66), is chairman of Scottish Power plc, Hammersmith Hospitals NHS Trust and Intermediate Capital Group PLC. He is also a non-executive director of Old Mutual plc, CMG plc and of the Royal Scottish National Orchestra Society Limited.

Bill Wilson Δ†◊Ø#
(age 62), is a Chartered Accountant. He was formerly deputy chairman of Alexander & Alexander Services Inc. His other public directorships include Edinburgh US Tracker Trust plc and First American Title Insurance Company (UK) plc. (Chairman of the Audit Committee)

Secretary

Miller McLean #
FCIBS
(age 49), was appointed director, Group Legal and Regulatory Affairs and Group Secretary in August 1994. He is vice-chairman of Banco Santander, Portugal S.A., a non-executive director of Adam & Company Group PLC, a member of the Council and Management Committee of the Industry and Parliament Trust and a non-executive director of The Whitehall and Industry Group.

✻ Executive
Δ independent non-executive director
† member of the Remuneration Committee
◊ member of the Audit Committee
□ member of the Personnel Committee
Ø member of the Nomination Committee
member of the Chairman's Advisory Group

The directors have pleasure in presenting their report together with the audited accounts for the year ended 30 September 1999.

Profit and dividends The profit attributable to the ordinary shareholders of the company amounted to £776 million (after preference dividends of £80 million – see Note 8) as set out in the consolidated profit and loss account on pages 42 and 43.

An interim dividend of 8.2p per ordinary share was paid on 16 July 1999 at a cost of £73 million. The directors now recommend that a final dividend of 20.3p per ordinary share be paid on 18 February 2000 to members on the register at the close of business on 17 December 1999, absorbing £181 million. If this recommendation is approved by the shareholders at the annual general meeting on 13 January 2000, the retained profit for the year will amount to £522 million. Subject to the approval of shareholders at the annual general meeting, shareholders will be offered the choice of taking ordinary shares in lieu of cash in respect of the final dividend.

Turnover Details of turnover attributable to non-banking business are shown in note 49 on the accounts.

Activities and business review The company is a holding company owning the entire issued ordinary share capital of The Royal Bank of Scotland plc (the "Bank"), the principal direct operating subsidiary undertaking of the company. The "Group" comprises the company, GRS Holding Company Limited (the holding company of Angel Train Contracts Limited) and the Bank and its subsidiary and associated undertakings. The Bank and its subsidiary undertakings are engaged principally in providing a comprehensive range of banking, insurance and other financial services. Details of the principal subsidiary undertakings of the company are shown on page 57. A review of the business for the year ended 30 September 1999, of recent events and of likely future developments is contained in the Annual Review and Summary Financial Statement.

Annual report on Form 20-F An annual report on Form 20-F is being filed with the Securities and Exchange Commission in the USA and copies will be available by January 2000 on request from the secretary. Much of the detailed financial information therein is shown in the accounts and subsequent financial analyses.

Corporate structure On 23 March 1999, the Group announced that it had agreed in principle to sell its main investor services businesses to The Bank of New York. The sale was completed on 31 October 1999.

On 6 May 1999, Citizens announced that it had agreed, subject to regulatory consent, to acquire the major part of the commercial banking business of State Street Corporation for a cash premium of US$350 million. The acquisition was completed on 1 October 1999.

On 21 June 1999, Citizens announced that it had entered into an agreement to acquire, by way of merger, the entire issued share capital of UST Corp. of Boston, for a consideration of approximately US$1.4 billion, which is expected to be completed in early 2000.

Ordinary share capital During the year, the ordinary share capital was increased by the issue of:

(a) 5,495,973 ordinary shares allotted as a result of the exercise of options under the company's executive and sharesave schemes;

(b) 9,046,027 ordinary shares in lieu of cash dividends; and

(c) 1,757,926 ordinary shares allotted under the company's profit sharing (share ownership) scheme.

The total value of ordinary shares issued at the issue price amounted to £61 million. Details of the authorised and issued ordinary share capital at 30 September 1999 are shown on page 66.

Preference share capital On 8 February 1999, the company issued 12 million Series H non-cumulative dollar preference shares of US$0.01 each at US$25.00 per share, the net proceeds being US$291 million.

On 30 July 1999, the company issued 12 million Series I non-cumulative dollar preference shares of US$0.01 each at US$25.00 per share, the net proceeds being US$291 million.

On 30 September 1999, the company issued 9 million Series J non-cumulative dollar preference shares of US$0.01 each at US$25.00 per share, the net proceeds being US$218 million.

Details of the authorised and issued preference share capital at 30 September 1999 are shown on page 66.

Subordinated liabilities On 26 March 1999, the Bank issued EUR300 million 4⅞% dated subordinated notes at an issue price of 99.55%, the net proceeds being EUR297 million.

On 31 March 1999, the company issued US$400 million 6⅖% dated subordinated notes at an issue price of 99.934%, the net proceeds being US$397 million.

On 26 July 1999, the Bank issued US$150 million dated subordinated floating rate notes at an issue price of 99.93%, the net proceeds being US$149 million.

Details of the subordinated liabilities are shown on pages 63, 64 and 65.

Shareholdings At 1 December 1999, the company has been notified of the following interests in its shares, in accordance with S.198 of the Companies Act 1985:

	% held		% held
Ordinary shares:		Preference shares 5½% cumulative:	
Banco Santander Central Hispano S.A	9.89	CGU plc	22.86
Scottish Widows Fund and Life Assurance Society	5.01	Guardian Royal Exchange plc	20.25
Preference shares 11% cumulative:		Bassett-Patrick Securities Limited*	11.56
Guardian Royal Exchange plc	25.97	Mr P. S. and Mrs J. Allen	7.25
Windsor Life Assurance Company Limited	10.30	Mrs Gina Wild	4.95
The Investment Company plc	6.81	Miss Elizabeth Hill	4.03
Mr S. J. and Mrs J. A. Cockburn	6.16	Mr W. T. Hardison Jr.	3.38
Cleaning Tokens Limited	5.10	Trustees of The Stephen Cockburn Limited Pension Scheme	3.24

*Notification has been received on behalf of Mr A. W. R. Medlock and Mrs H. M. Medlock that they each have an interest in the holding of 5½% cumulative preference shares registered in the name of Bassett-Patrick Securities Limited noted above and that there are further holdings of 5,300 and 5,000 shares, respectively, of that class registered in each of their names.

Directors The names and brief biographical details of the directors are shown on pages 26 and 27. Mr C. McLatchie was appointed as a director on 1 October 1998, Mr R. Speirs retired as a director on 23 October 1998 and Sir Robin Duthie retired as a director on 14 January 1999. The directors retiring by rotation are Mr W. M. Wilson, Mr E. Botin, Miss E. A. Mackay, Mr C. M. Stuart and Mr I. S. Robertson and, being eligible, offer themselves for re-appointment. The service agreement of Mr I. S. Robertson is terminable on 24 months' notice by the Bank and on six months' notice by Mr Robertson. There are no service contracts in respect of the other directors seeking re-appointment.

Directors' interests The interests of the directors in the shares of the company at 30 September 1999 are shown on page 36. None of the directors held an interest in the loan capital of the company or its subsidiary undertakings, or in the shares of any of the subsidiary undertakings of the company, during the period between 1 October 1998 and 1 December 1999.

Audit Committee The Audit Committee comprises Mr W. M. Wilson (chairman), Sir Angus Grossart, Miss E. A. Mackay and Mr C. M. Stuart, all of whom are non-executive directors of the company.

Remuneration Committee The Remuneration Committee comprises Viscount Younger of Leckie (chairman), Sir Angus Grossart, Mr C. M. Stuart, Sir Iain Vallance and Mr W. M. Wilson.

Staff involvement The company and its subsidiary undertakings encourage staff involvement by a process of communication and consultation. This takes the form of the provision of information through normal management channels, internal publications, video communication, regular dialogue with staff representatives and an opportunity for staff to voice their views in a confidential manner via an annual staff opinion survey.

Significant developments to enhance staff involvement in the last year have included the introduction of a training and communication network which allows employees to participate in interactive training sessions from their place of work via their pc. Also launched within the last year was the Bank's Intranet which gives employees electronic access to information including policies, employment information, job vacancies, news, publications and departmental information.

Profit sharing schemes have existed since 1980 and these have included the opportunity to acquire shares in the company. Included in expenses for the year ended 30 September 1999 are sums totalling £47 million for payments to staff eligible to participate in the Group profit sharing schemes (1998 – £43 million).

Share option schemes were introduced in 1986. On 3 June 1999, options were granted over 3,525,518 ordinary shares at a price of 1085p per share, under the company's sharesave scheme. On 7 December 1998, 4 March and 3 June 1999, options were granted over 935,209 ordinary shares at prices of 943p, 1205.5p and 1291p per share, respectively, under the company's executive share option scheme.

Equal opportunities The company is committed to providing equality of opportunity. The company and its subsidiary undertakings' employment practices follow the best practice of each country in which they operate. In the recruitment of staff and their subsequent career development, individuals are considered solely on the basis of their aptitude and ability, irrespective of sex, marital status, race, age, sexual orientation, religion or disability.

The number of women in management positions continues to grow and women now make up almost 37% of middle management and over 11% of senior management. For serving employees who become disabled, every help is given to ensure their continued employment and to arrange rehabilitative training. An Occupational Health Service provides in-house expertise on such rehabilitation programmes. The Bank is a member of the Employers' Forum on Disability and is committed to action to improve the position of disabled people both as valued employees and as customers of the Bank. The Bank is also a member of Race for Opportunity and is committed to eliminating racism in the workplace.

Environmental issues The Group recognises that environmental and social responsibility is integral to the way we do business. Environmental and social imperatives are shaping all our futures and the diversity and flexibility of our businesses enables us to anticipate and respond to those changes. Our philosophy is that business excellence, of necessity, requires that we meet changing customer expectations and needs.

The Group recognises this challenge and has adopted policies and management regimes which reinforce these wider human and material concerns. Our Values, Balanced Scorecard, Change Management, Staff Development, Equal Opportunities, Employee Assistance, Health, Safety and Environmental programmes all reinforce these wider business principles. The objective is not only to manage the obvious direct operational impacts on the environment such as energy, raw material, waste and transport, but also to integrate environmental and social concerns into all of our activities.

Charitable contributions The total amount given for charitable purposes by the company and its subsidiary undertakings during the year was £2.7 million.

Close company provisions The close company provisions of the Income and Corporation Taxes Act 1988, as amended, do not apply to the company and there has been no change in this respect since 30 September 1999.

Corporate governance The company is committed to high standards of Corporate Governance and applies the Principles of Good Governance set out in section 1 of the Combined Code. Details are given on pages 31 and 32.

Policy and practice on payment of creditors In the year ending 30 September 2000, the company will adhere to the following payment policy in respect of all suppliers. The company is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the company's policy to negotiate and agree terms and conditions with its suppliers, either directly or through its operating subsidiaries, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

The proportion which the amount owed to trade creditors at 30 September 1999 bears to the amounts invoiced by suppliers during the year then ended equated to a 22 days proportion of 365 days.

Auditors The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office. Resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board.
M. R. McLean
Secretary
Edinburgh
1 December 1999

The Royal Bank of Scotland Group plc is registered in Scotland No. 45551.

The company is committed to high standards of Corporate Governance and the board of directors believes that this is a key element in ensuring the company continues to deliver value to its shareholders.

Following the publication of the Combined Code which is appended to the Listing Rules of the London Stock Exchange ("the Code"), the board has reviewed its Corporate Governance practices and an explanation of how the Principles of Good Governance set out in section 1 of the Code have been applied are contained in this report and the Remuneration Report on pages 33 to 35. Throughout the year to 30 September 1999, the company has complied with the Code provisions set out in section 1 of the Code, except in relation to the re-election of directors and the chairmanship of the Remuneration Committee, as explained below and in the Remuneration Report on pages 33 to 35. As permitted by the London Stock Exchange, the company has complied with Code provision D.2.1 (which relates to reporting on the review of the effectiveness of internal control) by reporting on internal financial controls in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

Board of directors The board of directors, which is responsible for leading and controlling the company, currently comprises six executive directors and nine non-executive directors. There is a clearly accepted division of responsibilities at the head of the company, through the separation of the positions of chairman and group chief executive. The non-executive directors are of varied backgrounds and experience and individually and collectively exercise independent and objective judgement. The role of senior independent director is performed by the vice-chairmen. The board meets regularly and is supplied with comprehensive board papers in advance of each board meeting, including financial and business reports covering each of the company's principal businesses. It has adopted a formal Schedule of Matters detailing key aspects of the company's affairs which must be referred to it for decision. All directors have access to the advice and services of the secretary who is responsible for ensuring that the board procedures and applicable rules and regulations are observed. In addition, the directors are able, if necessary, to take independent professional advice at the company's expense. Principle A.6 of the Code requires that all directors should be required to submit themselves for re-election at regular intervals and at least every three years. The company's articles of association require that one third of the directors submit themselves for re-election each year at the company's annual general meeting, but there is no maximum three year period specified. The board has reviewed this provision of the articles and an appropriate amendment will be submitted to shareholders for approval at the annual general meeting on 13 January 2000.

Board committees The Audit Committee of non-executive directors is responsible for assisting the board to discharge its responsibilities for accounting policies, financial reporting, internal control, compliance and risk management.

The Remuneration Committee is composed principally of non-executive directors and is responsible for considering and making recommendations to the board, within agreed terms of reference, on the company's remuneration policies, the remuneration arrangements of directors and senior executives, and the operation of the company's employee share schemes. No director is involved in deciding his own remuneration. The board's Remuneration Report is contained on pages 33 to 35.

The Personnel Committee provides advice to the board of directors on all matters affecting staff.

All members of the board are involved in the formal selection and appointment of directors. The board is assisted in this process by the Nomination Committee.

The directors' biographies shown on pages 26 and 27 identify the members of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Personnel Committee.

Relations with shareholders The company has a programme of regular communication with shareholders through the interim and annual reports, and the annual general meeting. Shareholders are given the opportunity to participate by asking questions at the annual general meeting or by submitting written questions in advance. The company's website at www.rbs.co.uk contains information on the Group and the products and services it offers. Communication with the company's largest institutional shareholders is undertaken as part of the company's investor relations programme.

Internal financial control The board of directors is responsible for the Group's system of internal financial control and for monitoring its effectiveness. In establishing this system, the directors consider the nature of the Group's business, which involves the acceptance and management of risk, the materiality of the financial risk being run, the likelihood of a loss being incurred and the cost of implementing control. The system of internal financial control can, therefore, only provide reasonable, and not absolute, assurance:

- as to the reliability and integrity of financial information;
- that assets are safeguarded and only authorised transactions are entered into; and
- that fraud and other irregularities are prevented or detected.

The main features of the Group's internal financial control framework are:

- **Control environment** The Group is committed to the maintenance and development of a control-conscious culture appropriate to the financial services sector. This is achieved through a formally defined organisational structure with clear reporting lines, endorsement and promulgation of policies and procedures at board level and the commitment to recruitment and training of quality staff governed by appropriate codes of conduct.
- **Risk management** The board has delegated its authority for risk strategy to the Group Executive Management Committee and for day to day risk management to the Group Risk Management Committee both of which are supported by a dedicated Group function.
- **Information and communication** The Group follows well-established budgetary and strategic planning cycles. The board reviews the financial performance of all principal business units against budget and prior year on a monthly basis.
- **Control procedures** The Group operates a number of procedures manuals, tailored to meet the requirements of individual business units, which detail the procedures to control physical and logical access, segregation of duties and credit, trading, expenditure and other authorisation limits.
- **Monitoring and corrective action** The operation of the system of internal financial control is the responsibility of line management and is subject to independent review by Group Internal Audit and, where appropriate, by the Group's external auditors and external regulators. The reports of all of these bodies on internal control are received on behalf of the board by the Audit Committee, which ensures that, where necessary, appropriate corrective action is taken. The Audit Committee's consideration of the independent reviews of the operation of the system of internal financial control is informed, in the case of internal audit, by its direct reporting line to the Committee and, in the case of external auditors, by its discussion with them of the work they have undertaken and the conclusions they have reached.

On 27 September 1999 the Internal Control Working Party of the Institute of Chartered Accountants in England & Wales (the Turnbull Committee) published "Internal Control: Guidance for Directors on the Combined Code". Following the publication, the Group has been reviewing its internal control procedures to ensure full compliance with the requirements outlined in the report. Any necessary revisions to existing practices will be implemented in a timely manner during the next financial year.

The effectiveness of the Group's internal financial control system for the period from 1 October 1998 to 1 December 1999 has been reviewed on behalf of the board by the Audit Committee having regard to the "criteria for assessing effectiveness" promulgated by the Cadbury Committee.

Throughout the year the company has applied the Principles of Good Governance relating to directors' remuneration as set out in the Combined Code which is appended to the Listing Rules of the London Stock Exchange ("the Code"). The following report by the board follows the provisions in Schedule B to the Code.

Remuneration Committee The Remuneration Committee comprises Viscount Younger (chairman) and the following non-executive directors: Sir Iain Vallance, Sir Angus Grossart, Mr C. M. Stuart and Mr W. M. Wilson. While the chairmanship of the Committee is not compliant with provision B.2.2 of the Code, the board and the Remuneration Committee are satisfied that, as Viscount Younger has no involvement in the day to day running of the business, there is no conflict of interest in his position as chairman of the Group and Bank boards and as chairman of the Remuneration Committee.

The Remuneration Committee is responsible for considering and making recommendations to the board, within agreed terms of reference, on the company's remuneration policies, the remuneration arrangements of directors and senior executives and the operation of the company's employee share schemes.

In particular, the Remuneration Committee's role is:

- to monitor the remuneration policy of the company and its subsidiaries having regard to relevant market comparisons and practice;
- to consider and make recommendations to the board of directors on the remuneration arrangements including bonuses, share options, pension rights, service contracts and compensation payments of executive directors of the company;
- to decide whether, and in what amount, grants of options should be made under the executive share option scheme and the sharesave scheme;
- to determine annually, where appropriate, the staff profit share under the company's profit sharing schemes;
- to review employee share schemes in light of legislative and market developments and overall remuneration policy; and
- to consider, determine and, where appropriate, approve the remuneration arrangements including bonuses, share options, pension rights, service contracts and compensation payments of senior executives of the Bank.

Remuneration, salaries and fees The remuneration of the board of directors and the salaries of the executive directors of the company and the Bank are set by the board based on the recommendations of the Remuneration Committee.

It is the policy of the board to reward executive directors competitively having regard to the remuneration paid to the senior management of comparable public companies. For guidance the Remuneration Committee seeks advice from external consultants and uses published specific job-matched surveys of similar companies. Further surveys are also commissioned as necessary. Executive directors' remuneration is reviewed annually and is determined after a review of the performance and responsibilities of each individual director.

In respect of non-executive directors, the level of fees is reviewed annually, with reference to the levels of fees paid to non-executive directors of comparable public companies.

Share option schemes The executive directors participate in the company's executive share option and sharesave schemes and details of their interests in the company's shares arising from their participation are contained in the directors' interests in shares note on page 36. It is the company's policy that executive share options be awarded only to those executives who can genuinely influence the company's performance over the medium term. Executive share options are normally granted on a regular, phased basis, although a block of options was awarded to Mr F. A. Goodwin on 7 December 1998 as part of the remuneration package agreed when he joined the company. The exercise of options granted under the company's executive share option scheme from 1996 to 1998 is subject to a performance condition whereby options may not normally be exercised unless the growth in the company's adjusted earnings per share has exceeded the growth in the Retail Price Index over a three year period by an average of at least two per cent per annum. For options granted in 1999 the relevant percentage has been increased to three per cent per annum. The condition is reviewed annually.

Profit sharing schemes The company provides profit sharing for employees. Two schemes are in force, which provide that a total of up to five per cent of available profits may be distributed to eligible employees, including executive directors, either in shares or in cash after deduction of income tax.

Benefits in kind Executive directors receive benefits in kind, which include the provision of a company car for their use, medical health insurance and beneficial loans, on similar terms to other senior executives.

Service agreements The service agreement of Mr I. S. Robertson is terminable on 24 months' notice by the Bank and six months' notice by Mr Robertson.

Mr L. K. Fish's employment agreement with Citizens is terminable on 24 months' notice by Citizens and 12 months' notice by Mr Fish.

The board of directors and the Remuneration Committee consider the relevant notice periods noted above to be in the best interests of the company and its shareholders. No other director has a notice period in excess of 12 months.

Incentive schemes The company's UK-based executive directors participate in a discretionary performance-related incentive scheme for senior executives, payments under which are determined by the Remuneration Committee. The scheme provides for payments to be made by reference to the achievement of financial and other targets which are set for each participant by the Remuneration Committee at the beginning of each financial year. The maximum payment is 60% of salary for Sir George Mathewson, 50% of salary for Mr F. A. Goodwin and Mr I. S. Robertson and 40% of salary for Mr N. C. McLuskie. One half of each payment is applied to purchase ordinary shares in the company which are held in a restricted share trust for three years.

In terms of his service contract with Citizens, Mr L. K. Fish participates in the annual and long-term cash incentive plans which apply to the senior executives of Citizens. Awards under the plans require the achievement of pre-determined financial and other performance targets. Under the long-term plan, awards are linked to three year performance targets based on Citizens' budgets. A separate three year cycle commences each financial year. Mr Fish also participates in a shadow equity plan in terms of which senior executives of Citizens participate in the appreciation above a specific target in the capital value of Citizens over the period of the plan. The plan commenced on 1 October 1993 and will terminate on 30 September 2000. The shadow equity units granted to Mr Fish vested two years after the date of grant. In the year ended 30 September 1999, the value of the units held by Mr Fish increased by US$2,312,100 and as at 30 September 1999 the value of units held by Mr Fish was US$9,641,520. The increase in the value of the units is included in the remuneration table shown below. To date no cash withdrawals have been made by Mr Fish.

Directors' pension arrangements Viscount Younger, Sir George Mathewson, Mr F. A. Goodwin, Mr I. S. Robertson and Mr N. C. McLuskie participate in The Royal Bank of Scotland Staff Pension Scheme ("the Scheme"). The Scheme is a defined benefit scheme which provides pensions and other benefits within Inland Revenue limits. Viscount Younger is provided with life assurance benefits only under the Scheme; these are restricted by Inland Revenue limits as set out in the Finance Act 1989. Additional life assurance cover in excess of that provided by the Scheme is secured under separate arrangements. Provision for his pension entitlement is made under a personal pension contract, which is a defined contribution arrangement, and an unfunded defined benefit arrangement. In the case of Mr Robertson, his pension entitlement in the Scheme is restricted by Inland Revenue limits as set out in the Finance Act 1989; additional life assurance cover in excess of these limits is provided by a separate arrangement. Mr Goodwin's pension entitlement in the Scheme is similarly restricted by Inland Revenue limits as set out in the Finance Act 1989. Arrangements have been made to provide Mr Goodwin with additional pension benefits and life assurance cover outwith the Scheme. The figures in the table below include the accrual in respect of these arrangements. Mr Fish accrues pension benefits under a number of arrangements in the USA. Defined benefits are built up under the Citizens' Qualified Plan, Excess Plan and Employee Arrangement. In addition, he is a member of two defined contribution arrangements – a Qualified 401(K) Plan and Executive Supplemental Benefit Plan. The London Stock Exchange requires disclosure of directors' pension entitlement on the basis of the Institute and Faculty of Actuaries' recommendations. The tables below provide information on both defined benefit and defined contribution arrangements in line with the revised rules.

Defined benefit arrangements	Age nearest at 30 September 1999	Additional pension earned during the year ended 30 September 1999 £000 p.a.	Accrued entitlement at 30 September 1999 £000 p.a.	Transfer value for the additional pension earned during the year ended 30 September 1999 £000
Viscount Younger	68	21	111	312
Sir George Mathewson	59	32	253	541
F. A. Goodwin	41	81	82	714
I. S. Robertson	54	2	17	31
N. C. McLuskie	55	8	83	125
L. K. Fish – Qualified Plan	55	1	12	6
– Excess Plan		19	70	99
– Employee Arrangement		—	46	—

Contributions paid in the year ended 30 September 1999 under defined contribution arrangements were:

	£000		£000
Viscount Younger	36	L. K. Fish	28

Note: Mr R. Speirs was a director until 23 October 1998. A nominal contribution was paid in respect of the period from 1 October 1998 until his retirement.

Directors' remuneration

The undernoted tables report the remuneration received by each director during the year:

	Salary £000	Performance related bonuses £000	Profit sharing £000	Benefits £000	Other £000	**Total 1999 £000**	Total 1998 £000
Chairman							
Viscount Younger	274	—	—	11	—	**285**	262
Executive directors							
Sir George Mathewson	487	285	46	18	—	**836**	753
F. A. Goodwin	382	190	6	14	—	**592**	153
L. K. Fish	494	2,399	—	10	—	**2,903**	3,224
N. C. McLuskie	254	97	24	15	—	**390**	352
I. S. Robertson	395	192	37	33	—	**657**	534
R. Speirs (retired 23 October 1998)	24	—	26	1	575	**626**	405
1999	**2,310**	**3,163**	**139**	**102**	**575**	**6,289**	
1998	2,017	3,386	110	80	90		5,683

Mr R. Speirs received a discretionary bonus payment of £575,395 on his retirement from the Group.

Non-executive directors	Board fees £000	Board committee fees £000	Fees from subsidiary companies £000	**Total 1999 £000**	Total 1998 £000
Vice-chairmen					
Sir Iain Vallance	28	3	25	**56**	55
Sir Angus Grossart	28	6	25	**59**	58
E. Botin	13	—	10	**23**	22
Sir Robin Duthie (retired 14 January 1999)	4	4	5	**13**	45
I. F. H. Grant	13	5	10	**28**	27
J. R. Inciarte	13	—	10	**23**	14
E. A. Mackay	13	3	10	**26**	25
C. McLatchie (appointed 1 October 1998)	13	—	10	**23**	—
C. M. Stuart	13	7	10	**30**	26
W. M. Wilson	13	11	10	**34**	28
1999	**151**	**39**	**125**	**315**	
1998	139	40	121		300
Aggregate emoluments of directors who served during the year				**6,604**	5,983

Details of the potential pre-tax gains made by directors on the exercise of share options are contained in directors' interests in shares on page 36.

directors' interests in shares

Ordinary shares The following directors held a beneficial interest in the company's ordinary shares:

	30 September 1999	1 October 1998 or date of appointment if later		30 September 1999	1 October 1998 or date of appointment if later
I. F. H. Grant	**4,628**	4,515	C. M. Stuart	**3,301**	3,221
Sir George Mathewson	**70,650**	62,094	Sir Iain Vallance	**2,500**	2,500
E. A. Mackay	**3,156**	3,080	W. M. Wilson	**7,951**	7,777
N. C. McLuskie	**86,832**	85,234	Viscount Younger	**13,251**	13,251
I. S. Robertson	**48,597**	38,706			

Options to subscribe for ordinary shares of 25p each in the company granted to, and exercised by, directors during the year to 30 September 1999 are included in the table below:

	Options at 1 October 1998 or date of appointment if later	Average exercise price £	Options granted Number	Options granted Price £	Options exercised Number	Options exercised Price £	Market price at date of exercise £	Potential pre-tax gain at date of exercise £	Options at 30 September 1999	Average exercise price £
L. K. Fish	100,000	10.065	—	—	—	—	—	—	**100,000**	10.065
F. A. Goodwin	—	—	152,704	9.43	—	—	—	—	**180,770**	9.96
			2,748	12.055						
			25,318	12.91						
Sir George Mathewson	495,161	5.53	—	—	—	—	—	—	**495,161**	5.53
N. C. McLuskie	233,095	5.60	8,217	12.055	782	3.44	13.32	7,726	**251,199**	6.13
			10,530	12.91						
			139	10.85						
I. S. Robertson	351,637	5.23	76,655	12.055	101,000	2.65	12.17	1,281,520	**287,292**	8.11
					24,000	4.29	12.17			
					16,000	3.99	12.17			
R. Speirs	121,000	4.50	—	—	107,000	4.53	14.58	1,219,410	**—**	—
(retired 23 October 1998)					14,000	4.29	14.58			
Viscount Younger	282,300	3.69	—	—	180,000	2.65	9.17	1,173,600	**102,300**	5.52

The market price of the company's ordinary shares at 30 September 1999 was £13.03 and the range during the year to 30 September 1999 was £5.61 to £14.75. Outstanding options under the executive share option scheme and the sharesave scheme are exercisable between now and 2 June 2009 and between now and 31 December 2002, respectively. Mr E. Botin, Sir Angus Grossart, Mr J. R. Inciarte and Mr C. McLatchie did not have an interest in the company's ordinary shares during the year.

The company's Register of Directors' Interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe.

Preference shares No director had an interest in the preference shares during the year.

There has been no change in the directors' interests in the shares of the company shown above between 30 September 1999 and 1 December 1999. No director held a non-beneficial interest in the shares of the company at 30 September 1999, at 1 October 1998 or date of appointment if later.

statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board.

M. R. McLean
Secretary
Edinburgh
1 December 1999

To the members of The Royal Bank of Scotland Group plc We have audited the accounts on pages 39 to 83 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 39 to 41.

Respective responsibilities of directors and auditors The directors are responsible for preparing the annual report, including as described on page 37, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Report and Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 31 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or Group's corporate governance procedures or its internal controls.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the company and the Group at 30 September 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Edinburgh
1 December 1999

The accounts have been prepared in accordance with applicable Accounting Standards in the UK and the Statements of Recommended Accounting Practice issued jointly by the British Bankers' Association and the Irish Bankers' Federation. A summary of the more important accounting policies is set out below. The consolidated accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups. The accounts of the company are prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985. As provided by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company.

The Group has adopted FRS 10 – 'Goodwill and Intangible Assets' and the accounting policy on goodwill below has been expanded to comply with its provisions.

The Group has also adopted FRS 11 – 'Impairment of Fixed Assets and Goodwill' and FRS 12 – 'Provisions, Contingent Liabilities and Contingent Assets'. The impact of adopting these new standards was not material for the Group.

1 Accounting convention and bases of consolidation The accounts are prepared under the historical cost convention modified by the periodic valuations of premises and certain investments. The consolidated accounts deal with the accounts of the Group made up to 30 September. In accounting for subsidiaries, the Group consolidates fully their assets, liabilities and results for the year and shows separately the interests of minority shareholders therein. All inter-company balances and transactions are eliminated from the consolidated statements.

2 Goodwill Goodwill is the excess of cost over fair value of the Group's share of net tangible assets acquired.

Goodwill arising on acquisitions of subsidiaries and associates after 1 October 1998 is generally capitalised on the balance sheet and amortised over its useful life. In certain circumstances goodwill may not be amortised or the amortisation period may be more than 20 years, although stringent annual tests will be applied in such cases. Goodwill which is identified as being impaired is written off to the profit and loss account when the impairment is identified.

Goodwill arising on acquisitions of subsidiaries and associates prior to 1 October 1998 previously charged against the profit and loss account reserves, will remain eliminated and will be written back and reflected in the calculation of future gains and losses only on disposal.

3 Rates of exchange The balance sheets of overseas branches and subsidiaries are translated into sterling at the rates of exchange ruling at 30 September and their profit and loss accounts are translated at the average rates of exchange for the year to 30 September. Exchange differences relating to trading are dealt with in the profit and loss account; those arising from the application of closing rates of exchange to the opening net assets are taken to profit and loss account reserves. The principal foreign currency requiring translation was US dollars, and at 30 September 1999 the rate of exchange was US$1.6465=£1 (1998 – US$1.7001=£1). The average rate for the year to 30 September 1999 was US$1.6297=£1 (1998 – US$1.6536=£1).

4 Pensions and other post-retirement benefits The Group provides post-retirement benefits in the form of pensions and health care plans to eligible employees. The cost of providing benefits under defined benefit pension schemes and health care plans is assessed by independent professionally qualified actuaries and is recognised on a systematic basis over employees' service lives. Contributions to defined contribution pension schemes are recognised in the profit and loss account when payable.

5 Lease income receivable Total gross earnings under finance leases are recognised according to the actuarial after tax method whereby pre-tax and post-tax profits are allocated to accounting periods to give a constant periodic rate of return on the net cash investment. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease. Progress payments made prior to the commencement of the lease are included at cost. Operating lease rentals are credited to the profit and loss account on a receivable basis over the term of the lease.

6 Insurance business In calculating operating profit from general insurance activities, premiums are recognised in the accounting period in which they begin. Unearned premiums represent the proportion of the premiums which relate to periods of insurance after the balance sheet date and are calculated on a daily or 24th's basis. Provision is made where necessary for the estimated amount required over and above unearned premiums to meet future claims and related expenses and is calculated by class of business on the basis of a separate carry forward of deferred acquisition expenses after making allowance for investment income. Acquisition expenses relating to new and renewed motor and household policies are deferred over the period during which the premiums are earned, generally twelve months. The principal acquisition costs so deferred are direct advertising expenditure and costs associated with the telesales and underwriting staff. Claims are recognised in the accounting period in which the loss occurs. Provision is made for the full cost of settling outstanding claims at the balance sheet date, including claims estimated to have been incurred but not yet reported at that date, and claims handling expenses.

7 Value of long-term life assurance business A value is placed on the Group's long-term life assurance and in-force pensions policies written by Royal Scottish Assurance plc. The value is a prudent estimate of the net present value of the profits inherent in such policies and is determined annually in consultation with an independent actuary. Changes in the value are included in operating profit, grossed up at the underlying rate of taxation.

8 Taxation Provision is made for taxation at current rates on the taxable profits and relief for overseas taxation is taken where appropriate. Certain items of income and expenditure are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is provided on the liability method in respect of timing differences to the extent that they are likely to crystallise in the foreseeable future.

9 Loans and advances Specific provisions are made against loans and advances when, as a result of a detailed appraisal of the portfolio, it is considered that recovery is doubtful. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified but are known from experience to be present in any portfolio of bank advances. The specific and general provisions are deducted from loans and advances. Provisions made during the year (less amounts released and recoveries of amounts written off in previous years) are charged against profits. Interest receivable on doubtful loans and advances is brought into the profit and loss account as it accrues provided that its collectibility is not subject to significant doubt. Interest debited to borrowers' accounts, the collectibility of which is subject to significant doubt, is credited to an interest in suspense account which is netted off against loans and advances to customers. Loans and advances classified as bad debts are written off in part or in whole when there is no realistic prospect of recovery. Fee income relating to loans and advances is recognised in the profit and loss account to match the cost of providing a continuing service to the borrower, except where the fee is charged in lieu of interest when it is recognised on a level yield basis over the life of the advance. Other fees are recognised when they are receivable.

10 Debt securities and equity shares Debt securities and equity shares intended for use on a continuing basis in the Group's activities are classified as investment securities and are stated at cost less provision for any impairment in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts over periods to redemption and any such amortisation is included in interest receivable. Debt securities held for the purpose of hedging are carried at a value which reflects the accounting treatment of the items hedged. Debt securities and equity shares held for dealing purposes are included in the consolidated balance sheet at fair value. Where representative market prices are not available, the fair value is calculated by applying current market information to pricing or valuation models. Fair value includes, where appropriate, adjustments or income deferrals for items such as credit risk, liquidity risk and future operational costs.

11 Shares in subsidiary undertakings The company's shares in subsidiary undertakings are stated in the balance sheet of the company at a directors' valuation which takes account of the subsidiary undertakings' net asset values.

12 Interests in associated undertakings Interests in associated undertakings are accounted for by the equity method and are stated in the consolidated balance sheet at the investing company's share of their net tangible assets. The investing company's share of the results of associated undertakings is included in the consolidated profit and loss account. For this purpose, the latest available audited accounts are used together with available unaudited interim accounts.

13 Tangible fixed assets Freehold and long leasehold premises are maintained in a state of good repair with regular maintenance expenditure being charged against operating profit. Depreciation is not charged on freehold and long leasehold premises as any such charge is considered to be insignificant in view of their useful economic lives and estimated residual values. The costs of adapting premises for the use of the Group are separately identified and depreciated on a straight-line basis over fifteen years. Short leasehold premises are amortised by equal annual instalments over the unexpired term of the lease. Valuations of premises are carried out annually by the Bank's internal professional surveyors and in some instances by independent valuers. Any increase or deficit on revaluation is reflected in the carrying value of premises at that time. Any impairment in the value of premises is charged to the profit and loss account after eliminating previous revaluation surpluses arising on the premises. When impairment is due to a clear consumption of economic benefits a charge is made to the profit and loss account for the amount of the impairment. Any profit from the sale of revalued premises is calculated by deducting the revalued amount from the net proceeds. Computers are depreciated on a straight-line basis over five years and other equipment over periods between four and fifteen years. Assets on operating leases are depreciated on a straight-line basis over periods related to the estimated useful lives of such assets.

14 Derivatives A description of the derivatives into which the Group enters for both trading and non-trading purposes is given on page 24 in the Operating and Financial Review. The accounting treatment for these instruments is dependent upon whether they are entered into for trading or non-trading (hedging) purposes.

Trading Trading derivatives are those actively traded or held under constant review of both their realisable value and potential future return. Trading transactions are recognised in the accounts at fair value. The resultant gains or losses arising from changes in the fair value are shown under dealing profits in the consolidated profit and loss account and are included within net cash inflow from operating activities in the cash flow statement. Assets, or positive fair values, arising from transactions in these instruments, are shown under other assets in the consolidated balance sheet. Liabilities, or negative fair values, arising from transactions in these instruments, are shown under other liabilities in the consolidated balance sheet. For many derivative instruments, fair value is determined by market prices. Where representative market prices are not available, the fair value is calculated by applying current market information to pricing or valuation models. Fair value includes, where appropriate, adjustments or income deferrals for items such as credit risk, liquidity risk and future operational costs.

Non-trading Non-trading derivatives are entered into by the Group to close out or reduce (hedge) the market risk arising on the transactions entered into in the normal course of banking activities.

Non-trading transactions entered into for hedging purposes are recognised in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged. They are therefore recognised as adjustments to the income and expenditure of the transaction or transactions being hedged. To the extent necessary to achieve a common timing of income recognition on the transaction or transactions being hedged, deferred gains and losses are included in the consolidated balance sheet under accruals and deferred income and prepayments and accrued income, respectively.

A non-trading derivative hedge transaction must significantly reduce the market risk arising on the underlying transaction, transactions, or part thereof, to be classified as a hedge. Also, in order for a non-trading derivative transaction to be accounted for as a hedge, it must have a demonstrable link to an individual underlying transaction, pool of underlying transactions or specific future transactions. Specified future transactions must have a reasonable degree of certainty of arising in order for the derivative to be accounted for as a hedge.

In the event that a non-trading derivative transaction is terminated or ceases to be an effective hedge, the derivative is fair valued and the resulting profit or loss is amortised over the remaining life of the underlying transaction or transactions being hedged. If the accumulation of the fair valuation of the derivative and the expected future revenues of the underlying transaction result in a net loss, that loss will be recognised immediately. In the case of hedges of specific future transactions, if it is determined that the anticipated transactions are no longer likely to occur, the hedge is fair valued and any resultant profits or losses recognised immediately. Where the underlying item being hedged is removed, any profits or losses arising on the hedge will be recognised on the same basis as the profits or losses arising on the removed underlying transaction.

Material deferred gains or losses arising on hedges of specific future transactions or as a result of the termination of hedges are disclosed in Note 38 on the accounts.

15 Sale and repurchase transactions Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and repurchase price is accrued evenly over the life of the transaction and charged or credited to the profit and loss account as interest payable or receivable.

16 Securitisations Certain Group undertakings have issued debt securities, or have entered into funding arrangements with lenders, in order to finance the purchase of certain portfolios of loan and investment assets. These obligations are secured on the assets of the undertakings. Where the Group has retained significant benefits and risks relating to the portfolios of assets, the assets and the related liabilities are presented within the relevant headings in the Group balance sheet.

consolidated profit and loss account

for the year ended 30 September 1999

	Note	1999 £m	1998 £m
Interest receivable	1		
– interest receivable and similar income arising from debt securities		**895**	745
– other interest receivable and similar income		**4,101**	4,378
Interest payable	2	**(3,240)**	(3,525)
Net interest income		**1,756**	1,598
Dividend income from equity shares		**34**	28
Fees and commissions receivable		**1,084**	923
Fees and commissions payable		**(93)**	(84)
Dealing profits*		**191**	268
Other income		**456**	377
		1,672	1,512
General insurance – earned premiums		**869**	740
– reinsurance		**(159)**	(140)
Non-interest income		**2,382**	2,112
Total income		**4,138**	3,710
Administrative expenses			
– staff costs	3	**956**	884
– staff profit share		**47**	43
– premises and equipment		**298**	280
– other		**468**	429
Depreciation and amortisation		**279**	243
Operating expenses		**2,048**	1,879
Profit before other operating charges		**2,090**	1,831
General insurance – gross claims		**720**	625
– reinsurance		**(130)**	(107)
Profit before provisions for bad and doubtful debts		**1,500**	1,313
Provisions for bad and doubtful debts			
– excluding Far East	15	**276**	200
– Far East**	15	**—**	132
Amounts written off fixed asset investments			
– excluding Far East		**13**	10
– Far East**		**—**	14
Write-down of finance leases**		**—**	13
Group operating profit *(carried forward)*		**1,211**	944

*1998 includes an exceptional gain of £96 million.

**Exceptional item in 1998.

	Note	1999 £m	1998 £m
Group operating profit *(brought forward)*		**1,211**	944
Profit on sale of fixed asset investment	6	**—**	57
Profit on ordinary activities before tax	5	**1,211**	1,001
Tax on ordinary activities	7	**(361)**	(286)
Profit on ordinary activities after tax		**850**	715
Minority interests – equity		**6**	(20)
Profit after minority interests		**856**	695
Preference dividends	8	**80**	58
Profit attributable to ordinary shareholders		**776**	637
Ordinary dividends	9	**254**	215
Retained profit	35	**522**	422
Earnings per 25p ordinary share	11	**87.8p**	73.4p
Adjustments:			
Exceptional dealing profit		**—**	(7.7p)
Far East provisions		**—**	11.7p
Write-down of finance leases		**—**	(0.1p)
Profit on sale of fixed asset investment		**—**	(5.0p)
Adjusted earnings per 25p ordinary share (see note below)		**87.8p**	72.3p
Diluted earnings per 25p ordinary share		**86.6p**	72.4p

Note: the adjusted earnings per share figures have been calculated to show the effect of excluding exceptional items.

With the exception of the disposal of the investor services businesses which contributed £14 million to the Group operating profit for the year, all items dealt with in arriving at Group operating profit for 1999 and 1998 relate to continuing operations.

consolidated balance sheet

at 30 September 1999

	Note	1999 £m	1998 £m
Assets			
Cash and balances at central banks		1,394	1,295
Treasury bills and other eligible bills	12	701	639
Loans and advances to banks	13	10,375	11,514
Items in course of collection due from other banks		1,655	1,652
Loans and advances to customers	14	49,340	41,017
Debt securities		15,632	13,021
Less: non-recourse borrowings		(243)	(247)
	18	15,389	12,774
Equity shares	19	913	857
Interests in associated undertakings	20	43	43
Intangible fixed assets	23	11	—
Tangible fixed assets	24	2,526	2,005
Other assets	25	5,339	6,801
Prepayments and accrued income		1,166	1,079
Total assets		88,852	79,676

	Note	1999 £m	1998 £m
Liabilities			
Deposits by banks	26	6,418	4,437
Items in course of collection due to other banks		975	520
Customer accounts	27	55,180	50,685
Debt securities in issue	28	9,199	7,459
Other liabilities	29	6,647	8,076
Accruals and deferred income		2,582	2,419
Provisions for liabilities and charges			
– deferred taxation	30	465	395
– pensions and other similar obligations	31	6	20
– other provisions	31	—	9
Subordinated liabilities			
– dated loan capital	32	1,917	1,391
– undated loan capital including convertible debt	33	1,115	1,220
Minority interests			
– equity		108	73
– non-equity		38	19
Called up share capital	34	224	220
Share premium account	35	2,130	1,458
Reserves	35	147	113
Revaluation reserve	35	17	(10)
Profit and loss account	35	1,684	1,172
Shareholders' funds			
– equity		2,852	2,115
– non-equity	34	1,350	838
Total liabilities		88,852	79,676
Memorandum items:			
Contingent liabilities	40		
– acceptances and endorsements		894	1,024
– guarantees and assets pledged as collateral security		958	921
– other contingent liabilities		876	869
		2,728	2,814
Commitments (standby facilities, credit lines and other)	40	20,922	15,581

Viscount Younger of Leckie
Chairman

Sir George Mathewson
Group Chief Executive

Fred Goodwin
Deputy Group Chief Executive

1 December 1999

balance sheet – the company

at 30 September 1999

	Note	1999 £m	1998 £m
Fixed assets			
Investments:			
Shares in subsidiary undertakings	21	**4,773**	3,632
Loans to subsidiary undertakings	22	**1,437**	1,209
		6,210	4,841
Current assets			
Debtors:			
Due by subsidiary undertakings		**383**	298
Creditors			
Amounts falling due within one year:			
Due to banks		**70**	67
Due to subsidiary undertakings		**55**	77
Creditors		**19**	13
Current taxation		**—**	38
Proposed final dividend	9	**181**	153
		325	348
Net current assets/(liabilities)		**58**	(50)
Assets less current liabilities		**6,268**	4,791
Creditors			
Amounts falling due beyond one year:			
Loan from subsidiary undertaking		**77**	—
Dated loan capital	32	**620**	373
Undated loan capital including convertible debt	33	**549**	647
		1,246	1,020
Capital and reserves			
Called up share capital	34	**224**	220
Share premium account	35	**2,130**	1,458
Reserves	35	**20**	20
Revaluation reserve	35	**2,609**	2,024
Profit and loss account	35	**39**	49
Shareholders' funds			
– equity		**3,672**	2,933
– non-equity	34	**1,350**	838
		6,268	4,791

Viscount Younger of Leckie
Chairman

Sir George Mathewson
Group Chief Executive

Fred Goodwin
Deputy Group Chief Executive

1 December 1999

statement of total recognised gains and losses

for the year ended 30 September 1999

	1999 £m	1998 £m
Profit attributable to ordinary shareholders	776	637
Currency translation adjustments on foreign currency net investments	5	(3)
Movements in revaluations of premises	28	14
Movements in net unrealised gains and losses on debt securities and equity shares	—	(4)
Total recognised gains and losses	**809**	644

note of historical cost profits and losses

for the year ended 30 September 1999

	1999 £m	1998 £m
Profit on ordinary activities before tax	1,211	1,001
Realisation of premises revaluation gains of previous years	1	1
Historical cost profit on ordinary activities before tax	**1,212**	1,002
Historical cost profit for the year retained after tax, minority interests and dividends	**523**	423

reconciliation of movements in shareholders' funds

for the year ended 30 September 1999

	1999 £m	1998 £m
Profit attributable to ordinary shareholders	776	637
Ordinary dividends	(254)	(215)
Retained profit	522	422
Other recognised net gains and losses relating to the year	33	7
Currency translation adjustment on share premium account	23	(42)
Increase in share capital	4	4
Premium arising on issues of shares	609	239
Elimination of goodwill on acquisitions	—	(754)
Write-back of goodwill	28	50
Other movements	30	(15)
Net increase/(decrease) in shareholders' funds	1,249	(89)
Shareholders' funds at 1 October	2,953	3,042
Shareholders' funds at 30 September	**4,202**	2,953

cash flow statement

for the year ended 30 September 1999

	Note	1999 £m	1999 £m	1998 £m	1998 £m
Net cash inflow from operating activities	41		**5,059**		1,087
Returns on investments and servicing of finance					
Preference dividends paid		**(81)**		(60)	
Interest paid on subordinated liabilities		**(214)**		(225)	
Net cash outflow from returns on investments and servicing of finance			**(295)**		(285)
Taxation			**(311)**		(135)
Capital expenditure and financial investment					
Purchase of investment securities		**(12,225)**		(14,393)	
Sale of investment securities		**9,574**		13,474	
Purchase of tangible fixed assets		**(830)**		(391)	
Sale of tangible fixed assets		**66**		51	
Sale of fixed asset investment	6	**—**		83	
Net cash outflow from capital expenditure and financial investment			**(3,415)**		(1,176)
Acquisitions and disposals					
Purchase of businesses and subsidiary undertakings (net of cash acquired)	43	**(29)**		(903)	
Investment in associated undertakings	20	**—**		(14)	
Sale of subsidiary and associated undertakings	44	**45**		—	
Net cash inflow/(outflow) from acquisitions and disposals			**16**		(917)
Ordinary equity dividends paid			**(138)**		(193)
Net cash inflow/(outflow) before financing			**916**		(1,619)
Financing					
Issue of subordinated liabilities (net of expenses)		**538**		277	
Repayments of subordinated liabilities		**(104)**		(150)	
Issue of preference and ordinary share capital (net of expenses)		**525**		243	
Net cash inflow from financing	45		**959**		370
Increase/(decrease) in cash	47		**1,875**		(1,249)

1 Interest receivable

	1999 £m	1998 £m
Treasury bills and other eligible bills	**45**	50
Loans and advances to banks	**537**	874
Loans and advances to customers	**3,219**	3,143
Leasing and hire purchase income	**300**	311
	4,101	4,378
Debt securities	**895**	745
	4,996	5,123

2 Interest payable

	1999 £m	1998 £m
Deposits by banks	**334**	347
Customer accounts		
– demand deposits	**790**	1,092
– savings deposits	**692**	504
– other time deposits	**682**	898
Debt securities in issue	**491**	458
Subordinated liabilities	**251**	226
	3,240	3,525

3 Administrative expenses – staff costs

	1999 £m	1998 £m
Wages and salaries	**750**	694
Social security costs	**58**	54
Pension costs (see Note 4)	**61**	46
Other staff costs	**87**	90
	956	884

The average number of persons employed by the Group during the year, excluding temporary staff, was 36,498 (1998 – 35,951).

4 Pension costs

The Group operates a number of pension schemes covering the majority of employees. The principal scheme is The Royal Bank of Scotland Staff Pension Scheme (the "Scheme") which is a non-contributory defined benefit scheme. The Scheme is a funded scheme under which future liabilities for benefits are provided for by the accumulation of assets which are held independently from those of the Bank under a separately administered trust. A formal valuation of the Scheme as at 31 December 1996 was carried out by independent professionally qualified actuaries using the projected unit method to determine the level of contributions to be made by the Bank. The principal actuarial assumptions for the valuation were as follows:

Valuation rate of interest	8¼%
Salary growth (in addition, allowance is made for promotional salary increases)	6%
Pension increases	3-3½%

At the valuation date the market value of the assets of the Scheme was £1,350 million and this was sufficient to cover 104% of the value of the benefits that had accrued to members after making allowance for expected future increases in salaries. The next formal valuation of the Scheme is taking place as at 30 September 1999.

The pension scheme operated within Direct Line Insurance plc is a money purchase arrangement with defined contribution levels. The assets of the scheme are held separately from those of the company and are invested in managed funds. The contributions paid to the scheme are charged to the profit and loss account. This scheme replaced the previous non-contributory defined benefit scheme which continues to provide benefits based on final pensionable salary to pensioners and deferred members.

The principal overseas schemes, which are sponsored by Citizens, are defined benefit plans and are funded on a current basis in compliance with the requirements of the Employee Retirement Income Security Act in the USA.

The Group also operates schemes which provide post-retirement benefits, principally contributions to subscriptions for private health care schemes in the UK and the USA. Provision for the costs of these benefits is being charged to the profit and loss account over the average remaining future service lives of the employees eligible for the benefits.

5 Profit on ordinary activities before tax

Group profit on ordinary activities before tax is stated after taking account of the following:

		1999 £m	1998 £m
Income	Aggregate amounts receivable under finance leases, hire purchase and conditional sale contracts	**300**	310
	Aggregate amounts receivable under operating leases	**291**	228
	Increase in value of long-term life assurance business	**55**	39
	Income from listed investments	**592**	472
	Profit on disposals of investment securities and associated undertakings	**112**	72
	Share of associated undertakings' income	**5**	—
Expenses	Hire of equipment	**75**	65
	Operating lease rentals of premises	**60**	53
	Operating lease rentals of computers and other equipment	**4**	4
	Finance charges on leased assets	**19**	18

Auditors' remuneration

The auditors' remuneration for statutory audit work was £60,300 for the company (1998 – £58,750) and £2.4 million for the Group (1998 – £2.2 million). The auditors' remuneration for non-audit work in the year ended 30 September 1999 was £9.4 million for the Group (1998 – £1.3 million).

6 Exceptional items

There are no exceptional items in the current year. The following details relate to the exceptional items recognised in the year ended 30 September 1998:

A gain of £96 million was recognised in respect of the development capital investment in Superdiplo.

Exceptional provisions of £146 million were made to cover the Group's exposure in the Far East. This included an amount of £14 million written off investments.

An exceptional charge of £13 million, totally offset by a reduction in the charge to taxation, resulted from the change in the UK corporation tax rate which affected tax variation clauses in finance leases written by leasing subsidiaries of the Group.

An exceptional gain of £57 million was realised from the disposal of 3.6 million shares in Banco Santander (now BSCH).

A net tax credit of £16 million arose on the exceptional items.

7 Tax on ordinary activities

	1999 £m	1998 £m
Based on the profit for the year:		
UK corporation tax at 30.5% (1998 – 31%)	**270**	207
Relief for overseas taxation	**(5)**	(2)
Deferred taxation	**39**	23
	304	228
Overseas taxation	**64**	72
	368	300
Prior year items	**(8)**	(14)
Share of associated undertakings	**1**	—
	361	286

The tax charge of £361 million on profit before tax of £1,211 million represents an effective rate of 29.8%.

8 Preference dividends

Dividends were paid on the non-cumulative dollar preference shares of 1 cent each on 31 December 1998, 31 March, 30 June and 30 September 1999 as follows:

	1999 £m	1998 £m
Series B at US$0.63 per share totalling US$19 million (1998 – US$18 million)	12	11
Series C at US$0.534375 per share totalling US$32 million (1998 – US$30 million)	20	18
Series D at US$0.51328125 per share totalling US$14 million (1998 – US$13 million)	8	8
Series E at US$0.50625 per share totalling US$15 million (1998 – US$14 million)	9	8
Series F at US$0.478125 per share totalling US$14 million (1998 – US$14 million)	9	8
Series G at US$0.4625 per share totalling US$19 million (1998 – US$12 million)	12	7
Series H at US$0.453125 per share totalling US$14 million (1998 – nil)	9	—
Series I at US$0.50 per share totalling US$4 million (1998 – nil)	2	—
Appropriation for premium payable on redemption and issue costs	(1)	(2)
	80	58

The above dividend rates per share reflect the amount paid by the company after 6 April 1999, when advance corporation tax was abolished in the United Kingdom. Dividends paid prior to 6 April 1999 were paid at the following rates by the company: Series B at US$0.56 per share, Series C at US$0.475 per share, Series D at US$0.45625 per share, Series E at US$0.45 per share, Series F at US$0.425 per share, Series G at US$0.4625 per share and Series H at US$0.453125. No dividends were paid in the current year on Series J.

Cumulative preference shares of £1 each are also in issue and consist of £0.5 million 11% shares and £0.4 million 5½% shares. Half-yearly dividends on the cumulative preference shares were paid on 31 May 1999 at a cost of £38,500. The directors have declared the dividends for the half-year ended 30 September 1999 on the cumulative preference shares which will also cost £38,500.

9 Ordinary dividends

	1999 p per share	1998 p per share	1999 £m	1998 £m
Interim	8.2	7.13	73	62
Proposed final	20.3	17.47	181	153
Total dividends on equity shares	28.5	24.6	254	215

10 Profit dealt with in the accounts of the company

Of the profit attributable to ordinary shareholders, £271 million (1998 – £262 million) has been dealt with in the accounts of the company.

11 Earnings per ordinary share

The earnings per share figures disclosed on page 43 have been calculated in accordance with FRS 14 – 'Earnings per Share', and are based on the following:

	1999 £m	1998 £m
Earnings:		
Profit attributable to ordinary shareholders	776	637
Exceptional items	—	(10)
Profit attributable to ordinary shareholders before exceptional items	776	627

	Number of shares – millions	
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year	883.8	867.2
Dilutive effect of share options outstanding	12.4	12.6
Diluted weighted average number of ordinary shares in issue during the year	896.2	879.8

12 Treasury bills and other eligible bills

	1999 £m	1998 £m
Treasury bills and similar securities	106	77
Other eligible bills	595	562
	701	639

13 Loans and advances to banks

	1999 £m	1998 £m
Repayable on demand	4,408	2,632
Remaining maturity		
– three months or less	4,244	7,379
– one year or less but over three months	1,167	1,252
– five years or less but over one year	320	64
– over five years	236	187
	10,375	11,514

Certain subsidiary undertakings are required to maintain balances with the Bank of England which, at 30 September 1999, amounted to £46 million (1998 – £41 million). Certain subsidiary undertakings are required by law to maintain average reserve balances with the Federal Reserve Bank in the USA. Such reserve balances amounted to US$162 million at 30 September 1999 (1998 – US$163 million).

14 Loans and advances to customers

	1999 £m	1998 £m
On demand or short notice	5,566	5,061
Remaining maturity		
– three months or less	8,056	4,895
– one year or less but over three months	5,984	5,112
– five years or less but over one year	9,239	7,437
– over five years	21,232	19,145
	50,077	41,650
General and specific bad and doubtful debt provisions	(737)	(633)
	49,340	41,017
Amounts above include:		
Due from associated undertakings – unsubordinated	25	25
Amounts receivable under finance leases	3,552	3,453

The cost of assets acquired during the year for the purpose of letting under finance leases and hire purchase agreements was £1,083 million (1998 – £408 million).

15 Provisions for bad and doubtful debts

	1999 Specific £m	1999 General £m	1999 Total £m	1998 Specific £m	1998 General £m	1998 Total £m
At 1 October	454	179	633	354	105	459
Currency translation adjustments	9	1	10	(6)	(2)	(8)
Amounts written off	(236)	—	(236)	(174)	—	(174)
Additions on acquisitions	—	—	—	—	1	1
Released on disposal	—	—	—	(12)	—	(12)
Recoveries of amounts written off in previous years	54	—	54	35	—	35
Transfers between provisions	12	(12)	—	(3)	3	—
Charge to profit and loss account	274	2	276	194	6	200
Exceptional charge to profit and loss account	—	—	—	66	66	132
At 30 September	567	170	737	454	179	633

All of the provisions for bad and doubtful debts relate to loans and advances to customers.

16 Interest in suspense

In certain cases, interest may be charged to a customer's account but, because its recoverability is in doubt, it is not recognised in the Group's consolidated profit and loss account but is held in a suspense account and netted off against loans and advances to customers in the consolidated balance sheet.

	1999 £m	1998 £m
Loans and advances on which interest is being placed in suspense:		
– before specific provisions	**342**	280
– after specific provisions	**230**	194
Loans and advances on which interest is not being applied:		
– before specific provisions	**548**	565
– after specific provisions	**93**	197

17 Concentration of exposure to risk

The Group's exposure to risk from its lending activities is widely diversified both geographically and industrially. With the exception of lending to the service industry sector and for house mortgage and other personal loans in the UK, there were no loan concentrations in any individual sector or industry which exceeded 10% of total loans and advances to customers (before provisions). Details of financial instruments with off-balance sheet risk are contained in Notes 38 and 40.

18 Debt securities

	1999 Book value £m	1999 Valuation £m	1998 Book value £m	1998 Valuation £m
Investment securities:				
British government	**600**	**593**	550	550
Other government	**2,288**	**2,218**	2,271	2,312
Other public sector bodies	**107**	**107**	109	113
Bank and building society	**1,623**	**1,627**	1,287	1,379
Other issuers	**5,632**	**5,522**	3,243	3,237
	10,250	**10,067**	7,460	7,591
Other debt securities:				
British government	**240**	**234**	611	611
Other government	**184**	**192**	104	126
Bank and building society	**4,084**	**4,084**	3,893	3,895
Other issuers	**631**	**631**	706	707
	15,389	**15,208**	12,774	12,930
Due within one year	**5,720**		5,426	
Due one year and over	**9,669**		7,348	
	15,389		12,774	
Investment securities:				
Listed on a recognised UK exchange	**1,431**	**1,426**	1,217	1,214
Listed elsewhere	**5,806**	**5,642**	4,055	4,102
Unlisted	**3,013**	**2,999**	2,188	2,275
	10,250	**10,067**	7,460	7,591
Other debt securities:				
Listed on a recognised UK exchange	**679**	**671**	984	987
Listed elsewhere	**364**	**372**	417	439
Unlisted	**4,096**	**4,098**	3,913	3,913
	15,389	**15,208**	12,774	12,930
Amounts above include:				
Subordinated debt securities	**108**		55	
Unamortised discounts/(premiums) on investment securities	**29**		(3)	
Debt securities subject to sale and repurchase agreements	**1,136**		399	

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense. Other debt securities include securities held for the purpose of hedging borrowings.

18 Debt securities *(continued)*

Movements in debt securities which are held as investment securities were as follows:

	Cost £m	Discounts and premiums £m	Provisions £m	Book value £m
At 1 October 1998	7,479	(7)	(12)	7,460
Currency translation adjustments	106	—	—	106
Additions	11,931	(15)	—	11,916
Disposals	(9,240)	5	—	(9,235)
Transfers	5	—	—	5
Provisions made	—	—	(3)	(3)
Provisions written off	—	—	2	2
Amortisation of discounts and premiums	—	(1)	—	(1)
At 30 September 1999	**10,281**	**(18)**	**(13)**	**10,250**

Securitised asset-backed portfolio and related assets

In April 1998, the Bank sold a portfolio of asset-backed bonds amounting to £306 million to Ben Nevis One (Asset Backed Securities) Limited ("Ben Nevis"). The share capital of Ben Nevis has been issued to Mourant & Co. Trustees Limited as share trustee. The Company does not own, directly or indirectly, any of the share capital of Ben Nevis. Ben Nevis issued floating rate notes secured on the asset-backed bonds to refinance its purchase. The issue terms of the notes include provisions that their holders have no recourse to the Bank or to any other member of the Group. Neither the Bank nor any other member of the Group are obliged, or intend, to support any losses, should they occur, of Ben Nevis. The proceeds of the asset-backed portfolio are used to pay the capital and interest due on borrowings and other administration expenses in order of priority to holders of Class A, Class B and Class C notes, respectively. Any residue is payable to the share trustee.

The balance sheet of Ben Nevis comprised principally of debt securities of £250 million, deposits with the Bank of £14 million and floating rate note borrowings of £263 million, of which £20 million is held by the Group. The profit and loss account, other recognised gains and losses and cashflows of Ben Nevis are not material to the Group. Ben Nevis has also entered into certain interest rate, basis rate and currency swaps with the Bank as follows:

In respect of each of the securities held by Ben Nevis which pay a fixed rate of interest, Ben Nevis has entered into an interest rate swap under which it pays an amount equal to the interest receivable on those securities and receives interest at a rate linked to LIBOR.

In respect of each of the securities held by Ben Nevis which is denominated in a currency other than US dollars, Ben Nevis has entered into a currency swap transaction under which it will pay, on the interest payable date of the relevant securities, an amount equal to the interest payable and principal outstanding on those securities and will receive an amount equal to the US dollar equivalent of that amount.

In respect of each of the securities held by Ben Nevis, it has entered into a basis rate swap under which it pays an amount equal to interest calculated at the rate payable in respect of the relevant securities and will receive an amount of interest based on LIBOR.

19 Equity shares

	1999 Book value £m	1999 Valuation £m	1998 Book value £m	1998 Valuation £m
Investment securities:				
Listed on a recognised UK exchange	**292**	**317**	289	266
Listed elsewhere	**307**	**742**	231	451
Unlisted	**205**	**205**	246	239
	804	**1,264**	766	956
Other securities:				
Listed on a recognised UK exchange	**9**	**9**	7	7
Listed elsewhere	**100**	**100**	84	84
	913	**1,373**	857	1,047

The cost of securities carried at market value is not disclosed because it cannot be determined without unreasonable expense.

Movements in equity shares which are held as investment securities were as follows:	Cost £m	Provisions £m	Book value £m
At 1 October 1998	782	(16)	766
Currency translation adjustments	(1)	—	(1)
Additions	294	—	294
Disposals	(261)	—	(261)
Provisions made net of write backs	(2)	(8)	(10)
Transfers	19	(3)	16
At 30 September 1999	**831**	**(27)**	**804**

20 Interests in associated undertakings

Movements in interests in associated undertakings were as follows:	Share of net assets £m
At 1 October 1998	43
Disposals	(1)
Transfers	(4)
Share of profits	3
Other movements	2
At 30 September 1999	**43**

20 Interests in associated undertakings *(continued)*

On the historical cost basis, the Group's interests in associated undertakings would have been included as follows:

	1999 £m	1998 £m
Cost	**110**	142
Provisions	**(52)**	(4)
At 30 September	**58**	138

An analysis of interests in associated undertakings is as follows:	1999 £m	1998 £m
Banks		
– listed overseas	**—**	15
– unlisted	**14**	—
Others	**29**	28
	43	43

The principal associated undertakings are:

	Total issued share and loan capital at 30 September 1999	% held	Share of results based on accounts made up to	Nature of business
Banco Santander, Portugal S.A. (registered in Portugal)	31.1m ordinary shares of Esc 1,000 Esc 17.5m loan capital	12.8	30 September*	Banking
Linea Directa Aseguradora S.A. (registered in Spain)	2,400m 5 Ptas ordinary shares	50.0	30 September*	Insurance
Direct Line Life Holdings Limited (registered in England)	44m £1 ordinary shares	50.0	30 September	Insurance
P.T. Bank Multicor (registered in Indonesia)	3m shares of Rp 50,000	35.8	30 September*	Banking
The Scottish Agricultural Securities Corporation p.l.c. (registered in Scotland)	2m £1 ordinary shares £18m loan capital	33.3	30 June*	Agricultural lending

*Incorporating unaudited interim accounts.

Banco Santander, Portugal S.A. operates in Portugal, Linea Directa Aseguradora S.A. operates in Spain and P.T. Bank Multicor operates in Indonesia. The UK is the principal area of operation for the other associated undertakings. Dividends receivable from the associated undertakings (excluding related tax credits) totalled £1 million (1998 – £2 million).

Associated undertakings are accounted for as such due to the Group's interest being held on a long term basis for the purpose of securing a contribution to its activities by the exercise of control or influence.

21 Principal subsidiary undertakings

The principal subsidiary undertakings (all unlisted) at 30 September 1999, the capital of which consists of ordinary and preference shares, are shown below. Except for Angel Train Contracts Limited and the Bank, which are owned by the company, all of the subsidiary undertakings are owned directly, or indirectly through intermediate holding companies, by the Bank and they are all wholly-owned except where otherwise indicated. The undertakings marked with an asterisk operate in the country of incorporation or registration; the others operate mainly in the UK.

	Nature of business	Country of incorporation or registration
Angel Train Contracts Limited	Leasing	England
The Royal Bank of Scotland plc	Banking	Scotland
Adam & Company Group PLC	Banking	Scotland
*Citizens Bank of Rhode Island	Banking	USA
*Citizens Bank of Connecticut	Banking	USA
*Citizens Bank of Massachusetts	Banking	USA
*Citizens Bank New Hampshire	Banking	USA
Direct Line Insurance plc	Insurance	England
Direct Line Financial Services Limited	Banking	England
Privilege Insurance Company Limited	Insurance	England
RBS Advanta	Credit card company	Scotland
RBS Mezzanine Limited	Provision of mezzanine finance	Scotland
RBS Trade Services Limited	Confirming house	England
RBS Trust Bank Ltd. (sold October 1999)	Custody	England
Royal Bank Development Capital Limited	Provision of development capital	Scotland
Royal Bank Insurance Services Limited	Insurance broking	England
Royal Bank Insurance Services (Independent Financial Advisers) Limited	Insurance broking	Scotland
Royal Bank Invoice Finance Limited	Factoring and invoice discounting	England
Royal Bank Leasing Limited	Leasing and hire purchase	Scotland
Royal Scottish Assurance plc (70%)	Life assurance	Scotland
*Royscot International Finance B.V.	Finance raising company	The Netherlands
RoyScot Trust plc	Instalment financing and leasing	England
Style Financial Services Limited	Credit card company	Scotland
Tesco Personal Finance Limited (50%)	Banking	Scotland
*The Royal Bank of Scotland (Gibraltar) Limited (50%)	Banking	Gibraltar
*The Royal Bank of Scotland International Limited	Banking	Jersey
*The Royal Bank of Scotland Trust Company (Jersey) Limited	Banking	Jersey
*The Royal Bank of Scotland Trust Company (Guernsey) Limited	Banking	Guernsey
*The Royal Bank of Scotland Trust Company (I.O.M.) Limited	Banking	Isle of Man
*The Royal Bank of Scotland (Nassau) Limited	Banking	Bahamas
Virgin Direct Personal Finance Limited (50%)	Banking	England

Movements in shares in subsidiary undertakings during the year were as follows:

		£m
At 1 October 1998		3,632
Currency translation adjustments		23
Additions:	sterling preference shares issued by the Bank	50
	dollar preference shares issued by the Bank	490
	ordinary shares issued by Angel Trains	13
Disposals:	transfer of Privilege Insurance to the Bank	4
Increase in net assets of subsidiary undertakings		561
At 30 September 1999		**4,773**

On the historical cost basis, shares in the subsidiary undertakings at 30 September 1999 would have been included at a cost of £2,166 million (1998 – £1,586 million).

22 Loans to subsidiary undertakings

Movements during the year:	£m
At 1 October 1998	1,209
Currency translation adjustments	24
Additions and other movements	308
Repayments	(104)
At 30 September 1999	**1,437**

23 Intangible fixed assets

Goodwill of £12 million has arisen on the acquisition of businesses and subsidiary undertakings during the year (see Note 42). Goodwill amortisation of £1 million has been charged to the profit and loss account in the current year.

24 Tangible fixed assets

	Freehold premises £m	Long leasehold premises £m	Short leasehold premises £m	Computers and other equipment £m	Assets on operating leases £m	Total £m
Cost or valuation:						
At 1 October 1998	501	14	112	1,222	957	2,806
Currency translation adjustments	3	—	1	3	—	7
Additions	21	15	5	205	584	830
Disposals	(27)	—	(2)	(100)	(2)	(131)
Revaluation adjustments	25	—	—	—	—	25
At 30 September 1999	**523**	**29**	**116**	**1,330**	**1,539**	**3,537**
Consisting of:						
At valuation	523	28	—	—	—	551
At cost	—	1	116	1,330	1,539	2,986
	523	**29**	**116**	**1,330**	**1,539**	**3,537**
Accumulated depreciation and amortisation:						
At 1 October 1998	—	—	40	643	118	801
Currency translation adjustments	—	—	—	3	—	3
Disposals	—	—	(2)	(68)	(1)	(71)
Depreciation and amortisation charge for year	—	—	7	121	150	278
At 30 September 1999	**—**	**—**	**45**	**699**	**267**	**1,011**
Net book value at 30 September 1999	**523**	**29**	**71**	**631**	**1,272**	**2,526**
Net book value at 30 September 1998	501	14	72	579	839	2,005

The Group's principal freehold and long leasehold premises have been valued during the year principally on the basis of open market value for existing use. The valuations were carried out mainly by the Bank's internal professional surveyors who are members of The Royal Institution of Chartered Surveyors. Certain of the Group's larger premises were valued by independent professionally qualified valuers to support the work completed by the Bank's surveyors.

On the historical cost basis, the Group's freehold and long leasehold premises would have been included at £437 million (1998 – £381 million).

Land and buildings occupied for own activities:	1999 £m	1998 £m
Net book value (including plant and works of adaptation) at 30 September	**578**	555

Future expenditure:	1999 £m	1998 £m
Contracts not provided for in the accounts at 30 September	**8**	18

25 Other assets

	1999 £m	1998 £m
Long-term assurance fund assets attributable to policyholders (see note below)	**2,013**	1,709
Foreign exchange and interest rate contracts	**1,150**	2,603
Other	**2,176**	2,489
	5,339	6,801

Long-term assurance policies

The increase in the shareholders' interest in the long-term assurance fund is calculated as follows:

	1999 £m	1998 £m
Value of shareholders' interest at 1 October	**128**	101
Value of shareholders' interest at 30 September	**176**	128
Increase for the year before tax	**55**	39
Increase for the year after tax	**48**	27

The value placed on long-term assurance business is calculated by discounting estimated future flows of statutory profits from in-force policies at a discount rate that includes a risk margin. The future flows are based on prudent long-term economic and business assumptions. The risk margin is designed to reflect uncertainties in expected future flows.

The principal economic assumptions are as follows:

	1999 %	1998 %
Risk discount rate (net of tax)	**10.0**	12.5
Return on unit linked funds (gross of tax)	**7.5**	10.0
Return on non linked funds (gross of tax)	**5.0**	7.0
Expense inflation	**4.0**	6.0

In the consolidated balance sheet the assets and liabilities of the long-term assurance funds are presented separately from those of other businesses in order to reflect the different nature of the shareholders' interest in them. These assets and liabilities are stated at market value in the consolidated balance sheet within 'other assets' and 'other liabilities' respectively, and are as follows:

	1999 £m	1998 £m
Investments	**145**	163
Assets held to cover linked liabilities	**1,711**	1,371
Debtors and prepayments	**9**	20
Other assets	**148**	155
Assets of the long-term assurance funds	**2,013**	1,709
Technical provisions	**114**	93
Technical provisions for linked liabilities	**1,781**	1,469
Other creditors	**118**	147
Liabilities of the long-term assurance funds	**2,013**	1,709

26 Deposits by banks

	1999 £m	1998 £m
Repayable on demand	**1,890**	1,486
With agreed maturity dates or periods of notice, by remaining maturity		
– three months or less	**2,703**	1,989
– one year or less but over three months	**1,398**	687
– five years or less but over one year	**94**	20
– over five years	**333**	255
	6,418	4,437

27 Customer accounts

	1999 £m	1998 £m
Repayable on demand	**35,925**	32,232
With agreed maturity dates or periods of notice, by remaining maturity		
– three months or less	**14,759**	14,507
– one year or less but over three months	**3,150**	2,607
– five years or less but over one year	**947**	1,023
– over five years	**399**	316
	55,180	50,685
Amounts above include:		
Due to associated undertakings	**1**	315

28 Debt securities in issue

	1999 £m	1998 £m
Bonds and medium term notes, by remaining maturity		
– three months or less	**960**	566
– one year or less but over three months	**130**	103
– two years or less but over one year	**656**	193
– five years or less but over two years	**1,751**	1,141
– over five years	**1,042**	965
	4,539	2,968
Other debt securities in issue, by remaining maturity		
– three months or less	**3,404**	3,462
– one year or less but over three months	**1,190**	999
– two years or less but over one year	**28**	25
– five years or less but over two years	**38**	5
	4,660	4,491
	9,199	7,459

Issues under the Bank's £2.5 billion euro medium term note programme, for the issue from time to time of notes with a minimum maturity of six months from the date of issue, are included in the above amounts.

29 Other liabilities

	1999 £m	1998 £m
Notes in circulation	873	930
Long-term assurance fund liabilities to policyholders (see Note 25)	2,013	1,709
Foreign exchange and interest rate contracts	1,451	2,709
Short positions (analysed below)	312	732
Current taxation	185	229
Proposed final dividend	181	153
Obligations under finance leases (analysed below)	190	210
Other liabilities	1,442	1,404
	6,647	8,076

Short positions are analysed as follows:

	1999 £m	1998 £m
Debt securities:		
British government	249	657
Other government	12	1
Other issuers	51	74
	312	732
Debt securities:		
Listed on a recognised UK exchange	275	688
Listed elsewhere	37	32
Unlisted	—	12
	312	732

Obligations under finance leases are analysed as follows:

	1999 £m	1998 £m
Amounts falling due within one year	20	20
Amounts falling due between one and five years	47	59
Amounts falling due after more than five years	123	131
	190	210

30 Deferred taxation

Provision has been made in the consolidated accounts for the amounts of deferred taxation shown below:

	1999 £m	1998 £m
Short-term timing differences	(100)	(92)
Capital allowances on computers and other equipment	46	47
Capital allowances on lease receivables	477	439
Advance corporation tax recoverable	—	(39)
Deferred gains	42	40
	465	395

Movements during the year:	£m
At 1 October 1998	395
Charge to profit and loss account	
– current year	39
– prior year	(2)
Other movements	33
At 30 September 1999	465

Other movements include a transfer of £39 million relating to advance corporation tax ("ACT") recoverable. ACT recoverable was previously offset against deferred taxation in accordance with Statement of Standard Accounting Practice No. 15. This amount was transferred to current taxation upon payment of the ACT during the course of the year. With the abolition of ACT from 6 April 1999, no equivalent ACT recoverable arises at 30 September 1999.

No provision has been made for the following potential amounts of deferred taxation:	1999 £m	1998 £m
Capital allowances on lease receivables	138	137

No provision has been made for the potential taxation liability which might arise in the event of any of the investments in subsidiaries and associated undertakings or of freehold and long leasehold premises being realised at their balance sheet values, as it is intended that all of the material investments and premises will be retained on a long-term basis; it is also expected that tax on any chargeable gain which might arise on sales of premises would be covered by roll-over relief.

31 Other provisions

	Pensions and other similar obligations £m	Other £m
At 1 October 1998	20	9
Charge to profit and loss account	61	—
Provisions utilised	(75)	(9)
At 30 September 1999	6	—

An analysis of provisions for pensions and other similar obligations is as follows:

	£m
– The Royal Bank of Scotland Staff Pension Scheme	1
– Citizens Financial Group	5
	6

32 Dated loan capital

	1999 £m	1998 £m
Dated loan capital, all of which has been raised for the development and expansion of the Group's businesses and to strengthen its capital base, comprises:		
The company		
£200 million floating rate (minimum 5¼%) notes 2005	200	199
US$300 million 6⅜% subordinated notes 2011	179	174
US$400 million 6⅖% subordinated notes 2009	241	—
	620	373
The Royal Bank of Scotland plc		
£150 million 10½% subordinated bonds 2013*	149	149
£250 million 9⅝% subordinated bonds 2015	246	246
£125 million subordinated floating rate notes 2005	125	125
£150 million 8⅜% subordinated notes 2007	149	148
DEM500 million 5¼% subordinated notes 2008	164	174
EUR300 million 4⅞% subordinated notes 2009	192	—
US$150 million floating rate notes 2009	91	—
RBSG Capital Corporation		
US$250 million 10⅛% guaranteed capital notes 2004*	151	146
RBSTB (Holdings) Limited		
£30 million convertible unsecured loan stock 2016	30	30
	1,917	1,391
Dated loan capital in issue, by remaining maturity		
– repayable between two and five years	160	120
– repayable in five years or more	1,757	1,271
	1,917	1,391

*Loans unconditionally guaranteed by the company.

The proceeds of the dated loan capital issued by the company and RBSG Capital Corporation have been on-lent to the Bank on a subordinated basis. Subordination provisions in the terms and conditions of loan capital issues are designed to ensure that claims against the issuer in respect of the principal of, and interest on, the issue will be subordinated, in the event of the winding-up of the issuer, to the claims of unsubordinated creditors, principally depositors in the case of a bank.

The £200 million floating rate (minimum 5¼%) notes 2005 are repayable in five equal annual instalments on each of the interest payment dates falling in May in each of the years 2001 to 2005.

The £125 million subordinated floating rate notes 2005 and the US$150 million floating rate notes 2009 are repayable in whole, at the option of the issuer, prior to maturity, on conditions governing the respective debt obligations, including prior approval from the UK Financial Services Authority.

On 22 March 1997, RBSTB (Holdings) Limited, a wholly-owned subsidiary undertaking of the Bank and the parent of RBS Trust Bank Ltd., issued £30 million of convertible unsecured loan stock (the "loan stock") maturing in 2016 to Mercury Asset Management Group plc ("MAM"). On 31 October 1999, in anticipation of the proposed disposal of RBSTB (Holdings) Limited, the stock was converted by MAM into fully paid ordinary shares of RBSTB (Holdings) Limited and shares equal to 30% of the total issued ordinary share capital of RBSTB (Holdings) Limited were allotted to MAM. By virtue of an agreement between the Bank, RBSTB (Holdings) Limited, RBSI Security Services (Holdings) Limited ("Security Services") and MAM, on conversion of the loan stock, MAM were also entitled to one special non-voting share in the capital of Security Services, a subsidiary undertaking of The Royal Bank of Scotland International Limited, for each £1 million of loan stock converted. On 31 October 1999, MAM waived all future rights under this agreement, including its entitlement to receive the special shares in Security Services on conversion of the loan stock, and agreed not to seek to enforce these rights after the completion of the transaction with The Bank of New York.

In the event of certain changes in the tax laws of the UK, all of the dated loan capital issues are redeemable in whole, but not in part, at the option of the issuer, at the principal amount thereof plus accrued interest, subject to prior approval from the UK Financial Services Authority.

33 Undated loan capital

	Note	1999 £m	1998 £m
Undated loan capital, all of which has been raised for the development and expansion of the Group's businesses and to strengthen its capital base, comprises:			
The company			
US$350 million undated floating rate primary capital notes	(a)	**214**	206
US$400 million undated floating rate primary capital notes	(b)	**—**	117
US$200 million exchangeable capital securities, Series A	(c)	**119**	116
US$50 million undated 7.993% capital securities	(d)	**30**	29
US$35 million undated 7.755% capital securities	(d)	**21**	20
US$75 million floating rate perpetual capital securities	(d)	**45**	44
US$200 million undated 7.375% reset capital securities	(e)	**120**	115
		549	647
The Royal Bank of Scotland plc			
£200 million 9½% undated subordinated bonds	(f)	**196**	196
£125 million 9¼% undated subordinated step-up notes	(g)	**124**	124
£150 million undated subordinated floating rate step-up notes	(h)	**149**	149
FRF1,000 million 5⅞% undated subordinated notes	(i)	**97**	104
		1,115	1,220

The proceeds of the undated loan capital issued by the company have been on-lent to the Bank on a subordinated basis.

Where the issuer has the ability to redeem the undated loan capital, this is subject to prior approval from the UK Financial Services Authority.

Notes:

(a) The US$350 million undated floating rate primary capital notes may be redeemed in whole or in part, at the option of the company, at par on any interest payment date. Interest is payable at a rate of ¼% per annum over an average calculated by reference to six-month eurodollar deposits in London for each interest period. The payment of interest is dependent upon a dividend having been declared or paid on the ordinary share capital of the company in the relevant interest period. Noteholders cannot demand repayment of the notes except in the event of a winding-up of the company.

(b) The US$400 million undated floating rate primary capital notes carried interest at a variable margin above a rate determined by reference to six-month eurodollar deposits in London. During the year the company was approached by noteholders requesting repayment of the notes. Negotiations then took place with a repackaging vehicle (not owned or controlled by the Group) on whom investors were entitled to exercise a warrant. The repackaging vehicle agreed to the purchase of the notes from the noteholders and was lent funds by the company in order to enable it to do so. Subsequently the repackaging vehicle approached the company and offered to sell the notes, in satisfaction of the debt owed to the company. As a result the notes were acquired and then cancelled by the company on 27 September 1999.

(c) The US$200 million exchangeable capital securities, Series A, are redeemable, at the option of the company, in whole or in part, on any interest payment date on or after 30 June 2004 or, in certain circumstances related to changes in the tax laws of the UK, in whole or in part, at the option of the company on any interest payment date. They are exchangeable, in whole or in part, at the option of the company on any interest payment date or, in certain circumstances related to changes in the tax laws of the UK, in whole but not in part, at the option of the company on any interest payment date, into the company's non-cumulative dollar preference shares of US$0.01 each. The exchangeable capital securities bear interest at a rate of 8½%.

(d) The US$50 million undated 7.993%, the US$35 million undated 7.755% and the US$75 million floating rate perpetual capital securities were issued by way of private placements and are callable at par on the first interest payment date following the tenth anniversary of issuance.

(e) The US$200 million undated 7.375% reset capital securities were issued at pricing resulting in an annual yield of 7.552% to noteholders up to 1 April 2006. The rate of interest on the capital securities will be reset at that date and on every fifth anniversary thereafter unless they have been redeemed. The capital securities have no maturity date but the company may repay all of them at par on 1 April 2006 or on each fifth anniversary thereafter.

(f) The £200 million 9½% undated subordinated bonds may be redeemed at the option of the Bank in whole, but not in part, on 12 August 2018 or on any fifth anniversary thereafter. The bonds bear interest at 9½% until 12 August 2018 at which time, and at each fifth anniversary thereafter, the interest rate is reset for a further five years by reference to a defined then current rate of interest applying on those dates. Bondholders cannot demand repayment of the bonds except in the event of a winding-up of the Bank. The bonds are guaranteed by the company.

(g) The £125 million 9¼% undated subordinated step-up notes were issued at pricing resulting in an annual yield of 9.368% to noteholders up to 3 April 2006. As from that date, and on each fifth anniversary thereafter, unless the notes have been redeemed, the interest rate will be reset. The notes have no maturity date but the Bank may repay all of the notes at par on 3 April 2006 or on any fifth anniversary thereafter.

(h) The £150 million undated subordinated floating rate step-up notes are callable on 26 March 2007 at the option of the Bank.

(i) The FRF1,000 million 5⅞% undated subordinated notes are callable on 25 October 2008 at the option of the Bank and at 5-yearly intervals thereafter.

34 Share capital

	Ordinary shares of 25p each	Cumulative preference shares of £1 each	Non-cumulative dollar preference shares of 1 cent each	Non-cumulative sterling preference shares of £1 each	Total
Authorised:					
At 30 September 1999 (£m)	**260**	**1**	**1**	**300**	**562**
At 30 September 1998 (£m)	260	1	1	300	562
At 30 September 1999 (number of shares – millions)	**1,040**	**1**	**113**	**300**	
At 30 September 1998 (number of shares – millions)	1,040	1	83	300	
Allotted, called up and fully paid:					
At 1 October 1998 (£m)	218	1	1	—	220
Issued during the year (£m)	4	—	—	—	4
At 30 September 1999 (£m)	**222**	**1**	**1**	**—**	**224**
At 30 September 1999 (number of shares – millions)	**892**	**1**	**90**	**—**	
At 30 September 1998 (number of shares – millions)	876	1	57	—	

Non-equity shareholders' funds are £1,350 million (1998 – £838 million) comprising £1 million (1998 – £1 million) of nominal non-cumulative dollar preference shares of 1 cent each and cumulative preference shares of £1 each, and £1,349 million (1998 – £837 million) of share premium relating thereto.

Ordinary shares During the year to 30 September 1999, the following ordinary shares were issued:

(a) 5,495,973 ordinary shares were allotted following the exercise of options under the company's executive and sharesave schemes;

(b) 9,046,027 ordinary shares were allotted in lieu of cash in respect of the final dividend for the year ended 30 September 1998 and the interim dividend for the year ended 30 September 1999; and

(c) 1,757,926 ordinary shares were allotted under the company's profit sharing (share ownership) scheme.

The total value of ordinary shares issued at the issue price amounted to £61 million.

Also, during the year to 30 September 1999, options were granted over 4,460,727 ordinary shares under the company's executive and sharesave schemes. At 30 September 1999, options under the schemes exercisable between 1999 and 2009 at prices ranging from 165p to 1291p per share were outstanding in respect of 26,325,653 ordinary shares.

Non-cumulative dollar preference shares Non-cumulative dollar preference shares entitle the holders thereof to receive quarterly non-cumulative preferential cash dividends at specified fixed rates set for each Series payable out of distributable profits of the company. During the year to 30 September 1999, 33 million non-cumulative dollar preference shares of US$0.01 each with an aggregate nominal value of US$0.3 million were issued, the net proceeds being US$800 million.

The 8.0 million Series B non-cumulative dollar preference shares are redeemable, at the option of the company, in whole or in part from time to time, at US$25.56 per share on or after 23 August 1999 and prior to 22 August 2000, and at decreasing prices thereafter declining to US$25.00 per share on 23 August 2001 and thereafter, plus an amount equal to dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 16.0 million Series C non-cumulative dollar preference shares are redeemable, at the option of the company, in whole or in part from time to time, at US$25.71 per share on or after 27 August 1999 and prior to 26 August 2000, and at decreasing prices thereafter declining to US$25.00 per share on 27 August 2002 and thereafter, plus an amount equal to dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 7.0 million Series D non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 14 September 2005 at US$25.00 per share plus an amount equal to dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 8.0 million Series E non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 17 October 2006 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 8.0 million Series F non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 31 March 2007 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 10.0 million Series G non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 31 March 2003 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 12.0 million Series H non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 31 March 2004 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 12.0 million Series I non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 30 September 2004 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

The 9.0 million Series J non-cumulative dollar preference shares are redeemable at the option of the company, in whole or in part from time to time, on any date that falls on or after 31 December 2004 at US$25.00 per share plus the dividends otherwise payable for the then current quarterly dividend period accrued to the date fixed for redemption.

Under existing requirements, no redemption or purchase of any non-cumulative dollar preference shares may be made by the company without the prior consent of the Financial Services Authority.

On a winding-up or liquidation of the company, the holders of the non-cumulative dollar preference shares will be entitled to receive, out of the surplus assets available for distribution to the company's shareholders (after payment of arrears of dividends on the cumulative preference shares up to the date of repayment), pari passu with the cumulative preference shares, the non-cumulative sterling preference shares and all other shares of the company ranking pari passu with the non-cumulative dollar preference shares as regards participation in the surplus assets of the company, a liquidation distribution of US$25.00 per share together with an amount equal to dividends for the then current quarterly dividend period accrued to the date of payment, before any distribution or payment may be made to holders of the ordinary shares as regards participation in the surplus assets of the company.

Except as described above, the holders of the non-cumulative dollar preference shares will have no right to participate in the surplus assets of the company.

Holders of the non-cumulative dollar preference shares are not entitled to receive notice of or attend general meetings of the company except if any resolution is proposed for adoption by the shareholders of the company to vary or abrogate any of the rights attaching to the non-cumulative dollar preference shares or proposing the winding-up or liquidation of the company. In any such case, they are entitled to receive notice of and to attend the general meeting of shareholders at which such resolution is to be proposed and will be entitled to speak and vote on such resolution (but not on any other resolution). In addition, in the event that, prior to any general meeting of shareholders, the company has failed to pay in full the three most recent quarterly dividend payments due on the non-cumulative dollar preference shares, the holders shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters together with the holders of the ordinary shares, and in these circumstances only, the rights of the holders of the non-cumulative dollar preference shares so to vote shall continue until the company shall have resumed the payment in full of dividends for three consecutive quarterly dividend periods.

35 Reserves

	The Group £m	The company £m
Share premium account:		
At 1 October 1998	1,458	1,458
Currency translation adjustments	23	23
Shares issued during the year	609	609
Employee share option payments	41	41
Other movements	(1)	(1)
At 30 September 1999	**2,130**	**2,130**
Reserves:		
At 1 October 1998	113	20
Increase in value of long-term life assurance business	34	—
At 30 September 1999	**147**	**20**
Revaluation reserve:		
At 1 October 1998	(10)	2,024
Revaluation of interest in subsidiary undertaking	—	585
Movements in revaluations of premises	28	—
Other movements	(1)	—
At 30 September 1999	**17**	**2,609**
Profit and loss account:		
At 1 October 1998	1,172	49
Currency translation adjustments	5	—
Goodwill written back	28	—
Tax on unrealised currency translation gains	5	1
Transfer of increase in value of long-term life assurance business	(34)	—
Retentions for the year	522	17
Employee share option payments	(41)	(41)
Other movements	27	13
At 30 September 1999	**1,684**	**39**

The cumulative goodwill arising on acquisitions of subsidiary and associated undertakings which are still part of the Group and charged against profit and loss account reserves of the Group amounted to £1,140 million at 30 September 1999 (1998 – £1,168 million).

In 1997, the Group established a Qualifying Employee Share Ownership Trust (‘QUEST’) for the purposes of delivering shares on the exercise of options under the sharesave scheme. During the current year the Group received £56 million (1998 – £45 million) on the issue of 4,270,771 shares (1998 – 4,566,566 shares) in respect of options under the sharesave scheme. Employees paid £15 million (1998 – £11 million) to the Group for the issue of these shares. A transfer of £41 million (1998 – £34 million) has been made from the profit and loss account reserves to the share premium account in respect of this transaction.

36 Lease commitments

At 30 September 1999, the annual rental commitments under non-cancellable operating leases were:

	1999 Premises £m	**1999 Equipment £m**	1998 Premises £m	1998 Equipment £m
Expiring within one year	**2**	**1**	4	1
Expiring between one and five years	**8**	**8**	10	5
Expiring after five years	**42**	**—**	42	3
	52	**9**	56	9

37 Analysis of total assets and liabilities

		1999 £m	1998 £m
Assets:	denominated in sterling	59,329	54,854
	denominated in currencies other than sterling	29,523	24,822
		88,852	79,676
Liabilities:	denominated in sterling	59,181	54,526
	denominated in currencies other than sterling	29,671	25,150
		88,852	79,676

38 Derivatives and other financial instruments

The Group's objectives and policies in managing the risks that arise in connection with the use of financial instruments are set out on pages 21 to 24 of the operating and financial review under 'risk management', 'financial instruments' and 'derivatives'.

Interest rate sensitivity gap The following table shows the contractual re-pricing terms for each category of non-trading asset and liability, together with management's estimate of the interest rate sensitivity gap for the Group as at 30 September 1999. Loans and advances to customers are shown on a gross basis before provisions for bad debts. Contractual repricing terms do not reflect the potential impact of early repayment or withdrawal. Transactions without defined contractual re-pricing terms are shown according to management's expectations. Positions may not be reflective of those in subsequent periods. Major changes in position can be made promptly as market outlooks change. In addition, significant variations in interest rate sensitivity may exist within the re-pricing periods presented and among the currencies in which the Group has interest rate positions.

The table shows an excess of non-trading liabilities over non-trading assets, due to the funding of trading assets by non-trading customer or wholesale deposits in certain business units of the Group (principally RBS Trust Bank Ltd.). In consequence, the interest rate sensitivity gap shown is in part offset by a corresponding but opposite gap in the Group's trading portfolios.

	Within 3 months £m	After 3 months but within 6 months £m	After 6 months but within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	Non-interest bearing funds £m	Total £m
Non-trading assets							
Loans and advances to banks	7,952	557	323	154	279	—	9,265
Loans and advances to customers	32,140	3,369	2,386	8,019	3,449	—	49,363
Treasury bills and other eligible bills	508	190	—	—	—	—	698
Investment securities	3,721	882	332	2,470	2,845	—	10,250
	44,321	4,998	3,041	10,643	6,573	—	69,576
Non-interest earning assets	—	—	—	—	—	11,048	11,048
Total non-trading assets	44,321	4,998	3,041	10,643	6,573	11,048	80,624
Non-trading liabilities							
Deposits by banks	4,508	478	205	—	234	—	5,425
Customer accounts	46,073	1,852	1,616	5,002	494	—	55,037
Debt securities in issue	5,113	848	442	1,390	1,406	—	9,199
Loan capital	807	45	—	270	1,910	—	3,032
	56,501	3,223	2,263	6,662	4,044	—	72,693
Interest free liabilities	—	—	—	—	—	9,370	9,370
Shareholders' equity	—	—	—	—	—	4,202	4,202
Total non-trading liabilities	56,501	3,223	2,263	6,662	4,044	13,572	86,265
Off-balance sheet items affecting interest rate sensitivity	(2,069)	(35)	(95)	(838)	3,037	—	—
	54,432	3,188	2,168	5,824	7,081	13,572	86,265
Interest rate sensitivity gap	(10,111)	1,810	873	4,819	(508)	(2,524)	
Cumulative interest rate sensitivity gap	(10,111)	(8,301)	(7,428)	(2,609)	(3,117)	(5,641)	
Cumulative interest rate sensitivity gap as a percentage of interest earning assets	(14.6%)	(11.9%)	(10.7%)	(3.7%)	(4.5%)	(8.1%)	

All derivative instruments held by the Group whose effect is to alter the interest bases of the non-trading portfolio of assets and liabilities are reflected in the above table. Short-term debtors and creditors are included in the above table and the following tables on non-trading currency risk. All other disclosures in Note 38 exclude short-term debtors and creditors.

Non-trading assets and liabilities include interbank and other wholesale money market borrowings and placings, debt securities issued, and securities held for investment rather than trading purposes. Within these non-trading portfolios, interest rate gap positions may be managed by central treasury units within sensitivity limits approved by the Group Executive Management Committee.

38 Derivatives and other financial instruments *(continued)*

Non-trading currency risk Non-trading currency risk exposure arises principally out of the Group's investments in overseas activities, principally in the United States and Europe.

The Group's structural currency exposures as at 30 September 1999 were as follows:

Functional currency of operation involved	Net investments in overseas operations £m	Borrowings taken out in the functional currencies of the overseas operations to hedge the net investments in such operations £m	Remaining structural currency exposures £m
US$	915	828	87
Euro	23	38	(15)
Other non-sterling	(31)	—	(31)
Total	**907**	**866**	**41**

In accordance with Group policy, as at 30 September 1999 there were no material net currency exposures in the non-trading book relating to transactional (or non-structural) positions that would give rise to net currency gains and losses recognised in the profit and loss account.

Trading value at risk The VaR methodology of estimating potential losses arising from the Group's exposure to market risk is explained on page 22.

The following table shows an analysis of the trading market risk related VaR for the Group at the period end and as an average for the year and the high and low during the year:

Trading VaR	As at 30 September 1999 £m	Year ended 30 September 1999 Average £m	High £m	Low £m	As at 30 September 1998 £m	Year ended 30 September 1998 Average £m	High £m	Low £m
– Total	**2.6**	**1.9**	**2.9**	**1.0**	1.1	1.1	1.8	0.6
– Interest rate related	**2.4**	**1.8**	**2.8**	**0.8**	1.0	0.9	2.1	0.5
– Foreign exchange related	**0.4**	**0.4**	**0.9**	**0.2**	0.1	0.2	0.8	0.1

Trading revenues The table below shows the average daily revenues for trading activities for the Group. Standard deviation indicates the distribution of those earnings over the year.

Daily revenues	1999 £m	1998 £m
Average	**0.7**	0.1
Standard deviation	**0.5**	0.2

Dealing profits comprise foreign exchange and arbitrage trading income, profits and losses on sales of securities and mark to market adjustments on securities held and are analysed as follows:

	1999 £m	1998 £m
Debt securities	**40**	17
Equities and other trading*	**34**	149
Derivatives (see analysis under trading derivatives)	**117**	102
	191	268

*1998 includes an exceptional item of £96 million.

Derivatives Net replacement cost is used to indicate the Group's derivatives credit exposure. The figures in the following table represent the gross positive fair values, by maturity, less the overall effect of netting positions with the same counterparty. The net replacement cost of internal trades is not included as there is no credit risk associated with them.

	1999				1998			
	Within one year £m	One to five years £m	Over five years £m	Total £m	Within one year £m	One to five years £m	Over five years £m	Total £m
Exchange rate contracts:								
Forward foreign exchange	1,319	41	1	1,361	1,646	42	—	1,688
Cross currency swaps	22	14	16	52	15	15	7	37
Currency options	19	1	—	20	51	1	—	52
	1,360	56	17	1,433	1,712	58	7	1,777
Interest rate contracts:								
Forward rate agreements	14	11	—	25	4	5	—	9
Interest rate swaps	98	418	454	970	77	317	412	806
Interest rate options purchased	3	28	12	43	2	16	39	57
	115	457	466	1,038	83	338	451	872
Credit derivatives	—	20	—	20	—	—	—	—
Equity and commodity contracts:								
Swaps	1	5	—	6	23	10	—	33
Options	—	—	—	—	1	—	—	1
	1	5	—	6	24	10	—	34
Effect of netting				(1,398)				(963)
Total net replacement cost				1,099				1,720

In addition to the amounts in the above table, the Group had entered into financial futures contracts with an outstanding aggregate notional principal amount of £31,726 million at 30 September 1999 (1998 – £30,144 million). Such contracts generally involve lower credit risk than over-the-counter contracts because trades in such contracts are cleared through exchanges that subject their participants to margining requirements and require daily settlement of gains and losses.

The Group may require collateral in respect of the credit risk in derivative transactions.

The following table analyses the gross replacement cost of the Group's derivatives into financial and non-financial counterparty and also into OECD and non-OECD counterparty:

	1999				1998			
	Financial £m	Non-Financial £m	OECD £m	Non-OECD £m	Financial £m	Non-Financial £m	OECD £m	Non-OECD £m
Exchange rate contracts:								
Forward foreign exchange	1,260	101	1,291	70	1,596	92	1,605	83
Cross currency swaps	30	22	51	1	27	10	37	—
Currency options	13	7	20	—	38	14	52	—
	1,303	130	1,362	71	1,661	116	1,694	83
Interest rate contracts:								
Forward rate agreements	18	7	25	—	7	2	9	—
Interest rate swaps	815	155	960	10	601	205	790	16
Interest rate options	23	20	43	—	48	9	57	—
	856	182	1,028	10	656	216	856	16
Credit derivatives	20	—	20	—	—	—	—	—
Equity and commodity contracts:								
Swaps	6	—	6	—	26	7	33	—
Options	—	—	—	—	1	—	1	—
	6	—	6	—	27	7	34	—

38 Derivatives and other financial instruments *(continued)*

Trading derivatives The following table shows, for each type of instrument in the trading derivatives portfolio, the average fair value, the end of period fair value and the net trading gains and losses and includes internal trades:

	1999					1998				
	Average fair value		End of period fair value		Net trading gains/(losses)	Average fair value		End of period fair value		Net trading gains/(losses)
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m
Exchange rate contracts:										
Forward foreign exchange	1,442	1,433	1,360	1,371	112	1,483	1,459	1,686	1,663	80
Cross currency swaps	38	48	52	56	(2)	24	42	21	42	(8)
Currency options	29	30	20	20	9	73	72	52	53	6
	1,509	1,511	1,432	1,447	119	1,580	1,573	1,759	1,758	78
Interest rate contracts:										
Forward rate agreements	16	15	26	18	(2)	7	11	9	14	(1)
Interest rate swaps	973	1,125	906	1,206	(5)	546	734	778	859	14
Interest rate options	47	67	39	72	(12)	25	40	57	78	7
Interest rate futures	73	98	41	35	14	22	24	28	52	4
	1,109	1,305	1,012	1,331	(5)	600	809	872	1,003	24
Credit derivatives	7	3	20	8	3	—	—	—	—	—
Equity and commodity contracts:										
Swaps	—	—	—	—	—	15	11	19	8	—
Futures	—	—	—	—	—	—	—	4	—	—
	—	—	—	—	—	15	11	23	8	—
Total			2,464	2,786	117			2,654	2,769	102

The following table analyses, by maturity and contract type, the notional principal amount of the Group's trading derivatives:

	1999				1998			
	Within one year £m	One to five years £m	Over five years £m	Total £m	Within one year £m	One to five years £m	Over five years £m	Total £m
Exchange rate contracts:								
Forward foreign exchange	121,874	2,929	59	124,862	109,042	2,061	—	111,103
Cross currency swaps	573	1,252	1,214	3,039	117	269	363	749
Currency options purchased	1,893	24	—	1,917	2,141	55	—	2,196
Currency options written	1,851	40	—	1,891	2,271	59	—	2,330
	126,191	4,245	1,273	131,709	113,571	2,444	363	116,378
Interest rate contracts:								
Forward rate agreements	25,523	3,575	—	29,098	10,087	2,252	—	12,339
Interest rate swaps	24,653	48,246	17,793	90,692	12,965	26,320	9,758	49,043
Interest rate options purchased	235	3,278	390	3,903	1,036	2,551	740	4,327
Interest rate options written	1,252	3,394	330	4,976	741	3,221	841	4,803
Interest rate futures	15,507	12,643	3,315	31,465	11,278	18,549	33	29,860
	67,170	71,136	21,828	160,134	36,107	52,893	11,372	100,372
Credit derivatives	6	1,898	—	1,904	—	—	—	—
Equity and commodity contracts:								
Swaps	—	—	—	—	156	10	—	166
Futures	1	—	—	1	1	—	—	1
	1	—	—	1	157	10	—	167

Non-trading derivatives The Group establishes non-trading derivatives positions externally with third parties and also internally. It should be noted that the following tables include the components of the internal hedging programme that transfers risks to the trading portfolios in the Bank or to external third party participants in the derivatives markets.

The following table summarises the fair values and book values of derivatives held for non-trading activities and includes internal trades:

	1999				1998			
	Fair value		Book value		Fair value		Book value	
	Positive £m	Negative £m	Positive £m	Negative £m	Positive £m	Negative £m	Positive £m	Negative £m
Exchange rate contracts:								
Forward foreign exchange	8	9	5	4	24	32	11	11
Currency swaps	3	19	2	13	20	25	3	4
	11	28	7	17	44	57	14	15
Interest rate contracts:								
Interest rate swaps	374	459	325	245	341	300	296	222
Interest rate options purchased	4	—	—	—	9	—	—	—
Interest rate options written	—	4	—	—	—	9	—	—
Interest rate futures	—	—	—	—	7	—	—	—
	378	463	325	245	357	309	296	222
Credit derivatives	—	—	—	—	—	—	—	—
Equity and commodity contracts:								
Swaps	6	18	5	18	14	22	14	22
Options	—	3	—	3	1	12	1	12
Futures	2	—	2	—				
	8	21	7	21	15	34	15	34
Total	397	512	339	283	416	400	325	271

The following table analyses the notional principal amounts, by maturity, of the Group's non-trading derivatives (third party and internal) by contract type:

	1999				1998			
	Within one year £m	One to five years £m	Over five years £m	Total £m	Within one year £m	One to five years £m	Over five years £m	Total £m
Exchange rate contracts:								
Forward foreign exchange	1,252	—	—	1,252	1,812	—	—	1,812
Currency swaps	333	34	357	724	240	140	84	464
	1,585	34	357	1,976	2,052	140	84	2,276
Interest rate contracts:								
Forward rate agreements	61	—	—	61	126	—	—	126
Interest rate swaps	17,086	8,505	5,416	31,007	5,185	6,499	4,065	15,749
Interest rate options purchased	—	50	6	56	20	30	31	81
Interest rate options written	—	50	6	56	10	30	31	71
Interest rate futures	156	—	—	156	282	2	—	284
	17,303	8,605	5,428	31,336	5,623	6,561	4,127	16,311
Credit derivatives	—	358	—	358	—	—	—	—
Equity and commodity contracts:								
Swaps	158	1,289	42	1,489	26	674	—	700
Options	23	15	—	38	—	23	—	23
Futures	104	—	—	104	—	—	—	—
	285	1,304	42	1,631	26	697	—	723

38 Derivatives and other financial instruments *(continued)*

Hedges As stated in the accounting policy note 14 on page 41, hedge transactions are accounted for in accordance with the accounting treatment of the underlying transaction. As a result, any hedge gains or losses recognised during the year offset gains or losses on the item being hedged. Hedge gains or losses are not recognised or are deferred in the balance sheet to the extent necessary to achieve a common timing or recognition with the transaction being hedged. The following table shows the unrecognised and deferred gains and losses on hedges at 30 September 1999 and the movements therein during the year:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/(losses) £m	Gains £m	Losses £m	Total net gains/(losses) £m
As at 1 October 1998	101	124	(23)	18	5	13
Gains and losses arising in previous years that were recognised in the year ended 30 September 1999	23	20	3	4	1	3
Gains and losses arising before 1 October 1998 that were not recognised in the year ended 30 September 1999	78	104	(26)	14	4	10
Gains and losses arising in the year ended 30 September 1999 that were not recognised in that year	(21)	134	(155)	(13)	12	(25)
As at 30 September 1999	**57**	**238**	**(181)**	**1**	**16**	**(15)**
Of which:						
Gains and losses expected to be recognised in the year ended 30 September 2000	11	49	(38)	1	1	—

As at 30 September 1999, there were no hedges of anticipated transactions in place.

Where a non-trading derivative no longer represents a hedge because either the underlying non-trading asset, liability or position has been derecognised or transferred into a trading portfolio, or the hedge is no longer effective, it is restated at fair value and any resultant gains or losses taken directly to the profit and loss account. In this regard, losses amounting to £38 million were recognised in the year to 30 September 1999.

The effect of non-trading derivatives on the consolidated profit and loss account for the year ended 30 September 1999 was to decrease net interest income by £32 million (1998 – decrease of £3 million).

39 Fair values of financial instruments

The term financial instruments includes both financial assets and financial liabilities, and also derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices are used where available; otherwise, management estimates fair value based on quoted market prices of financial instruments with similar characteristics or by using valuation techniques such as discounted cash flow models. Valuation techniques involve uncertainties and require assumptions and judgements regarding prepayments, credit risk and discount rates. Changes in these assumptions will result in different valuation estimates. The fair values presented would not necessarily be realised in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

Fair value information is not provided for items that do not meet the definition of a financial instrument or for certain other financial instruments. These items include short term debtors and creditors, intangible assets such as the value of the branch network and the long-term relationships with depositors, premises and equipment and shareholders' equity. These items are material and accordingly the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying value of the Group as a going concern at 30 September 1999.

The following table shows the carrying amount and the fair value of the Group's financial instruments analysed between trading and non-trading assets and liabilities:

		30 September 1999		30 September 1998	
	Note	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Assets					
Trading					
Treasury bills and other eligible bills	(a)	3	3	—	—
Reverse repurchase agreements	(a)	1,824	1,824	938	938
Debt securities	(a)	5,139	5,141	5,314	5,339
Equity shares	(a)	109	109	91	91
Derivatives (see analysis in Note 38)	(b)	2,464	2,464	2,654	2,654
Non-trading					
Cash and balances at central banks	(a)	1,394	1,394	1,295	1,295
Treasury bills and other eligible bills	(a)	698	698	639	639
Items in the course of collection due from other banks	(a)	1,655	1,655	1,652	1,652
Loans and advances to banks and customers	(c)	57,891	58,699	51,593	52,149
Debt securities	(d)	10,250	10,067	7,460	7,591
Equity shares	(d)	804	1,264	766	956
Derivatives (see analysis in Note 38)	(b)	339	397	325	416
Liabilities					
Trading					
Repurchase agreements	(a)	1,136	1,136	399	399
Short positions in debt securities	(a)	312	312	732	732
Derivatives (see analysis in Note 38)	(b)	2,786	2,786	2,769	2,769
Non-trading					
Items in course of collection due to other banks	(a)	975	975	520	520
Deposits by banks and customer accounts	(e)	60,462	60,301	54,723	54,802
Debt securities in issue	(f)	9,199	9,021	7,459	7,484
Dated loan capital	(g)	1,917	1,989	1,391	1,559
Undated loan capital	(g)	1,115	1,113	1,220	1,257
Non-equity shareholders' funds	(h)	1,350	1,313	838	858
Derivatives (see analysis in Note 38)	(b)	283	512	271	400

Notes:

(a) Financial assets and financial liabilities where fair value approximates carrying value because they are carried in the balance sheet at market value or they are short-term in nature or re-price frequently.

39 Fair values of financial instruments *(continued)*

(b) Derivatives held for trading purposes are, as indicated on page 41, carried at fair values. Derivatives held for non-trading purposes are accounted for in accordance with the accounting treatment of the underlying transaction or transactions being hedged. Fair values are determined by market prices or, where market prices are not available, by applying current market information to pricing or valuation models.

(c) For variable rate loans that reprice frequently, or are linked to the Bank's base rate, and with no significant change in credit risk since the commencement of the loan, carrying amounts represent a reasonable estimate of fair value. The fair values of other loans, with no significant change in credit risk since the commencement of the loan, are estimated by discounting anticipated future cash flows, using the current interest rates at which similar loans are being made to borrowers with similar credit ratings and remaining maturities. Generally, overdrafts are contractually repayable on demand and have no defined maturities, accordingly their fair values are assumed to equal the net carrying amount. The carrying amount of instalment credit and finance lease receivables is considered a reasonable approximation of fair value.

(d) Fair values of short-term debt securities are approximately equal to their carrying amount. Fair values of other debt securities and equity shares are based on quoted prices where available, or where these are unavailable, are estimated using other valuation techniques.

(e) Fair values of deposits repayable on demand are equal to their carrying value. The fair values of term deposits and negotiable time certificates of deposit are estimated by discounting the expected future cash flows using the rates currently offered for deposits of similar remaining maturities.

(f) Fair values of short-term debt securities in issue are approximately equal to their carrying amount. Fair values of other debt securities in issue are based on quoted prices where available, or where these are unavailable, are estimated using other valuation techniques.

(g) Fair values of dated and undated loan capital are based on quoted market prices where available. For unquoted loan capital, fair values have been estimated using other valuation techniques.

(h) Fair values of non-equity shareholders' funds are based on quoted market prices.

40 Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 30 September. Although the Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Group's expectation of future losses.

	1999			1998		
	Contract amount £m	Credit equivalent amount £m	Risk weighted amount £m	Contract amount £m	Credit equivalent amount £m	Risk weighted amount £m
Contingent liabilities:						
Acceptances and endorsements	**894**	**894**	**864**	1,024	1,024	816
Guarantees and irrevocable letters of credit	**956**	**956**	**769**	917	917	610
Assets pledged as collateral security	**2**	**—**	**—**	4	—	—
Other contingent liabilities	**876**	**438**	**425**	869	434	426
	2,728	**2,288**	**2,058**	2,814	2,375	1,852
Commitments:						
Documentary credits and trade related transactions	**1,709**	**342**	**201**	1,207	241	142
Forward asset purchases and forward deposits placed	**—**	**—**	**—**	9	9	9
Undrawn note issuance and revolving underwriting facilities	**29**	**15**	**10**	12	6	1
Undrawn formal standby facilities, credit lines and other commitments to lend						
– less than one year (a)	**15,145**	**—**	**—**	11,114	—	—
– one year and over	**4,039**	**2,017**	**1,854**	3,239	1,618	1,489
	20,922	**2,374**	**2,065**	15,581	1,874	1,641

Notes:

(a) Included in this category are facilities of £5.0 billion at 30 September 1999 (1998 – £6.9 billion) which are cancellable unconditionally at the discretion of the Group. Undrawn loan commitments which are cancellable unconditionally at any time or which have a maturity of less than one year have a risk weighting of zero.

(b) Under the European Community Solvency Ratio Directive, credit equivalent amounts obtained by applying credit conversion factors are risk weighted according to the nature of the counterparties. Using the minimum 8% BIS ratio indicates that £330 million of total capital would be required to support the total risk weighted amount of £4,123 million.

41 Reconciliation of operating profit to net cash inflow from operating activities

	1999 £m	1998 £m
Operating profit – the company and its subsidiary undertakings	1,211	944
Increase in interest receivable and prepaid expenses	(87)	(150)
Increase in interest payable and accrued expenses	126	607
Decrease in other provisions	(9)	(14)
Increase in provisions for bad and doubtful debts	94	182
Interest payable on subordinated liabilities	251	226
Depreciation and diminution in value of fixed assets	278	243
Profit on sales of tangible fixed assets	(5)	(10)
Profit on sales of investment securities	(77)	(72)
Profit on sale of associated undertaking	(35)	—
Profit on sale of fixed asset investment	—	(57)
Other non-cash movements	7	208
Net cash inflow from trading activities	1,754	2,107
Net increase/(decrease) in deposits by banks	1,941	(958)
Increase in customer accounts	4,495	3,018
Net increase in debt securities in issue	1,740	1,864
Increase in loans to customers	(8,425)	(2,530)
Net decrease in loans to banks	2,915	1,293
Increase in items in course of collection due from other banks	(3)	(582)
Increase/(decrease) in items in course of collection due to other banks	455	(116)
Increase in treasury bills and other eligible bills	(62)	(10)
Decrease/(increase) in debt securities and equity shares (other than investment securities)	159	(2,480)
Net decrease/(increase) in other assets	1,823	(1,985)
Net (decrease)/increase in other liabilities	(1,733)	1,466
Net cash inflow from operating activities	5,059	1,087

42 Purchase of businesses and subsidiary undertakings

The following table shows the aggregate fair values of net assets acquired in connection with the acquisitions of businesses and subsidiary undertakings during the years ended 30 September 1999 and 1998. Apart from the acquisition of Angel Trains in the year ended 30 September 1998, no significant adjustments were required to the book values of the net assets as recorded in the acquired companies' books at the dates of acquisitions.

	1999 £m	1998 £m
Net assets acquired:		
Cash	35	17
Debt securities	—	16
Equity shares	—	5
Loans and advances to customers and banks	2	109
Prepayments and accrued income	—	22
Other assets	57	10
Tangible fixed assets	—	822
Deposits by banks and customer accounts	(40)	(85)
Debt securities in issue	—	(574)
Accruals and deferred income	—	(11)
Deferred taxation	—	(204)
Other liabilities	(2)	(74)
Minority shareholder's interest	—	166
	52	219
Goodwill	12	725
	64	944
Satisfied by:		
Net cash paid	64	920
Debt securities issued	—	24
	64	944

43 Analysis of the net outflow of cash in respect of the purchase of businesses and subsidiary undertakings

	1999 £m	1998 £m
Cash consideration paid	**(64)**	(920)
Cash acquired	**35**	17
Net outflow of cash	**(29)**	(903)

44 Sale of subsidiary and associated undertakings

	1999 £m	1998 £m
Net assets disposed of	**1**	19
Goodwill written back	**9**	9
Profit on disposal	**35**	—
Net proceeds received (net of expenses)	**45**	28
Less non-cash receipts	**—**	28
Net inflow of cash in respect of disposals	**45**	—

45 Analysis of changes in financing during the year

	Share capital (including premium)		Loan capital	
	1999 £m	1998 £m	1999 £m	1998 £m
At 1 October	**1,678**	1,445	**2,611**	2,550
Effect of foreign exchange differences	**23**	(42)	**—**	(52)
Cash inflow from financing	**525**	243	**434**	127
Other non-cash movements	**128**	32	**(13)**	(14)
At 30 September	**2,354**	1,678	**3,032**	2,611

46 Analysis of cash

	1999 £m	1998 £m	Change in year £m
Cash and balances at central banks	**1,394**	1,295	99
Loans and advances to banks repayable on demand	**4,408**	2,632	1,776
Cash	**5,802**	3,927	1,875

47 Analysis of changes in cash during the year

	1999 £m	1998 £m
At 1 October	**3,927**	5,176
Net cash inflow/(outflow)	**1,875**	(1,249)
At 30 September	**5,802**	3,927

48 Segmental analysis

In the tables below, the analyses of net assets are included in compliance with Statement of Standard Accounting Practice No. 25 "Segmental Reporting". The fungible nature of liabilities within the banking industry results in allocations of liabilities which, in some cases, are necessarily subjective. The directors believe that it is more meaningful to analyse total assets and the result of this analysis is therefore also included in the tables.

(a) Classes of business

1999	UK and offshore banking £m	Direct Line Insurance £m	Citizens £m	Other £m	Total £m
Net interest income	1,311	60	408	(23)	1,756
Non-interest income	998	69	141	464	1,672
General insurance premium income (net of reinsurance)	—	634	—	76	710
Total income	2,309	763	549	517	4,138
Operating expenses	1,163	147	292	446	2,048
General insurance claims (net of reinsurance)	—	515	—	75	590
Profit before provisions	1,146	101	257	(4)	1,500
Provisions for bad and doubtful debts	242	—	15	19	276
Investment write downs	13	—	—	—	13
Segment result	891	101	242	(23)	1,211
Exceptional items	—	—	—	—	—
Profit on ordinary activities before tax	891	101	242	(23)	1,211
Total assets	62,719	1,411	11,824	12,898	88,852
Net assets	3,020	362	905	(85)	4,202

1998	£m	£m	£m	£m	£m
Net interest income	1,167	66	376	(11)	1,598
Non-interest income	860	46	150	360	1,416
General insurance premium income (net of reinsurance)	—	553	—	47	600
Total income	2,027	665	526	396	3,614
Operating expenses	1,097	128	264	390	1,879
General insurance claims (net of reinsurance)	—	473	—	45	518
Profit before provisions	930	64	262	(39)	1,217
Provisions for bad and doubtful debts	179	—	15	6	200
Investment write downs	9	—	—	1	10
Segment result	742	64	247	(46)	1,007
Exceptional items	(63)	—	—	57	(6)
Profit on ordinary activities before tax	679	64	247	11	1,001
Total assets	58,232	1,201	9,714	10,529	79,676
Net assets	2,625	315	707	(694)	2,953

'UK and offshore banking' comprises the UK Bank, RBS Cards and RBSI. The segment result is analysed as follows:

	1999 £m	1998 £m
UK Bank	736	626
RBS Cards	85	61
RBSI	70	55
	891	742

'Other' comprises net central financing costs and expenses and the results of the New Retail Financial Services Businesses, Angel Trains and Investor Services. The segment result is analysed as follows:

	1999 £m	1998 £m
New Retail Financial Services Businesses	(35)	(59)
Angel Trains	53	46
Investor Services	14	5
Central costs	(55)	(38)
	(23)	(46)

The figures for 1998 in the above analyses have been restated to reflect the separate disclosure of RBS Cards.

(b) Geographical segments

The geographical analyses in the tables below have been compiled on the basis of location of office where the transactions are recorded. In addition to Citizens, USA also includes the Bank's New York branch.

1999	UK £m	Continental Europe £m	USA £m	Rest of the World £m	Total £m
Interest receivable	3,956	64	823	153	4,996
Dividend income	19	11	4	—	34
Fees and commissions receivable	935	14	132	3	1,084
Dealing profits	182	1	3	5	191
General insurance premium income (net of reinsurance)	710	—	—	—	710
Other income	434	13	11	(2)	456
Gross income	6,236	103	973	159	7,471
Profit on ordinary activities before tax	940	38	221	12	1,211
Total assets	73,232	1,065	12,140	2,415	88,852
Net assets	2,777	561	870	(6)	4,202

1998	£m	£m	£m	£m	£m
Interest receivable	4,088	57	761	217	5,123
Dividend income	14	11	3	—	28
Fees and commissions receivable	795	10	113	5	923
Dealing profits	262	—	3	3	268
General insurance premium income (net of reinsurance)	600	—	—	—	600
Income from associated undertakings	2	(3)	—	1	—
Other income	311	(1)	67	—	377
Gross income	6,072	74	947	226	7,319
Profit on ordinary activities before tax	737	74	251	(61)	1,001
Total assets	66,527	818	9,903	2,428	79,676
Net assets	2,037	217	700	(1)	2,953

As permitted by the Companies Act 1985, a segmental analysis of turnover has not been disclosed.

49 Turnover

Turnover attributable to the business of banking is not shown. Non-banking turnover was as follows:

	1999 £m	1998 £m
Capital cost of assets financed*	1,667	545
General insurance business	1,012	833
Credit card business and other non-banking activities	544	352
	3,223	1,730

*This amount represents the capital cost of assets financed during the year by leasing subsidiaries, the income from which will be recognised in the profit and loss account over a number of years in accordance with the terms of each lease.

50 Directors' emoluments

	1999 £000	1998 £000
Non-executive directors – emoluments	315	310
Executive directors – emoluments	6,289	6,259
– pension contributions in respect of defined contribution schemes	65	129
	6,669	6,698
– gains on exercise of share options	3,682	1,198
	10,351	7,896

Retirement benefits are accruing to six directors (1998 – seven) under defined benefit schemes, two (1998 – three) of whom also accrued benefits under defined contribution schemes.

The emoluments of the highest paid director, Mr L. K. Fish, were as follows:

	1999		1998	
	£000	US$000	£000	US$000
Aggregate emoluments and gains on exercise of share options	2,903	4,731	3,343	5,528
Pension contributions	28	46	78	129
Defined benefit pension scheme – accrued pension at end of year	128	210	108	179

The executive directors may also participate in the company's executive share option and sharesave schemes and details of their interests in the company's shares arising from their participation are contained in directors' interests in shares on page 36. Details of the remuneration received by each director during the year and each directors' pension arrangements are given on pages 34 and 35.

51 Transactions with directors, officers and others

(a) At 30 September 1999, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group were £398,233 in respect of loans to 12 persons who were directors of the company (or persons connected with them) at any time during the financial year and £65,715 to one person who was an officer of the company at any time during the financial year.

(b) Sir George Mathewson, a director and chief executive of the company and the Bank, has a right to repurchase from the Bank his former dwellinghouse which the Bank purchased from him and his wife in May 1988 at a price of £125,000. The right will become exercisable (1) in the event that Sir George ceases to be an executive director of the company or its subsidiaries; or (2) on 31 May 2008 in the event that he remains an executive director at that date; or (3) on such earlier date as the directors of the company may allow. Any repurchase is to be at the higher of the purchase price paid by the Bank or a price determined by independent professional valuation at the time of repurchase. The dwellinghouse is at present let by the Bank on a commercial basis, with any rental payments being received wholly by the Bank.

(c) There were no contracts of significance to the business of the company and its subsidiaries which subsisted during or at the end of the company's financial year to 30 September 1999 in which any director of the company had a material interest.

52 Related party transactions

Subsidiary undertakings Details of the principal subsidiary undertakings are shown in Note 21. In accordance with Financial Reporting Standard No. 8 “Related Party Disclosures”, transactions or balances between Group entities that have been eliminated on consolidation are not reported.

Associated undertakings Details of the Group’s principal associated undertakings are shown in Note 20. The amounts of loans and advances due from associated undertakings at 30 September 1999 are shown in Note 14 and the amounts of deposits received from associated undertakings as at 30 September 1999 are shown in Note 27. These transactions are conducted on similar terms to third party transactions and are not material to the Group’s results or financial condition. Certain subsidiary undertakings in the Group provide development and other types of capital support to businesses in their roles as providers of finance. These investments are made in the normal course of business and on arms-length terms depending on their nature. In some instances, the investment may extend to ownership or control over 20% or more of the voting rights of the investee company. However, these investments are not considered to give rise to transactions of a materiality requiring disclosure under FRS 8.

The Royal Bank of Scotland Staff Pension Scheme (the “Scheme”) The Bank recharges the Scheme with the cost of administration services incurred by it and the total amount recharged in the year ended 30 September 1999 was £0.4 million.

Banco Santander Central Hispano (BSCH) Under the terms of an alliance agreement, the Group and BSCH co-operate in certain banking and financial activities in Europe. The Group holds 2.23% of BSCH’s capital stock and BSCH holds 9.64% of the company’s ordinary shares and in addition has a 50% minority shareholding in The Royal Bank of Scotland (Gibraltar) Limited.

Directors, officers and others Details of directors’ emoluments are set out in Note 50 and the Remuneration Report on pages 33 to 35. Details of transactions with directors, officers and others connected to them are shown in Note 51.

53 Approval of accounts

The accounts were approved by the board of directors on 1 December 1999.

Average balance sheet and related interest

	1999 Average Balance* £m	Rate %	1999 Interest £m	1998 Average Balance* £m	Rate %	1998 Interest £m
Assets						
Treasury and other eligible bills						
UK	740	6.1	45	646	7.5	49
overseas	3	4.8	—	30	5.0	1
Loans and advances to banks						
UK	9,157	5.4	491	11,804	6.6	783
overseas	960	4.8	46	1,582	5.7	91
Loans and advances to customers						
UK	34,209	7.7	2,625	28,777	8.9	2,550
overseas	7,911	7.5	594	7,188	8.3	593
Lease and HP receivables						
UK	3,408	8.3	282	3,358	9.0	301
overseas	279	6.3	18	133	7.4	10
Debt securities						
UK	10,676	5.9	626	6,845	7.4	503
overseas	4,168	6.5	269	3,739	6.5	242
Interest earning assets	71,511	7.0	4,996	64,102	8.0	5,123
Non-interest earning assets	12,946			10,538		
Total average assets	84,457			74,640		
Liabilities						
Deposits by banks						
UK	5,344	5.4	286	4,144	6.6	273
overseas	1,038	4.6	48	1,289	5.7	74
Customer demand deposits						
UK	20,370	3.8	774	18,912	5.2	983
overseas	995	1.6	16	2,131	5.1	109
Customer savings deposits						
UK	8,783	4.9	433	4,136	6.0	247
overseas	6,441	4.0	259	6,253	4.1	257
Customer other time deposits						
UK	10,622	5.8	617	12,265	7.2	881
overseas	1,272	5.1	65	348	5.0	17
Debt securities in issue						
UK	6,594	6.2	410	5,750	7.2	417
overseas	1,674	4.9	81	812	5.0	41
Loan capital	2,901	8.7	251	2,517	9.0	226
Interest bearing liabilities	66,034	4.9	3,240	58,557	6.0	3,525
Interest free liabilities						
demand deposits	3,010			2,877		
other liabilities	11,893			10,144		
Shareholders' funds	3,520			3,062		
Total average liabilities	84,457			74,640		

*Average balances have been calculated on a daily basis using customers' cleared balances, netted where interest set-off arrangements exist. The analysis into UK and overseas in the above table has been compiled on the basis of location of office.

Interest rates, yields, spreads and margins

	1999 Average rate %	1998 Average rate %
Interest rates:		
The Royal Bank of Scotland plc base rate	5.7	7.3
London inter-bank offered rate		
three month sterling	5.7	7.5
three month eurodollar	5.2	5.6
Yields, spreads and margins:		
Gross yield[1]		
total	7.0	8.0
UK	7.0	8.2
overseas	7.0	7.4
Interest spread[2]		
total	2.1	2.0
UK	1.9	1.8
overseas	2.9	2.8
Interest margin[3]		
total	2.5	2.5
UK	2.2	2.3
overseas	3.4	3.5

[1]Gross yield is the average interest rate earned on average interest earning assets.
[2]Interest spread is the difference between the gross yield and the average interest rate paid on average interest bearing liabilities.
[3]Interest margin is net interest income as a percentage of average interest earning assets.

Cross border outstandings in excess of 1% of total assets The following table identifies countries to which the Group's cross border outstandings exceeded 1% of total assets at 30 September 1999.

	Commercial, industrial and other private sector £m	Governments and official institutions £m	Banks and other financial institutions £m	Total £m	As % of total assets* £m
USA	1,706	264	1,482	3,452	3.8
Germany	216	39	2,880	3,135	3.5
France	118	37	1,567	1,722	1.9

*Assets comprise total assets as reported in the consolidated balance sheet plus acceptances and endorsements as reported in the memorandum items below the consolidated balance sheet, which together totalled £89,746 million at 30 September 1999.

Analysis of loans and advances to customers The following table analyses, for UK and overseas offices, loans and advances to customers (before provisions) by type of customer and geographical area:

At 30 September	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
UK					
ECGD and government	**150**	78	116	90	112
Manufacturing	**2,715**	2,075	1,739	1,732	1,682
Construction	**648**	543	404	530	471
Finance	**2,891**	2,197	3,100	3,173	3,231
Service industries	**5,585**	4,968	4,660	3,374	3,296
Agriculture, forestry and fishing	**673**	643	613	493	473
Property	**3,668**	2,935	2,617	1,525	1,263
Business and other services	**2,477**	2,011	2,140	2,715	2,384
Persons					
– home mortgages (including staff)	**9,544**	8,317	7,371	6,532	6,201
– other	**6,283**	4,550	3,530	2,713	2,319
Instalment credit and other loans	**1,059**	900	856	630	660
Finance leases	**2,555**	2,587	2,569	2,333	1,623
Overseas residents	**2,799**	2,248	1,880	1,403	1,178
Total UK	**41,047**	34,052	31,595	27,243	24,893
Overseas					
Continental Europe	**1,046**	484	426	408	350
USA	**6,807**	5,811	6,063	5,416	3,942
Rest of the World	**1,177**	1,303	981	853	572
Total overseas	**9,030**	7,598	7,470	6,677	4,864
Total loans and advances to customers	**50,077**	41,650	39,065	33,920	29,757

Note: in 1997 the Bank of England introduced new industrial classifications which are based on the Central Statistical Office's Standard Industrial Classifications of Economic Activities – SIC(92). Previous classifications have been based on SIC(80). During 1997, the Bank reclassified all its non-personal customer accounts and took the opportunity to review and update industrial codes on all business customer accounts. As a result of this exercise in 1997 there were movements between some of the categories compared with prior years.

Analysis of deposits The following table shows the distribution of the Group's deposits by type and geographical area:

At 30 September	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
UK					
Demand deposits					
– interest free	**4,006**	4,451	5,741	3,437	2,944
– interest bearing	**26,158**	23,712	19,444	14,725	13,470
Time deposits					
– savings	**3,486**	4,183	3,354	3,987	2,957
– other	**14,584**	11,176	12,355	10,659	10,417
Total UK	**48,234**	43,522	40,894	32,808	29,788
Overseas					
Demand deposits					
– interest free	**1,197**	1,052	1,014	696	543
– interest bearing	**1,903**	1,468	1,560	1,246	698
Time deposits					
– savings	**6,563**	6,121	6,522	5,664	4,501
– other	**3,701**	2,959	2,987	2,996	2,040
Total overseas (see below)	**13,364**	11,600	12,083	10,602	7,782
Total deposits	**61,598**	55,122	52,977	43,410	37,570
Overseas					
Continental Europe	**981**	767	496	417	445
USA	**10,510**	8,614	8,651	7,633	6,121
Rest of the World	**1,873**	2,219	2,936	2,552	1,216
Total overseas	**13,364**	11,600	12,083	10,602	7,782

Significant differences between UK and US generally accepted accounting principles Pursuant to securities legislation in the US, the company has a reporting obligation under the Securities Exchange Act of 1934. This arises in respect of the issues of dollar preference shares and loan capital in the US. An annual report on Form 20-F is being filed with the Securities and Exchange Commission ("SEC") in the US and, although much of the detailed financial analyses therein is also shown in this report and accounts, the additional disclosures on this and the following three pages have been extracted from the Form 20-F as they contain important information which may be of interest to shareholders of the company, particularly those resident in the US.

The Group's consolidated financial statements are prepared in accordance with UK generally accepted accounting principles (UK GAAP). These differ in certain significant respects from generally accepted accounting principles followed in the US (US GAAP) and, in the case of the Group, these differences are summarised as follows:

(a) **Revaluation** The Group's premises are carried in the accounts at original cost or subsequent valuation. Revaluation reserves are reflected in the consolidated balance sheet. Under US GAAP, revaluations of property are not permitted to be reflected in the financial statements.

(b) **Property depreciation** Freehold and long leasehold premises are maintained in a state of good repair with regular maintenance expenditure being charged against operating profit. Based on an assessment of useful life and estimated residual value, no depreciation is charged. US GAAP requires that such properties be depreciated. The Group applies depreciation for US GAAP purposes at a rate of 2% per annum on original cost.

(c) **Deferred tax** Deferred tax is provided on the liability method in respect of timing differences which are expected to result in a taxation liability in the foreseeable future. Under the liability method, deferred tax is calculated at the rate of tax that it is estimated will be applicable when the temporary differences crystallise. Under US GAAP, provision for deferred tax under the liability method is required in full for all timing differences. Deferred tax is calculated under US GAAP at enacted tax rates. Deferred tax assets recognised are subject to adjustment for valuation allowances when it is more likely than not that some or all of the deferred tax asset will not be realised.

(d) **Goodwill** The Group has adopted Financial Reporting Standard No 10 "Goodwill and Intangible Assets," resulting in goodwill arising on acquisitions after 1 October 1998 being capitalised on the balance sheet and amortised over its useful life. Previously under UK GAAP goodwill arising on acquisitions was charged to reserves immediately. Under US GAAP, goodwill is capitalised and amortised through the Consolidated Statement of Income over the period estimated to benefit which, in the Group's case, is 25 years.

(e) **Loan origination fees** Certain loan origination fees in the Group are recognised immediately as income whereas under US GAAP fee income from originating a loan is spread over the life of the loan in accordance with US FASB Statement No. 91, "Accounting for Non Refundable Fees and Costs".

(f) **Pension costs** In arriving at operating profit, the Group assesses and charges the cost of providing pensions on a regular basis in accordance with the advice of independent professionally qualified actuaries. Contributions to UK pension funds are made at rates calculated by the actuaries to provide, over the average remaining service of eligible employees, for all retirement benefits related to projected final salaries. For the purposes of US GAAP, the Group complies with US FASB Statement No. 87, "Employers' Accounting for Pensions", which prescribes the method of actuarial valuation and also requires pension fund assets to be assessed at fair value and the assessment of liabilities to be based on current interest rates.

(g) **Long-term assurance policies** Under UK GAAP, long-term assurance policies are valued at the net present value of the profits inherent in such policies, whereas under US GAAP this is not permitted to be reflected in the financial statements.

(h) **Lease income** In accordance with UK GAAP, the Group's accounting policy for finance lease income receivable is to allocate total gross earnings to accounting periods using the actuarial after tax method to give a constant periodic rate of return on the net cash investment. Application of US FASB Statement No. 13, "Accounting for Leases", gives rise to a level rate of return on the investment in the lease but without taking into account tax payments and receipts. This results in income being recognised in different periods than under UK GAAP.

(i) **Internal derivative trades** In accordance with UK GAAP, where underlying Group subsidiaries and business units undertake internal derivative trades with the Group central treasury to transfer risk from the banking book to the trading book, the Group central treasury is allowed to aggregate and/or offset trades with similar characteristics for the purposes of establishing an effective hedge position against the underlying risk.

Under UK GAAP, where positions established with external counterparties offset the net risk, hedge accounting is applied to the internal derivative trades. The UK accounting policy for derivatives is described more fully on page 41.

Under US GAAP contemporaneous offset with external counterparties is required if hedge accounting is to be applied to internal derivative trades. As a consequence, trades not satisfying this requirement have been accounted for at fair value for US GAAP purposes.

(j) **Year 2000 costs** In accordance with UK GAAP, the UK Bank charged a total of £29 million to the consolidated profit and loss account for the year ended 30 September 1997 as a provision for the costs of completing work on its computer systems to ensure that they are Year 2000 compatible. During the year ended 30 September 1999, £9 million (1998 – £14 million, 1997 – £6 million) has been charged against the provision. Under US GAAP, such costs are charged to the net income statement as incurred.

(k) **Dividends** Under UK GAAP, dividends declared after the year end are recorded in the period to which they relate, whereas US practice is to record dividends in the period in which they are declared.

(l) **Debt securities and equity shares** Under UK GAAP, the Group's investments in debt securities and equity shares are classified as being held as investment securities, held for the purpose of hedging or held for dealing purposes. The accounting treatment of these assets is detailed in Accounting Policies Note 10 on page 40. For the purposes of US GAAP, the Group complies with US FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities", under which debt securities and equity shares are required to be classified between trading securities, available for sale securities and held to maturity securities. Held to maturity securities are accounted for in the same way as securities held for investment purposes under UK GAAP. Trading securities are accounted for in the same way as securities not held for investment purposes under UK GAAP. Under US GAAP, available for sale securities are reported at market value with unrealised gains and losses excluded from earnings but reported in a separate component of shareholders' funds.

(m) **Acceptances** Acceptances outstanding and the matching customers' liabilities are not reflected in the consolidated balance sheet, but are disclosed as memorandum items below the consolidated balance sheet. Under US GAAP, acceptances outstanding and the matching customers' liabilities are reflected in the consolidated balance sheet.

(n) **Provisions for bad debts** Under UK GAAP, the Group establishes specific provisions against loans and advances when, as a result of a detailed appraisal of the portfolio, it is considered that recovery is doubtful. Under US GAAP, the Group complies with US FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan", ("SFAS 114"), which requires that impaired loans be reported on the basis of the present value of expected future cash flows discounted at the loans' effective interest rates or at the loans' observable market values or the fair values of collateral if the loans are collateral dependent. Having compared the carrying value of its loan portfolio calculated under SFAS 114 with the carrying value (net of bad debt provisions) calculated under UK GAAP, the Group has determined that there is no material effect on the reconciliation between UK GAAP and US GAAP net income, shareholders' funds and total assets.

Selected figures in accordance with US GAAP The tables below summarise the significant adjustments to profit attributable to ordinary shareholders (net income), shareholders' funds and total assets which would result from the application of US GAAP instead of UK GAAP. Where applicable, the adjustments are stated gross of tax, with the tax effect shown separately in total.

Net income

	1999 £m	1998 £m
Net income as reported under UK GAAP	856	695
Disposal of revalued property	1	1
Property depreciation	(8)	—
Deferred tax	1	(31)
Amortisation of goodwill	(46)	(47)
Loan origination fees	8	12
Pension costs	(6)	(2)
Long-term assurance policies	(47)	(26)
Leasing	(4)	6
Internal derivative trades	(21)	—
Year 2000 costs	(9)	(14)
Tax effect on the above UK/US GAAP reconciling items	33	3
Approximate net income under US GAAP	758	597
Preference dividends	(80)	(58)
Approximate net income available for ordinary shareholders under US GAAP	678	539

Shareholders' funds

	1999 £m	1998 £m
Shareholders' funds as reported under UK GAAP	4,202	2,953
Revaluation of property less depreciation	(167)	(133)
Deferred tax	(211)	(226)
Goodwill	965	1,039
Loan origination fees	(4)	(12)
Proposed dividend	181	153
Pension costs	(7)	(1)
Long-term assurance policies	(177)	(130)
Leasing	—	4
Internal derivative trades	(21)	—
Debt securities and equity shares	277	322
Year 2000 costs	—	9
Tax effect on the above UK/US GAAP reconciling items	61	28
Approximate shareholders' funds under US GAAP	5,099	4,006

Total assets

	1999 £m	1998 £m
Total assets as reported under UK GAAP	88,852	79,676
Revaluation of property less depreciation	(167)	(133)
Goodwill	965	1,039
Acceptances	893	1,023
Long-term assurance policies	(176)	(128)
Loans and advances to customers	—	3
Internal derivative trades	(21)	—
Debt securities and equity shares	277	322
Approximate total assets under US GAAP	90,623	81,802

Risk elements in lending The Group's provisioning policy for bad and doubtful debts is described under Accounting Policies Note 9 on page 40. There are differences between the provisioning policies of banks in the UK and the USA. In common with other UK banking groups, interest receivable on doubtful loans and advances is brought into the profit and loss account as income as it accrues provided that its collectibility is not subject to significant doubt. Interest debited to borrowers' accounts, the collectibility of which is subject to significant doubt, is credited to an interest in suspense account. Loans and related accrued interest are charged off only when, as a matter of banking judgement, the extent of the loss is confirmed. When management determines that a charge off is appropriate, the principal amount and accrued interest on the obligation are written down to estimated net realisable value. In contrast, banks in the USA typically stop accruing interest when loans become overdue by 90 days or more, or recovery is doubtful, and charge off loans more rapidly.

The cumulative effect of these policies is to increase the relative size of the Group's gross loan portfolio and the specific provision for bad and doubtful debts, compared with those of US banks. This also has the effect of increasing the Group's bad debt provisioning ratios compared with those which result from the adoption of US bank accounting practices. However, management believe that this effect is not material and the policies do not result in a significant adjustment to the Group's net income, shareholders' funds and total assets for restatement under US GAAP.

Generally, the Group's advances 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 SEC. The following table shows the estimated amount of loans which would be reported using the SEC's classifications:

At 30 September	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Loans accounted for on a non-accrual basis:					
domestic	**378**	416	462	534	591
foreign	**170**	148	75	86	99
Accruing loans which are contractually overdue 90 days or more as to principal or interest*:					
domestic	**322**	311	217	236	207
foreign	**110**	117	14	3	13
Loans not included above which are classified as "troubled debt restructurings" by the SEC:					
domestic	**13**	15	13	34	87
foreign	**104**	5	—	—	6
Total	**1,097**	1,012	781	893	1,003
Total provisions as a % of risk elements in lending	**67%**	63%	59%	53%	54%

*Generally, lending by way of overdraft has no fixed repayment schedule and consequently is not included in this category.

Loans that are current as to payment of principal and interest and not reflected in the above table, but in respect of which the Group has serious doubts about the ability of the borrower to comply with loan repayment terms, totalled approximately £246 million at 30 September 1999 (1998 – £143 million). In accordance with the Group's provisioning policy for bad and doubtful debts, it is considered that adequate provisions for the above risk elements in lending have been made in the accounts.

Gross interest income not recognised but which would have been recognised in the year ended 30 September 1999 under the original terms of non-accrual and restructured loans amounted to £53 million from domestic loans (1998 – £57 million) and £32 million from foreign loans (1998 – £20 million). Interest on non-accrual and restructured loans included in the consolidated profit and loss account in the year ended 30 September 1999 totalled £4 million from domestic loans (1998 – £14 million) and £13 million from foreign loans (1998 – £7 million).

The company
42 St Andrew Square Edinburgh EH2 2YE

The Royal Bank of Scotland plc
42 St Andrew Square Edinburgh EH2 2YE
Waterhouse Square 138-142 Holborn London EC1N 2TH

Retail Banking
Regional Retail Offices
36 St Andrew Square Edinburgh EH2 2YB
100 West George Street Glasgow G2 1PP
37 Lowther Street Carlisle Cumbria CA3 8EL
13-19 Derby Road Nottingham NG1 5AA
49 Charing Cross London SW1A 2DX
55 Spring Gardens Manchester M2 2BY

Royal Scottish Assurance plc
42 St Andrew Square Edinburgh EH2 2YE

Private Banking
Adam & Company Group PLC
22 Charlotte Square Edinburgh EH2 4DF

Corporate and Institutional Banking
Waterhouse Square 138-142 Holborn London EC1N 2TH
42 St Andrew Square Edinburgh EH2 2YE
36 St Andrew Square Edinburgh EH2 2YB
Drummond House 1 Redheughs Avenue
Edinburgh EH12 9JN
100 West George Street Glasgow G2 1PP
9 Rubislaw Terrace Aberdeen AB9 8YQ
29 Harbour Road Inverness IV1 1NU
Unit 1 Gemini Crescent Technology Park
Dundee DD2 1SW
38 Mosley Street Manchester M60 2BE
55 Spring Gardens Manchester M2 2BY
1 Exchange Flags Liverpool L2 3XN
30 East Parade Leeds LS1 5PS
13-19 Derby Road Nottingham NG1 5AA
79-83 Colmore Row Birmingham B3 2AP
5 Church Street Sheffield S1 HF
St Johns House East Street Leicester LE1 6NB
1 Redcliffe Street Bristol BS99 7NH
Gervase House 111-113 Friargate Derby DE11 1EX
Charnley House 13 Winckley Square Preston PR1 3JJ
31 Grey Street Newcastle Upon Tyne NE1 6ES
Brunel House 17-27 Station Road Reading RG1 1LG
62-63 Threadneedle Street London EC2R 8LA
49 Charing Cross London SW1A 2DX
28 Cavendish Square London W1M 0DB
5-10 Great Tower Street London EC3P 3HX

Royal Bank Invoice Finance Limited
City Link House 4 Addiscombe Road Croydon CR0 5TT
Exchange Court 3 Bedford Park Croydon CR0 2AQ

RoyScot Trust plc
RoyScot House The Promenade Cheltenham GL50 1PL

Royal Bank Insurance Services Limited
152 West Regent Street Glasgow G2 2RQ

Royal Bank Insurance Services (Independent Financial Advisers) Limited
49 Peter Street Manchester M2 3NR

Structured Finance
Waterhouse Square 138-142 Holborn London EC1N 2TH
Drummond House 1 Redheughs Avenue
Edinburgh EH12 9JN
6 Battery Road 27-01 Singapore 049909
Wall Street Plaza 88 Pine Street 26th Floor New York
NY 10005-1801 USA

RBS (Australia) Pty Ltd
Level 48 Australia Square Tower Building
264-278 George Street Sydney 2000

Angel Train Contracts Limited
Portland House Stag Place Victoria London SW1E 5BH

RBS Retail Funds Services
12 Blenheim Place Edinburgh EH7 5ZR

Shipping Business Centre
5-10 Great Tower Street London EC3P 3HX
61 Akti Miaouli GR-185 10 Piraeus Greece

Treasury and Capital Markets
Waterhouse Square 138-142 Holborn London EC1N 2TH
55 Spring Gardens Manchester M2 2BY
Drummond House 1 Redheughs Avenue
Edinburgh EH12 9JN
Wall Street Plaza 88 Pine Street 26th Floor New York
NY 10005-1801 USA
6 Battery Road 27-01 Singapore 049909

Trustee and Depositary Services
Drummond House 1 Redheughs Avenue
Edinburgh EH12 9JN

Royal Bank Development Capital Limited
26 St Andrew Square Edinburgh EH2 1AF
Waterhouse Square 138-142 Holborn London EC1N 2TH
Moncrieff House 69 West Nile Street Glasgow G1 2LT
75-77 Colmore Row Birmingham B3 2AP

Royal Bank Mezzanine Limited
Waterhouse Square 138-142 Holborn London EC1N 2TH

Caledonian Capital Ltd
60 Lombard Street London EC3V 9EA

Royal Bank Leasing Limited
The Quadrangle The Promenade Cheltenham GL50 1PX
Waterhouse Square 138-142 Holborn London EC1N 2TH
2nd Floor 79-83 Colmore Row Birmingham B3 2AP
100 West George Street Glasgow G2 1PP
1st Floor 38 Mosley Street Manchester M60 2BE

Service and Operations
42 St Andrew Square Edinburgh EH2 2YE
Drummond House 1 Redheughs Avenue Edinburgh EH12 9JN
34 Fettes Row Edinburgh EH3 6UY
The Younger Building 3 Redheughs Avenue Edinburgh EH12 9RB
23-28 Charterhouse Square London EC1 6HP
Regent's House 42 Islington High Street London N1 8XL
Moncrieff House 69 West Nile Street Glasgow G1 2LT
38 Mosley Street Manchester M60 2BE
24 Chiswell Street London EC1Y 4SP

RBS Cards
The Younger Building 3 Redheughs Avenue Edinburgh EH12 9RB
Credit Card Centre 200 Priory Crescent Southend-on-Sea SS99 9EE
1st Floor The Guild Hall 57 Queen Street Glasgow G1 3EN

Tesco Personal Finance Limited
113 Dundas Street Edinburgh EH3 5EB

Virgin Direct Personal Finance Limited
Discovery House Whiting Road Norwich NR4 6EJ

The Royal Bank of Scotland International Limited
Royal Bank House 71 Bath Street St Helier Jersey Channel Islands JE4 8PJ

The Royal Bank of Scotland Trust Company (Jersey) Limited
Waverley House 59-63 Bath Street St Helier Jersey Channel Islands JE4 8TL

The Royal Bank of Scotland Trust Company (Guernsey) Limited
St Andrews House Le Bordage St Peter Port Guernsey Channel Islands GY1 4BR

The Royal Bank of Scotland Trust Company (I.O.M.) Limited
Royal Bank House 2 Victoria Street Douglas Isle of Man IM99 1NJ

The Royal Bank of Scotland (Gibraltar) Limited
PO Box 766 1 Corral Road Gibraltar

The Royal Bank of Scotland (Nassau) Limited
PO Box N-3045 3rd Floor Bahamas Financial Centre Shirley & Charlotte Streets Nassau Bahamas

RBSI Custody Bank Limited
Liberté House 19-23 La Motte Street St Helier Jersey Channel Islands JE4 5RL

RBSI Fund Administration Limited
Liberté House 19-23 La Motte Street St Helier Jersey Channel Islands JE4 5RL

Direct Line Group
Direct Line Insurance plc
Direct Line House 3 Edridge Road Croydon CR9 1AG
Direct Line House 73 Colmore Row Birmingham B3 2AN
Direct Line House 14-18 Cadogan Street Glasgow G2 6QN
Direct Line House 44 Peter Street Manchester M2 5GQ
Direct Line House 1 Cathedral Square Trinity Street Bristol BS1 5DL
Direct Line House The Headrow Leeds LS1 8HZ

Direct Line Financial Services Limited
Direct Line House 250 St Vincent Street Glasgow G2 5SH

Direct Line Life Holdings Limited
Direct Line House 3 Edridge Road Croydon CR9 1AG

Direct Line Accident Management Limited
Marlowe Way Croydon CR9 2XP

Linea Directa Aseguradora S.A.
Isaac Newton 7, 28760 Tres Cantos Madrid Spain

Privilege Insurance Company Limited
Privilege Wharf Neville Street Leeds LS1 4AZ

Citizens Financial Group, Inc.
One Citizens Plaza Providence Rhode Island 02903 USA

Citizens Bank of Rhode Island
One Citizens Plaza Providence Rhode Island 02903 USA

Citizens Leasing Corporation
One Citizens Plaza Providence Rhode Island 02903 USA

Citizens Bank of Massachusetts
28 State Street Boston Massachusetts 02109 USA

Citizens Bank New Hampshire
875 Elm Street Manchester New Hampshire 03101 USA

Citizens Capital, Inc.
28 State Street Boston Massachusetts 02109 USA

Citizens Bank of Connecticut
63 Eugene O'Neill Drive New London Connecticut 06320 USA

analyses of ordinary shareholders

	shareholdings	millions	% of total
Individuals	45,139	186.7	20.94
Banks and nominee companies	10,905	647.4	72.60
Investment trusts	140	1.8	0.20
Insurance companies	209	16.0	1.79
Other companies	1,977	25.6	2.87
Pension trusts	25	6.6	0.74
Other corporate bodies	64	7.7	0.86
	58,459	891.8	100.00
Range of shareholdings:			
1– 1,000	31,633	12.3	1.38
1,001– 10,000	23,804	72.9	8.17
10,001– 100,000	2,440	60.6	6.79
100,001– 1,000,000	459	148.4	16.65
1,000,001–10,000,000	113	291.1	32.64
10,000,001 and over	10	306.5	34.37
	58,459	891.8	100.00

shareholder information

Annual general meeting	13 January 2000 at 11 am, Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh
Interim results	4 May 2000
Final results	23 November 2000
Dividends	
Payment dates:	
*Ordinary shares (1999 Final)	18 February 2000
Ordinary shares (2000 Interim)	14 July 2000
Cumulative preference shares	30 December 1999, 31 May and 29 December 2000
Series B, C, D, E, F, G, H, I and J non-cumulative dollar preference shares	31 March, 30 June, 29 September and 29 December 2000
Ex-dividend dates:	
*Ordinary shares (1999 Final)	13 December 1999
Cumulative preference shares	6 December 1999
Record dates:	
*Ordinary shares (1999 Final)	17 December 1999
Cumulative preference shares	10 December 1999

*If the necessary approval for the payment of the final dividend is obtained from shareholders at the annual general meeting on 13 January 2000 as an alternative to cash, a scrip dividend election will be offered and shareholders will receive details of this by letter after that date.

Capital gains tax The market value of one ordinary share held at 31 March 1982 was £1.03. After adjusting for the 1 March 1985 rights issue and the 1 September 1989 capitalisation issue, the adjusted 31 March 1982 base value of one ordinary share held currently is £0.4976. When disposing of shares, shareholders are also entitled to indexation relief, which is calculated on the 31 March 1982 value, on the cost of subsequent purchases from the date of purchase and on the subscription for rights from the date of that payment. Further adjustments must be made where a shareholder has chosen to receive shares instead of cash for dividends.

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