

Report and  
Accounts 2000



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# Foreword

These results include National Westminster Bank Plc and its subsidiaries, which were acquired on 6 March 2000. Following the acquisition, the Group's accounting year end was changed from 30 September to 31 December.

## **Statutory results**

The acquisition of NatWest has had a significant effect on the Group's financial position. Statutory results (or 'statutory basis') for the Group are for the 15 months ended 31 December 2000 and include NatWest from the date of its acquisition, 6 March 2000. Statutory results are set out on pages 49 to 98.

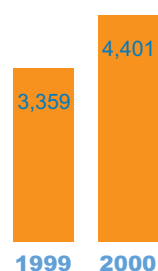
## **Pro forma results**

In order to provide shareholders with additional relevant and meaningful information, pro forma results for the 12 months to 31 December have been prepared on the basis described on page 6. The pro forma results (or 'pro forma basis') assume that the acquisition of NatWest took place on 1 January 1999. This approach facilitates meaningful comparisons with the prior year and provides a benchmark against which the Group's future performance can be judged. Consequently, the operating and financial review focuses primarily on the pro forma results.

In this Report and Accounts the term 'Group' or 'RBSG' means The Royal Bank of Scotland Group plc and its subsidiary undertakings, 'Bank' or 'RBS' means The Royal Bank of Scotland plc and its subsidiary undertakings, and 'NatWest' means National Westminster Bank Plc and its subsidiary undertakings.

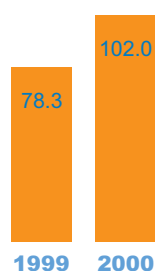
## pro forma basis

### Profit before tax, goodwill amortisation and integration costs (£m)



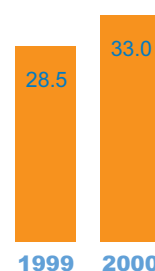
The Group's profit before tax, goodwill amortisation and integration costs, rose by 31% to £4,401 million.

### Adjusted earnings per share (pence)



Earnings per share, adjusted for goodwill amortisation and integration costs increased by 30% to 102.0p.

### Dividend per ordinary share – actual (pence)



The directors have recommended a final dividend of 23.5p which, when added to the interim dividend of 9.5p, makes a total for the period of 33.0p, an increase of 16%.

## for the year ended 31 December (pro forma basis)

|  | 2000<br>£m | 1999<br>£m | %<br>increase |
|--|------------|------------|---------------|
| Profit before tax, goodwill amortisation and integration costs | 4,401      | 3,359      | 31            |
| Goodwill amortisation  | 635        | 576        | 10            |
| Integration costs  | 434        | 113        | n/a           |
| Profit before tax  | 3,332      | 2,670      | 25            |
| Profit attributable to ordinary shareholders                   | 1,779      | 1,415      | 26            |
| Cost:income ratio  | 53.5%      | 59.3%      | n/a           |
| Earnings per share – adjusted                                  | 102.0p     | 78.3p      | 30            |

## statutory basis

|                                    | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|------------------------------------|---|--|
| Profit before tax                  | 3,373   | 1,211  |
| Earnings per share – adjusted      | 126.4p  | 87.8p  |
| Dividend per ordinary share        | 33.0p   | 28.5p  |
| Dividend cover (times)             | 2.1   | 3.1  |
| Total assets                       | 320,004   | 88,852   |
| Total shareholders' funds – equity | 19,081  | 2,852  |
| – non-equity                       | 4,035   | 1,350  |
| Risk asset ratio – tier 1          | 6.9%  | 8.1%   |
| – total                            | 11.5%   | 12.1%  |

## Chairman's statement

The successful acquisition of NatWest on 6 March 2000 has enabled us to create one of Europe's largest banking groups. These results demonstrate that we have successfully completed what is the first stage in delivering to shareholders and customers alike the benefits we set out in the course of our bid for NatWest. We have exceeded the targets we set then and we remain on course to deliver the revenue gains and the cost savings we forecast.

The programme to integrate NatWest is on track. I believe it is due both to the thoroughness of our plans and the dedication of all our staff, who have achieved so much in such a short period of time, that we have been able to achieve these results. They demonstrate our ability to grow our income while making very substantial cost reductions and maintaining credit quality.

These impressive results flow from a series of achievements. We are revitalising the NatWest brand. We have put in place a single management structure throughout the enlarged Group. The process of integrating support and central services, and some of our businesses, is moving forward in line with the plans we set out. Our diverse range of businesses remain on track to deliver a growing stream of profits.

I would also like to pay tribute to the support of our alliance partner, BSCH. The NatWest transaction could not have been carried out without both this support and their additional £1.7 billion investment in us.

For most of the period since I became Chairman of the Group in January 1991, Sir George Mathewson has been Group Chief Executive, and a decade of growth has culminated in a year of outstanding achievement.

During that period, the market capitalisation of the Group has increased from £1.2 billion to £42.4 billion in December 2000. We are the only UK bank to have been consistently successful in the US, where our subsidiary, Citizens, has completed 17 acquisitions. We put in place our multi-brand, multi-channel strategy. We implemented a major business re-engineering programme which radically reshaped our UK banking operation and enabled us to become the fastest growing bank in the UK in terms of income growth during the five years to 1998. This achievement created the basis for the successful takeover of NatWest.

I believe the vision and determination which Sir George has demonstrated, and which I have experienced during our partnership, makes him the outstanding figure to take forward the enlarged Group as Chairman.

**Financial performance** Profit before tax, goodwill amortisation and integration costs, on a pro forma basis, rose by 31% to £4,401 million (31 December 1999 – £3,359 million). Our total income grew by 12%, or £1,293 million, while our total costs grew by 1%, or £51 million. The cost:income ratio improved from 59.3% to 53.5%. On a statutory basis, profit before tax for the 15 months ended 31 December 2000 was £3,373 million (year ended 30 September 1999 – £1,211 million).

**Dividend** The directors have recommended a final dividend of 23.5p which, together with the interim dividend of 9.5p, makes a total of 33.0p, an increase of 16%. The dividend is covered 2.1 times.

**Staff profit sharing** I am pleased to announce that the staff profit share has been set at the maximum of 10% of basic salaries for the relevant time staff were employed by The Royal Bank of Scotland Group.

Staff formerly employed by NatWest, and who joined The Royal Bank of Scotland Group in March 2000, will receive a payment for the period from 1 January to 5 March 2000 at the rate paid by NatWest last year.

**Business developments** In January 2000, Citizens completed the acquisition of UST Corp. of Boston.

On 6 March 2000, the Group acquired NatWest for a consideration of £20,987 million.

Following the acquisition of NatWest, the Group completed the disposal of its investment management subsidiary Gartmore and the venture capital investment portfolio of NatWest Equity Partners.

In December 2000, the Group and CGNU plc completed their bancassurance partnership comprising Royal Scottish Assurance plc and National Westminster Life Assurance Ltd.

**Board of directors** Following the acquisition of NatWest, Sir George Mathewson was appointed Executive Deputy Chairman of the Group and Fred Goodwin was appointed Group Chief Executive on 6 March 2000.

Sir George Mathewson will succeed me as Chairman at our annual general meeting on 11 April 2001, when I will retire from the Board.

On 6 March 2000, Gordon Pell was appointed to the Board as Chief Executive, Retail Banking and on 4 September 2000, Fred Watt was appointed Group Finance Director.

It was with deep regret that we announced the death of Ian Grant on 2 December 2000. Ian had served as a non-executive director of the Group with great distinction since his appointment as a director of The Royal Bank of Scotland in 1982.

On 31 January 2001, Bob Scott, group chief executive of CGNU plc, and Peter Sutherland, chairman and managing director of Goldman Sachs International and non-executive chairman of BP Amoco plc, were appointed to the Board as non-executive directors.

**Economic situation** The UK economy has put in an impressive performance in the past year. Interest rates remained at 6% for a year, their longest period of stability in over a decade.

Inflationary pressures have been subdued despite above-trend growth, buoyant consumer spending and unemployment at a 25-year low.

**The outlook** for the business and corporate sectors remains positive. The US economy may have reached the end of its extended upswing but the Federal Reserve has taken the initiative in cutting interest rates.

The UK interest rate cycle also appears to have reached its peak. Lower rates should help to maintain healthy, if slower, growth in the economy during the next year. Hard-pressed exporters should also benefit from sterling depreciation against the euro.

**Prospects** The acquisition of NatWest has created a larger Group which combines scale and financial strength with an innovation and growth culture, and gives us strategic options to create additional value for shareholders.

I am confident that this combination has opened up a new range of opportunities to grow income and create shareholder value. These results demonstrate our determination and ability to deliver to the full the potential of the enlarged Group.

## Chief executive's review

When we launched our bid for NatWest in November 1999, we promised to create a new force in banking, combining NatWest's scale and presence with The Royal Bank of Scotland's innovation and growth culture.

The combined Group is one of the largest banks in Europe. We have leading positions in the UK in corporate banking, retail banking, private banking, offshore banking, motor insurance and supermarket banking. Outside the UK, we have strong businesses and clear opportunities for future development.

That the combined Group made such excellent progress is entirely attributable to the efforts and achievements of our people. Before goodwill amortisation and integration costs, we increased our pro forma profit before tax by 31% and our pro forma earnings per share by 30%.

In accordance with the plan set out in our Offer Document, we have combined RBS and NatWest business units into seven customer-facing divisions: Corporate Banking and Financial Markets, Retail Banking, Retail Direct, Wealth Management, Direct Line, Ulster Bank and Citizens. We have also established a central Manufacturing division, which manages the technology and processing activities which support our UK banking divisions and has group-wide responsibility for property and purchasing.

**Corporate Banking and Financial Markets** increased its pro forma contribution by 10% to £2,730 million (1999 – £2,491 million). This growth was achieved in a period during which Corporate Banking and Financial Markets integrated all its customer-facing activities.

The combined division has leading positions in the UK in corporate lending, deposits, payments, treasury for customers and across a range of specialised corporate banking activities, such as asset finance.

**Retail Banking** increased its pro forma contribution by 15% to £2,467 million (1999 – £2,144 million), reflecting good growth in personal loans and mortgages and small business loans.

The proven sales and service approach of the Royal Bank is being implemented in NatWest. Over 1,000 customer advisers have been appointed across the NatWest branch network, the implementation of the Royal Bank sales process in NatWest branches has been completed and all back office work has been removed from NatWest branches.

**Retail Direct** increased its pro forma contribution by 24% to £373 million (1999 – £302 million). Royal Bank, RBS Advanta and NatWest branded credit card advances expanded by 14%, to over £5 billion. Tesco Personal Finance continued to make excellent progress, and increased its income by almost 80%. Virgin Direct Personal Finance more than doubled its mortgage advances to £2.4 billion.

**Manufacturing** reduced its pro forma costs by 11% to £1,660 million (1999 – £1,866 million). Cost savings have been achieved through rationalisation of processing centres and reductions in the combined technology staff. Over 2,000 staff are now engaged on the conversion of technology systems to a common platform.

**Wealth Management** increased its pro forma profit before integration costs by 23% to £405 million (1999 – £328 million). NatWest Private Banking was launched to complement Coutts' activities in private banking. Offshore banking achieved good growth across its activities for corporate, intermediary and personal customers.



**Direct Line Insurance Group** doubled its pro forma profit before goodwill amortisation and integration costs to £201 million (1999 – £100 million). This good result reflected both the acquisition of Green Flag (in November 1999) and growth of 21% in motor insurance policies, to 3.2 million.

**Ulster Bank** increased its pro forma profit before tax by 20% to £200 million (1999 – £166 million). It expanded its advances to both corporate and personal customers, particularly in the Republic of Ireland and launched a major transformation programme, Project Horizon.

**Citizens** increased its pro forma profit before goodwill amortisation by 35% to £349 million (1999 – £258 million). During the period, Citizens completed the integration of both State Street's commercial banking business (acquired in October 1999) and UST Corp. (acquired in January 2000) and achieved good organic growth in deposits and loans.

**Integration** We have made substantial progress towards achieving the transaction revenue benefits and cost savings which were set out in our Offer Document issued on 16 December 1999 and which were increased in our 30 Day Report on 19 April 2000.

We are on track to deliver the promised revenue benefits of £390 million and cost savings of £1,300 million in 2003. In the year to 31 December 2000, we increased our profit by £52 million through revenue benefits and £448 million through cost savings. These benefits are reflected in our divisional results.

**Outlook** Completion of the integration of NatWest will enable us to release significant further value for shareholders. However, from the outset of the transaction, we emphasised the importance of income growth.

In our Offer Document, we suggested that the combination of brands, customer bases, products and skills, the selection of the best people and the exchange of best practice would create opportunities for higher revenue growth. Almost a year after completion of the transaction, we remain confident that this is the case.

In our Offer Document, we also suggested that the greater scale of the combined entity would enhance its ability to create additional value through acquisitions. While much of our focus over the last year has been on integration, many parts of our Group either were not directly affected by integration, or have completed their integration, and are now able to consider acquisitions. As ever, we will only pursue those which we believe can add significant sustainable shareholder value.

## Operating and financial review

In March 2000, the Group acquired NatWest and in April 2000 changed its financial year end from 30 September to 31 December. The statutory profit before tax for the 15 months ended 31 December 2000 was £3,373 million (30 September 1999 – £1,211 million) reflecting the acquisition of NatWest. Statutory accounts for the 15 months ended 31 December 2000 with comparative figures for the previous accounting period, the 12 months ended 30 September 1999, are shown on pages 49 to 98.

To facilitate comparisons, the financial information and commentaries on the Group and divisional performances in the operating review are on a pro forma basis for the year ended 31 December 2000 with comparatives for the year ended 31 December 1999. The pro forma results have been prepared on the basis described below.

### Basis of preparation of pro forma results

The pro forma results for the year ended 31 December 2000 and 1999 have been prepared on the following basis:

- 1 They incorporate the results of NatWest from 1 January 1999 and assume that the fair value adjustments had been made on 31 December 1998.
- 2 Goodwill arising on the acquisition of NatWest of £11,390 million (see page 9), has been amortised over its estimated economic life of 20 years from 1 January 1999.

Goodwill arising on other acquisitions made by the Group after 1 January 1999 – Green Flag, the commercial banking operations of State Street Corporation, and UST Corp. – has been amortised from the effective dates of acquisition, also over 20 years. Goodwill arising on acquisitions prior to 1 January 1999 was written off to reserves and has not been reinstated, as permitted by Financial Reporting Standard 10.

- 3 A surplus of £1,070 million in NatWest Pension Funds has been amortised, from 1 January 1999, over the estimated average remaining service life of members of the schemes.
- 4 An adjustment has been made to reflect the net funding of the acquisition of NatWest as if acquired on 1 January 1999. This comprises cash paid and loan notes issued to NatWest shareholders of £7,349 million and fees and expenses relating to the acquisition of £176 million less net proceeds of £3,910 million from the issue of new ordinary and preference shares and £20 million of proceeds from the exercise of options over NatWest ordinary shares.
- 5 The results of businesses disposed of since 1 January 1999 and the profit arising on their sale have been excluded from the pro forma accounts. The principal disposals were RBS Trust Bank, Gartmore and the venture capital investments of NatWest. A funding adjustment has been made to recognise the benefit of estimated net proceeds of £1,500 million assuming that these funds were received on 1 January 1999.
- 6 All expenditure incurred to integrate the Group's existing operations with those of NatWest and relating to projects and initiatives to achieve the cost reduction and income enhancement targets set in connection with the acquisition of NatWest has been shown separately under the caption 'Integration costs'. In the six months to 31 December 1999 NatWest incurred restructuring costs of £113 million (mainly staff severance payments). These are classified as 'integration costs' in the prior year pro forma results.
- 7 Rentals receivable less depreciation on operating lease assets, which were included in net interest income in NatWest's accounts, are shown in 'Other operating income' and 'Depreciation and amortisation' respectively.
- 8 NatWest wrote off loans when the normal banking relationship with the borrower had ceased and the debt became subject to recovery procedures. This practice has been amended to bring it in line with the RBS approach of writing off when there is no realistic prospect of recovery. As a result, specific provisions for bad debts have increased by £1.0 billion at 31 December 2000 and £1.1 billion at 31 December 1999 with a corresponding increase in the gross amount of loans to customers and non-accrual loans. This adjustment does not affect profit before tax or net loans and advances.
- 9 Group operating profit excludes goodwill amortisation and integration costs which are shown separately on the face of the profit and loss account.

## 1 Operating review (pro forma basis)

**Profit** before tax, goodwill amortisation and integration costs increased by 31%, £1,042 million, from £3,359 million to £4,401 million.

**Net interest income** increased by 12%, £655 million, to £5,929 million. Good growth was achieved in both corporate and personal lending and deposits. Average interest-earning assets of the Group's banking business increased by 11% including a 20% growth in average loans and advances to customers. Net interest margin of the banking business was maintained at 3.0%.

**Non-interest income**, excluding general insurance, grew by 8%, £391 million, to £5,450 million. Fees and commissions receivable increased by 13%, £482 million, to £4,079 million. Dealing profits were up by 10%, £104 million, to £1,131 million. Other operating income at £998 million was down 7%, £75 million, due to restructuring costs in the life assurance businesses and one-off income in the prior year.

**General insurance premium income**, after reinsurance, increased by 34%, £247 million, to £979 million.

**Total income** increased by 12%, £1,293 million, to £12,358 million.

**Operating expenses**, excluding goodwill amortisation and integration costs, were up 1%, £51 million, to £6,614 million. Staff expenses were down £72 million to £3,440 million. Staff numbers fell by 7,300 (9,000 excluding the impact of businesses acquired) to 94,000. Other expenses were up 4%, £123 million, to £3,174 million.

**Group cost:income ratio** improved from 59.3% to 53.5%.

**General insurance claims**, after reinsurance, increased by 16%, £97 million, to £698 million.

**Operating profit before provisions** increased by 29%, £1,145 million to £5,046 million.

**Provisions for bad and doubtful debts** were up 14%, £76 million, to £602 million reflecting growth in lending. Total provisions at 31 December 2000 were 83% of risk elements in lending, against 80% at 31 December 1999. Amounts written off investments increased from £16 million to £43 million.

**Goodwill** arising on the acquisition of NatWest was £11,390 million. This is calculated after net positive fair value adjustments amounting to £386 million. This goodwill is being amortised over its estimated economic life of 20 years, resulting in a charge of £570 million per annum.

**Integration costs**, which is expenditure incurred in respect of cost reduction and income enhancement targets, were £434 million for the year compared with £113 million for the year ended 31 December 1999.

**The tax charge** was £1,171 million, equivalent to 35% of profit before tax of £3,332 million. Adjusting for goodwill amortisation, the effective tax rate was 30%.

**Profit attributable to ordinary shareholders**, after tax, minority interests and preference dividends increased by 26%, from £1,415 million to £1,779 million.

**Adjusted earnings per share** increased by 30%, from 78.3p to 102.0p.

**Total dividend** up 16% to 33.0p per ordinary share, is covered 3.1 times by adjusted pro forma earnings.

**Group post-tax return on equity**, excluding goodwill, increased from 30.6% to 37.0%.

**Group total assets** were £320 billion at 31 December 2000, of which £248 billion related to banking business and £72 billion to the trading business. Loans and advances to customers at the year end were £168 billion.

**Capital ratios** at 31 December 2000 were 6.9% (tier 1) and 11.5% (total).

**Consolidated profit and loss account  
for the year ended 31 December 2000 (pro forma basis)**

|  | 2000<br>£m    | 1999<br>£m |
|--|---------------|------------|
| Interest receivable  | 14,626        | 12,368     |
| Interest payable   | 8,697         | 7,094      |
| <b>Net interest income</b>   | <b>5,929</b>  | 5,274      |
| Dividend income  | 46            | 37         |
| Fees and commissions receivable  | 4,079         | 3,597      |
| Fees and commissions payable   | (804)         | (675)      |
| Dealing profits  | 1,131         | 1,027      |
| Other operating income   | 998           | 1,073      |
|  | <b>5,450</b>  | 5,059      |
| General insurance  |               |            |
| – earned premiums  | 1,346         | 929        |
| – reinsurance  | (367)         | (197)      |
| <b>Non-interest income</b>   | <b>6,429</b>  | 5,791      |
| <b>Total income</b>  | <b>12,358</b> | 11,065     |
| Administrative expenses  |               |            |
| – staff costs  | 3,440         | 3,512      |
| – premises and equipment   | 839           | 892        |
| – other  | 1,566         | 1,405      |
| Depreciation of tangible fixed assets  | 769           | 754        |
| <b>Operating expenses</b>  | <b>6,614</b>  | 6,563      |
| <b>Profit before other operating charges</b>                                     | <b>5,744</b>  | 4,502      |
| General insurance  |               |            |
| – gross claims   | 982           | 764        |
| – reinsurance  | (284)         | (163)      |
| <b>Operating profit before provisions</b>  | <b>5,046</b>  | 3,901      |
| Provisions for bad and doubtful debts  | 602           | 526        |
| Amounts written off fixed asset investments                                      | 43            | 16         |
| <b>Group operating profit before goodwill amortisation and integration costs</b> | <b>4,401</b>  | 3,359      |
| Goodwill amortisation  | 635           | 576        |
| Integration costs  | 434           | 113        |
| <b>Group profit before tax</b>   | <b>3,332</b>  | 2,670      |
| Tax  | 1,171         | 917        |
| <b>Group profit after tax</b>  | <b>2,161</b>  | 1,753      |
| Minority interests   | 54            | 43         |
| <b>Profit after minority interests</b>   | <b>2,107</b>  | 1,710      |
| Preference dividends – non equity  | 328           | 295        |
| <b>Profit attributable to ordinary shareholders</b>                              | <b>1,779</b>  | 1,415      |
| <br>   |               |            |
| <b>Basic earnings per 25p ordinary share</b>                                     | <b>66.9p</b>  | 53.6p      |
| <br>   |               |            |
| <b>Adjusted earnings per 25p ordinary share</b>                                  | <b>102.0p</b> | 78.3p      |

**Acquisition of NatWest****Consideration paid:**

|   | £m | £m            |
|---|----|---------------|
| Issue of 1,563.5 million new 25 pence ordinary shares to NatWest ordinary shareholders (note a) |    | 13,462        |
| Payment of cash to NatWest ordinary shareholders (note b)                                       |    | 7,110         |
| Issue of loan notes to NatWest ordinary shareholders (note b)                                   |    | 239           |
| Fees and expenses related to the acquisition  |    | 176           |
|   |    | <u>20,987</u> |

**Net assets acquired:**

|   |  |              |
|---|--|--------------|
| Shareholders' funds                                   |  | 9,699        |
| Less: preference shares                               |  | (488)        |
| <b>NatWest net assets as at 6 March 2000</b> (note c) |  | <u>9,211</u> |

**Fair value adjustments:**

|   |            |               |
|---|------------|---------------|
| Goodwill in NatWest                             |            | (533)         |
| Disposal of businesses: (note d)                |            |               |
| – Gartmore                                      | 866        |               |
| – Other   | <u>271</u> |               |
|   |            | 1,137         |
| Pension fund surplus                            |            | 1,070         |
| Contingent asset                                |            | 70            |
| Fixed assets excluding property                 |            | (40)          |
| Property  |            | (262)         |
| Financial instruments                           |            | (516)         |
| Other   |            | (504)         |
| Tax on fair value adjustments                   |            | (36)          |
| <b>Total fair value adjustments</b>             |            | <u>386</u>    |
| <b>Adjusted net assets acquired</b>             |            | <u>9,597</u>  |
| <b>Goodwill arising on acquisition</b> (note e) |            | <u>11,390</u> |

**Notes**

- (a) The 'Consideration paid' information above is based on the closing price on the London Stock Exchange on 3 March 2000, the trading day immediately prior to the offer for NatWest being declared unconditional in all respects, of 861 pence per RBSG ordinary share of 25 pence.
- (b) NatWest ordinary shareholders had the right to receive, for each NatWest share held, 0.968 new RBSG 25 pence ordinary shares plus 400 pence in cash or loan notes. A 'Partial cash alternative' was also offered, which, for each NatWest share held, consisted of 0.92 new RBSG 25 pence ordinary shares plus 450 pence in cash or loan notes.
- (c) Net assets acquired at 6 March 2000 include £51 million relating to proceeds from the subsequent exercise of outstanding options.
- (d) The fair value adjustment relating to the disposal of businesses reflects the excess of sale proceeds over the net tangible asset value of these businesses in NatWest's consolidated balance sheet at 6 March 2000.
- (e) In the Group's interim results, the goodwill arising on the acquisition of NatWest was estimated to be £11,200 million based on preliminary fair value adjustments. Subsequently, further fair value adjustments have been identified resulting in a revision to the goodwill figure to £11,390 million. This is being amortised over its estimated economic life of 20 years, resulting in a charge of £570 million per annum.

**Divisional performances (pro forma basis)**

The results of each division before integration costs and goodwill amortisation are detailed below.

|  | 2000<br>£m     | 1999<br>£m |
|--|----------------|------------|
| Corporate Banking and Financial Markets  | <b>2,730</b>   | 2,491      |
| Retail Banking   | <b>2,467</b>   | 2,144      |
| Retail Direct  | <b>373</b>     | 302        |
| Contribution before manufacturing costs  | <b>5,570</b>   | 4,937      |
| Manufacturing  | <b>(1,660)</b> | (1,866)    |
| Operating profit   | <b>3,910</b>   | 3,071      |
| Wealth Management  | <b>405</b>     | 328        |
| Direct Line Insurance Group  | <b>201</b>     | 100        |
| Ulster Bank  | <b>200</b>     | 166        |
| Citizens   | <b>349</b>     | 258        |
| Central items  | <b>(664)</b>   | (564)      |
| <b>Group operating profit before goodwill amortisation and integration costs</b> | <b>4,401</b>   | 3,359      |

**Corporate Banking and Financial Markets (pro forma basis)**

|                                       | 2000<br>£m    | 1999<br>£m |
|---------------------------------------|---------------|------------|
| Net interest income                   | 1,793         | 1,758      |
| Non-interest income                   | 2,856         | 2,663      |
| <b>Total income</b>                   | <b>4,649</b>  | 4,421      |
| Direct expenses                       |               |            |
| – staff costs                         | 998           | 1,034      |
| – other                               | 698           | 687        |
| Contribution before provisions        | 2,953         | 2,700      |
| Provisions for bad and doubtful debts | 180           | 193        |
| Amounts written off investments       | 43            | 16         |
| <b>Contribution</b>                   | <b>2,730</b>  | 2,491      |
| Direct cost:income ratio (%)          | 36.5          | 38.9       |
| Total assets (£bn)                    | 191.1         | 176.3      |
| Employees at period end – permanent   | 12,400        | 14,000     |
| – temporary                           | 700           | 600        |
| <b>Total</b>                          | <b>13,100</b> | 14,600     |

**Corporate Banking and Financial Markets** provides an integrated range of products and services to its mid-sized and large corporate and institutional customers in the UK and overseas including corporate and commercial banking, treasury and capital markets products, structured and leveraged finance, trade finance, leasing and factoring.

Contribution was up 10%, £239 million to £2,730 million.

Total income was up 5%, £228 million to £4,649 million. Net interest income was up 2%, £35 million to £1,793 million. In the first half of 1999, NatWest Financial Markets benefited from favourable market conditions. Adjusting for this, underlying net interest income increased by 8%.

Non-interest income was up 7%, £193 million, to £2,856 million reflecting higher volumes, increased corporate activity and the benefits of the enlarged customer base. Specialist businesses such as Leveraged Finance, Structured Finance and Asset Finance, which provide innovative and sophisticated products to meet customers business requirements, grew strongly. Within non-interest income, net fee income was up 8%, and dealing profits were 11% higher.

Direct expenses were down £25 million to £1,696 million, primarily due to lower staff costs. Staff numbers fell by 10%, 1,500, to 13,100. The direct cost:income ratio improved from 38.9% to 36.5%.

Provisions for bad and doubtful debts were £180 million, down 7%, £13 million, on 1999 when a small number of large provisions were taken. Amounts written off investments were £43 million (1999: £16 million), reflecting a restructuring of the development capital investment portfolio.

**Retail Banking (pro forma basis)**

|                                       | 2000<br>£m    | 1999<br>£m |
|---------------------------------------|---------------|------------|
| Net interest income                   | <b>2,418</b>  | 2,221      |
| Non-interest income                   | <b>1,128</b>  | 1,084      |
| <b>Total income</b>                   | <b>3,546</b>  | 3,305      |
| Direct expenses                       |               |            |
| – staff costs                         | <b>736</b>    | 819        |
| – other                               | <b>210</b>    | 224        |
| Contribution before provisions        | <b>2,600</b>  | 2,262      |
| Provisions for bad and doubtful debts | <b>133</b>    | 118        |
| <b>Contribution</b>                   | <b>2,467</b>  | 2,144      |
| Direct cost:income ratio (%)          | <b>26.7</b>   | 31.6       |
| Total assets (£bn)                    | <b>57.9</b>   | 51.9       |
| Employees at period end – permanent   | <b>27,700</b> | 32,300     |
| – temporary                           | <b>1,200</b>  | 2,000      |
| <b>Total</b>                          | <b>28,900</b> | 34,300     |

**Retail Banking** provides a wide range of banking, insurance and other related financial services to individuals and small businesses. These services are delivered from a network of RBS and NatWest branches throughout Great Britain and through alternative distribution channels.

Contribution before integration costs increased by 15%, £323 million to £2,467 million.

Total income was up 7%, £241 million to £3,546 million. Net interest income was 9%, £197 million higher at £2,418 million. Loans to customers, including mortgages, were up 12% to £43.1 billion. Total mortgage lending was £24.8bn, up 8%. Deposits were 8%, £3.8 billion higher.

Non-interest income increased by 4%, £44 million to £1,128 million, with the growth in fee income being partly offset by the impact of the one-off restructuring of the life assurance businesses.

Direct expenses at £946 million were down 9%, £97 million as a result of integration savings which more than offset inflationary increases. Staff numbers were down 16%, 5,400, to 28,900. The direct cost:income ratio improved from 31.6% to 26.7%.

Provisions for bad and doubtful debts were up 13%, £15 million at £133 million, reflecting lending growth.



**Retail Direct (pro forma basis)**

|                                       | 2000<br>£m   | 1999<br>£m |
|---------------------------------------|--------------|------------|
| Net interest income                   | 516          | 496        |
| Non-interest income                   | 565          | 475        |
| <b>Total income</b>                   | <b>1,081</b> | 971        |
| Direct expenses                       |              |            |
| – staff costs                         | 154          | 153        |
| – other                               | 327          | 317        |
| Contribution before provisions        | 600          | 501        |
| Provisions for bad and doubtful debts | 227          | 199        |
| <b>Contribution</b>                   | <b>373</b>   | 302        |
|                                       |              |            |
| Direct cost:income ratio (%)          | 44.5         | 48.4       |
| Total assets (£bn)                    | 14.4         | 10.7       |
|                                       |              |            |
| Employees at period end – permanent   | 5,200        | 5,600      |
| – temporary                           | 600          | 600        |
| <b>Total</b>                          | <b>5,800</b> | 6,200      |

**Retail Direct** issues a comprehensive range of credit, charge and debit cards to personal and corporate customers and engages in merchant acquisition and processing facilities for retail businesses. It also includes, Tesco Personal Finance, Virgin Direct Personal Finance, Direct Line Financial Services, Lombard Direct, the Group's internet banking platform and Comfort Card European businesses, all of them offering products to customers through direct channels.

Contribution rose by 24%, £71 million to £373 million.

Total income was up 11%, £110 million to £1,081 million. Net interest income was up 4%, £20 million to £516 million. The benefits of higher lending volumes in all parts of the division were partially offset by reduced interest rates charged by NatWest cards and lower rate introductory offers for new customers. The number of cards in issue was 10.42 million, an increase of 16%. The turnover of merchant acquisition business increased 19%. Tesco Personal Finance increased both personal loans and savings volumes.

Non-interest income increased 19%, £90 million to £565 million primarily as a result of higher fee income in the cards businesses. Direct expenses at £481 million were 2%, £11 million higher, as a result of increased business volumes and marketing activity. The direct cost:income ratio improved from 48.4% to 44.5%.

Provisions for bad and doubtful debts increased by 14%, £28 million to £227 million, due to the increase in lending.

**Manufacturing (pro forma basis)**

|   | 2000<br>£m    | 1999<br>£m    |
|---|---------------|---------------|
| Staff costs                                     | 490           | 637           |
| Other costs                                     | 1,170         | 1,229         |
| <b>Total manufacturing costs</b>                | <b>1,660</b>  | <b>1,866</b>  |
| Analysis:                                       |               |               |
| Information technology development and services | 723           | 927           |
| Property  | 486           | 483           |
| Customer support operations                     | 350           | 338           |
| Other   | 101           | 118           |
| Total manufacturing costs                       | <b>1,660</b>  | <b>1,866</b>  |
|   |               |               |
| Employees at period end – permanent             | 17,200        | 18,500        |
| – temporary                                     | 2,000         | 2,300         |
| <b>Total</b>                                    | <b>19,200</b> | <b>20,800</b> |

**Manufacturing** supports the customer facing businesses of Corporate Banking and Financial Markets, Retail Banking and Retail Direct and provides operational technology, account management, money transmission, property and other services.

Total manufacturing costs of £1,660 million, were 11%, £206 million lower. The reduction reflects improved efficiency and the positive effects of integrating RBS and NatWest operations resulting in lower expenditure in a number of areas. In particular technology costs were down 22%, £204 million as a consequence of the integration initiatives. The programme to centralise all back-office work out of NatWest branches in England and Wales was completed five months earlier than planned by NatWest. Rationalisation of processing centres led to the closure of nine centres. Staff numbers fell by 8%, 1,600, to 19,200.

**Wealth Management (pro forma basis)**

|  | 2000<br>£m   | 1999<br>£m |
|--|--------------|------------|
| Net interest income                                  | 425          | 380        |
| Non-interest income                                  | 463          | 402        |
| <b>Total income</b>                                  | <b>888</b>   | 782        |
| Expenses   |              |            |
| – staff costs  | 303          | 270        |
| – other  | 185          | 187        |
| Profit before provisions                             | 400          | 325        |
| Net release of provisions for bad and doubtful debts | 5            | 3          |
| <b>Profit before integration costs</b>               | <b>405</b>   | 328        |
| Cost:income ratio (%)                                | 55.0         | 58.4       |
| Total assets (£bn)                                   | 10.4         | 9.8        |
| Employees at period end – permanent                  | 6,200        | 6,200      |
| – temporary  | 600          | 600        |
| <b>Total</b>   | <b>6,800</b> | 6,800      |

**Wealth Management** comprises Coutts Group, Adam & Company and the offshore banking businesses, The Royal Bank of Scotland International and NatWest Offshore. The Coutts Group brings together businesses that focus on private banking through the Coutts brand and the recently launched NatWest Private Banking brand. Adam & Company is a growing private bank operating primarily in Scotland. The Group's offshore businesses deliver retail banking services to local and expatriate customers, and a wide range of corporate banking and treasury services to corporate, intermediary and institutional clients.

Profit before integration costs increased by 23%, £77 million to £405 million.

Total income was up 14%, £106 million to £888 million. Net interest income grew by 12%, £45 million to £425 million, driven largely by higher deposits and loans principally in offshore banking.

Non-interest income increased 15%, £61 million to £463 million reflecting strong growth in fee income in Coutts Group.

Expenses were 7%, £31 million higher at £488 million, predominantly due to increased performance related staff costs. The cost:income ratio, however, improved from 58.4% to 55.0%.

There was a net recovery of provisions for bad and doubtful debts of £5 million (1999: recovery of £3 million).

**Direct Line Insurance Group (pro forma basis)**

|  | 2000<br>£m   | 1999<br>£m |
|--|--------------|------------|
| Earned premiums  | <b>1,346</b> | 929        |
| Reinsurers' share  | <b>(367)</b> | (197)      |
| Insurance premium income   | <b>979</b>   | 732        |
| Net interest income  | <b>98</b>    | 72         |
| Non-interest income  | <b>78</b>    | 92         |
| <b>Total income</b>  | <b>1,155</b> | 896        |
| Expenses   |              |            |
| – staff costs  | <b>124</b>   | 95         |
| – other  | <b>132</b>   | 100        |
| Gross claims   | <b>982</b>   | 764        |
| Reinsurers' share  | <b>(284)</b> | (163)      |
| <b>Profit before goodwill amortisation and integration costs</b> | <b>201</b>   | 100        |
| <br>   |              |            |
| In-force policies (000)  |              |            |
| Motor  | <b>3,219</b> | 2,666      |
| Home   | <b>1,055</b> | 993        |
| <br>   |              |            |
| Combined operating ratio – DLI and Privilege (%)                 | <b>88.4</b>  | 98.9       |
| Total assets (£bn)   | <b>2.5</b>   | 1.9        |
| Insurance reserves – net (£m)                                    | <b>1,221</b> | 1,171      |
| <br>   |              |            |
| Employees at period end – permanent                              | <b>6,600</b> | 5,700      |
| – temporary  | <b>100</b>   | 100        |
| <b>Total</b>   | <b>6,700</b> | 5,800      |

**Direct Line Insurance Group** sells and underwrites retail and wholesale insurance on the telephone and the internet to customers. The Direct Division sells general insurance and motor breakdown services direct to the consumer, whilst Green Flag is a leading wholesale provider of insurance and motoring related services.

Profit before goodwill amortisation and integration costs doubled to £201 million.

Total income was up 29%, £259 million to £1,155 million.

Earned premiums grew strongly, up 45%, £417 million, to £1,346 million. Gross claims were 29%, £218 million higher at £982 million. Green Flag accounted for £136 million of the growth in earned premiums and £74 million of the increase in gross claims. Net premium income increased by 34% to £979 million and net claims rose 16% to £698 million.

Expenses were up 31%, £61 million to £256 million. Of this increase, £33 million relates to Green Flag and £19 million relates to new ventures.

Motor in-force policies have increased by 21% and home in-force policies are up 6% in the year ended 31 December 2000. Directline.com, a rapid on-line quote and buy internet facility for Direct Line's general insurance product achieved over 135,000 sales in 2000.

**Ulster Bank (pro forma basis)**

|                                       | 2000<br>£m   | 1999<br>£m |
|---------------------------------------|--------------|------------|
| Net interest income                   | 294          | 270        |
| Non-interest income                   | 172          | 147        |
| <b>Total income</b>                   | <b>466</b>   | 417        |
| Expenses                              |              |            |
| – staff costs                         | 144          | 135        |
| – other                               | 103          | 99         |
| Profit before provisions              | 219          | 183        |
| Provisions for bad and doubtful debts | 19           | 17         |
| <b>Profit before tax</b>              | <b>200</b>   | 166        |
| Cost:income ratio (%)                 | 53.0         | 56.1       |
| Total assets (£bn)                    | 11.1         | 9.2        |
| Employees at period end – permanent   | 4,400        | 4,500      |
| – temporary                           | 200          | 400        |
| <b>Total</b>                          | <b>4,600</b> | 4,900      |
| Average exchange rate – €/£           | 1.642        | 1.518      |
| Spot exchange rate – €/£              | 1.606        | 1.609      |

**Ulster Bank** provides a comprehensive range of retail and wholesale financial services in Northern Ireland and the Republic of Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, small business and wealth management sectors. Corporate Banking and Financial Markets provides a wide range of services and investment banking products in the corporate and institutional markets.

Profit before tax of £200 million was 20%, £34 million higher, despite the adverse effect of exchange rate movements. At constant exchange rates, profit before tax rose by 26%, £42 million.

Total income increased by 12%, £49 million to £466 million. Net interest income rose by 9%, £24 million to £294 million reflecting strong volume growth in corporate, business and retail banking, particularly in the Republic of Ireland. Average interest-earning assets increased by 7%, £563 million. Average customer account balances were up 9%, £524 million.

Non-interest income was up 17%, £25 million to £172 million reflecting increased fee income up 9%, and dealing profits up 15%. Expenses rose by 6%, £13 million to £247 million due mainly to increased staff costs. The cost:income ratio improved from 56.1% to 53.0%.

Provisions for bad and doubtful debts were up 12%, £2 million, to £19 million.

**Citizens (pro forma basis)**

|  | 2000<br>£m   | 1999<br>£m |
|--|--------------|------------|
| Net interest income                        | 667          | 431        |
| Non-interest income                        | 247          | 145        |
| <b>Total income</b>                        | <b>914</b>   | 576        |
| Expenses                                   |              |            |
| – staff costs                              | 290          | 166        |
| – other                                    | 235          | 135        |
| Profit before provisions                   | 389          | 275        |
| Provisions for bad and doubtful debts      | 40           | 17         |
| <b>Profit before goodwill amortisation</b> | <b>349</b>   | 258        |
| Cost:income ratio (%)                      | 57.4         | 52.3       |
| Total assets (£bn)                         | 20.3         | 14.0       |
| Employees at period end – permanent        | 7,200        | 5,500      |
| – temporary                                | 100          | 100        |
| <b>Total</b>                               | <b>7,300</b> | 5,600      |
| Average exchange rate – US\$/£             | 1.516        | 1.618      |
| Spot exchange rate – US\$/£                | 1.493        | 1.617      |

**Citizens** is engaged in retail and corporate banking activities carried out through its branch network in the states of Rhode Island, Connecticut, Massachusetts and New Hampshire and is the second largest bank in New England.

Profit before goodwill amortisation was up 35%, £91 million to £349 million. Of the increase, the acquisition of the commercial banking business of State Street in October 1999 and UST Corp in January 2000 contributed an estimated £50 million after funding costs of £40 million. Excluding the acquisitions, strong organic growth and the strengthening of the US dollar relative to sterling resulted in an increase in profit before goodwill amortisation of 16%, £41 million.

Net interest income rose by 55%, £236 million, to £667 million due to organic loan and deposit growth and the acquisitions which added some £160 million after funding costs. Non-interest income was up 70%, £102 million to £247 million reflecting the acquisitions, which contributed approximately £50 million, and expansion of product lines especially in commercial areas. Expenses at £525 million were 74%, £224 million higher, due to the acquisitions, which added an estimated £150 million, and business expansion. Provisions for bad and doubtful debts were £40 million, including £10 million relating to the acquisitions, compared with £17 million in 1999 reflecting the increased level of loans.

The increase in the cost:income ratio from 52.3% to 57.4% reflects the effect of the funding costs associated with the acquisitions together with higher long-term performance linked bonuses.

Total assets were up 45%, £6.3 billion of which £3.8 billion was due to acquisitions.

**Central items (pro forma basis)**

|  | 2000<br>£m          | 1999<br>£m   |
|--|---------------------|--------------|
| Funding costs  | <b>(217)</b>        | (210)        |
| Central department costs                                       |                     |              |
| – staff costs  | <b>(114)</b>        | (149)        |
| – other  | <b>(107)</b>        | (119)        |
| Other corporate items – net                                    | <b>(226)</b>        | (86)         |
| <b>Loss before goodwill amortisation and integration costs</b> | <b><u>(664)</u></b> | <b>(564)</b> |
| Employees at period end – permanent                            | <b>1,400</b>        | 2,000        |
| – temporary  | <b>200</b>          | 300          |
| <b>Total</b>   | <b>1,600</b>        | 2,300        |

As well as Group corporate functions, which support the Group Executive, central department costs and employee numbers quoted above include functions such as Human Resources and Internal Audit which provide services to the operating divisions.

The loss before goodwill amortisation and integration costs increased by £100 million to £664 million. The increase includes restructuring costs of £44 million relating to Citizens' acquisition of UST in January 2000 and other corporate items which are held centrally.

Staff numbers at 1,600 were 30%, 700 lower reflecting the impact of integration.

### Integration information

In the Offer document issued on 16 December 1999, the Group made various estimates in respect of cost savings, staff reductions and revenue benefits.

Those estimates were based on the latest available published information at that time, namely NatWest interim accounts for the half year to 30 June 1999 and the Group's accounts for the year to 30 September 1999. All the benefits detailed below are measured against this published information.

On 19 April 2000, the Group revised its estimates as a consequence of the experience gained by having detailed access to NatWest following the acquisition on 6 March 2000. These revised estimates are shown in the tables below as "plan".

### Revenue benefits

|   | Period ending |               |               |            |
|---|---------------|---------------|---------------|------------|
|   | December 2000 | December 2001 | December 2002 | March 2003 |
| Cumulative gross revenue initiatives implemented at end of each period (£m) |               |               |               |            |
| – plan  | 120           | 350           | 550           | 595        |
| – actual as at 31 December 2000   | <b>147</b>    |               |               |            |

|                                   | Period ending |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
|                                   | December 2000 | December 2001 | December 2002 | December 2003 |
| Impact on profit before tax (£m)  |               |               |               |               |
| – plan                            | 50            | 120           | 240           | 390           |
| – actual year to 31 December 2000 | <b>52</b>     |               |               |               |

The gross revenue initiatives generated income in the profit and loss account of £71 million, which, net of costs, gave rise to a profit of £52 million in the year to 31 December 2000.

### Cost savings

|  | Period ending |               |               |            |
|--|---------------|---------------|---------------|------------|
|  | December 2000 | December 2001 | December 2002 | March 2003 |
| Cumulative cost savings implemented at end of each period (£m) |               |               |               |            |
| – plan   | 550           | 900           | 1,200         | 1,340      |
| – actual as at 31 December 2000                                | <b>653</b>    |               |               |            |

|                                   | Period ending |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
|                                   | December 2000 | December 2001 | December 2002 | December 2003 |
| Impact on profit before tax (£m)  |               |               |               |               |
| – plan                            | 290           | 700           | 1,050         | 1,300         |
| – actual year to 31 December 2000 | <b>448</b>    |               |               |               |

### Staff reductions

|                                 | Period ending |               |               |            |
|---------------------------------|---------------|---------------|---------------|------------|
|                                 | December 2000 | December 2001 | December 2002 | March 2003 |
| Cumulative total                |               |               |               |            |
| – plan                          | 9,000         | 14,000        | 16,000        | 18,000     |
| – actual as at 31 December 2000 | <b>13,000</b> |               |               |            |

### Integration costs

|                                       | Period ending |               |               |            |
|---------------------------------------|---------------|---------------|---------------|------------|
|                                       | December 2000 | December 2001 | December 2002 | March 2003 |
| Cumulative total charge to P & L (£m) |               |               |               |            |
| – plan                                | 650           | 1,150         | 1,350         | 1,400      |
| – actual as at 31 December 2000       | <b>547*</b>   |               |               |            |

\*includes £113 million incurred by NatWest in the second half of 1999.



### Average balance sheet and related interest (pro forma basis)

| Year ended 31 December                                       | 2000<br>Average<br>Balance<br>£m | 2000<br>Interest<br>£m | Rate<br>%  | 1999<br>Average<br>Balance<br>£m | 1999<br>Interest<br>£m | Rate<br>%  |
|--|----------------------------------|------------------------|------------|----------------------------------|------------------------|------------|
| <b>Assets</b>  |                                  |                        |            |                                  |                        |            |
| Treasury and other eligible bills                            |                                  |                        |            |                                  |                        |            |
| UK   | 463                              | 21                     | 4.5        | 825                              | 43                     | 5.2        |
| Overseas   | 131                              | 6                      | 4.6        | 378                              | 6                      | 1.6        |
| Loans and advances to banks                                  |                                  |                        |            |                                  |                        |            |
| UK   | 14,965                           | 862                    | 5.8        | 17,435                           | 905                    | 5.2        |
| Overseas   | 8,884                            | 591                    | 6.7        | 8,764                            | 480                    | 5.5        |
| Loans and advances to customers                              |                                  |                        |            |                                  |                        |            |
| UK   | 106,302                          | 8,349                  | 7.9        | 91,014                           | 6,733                  | 7.4        |
| Overseas   | 23,271                           | 1,823                  | 7.8        | 16,112                           | 1,133                  | 7.0        |
| Instalment credit and finance lease receivables              |                                  |                        |            |                                  |                        |            |
| UK   | 14,113                           | 1,201                  | 8.5        | 14,370                           | 1,328                  | 9.2        |
| Overseas   | 1,796                            | 125                    | 7.0        | 1,426                            | 91                     | 6.4        |
| Debt securities  |                                  |                        |            |                                  |                        |            |
| UK   | 18,004                           | 1,032                  | 5.7        | 20,172                           | 1,168                  | 5.8        |
| Overseas   | 9,812                            | 616                    | 6.3        | 8,229                            | 481                    | 5.8        |
| <b>Total interest-earning assets – banking business</b>      | <b>197,741</b>                   | <b>14,626</b>          | <b>7.4</b> | <b>178,725</b>                   | <b>12,368</b>          | <b>6.9</b> |
| – trading business*  | 53,946                           | 3,436                  | 6.4        | 47,767                           | 2,667                  | 5.6        |
| Total interest-earning assets                                | 251,687                          | 18,062                 | 7.2        | 226,492                          | 15,035                 | 6.6        |
| Non-interest-earning assets                                  | 52,931                           |                        |            | 53,194                           |                        |            |
| <b>Total assets</b>  | <b>304,618</b>                   |                        |            | <b>279,686</b>                   |                        |            |
| <b>Liabilities</b>   |                                  |                        |            |                                  |                        |            |
| Deposits by banks  |                                  |                        |            |                                  |                        |            |
| UK   | 13,851                           | 751                    | 5.4        | 14,878                           | 601                    | 4.0        |
| Overseas   | 7,667                            | 435                    | 5.7        | 7,880                            | 378                    | 4.8        |
| Customer accounts: demand deposits                           |                                  |                        |            |                                  |                        |            |
| UK   | 48,533                           | 1,765                  | 3.6        | 42,857                           | 1,464                  | 3.4        |
| Overseas   | 4,132                            | 163                    | 3.9        | 2,691                            | 68                     | 2.5        |
| Customer accounts: savings deposits                          |                                  |                        |            |                                  |                        |            |
| UK   | 16,781                           | 768                    | 4.6        | 16,649                           | 708                    | 4.3        |
| Overseas   | 9,728                            | 413                    | 4.2        | 6,683                            | 263                    | 3.9        |
| Customer accounts: other time deposits                       |                                  |                        |            |                                  |                        |            |
| UK   | 40,698                           | 2,401                  | 5.9        | 38,379                           | 1,991                  | 5.2        |
| Overseas   | 8,437                            | 470                    | 5.6        | 7,411                            | 320                    | 4.3        |
| Debt securities in issue                                     |                                  |                        |            |                                  |                        |            |
| UK   | 14,831                           | 869                    | 5.9        | 16,411                           | 966                    | 5.9        |
| Overseas   | 7,881                            | 494                    | 6.3        | 6,463                            | 340                    | 5.3        |
| Loan capital   |                                  |                        |            |                                  |                        |            |
| UK   | 9,829                            | 699                    | 7.1        | 8,468                            | 574                    | 6.8        |
| Overseas   | 502                              | 49                     | 9.8        | 473                              | 45                     | 9.5        |
| Internal funding of trading business                         |                                  |                        |            |                                  |                        |            |
| UK   | (10,774)                         | (528)                  | 4.9        | (9,944)                          | (535)                  | 5.4        |
| Overseas   | (1,025)                          | (52)                   | 5.1        | (1,971)                          | (89)                   | 4.5        |
| <b>Total interest-bearing liabilities – banking business</b> | <b>171,071</b>                   | <b>8,697</b>           | <b>5.1</b> | <b>157,328</b>                   | <b>7,094</b>           | <b>4.5</b> |
| – trading business*  | 50,336                           | 3,095                  | 6.1        | 44,964                           | 2,385                  | 5.3        |
| Total interest-bearing liabilities                           | 221,407                          | 11,792                 | 5.3        | 202,292                          | 9,479                  | 4.7        |
| Non-interest-bearing liabilities                             |                                  |                        |            |                                  |                        |            |
| Demand deposits  | 21,938                           |                        |            | 18,688                           |                        |            |
| Other liabilities  | 38,520                           |                        |            | 37,334                           |                        |            |
| Shareholders' equity   | 22,753                           |                        |            | 21,372                           |                        |            |
| <b>Total liabilities</b>                                     | <b>304,618</b>                   |                        |            | <b>279,686</b>                   |                        |            |

\*Interest receivable and interest payable on trading assets and liabilities are included in dealing profits.

**Average interest rates, yields, spreads and margins (pro forma basis)**

| Year ended 31 December                               | 2000<br>Average<br>rate<br>% | 1999<br>Average<br>rate<br>% |
|--|------------------------------|------------------------------|
| The Royal Bank of Scotland plc base rate             | <b>6.0</b>                   | 5.3                          |
| London inter-bank offered rate                       |                              |                              |
| three month sterling                                 | <b>6.2</b>                   | 5.5                          |
| three month eurodollar                               | <b>6.5</b>                   | 5.4                          |
| Yields, spreads and margins of the banking business: |                              |                              |
| Gross yield (1)                                      |                              |                              |
| Group  | <b>7.4</b>                   | 6.9                          |
| UK   | <b>7.5</b>                   | 7.1                          |
| Overseas   | <b>7.2</b>                   | 6.3                          |
| Interest spread (2)                                  |                              |                              |
| Group  | <b>2.3</b>                   | 2.4                          |
| UK   | <b>2.4</b>                   | 2.6                          |
| Overseas   | <b>1.9</b>                   | 1.8                          |
| Net interest margin (3)                              |                              |                              |
| Group  | <b>3.0</b>                   | 3.0                          |
| UK   | <b>3.1</b>                   | 3.1                          |
| Overseas   | <b>2.7</b>                   | 2.5                          |

- (1) Gross yield is the interest rate earned on average interest-earning assets of the banking business.
- (2) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.
- (3) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

**Risk elements in lending** 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:

|  | <b>Actual<br/>31 December<br/>2000<br/>£m</b> | Pro forma<br>31 December<br>1999<br>£m |
|--|---|--|
| Loans accounted for on a non-accrual basis:  |   |  |
| Domestic   | <b>2,482</b>                                  | 2,462                                  |
| Foreign  | <b>344</b>                                    | 629                                    |
| Total  | <b>2,826</b>                                  | 3,091                                  |
| Accruing loans which are contractually overdue 90 days or more as to principal or interest*: |   |  |
| Domestic   | <b>662</b>                                    | 558                                    |
| Foreign  | <b>168</b>                                    | 144                                    |
| Total  | <b>830</b>                                    | 702                                    |
| Loans not included above which are classified as "troubled debt restructurings" by the SEC:  |   |  |
| Domestic   | <b>43</b>                                     | 22                                     |
| Foreign  | <b>122</b>                                    | 110                                    |
| Total  | <b>165</b>                                    | 132                                    |
| <b>Total</b>   | <b>3,821</b>                                  | 3,925                                  |
| Closing provisions for bad and doubtful debts as a % of total risk elements in lending       | <b>83%</b>                                    | 80%                                    |

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

**Shareholder value** The Group's profits have again improved to record levels and the increased dividend is comfortably covered at 3.1 times on an adjusted pro forma basis (2.1 times on a statutory basis).

Shareholders' funds at 31 December 2000 were £23,116 million (30 September 1999 – £4,202 million). The principal elements in the movement on shareholders' funds during the 15 months to 31 December 2000 were the retained profit of £965 million and £17,732 million from the issues of ordinary and preference share capital, net of £300 million redemption of preference shares.

Adjusted earnings per share, on a pro forma basis, excluding goodwill amortisation and integration costs, increased by 30% from 78.3p to 102.0p. The weighted average number of shares used in the calculation of the pro forma earnings per share was 2,660 million (1999 – 2,643 million). On a statutory basis, earnings per share increased by 3% to 90.0p and adjusted earnings per share increased by 44% to 126.4p.

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.

**Future development of the business** In addition to cost savings from the integration of NatWest, the Group will create shareholder value through income growth, through the immediate opportunities created by the acquisition of NatWest and through the greater range of options for future development – options in business lines, brands, geographies, joint ventures and acquisitions.

**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 15 months to 31 December 2000 was £400 million (1999 – £246 million). Contracts entered into for future capital expenditure but not provided for in the accounts for the 15 months to 31 December 2000 amounted to £85 million (1999 – £8 million).

## 2 Financial review

**(a) Capital resources (statutory basis)** The following table analyses the Group's regulatory capital resources at 31 December 2000 and at 30 September for each of the previous four years :

|  | 31 December<br>2000<br>£m | 1999<br>£m | 1998<br>£m | 1997<br>£m | 1996<br>£m |
|--|---------------------------|------------|------------|------------|------------|
| <b>Capital base</b>  |                           |            |            |            |            |
| Tier 1 capital   | 12,071                    | 4,605      | 3,235      | 3,107      | 2,539      |
| Tier 2 capital   | 10,082                    | 3,256      | 2,950      | 2,699      | 2,388      |
| Tier 3 capital   | 167                       | —          | —          | —          | —          |
|  | <b>22,320</b>             | 7,861      | 6,185      | 5,806      | 4,927      |
| Less investments in insurance subsidiaries, associated undertakings and other supervisory deductions | <b>(2,228)</b>            | (1,011)    | (703)      | (489)      | (812)      |
| Total capital  | <b>20,092</b>             | 6,850      | 5,482      | 5,317      | 4,115      |
| <b>Weighted risk assets</b>  |                           |            |            |            |            |
| Banking book:  |                           |            |            |            |            |
| On-balance sheet   | 146,600                   | 51,200     | 44,300     | 41,700     | 33,900     |
| Off-balance sheet  | 16,200                    | 4,200      | 3,500      | 3,000      | 2,900      |
| Trading book   | 12,400                    | 1,400      | 1,300      | 1,100      | 700        |
|  | <b>175,200</b>            | 56,800     | 49,100     | 45,800     | 37,500     |
| <b>Risk asset ratios</b>   |                           |            |            |            |            |
|  | %                         | %          | %          | %          | %          |
| Tier 1   | 6.9                       | 8.1        | 6.6        | 6.8        | 6.8        |
| Total  | 11.5                      | 12.1       | 11.2       | 11.6       | 11.0       |

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, the Group must have regard to the supervisory requirements of the Financial Services Authority (“FSA”). The FSA uses Risk Asset Ratio (“RAR”) as a measure of capital adequacy in the UK banking sector, comparing a bank’s capital resources with its weighted risk assets (the assets and off-balance sheet exposures are ‘weighted’ to reflect the inherent credit and other risks); by international agreement the RAR should be no less than 8%. At 31 December 2000, the Group’s total RAR was 11.5% (30 September 1999 – 12.1%), and the tier 1 RAR was 6.9% (30 September 1999 – 8.1%).

**(b) Risk management** Through its normal operations, the Group is exposed to a number of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk; responsibility for managing these risks is vested in the Group Executive Management Committee (“GEMC”), a sub-committee of the Board of Directors. Group Risk is responsible for formulating high-level risk policies, setting standards, monitoring concentrations and providing an independent review. The Group Asset and Liability Management Committee (“GALCO”), a sub-committee of the GEMC, sets policy for the management of the overall Group balance sheet in relation to capital ratios, structural hedging and liquidity. Supporting GALCO, Group Treasury is responsible for capital raising, liquidity and structural hedging policies and the management of the Group’s balance sheet. Operational responsibility for asset and liability management is in turn delegated to appropriate management in each major business grouping.

**Credit risk** Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Group. The Group controls this risk at transaction, counterparty and portfolio level through (1) the process for the initial approval and granting of credit, (2) subsequent monitoring of counterparty creditworthiness and (3) the active management of credit exposures.

Group Risk is responsible for establishing the Group’s high-level credit policies for all activities (including securities and derivatives business), for monitoring geographic, product, credit quality and market sector concentrations in the Group’s portfolio and managing the Group’s most significant credit exposures. Credit authority is based on defined limits with responsibility for significant transactions residing with the Group Credit Committee. The day-to-day management of credit is devolved to individual business units, each of which has specialist credit functions. Particular attention is paid to the manner in which new risks are assumed, the management of existing credit exposures, the early detection of deterioration in counterparty credit standing and the overall composition of the credit portfolio in the light of market conditions and economic projections.

**Market risk** Market risk is the risk that changes in interest rates (including credit spreads), foreign exchange rates or the prices of equity shares and indices, commodities, debt securities and other financial contracts, including derivatives, will have an adverse financial effect on the Group’s financial condition and results.

The principal market risks to which the Group is exposed are interest rate (including credit spreads) and foreign exchange risk. Activity in debt securities, interest-rate derivatives and money-market instruments is the primary source of interest rate risk in the Group’s trading and treasury portfolios. Mismatches between the repricing of the Group’s non-trading financial assets and liabilities account for most of the interest rate risk associated with its commercial banking activities; this structural interest rate risk is transferred to the Group’s trading units for management within their approved limits. Non-trading currency risk arises from the Group’s investments in overseas subsidiaries, associates and branches. The Group’s venture capital portfolio and strategic equity investments account for most of its non-trading equity price risk.

**Value-at-risk** The Group manages the market risk in its trading and treasury portfolios through value-at-risk (“VaR”) limits, together with stress testing, position and sensitivity limits. GEMC approves the high-level VaR and stress limits. Stress testing measures the impact of abnormal changes in market rates and prices on the fair value of the Group’s trading portfolios.

VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels. For internal risk management purposes, the Group’s VaR assumes a time horizon of one day and a confidence level of 95%. In other words, a one-day loss greater than VaR is likely to occur on average on only one in every 20 business days. In addition, the Group’s VaR is also estimated assuming a 10-day holding period.

The Group uses historical simulation models in computing VaR. This approach, in common with many other VaR models, assumes that risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by the relevance of the historical data used. The Group’s method, however, does not make any assumption about the nature or type of the underlying loss distribution. The Group typically uses the previous two years of market data.

The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.
- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- VaR using a 95% confidence level does not reflect the extent of potential losses beyond that percentile.
- The Group largely computes the VaR of trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Group's intra-day exposure and the VaR for selected portfolios is computed intra-day.

These limitations and the nature of the VaR measure mean that it should not be viewed as a guarantee of the Group's ability to limit its market risk. The Group cannot be certain that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in twenty business days.

For a discussion of the Group's accounting policies for, and information with respect to its exposures to derivative financial instruments, see accounting policy 15 and Note 38 on the accounts on pages 50 and 81 respectively.

**Trading** The Group's trading activities comprise: market making – quoting firm bid (buy) and offer (sell) prices with the intention of profiting from the spread between the quotes; customer facilitation – providing products to the Group's client base at competitive prices; arbitrage – entering into offsetting positions in different but closely related markets to profit from market imperfections; and proprietary activity – taking positions in financial instruments as principal to take advantage of anticipated market conditions. Financial instruments held in the Group's trading portfolios include, but are not limited to, debt securities, loans, deposits, securities sale and repurchase agreements and derivative financial instruments (futures, forwards, swaps and options).

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

| Statutory basis         | 15 months ended 31 December 2000 |               |               |               |
|-------------------------|----------------------------------|---------------|---------------|---------------|
|                         | Period end<br>£m                 | Maximum<br>£m | Minimum<br>£m | Average<br>£m |
| Interest rate           | 9.4                              | 11.7          | 0.9           | 6.6           |
| Currency                | 1.0                              | 3.1           | 0.2           | 1.1           |
| Equity                  | 0.9                              | 0.9           | —             | 0.2           |
| Diversification effects | (1.5)                            |               |               |               |
| <b>Total</b>            | <b>9.8</b>                       | <b>12.4</b>   | <b>1.0</b>    | <b>6.9</b>    |

| Statutory basis         | 12 months ended 30 September 1999 |               |               |               |
|-------------------------|-----------------------------------|---------------|---------------|---------------|
|                         | Period end<br>£m                  | Maximum<br>£m | Minimum<br>£m | Average<br>£m |
| Interest rate           | 1.5                               | 1.7           | 0.7           | 1.2           |
| Currency                | 0.3                               | 0.5           | 0.2           | 0.3           |
| Equity                  | —                                 | —             | —             | —             |
| Diversification effects | (0.1)                             |               |               |               |
| <b>Total</b>            | <b>1.7</b>                        | <b>1.9</b>    | <b>0.7</b>    | <b>1.2</b>    |

On a statutory basis, VaR has increased significantly following the acquisition of NatWest.

| Pro forma basis         | 12 months ended 31 December 2000 |               |               |               |
|-------------------------|----------------------------------|---------------|---------------|---------------|
|                         | Period end<br>£m                 | Maximum<br>£m | Minimum<br>£m | Average<br>£m |
| Interest rate           | 9.4                              | 11.7          | 7.8           | 9.4           |
| Currency                | 1.0                              | 3.1           | 0.7           | 1.6           |
| Equity                  | 0.9                              | 0.9           | —             | 0.2           |
| Diversification effects | (1.5)                            |               |               |               |
| <b>Total</b>            | <b>9.8</b>                       | <b>12.4</b>   | <b>8.1</b>    | <b>9.7</b>    |

| Pro forma basis         | 12 months ended 31 December 1999 |               |               |               |
|-------------------------|----------------------------------|---------------|---------------|---------------|
|                         | Period end<br>£m                 | Maximum<br>£m | Minimum<br>£m | Average<br>£m |
| Interest rate           | 9.2                              | 12.3          | 6.5           | 9.6           |
| Currency                | 1.7                              | 6.3           | 0.7           | 2.4           |
| Equity                  | 0.2                              | 1.1           | 0.1           | 0.5           |
| Diversification effects | (1.7)                            |               |               |               |
| <b>Total</b>            | <b>9.4</b>                       | <b>11.9</b>   | <b>7.4</b>    | <b>9.6</b>    |

The Group's trading activities are carried out principally by Financial Markets ("FM"). In the year to 31 December 2000, the pro forma average daily profit including net interest for FM's trading portfolios was £3.7 million (year to 31 December 1999 – £3.1 million) and the standard deviation of profits was £3.4 million (year to 31 December 1999 – £4.1 million). On a statutory basis average daily profit including net interest for the 15 months to 31 December 2000 was £2.5 million (year to 30 September 1999 – £0.7 million) and the standard deviation of profits was £3.3 million (year to 30 September 1999 – £0.5 million).

The VaR disclosures in the Group's 1999 Report and Accounts were prepared on a different basis from the amounts for the year to 30 September 1999 (statutory basis) shown above; in particular the Group previously reported using a 97.5% confidence limit. The disclosures given for the year to 30 September 1999 are presented below to show the effect of the change in approach:

| Statutory basis         | 12 months ended 30 September 1999 |               |               |               |
|-------------------------|-----------------------------------|---------------|---------------|---------------|
|                         | Period end<br>£m                  | Maximum<br>£m | Minimum<br>£m | Average<br>£m |
| Interest rate           | 2.4                               | 2.8           | 0.8           | 1.8           |
| Currency                | 0.4                               | 0.9           | 0.2           | 0.4           |
| Equity                  | —                                 | —             | —             | —             |
| Diversification effects | (0.2)                             |               |               |               |
| <b>Total</b>            | <b>2.6</b>                        | <b>2.9</b>    | <b>1.0</b>    | <b>1.9</b>    |

**Non-trading** The Group's portfolios of non-trading financial instruments, arising from its treasury activities and from retail and corporate banking, mainly comprise loans (including finance leases), debt securities, deposits, certificates of deposit and other debt securities issued, loan capital and derivatives (mainly interest rate swaps). The Group's long-term assurance assets and liabilities attributable to policyholders have been excluded from these market risk disclosures.

**Treasury** The Group's treasury activities include its money-market business and the management of internal funds flows with the Group's businesses. Money-market portfolios include cash instruments (principally debt securities, loans and deposits) and related hedging derivatives.

Citizens ("CFG") and The Royal Bank of Scotland International ("RBSI") have independent treasury operations. CFG uses a Daily Earnings at Risk ('Dear') methodology which although differing in some respects from the VaR methodology described above has the same principal assumptions, limitations and parameters. During the year to 30 September 1999, RBSI used a matched book methodology to measure and manage interest rate and foreign exchange rate risk with maximum allowed mismatches. For the 15 months ended 31 December 2000 RBSI has adopted the same VaR methodology as the rest of the Group.

VaR for the Group's treasury portfolios, which relates mainly to interest rate risk, including management's estimate of the exposure of CFG and RBSI to market risk translated to a VaR methodology without adjusting for any diversification or other aggregation effects, is presented below.

| Statutory basis                   | Period end | Maximum | Minimum | Average |
|-----------------------------------|------------|---------|---------|---------|
|                                   | £m         | £m      | £m      | £m      |
| 15 months ended 31 December 2000  | 5.4        | 5.7     | 2.6     | 3.7     |
| 12 months ended 30 September 1999 | 3.7        | 3.7     | 1.7     | 2.3     |
| Pro forma basis                   | Period end | Maximum | Minimum | Average |
|                                   | £m         | £m      | £m      | £m      |
| 12 months ended 31 December 2000  | 5.4        | 5.7     | 2.8     | 4.0     |
| 12 months ended 31 December 1999  | 5.1        | 13.1    | 4.6     | 9.4     |

**Retail and corporate banking** Structural interest rate risk arises in the Group's commercial banking activities where assets and liabilities have different repricing dates. Group policy requires that all material interest rate risk arising from retail and corporate banking activities is transferred to a trading or treasury unit for management within its approved limits.

Structural interest rate risk is calculated in each business unit on the basis of establishing the repricing behaviour of each asset and liability product. For many products, the actual interest rate repricing characteristics differ from the contractual repricing. In most cases, the repricing maturity is then determined by the market interest rate that most closely fits the historical behaviour of the product interest rate. For non-interest bearing current accounts, the repricing maturity is determined by the stability of the portfolio. The product maturities used are reviewed by both the Balance Sheet Management Committee and business unit asset and liability committees annually, or more often if appropriate.

A static maturity gap report is produced as at the month-end for each material business unit, in each functional currency based on the behaviouralised repricing for each product. It is Group policy to include non-financial assets and liabilities, mainly tangible fixed assets and the Group's capital and reserves, spread over medium and longer term maturities, in the gap report. This report also includes hedge transactions, principally derivatives. Any residual non-trading interest rate exposures are measured and monitored against limits using the same VaR methodology that is used for the Group's trading portfolios. Limits are also set on the net interest income exposure over 12 months to a 1% parallel movement in interest rates.

**Currency risk** The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in overseas subsidiary and associated undertakings and their related currency funding. The Group's policy in relation to structural positions is to match fund the structural foreign currency exposure arising from net asset value, excluding goodwill, in overseas subsidiaries, equity accounted investments and branches, except where doing so would materially increase the sensitivity of either the Group's or subsidiary's regulatory capital ratios to currency movements. The policy requires structural foreign exchange positions to be reviewed regularly by the Group Asset and Liability Management Committee. Gains or losses on foreign currency investments net of any gains or losses on related foreign currency funding or hedges are recognised in the statement of total recognised gains and losses.

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

|  | Foreign<br>currency net<br>investments<br>£m | Foreign<br>currency<br>liabilities<br>hedging net<br>investments<br>£m | Structural<br>foreign<br>currency<br>exposures<br>£m |
|--|--|--|--|
| <b>Functional currency of net investment</b> |  |  |  |
| US dollar                                    | 2,426  | 2,354  | 72   |
| Euro   | 782  | 224  | 558  |
| Swiss franc                                  | 201  | 193  | 8  |
| Other non-sterling                           | 86   | 83   | 3  |
| <b>Total</b>                                 | <b>3,495</b>                                 | <b>2,854</b>   | <b>641</b>   |
| <b>30 September 1999</b>                     |  |  |  |
| <b>Functional currency of net investment</b> |  |  |  |
| US dollar                                    | 915  | 828  | 87   |
| Euro   | 23   | 38   | (15)   |
| Other non-sterling                           | (31)   | —  | (31)   |
| <b>Total</b>                                 | <b>907</b>                                   | <b>866</b>   | <b>41</b>  |

The structural foreign currency exposure in euros is principally due to Ulster Bank running an open structural foreign exchange position to minimise the sensitivity of its capital ratios to possible movements in the euro exchange rate against sterling.



**Equity risk** 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 17 on the accounts. At 31 December 2000, equity shares held as investment securities had a book value of £1,437 million (30 September 1999 – £804 million) and a valuation of £2,094 million (30 September 1999 – £1,264 million).

**Liquidity risk** The Group's funding requirements and liquidity risks are managed to ensure that its businesses can meet deposit withdrawals either on demand or at contractual maturity, to meet customers' demand for new loans and finance, to repay borrowings as they mature, and to enable term asset commitments to be funded on an economic basis over their life. Diversification of sources of deposits and borrowings, management of maturity mismatches and concentrations, the maintenance of a diversified portfolio of high quality liquid and marketable assets, and the management of contingent liquidity risks are used to ensure ready access to funds at all times. Liquidity risk is mitigated by the Group's well diversified retail and corporate customer deposit base, which forms a substantial part of the Group balance sheet and provides a stable source of funding due to the number and diversity of depositors, and through the raising of longer term funds of appropriate maturities through its Euro Medium Term Note Programme. Liquidity requirements are also actively managed through dealings in the wholesale markets, in which the Group is a significant participant, which provide access to wholesale funding from a wide range of counterparties.

In the UK, the FSA requires the Group to be able to meet its sterling obligations without recourse to the wholesale markets for a period of at least five business days. A similar policy is maintained for currency obligations across the Group. Monthly reports are made to the FSA for both sterling and other currency liquidity. Subsidiaries and branches of the Group in other countries also comply with their local regulatory liquidity management and reporting requirements.

The Group measures and manages its cash flow commitments and marketable asset holdings on a daily basis, using various methods, including predictions of daily cash positions, and monitors concentrations of funding maturing at any point in time or from any particular source. Maturity mismatches between lending and funding are managed within internal limits.

**Operational risk** Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's business units manage operational risk through appropriate risk controls and loss mitigation actions. These include policies, procedures, internal controls and business continuity arrangements. Group Risk provides the businesses with the framework, tools and techniques to improve operational risk management.

**(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 a 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 exercised 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.
- **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. 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.

| <b>Activity</b>   | <b>Risk</b>   | <b>Type of hedge</b>   |
|---|---|--|
| 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<br>Purchased interest rate options |
| Fixed-rate lending funded by floating rate liabilities  | Sensitivity to increases in short-term interest rates<br>Sensitivity to decreases in medium/long term interest rates, due to prepayment | Pay fixed interest rate swaps<br>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<br>Foreign currency funding                     |
| Profit earned in foreign currencies   | Sensitivity to strengthening of sterling against other currencies   | Forward foreign exchange contracts<br>Purchased currency options     |

## Board of directors and secretary

### **Viscount Younger of Leckie** \*†Ø#

KT, KCVO, TD, DL

Chairman

(age 69), 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 one of the Murray Johnstone Investment Trusts. (Chairman of the Remuneration Committee, Nominations Committee and Chairman's Advisory Group)

### **Sir Iain Vallance** Δ†Ø#

Vice-chairman

(age 57), was appointed a director in January 1993 and became a vice-chairman in March 1994. He is chairman of British Telecommunications plc and a former non-executive director of Mobil Corporation. He is President of the Confederation of British Industry, a member of the President's Committee and Advisory Council of Business in the Community and chairman of the European Advisory Committee to the New York Stock Exchange.

### **Sir Angus Grossart** Δ†ØØ#

CBE, LLD, FRSE, DL, FCIBS

Vice-chairman

(age 63), 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 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** \*□Ø#

CBE, LLD, FRSE, FCIBS

Executive Deputy Chairman

(age 60), was appointed a director in September 1987 and to his present position in March 2000. He is a former chief executive of the Scottish Development Agency and his current directorships include Citizens Financial Group, Inc., Direct Line Group Limited, of which he is chairman, Ulster Bank Limited and Scottish Investment Trust PLC.

### **Fred Goodwin** \*#

DUniv, FCIBS

Group Chief Executive

(age 42), was appointed Deputy Group Chief Executive on 1 August 1998 and to his present position in March 2000 upon the acquisition of National Westminster Bank Plc. 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.

### **Gordon Pell** \*

(age 51), was appointed to his current position as Chief Executive, Retail Banking on 6 March 2000. He was formerly group director, Lloyds TSB UK Retail Banking before joining National Westminster Bank Plc as a director in February 2000.

### **Iain Robertson** \*#

FCIBS

(age 55), was appointed a director in January 1993. He was appointed Chief Executive, UK Bank on 1 July 1998 and to his present position as Chief Executive, Corporate Banking and Financial Markets in March 2000. He is also a director of British Empire Securities and General Trust plc.

**Lawrence Fish \***

(age 56), 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 56), was appointed a director in June 1992 and is Chief Executive, Retail Direct. 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 Tesco Personal Finance Limited and former deputy chairman of APACS. He also holds directorships in Direct Line Financial Services, Europay International, Magex Holdings Limited, Mastercard International, Tesco Personal Finance Group Limited and Worldpay Group plc.

**Fred Watt \*#**

(age 40), was appointed to his current position as Group Finance Director on 4 September 2000. He was formerly finance director, Wassall plc.

**Non-executive directors****Emilio Botin**

(age 66), 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.

**Juan Rodriguez Inciarte**

(age 48), is a director of Banco Santander Central Hispano S.A. He is also a director of several Banco Santander Central Hispano Group subsidiaries and a number of Spanish companies, as well as a director of Instituto Bancario San Paolo di Torino.

**Eileen Mackay Δ◇□**

CB

(age 57), was formerly principal finance officer at The Scottish Office. She is a director of Edinburgh Investment Trust plc, Scottish Enterprise Edinburgh and Lothian Limited and Scottish Financial Enterprise Limited. She is a member of the Economic and Social Research Council, the Review Board of the UK Accountancy profession and the Court of the University of Edinburgh.

**Cameron McLatchie Δ**

CBE

(age 54), is chairman and chief executive of British Polythene Industries PLC and formerly deputy chairman of Scottish Enterprise.

**Murray Stuart Δ†◇□**

CBE

(age 67), is chairman of Intermediate Capital Group PLC and former chairman of Scottish Power plc. He is also a non-executive director of Old Mutual plc, CMG plc and a member of the Supervisory Board of Vivendi Environnement. (Chairman of the Personnel Committee)

**Bill Wilson Δ†◇Ø#**

(age 63), is a Chartered Accountant. He was formerly deputy chairman of Alexander & Alexander Services Inc. His other public directorships include Edinburgh US Tracker Trust plc, First American Title Insurance Company (UK) plc and Scottish Rugby Union Plc. (Chairman of the Audit Committee)

### Appointed since the year end

#### **Bob Scott** $\Delta$

(age 59), was appointed on 31 January 2001. He is group chief executive of CGNU plc, chairman of the Board of the Association of British Insurers, a member of the President's Committee of the Confederation of British Industry and Business in the Environment. He is also a Trustee of the Crimestoppers Trust and a vice-president of the Chartered Insurance Institute.

#### **Peter Sutherland** $\Delta$

(age 54), was appointed on 31 January 2001. He is chairman and managing director of Goldman Sachs International and non-executive chairman of BP Amoco plc and was formerly non-executive chairman of The British Petroleum Company plc.

### Secretary

#### **Miller McLean** #

FCIBS

(age 51), was appointed Group Secretary in August 1994 and Group Director, Legal and Regulatory Affairs and Group Secretary in March 2000. He is vice-chairman of Banco Santander, Portugal S.A., a non-executive director of Adam & Company Group PLC, a Trustee of the Industry and Parliament Trust, a non-executive director of The Whitehall and Industry Group and a Governor of Queen Margaret University College, Edinburgh.

\* Executive

$\Delta$  independent non-executive director

† member of the Remuneration Committee

$\diamond$  member of the Audit Committee

$\square$  member of the Personnel Committee

$\emptyset$  member of the Nominations Committee

# member of the Chairman's Advisory Group

Following the change in year end from 30 September to 31 December, announced in April 2000, the directors have pleasure in presenting their report together with the audited accounts for the 15 months ended 31 December 2000.

**Profit and dividends** The acquisition of NatWest has had a significant effect on the Group's financial position. The profit attributable to the ordinary shareholders of the company for the 15 months ended 31 December 2000 amounted to £1,847 million (after preference dividends of £322 million – see Note 7) as set out in the consolidated profit and loss account on pages 52 and 53. In order to provide shareholders with additional relevant and meaningful information pro forma results for the year ended 31 December 2000 have also been prepared. Profit before tax, goodwill amortisation and integration costs, on a pro forma basis was £4,401 million, an increase of 31%.

An interim dividend of 9.5p per ordinary share was paid on 13 October 2000 at a cost of £253 million. The directors now recommend that a final dividend of 23.5p per ordinary share be paid on 18 May 2001 to members on the register at the close of business on 16 March 2001, absorbing £629 million. If this recommendation is approved by the shareholders at the annual general meeting on 11 April 2001, the retained profit for the period will amount to £965 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.

**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") and National Westminster Bank Plc ("NatWest"), the principal direct operating subsidiary undertakings of the company. The "Group" comprises the company, the Bank and its subsidiary and associated undertakings, NatWest and its subsidiary and associated undertakings, GRS Holding Company Limited (the holding company of Angel Train Contracts Limited) and RBS Life Holdings Limited. The Bank and NatWest and their 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 66. A review of the business for the period to 31 December 2000, of recent events and of likely future developments is contained in the operating and financial review.

**Annual report on Form 20-F** An annual report on Form 20-F will be filed with the Securities and Exchange Commission in the USA and copies will be available in May 2001 on request from the secretary.

**Business developments** On 6 March 2000, the Group acquired National Westminster Bank Plc for a consideration of £20,987 million. The consideration was satisfied by the issue of new ordinary shares of £13,462 million (based on the RBSG share price on 3 March 2000), cash of £7,110 million, loan notes of £239 million and payment of fees and commissions of £176 million. The Group partially funded the cash element by the net proceeds of £3,910 million from the issue of new ordinary and preference shares. The rest of the cash element was financed from existing Group resources.

Following the acquisition of NatWest, the Group completed the disposal of its investment management subsidiary, Gartmore and the venture capital investment portfolio of NatWest Equity Partners.

In October 1999, the Group completed the sale of its main investor services subsidiary, RBS Trust Bank. Also in October 1999, Citizens completed the acquisition of the commercial banking business of State Street Corporation.

In November 1999, Direct Line completed the acquisition of Green Flag.

In January 2000, Citizens completed the acquisition of UST Corp. of Boston.

In December 2000, the Group and CGNU plc completed their bancassurance partnership comprising Royal Scottish Assurance plc (RSA) and National Westminster Life Assurance Limited (NWLA). Under the arrangement both RSA and NWLA have been transferred to a newly formed subsidiary of the company, RBS Life Holdings Limited.

**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.

**Ordinary share capital** During the period ended 31 December 2000, the ordinary share capital was increased as follows:

In March 2000, a total of 191.5 million new ordinary shares of 25p each were issued to BSCH and a total of 1,563.5 million new ordinary shares of 25p each were issued to former NatWest shareholders.

In addition, ordinary shares were also issued in respect of:

- (a) 7.4 million ordinary shares allotted as a result of the exercise of options under the company's executive and sharesave schemes and a further 18.5 million ordinary shares were allotted in respect of the exercise of options under the NatWest executive and sharesave schemes which had been exchanged for options over the company's shares following the acquisition of NatWest;
- (b) 3.8 million ordinary shares in lieu of cash dividends; and
- (c) 1.7 million ordinary shares allotted under the company's profit sharing (share ownership) scheme.

The total consideration for ordinary shares issued during the period amounted to £15,360 million. Details of the authorised and issued ordinary share capital at 31 December 2000 are shown on page 76.

**Additional Value Shares** In July 2000, approximately 2.7 billion Additional Value Shares of £0.01 each with a total nominal value of £27 million were issued to shareholders by way of a bonus issue.

**Preference share capital** In March 2000, the company issued: 1 million Series 1 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$990 million; 0.5 million Series 2 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$495 million; and 0.75 million Series 1 non-cumulative convertible euro shares of €0.01 each at €1,000 per share, the net proceeds being €742.5 million.

Also in March 2000, the company issued 900 million category II non-cumulative convertible preference shares of 25p each at an issue price of £1 per share, the net proceeds being £900 million. In December 2000, 300 million of these shares were redeemed at a price of £1 per share.

In November 2000, the company issued 0.4 million Series 3 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$397 million.

In December 2000, the company issued 0.2 million Series 1 non-cumulative convertible preference shares of £0.01 each at £1,000 per share, the net proceeds being £198 million.

Details of the authorised and issued preference share capital at 31 December 2000 are shown on page 76.

**Subordinated liabilities** In October 1999, £30 million convertible unsecured loan stock 2016 issued by RBSTB (Holdings) Limited was converted into fully paid ordinary shares of RBSTB (Holdings) Limited.

In March 2000, US\$180 million guaranteed floating rate notes issued by National Westminster Finance BV and on-lent to National Westminster Bank Plc matured.

In July 2000, £2 million subordinated unsecured loan stock, Series A and B, issued by National Westminster Bank Plc matured.

In August 2000, The Royal Bank of Scotland plc issued £175 million 7.375% undated subordinated notes at an issue price of 98.583%, the net proceeds being £173 million and £35 million floating rate step-up subordinated notes 2010 at an issue price of 100%, the net proceeds being £35 million.

In September 2000, The Royal Bank of Scotland plc issued US\$125.6 million 7.375% million floating rate subordinated notes 2020 at an issue price of 100%, the net proceeds being US\$125.6 million.

Details of the subordinated liabilities are shown on pages 72 to 74.



**Shareholdings** At 28 February 2001, the company has been notified of the following interests in its shares, in accordance with section 198 of the Companies Act 1985:

|  | % held |   | % held |
|--|--------|---|--------|
| Ordinary shares:                       |        | 5½% cumulative preference shares:                       |        |
| Banco Santander Central Hispano S.A.   | 9.62   | Commercial Union Assurance plc                          | 22.86  |
| CGNU plc                               | 3.41   | Guardian Royal Exchange plc                             | 20.25  |
| 11% cumulative preference shares:      |        | Bassett-Patrick Securities Limited*                     | 11.56  |
| Guardian Royal Exchange plc            | 25.97  | Mr P. S. and Mrs J. Allen                               | 8.83   |
| Windsor Life Assurance Company Limited | 10.30  | Mrs Gina Wild   | 4.95   |
| The Investment Company plc             | 7.83   | 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 | 4.18   |

\*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 32 to 34. Mr G. F. Pell was appointed as a director on 6 March 2000 and Mr F. I. Watt was appointed as a director on 4 September 2000. Mr R. A. Scott and Mr P. D. Sutherland were appointed to the Board as non-executive directors on 31 January 2001. Mr Pell, Mr Watt, Mr Scott and Mr Sutherland were appointed since the last annual general meeting and, being eligible, will seek re-election at the forthcoming annual general meeting on 11 April 2001. The directors retiring by rotation are Viscount Younger, Sir George Mathewson, Sir Iain Vallance, Sir Angus Grossart and Mr L. K. Fish and, being eligible, all except Viscount Younger, offer themselves for re-election. Details of the service agreements for those directors standing for re-election are set out on page 42. There are no service contracts in respect of the other directors seeking re-election.

**Directors' interests** The interests of the directors in the shares of the company at 31 December 2000 are shown on pages 45 and 46. With the exception of Mr I. S. Robertson, who held 210 ordinary shares of £1 each in National Westminster Bank Plc at its acquisition by the company on 6 March 2000, 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 1999 and 28 February 2001.

**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 Group and its subsidiary undertakings encourage staff involvement by a process of communication and consultation. This takes the form of information through normal management channels, internal publications and regular dialogue with staff representatives. All staff were given the opportunity to say what they thought about working for the Group in a confidential manner via the annual staff opinion survey. 67% of staff responded to the survey, giving their views on a variety of topics from management leadership to communication and employee involvement. The results of the survey are shared with all staff and action plans are prepared to address the key issues raised.

A new Group staff publication was launched on 18 December 2000 to keep staff informed of wider Group activities. This quarterly publication was designed following staff feedback and aims to involve staff from across the Group.

A new Group intranet site was launched in September 2000 bringing together the NatWest and RBS intranets incorporating the new Group structure. Throughout integration, extensive use is being made of the intranet as a communication channel to allow staff to be updated on progress on a regular basis.

The creation of a new European Works Council during 2001 will provide the Group with an effective forum for discussing European matters. The Council will meet once a year.

**Equal opportunities** The Royal Bank of Scotland Group plc is committed to providing equality of opportunity. The Group is committed to following best employment practice in each of the countries in which we operate. In the recruitment of staff and their subsequent career development, individuals are considered solely on the basis of their aptitude and ability.

The Group is a member of Opportunity Now (formerly Opportunity 2000), Race for Opportunity, the Employers' Forum on Disability and the Employers' Forum on Age. The number of women in management positions, and the number of ethnic minorities represented in the workforce has in recent years continued to grow. The Group has positive policies to recruit and retain disabled staff and recognises the contribution of disabled people, both as valued employees and customers. For employees who become disabled whilst in the employment of the Group, every assistance is given to keep them in employment, and the in-house Occupational Health Service provides expert advice and rehabilitation programmes to this end.

**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 15 months to 31 December 2000 was £7.1 million.

**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 39 and 40.

**Policy and practice on payment of creditors** In the year ending 31 December 2001, 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 31 December 2000 bears to the amounts invoiced by suppliers during the 15 month period then ended equated to 20 days on an annualised basis.

**Auditors** PricewaterhouseCoopers resigned as auditors of the company and the directors appointed Deloitte & Touche to fill the casual vacancy with effect from 21 March 2000. Deloitte & Touche have indicated their willingness to continue in office and 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  
28 February 2001

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 that the company continues to deliver value to its shareholders.

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 Combined Code which is appended to the Listing Rules of the UK Listing Authority (“the Code”), have been applied is contained in this report and the Remuneration Report on pages 41 to 44.

Throughout the accounting period to 31 December 2000, the company has complied with the provisions set out in Section 1 of the Code, except in relation to the chairmanship of the Remuneration Committee, as explained in the Remuneration Report on pages 41.

**Board of directors** The board of directors, which is responsible for leading and controlling the company, currently comprises eight executive directors and ten 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 normally meets monthly 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.

**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 41 to 44.

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 Nominations Committee.

The directors’ biographies on pages 32 to 34 identify the members of the Audit Committee, the Remuneration Committee, the Nominations Committee and the Personnel Committee.

**Relations with shareholders** The company has a programme of communication with shareholders through the regular 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](http://www.rbs.co.uk) contains information on the Group and the products and services it offers, and for the first time this year, includes webcasts of the Group’s public conferences. Communication with the company’s largest institutional shareholders is undertaken as part of the company’s investor relations programme.

**Internal control** The board of directors is responsible for the Group’s system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the directors have regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. A system of internal control is designed to manage but not eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against the risk of material misstatement, fraud or losses.

Following publication of the guidance ‘Internal Control: Guidance for Directors on the Combined Code’ by the Institute of Chartered Accountants in England and Wales, the board of directors reviewed the Group’s procedures in respect of internal control with a view to complying with the guidance for the year to 30 September 2001 in accordance with the transitional approach permitted by the London Stock Exchange. However, following the acquisition of NatWest, the Group has changed its accounting reference date to 31 December and, consequently the guidance applies to the Group for the 15 months to 31 December 2000. The Group established procedures to ensure compliance with the guidance by 30 September 2000 as planned and the board considers that, from 1 October 2000 to 28 February 2001, there was an ongoing process for the identification, evaluation and management of the significant risks faced by the Group. This process is regularly reviewed by the board and meets the requirements of the guidance.

The effectiveness of the Group's internal control system is reviewed regularly by the board and the Group Audit Committee. Executive Management Committees or boards of directors in each of the Group's businesses receive quarterly reports on significant risks facing their business and how they are being controlled. These reports are combined and submitted to the board as quarterly risk and control assessments. Additional details of the Group's approach to risk management are given in the 'Risk management' section of the Operating and Financial Review on pages 25 to 29. The Group Audit Committee also receives regular reports from Group Risk, Group Internal Audit and Group Compliance. In addition, the Group's independent auditors present to the Group Audit Committee reports that include details of any significant internal control matters which they have identified. The system of internal controls of the authorised institutions and other regulated entities in the Group are also subject to regulatory oversight in the UK and overseas.

Throughout the period 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 UK Listing Authority ("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 board 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, sharesave scheme and option 2000 scheme;
- to determine annually, where appropriate, the staff profit share under the company's profit sharing scheme;
- 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 Group.

**Remuneration, salaries and fees** The remuneration of the board of directors and the salaries of the executive directors of the company 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, sharesave and option 2000 schemes and details of their interests in the company's shares arising from their participation are contained in the directors' interests in shares on pages 45 and 46. Following completion of the acquisition of NatWest the company's policy for granting share options was reviewed. As a result, the company adopted the policy that executive share options be granted to all UK based executives within the Group. Executive share options are normally granted on a regular, phased basis, although an award was made to Mr F. I. Watt on 4 September 2000 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 Prices Index over a three year period by an average of at least two per cent per annum. For options granted in 1999 and in subsequent years 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 whereby a total of up to 5 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, death in service benefits and beneficial loans, on similar terms to other senior executives.

**Service agreements** The unexpired terms of the service contracts of the directors who are due to stand for re-election at the company's next Annual General Meeting are set out below.

The service agreement of Sir George Mathewson will terminate on 11 April 2001 when he will enter into a new agreement in relation to his appointment as non-executive chairman of the Group.

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

Mr G. F. Pell was appointed a director of NatWest with effect from 1 February 2000 and a director of the company from 6 March 2000 and has a service agreement which is terminable by NatWest on 24 months' notice for the first two years of employment, decreasing on a monthly basis to 12 months' notice after 3 years' employment. The service agreement is terminable on six months notice by Mr Pell.

Mr F. I. Watt's service agreement is terminable on 12 months' notice by the Bank and six months' notice by Mr Watt.

None of the other directors who are due to stand for re-election at the next Annual General Meeting has a service agreement with the company.

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

The board of directors and the Remuneration Committee considers the relevant notice periods noted above to be in the best interests of the company and its shareholders. These enable the company to retain executive directors of the highest calibre and maintain management continuity.

**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 100 per cent of salary for Sir George Mathewson, Mr F. A. Goodwin, Mr G. F. Pell and Mr I. S. Robertson. The maximum payment for Mr N. C. McLuskie and Mr F. I. Watt is 60 per cent of salary.

Following the successful completion of the acquisition of NatWest in March 2000, special bonuses were awarded to executive directors of the company in recognition of their contributions. The bonuses were paid in cash and shares and individual directors could elect to receive up to 100 per cent of their bonus in shares.

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 can receive a maximum award under the long-term plan of up to 120% of his average salary over each three year cycle. In the 15 month accounting period to 31 December 2000, Mr Fish received US\$782,611 (£508,486) and US\$801,592 (£520,818) in respect of the long term plan cycles which were completed on 30 September 1999 and 30 September 2000 respectively (1999 – £504,100). Mr Fish also participated in a shadow equity plan in terms of which senior executives of Citizens participated in the appreciation above a specific target in the capital value of Citizens over a period of years. This plan covered the period from 1 October 1993 to 30 September 2000. In the accounting period to 31 December 2000, the value of the units held by Mr Fish increased by US\$12,775,140 (£8,300,396; 1999 – £1,401,272). The value accrued in the previous six years, the appropriate amount of which was reported in those years, amounted to US\$9,641,520. Therefore, Mr Fish's units have appreciated by a total of US\$22,416,660 over the seven year life of the plan, which terminated on 30 September 2000, and a cash payment of this amount was made to Mr Fish. Mr Fish will participate in the new shadow equity plan for Citizens' executives which was approved by shareholders at the Annual General Meeting in January 2000, which commenced on 1 January 2001.

**Directors' pension arrangements** Viscount Younger, Sir George Mathewson, Mr F. A. Goodwin, Mr I. S. Robertson, Mr N. C. McLuskie and Mr F. I. Watt participate in The Royal Bank of Scotland Staff Pension Scheme ("the RBS Scheme"). Mr G. F. Pell participates in the National Westminster Bank Pension Fund ("the NatWest Scheme"). The RBS Scheme and the NatWest Scheme are defined benefit schemes which provide pensions and other benefits within Inland Revenue limits. Viscount Younger is provided with life assurance benefits only under the RBS 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 RBS 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 and Mr Watt's pension entitlement under the RBS Scheme and Mr Pell's pension entitlement under the NatWest Scheme are similarly restricted by Inland Revenue limits as set out in the Finance Act 1989. Arrangements have been made to provide Mr Goodwin, Mr Watt and Mr Pell with additional pension benefits and life assurance cover outwith the Schemes. 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 UK Listing Authority 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 contribution and defined benefit arrangements.

| Defined benefit arrangements | Age at<br>31 December 2000 | Additional pension earned<br>during the 15 months ended<br>31 December 2000<br>£000 p.a. | Accrued entitlement at<br>31 December 2000<br>£000 p.a. | Transfer value for the<br>additional pension earned<br>during the 15 months ended<br>31 December 2000<br>£000 |
|------------------------------|----------------------------|--|---|---|
| Viscount Younger             | 69                         | (2)  | 111   | (26)  |
| Sir George Mathewson         | 60                         | 29   | 282   | 533   |
| F. A. Goodwin                | 42                         | 69   | 152   | 651   |
| N. C. McLuskie               | 56                         | 21   | 104   | 340   |
| G. F. Pell                   | 50                         | 7  | 7   | 106   |
| I. S. Robertson              | 55                         | 3  | 20  | 43  |
| F. I. Watt                   | 40                         | 1  | 1   | 3   |
| L. K. Fish – Qualified Plan  | 56                         | 2  | 15  | 12  |
| – Excess Plan                |                            | 23   | 98  | 140   |
| – Employee Arrangement       |                            | 59   | 107   | 359   |

Contributions paid in the 15 months ended 31 December 2000 under defined contribution arrangements were:

|                  | £000 |
|------------------|------|
| Viscount Younger | 46   |
| F. I. Watt       | 11   |
| L. K. Fish       | 36   |

**Directors' remuneration** The undernoted tables report the remuneration received by each director during the 15 months ended 31 December 2000:

|   | Total<br>2000<br>(15 months)<br>£000 | Special<br>bonus*<br>£000 | Quarter to 31 December 1999   |                 |                  |               | 12 months to 31 December 2000 |                 |                  |               | Total<br>1999<br>£000 |
|---|--------------------------------------|---------------------------|-------------------------------|-----------------|------------------|---------------|-------------------------------|-----------------|------------------|---------------|-----------------------|
|   |                                      |                           | Performance<br>Salary<br>£000 | Bonus**<br>£000 | Benefits<br>£000 | Total<br>£000 | Performance<br>Salary<br>£000 | Bonus**<br>£000 | Benefits<br>£000 | Total<br>£000 |                       |
| <i>Chairman</i>                         |                                      |                           |                               |                 |                  |               |                               |                 |                  |               |                       |
| Viscount Younger                        | 379                                  | —                         | 71                            | —               | 4                | 75            | 286                           | —               | 18               | 304           | 285                   |
| <i>Executive directors</i>              |                                      |                           |                               |                 |                  |               |                               |                 |                  |               |                       |
| Sir George Mathewson                    | 2,215                                | 759                       | 129                           | 90              | 5                | 224           | 579                           | 635             | 18               | 1,232         | 836                   |
| F. A. Goodwin                           | 2,262                                | 814                       | 104                           | 66              | 4                | 174           | 582                           | 677             | 15               | 1,274         | 592                   |
| L. K. Fish                              | 1,347                                | —                         | 132                           | 162             | 2                | 296           | 555                           | 487             | 9                | 1,051         | 998                   |
| N. C. McLuskie                          | 829                                  | 197                       | 68                            | 32              | 4                | 104           | 307                           | 206             | 15               | 528           | 390                   |
| G. F. Pell (appointed 6 March 2000)     | 775                                  | —                         | —                             | —               | —                | —             | 340                           | 435             | —                | 775           | —                     |
| I. S. Robertson                         | 2,040                                | 773                       | 107                           | 64              | 8                | 179           | 501                           | 554             | 33               | 1,088         | 657                   |
| F. I. Watt (appointed 4 September 2000) | 176                                  | —                         | —                             | —               | —                | —             | 104                           | 72              | —                | 176           | —                     |
|   | <b>10,023</b>                        | <b>2,543</b>              | <b>611</b>                    | <b>414</b>      | <b>27</b>        | <b>1,052</b>  | <b>3,254</b>                  | <b>3,066</b>    | <b>108</b>       | <b>6,428</b>  | <b>3,758</b>          |

\*Following the successful completion of the acquisition of NatWest in March 2000, special bonuses were awarded to the executive directors of the company in recognition of their contributions.

\*\*includes profit sharing

|                                | Total<br>2000<br>(15 months)<br>£000 | Quarter to 31 December 1999 |                                    |  |               | 12 months to 31 December 2000 |                                    |  |               | Total<br>1999<br>£000 |
|--------------------------------|--------------------------------------|-----------------------------|------------------------------------|--|---------------|-------------------------------|------------------------------------|--|---------------|-----------------------|
|                                |                                      | Board<br>fees<br>£000       | Board<br>committee<br>fees<br>£000 | Fees from<br>subsidiary<br>companies<br>£000 | Total<br>£000 | Board<br>fees<br>£000         | Board<br>committee<br>fees<br>£000 | Fees from<br>subsidiary<br>companies<br>£000 | Total<br>£000 |                       |
| <i>Non-executive directors</i> |                                      |                             |                                    |  |               |                               |                                    |  |               |                       |
| <i>Vice-chairmen</i>           |                                      |                             |                                    |  |               |                               |                                    |  |               |                       |
| Sir Iain Vallance              | 88                                   | 9                           | —                                  | 8  | 17            | 38                            | —                                  | 33   | 71            | 56                    |
| Sir Angus Grossart             | 88                                   | 9                           | —                                  | 8  | 17            | 38                            | —                                  | 33   | 71            | 59                    |
| E. Botin                       | 31                                   | 4                           | —                                  | 2  | 6             | 15                            | —                                  | 10   | 25            | 23                    |
| I. F. H. Grant                 | 36                                   | 4                           | 2                                  | 2  | 8             | 13                            | 5                                  | 10   | 28            | 28                    |
| J. R. Inciarte                 | 31                                   | 4                           | —                                  | 2  | 6             | 15                            | —                                  | 10   | 25            | 23                    |
| E. A. Mackay                   | 40                                   | 4                           | 1                                  | 2  | 7             | 15                            | 8                                  | 10   | 33            | 26                    |
| C. McLatchie                   | 31                                   | 4                           | —                                  | 2  | 6             | 15                            | —                                  | 10   | 25            | 23                    |
| C. M. Stuart                   | 47                                   | 4                           | 3                                  | 2  | 9             | 15                            | 13                                 | 10   | 38            | 30                    |
| W. M. Wilson                   | 57                                   | 4                           | 5                                  | 2  | 11            | 15                            | 21                                 | 10   | 46            | 34                    |
|                                | <b>449</b>                           | <b>46</b>                   | <b>11</b>                          | <b>30</b>                                    | <b>87</b>     | <b>179</b>                    | <b>47</b>                          | <b>136</b>                                   | <b>362</b>    | <b>302</b>            |

Aggregate emoluments of directors who served during the period was £10,472,000.

Mr L. K. Fish received £8,300,000 (1999 – £1,818,000) under the Citizens' shadow equity plan.

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 45.



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

|                      | 31 December 2000 | 1 October 1999 or date of appointment if later |                   | 31 December 2000 | 1 October 1999 or date of appointment if later |
|----------------------|------------------|--|-------------------|------------------|--|
| L. K. Fish           | <b>10,950</b>    | Nil  | I. S. Robertson   | <b>114,780</b>   | 48,597   |
| F. A. Goodwin        | <b>64,703</b>    | Nil  | C. M. Stuart      | <b>3,385</b>     | 3,301  |
| Sir George Mathewson | <b>242,843</b>   | 70,650   | Sir Iain Vallance | <b>2,500</b>     | 2,500  |
| E. A. Mackay         | <b>6,086</b>     | 3,156  | W. M. Wilson      | <b>9,289</b>     | 7,951  |
| N. C. McLuskie       | <b>140,385</b>   | 86,832   | Viscount Younger  | <b>13,251</b>    | 13,251   |

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 period.

Options to subscribe for ordinary shares of 25p each in the company granted to, and exercised by, directors during the 15 months to 31 December 2000 are included in the table below:

|                      | Options at 1 October 1999 or date of appointment if later* | Average exercise price* £ | Options granted# |         | Options exercised |         | Market price at date of exercise £ | Potential pre-tax gain at date of exercise £ | Options at 31 December 2000 | Average exercise price £ |
|----------------------|--|---------------------------|------------------|---------|-------------------|---------|------------------------------------|--|-----------------------------|--------------------------|
|                      |  |                           | Number           | Price £ | Number            | Price £ |                                    |  |                             |                          |
| L. K. Fish           | 107,877  | 9.33                      | 150              | 12.40   | —                 | —       | —                                  | —  | <b>108,027</b>              | 9.33                     |
| F. A. Goodwin        | 194,840  | 9.24                      | 150              | 12.40   | —                 | —       | —                                  | —  | <b>350,351</b>              | 8.62                     |
|                      |  |                           | 153,648          | 7.81    |                   |         |                                    |  |                             |                          |
|                      |  |                           | 1,713            | 9.85    |                   |         |                                    |  |                             |                          |
| Sir George Mathewson | 533,837  | 5.14                      | 150              | 12.40   | 72,174            | 2.46    | 15.38                              | 1,836,300                                    | <b>530,403</b>              | 6.43                     |
|                      |  |                           | 147,247          | 7.81    | 46,349            | 3.98    | 15.38                              |  |                             |                          |
|                      |  |                           |                  |         | 30,194            | 3.70    | 15.38                              |  |                             |                          |
|                      |  |                           |                  |         | 2,114             | 4.61    | 15.38                              |  |                             |                          |
| N. C. McLuskie       | 270,849  | 5.68                      | 33,291           | 7.81    | 20,479            | 3.98    | 15.38                              | 2,389,751                                    | <b>73,113</b>               | 9.11                     |
|                      |  |                           | 150              | 12.40   | 16,175            | 3.70    | 15.38                              |  |                             |                          |
|                      |  |                           | 90               | 9.85    | 144,536           | 4.96    | 15.23                              |  |                             |                          |
|                      |  |                           |                  |         | 49,544            | 5.58    | 15.23                              |  |                             |                          |
|                      |  |                           |                  |         | 533               | 2.97    | 12.13                              |  |                             |                          |
| G. F. Pell           | —  | —                         | 51,216           | 7.81    | —                 | —       | —                                  | —  | <b>51,366</b>               | 7.82                     |
|                      |  |                           | 150              | 12.40   |                   |         |                                    |  |                             |                          |
| I. S. Robertson      | 309,784  | 7.52                      | 128,040          | 7.81    | 1,225             | 4.61    | 13.16                              | 1,404,342                                    | <b>267,872</b>              | 9.18                     |
|                      |  |                           | 150              | 12.40   | 50,621            | 5.58    | 13.38                              |  |                             |                          |
|                      |  |                           | 393              | 9.85    | 118,649           | 4.96    | 13.38                              |  |                             |                          |
| F. I. Watt           | —  | —                         | 70,148           | 12.83   | —                 | —       | —                                  | —  | <b>70,148</b>               | 12.83                    |
| Viscount Younger     | 110,280  | 5.10                      | 150              | 12.40   | —                 | —       | —                                  | —  | <b>110,430</b>              | 5.11                     |

\*Following the issue of Additional Value Shares on 20 June 2000 all outstanding options were adjusted, by an Inland Revenue approved formula, to reflect the change in the company's capital structure. The figures at 1 October 1999 included in the above table are the adjusted figures. Prior to this adjustment the options outstanding and average exercise price at 1 October 1999, as reported in the 1999 Annual Report and Accounts, were as follows: L. K. Fish – 100,000 options at £10.065; F. A. Goodwin – 180,770 options at £9.96; Sir George Mathewson – 495,161 options at £5.53; N. C. McLuskie – 251,199 options at £6.13; I. S. Robertson – 287,292 options at £8.11; and Viscount Younger – 102,300 options at £5.52.

#The "options granted" figures show, where applicable, the number of options and option price after the AVS adjustment discussed above.

The market price of the company's ordinary shares at 31 December 2000 was £15.82 and the range during the 15 months to 31 December 2000 was £6.21 to £16.11. Outstanding options under the executive share option scheme, the sharesave scheme and the option 2000 scheme are exercisable between now and 3 September 2010; between 1 July 2001 and 31 March 2006 and between 9 August 2003 and 8 August 2006, respectively.

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

**Additional Value Shares** The following directors held a beneficial interest in the company's Additional Value Shares at 31 December 2000.

|                      |                |                   |                |
|----------------------|----------------|-------------------|----------------|
| L. K. Fish           | <b>10,950</b>  | I. S. Robertson   | <b>112,747</b> |
| F. A. Goodwin        | <b>64,703</b>  | C. M. Stuart      | <b>3,361</b>   |
| Sir George Mathewson | <b>173,674</b> | Sir Iain Vallance | <b>2,500</b>   |
| E. A. Mackay         | <b>6,086</b>   | W. M. Wilson      | <b>9,237</b>   |
| N. C. McLuskie       | <b>26,584</b>  | Viscount Younger  | <b>13,251</b>  |

Mr E. Botin, Sir Angus Grossart, Mr J. R. Inciarte, Mr C. McLatchie, Mr G. Pell and Mr F. I. Watt did not have an interest in the company's Additional Value Shares during the period.

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

**Loan notes** No director had an interest in loan notes during the period.

There has been no change in the directors' interests in the shares of the company shown above between 31 December 2000 and 28 February 2001. No director held a non-beneficial interest in the shares of the company at 31 December 2000, at 1 October 1999 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 as at the end of the financial year 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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  
28 February 2001

# Report of the auditors to the members of The Royal Bank of Scotland Group plc

We have audited the financial statements on pages 49 to 98, which have been prepared under the accounting policies set out on pages 49 to 51.

**Respective responsibilities of directors and auditors** The directors are responsible for preparing the annual report, including as described on page 47, preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the UK Listing Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company and other members of the Group is not disclosed.

We review whether the corporate governance statement on pages 39 and 40 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

**Opinion** In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31 December 2000 and of the profit and cash flows of the Group for the 15 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche  
Chartered Accountants and Registered Auditors  
39 George Street  
Edinburgh EH2 2HZ

28 February 2001

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.

Implementation of Financial Reporting Standard ("FRS") 15 'Tangible Fixed Assets' and FRS 16 'Current Tax' had no material effect on reported profits. From 1 October 1999, the Group's freehold and long-leasehold buildings are being depreciated over 50 years, following a reassessment of their useful economic lives.

- 1 Accounting convention and bases of consolidation** The accounts are prepared under the historical cost convention modified by the periodic revaluation of premises and certain investments. To avoid undue delay in the presentation of the Group's accounts, the accounts of certain subsidiary undertakings have been made up to 30 November. There have been no changes in respect of these subsidiary undertakings, in the period from their balance sheet dates to 31 December, that materially affect the view given by the Group's accounts. Long-term assurance assets and liabilities attributable to policyholders are separately disclosed in the consolidated balance sheet in view of their distinct characteristics.
- 2 Goodwill** Goodwill is the excess of the cost of acquisition of subsidiary and associated undertakings over the fair value of the Group's share of net tangible assets acquired. Goodwill arising on acquisitions of subsidiary and associated undertakings after 1 October 1998 is capitalised on the balance sheet and amortised over its useful life. Goodwill arising on acquisitions of subsidiary and associated undertakings prior to 1 October 1998, previously charged directly against the profit and loss account reserves has not been reinstated under the transitional provisions of FRS 10 'Goodwill and Intangible Assets'. It will be written back only on disposal of the related subsidiary or associated undertaking and reflected in the calculation of the gains and losses arising.
- 3 Foreign currencies** Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Profit and loss accounts of overseas branches and subsidiary undertakings are translated at the average rates of exchange for the period. Exchange differences arising from the application of closing rates of exchange to the opening net assets of overseas branches and subsidiary undertakings and from restating their results from average to period-end rates are taken to profit and loss reserves, together with exchange differences arising on related foreign currency borrowings.
- 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 defined benefit pension schemes and health care plans is assessed by independent professionally qualified actuaries and 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 Leases** Total gross earnings under finance leases are allocated to accounting periods using the actuarial after tax method 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. Rental income from operating leases is credited to the profit and loss account on a receivable basis over the term of the lease.
- 6 General insurance** 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 that 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 unearned, 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 Long-term life assurance business** The value placed on the Group's long-term life assurance business is a prudent estimate of the net present value of the profits inherent in in-force policies together with the net assets of the business. Changes in this 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 taking into account relief for overseas taxation 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 such timing differences to the extent that they are likely to crystallise in the foreseeable future. It is calculated at rates expected to be applicable when the liabilities or assets are expected to crystallise.
- 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 to cover bad and doubtful debts that 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 (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 that is netted off against loans and advances to customers. Loans and advances are written off in part or in whole when there is no realistic prospect of recovery.
- 10 Fees receivable** Fees receivable that represent a return for services provided are recognised in the profit and loss account so as to match the cost of providing the service. Certain front-end lending fees are recognised over the life of the loan.
- 11 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 permanent diminution in value. The cost of dated investment securities is adjusted for the amortisation of premiums or discounts over periods to redemption and the amortisation is included in interest receivable. Debt securities held for the purpose of hedging are carried at a value that reflects the accounting treatment of the items hedged. Debt securities and equity shares held for dealing purposes are carried at fair value, with changes in fair value recognised in the profit and loss account.
- 12 Shares in subsidiary undertakings** The company's shares in subsidiary undertakings are stated in the balance sheet of the company at directors' valuation that takes account of the subsidiary undertakings' net asset values.
- 13 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 Group's share of their net tangible assets. The Group'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.
- 14 Tangible fixed assets** Freehold and long leasehold properties are revalued on a rolling basis, each property being revalued at least every five years. Other tangible fixed assets are stated at cost less depreciation and provisions for impairment. Costs of adapting premises for the use of the Group are separately identified and depreciated.

Tangible fixed assets are depreciated over their estimated economic lives on a straight-line basis, as follows:

|                                       |                               |
|---------------------------------------|-------------------------------|
| Land                                  | not depreciated               |
| Freehold and long leasehold buildings | 50 years                      |
| Short leaseholds                      | unexpired period of the lease |
| Property adaptation costs             | 10-15 years                   |
| Computer equipment                    | up to 5 years                 |
| Other equipment                       | 4-15 years                    |

Assets on operating leases are depreciated over their estimated useful lives on a straight-line or reverse-annuity basis.

- 15 Derivatives** A description of the derivatives into which the Group enters for both trading and non-trading purposes is given on page 31 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** Derivatives held for trading purposes are recognised in the accounts at fair value. Gains or losses arising from changes in fair value are included in dealing profits in the consolidated profit and loss account. Fair value is based on quoted market prices. Where representative market prices are not available, the fair value is determined from current market information using appropriate pricing or valuation models. Adjustments are made to quoted market prices where appropriate to cover credit risk, liquidity risk and future operational costs. In the consolidated balance sheet, positive fair values (assets) of trading derivatives are included in Other assets and negative fair values (liabilities) in Other liabilities. Positive and negative fair values of trading derivatives are offset where the contracts have been entered into under master netting agreements or other arrangements that give a legally enforceable right of set-off.

**Non-trading** Non-trading derivatives are entered into by the Group to hedge exposures arising from transactions entered into in the normal course of banking activities. They are recognised in the accounts in accordance with the accounting treatment of the underlying transaction or transactions being hedged. To be classified as non-trading, a derivative must significantly reduce the risk inherent in the hedged item from potential movements in interest rates, exchange rates and market values. In addition, there must be a demonstrable link to an underlying transaction, pool of transactions or specified future transaction or transactions. Specified future transactions must be reasonably certain to arise 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 remeasured at fair value and any resulting profit or loss amortised over the remaining life of the underlying transaction or transactions being hedged. If a hedged item is derecognised, or a specified future transaction is no longer likely to occur, the related non-trading derivative is remeasured at fair value and the resulting profit or loss taken to the profit and loss account.

**16 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.

## Changes in accounting presentation

The following changes to the accounting presentation adopted by the Group have been made to give a fairer presentation of the results of the enlarged Group.

- a** Interest receivable and interest payable on trading assets and liabilities previously shown in net interest income are now included in dealing profits. As a result of this change there are reductions of £217 million and £143 million in interest receivable for the 15 months ended 31 December 2000 and for the year ended 30 September 1999 respectively, reductions in interest payable of £201 million and £135 million for the 15 months ended 31 December 2000 and for the year ended 30 September 1999 respectively and an increase of £16 million for the 15 months ended 31 December 2000 and £8 million for the year ended 30 September 1999 in dealing profits.
- b** Fraud losses, formerly included in provisions for bad and doubtful debts are now included in administrative expenses. The charge for bad and doubtful debt provisions has decreased by £16 million for the 15 months ended 31 December 2000 and £10 million for the year ended 30 September 1999, with a corresponding increase in administrative expenses – other.
- c** Credit card processing costs are now reported in fees and commissions payable increasing this profit and loss caption by £49 million for the 15 months ended 31 December 2000 and £36 million for the year ended 30 September 1999 and reducing administrative expenses – other.
- d** Following an analysis of staff costs, transfers have been made within administrative expenses: £26 million and £18 million from staff costs to other for the 15 months ended 31 December 2000 and 12 months ended 30 September 1999 respectively, and £43 million and £27 million from premises and equipment to staff costs for the 15 months ended 31 December 2000 and 12 months ended 30 September 1999 respectively.

Comparative figures have been restated to reflect these changes in presentation which do not affect profit before tax, total assets or shareholders' funds.

# Consolidated profit and loss account

for the 15 months ended 31 December 2000

|   | Note | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|------|---|--|
| Interest receivable   |      |   |  |
| – interest receivable and similar income arising from debt securities |      | 1,649   | 814  |
| – other interest receivable and similar income                        |      | 12,845  | 4,039  |
| Interest payable  |      | (8,707)   | (3,105)  |
| <b>Net interest income</b>  |      | <b>5,787</b>                                    | 1,748  |
| Dividend income   |      | 54  | 34   |
| Fees and commissions receivable                                       |      | 3,885   | 1,081  |
| Fees and commissions payable  |      | (746)   | (129)  |
| Dealing profits   | 1    | 1,003   | 199  |
| Other operating income  |      | 959   | 459  |
|   |      | <b>5,155</b>                                    | 1,644  |
| General insurance   |      |   |  |
| – earned premiums   |      | 1,608   | 869  |
| – reinsurance   |      | (442)   | (159)  |
| <b>Non-interest income</b>  |      | <b>6,321</b>                                    | 2,354  |
| <b>Total income*</b>  |      | <b>12,108</b>                                   | 4,102  |
| Administrative expenses   |      |   |  |
| – staff costs   | 2    | 3,547   | 1,012  |
| – premises and equipment  |      | 817   | 271  |
| – other   |      | 1,615   | 460  |
| Depreciation and amortisation   |      |   |  |
| – tangible fixed assets   |      | 786   | 278  |
| – goodwill  |      | 541   | 1  |
| <b>Operating expenses</b>   |      | <b>7,306</b>                                    | 2,022  |
| <b>Profit before other operating charges</b>                          |      | <b>4,802</b>                                    | 2,080  |
| General insurance   |      |   |  |
| – gross claims  |      | 1,205   | 720  |
| – reinsurance   |      | (347)   | (130)  |
| <b>Profit before provisions for bad and doubtful debts</b>            |      | <b>3,944</b>                                    | 1,490  |
| Provisions for bad and doubtful debts                                 | 14   | 629   | 266  |
| Amounts written off fixed asset investments                           |      | 42  | 13   |
| <b>Group operating profit* (carried forward)</b>                      |      | <b>3,273</b>                                    | 1,211  |

All items dealt with in arriving at Group operating profit relate to continuing operations.

\*The acquisition of NatWest, excluding the cost of funding the acquisition, contributed approximately £6,153 million to total income and approximately £1,869 million to Group operating profit (see Note 41 (a)). Other acquisitions during the 15 months ended 31 December 2000 contributed approximately £326 million to total income and approximately £49 million to Group operating profit, excluding the costs of funding the acquisitions (see Note 41 (b)).



|  | Note | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|------|---|--|
| <b>Group operating profit</b> ( <i>brought forward</i> ) |      | <b>3,273</b>                                    | 1,211  |
| Profit on disposal of businesses                         | 4    | <b>100</b>                                      | —  |
| <b>Profit on ordinary activities before tax</b>          | 5    | <b>3,373</b>                                    | 1,211  |
| Tax on profit on ordinary activities                     | 6    | <b>1,157</b>                                    | 361  |
| <b>Profit on ordinary activities after tax</b>           |      | <b>2,216</b>                                    | 850  |
| Minority interests (including non-equity)                | 33   | <b>(47)</b>                                     | 6  |
| <b>Profit after minority interests</b>                   |      | <b>2,169</b>                                    | 856  |
| Preference dividends – non equity                        | 7    | <b>322</b>                                      | 80   |
| <b>Profit attributable to ordinary shareholders</b>      |      | <b>1,847</b>                                    | 776  |
| Ordinary dividends                                       | 8    | <b>882</b>                                      | 254  |
| <b>Retained profit</b>                                   | 35   | <b>965</b>                                      | 522  |
| <br>   |      |   |  |
| <b>Earnings per 25p ordinary share</b>                   | 10   | <b>90.0p</b>                                    | 87.8p  |
| Adjustments:   |      |   |  |
| Integration costs  |      | <b>14.0p</b>                                    | —  |
| Goodwill amortisation                                    |      | <b>25.8p</b>                                    | —  |
| Profit on disposal of businesses                         |      | <b>(3.4p)</b>                                   | —  |
| <b>Adjusted earnings per 25p ordinary share</b>          |      | <b>126.4p</b>                                   | 87.8p  |
| <br>   |      |   |  |
| <b>Diluted earnings per 25p ordinary share</b>           |      | <b>88.9p</b>                                    | 86.6p  |

*Note:* Adjusted earnings per share has been calculated to show the effect of excluding integration costs, goodwill amortisation and profit on disposal of businesses.

# Consolidated balance sheet

at 31 December 2000

|  | Note | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|------|---------------------------|----------------------------|
| <b>Assets</b>  |      |                           |                            |
| Cash and balances at central banks                       |      | 3,049                     | 1,394                      |
| Items in the course of collection from other banks       |      | 2,961                     | 1,655                      |
| Treasury bills and other eligible bills                  | 11   | 3,316                     | 701                        |
| Loans and advances to banks                              | 12   | 32,061                    | 10,375                     |
| Loans and advances to customers                          | 13   | 168,076                   | 49,340                     |
| Debt securities  | 16   | 57,789                    | 15,389                     |
| Equity shares  | 17   | 1,553                     | 913                        |
| Interests in associated undertakings                     | 18   | 83                        | 43                         |
| Intangible fixed assets                                  | 21   | 12,080                    | 11                         |
| Tangible fixed assets                                    | 22   | 6,121                     | 2,526                      |
| Other assets   | 23   | 18,034                    | 3,326                      |
| Prepayments and accrued income                           |      | 4,182                     | 1,166                      |
|  |      | <b>309,305</b>            | 86,839                     |
| Long-term assurance assets attributable to policyholders | 24   | 10,699                    | 2,013                      |
| <b>Total assets</b>                                      |      | <b>320,004</b>            | 88,852                     |

|  | Note | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|------|---------------------------|----------------------------|
| <b>Liabilities</b>                                       |      |                           |                            |
| Deposits by banks  | 25   | 35,130                    | 6,418                      |
| Items in the course of transmission to other banks       |      | 1,707                     | 975                        |
| Customer accounts  | 26   | 177,302                   | 55,180                     |
| Debt securities in issue                                 | 27   | 19,407                    | 9,199                      |
| Other liabilities  | 28   | 32,959                    | 4,634                      |
| Accruals and deferred income                             |      | 7,172                     | 2,582                      |
| Provisions for liabilities and charges                   |      |                           |                            |
| – deferred taxation                                      | 29   | 1,224                     | 465                        |
| – other provisions                                       | 30   | 306                       | 6                          |
| Subordinated liabilities                                 |      |                           |                            |
| – dated loan capital                                     | 31   | 6,316                     | 1,917                      |
| – undated loan capital including convertible debt        | 32   | 4,120                     | 1,115                      |
| Minority interests                                       |      |                           |                            |
| – equity   |      | (34)                      | 108                        |
| – non-equity   | 33   | 580                       | 38                         |
| Called up share capital                                  | 34   | 848                       | 224                        |
| Share premium account                                    | 35   | 6,530                     | 2,130                      |
| Merger reserve   | 35   | 12,604                    | —                          |
| Reserves   | 35   | 191                       | 147                        |
| Revaluation reserve                                      | 35   | 40                        | 17                         |
| Profit and loss account                                  | 35   | 2,903                     | 1,684                      |
| Shareholders' funds                                      |      |                           |                            |
| – equity   |      | 19,081                    | 2,852                      |
| – non-equity   | 34   | 4,035                     | 1,350                      |
|  |      | 309,305                   | 86,839                     |
| Long-term assurance liabilities to policyholders         |      | 10,699                    | 2,013                      |
| <b>Total liabilities</b>                                 |      | <b>320,004</b>            | <b>88,852</b>              |
| <b>Memorandum items:</b>                                 |      |                           |                            |
| Contingent liabilities                                   | 40   | 10,671                    | 2,728                      |
| Commitments (standby facilities, credit lines and other) | 40   | 94,431                    | 20,922                     |

The accounts were approved by the board of directors on 28 February 2001 and signed on its behalf by:

Viscount Younger of Leckie  
Chairman

Fred Goodwin  
Group Chief Executive

Fred Watt  
Group Finance Director

# Statement of consolidated total recognised gains and losses

for the 15 months ended 31 December 2000

|  | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|---|--|
| Profit attributable to ordinary shareholders         | 1,847   | 776  |
| Currency translation adjustments and other movements | 26  | 5  |
| Revaluation of premises                              | 24  | 28   |
| <b>Total recognised gains and losses</b>             | <b>1,897</b>                                    | <b>809</b>                                       |

## Note of consolidated historical cost profits and losses

for the 15 months ended 31 December 2000

|   | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|---|--|
| Profit on ordinary activities before tax  | 3,373   | 1,211  |
| Realisation of premises revaluation gains of previous years                                       | 1   | 1  |
| <b>Historical cost profit on ordinary activities before tax</b>                                   | <b>3,374</b>                                    | <b>1,212</b>                                     |
| <b>Historical cost profit for the period retained after tax, minority interests and dividends</b> | <b>966</b>                                      | <b>523</b>                                       |

## Reconciliation of movements in consolidated shareholders' funds

for the 15 months ended 31 December 2000

|  | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|---|--|
| Profit attributable to ordinary shareholders             | 1,847   | 776  |
| Ordinary dividends                                       | (882)   | (254)  |
| Retained profit for the period                           | 965   | 522  |
| Issue of ordinary and preference shares                  | 18,032  | 613  |
| Redemption of preference shares                          | (300)   | —  |
| Other recognised gains and losses                        | 50  | 33   |
| Currency translation adjustment on share premium account | 184   | 23   |
| Write-back of goodwill                                   | —   | 28   |
| Other movements  | (17)  | 30   |
| Net increase in shareholders' funds                      | 18,914  | 1,249  |
| Shareholders' funds at 1 October                         | 4,202   | 2,953  |
| <b>Shareholders' funds at 31 December/30 September</b>   | <b>23,116</b>                                   | <b>4,202</b>                                     |

# Consolidated cash flow statement

for the 15 months ended 31 December 2000

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|  | Note | 15 months<br>ended<br>31 December<br>2000<br>£m | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|------|---|---|--|--|
| <b>Net cash inflow from operating activities</b>                                 | 42   |   | <b>11,328</b>                                   |  | <b>4,998</b>                                     |
| Dividends received from associated undertakings                                  |      |   | 2   |  | —  |
| <b>Returns on investments and servicing of finance</b>                           |      |   |   |  |  |
| Preference dividends paid  |      | (256)   |   | (81)   |  |
| Dividends paid to minority shareholders in subsidiary undertakings               |      | (38)  |   | —  |  |
| Interest paid on subordinated liabilities  |      | (802)   |   | (214)  |  |
| <b>Net cash outflow from returns on investments<br/>and servicing of finance</b> |      |   | <b>(1,096)</b>                                  |  | <b>(295)</b>                                     |
| <b>Taxation</b>  |      |   |   |  |  |
| UK tax paid  |      | (515)   |   | (221)  |  |
| Overseas tax paid  |      | (212)   |   | (90)   |  |
| <b>Net cash outflow from taxation</b>  |      |   | <b>(727)</b>                                    |  | <b>(311)</b>                                     |
| <b>Capital expenditure and financial investment</b>                              |      |   |   |  |  |
| Purchase of investment securities  |      | (17,873)  |   | (12,225)   |  |
| Sale and maturity of investment securities                                       |      | 12,672  |   | 9,574  |  |
| Purchase of tangible fixed assets  |      | (1,356)   |   | (830)  |  |
| Sale of tangible fixed assets  |      | 575   |   | 66   |  |
| <b>Net cash outflow from capital expenditure and<br/>financial investment</b>    |      |   | <b>(5,982)</b>                                  |  | <b>(3,415)</b>                                   |
| <b>Acquisitions and disposals</b>  |      |   |   |  |  |
| Purchase of businesses and subsidiary undertakings (net of cash acquired)        | 43   | (4,138)   |   | (29)   |  |
| Investment in associated undertakings  | 18   | (6)   |   | —  |  |
| Sale of subsidiary and associated undertakings (net of cash sold)                | 44   | 1,224   |   | 45   |  |
| <b>Net cash (outflow)/inflow from acquisitions and disposals</b>                 |      |   | <b>(2,920)</b>                                  |  | <b>16</b>  |
| <b>Ordinary equity dividends paid</b>  |      |   | <b>(386)</b>                                    |  | <b>(138)</b>                                     |
| <b>Net cash inflow before financing</b>  |      |   | <b>219</b>                                      |  | <b>855</b>                                       |
| <b>Financing</b>   |      |   |   |  |  |
| Proceeds from issue of ordinary share capital                                    |      | 2,173   |   | 35   |  |
| Proceeds from issue of preference share capital                                  |      | 2,510   |   | 490  |  |
| Redemption of preference share capital   |      | (300)   |   | —  |  |
| Issue of subordinated liabilities  |      | 294   |   | 538  |  |
| Repayments of subordinated liabilities   |      | (146)   |   | (104)  |  |
| Increase in minority interests   |      | 75  |   | 61   |  |
| <b>Net cash inflow from financing</b>  |      |   | <b>4,606</b>                                    |  | <b>1,020</b>                                     |
| <b>Increase in cash</b>  | 47   |   | <b>4,825</b>                                    |  | <b>1,875</b>                                     |

# Balance sheet – the company

at 31 December 2000

|   | Note | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|------|---------------------------|----------------------------|
| <b>Fixed assets</b>                             |      |                           |                            |
| Investments:                                    |      |                           |                            |
| Shares in Group undertakings                    | 19   | 14,816                    | 4,773                      |
| Loans to Group undertakings                     | 20   | 1,348                     | 1,437                      |
|   |      | <b>16,164</b>             | <b>6,210</b>               |
| <b>Current assets</b>                           |      |                           |                            |
| Debtors:  |      |                           |                            |
| Due by subsidiary undertakings                  |      | 1,415                     | 383                        |
| Debtors and prepayments                         |      | 108                       | —                          |
|   |      | <b>1,523</b>              | <b>383</b>                 |
| <b>Creditors</b>                                |      |                           |                            |
| Amounts falling due within one year:            |      |                           |                            |
| Due to banks                                    |      | 77                        | 70                         |
| Debt securities in issue                        |      | 1,613                     | —                          |
| Due to subsidiary undertakings                  |      | —                         | 55                         |
| Other creditors                                 |      | 120                       | 19                         |
| Proposed final dividend                         | 8    | 629                       | 181                        |
|   |      | <b>2,439</b>              | <b>325</b>                 |
|   |      | <b>(916)</b>              | <b>58</b>                  |
| <b>Net current (liabilities)/assets</b>         |      |                           |                            |
| <b>Total assets less current liabilities</b>    |      | <b>15,248</b>             | <b>6,268</b>               |
| <b>Creditors</b>                                |      |                           |                            |
| Amounts falling due beyond one year:            |      |                           |                            |
| Loan from subsidiary undertaking                |      | 685                       | 77                         |
| Dated loan capital                              | 31   | 665                       | 620                        |
| Undated loan capital including convertible debt | 32   | 606                       | 549                        |
|   |      | <b>1,956</b>              | <b>1,246</b>               |
| <b>Capital and reserves</b>                     |      |                           |                            |
| Called up share capital                         | 34   | 848                       | 224                        |
| Share premium account                           | 35   | 6,530                     | 2,130                      |
| Reserves  | 35   | 6                         | 20                         |
| Revaluation reserve                             | 35   | 2,512                     | 2,609                      |
| Profit and loss account                         | 35   | 3,396                     | 39                         |
| <b>Shareholders' funds</b>                      |      |                           |                            |
| – equity  |      | 9,257                     | 3,672                      |
| – non-equity                                    | 34   | 4,035                     | 1,350                      |
|   |      | <b>15,248</b>             | <b>6,268</b>               |

The accounts were approved by the board of directors on 28 February 2001 and signed on its behalf by:

Viscount Younger of Leckie  
Chairman

Fred Goodwin  
Group Chief Executive

Fred Watt  
Group Finance Director

**1 Dealing profits**

|  | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|--|--|
| Foreign exchange <sup>(1)</sup>          | <b>404</b>   | 119  |
| Securities                               |  |  |
| Equities <sup>(2)</sup>                  | <b>68</b>  | 34   |
| Debt <sup>(3)</sup>                      | <b>345</b>   | 45   |
| Interest rate derivatives <sup>(4)</sup> | <b>186</b>   | 1  |
|  | <b>1,003</b>   | 199  |

Dealing profits include interest income and expense recognised on trading-related interest-earning assets and interest-bearing liabilities.

- (1) Includes spot and forward foreign exchange contracts and currency swaps, futures and options and related hedges and funding.
- (2) Includes equities and equity derivatives and related hedges and funding.
- (3) Includes debt securities and related hedges and funding.
- (4) Includes interest rate swaps, forward rate agreements, interest rate options, interest rate futures and credit derivatives and related hedges and funding.

**2 Administrative expenses – staff costs**

|                            | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
|----------------------------|--|--|
| Wages and salaries         | <b>2,732</b>   | 797  |
| Social security costs      | <b>199</b>   | 58   |
| Pension costs (see Note 3) | <b>144</b>   | 61   |
| Other staff costs          | <b>472</b>   | 96   |
|                            | <b>3,547</b>   | 1,012  |

The average number of persons employed by the Group during the period, excluding temporary staff, was 83,300 (30 September 1999 – 36,500).

**3 Pension costs**

The Group operates a number of pension schemes throughout the world. The major schemes are defined-benefit schemes whose assets are independent of the Group's finances. The total pension cost for the Group was £144 million (1999 – £61 million). On the acquisition of National Westminster Bank Plc, a surplus of £1,070 million on its major schemes was recognised in the consolidated balance sheet, and is being amortised over the average future service life of members of the schemes. At 31 December 2000, there was a pension cost prepayment of £90 million (1999 – nil).

There are two major UK pension schemes – The Royal Bank of Scotland Staff Pension Scheme and the National Westminster Bank Pension Fund. Scheme valuations are carried out by independent professionally qualified actuaries to determine pension costs, using the projected unit method; any imbalance between assets and liabilities is adjusted over the average future service life of members of the scheme. The assumptions that have the most significant effect on the results of the valuations are those relating to the valuation rate of interest and the rates of increases in salaries and pensions.

### 3 Pension costs (continued)

The latest formal valuation of The Royal Bank of Scotland Staff Pension Scheme took place on 30 September 1999 and that for the National Westminster Bank Pension Fund on 31 March 1998. The results of these valuations, the principal actuarial assumptions and the pension costs relating to these schemes were:

|   | The Royal Bank of Scotland<br>Staff Pension Scheme<br>30 September 1999 | National Westminster Bank<br>Pension Fund<br>31 March 1998 |
|---|---|--|
| Market value of scheme assets (£m)                | 2,041   | 9,501  |
| Funding level                                     | 119%  | 118%   |
| Valuation rate of interest                        |   |  |
| past service liabilities (per annum)              | 6.5%  | 7.25%  |
| future service liabilities (per annum)            | 7.0%  | 7.25%  |
| Salary growth (per annum) (1)                     | 4.5%  | 4.5%   |
| Pension increases (per annum)                     | 2.5-2.75%   | 3.0%   |
| Dividend increases (per annum)                    | n/a (2)   | 4.0%   |
| Price inflation (per annum)                       | 2.75%   | 3.0%   |
|   | 15 months to<br>31 December 2000<br>£m                                  | 6 March 2000 to<br>31 December 2000<br>£m                  |
| Pension costs for the period                      |   |  |
| Regular cost                                      | 75  | 115  |
| Variation   | (45)  | (95)   |
| Amortisation of surplus recognised on acquisition | —   | 63   |
| Net pension cost                                  | 30  | 83   |

(1) In addition allowance is made for promotional salary increases.

(2) Not relevant to the basis of valuation adopted.

Five of NatWest's UK defined benefit schemes merged with the National Westminster Bank Pension Fund on 1 April 1999.

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

### 4 Exceptional items

An exceptional gain of £100 million (tax charge £31 million) was realised from the sale of the investor services business. This business made neither a profit nor a loss in the period from 1 October 1999 up to the date of disposal.

### 5 Profit on ordinary activities before tax

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

|  | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|---|--|
| <b>Income</b>  |   |  |
| Aggregate amounts receivable under finance leases,<br>hire purchase and conditional sale contracts | 1,550   | 300  |
| Aggregate amounts receivable under operating leases  | 714   | 291  |
| Profit on disposals of investment securities and associated undertakings                           | 345   | 112  |
| Share of associated undertakings' income   | 1   | 5  |
| <b>Expenses</b>  |   |  |
| Operating lease rentals of premises  | 238   | 60   |
| Operating lease rentals of computers and other equipment   | 10  | 4  |
| Finance charges on leased assets   | 41  | 19   |
| Interest on subordinated liabilities   | 750   | 251  |
| Reorganisation and integration expenditure relating to:  |   |  |
| – acquisition of National Westminster Bank Plc   | 345   | —  |
| – other acquisitions   | 56  | —  |
| Goodwill amortisation  | 541   | 1  |

### Auditors' remuneration

The auditors' remuneration for statutory audit work was £100,000 for the company (30 September 1999 – £60,300) and £4.9 million for the Group (30 September 1999 – £2.4 million). Remuneration paid to the current auditors of the company for non-audit work in the 15 months ended 31 December 2000 was £4.0 million for the Group. Remuneration paid to the former auditors of the company up to the date of their resignation, for non-audit work, was £5.1 million and £9.4 million in the year ended 30 September 1999.



## 6 Tax on profit on ordinary activities

|   | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|---|--|
| Based on the profit for the period:                   |   |  |
| UK corporation tax at 30% (30 September 1999 – 30.5%) | 782   | 270  |
| Relief for overseas taxation                          | (38)  | (5)  |
| Deferred taxation                                     | 220   | 39   |
|   | <b>964</b>                                      | <b>304</b>                                       |
| Overseas taxation                                     | 191   | 64   |
|   | <b>1,155</b>                                    | <b>368</b>                                       |
| Share of associated undertakings                      | 2   | 1  |
|   | <b>1,157</b>                                    | <b>369</b>                                       |
| Prior year items – UK                                 | —   | (8)  |
|   | <b>1,157</b>                                    | <b>361</b>                                       |

The tax charge of £1,157 million, equivalent to 34% of profit before tax of £3,373 million, is higher than the standard UK tax rate of 30% mainly due to goodwill amortisation, which is not allowable for UK tax.

## 7 Preference dividends

|   | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|---|--|
| Non-cumulative preference shares of US\$0.01                    | 149   | 81   |
| Non-cumulative convertible preference shares of US\$0.01        | 76  | —  |
| Non-cumulative convertible preference shares of €0.01           | 25  | —  |
| Non-cumulative convertible preference shares of £0.25           | 66  | —  |
| Non-cumulative preference shares of £0.01                       | 1   | —  |
| 11% cumulative preference shares of £1 (1)                      | —   | —  |
| 5.5% cumulative preference shares of £1 (2)                     | —   | —  |
| Appropriation for premium payable on redemption and issue costs | 5   | (1)  |
| Total non-equity dividends                                      | <b>322</b>                                      | <b>80</b>  |

(1) Dividends paid in the 15 months ended 31 December 2000 amounted to £82,500 (30 September 1999 – £55,000).

(2) Dividends paid in the 15 months ended 31 December 2000 amounted to £33,000 (30 September 1999 – £22,000).

## 8 Ordinary dividends

|                                  | 15 months<br>ended<br>31 December<br>2000<br>p per share | 12 months<br>ended<br>30 September<br>1999<br>p per share | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|----------------------------------|--|---|---|--|
| Interim – paid 13 October 2000   | 9.5  | 8.2   | 253   | 73   |
| Proposed final                   | 23.5   | 20.3  | 629   | 181  |
| Total dividends on equity shares | <b>33.0</b>  | <b>28.5</b>   | <b>882</b>                                      | <b>254</b>                                       |

## 9 Profit dealt with in the accounts of the company

Of the profit attributable to ordinary shareholders, £4,401 million (30 September 1999 – £271 million) has been dealt with in the accounts of the company.

**10 Earnings per ordinary share**

The earnings per share figures disclosed on page 53 are based on the following:

|   | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|--|--|
| Earnings:   |  |  |
| Profit attributable to ordinary shareholders                                  | <b>1,847</b>   | 776  |
|   |  | Number of shares – millions                      |
| Number of ordinary shares:  |  |  |
| Weighted average number of ordinary shares in issue during the period         | <b>2,053</b>   | 884  |
| Effect of dilutive share options and convertible non-equity shares            | <b>26</b>  | 12   |
| Diluted weighted average number of ordinary shares in issue during the period | <b>2,079</b>   | 896  |

**11 Treasury bills and other eligible bills**

|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
|---|------------------------------------|----------------------------|
| Treasury bills and similar securities     | <b>1,308</b>                       | 106                        |
| Other eligible bills                      | <b>2,008</b>                       | 595                        |
|   | <b>3,316</b>                       | 701                        |
| Banking business                          | <b>479</b>                         | 698                        |
| Trading business                          | <b>2,837</b>                       | 3                          |
| Amounts above include:                    |                                    |                            |
| Subject to sale and repurchase agreements | <b>101</b>                         | —                          |

Treasury and other eligible bills are principally of short term maturity and their market value is not materially different from carrying value.

**12 Loans and advances to banks**

|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
|---|------------------------------------|----------------------------|
| Repayable on demand                       | <b>7,578</b>                       | 4,408                      |
| Remaining maturity                        |                                    |                            |
| – three months or less                    | <b>17,167</b>                      | 4,244                      |
| – one year or less but over three months  | <b>6,671</b>                       | 1,167                      |
| – five years or less but over one year    | <b>390</b>                         | 320                        |
| – over five years                         | <b>269</b>                         | 236                        |
|   | <b>32,075</b>                      | 10,375                     |
| Specific bad and doubtful debt provisions | <b>(14)</b>                        | —                          |
|   | <b>32,061</b>                      | 10,375                     |
| Banking business                          | <b>20,014</b>                      | 9,265                      |
| Trading business                          | <b>12,047</b>                      | 1,110                      |

### 13 Loans and advances to customers

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| On demand or short notice                             | 18,141                    | 5,566                      |
| Remaining maturity                                    |                           |                            |
| – three months or less                                | 32,624                    | 8,056                      |
| – one year or less but over three months              | 19,673                    | 5,984                      |
| – five years or less but over one year                | 37,413                    | 9,239                      |
| – over five years                                     | 63,364                    | 21,232                     |
|   | <b>171,215</b>            | 50,077                     |
| General and specific bad and doubtful debt provisions | <b>(3,139)</b>            | (737)                      |
|   | <b>168,076</b>            | 49,340                     |
| Banking business                                      | <b>154,454</b>            | 48,626                     |
| Trading business                                      | <b>13,622</b>             | 714                        |

Amounts above include:

|  |       |       |
|--|-------|-------|
| Due from associated undertakings – unsecured                           | 154   | 25    |
| Amounts receivable under finance leases                                | 7,010 | 2,583 |
| Amounts receivable under hire purchase and conditional sale agreements | 3,376 | 969   |

The cost of assets acquired during the period for the purpose of letting under finance leases and hire purchase agreements was £3,770 million (30 September 1999 – £1,083 million).

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).

### 14 Provisions for bad and doubtful debts

|   | 15 months ended 31 December 2000 |               |              | 12 months ended 30 September 1999 |               |             |
|---|----------------------------------|---------------|--------------|-----------------------------------|---------------|-------------|
|   | Specific<br>£m                   | General<br>£m | Total<br>£m  | Specific<br>£m                    | General<br>£m | Total<br>£m |
| At 1 October  | 567                              | 170           | 737          | 454                               | 179           | 633         |
| Currency translation adjustments                    | 32                               | 12            | 44           | 9                                 | 1             | 10          |
| Acquisition of NatWest                              | 1,916                            | 394           | 2,310        | —                                 | —             | —           |
| Acquisition of other subsidiaries (disposals)       | 81                               | (1)           | 80           | —                                 | —             | —           |
| Amounts written off                                 | (824)                            | —             | (824)        | (226)                             | —             | (226)       |
| Recoveries of amounts written off in previous years | 177                              | —             | 177          | 54                                | —             | 54          |
| Transfers between provisions                        | 16                               | (16)          | —            | 12                                | (12)          | —           |
| Charge to profit and loss account                   | 620                              | 9             | 629          | 264                               | 2             | 266         |
| At 31 December/30 September                         | <b>2,585</b>                     | <b>568</b>    | <b>3,153</b> | 567                               | 170           | 737         |

### 15 Interest in suspense

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

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Loans and advances on which interest is being placed in suspense: |                           |                            |
| – before specific provisions                                      | 1,044                     | 342                        |
| – after specific provisions                                       | 560                       | 230                        |
| Loans and advances on which interest is not being applied:        |                           |                            |
| – before specific provisions                                      | 2,177                     | 548                        |
| – after specific provisions                                       | 689                       | 93                         |

**16 Debt securities**

|   | 31 December<br>2000<br>Book value<br>£m | 31 December<br>2000<br>Valuation<br>£m | 30 September<br>1999<br>Book value<br>£m | 30 September<br>1999<br>Valuation<br>£m |
|---|---|--|--|---|
| Investment securities:                                    |   |  |  |   |
| British government  | 885                                     | 886                                    | 600                                      | 593                                     |
| Other government  | 6,286                                   | 6,293                                  | 2,288                                    | 2,218                                   |
| Other public sector bodies                                | 847                                     | 860                                    | 107                                      | 107                                     |
| Bank and building society                                 | 3,589                                   | 3,593                                  | 1,623                                    | 1,627                                   |
| Other issuers   | 14,879                                  | 14,848                                 | 5,632                                    | 5,522                                   |
|   | <b>26,486</b>                           | <b>26,480</b>                          | 10,250                                   | 10,067                                  |
| Other debt securities:                                    |   |  |  |   |
| British government  | 1,398                                   | 1,398                                  | 240                                      | 234                                     |
| Other government  | 13,617                                  | 13,617                                 | 184                                      | 192                                     |
| Other public sector bodies                                | 194                                     | 194                                    | —  | —                                       |
| Bank and building society                                 | 4,947                                   | 4,947                                  | 4,084                                    | 4,084                                   |
| Other issuers   | 11,147                                  | 11,147                                 | 631                                      | 631                                     |
|   | <b>57,789</b>                           | <b>57,783</b>                          | 15,389                                   | 15,208                                  |
| Due within one year                                       | 14,682                                  |  | 5,720                                    |   |
| Due one year and over                                     | 43,107                                  |  | 9,669                                    |   |
|   | <b>57,789</b>                           |  | <b>15,389</b>                            |   |
| Investment securities:                                    |   |  |  |   |
| Listed  | 16,847                                  | 16,876                                 | 7,237                                    | 7,068                                   |
| Unlisted  | 9,639                                   | 9,604                                  | 3,013                                    | 2,999                                   |
|   | <b>26,486</b>                           | <b>26,480</b>                          | 10,250                                   | 10,067                                  |
| Other debt securities:                                    |   |  |  |   |
| Listed  | 9,885                                   | 9,885                                  | 1,043                                    | 1,043                                   |
| Unlisted  | 21,418                                  | 21,418                                 | 4,096                                    | 4,098                                   |
|   | <b>57,789</b>                           | <b>57,783</b>                          | 15,389                                   | 15,208                                  |
| Banking business  | 27,546                                  |  | 10,250                                   |   |
| Trading business  | 30,243                                  |  | 5,139                                    |   |
| Amounts above include:                                    |   |  |  |   |
| Subordinated debt securities                              | 416                                     |  | 108                                      |   |
| Unamortised discounts on investment securities            | 23                                      |  | 29                                       |   |
| Debt securities subject to sale and repurchase agreements | 20,738                                  |  | 1,136                                    |   |

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

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

|  | Cost<br>£m    | Discounts and<br>premiums<br>£m | Provisions<br>£m | Book value<br>£m |
|--|---------------|---------------------------------|------------------|------------------|
| At 1 October 1999                      | 10,281        | (18)                            | (13)             | 10,250           |
| Currency translation adjustments       | 1,000         | (2)                             | (1)              | 997              |
| Acquisition of subsidiaries            | 14,231        | (31)                            | (40)             | 14,160           |
| Additions                              | 17,162        | (59)                            | —                | 17,103           |
| Maturities and disposals               | (11,875)      | 49                              | 39               | (11,787)         |
| Disposal of businesses                 | (4,211)       | —                               | —                | (4,211)          |
| Transfers                              | 10            | —                               | —                | 10               |
| Provisions written off                 | (1)           | —                               | 1                | —                |
| Amortisation of discounts and premiums | —             | (36)                            | —                | (36)             |
| At 31 December 2000                    | <b>26,597</b> | <b>(97)</b>                     | <b>(14)</b>      | <b>26,486</b>    |

## 17 Equity shares

|                        | 31 December<br>2000<br>Book value<br>£m | 31 December<br>2000<br>Valuation<br>£m | 30 September<br>1999<br>Book value<br>£m | 30 September<br>1999<br>Valuation<br>£m |
|------------------------|---|--|--|---|
| Investment securities: |   |  |  |   |
| Listed                 | 1,084                                   | 1,691                                  | 599                                      | 1,059                                   |
| Unlisted               | 353                                     | 403                                    | 205                                      | 205                                     |
|                        | 1,437                                   | 2,094                                  | 804                                      | 1,264                                   |
| Other securities:      |   |  |  |   |
| Listed                 | 116                                     | 116                                    | 109                                      | 109                                     |
|                        | 1,553                                   | 2,210                                  | 913                                      | 1,373                                   |
| Banking business       | 1,547                                   |  | 804                                      |   |
| Trading business       | 6                                       |  | 109                                      |   |

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<br>£m | Provisions<br>£m | Book value<br>£m |
|------------------------------------|------------|------------------|------------------|
| At 1 October 1999                  | 831        | (27)             | 804              |
| Currency translation adjustments   | 8          | —                | 8                |
| Acquisition of subsidiaries        | 497        | (73)             | 424              |
| Additions                          | 808        | —                | 808              |
| Disposals                          | (611)      | 71               | (540)            |
| Provisions made net of write backs | (3)        | (40)             | (43)             |
| Transfers                          | (24)       | —                | (24)             |
| At 31 December 2000                | 1,506      | (69)             | 1,437            |

## 18 Interests in associated undertakings

Movements in interests in associated undertakings were as follows:

|                                    | Share of<br>net assets<br>£m |
|------------------------------------|------------------------------|
| At 1 October 1999                  | 43                           |
| Currency translation adjustments   | (1)                          |
| On the acquisition of subsidiaries | 42                           |
| Additions                          | 6                            |
| Disposals                          | (1)                          |
| Other movements                    | (3)                          |
| Share of profits and losses        | (3)                          |
| At 31 December 2000                | 83                           |

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

|                             | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|-----------------------------|---------------------------|----------------------------|
| Cost                        | 147                       | 110                        |
| Provisions                  | (66)                      | (52)                       |
| At 31 December/30 September | 81                        | 58                         |

An analysis of interests in associated undertakings is as follows:

|                  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|------------------|---------------------------|----------------------------|
| Banks – unlisted | 18                        | 14                         |
| Others           | 65                        | 29                         |
|                  | 83                        | 43                         |

**18 Interests in associated undertakings** (continued)

The principal associated undertakings are:

|  |  | Total issued share<br>and loan capital at<br>31 December 2000 | %<br>held | Share of results<br>based on accounts<br>made up to | Nature of<br>business |
|--|--|---|-----------|---|-----------------------|
| Banco Santander, Portugal S.A.<br>(incorporated in Portugal) | 31.1m ordinary shares of Esc 1,000<br>Esc 17.5m loan capital |   | 12.8      | 31 December*  | Banking               |
| Linea Directa Aseguradora S.A.<br>(incorporated in Spain)    | 2,400m 5 Ptas ordinary shares                                |   | 50.0      | 31 December*  | Insurance             |

\*Incorporating unaudited interim accounts.

Banco Santander, Portugal S.A. operates in Portugal and Linea Directa Aseguradora S.A. operates in Spain. Dividends receivable from associated undertakings (excluding related tax credits) totalled £2 million (1999 – £1 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 influence.

**19 Principal subsidiary undertakings**

The principal subsidiary undertakings of the company are shown below. All of the undertakings with the exception of National Westminster Bank Plc are unlisted and, their capital consists of ordinary and preference shares. The Bank, NatWest and RBS Life Holdings are owned by the company, and all of the other subsidiary undertakings are owned directly, or indirectly through intermediate holding companies, by the Bank or by NatWest and are all wholly-owned unless otherwise indicated.

|  | Nature of<br>business               | Country of<br>incorporation<br>and principal<br>area of operation |
|--|-------------------------------------|---|
| The Royal Bank of Scotland plc                   | Banking                             | Great Britain   |
| Citizens Financial Group, Inc                    | Banking                             | USA   |
| Direct Line Insurance plc                        | Insurance                           | Great Britain   |
| Royal Bank Leasing Limited                       | Leasing and hire purchase           | Great Britain   |
| The Royal Bank of Scotland International Limited | Banking                             | Jersey  |
| National Westminster Bank Plc                    | Banking                             | Great Britain   |
| Coutts & Co (1)                                  | Private Banking                     | Great Britain   |
| Coutts Bank (Switzerland) Limited                | Private Banking                     | Switzerland   |
| Greenwich Capital Markets Inc                    | Broker dealer                       | USA   |
| NatWest Offshore Limited                         | Banking                             | Isle of Man   |
| Lombard North Central PLC                        | Banking, credit finance and leasing | Great Britain   |
| National Westminster Bank Home Loans Limited     | Home mortgage finance               | Great Britain   |
| RBS Life Holdings Limited                        | Life assurance                      | Great Britain   |
| Ulster Bank Limited (2)                          | Banking                             | Northern Ireland  |

(1) Coutts & Co is incorporated with unlimited liability.

(2) Ulster Bank Limited and its subsidiary undertakings also operate in the Republic of Ireland.

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

|   | £m            |
|---|---------------|
| At 1 October 1999                                 | 4,773         |
| Currency translation adjustments                  | 125           |
| Additions (1)                                     | 10,015        |
| Decrease in net assets of subsidiary undertakings | (97)          |
| At 31 December 2000                               | <b>14,816</b> |

On the historical cost basis, shares in subsidiary undertakings at 31 December 2000 would have been included at a cost of £12,306 million (30 September 1999 – £2,166 million).

(1) The acquisition of NatWest in March 2000 was recorded by the holding company at the nominal value of shares issued, plus expenses, of £7,916 million.

**20 Loans to subsidiary undertakings**

| Movements during the year:       | £m           |
|----------------------------------|--------------|
| At 1 October 1999                | 1,437        |
| Currency translation adjustments | 100          |
| Additions and other movements    | 2            |
| Repayments                       | (191)        |
| At 31 December 2000              | <b>1,348</b> |

**21 Intangible fixed assets**

|   | 15 months<br>ended<br>31 December<br>2000<br>£m |
|---|---|
| Goodwill  |   |
| Cost:   |   |
| At 1 October 1999                               | 12  |
| Arising on the acquisition of NatWest           | 11,390  |
| Arising on other acquisitions during the period | 1,133   |
| Currency translation adjustments                | 92  |
| Disposals                                       | (5)   |
| At 31 December 2000                             | <b>12,622</b>                                   |
| Amortisation:                                   |   |
| At 1 October 1999                               | 1   |
| Charge for the period                           | 541   |
| At 31 December 2000                             | <b>542</b>                                      |
| Net book value at 31 December 2000              | <b>12,080</b>                                   |
| Net book value at 30 September 1999             | <b>11</b>                                       |

**22 Tangible fixed assets**

|  | Freehold<br>premises<br>£m | Long<br>leasehold<br>premises<br>£m | Short<br>leasehold<br>premises<br>£m | Computers<br>and other<br>equipment<br>£m | Assets on<br>operating<br>leases<br>£m | Total<br>£m  |
|--|----------------------------|-------------------------------------|--------------------------------------|---|--|--------------|
| Cost or valuation:                         |                            |                                     |                                      |   |  |              |
| At 1 October 1999                          | 523                        | 29                                  | 116                                  | 1,330                                     | 1,539                                  | 3,537        |
| Currency translation adjustments           | 12                         | 1                                   | 5                                    | 11  | —                                      | 29           |
| Reclassifications                          | 83                         | (5)                                 | 5                                    | (83)                                      | —                                      | —            |
| Acquisition of subsidiaries                | 1,610                      | 239                                 | 337                                  | 2,061                                     | 1,652                                  | 5,899        |
| Additions                                  | 40                         | 33                                  | 22                                   | 305                                       | 956                                    | 1,356        |
| Disposals                                  | (118)                      | (8)                                 | (22)                                 | (469)                                     | (580)                                  | (1,197)      |
| Disposal of businesses                     | —                          | —                                   | —                                    | (27)                                      | —                                      | (27)         |
| Revaluation adjustments                    | 26                         | (2)                                 | —                                    | —   | —                                      | 24           |
| At 31 December 2000                        | <b>2,176</b>               | <b>287</b>                          | <b>463</b>                           | <b>3,128</b>                              | <b>3,567</b>                           | <b>9,621</b> |
| Consisting of:                             |                            |                                     |                                      |   |  |              |
| At valuation                               | 841                        | 140                                 | —                                    | —   | —                                      | 981          |
| At cost                                    | 1,335                      | 147                                 | 463                                  | 3,128                                     | 3,567                                  | 8,640        |
|  | <b>2,176</b>               | <b>287</b>                          | <b>463</b>                           | <b>3,128</b>                              | <b>3,567</b>                           | <b>9,621</b> |
| Accumulated depreciation and amortisation: |                            |                                     |                                      |   |  |              |
| At 1 October 1999                          | —                          | —                                   | 45                                   | 699                                       | 267                                    | 1,011        |
| Currency translation adjustments           | —                          | —                                   | 2                                    | 3   | —                                      | 5            |
| Reclassifications                          | 31                         | —                                   | —                                    | (31)                                      | —                                      | —            |
| Acquisition of subsidiaries                | 364                        | 86                                  | 183                                  | 1,362                                     | 282                                    | 2,277        |
| Disposals                                  | (24)                       | —                                   | (10)                                 | (395)                                     | (142)                                  | (571)        |
| Disposal of businesses                     | —                          | —                                   | —                                    | (8)                                       | —                                      | (8)          |
| Charge for the period                      | 37                         | 5                                   | 17                                   | 329                                       | 398                                    | 786          |
| At 31 December 2000                        | <b>408</b>                 | <b>91</b>                           | <b>237</b>                           | <b>1,959</b>                              | <b>805</b>                             | <b>3,500</b> |
| Net book value at 31 December 2000         | <b>1,768</b>               | <b>196</b>                          | <b>226</b>                           | <b>1,169</b>                              | <b>2,762</b>                           | <b>6,121</b> |
| Net book value at 30 September 1999        | 523                        | 29                                  | 71                                   | 631                                       | 1,272                                  | 2,526        |

**22 Tangible fixed assets** *(continued)*

On the historical cost basis, the Group's freehold and long leasehold premises would have been included at £1,726 million (30 September 1999 – £437 million).

From 2000, freehold and long leasehold properties are revalued on a rolling basis, each property being valued at least every five years. Interim valuations outwith the 5 year cycle will be carried out on properties where there is an indication that its value has changed significantly, given market conditions.

The directors are not aware of any material change in the valuation of the properties.

Where properties are occupied by the Group they are valued on the basis of Existing Use Value, except for certain specialised properties which are valued on a Depreciated Replacement Cost basis. All other properties (vacant, surplus to requirements, externally let) are valued to reflect Open Market Value. Valuations are carried out by internal and external qualified surveyors who are members of the Royal Institution of Chartered Surveyors or, in the case of some overseas properties, locally qualified valuers.

|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
|---|------------------------------------|----------------------------|
| Land and buildings occupied for own use                         | <b>2,027</b>                       | 578                        |
| Investment properties   | <b>36</b>                          | 36                         |
| Properties under development                                    | <b>90</b>                          | 15                         |
| Properties to be disposed of                                    | <b>37</b>                          | 1                          |
| Net book value at period end                                    | <b>2,190</b>                       | 630                        |
|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
| Net book value of assets held under finance leases              | <b>28</b>                          | —                          |
| Depreciation for the period of assets held under finance leases | <b>2</b>                           | —                          |
|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
| Future expenditure:   |                                    |                            |
| Contracts not provided for in the accounts at period end        | <b>85</b>                          | 8                          |

**23 Other assets**

|                     | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m |
|---------------------|------------------------------------|----------------------------|
| Derivatives         | <b>10,299</b>                      | 1,150                      |
| Settlement balances | <b>1,617</b>                       | 741                        |
| Other assets        | <b>6,118</b>                       | 1,435                      |
|                     | <b>18,034</b>                      | 3,326                      |



## 24 Long-term assurance business

The long-term assurance assets and liabilities attributable to policyholders comprise:

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| Investments  | 10,992                    | 2,053                      |
| Value of in-force policies                                 | 402                       | 170                        |
| Computers and other equipment                              | 6                         | 4                          |
| Net current assets   | 4                         | (38)                       |
|  | <b>11,404</b>             | 2,189                      |
| Long-term assurance business attributable to shareholders* | <b>(705)</b>              | (176)                      |
|  | <b>10,699</b>             | 2,013                      |

The increase in the shareholders' interest in the long-term assurance fund included in the profit and loss account is calculated as follows:

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Increase in value for the period before tax | 34                        | 55                         |
| Tax   | (10)                      | (7)                        |
| Increase in value for the period after tax  | <b>24</b>                 | 48                         |

\*The value placed on long-term assurance business is calculated by discounting estimated future flows of statutory profits from in-force business at a discount rate that includes a risk margin. The future flows are based on prudent assumptions about long-term economic and business experience determined with the advice of qualified actuaries. The risk margin is designed to reflect uncertainties in expected future flows.

The key assumptions used are:

|  | 31 December<br>2000<br>% | 30 September<br>1999<br>% |
|--|--------------------------|---------------------------|
| Risk discount rate (net of tax)                | 10.0                     | 10.0                      |
| Growth of unit-linked funds (gross of tax)     | 7.25                     | 7.5                       |
| Growth of non-unit-linked funds (gross of tax) | 6.0                      | 5.0                       |
| Basic tax rate                                 | 22.0                     | 23.0                      |
| Shareholder taxation – life                    | 29.0                     | 30.0                      |
| Expense inflation                              | 3.75                     | 4.0                       |

## 25 Deposits by banks

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| Repayable on demand  | 12,455                    | 1,890                      |
| With agreed maturity dates or periods of notice, by remaining maturity |                           |                            |
| – three months or less   | 19,985                    | 2,703                      |
| – one year or less but over three months                               | 1,912                     | 1,398                      |
| – five years or less but over one year                                 | 447                       | 94                         |
| – over five years  | 331                       | 333                        |
|  | <b>35,130</b>             | 6,418                      |
| Banking business   | <b>27,749</b>             | 5,425                      |
| Trading business   | <b>7,381</b>              | 993                        |

**26 Customer accounts**

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| Repayable on demand  | <b>96,837</b>             | 35,925                     |
| With agreed maturity dates or periods of notice, by remaining maturity |                           |                            |
| – three months or less   | <b>69,300</b>             | 14,759                     |
| – one year or less but over three months                               | <b>6,404</b>              | 3,150                      |
| – five years or less but over one year                                 | <b>2,771</b>              | 947                        |
| – over five years  | <b>1,990</b>              | 399                        |
|  | <b>177,302</b>            | 55,180                     |
| Banking business   | <b>159,595</b>            | 55,037                     |
| Trading business   | <b>17,707</b>             | 143                        |
| Amounts above include:   |                           |                            |
| Due to associated undertakings   | <b>28</b>                 | 1                          |

**27 Debt securities in issue**

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Bonds and medium term notes, by remaining maturity    |                           |                            |
| – one year or less                                    | <b>2,224</b>              | 1,090                      |
| – two years or less but over one year                 | <b>483</b>                | 656                        |
| – five years or less but over two years               | <b>3,949</b>              | 1,751                      |
| – over five years                                     | <b>1,149</b>              | 1,042                      |
|   | <b>7,805</b>              | 4,539                      |
| Other debt securities in issue, by remaining maturity |                           |                            |
| – three months or less                                | <b>9,021</b>              | 3,404                      |
| – one year or less but over three months              | <b>2,517</b>              | 1,190                      |
| – two years or less but over one year                 | <b>54</b>                 | 28                         |
| – five years or less but over two years               | <b>10</b>                 | 38                         |
|   | <b>11,602</b>             | 4,660                      |
|   | <b>19,407</b>             | 9,199                      |
| Banking business                                      | <b>19,407</b>             | 9,199                      |

Issues are made under the Bank's £5.0 billion euro medium term note programme from time to time. Notes issued, which have a minimum maturity of six months from the date of issue, are included in the above amounts.

**28 Other liabilities**

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Notes in circulation                              | <b>1,369</b>              | 873                        |
| Derivatives                                       | <b>12,269</b>             | 1,451                      |
| Settlement balances                               | <b>2,398</b>              | 790                        |
| Short positions:                                  |                           |                            |
| Debt securities – Government                      | <b>10,640</b>             | 261                        |
| – Other issuers                                   | <b>2,161</b>              | 51                         |
| Current taxation                                  | <b>934</b>                | 185                        |
| Proposed dividends                                | <b>675</b>                | 181                        |
| Obligations under finance leases (analysed below) | <b>335</b>                | 190                        |
| Other liabilities                                 | <b>2,178</b>              | 652                        |
|   | <b>32,959</b>             | 4,634                      |

**Obligations under finance leases** are analysed as follows:

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| Amounts falling due within one year            | <b>156</b>                | 20                         |
| Amounts falling due between one and five years | <b>58</b>                 | 47                         |
| Amounts falling due after more than five years | <b>121</b>                | 123                        |
|  | <b>335</b>                | 190                        |

## 29 Deferred taxation

Provision for deferred taxation has been made at 30% (30 September 1999 – 30%) being the anticipated rate of UK corporation tax when the liability is expected to crystallise.

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| Short-term timing differences                                      | (66)                      | (100)                      |
| Capital allowances   | 1,234                     | 523                        |
| Deferred gains   | 56                        | 42                         |
|  | <b>1,224</b>              | <b>465</b>                 |
| Movements during the period: <span style="float: right;">£m</span> |                           |                            |
| At 1 October 1999  | 465                       |                            |
| Currency translation adjustments                                   | (19)                      |                            |
| Acquisition of subsidiaries  | 474                       |                            |
| Charge to profit and loss account                                  |                           |                            |
| – current period   | 220                       |                            |
| – prior period   | 84                        |                            |
| At 31 December 2000  | <b>1,224</b>              |                            |

No provision has been made for the following potential amounts of deferred taxation:

|                               | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|-------------------------------|---------------------------|----------------------------|
| Short-term timing differences | 4                         | —                          |
| Capital allowances            | 259                       | 138                        |
|                               | <b>263</b>                | <b>138</b>                 |

Provision is also not made for any liability which might arise in the event of:

- (i) Group undertakings and properties being realised at balance sheet values. Most of these assets are expected to be retained for the long term. In view of the large number of properties involved and rules relating to roll-over relief, it is considered that no useful purpose would be served by quantifying the potential amounts involved.
- (ii) The resources of overseas subsidiary and associated undertakings being remitted. A substantial proportion of such resources are required to be retained by the overseas undertakings to meet local regulatory requirements.

## 30 Other provisions

|                                   | Property<br>£m | Pensions and<br>other similar<br>obligations<br>£m | Other<br>£m | Total<br>£m |
|-----------------------------------|----------------|--|-------------|-------------|
| At 1 October 1999                 | —              | 6  | —           | 6           |
| Currency translation adjustments  | —              | 6  | 2           | 8           |
| Acquisition of subsidiaries       | 268            | 16   | 42          | 326         |
| Charge to profit and loss account | 18             | 6  | 18          | 42          |
| Provisions utilised               | (71)           | —  | (5)         | (76)        |
| At 31 December 2000               | <b>215</b>     | <b>34</b>  | <b>57</b>   | <b>306</b>  |

**31 Dated loan capital**

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| <b>The company</b>   |                           |                            |
| £200 million floating rate (minimum 5.25%) notes 2005 (1,2)                            | 200                       | 200                        |
| US\$400 million 6.4% subordinated notes 2009 (1)                                       | 267                       | 241                        |
| US\$300 million 6.375% subordinated notes 2011 (1)                                     | 198                       | 179                        |
|  | <b>665</b>                | <b>620</b>                 |
| <b>The Royal Bank of Scotland plc</b>  |                           |                            |
| £125 million subordinated floating rate notes 2005 (3)                                 | 125                       | 125                        |
| £150 million 8.375% subordinated notes 2007  | 149                       | 149                        |
| DEM500 million 5.25% subordinated notes 2008   | 158                       | 164                        |
| €300 million 4.875% subordinated notes 2009  | 186                       | 192                        |
| US\$150 million floating rate notes 2009 (3)   | 100                       | 91                         |
| £35 million floating rate step-up subordinated notes 2010 (issued 15 August 2000) (4)  | 35                        | —                          |
| £150 million 10.5% subordinated bonds 2013 (5)   | 149                       | 149                        |
| £250 million 9.625% subordinated bonds 2015  | 246                       | 246                        |
| US\$125.6 million floating rate subordinated notes 2020 (issued 18 September 2000) (6) | 84                        | —                          |
| <b>RBSG Capital Corporation</b>  |                           |                            |
| US\$250 million 10.125% guaranteed capital notes 2004 (1,5)                            | 167                       | 151                        |
| <b>National Westminster Bank Plc</b>   |                           |                            |
| £100 million 11.75% subordinated notes 2001  | 102                       | —                          |
| US\$750 million 9.45% subordinated notes 2001 (7)                                      | 506                       | —                          |
| US\$250 million guaranteed floating rate subordinated notes 2002                       | 168                       | —                          |
| US\$500 million 9.375% guaranteed capital notes 2003 (8)                               | 350                       | —                          |
| £100 million 12.5% subordinated unsecured loan stock 2004                              | 116                       | —                          |
| US\$400 million guaranteed floating rate capital notes 2005                            | 265                       | —                          |
| US\$1,000 million 7.375% subordinated notes 2009                                       | 656                       | —                          |
| US\$650 million floating rate subordinated step-up notes 2009 (callable October 2004)  | 437                       | —                          |
| €600 million 6% subordinated notes 2010  | 367                       | —                          |
| £300 million 8.125% step-up subordinated notes 2011 (callable December 2006)           | 308                       | —                          |
| €500 million 5.125% subordinated notes 2011  | 286                       | —                          |
| £300 million 7.875% subordinated notes 2015  | 327                       | —                          |
| £300 million 6.5% subordinated notes 2021  | 299                       | —                          |
| <b>Greenwich Capital Holdings Inc.</b>   |                           |                            |
| US\$100 million subordinated loan capital 2001 floating rate notes                     | 65                        | —                          |
| <b>RBSTB (Holdings) Limited</b>  |                           |                            |
| £30 million convertible unsecured loan stock 2016 (9)                                  | —                         | 30                         |
|  | <b>6,316</b>              | <b>1,917</b>               |
| <b>Dated loan capital in issue, by remaining maturity, repayable</b>                   |                           |                            |
| – in one year or less  | 713                       | —                          |
| – in two years or less but over one year   | 208                       | 40                         |
| – in five years or less but over two years   | 1,580                     | 120                        |
| – in more than five years  | 3,815                     | 1,757                      |
|  | <b>6,316</b>              | <b>1,917</b>               |

(1) On-lent to The Royal Bank of Scotland plc on a subordinated basis.

(2) Repayable in five equal annual instalments in May in each of the years 2001 to 2005.

(3) Repayable in whole, at the option of The Royal Bank of Scotland plc, prior to maturity, on conditions governing the respective debt obligation, including prior approval of the UK Financial Services Authority.

- (4) Net proceeds received £35 million.
- (5) Unconditionally guaranteed by the company.
- (6) Net proceeds received US\$125.6 million, £86 million.
- (7) Not redeemable prior to maturity except in the event that payments thereunder become subject to certain taxes. The notes are subordinated to the claims of depositors and other creditors of National Westminster Bank Plc except for claims which by their terms rank equally with or are subordinated to the notes.
- (8) Loan due by a subsidiary undertaking and on-lent to National Westminster Bank Plc on a subordinated basis. It has been guaranteed as to the payment of principal and interest by National Westminster Bank Plc.
- (9) Converted on 31 October 1999 into fully paid ordinary shares of RBSTB (Holdings) Limited.
- (10) On 18 March 2000, US\$180 million guaranteed floating rate capital notes issued by National Westminster Finance BV and on-lent to National Westminster Bank Plc matured.
- (11) On 31 July 2000, £2 million subordinated unsecured loan stock, Series A and B, issued by National Westminster Bank Plc matured.
- (12) 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 of the UK Financial Services Authority.
- (13) Except as stated above, claims in respect of the Group's dated loan capital are subordinated to the claims of other creditors. None of the Group's dated loan capital is secured.
- (14) Interest payable on Group floating rate dated issues is at a margin over London interbank rates. Interest on £1,550 million, US\$3,200 million, €1,400 million and DEM500 million of fixed rate dated issues is swapped into floating rates at a margin over London interbank rates.

**32 Undated loan capital including convertible debt**

|  | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|--|---------------------------|----------------------------|
| The company  |                           |                            |
| US\$350 million undated floating rate primary capital notes (callable on any interest payment date) <sup>(1,2)</sup> | 235                       | 214                        |
| US\$200 million 8.5% exchangeable capital securities, Series A (callable June 2004) <sup>(1,3)</sup>                 | 132                       | 119                        |
| US\$50 million undated 7.993% capital securities (callable November 2005) <sup>(1)</sup>                             | 33                        | 30                         |
| US\$35 million undated 7.755% capital securities (callable December 2005) <sup>(1)</sup>                             | 23                        | 21                         |
| US\$200 million undated 7.375% reset capital securities (callable April 2006)  | 133                       | 120                        |
| US\$75 million floating rate perpetual capital securities (callable September 2007) <sup>(1)</sup>                   | 50                        | 45                         |
|  | <b>606</b>                | <b>549</b>                 |
| The Royal Bank of Scotland plc   |                           |                            |
| £125 million 9.25% undated subordinated step-up notes (callable April 2006)  | 124                       | 124                        |
| £150 million undated subordinated floating rate step-up notes (callable March 2007)                                  | 149                       | 149                        |
| FRF1,000 million 5.875% undated subordinated notes (callable October 2008)   | 94                        | 97                         |
| £175 million 7.375% undated subordinated notes (issued 10 August 2000; callable August 2010) <sup>(4)</sup>          | 173                       | —                          |
| £200 million 9.5% undated subordinated bonds (callable August 2018) <sup>(5)</sup>                                   | 196                       | 196                        |
| National Westminster Bank Plc  |                           |                            |
| US\$500 million primary capital floating rate notes, Series A (callable on any interest payment date)                | 335                       | —                          |
| US\$500 million primary capital floating rate notes, Series B (callable on any interest payment date)                | 335                       | —                          |
| US\$500 million primary capital floating rate notes, Series C (callable on any interest payment date)                | 335                       | —                          |
| US\$500 million 7.875% exchangeable capital securities (callable November 2003) <sup>(6)</sup>                       | 305                       | —                          |
| US\$500 million 7.75% reset subordinated notes (callable October 2007)   | 326                       | —                          |
| €100 million floating rate undated subordinated step-up notes (callable October 2009)                                | 62                        | —                          |
| €400 million 6.625% fixed / floating rate undated subordinated notes (callable October 2009)                         | 246                       | —                          |
| £325 million 7.625% undated subordinated step-up notes (callable January 2010)                                       | 332                       | —                          |
| £200 million 7.125% undated subordinated step-up notes (callable October 2022)                                       | 203                       | —                          |
| £200 million 11.5% undated subordinated notes (callable December 2022) <sup>(7)</sup>                                | 299                       | —                          |
|  | <b>4,120</b>              | <b>1,115</b>               |

- (1) On-lent to The Royal Bank of Scotland plc on a subordinated basis.
- (2) Interest is payable at a rate of 1/4% per annum over an average calculated by reference to six month euro dollar deposits in London for each interest period.
- (3) Redeemable 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. 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, into the company's non-cumulative dollar preference shares of US\$0.01 each.
- (4) Net proceeds received £173 million.
- (5) Guaranteed by the company.
- (6) Exchangeable at the option of the issuer into 20 million 8.75% (gross) non-cumulative dollar preference shares of US\$25 each of National Westminster Bank Plc at any time.
- (7) Exchangeable at the option of the issuer into 200 million 8.392% (gross) non-cumulative sterling preference shares of £1 each of National Westminster Bank Plc at any time.
- (8) Except as stated above, claims in respect of the Group's undated loan capital are subordinated to the claims of other creditors. None of the Group's undated loan capital is secured.
- (9) Except as stated above, interest payable on Group floating rate undated issues is at a margin over London interbank rates. Interest on £1,025 million, US\$985 million and €400 million of fixed rate undated issues is swapped into floating rates at a margin over London interbank rates.
- (10) Where the issuer has the ability to redeem the undated loan capital, this is subject to prior approval of the UK Financial Services Authority.

**33 Minority interests – non-equity**

|   | At<br>31 December<br>2000<br>£m | At<br>30 September<br>1999<br>£m |
|---|---------------------------------|----------------------------------|
| <b>Non-equity shares issued by NatWest</b>                |                                 |                                  |
| Non-cumulative preference shares of US\$25 <sup>(1)</sup> | <b>337</b>                      | —                                |
| Non-cumulative preference shares of £1 <sup>(2)</sup>     | <b>166</b>                      | —                                |
| Total   | <b>503</b>                      | —                                |
| Other non-equity minority interests                       | <b>77</b>                       | 38                               |
|   | <b>580</b>                      | 38                               |

- (1) The US\$250 million non-cumulative preference shares, Series B, of \$25 each which carry a gross dividend of 8.75% inclusive of associated tax credit, are redeemable at the option of NatWest exercisable to 9 June 2003, at a premium per share of \$0.90 in 2000 reducing by \$0.30 in each successive year. There is no redemption premium if the date of redemption falls after 9 June 2003.

The US\$300 million non-cumulative preference shares, Series C, of \$25 each carry a gross dividend of 8.625% inclusive of associated tax credit. They are redeemable at the option of NatWest from 9 April 2002 to 8 April 2003 inclusive, at a premium per share of \$1.50 in 2002 reducing by \$0.30 in each successive year. There is no redemption premium if the date of redemption falls after 8 April 2007.

- (2) The £140 million 9% non-cumulative sterling preference shares, Series A, of £1 each are non-redeemable.
- (3) Minority interests in the consolidated profit and loss account includes £41 million (30 September 1999 – nil) in respect of non-equity interests.

**34 Share capital**

|  | Allotted, called up and fully paid |                                      |  | Authorised                      |                                 |                                  |
|--|------------------------------------|--------------------------------------|--|---------------------------------|---------------------------------|----------------------------------|
|  | At<br>1 October<br>1999<br>£m      | Issued<br>during the<br>period<br>£m | Redeemed<br>during<br>the period<br>£m | At<br>31 December<br>2000<br>£m | At<br>31 December<br>2000<br>£m | At<br>30 September<br>1999<br>£m |
| <b>Equity shares</b>                                     |                                    |                                      |  |                                 |                                 |                                  |
| Ordinary shares of 25p                                   | 222                                | 447                                  | —                                      | 669                             | 1,020                           | 260                              |
| Non-voting deferred shares of £0.01                      | —                                  | —                                    | —                                      | —                               | 323                             | —                                |
| Total equity share capital                               | 222                                | 447                                  | —                                      | 669                             | 1,343                           | 260                              |
| <b>Non-equity shares</b>                                 |                                    |                                      |  |                                 |                                 |                                  |
| Additional Value Shares of £0.01                         | —                                  | 27                                   | —                                      | 27                              | 27                              | —                                |
| Non-cumulative preference shares of US\$0.01             | 1                                  | —                                    | —                                      | 1                               | 2                               | 1                                |
| Non-cumulative convertible preference shares of US\$0.01 | —                                  | —                                    | —                                      | —                               | —                               | —                                |
| Non-cumulative preference shares of €0.01                | —                                  | —                                    | —                                      | —                               | —                               | —                                |
| Non-cumulative convertible preference shares of €0.01    | —                                  | —                                    | —                                      | —                               | —                               | —                                |
| Non-cumulative convertible preference shares of £0.25    | —                                  | 225                                  | (75)                                   | 150                             | 225                             | —                                |
| Non-cumulative convertible preference shares of £0.01    | —                                  | —                                    | —                                      | —                               | —                               | —                                |
| Cumulative preference shares of £1                       | 1                                  | —                                    | —                                      | 1                               | 1                               | 1                                |
| Non-cumulative preference shares of £1                   | —                                  | —                                    | —                                      | —                               | 300                             | 300                              |
| Total non-equity share capital                           | 2                                  | 252                                  | (75)                                   | 179                             | 555                             | 302                              |
| Total share capital                                      | 224                                | 699                                  | (75)                                   | 848                             | 1,898                           | 562                              |

| Number of shares – thousands                             | Allotted, called up and fully paid |                      | Authorised          |                      |
|--|------------------------------------|----------------------|---------------------|----------------------|
|  | 31 December<br>2000                | 30 September<br>1999 | 31 December<br>2000 | 30 September<br>1999 |
| <b>Equity shares</b>                                     |                                    |                      |                     |                      |
| Ordinary shares of 25p                                   | 2,678,273                          | 891,834              | 4,079,375           | 1,040,000            |
| Non-voting deferred shares of £0.01                      | —                                  | —                    | 32,300,000          | —                    |
| <b>Non-equity shares</b>                                 |                                    |                      |                     |                      |
| Additional Value Shares of £0.01                         | 2,660,556                          | —                    | 2,700,000           | —                    |
| Non-cumulative preference shares of US\$0.01             | 90,000                             | 90,000               | 238,500             | 113,000              |
| Non-cumulative convertible preference shares of US\$0.01 | 1,900                              | —                    | 2,000               | —                    |
| Non-cumulative preference shares of €0.01                | —                                  | —                    | 66,000              | —                    |
| Non-cumulative convertible preference shares of €0.01    | 750                                | —                    | 2,000               | —                    |
| Non-cumulative convertible preference shares of £0.25    | 600,000                            | —                    | 900,000             | —                    |
| Non-cumulative convertible preference shares of £0.01    | 200                                | —                    | 500                 | —                    |
| Cumulative preference shares of £1                       | 900                                | 900                  | 900                 | 900                  |
| Non-cumulative preference shares of £1                   | —                                  | —                    | 300,000             | 300,000              |

**Non-equity shareholders' funds** comprise:

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Additional Value Shares of £0.01                        | 27                        | —                          |
| Non-cumulative preference shares of US\$0.01            | 1,492                     | 1,349                      |
| Non-cumulative convertible preference share of US\$0.01 | 1,257                     | —                          |
| Non-cumulative convertible preference share of €0.01    | 463                       | —                          |
| Non-cumulative convertible preference share of £0.25    | 600                       | —                          |
| Non-cumulative convertible preference share of £0.01    | 195                       | —                          |
| Cumulative preference shares of £1                      | 1                         | 1                          |
|   | <b>4,035</b>              | <b>1,350</b>               |



**Ordinary shares** During the 15 months to 31 December 2000, the following issues of ordinary shares were made:

- (a) 191.5 million ordinary shares to Banco Santander Central Hispano;
- (b) 1,563.5 million ordinary shares to former NatWest shareholders;
- (c) 7.4 million ordinary shares following the exercise of options under the company's executive and sharesave schemes and a further 18.5 million ordinary shares in respect of the exercise of options under the NatWest executive and sharesave schemes which had been exchanged for options over the company's shares following the acquisition of NatWest;
- (d) 3.8 million ordinary shares in lieu of cash in respect of the final dividend for the year ended 30 September 1999 and the interim dividend for the 15 months ended 31 December 2000; and
- (e) 1.7 million ordinary shares under the company's profit sharing (share ownership) scheme.

The total consideration for ordinary shares issued during the period amounted to £15,360 million. All of these issues, except those to former NatWest shareholders, were settled in cash.

During the 15 months to 31 December 2000, options were granted over 32.2 million ordinary shares under the company's executive, sharesave and option 2000 schemes. At 31 December 2000, options under the company's schemes exercisable up to 2010 at prices ranging from 246p to 1297p per share were outstanding in respect of 51.1 million ordinary shares. In addition, options under the NatWest schemes were outstanding in respect of 38.4 million ordinary shares exercisable up to 2009 at prices ranging from 198p to 924p per share.

**Additional Value Shares** In July 2000, approximately 2.7 billion Additional Value Shares (AVS's) with a total nominal value of £27 million were issued to shareholders by way of a bonus issue.

Each AVS is expected to receive dividends, at the discretion of the directors, in aggregate of £1 per share on the following dates: 15 pence per AVS on 1 December 2001, 30 pence per AVS on 1 December 2002 and 55 pence per AVS on 1 December 2003.

If on or before 1 December 2003 aggregate dividends of £1 have not been paid in respect of each AVS, the AVSs will convert into ordinary shares and reasonable efforts will be made to procure bids so as to result in the proceeds from the sale of which ordinary shares to bring the amount per AVS equal to £1 less the aggregate amount of any dividend paid in respect of each AVS.

**Preference shares** In March 2000, the company issued:

- (a) 1 million Series 1 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$990 million;
- (b) 0.5 million Series 2 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$495 million;
- (c) 0.75 million Series 1 non-cumulative convertible euro shares of €0.01 each at €1,000 per share, the net proceeds being €742.5 million; and
- (d) 900 million category II non-cumulative convertible preference shares of 25p each at an issue price of £1 per share, the net proceeds being £900 million. In December 2000, 300 million of these shares were redeemed at a price of £1 per share.

In November 2000, the company issued 0.4 million Series 3 non-cumulative convertible dollar preference shares of US\$0.01 each at US\$1,000 per share, the net proceeds being US\$397 million.

In December 2000, the company issued 0.2 million Series 1 non-cumulative convertible preference shares of £0.01 each at £1,000 per share, the net proceeds being £198 million.

**34 Share capital (continued)**

**Non-cumulative preference shares** Non-cumulative preference shares entitle the holders thereof to receive periodic non-cumulative cash dividends at specified fixed rates for each Series payable out of distributable profits of the company.

The non-cumulative preference shares are redeemable at the option of the company, in whole or in part from time to time at the rates detailed below plus dividends otherwise payable for the then current dividend period accrued to the date of redemption.

| Class of preference share                             | Series     | Number of shares in issue | Redemption date on or after                | Redemption price per share |
|---|------------|---------------------------|--|----------------------------|
| Non-cumulative dollar preference shares               | Series B   | 8 million                 | 23 August 2000 and prior to 23 August 2001 | US\$25.28                  |
|   |            |                           | 23 August 2001                             | US\$25.00                  |
|   | Series C   | 16 million                | 27 August 2000 and prior to 27 August 2001 | US\$25.47                  |
|   |            |                           | 27 August 2001 and prior to 27 August 2002 | US\$25.23                  |
|   |            |                           | 27 August 2002                             | US\$25.00                  |
|   |            |                           | 14 September 2005                          | US\$25.00                  |
|   | Series E   | 8 million                 | 17 October 2006                            | US\$25.00                  |
|   | Series F   | 8 million                 | 31 March 2007                              | US\$25.00                  |
|   | Series G   | 10 million                | 31 March 2003                              | US\$25.00                  |
|   | Series H   | 12 million                | 31 March 2004                              | US\$25.00                  |
| Series I  | 12 million | 30 September 2004         | US\$25.00                                  |                            |
| Series J  | 9 million  | 31 December 2004          | US\$25.00                                  |                            |
| Non-cumulative convertible dollar preference shares   | Series 1   | 1 million                 | 31 March 2010                              | US\$1,000                  |
|   | Series 2   | 0.5 million               | 31 March 2005                              | US\$1,000                  |
|   | Series 3   | 0.4 million               | 31 December 2005                           | US\$1,000                  |
| Non-cumulative convertible euro preference shares     | Series 1   | 0.75 million              | 31 March 2005                              | €1,000                     |
| Non-cumulative convertible sterling preference shares | Series 1   | 0.2 million               | 31 December 2010                           | £1,000                     |

In the event that the non-cumulative convertible preference shares are not redeemed on or before the redemption date the holder may convert the non-cumulative convertible preference shares into ordinary shares in the company.

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

On a winding-up or liquidation of the company, the holders of the non-cumulative 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 preference shares as regards participation in the surplus assets of the company, a liquidation distribution of US\$25.00 per non-cumulative dollar preference share, US\$1,000 per non-cumulative convertible dollar preference share, €1,000 per non-cumulative convertible euro preference share and £1,000 per non-cumulative convertible sterling preference share, together with an amount equal to dividends for the then current 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 preference shares have no right to participate in the surplus assets of the company.

Holders of the non-cumulative 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 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 two most recent semi-annual dividend payments due on the non-cumulative convertible dollar preference shares and the most recent annual dividend payments due on the non-cumulative convertible euro preference shares and on the non-cumulative convertible sterling 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 preference shares so to vote shall continue until the company shall have resumed the payment in full of the dividends in arrears.

### 35 Reserves

|  | The<br>Group<br>£m | The<br>Company<br>£m |
|--|--------------------|----------------------|
| <b>Share premium account</b>                                       |                    |                      |
| At 1 October 1999  | 2,130              | 2,130                |
| Currency translation adjustments                                   | 184                | 184                  |
| Shares issued during the period                                    | 4,423              | 4,423                |
| Shares redeemed during the period                                  | (225)              | (225)                |
| Transfer from reserves   | 14                 | 14                   |
| Other movements  | 4                  | 4                    |
| At 31 December 2000  | <b>6,530</b>       | <b>6,530</b>         |
| <b>Merger reserve</b>  |                    |                      |
| At 1 October 1999  | —                  | —                    |
| Shares issued on the acquisition of NatWest                        | 13,071             | —                    |
| Transfer to profit and loss account                                | (467)              | —                    |
| At 31 December 2000  | <b>12,604</b>      | <b>—</b>             |
| <b>Reserves</b>  |                    |                      |
| At 1 October 1999  | 147                | 20                   |
| Transfer of increase in value of long-term life assurance business | 58                 | —                    |
| Transfer to share premium account                                  | (14)               | (14)                 |
| At 31 December 2000  | <b>191</b>         | <b>6</b>             |
| <b>Revaluation reserve</b>   |                    |                      |
| At 1 October 1999  | 17                 | 2,609                |
| Revaluation of interests in subsidiary undertakings                | —                  | (97)                 |
| Revaluation of premises  | 24                 | —                    |
| Transfer to profit and loss account                                | (1)                | —                    |
| At 31 December 2000  | <b>40</b>          | <b>2,512</b>         |
| <b>Profit and loss account</b>                                     |                    |                      |
| At 1 October 1999  | 1,684              | 39                   |
| Currency translation adjustments                                   | 24                 | —                    |
| Tax on unrealised currency translation gains                       | (2)                | —                    |
| Transfer of increase in value of long-term life assurance business | (58)               | —                    |
| Retentions for the period  | 965                | 3,519                |
| Employee share option payments                                     | (161)              | (161)                |
| Transfer from merger reserve                                       | 467                | —                    |
| Transfer from revaluation reserve                                  | 1                  | —                    |
| Other movements  | (17)               | (1)                  |
| At 31 December 2000  | <b>2,903</b>       | <b>3,396</b>         |

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 31 December 2000 (30 September 1999 – £1,140 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 15 months ended 31 December 2000, the Group received £225 million (30 September 1999 – £56 million) on the issue of 19,763,052 shares (30 September 1999 – 4,270,771 shares) in respect of options under the sharesave scheme. Employees paid £64 million (30 September 1999 – £15 million) to the Group for the issue of these shares. A transfer of £161 million (30 September 1999 – £41 million) has been made from the profit and loss account reserves to the share premium account in respect of this transaction.

Exchange losses of £123 million (1999 – gains £38 million) arising on foreign currency borrowings have been offset in the Group's profit and loss account reserves against differences on retranslating the net investment in overseas subsidiary and associated undertakings financed by these borrowings.

**36 Lease commitments**

The annual rental commitments of the Group under non-cancellable operating leases were as follows:

|                                     | 31 December 2000 |                 | 30 September 1999 |                 |
|-------------------------------------|------------------|-----------------|-------------------|-----------------|
|                                     | Premises<br>£m   | Equipment<br>£m | Premises<br>£m    | Equipment<br>£m |
| Expiring within one year            | 13               | 3               | 2                 | 1               |
| Expiring between one and five years | 38               | 8               | 8                 | 8               |
| Expiring after five years           | 154              | 1               | 42                | —               |
|                                     | <b>205</b>       | <b>12</b>       | 52                | 9               |

**37 Analysis of Group total assets and liabilities**

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Assets:                                       |                           |                            |
| denominated in sterling                       | 186,065                   | 59,329                     |
| denominated in currencies other than sterling | 133,939                   | 29,523                     |
|   | <b>320,004</b>            | 88,852                     |
| Liabilities:                                  |                           |                            |
| denominated in sterling                       | 181,759                   | 59,181                     |
| denominated in currencies other than sterling | 138,245                   | 29,671                     |
|   | <b>320,004</b>            | 88,852                     |

### 38 Derivatives

**Maturity of replacement cost of over-the-counter contracts (trading and non-trading)** Replacement cost indicates the Group's derivatives credit exposure. The following table sets forth the gross positive fair values by maturity. The net replacement cost of internal trades is not included as there is no credit risk associated with them.

|                                | 31 December 2000      |                         |                       |               | 30 September 1999     |                         |                       |              |
|--------------------------------|-----------------------|-------------------------|-----------------------|---------------|-----------------------|-------------------------|-----------------------|--------------|
|                                | Within one year<br>£m | One to five years<br>£m | Over five years<br>£m | Total<br>£m   | Within one year<br>£m | One to five years<br>£m | Over five years<br>£m | Total<br>£m  |
| Before netting:                |                       |                         |                       |               |                       |                         |                       |              |
| Exchange rate contracts        | 12,651                | 1,870                   | 463                   | 14,984        | 1,360                 | 56                      | 17                    | 1,433        |
| Interest rate contracts        | 4,510                 | 10,426                  | 7,797                 | 22,733        | 115                   | 477                     | 466                   | 1,058        |
| Equity and commodity contracts | 63                    | 45                      | 2                     | 110           | 1                     | 5                       | —                     | 6            |
|                                | <b>17,224</b>         | <b>12,341</b>           | <b>8,262</b>          | <b>37,827</b> | <b>1,476</b>          | <b>538</b>              | <b>483</b>            | <b>2,497</b> |
| Banks and investment firms     |                       |                         |                       | 31,013        |                       |                         |                       | 2,185        |
| Others                         |                       |                         |                       | 6,814         |                       |                         |                       | 312          |
|                                |                       |                         |                       | <b>37,827</b> |                       |                         |                       | <b>2,497</b> |
| Netting                        |                       |                         |                       | (27,293)      |                       |                         |                       | (1,398)      |
|                                |                       |                         |                       | <b>10,534</b> |                       |                         |                       | <b>1,099</b> |

Exchange traded contracts are excluded from the above table. Such contracts generally involve lower credit risk than over-the-counter contracts as they are cleared through exchanges that require margin from participants and the daily settlement of gains and losses.

**Trading derivatives** The following table shows the fair values of instruments in the derivatives trading portfolio.

|  | 31 December 2000                         |   | 30 September 1999                        |   |
|--|--|---|--|---|
|  | End of period fair value<br>Assets<br>£m | End of period fair value<br>Liabilities<br>£m | End of period fair value<br>Assets<br>£m | End of period fair value<br>Liabilities<br>£m |
| <b>Exchange rate contracts:</b>              |  |   |  |   |
| Spot, forwards and futures                   | 10,159                                   | 10,277  | 1,360                                    | 1,371   |
| Currency swaps                               | 2,258                                    | 2,507   | 52                                       | 56  |
| Options purchased                            | 2,511                                    | —   | 20                                       | —   |
| Options written                              | —  | 2,526   | —  | 20  |
|  | <b>14,928</b>                            | <b>15,310</b>                                 | <b>1,432</b>                             | <b>1,447</b>                                  |
| <b>Interest rate contracts:</b>              |  |   |  |   |
| Interest rate swaps                          | 20,154                                   | 21,767  | 926                                      | 1,214   |
| Options purchased                            | 1,960                                    | —   | 39                                       | —   |
| Options written                              | —  | 1,952   | —  | 72  |
| Futures and forwards                         | 455                                      | 438   | 67                                       | 53  |
|  | <b>22,569</b>                            | <b>24,157</b>                                 | <b>1,032</b>                             | <b>1,339</b>                                  |
| <b>Equity and commodity contracts</b>        | <b>95</b>                                | <b>95</b>                                     | <b>—</b>                                 | <b>—</b>                                      |
| Total before netting                         | <b>37,592</b>                            | <b>39,562</b>                                 | <b>2,464</b>                             | <b>2,786</b>                                  |
| <b>Average fair values (before netting):</b> |  |   |  |   |
| Exchange rate contracts                      | 7,962                                    | 8,176   | 1,509                                    | 1,511   |
| Interest rate contracts                      | 11,157                                   | 12,071  | 1,116                                    | 1,308   |
| Equity and commodity contracts               | 107                                      | 134   | —  | —   |
|  | <b>19,626</b>                            | <b>20,381</b>                                 | <b>2,625</b>                             | <b>2,819</b>                                  |

Gains and losses on exchange-traded contracts subject to daily margining requirements are settled daily. The fair value of such contracts included above reflects the last day's variation margin.

**38 Derivatives** (continued)

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

|                                       | 31 December 2000          |                             |                           |                | 30 September 1999         |                             |                           |              |
|---------------------------------------|---------------------------|-----------------------------|---------------------------|----------------|---------------------------|-----------------------------|---------------------------|--------------|
|                                       | Within<br>one year<br>£bn | One to<br>five years<br>£bn | Over<br>five years<br>£bn | Total<br>£bn   | Within<br>one year<br>£bn | One to<br>five years<br>£bn | Over<br>five years<br>£bn | Total<br>£bn |
| <b>Exchange rate contracts:</b>       |                           |                             |                           |                |                           |                             |                           |              |
| Spot, forwards and futures            | 468.3                     | 22.0                        | 0.1                       | 490.4          | 121.9                     | 2.9                         | 0.1                       | 124.9        |
| Currency swaps                        | 27.3                      | 27.6                        | 11.7                      | 66.6           | 0.5                       | 1.3                         | 1.2                       | 3.0          |
| Options purchased                     | 85.8                      | 4.5                         | 0.1                       | 90.4           | 1.9                       | —                           | —                         | 1.9          |
| Options written                       | 83.6                      | 3.3                         | 0.1                       | 87.0           | 1.9                       | —                           | —                         | 1.9          |
|                                       | <b>665.0</b>              | <b>57.4</b>                 | <b>12.0</b>               | <b>734.4</b>   | 126.2                     | 4.2                         | 1.3                       | 131.7        |
| <b>Interest rate contracts:</b>       |                           |                             |                           |                |                           |                             |                           |              |
| Interest rate swaps                   | 878.9                     | 763.5                       | 300.9                     | 1,943.3        | 24.7                      | 50.1                        | 17.8                      | 92.6         |
| Options purchased                     | 59.9                      | 79.7                        | 40.3                      | 179.9          | 0.2                       | 3.3                         | 0.4                       | 3.9          |
| Options written                       | 27.5                      | 78.3                        | 38.6                      | 144.4          | 1.3                       | 3.4                         | 0.3                       | 5.0          |
| Futures and forwards                  | 523.1                     | 223.9                       | 1.0                       | 748.0          | 41.0                      | 16.2                        | 3.3                       | 60.5         |
|                                       | <b>1,489.4</b>            | <b>1,145.4</b>              | <b>380.8</b>              | <b>3,015.6</b> | 67.2                      | 73.0                        | 21.8                      | 162.0        |
| <b>Equity and commodity contracts</b> | <b>0.8</b>                | <b>0.3</b>                  | <b>—</b>                  | <b>1.1</b>     | —                         | —                           | —                         | —            |

Credit derivatives are included in interest rate swaps. At 30 September 1999, there were credit derivatives held for trading purposes with a notional principal amount of £1.9 billion, positive fair value of £20 million and negative fair value of £8 million.

**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 Group 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:

|                                       | 31 December 2000 |                |                |                | 30 September 1999 |                |                |                |
|---------------------------------------|------------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|
|                                       | Fair value       |                | Book value     |                | Fair value        |                | Book value     |                |
|                                       | Positive<br>£m   | Negative<br>£m | Positive<br>£m | Negative<br>£m | Positive<br>£m    | Negative<br>£m | Positive<br>£m | Negative<br>£m |
| <b>Exchange rate contracts:</b>       |                  |                |                |                |                   |                |                |                |
| Spot, forwards and futures            | 50               | 56             | 34             | 19             | 8                 | 9              | 5              | 4              |
| Currency swaps and options            | 138              | 91             | 142            | 45             | 3                 | 19             | 2              | 13             |
|                                       | <b>188</b>       | <b>147</b>     | <b>176</b>     | <b>64</b>      | <b>11</b>         | <b>28</b>      | <b>7</b>       | <b>17</b>      |
| <b>Interest rate contracts:</b>       |                  |                |                |                |                   |                |                |                |
| Interest rate swaps                   | 1,534            | 1,559          | 941            | 1,044          | 374               | 459            | 325            | 245            |
| Futures, forwards and options         | 7                | 2              | —              | —              | 4                 | 4              | —              | —              |
|                                       | <b>1,541</b>     | <b>1,561</b>   | <b>941</b>     | <b>1,044</b>   | <b>378</b>        | <b>463</b>     | <b>325</b>     | <b>245</b>     |
| <b>Equity and commodity contracts</b> | <b>15</b>        | <b>19</b>      | <b>15</b>      | <b>19</b>      | <b>8</b>          | <b>21</b>      | <b>7</b>       | <b>21</b>      |
| <b>Total</b>                          | <b>1,744</b>     | <b>1,727</b>   | <b>1,132</b>   | <b>1,127</b>   | <b>397</b>        | <b>512</b>     | <b>339</b>     | <b>283</b>     |

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

|                                       | 31 December 2000          |                             |                           |              | 30 September 1999         |                             |                           |              |
|---------------------------------------|---------------------------|-----------------------------|---------------------------|--------------|---------------------------|-----------------------------|---------------------------|--------------|
|                                       | Within<br>one year<br>£bn | One to<br>five years<br>£bn | Over<br>five years<br>£bn | Total<br>£bn | Within<br>one year<br>£bn | One to<br>five years<br>£bn | Over<br>five years<br>£bn | Total<br>£bn |
| <b>Exchange rate contracts:</b>       |                           |                             |                           |              |                           |                             |                           |              |
| Spot, forwards and futures            | 4.2                       | —                           | —                         | 4.2          | 1.3                       | —                           | —                         | 1.3          |
| Currency swaps and options            | 1.5                       | 1.8                         | 1.6                       | 4.9          | 0.3                       | —                           | 0.4                       | 0.7          |
|                                       | <b>5.7</b>                | <b>1.8</b>                  | <b>1.6</b>                | <b>9.1</b>   | <b>1.6</b>                | <b>—</b>                    | <b>0.4</b>                | <b>2.0</b>   |
| <b>Interest rate contracts:</b>       |                           |                             |                           |              |                           |                             |                           |              |
| Interest rate swaps                   | 34.7                      | 49.7                        | 22.7                      | 107.1        | 17.1                      | 8.9                         | 5.4                       | 31.4         |
| Futures, forwards and options         | 2.8                       | 0.7                         | —                         | 3.5          | 0.2                       | 0.1                         | —                         | 0.3          |
|                                       | <b>37.5</b>               | <b>50.4</b>                 | <b>22.7</b>               | <b>110.6</b> | <b>17.3</b>               | <b>9.0</b>                  | <b>5.4</b>                | <b>31.7</b>  |
| <b>Equity and commodity contracts</b> | <b>0.3</b>                | <b>0.6</b>                  | <b>—</b>                  | <b>0.9</b>   | <b>0.3</b>                | <b>1.3</b>                  | <b>—</b>                  | <b>1.6</b>   |

Credit derivatives are included in interest rate swaps. At 30 September 1999, there were non-trading credit derivatives with a notional principal amount of £0.4 billion.

### 39 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 25 to 31 of the operating and financial review under 'risk management', financial instruments', and 'derivatives'.

**Interest rate sensitivity gap** The tables below summarise the Group's interest rate sensitivity gap for its non-trading book at 31 December 2000 and 30 September 1999. The tables show the contractual re-pricing for each category of asset, liability and for off-balance sheet items. A liability (or negative) gap position exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly or in greater proportion than liabilities during a given period and tends to benefit net interest income in a rising interest rate environment. Contractual repricing terms do not reflect the potential impact of early repayment or withdrawal. Positions may not be reflective of those in subsequent periods. Major changes in positions 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.

| At 31 December 2000      | Within<br>3 months<br>£m | After<br>3 months<br>but within<br>6 months<br>£m | After<br>6 months<br>but within<br>1 year<br>£m | After<br>1 year<br>but within<br>5 years<br>£m | After<br>5 years<br>£m | Non-<br>interest<br>bearing<br>funds<br>£m | Banking<br>book<br>total<br>£m | Trading<br>book<br>total<br>£m | Total<br>£m    |
|--------------------------|--------------------------|---|---|--|------------------------|--|--------------------------------|--------------------------------|----------------|
| <b>Assets</b>            |                          |   |   |  |                        |  |                                |                                |                |
| Loans and advances       |                          |   |   |  |                        |  |                                |                                |                |
| to banks                 | 14,238                   | 2,668   | 2,436   | 331  | 45                     | 296  | 20,014                         | 12,047                         | 32,061         |
| Loans and advances to    |                          |   |   |  |                        |  |                                |                                |                |
| customers                | 103,911                  | 8,904   | 5,391   | 25,216   | 9,546                  | 1,486                                      | 154,454                        | 13,622                         | 168,076        |
| Treasury bills and       |                          |   |   |  |                        |  |                                |                                |                |
| debt securities          | 14,958                   | 2,802   | 2,189   | 4,670  | 3,406                  | —  | 28,025                         | 33,080                         | 61,105         |
| Other assets             | —                        | —   | —   | —  | —                      | 45,038                                     | 45,038                         | 13,724                         | 58,762         |
| <b>Total assets</b>      | <b>133,107</b>           | <b>14,374</b>                                     | <b>10,016</b>                                   | <b>30,217</b>                                  | <b>12,997</b>          | <b>46,820</b>                              | <b>247,531</b>                 | <b>72,473</b>                  | <b>320,004</b> |
| <b>Liabilities</b>       |                          |   |   |  |                        |  |                                |                                |                |
| Deposits by banks        | 25,811                   | 766   | 146   | 68   | 235                    | 723  | 27,749                         | 7,381                          | 35,130         |
| Customer accounts        | 125,963                  | 3,112   | 3,020   | 2,812  | 298                    | 24,390                                     | 159,595                        | 17,707                         | 177,302        |
| Debt securities in issue | 12,572                   | 1,718   | 1,200   | 2,768  | 1,149                  | —  | 19,407                         | —                              | 19,407         |
| Subordinated liabilities | 2,687                    | 101   | 503   | 1,336  | 5,744                  | —  | 10,371                         | 65                             | 10,436         |
| Other liabilities        | 135                      | 20  | 100   | 33   | 86                     | 24,614                                     | 24,988                         | 29,625                         | 54,613         |
| Shareholders' funds      | —                        | —   | —   | —  | —                      | 22,168                                     | 22,168                         | 948                            | 23,116         |
| Internal funding of      |                          |   |   |  |                        |  |                                |                                |                |
| trading business         | (15,745)                 | (941)   | —   | —  | —                      | (61)                                       | (16,747)                       | 16,747                         | —              |
| <b>Total liabilities</b> | <b>151,423</b>           | <b>4,776</b>                                      | <b>4,969</b>                                    | <b>7,017</b>                                   | <b>7,512</b>           | <b>71,834</b>                              | <b>247,531</b>                 | <b>72,473</b>                  | <b>320,004</b> |
| Off balance sheet items  | (2,225)                  | 2,627   | 1,112   | (7,865)  | 6,351                  | —  |                                |                                |                |
| Interest rate            |                          |   |   |  |                        |  |                                |                                |                |
| sensitivity gap          | (20,541)                 | 12,225  | 6,159   | 15,335   | 11,836                 | (25,014)                                   |                                |                                |                |
| Cumulative interest rate |                          |   |   |  |                        |  |                                |                                |                |
| sensitivity gap          | (20,541)                 | (8,316)   | (2,157)   | 13,178   | 25,014                 |  |                                |                                |                |



| At 30 September 1999                        | Within<br>3 months<br>£m | After<br>3 months<br>but within<br>6 months<br>£m | After<br>6 months<br>but within<br>1 year<br>£m | After<br>1 year<br>but within<br>5 years<br>£m | After<br>5 years<br>£m | Non-<br>interest<br>bearing<br>funds<br>£m | Banking<br>book<br>total<br>£m | Trading<br>book<br>total<br>£m | Total<br>£m   |
|---|--------------------------|---|---|--|------------------------|--|--------------------------------|--------------------------------|---------------|
| <b>Assets</b>                               |                          |   |   |  |                        |  |                                |                                |               |
| Loans and advances                          |                          |   |   |  |                        |  |                                |                                |               |
| to banks                                    | 7,952                    | 557   | 323   | 154  | 279                    | —  | 9,265                          | 1,110                          | 10,375        |
| Loans and advances to<br>customers*         | 31,403                   | 3,369   | 2,386   | 8,019  | 3,449                  | —  | 48,626                         | 714                            | 49,340        |
| Treasury bills and<br>debt securities       | 4,229                    | 1,072   | 332   | 2,470  | 2,845                  | —  | 10,948                         | 5,142                          | 16,090        |
| Other assets                                | —                        | —   | —   | —  | —                      | 11,785                                     | 11,785                         | 1,262                          | 13,047        |
| <b>Total assets</b>                         | <b>43,584</b>            | <b>4,998</b>                                      | <b>3,041</b>                                    | <b>10,643</b>                                  | <b>6,573</b>           | <b>11,785</b>                              | <b>80,624</b>                  | <b>8,228</b>                   | <b>88,852</b> |
| <b>Liabilities</b>                          |                          |   |   |  |                        |  |                                |                                |               |
| Deposits by banks                           | 4,508                    | 478   | 205   | —  | 234                    | —  | 5,425                          | 993                            | 6,418         |
| Customer accounts                           | 46,073                   | 1,852   | 1,616   | 5,002  | 494                    | —  | 55,037                         | 143                            | 55,180        |
| Debt securities in issue                    | 5,113                    | 848   | 442   | 1,390  | 1,406                  | —  | 9,199                          | —                              | 9,199         |
| Subordinated liabilities                    | 807                      | 45  | —   | 270  | 1,910                  | —  | 3,032                          | —                              | 3,032         |
| Other liabilities                           | —                        | —   | —   | —  | —                      | 9,058                                      | 9,058                          | 1,763                          | 10,821        |
| Shareholders' funds                         | —                        | —   | —   | —  | —                      | 4,202                                      | 4,202                          | —                              | 4,202         |
| Internal funding of<br>trading business     | (1,019)                  | (58)  | (41)  | —  | —                      | (4,211)                                    | (5,329)                        | 5,329                          | —             |
| <b>Total liabilities</b>                    | <b>55,482</b>            | <b>3,165</b>                                      | <b>2,222</b>                                    | <b>6,662</b>                                   | <b>4,044</b>           | <b>9,049</b>                               | <b>80,624</b>                  | <b>8,228</b>                   | <b>88,852</b> |
| Off balance sheet items                     | 2,069                    | 35  | 95  | 838  | (3,037)                | —  |                                |                                |               |
| Interest rate<br>sensitivity gap            | (9,829)                  | 1,868   | 914   | 4,819  | (508)                  | 2,736                                      |                                |                                |               |
| Cumulative interest rate<br>sensitivity gap | (9,829)                  | (7,961)   | (7,047)   | (2,228)  | (2,736)                |  |                                |                                |               |

\*Restated for £737 million provisions for bad and doubtful debts previously included in other assets, non-interest bearing funds.

The tables do not indicate the effect of interest rate options used by the Group to hedge its own positions. At 31 December 2000, the Group had non-trading interest rate options purchased outstanding with a principal amount of £610 million (30 September 1999 – £56 million) and interest rate options written with a principal amount of £7 million (30 September 1999 – £56 million).

**39 Financial instruments** (continued)

**Currency risk** The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investment in overseas subsidiary and associated undertakings and their related funding.

The Group's structural currency exposures were as follows:

| Functional currency of net investment | 31 December 2000                             |   |   | 30 September 1999                            |   |   |
|---------------------------------------|--|---|---|--|---|---|
|                                       | Net investments in overseas operations<br>£m | Foreign currency borrowings hedging net investments<br>£m | Structural foreign currency exposures<br>£m | Net investments in overseas operations<br>£m | Foreign currency borrowings hedging net investments<br>£m | Structural foreign currency exposures<br>£m |
| US dollar                             | 2,426  | 2,354   | 72  | 915  | 828   | 87  |
| Euro                                  | 782  | 224   | 558   | 23   | 38  | (15)  |
| Swiss franc                           | 201  | 193   | 8   | —  | —   | —   |
| Other non-sterling                    | 86   | 83  | 3   | (31)   | —   | (31)  |
| <b>Total</b>                          | <b>3,495</b>                                 | <b>2,854</b>  | <b>641</b>                                  | <b>907</b>                                   | <b>866</b>  | <b>41</b>                                   |

**Trading book market risk** An explanation of the value-at-risk ("VaR") methodology of estimating potential losses arising from the Group's exposure to market risk in its trading book and the main assumptions and parameters underlying it is given on page pages 25 to 27.

The following table analyses the VaR for the Group's trading portfolios by type of market risk exposure at the period end and as an average for the period and the maximum and minimum for the period:

|                         | 31 December 2000 | 15 months ended 31 December 2000 |               |               | 30 September 1999 | 12 months ended 30 September 1999 |               |               |
|-------------------------|------------------|----------------------------------|---------------|---------------|-------------------|-----------------------------------|---------------|---------------|
|                         | £m               | Maximum<br>£m                    | Minimum<br>£m | Average<br>£m | £m                | Maximum<br>£m                     | Minimum<br>£m | Average<br>£m |
| Interest rate           | 9.4              | 11.7                             | 0.9           | 6.6           | 1.5               | 1.7                               | 0.7           | 1.2           |
| Currency                | 1.0              | 3.1                              | 0.2           | 1.1           | 0.3               | 0.5                               | 0.2           | 0.3           |
| Equity                  | 0.9              | 0.9                              | —             | 0.2           | —                 | —                                 | —             | —             |
| Diversification effects | (1.5)            |                                  |               |               | (0.1)             |                                   |               |               |
| <b>Total</b>            | <b>9.8</b>       | <b>12.4</b>                      | <b>1.0</b>    | <b>6.9</b>    | <b>1.7</b>        | <b>1.9</b>                        | <b>0.7</b>    | <b>1.2</b>    |

The VaR disclosures in the Group's 1999 Report and Accounts were prepared on a different basis from the accounts for the year to 30 September 1999 shown above; in particular the Group previously reported using a 97.5% confidence limit. The disclosures given for the year to 30 September 1999 are presented below to show the effect of the change in approach:

|                         | 30 September 1999 | 12 months ended 30 September 1999 |               |               |
|-------------------------|-------------------|-----------------------------------|---------------|---------------|
|                         | £m                | Maximum<br>£m                     | Minimum<br>£m | Average<br>£m |
| Interest rate           | 2.4               | 2.8                               | 0.8           | 1.8           |
| Currency                | 0.4               | 0.9                               | 0.2           | 0.4           |
| Equity                  | —                 | —                                 | —             | —             |
| Diversification effects | (0.2)             |                                   |               |               |
| <b>Total</b>            | <b>2.6</b>        | <b>2.9</b>                        | <b>1.0</b>    | <b>1.9</b>    |

**Fair values of financial instruments** The following tables set out the fair values of the Group's financial instruments. Fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale; nor are there plans to settle liabilities prior to contractual maturity. As there is a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or other financial institutions' fair value.

|  | Note | 31 December 2000<br>Carrying<br>amount<br>£m | Fair<br>value<br>£m | 30 September 1999<br>Carrying<br>amount<br>£m | Fair<br>value<br>£m |
|--|------|--|---------------------|---|---------------------|
| <b>Assets</b>                                      |      |  |                     |   |                     |
| <b>Assets carried at fair value</b>                |      |  |                     |   |                     |
| Treasury bills and other eligible bills            |      | 2,837  | 2,837               | 3   | 3                   |
| Debt securities                                    |      | 31,303                                       | 31,303              | 5,139   | 5,141               |
| Equity shares                                      |      | 116  | 116                 | 109   | 109                 |
| Derivatives  |      | 10,299                                       | 10,299              | 2,464   | 2,464               |
| <b>Other assets</b>                                |      |  |                     |   |                     |
| Cash and balances at central banks                 | (a)  | 3,049  | 3,049               | 1,394   | 1,394               |
| Items in the course of collection from other banks | (a)  | 2,961  | 2,961               | 1,655   | 1,655               |
| Treasury bills and other eligible bills            | (a)  | 479  | 479                 | 698   | 698                 |
| Loans and advances to banks and customers          | (b)  | 200,137                                      | 200,607             | 59,715  | 60,523              |
| Debt securities                                    | (c)  | 26,486                                       | 26,480              | 10,250  | 10,067              |
| Equity shares                                      | (c)  | 1,437  | 2,094               | 804   | 1,264               |
| Non-trading derivatives – net                      | (d)  | 5  | 17                  | 56  | (115)               |
| <b>Liabilities</b>                                 |      |  |                     |   |                     |
| <b>Liabilities carried at fair value</b>           |      |  |                     |   |                     |
| Short positions in securities                      |      | 12,801                                       | 12,801              | 312   | 312                 |
| Derivatives  |      | 12,269                                       | 12,269              | 2,786   | 2,786               |
| <b>Other liabilities</b>                           |      |  |                     |   |                     |
| Items in the course of transmission to other banks | (a)  | 1,707  | 1,707               | 975   | 975                 |
| Deposits by banks and customer accounts            | (e)  | 212,432                                      | 212,437             | 61,598  | 61,437              |
| Debt securities in issue                           | (f)  | 19,407                                       | 19,457              | 9,199   | 9,021               |
| Subordinated loan capital                          | (g)  | 10,436                                       | 10,485              | 3,032   | 3,102               |
| Non-equity minority interest                       | (g)  | 580  | 621                 | 38  | 38                  |
| Non-equity shareholders funds                      | (g)  | 4,035  | 6,312               | 1,350   | 1,313               |

#### Notes

- (a) Financial assets and financial liabilities where carrying value approximates to fair value because they are of short maturity.
- (b) For loans for which there has been no significant change in credit risk since inception, carrying value represents a reasonable estimate of fair value for those loans that reprice frequently or are linked to the Group's base rate. For other loans for which there has been no significant change in credit risk since inception, fair values are estimated by discounting expected future cash flows, using the current interest rates at which loans of similar maturities are being made to borrowers of similar credit quality. The fair value of non-performing loans is estimated by discounting expected cash flows. Loans and advances to banks and customers include reverse repurchase agreements totalling £24,236,000 (30 September 1999 – £1,824,000).
- (c) Fair values of marketable securities are based on quoted market prices. Where these are unavailable, fair value is estimated using other valuation techniques.
- (d) Fair values of derivatives are determined by market prices where available. Otherwise fair value is based on current market information using appropriate valuation models.
- (e) The fair value of deposits repayable on demand is equal to their carrying value. The fair values of term deposits and time certificates of deposit are estimated by discounting expected future cash flows using rates currently offered for deposits of similar remaining maturities. Deposits by banks and customer accounts include repurchase agreements totalling £26,195,000 (30 September 1999 – £1,136,000).

**39 Financial instruments** (continued)

- (f) The fair value of short-term debt securities in issue is approximately equal to their carrying value. The fair value of other debt securities in issue is based on quoted market prices where available, or where these are unavailable, is estimated using other valuation techniques.
- (g) The fair value of loan capital, non-equity minority interests and preference shares is based on quoted market prices where available. For unquoted loan capital, fair value has been estimated using other valuation techniques.
- (h) Fair values are not given for financial commitments and contingent liabilities. The diversity of the fee structures, the lack of established market and the difficulty of separating the value of the instruments from the value of the overall relationship involve such uncertainty that it is not meaningful to provide an estimate of their fair value. (The principal amounts of these instruments are given in Note 40).

**Hedges** As described in the accounting policies on pages 50 and 51, derivatives and debt securities held for hedging purposes are accounted for in accordance with the treatment of the hedged transaction. As a result any gains or losses on the hedging instrument arising from changes in fair values are not recognised in the profit and loss account immediately but are accounted for in the same manner as the hedged item.

|   | 15 months ended<br>31 December 2000       |                                       | 12 months ended<br>30 September 1999      |  |
|---|---|---------------------------------------|---|--|
|   | Unrecognised<br>gains and<br>losses<br>£m | Deferred<br>gains and<br>losses<br>£m | Unrecognised<br>gains and<br>losses<br>£m | Deferred<br>gains and<br>losses*<br>£m |
| At 1 October – gains  | 57  | 133                                   | 101                                       | 162                                    |
| – losses  | (238)                                     | (18)                                  | (124)                                     | (9)                                    |
|   | <b>(181)</b>                              | <b>115</b>                            | (23)                                      | 153                                    |
| Recognised gains that arose in previous years   | (21)                                      | (15)                                  | (23)                                      | (16)                                   |
| Recognised losses that arose in previous years  | 109                                       | 2                                     | 20  | 3                                      |
| Unrecognised gains and losses arising in the period   | 126                                       | —                                     | (155)                                     | —                                      |
| Unrecognised gains and losses deferred in the period  | 1   | (13)                                  | —   | (25)                                   |
| At 31 December/30 September   | <b>34</b>                                 | <b>89</b>                             | (181)                                     | 115                                    |
| Of which – gains  | 759                                       | 124                                   | 57  | 133                                    |
| – losses  | (725)                                     | (35)                                  | (238)                                     | (18)                                   |
|   | <b>34</b>                                 | <b>89</b>                             | (181)                                     | 115                                    |
| Gains expected to be recognised in the year to 31 December 2001<br>(year to 30 September 2000)                    | 156                                       | 17                                    | 11  | 12                                     |
| Gains expected to be recognised in the year to 31 December 2002 or later<br>(year to 30 September 2001 or later)  | 603                                       | 107                                   | 46  | 121                                    |
|   | <b>759</b>                                | <b>124</b>                            | 57  | 133                                    |
| Losses expected to be recognised in the year to 31 December 2001<br>(year to 30 September 2000)                   | (182)                                     | (7)                                   | (49)                                      | (2)                                    |
| Losses expected to be recognised in the year to 31 December 2002 or later<br>(year to 30 September 2001 or later) | (543)                                     | (28)                                  | (189)                                     | (16)                                   |
|   | <b>(725)</b>                              | <b>(35)</b>                           | (238)                                     | (18)                                   |

\*Restated to include deferred gains of £144 million at 1 October 1998 and £132 million at 30 September 1999, and deferred losses of £4 million at 1 October 1998 and £2 million at 30 September at 1999 arising on hedging debt securities.

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. No such gains or losses were recognised in the 15 months ended 31 December 2000 (12 months ended 30 September 1999 – losses of £38 million).

## 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 31 December 2000 (1999 – 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.

|   | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|---|---------------------------|----------------------------|
| Contingent liabilities:   |                           |                            |
| Acceptances and endorsements  | 830                       | 894                        |
| Guarantees and assets pledged as collateral security                          | 3,506                     | 958                        |
| Other contingent liabilities  | 6,335                     | 876                        |
|   | <b>10,671</b>             | <b>2,728</b>               |
| Commitments:  |                           |                            |
| Documentary credits and other short-term trade related transactions           | 1,495                     | 1,709                      |
| Undrawn formal standby facilities, credit lines and other commitments to lend |                           |                            |
| – less than one year  | 70,128                    | 15,145                     |
| – one year and over   | 22,345                    | 4,039                      |
| Other commitments   | 463                       | 29                         |
|   | <b>94,431</b>             | <b>20,922</b>              |

Acceptances are obligations to pay on maturity the face value of a bill of exchange to a third party. Most acceptances are short-term and extend for one year or less. By endorsing a document, the Group accepts liability for payment if it is dishonoured.

Documentary credits are commercial letters of credit providing for payment by the Group to a named beneficiary against delivery of specified documents.

Commitments to lend include commitments which are unconditionally cancellable and agreements to lend to a customer so long as all conditions established in the loan agreement have been satisfied or waived. A substantial proportion of the Group's loans is by way of overdrafts. Unutilised overdraft facilities constitute commitments to lend which, although unconditionally cancellable, are normally granted for a specific period of time. Unutilised overdraft facilities are included in commitments to lend.

Other commitments and contingent obligations usually have fixed expiry dates or other termination clauses.

Banking commitments and contingent obligations which have been entered into on behalf of customers and for which there are corresponding obligations by customers are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual notional amount of those instruments. Many commitments are expected to expire without being drawn and do not necessarily represent future cash requirements.

## 41 Acquisitions

The acquisitions made by the Group during the 15 months ended 31 December 2000 are set out below. All acquisitions have been accounted for using acquisition accounting principles.

### (a) National Westminster Bank Plc and its subsidiaries

On 6 March 2000, the Group's offer for the entire issued ordinary share capital of NatWest was declared unconditional in all respects.

The fair values of the assets and liabilities of NatWest and its subsidiaries at the date of acquisition, and the consideration paid, were as follows:

|  | Book value<br>of net assets<br>acquired<br>£m | Revaluations<br>(note i)<br>£m | Accounting<br>policy<br>alignments<br>(note ii)<br>£m | Other<br>adjustments<br>(note iii)<br>£m | Fair value<br>to the<br>Group<br>£m |
|--|---|--------------------------------|---|--|-------------------------------------|
| Cash and balances at central banks and items in the course of collection | 3,680   | —                              | —   | —  | 3,680                               |
| Treasury and other eligible bills  | 2,736   | —                              | —   | —  | 2,736                               |
| Loans and advances to banks  | 32,952  | (25)                           | —   | —  | 32,927                              |
| Loans and advances to customers  | 89,235  | (22)                           | —   | —  | 89,213                              |
| Debt securities  | 37,857  | 48                             | —   | —  | 37,905                              |
| Equity shares  | 301   | 149                            | —   | —  | 450                                 |
| Intangible fixed assets  | 533   | (533)                          | —   | —  | —                                   |
| Tangible fixed assets  | 3,574   | (130)                          | 100   | —  | 3,544                               |
| Other assets   | 22,473  | (186)                          | —   | 1,139                                    | 23,426                              |
| Subsidiaries held for resale   | 106   | 1,137                          | —   | —  | 1,243                               |
| Deposits by banks and items in the course of transmission                | (26,612)                                      | 5                              | —   | —  | (26,607)                            |
| Customer accounts  | (97,959)                                      | (28)                           | —   | —  | (97,987)                            |
| Debt securities in issue   | (10,309)                                      | —                              | —   | —  | (10,309)                            |
| Other liabilities  | (42,105)                                      | (429)                          | (78)  | (637)                                    | (43,249)                            |
| Subordinated liabilities   | (6,763)                                       | (137)                          | —   | —  | (6,900)                             |
| Preference shares  | (488)   | 13                             | —   | —  | (475)                               |
| Net assets   | 9,211   | (138)                          | 22  | 502                                      | 9,597                               |
| Goodwill   |   |                                |   |  | 11,390                              |
| Consideration paid   |   |                                |   |  | 20,987                              |

Satisfied by:

|  |               |
|--|---------------|
| Issue of 1,563.5 million new RBSG 25 pence ordinary shares<br>to NatWest ordinary shareholders (note iv) | 13,462        |
| Payment of cash to NatWest ordinary shareholders (note v)  | 7,110         |
| Issue of loan notes to NatWest ordinary shareholders (note v)  | 239           |
| Fees and expenses relating to the acquisition  | 176           |
|  | <u>20,987</u> |

Notes

(i) Revaluations reflect the restatement of assets and liabilities of NatWest to their estimated fair values at the date of acquisition, and the related tax effect, as follows:

- financial instruments at market value, or, where market values are not available, discounted estimated future cash flows less provisions for irrecoverable amounts where appropriate;
- freehold and leasehold properties at existing use value, or, where properties were not occupied by NatWest, either open market value or, in the case of development properties, replacement cost; in the case of leasehold properties, an asset or liability is recognised to reflect rents payable below, or above, current market rents;
- other fixed assets at estimated depreciated replacement cost or net recoverable amount if lower;
- other assets at lower of cost and net realisable amount;
- businesses subsequently sold, at the net sales proceeds.

- (ii) Accounting policy alignments reflect the adoption of Group accounting policies in respect of capitalisation of certain software costs, hedge accounting, and recognition of mortgage incentives and insurance commission, together with the related tax effects.
- (iii) Other adjustments reflect the recognition, together with the related tax effects, of the deferred contingent consideration arising from NatWest's disposal of Bancorp in 1996; the actuarial surplus on the NatWest pension funds, to the extent that it is expected to be recoverable; and additional provisions relating to costs crystallised on the change of control, together with other provisions including litigation, reassessed by the Group management at the date of acquisition.
- (iv) The 'Consideration paid' information above is based on the closing price on the London Stock Exchange on 3 March 2000, the trading day immediately prior to the offer for NatWest being declared unconditional in all respects, of 861 pence per RBSG ordinary share of 25 pence.
- (v) NatWest ordinary shareholders had the right to receive, for each NatWest share held, 0.968 new RBSG 25 pence ordinary shares plus 400 pence in cash or loan notes. A 'Partial cash alternative' was also offered, which, for each NatWest share held, consisted of 0.92 new RBSG 25 pence ordinary shares plus 450 pence in cash or loan notes.
- (vi) The goodwill arising on acquisition is being amortised over its estimated economic life of 20 years, resulting in a charge of £570 million per annum.

Summarised consolidated profit and loss accounts of NatWest and its subsidiaries for the year ended 31 December 1999 and for the period ended 5 March 2000 are set out below:

|  | Period to<br>5 March<br>2000<br>£m | Year to<br>31 December<br>1999<br>£m |
|--|------------------------------------|--------------------------------------|
| Operating income                             | 1,375                              | 7,515                                |
| Operating expenses                           | (873)                              | (5,074)                              |
| Profit before provisions                     | 502                                | 2,441                                |
| Provisions for bad and doubtful debts        | (52)                               | (237)                                |
| Amounts written off fixed asset investments  | (5)                                | (23)                                 |
| Operating profit                             | 445                                | 2,181                                |
| Profit on disposal/termination of businesses | —                                  | 82                                   |
| Profit on ordinary activities before tax     | 445                                | 2,263                                |
| Tax on profit on ordinary activities         | (140)                              | (584)                                |
| Profit on ordinary activities after tax      | 305                                | 1,679                                |
| Minority interests – equity                  | (2)                                | (11)                                 |
|  | 303                                | 1,668                                |
| Preference dividends                         | (6)                                | (39)                                 |
| Profit attributable to ordinary shareholders | <u>297</u>                         | <u>1,629</u>                         |
| Profit for the financial period              | 305                                | 1,668                                |
| Currency translation and other adjustments   | (8)                                | (49)                                 |
| Movements in revaluation of premises         | —                                  | 23                                   |
| Total recognised gains and losses            | <u>297</u>                         | <u>1,642</u>                         |

The estimated contribution of NatWest (excluding the funding cost associated with the acquisition) to the Group's results for the 15 months ended 31 December 2000 is shown below:

|  | 6 March 2000 to<br>31 December 2000<br>£m |
|--|---|
| Net interest income                        | <b>3,147</b>                              |
| Non-interest income                        | <b>3,006</b>                              |
|  | <b>6,153</b>                              |
| Operating expenses                         | <b>(4,121)</b>                            |
| Provisions for bad and doubtful debts      | <b>(162)</b>                              |
| Amounts written off fixed asset investment | <b>(1)</b>                                |
| Operating profit                           | <u><b>1,869</b></u>                       |

NatWest's contribution is after charging goodwill amortisation and includes the post-acquisition effect of fair value adjustments.

**41 Acquisitions** (continued)**b) Other acquisitions**

On 1 October 1999, Citizens completed the acquisition of the major part of the commercial banking business of State Street Corporation for approximately US\$1.6 billion including a premium of approximately US\$350 million and, on 11 January 2000, Citizens completed the acquisition of the entire issued share capital of UST Corp., for a cash consideration of approximately US\$1.4 billion. On 26 November 1999, Direct Line completed the acquisition of Green Flag for a consideration of £223 million.

The fair values of the assets and liabilities acquired at the date of acquisition, and the consideration paid for these acquisitions in aggregate were as follows:

|  | 15 months ended 31 December 2000        |                              |                               | 12 months ended 30 September 1999 |
|--|---|------------------------------|-------------------------------|-----------------------------------|
|  | Book value of net assets acquired<br>£m | Fair value adjustments<br>£m | Fair value to the Group<br>£m |                                   |
| Cash and balances at central banks and items in the course of collection | 29                                      | —                            | 29                            | 35                                |
| Loans and advances to banks  | 85                                      | —                            | 85                            | 2                                 |
| Loans and advances to customers  | 4,178                                   | (112)                        | 4,066                         | —                                 |
| Debt securities  | 558                                     | (7)                          | 551                           | —                                 |
| Intangible fixed assets  | 43                                      | (43)                         | —                             | —                                 |
| Tangible fixed assets  | 81                                      | (3)                          | 78                            | —                                 |
| Other assets   | 91                                      | 42                           | 133                           | 57                                |
| Deposits by banks and items in the course of transmission                | (928)                                   | —                            | (928)                         | (40)                              |
| Customer accounts  | (2,327)                                 | 1                            | (2,326)                       | —                                 |
| Debt securities in issue   | (558)                                   | —                            | (558)                         | —                                 |
| Other liabilities  | (133)                                   | (52)                         | (185)                         | (2)                               |
| Net assets acquired  | <u>1,119</u>                            | <u>(174)</u>                 | <u>945</u>                    | 52                                |
| Goodwill   |   |                              | 1,133                         | 12                                |
| Total consideration  |   |                              | <u>2,078</u>                  | 64                                |
| Satisfied by   |   |                              |                               |                                   |
| Payment of cash  |   |                              | 2,066                         | 64                                |
| Fees and expenses relating to the acquisitions                           |   |                              | 12                            | —                                 |
|  |   |                              | <u>2,078</u>                  | 64                                |

Fair value adjustments represent principally the revaluation of financial instruments and tangible fixed assets of the acquired businesses to their estimated market values at the date of acquisition, together with related tax effects.

The estimated contribution before funding costs of the acquisitions is shown below:

|                                       | 15 months ended 31 December 2000* |
|---------------------------------------|-----------------------------------|
| Total income                          | 326                               |
| Operating expenses                    | (265)                             |
| Provisions for bad and doubtful debts | (12)                              |
| Operating profit                      | <u>49</u>                         |

\*from the dates of acquisition.



**42 Reconciliation of operating profit to net cash inflow from operating activities**

|   | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|---|---|--|
| Operating profit  | <b>3,273</b>                                    | 1,211  |
| Increase in prepayments and accrued income                            | <b>(1,151)</b>                                  | (87)   |
| Interest on subordinated liabilities                                  | <b>750</b>                                      | 251  |
| Increase in accruals and deferred income                              | <b>2,236</b>                                    | 126  |
| Amortisation of and provisions against investment securities          | <b>(7)</b>                                      | 12   |
| Provisions for bad and doubtful debts                                 | <b>629</b>                                      | 266  |
| Loans and advances written off net of recoveries                      | <b>(634)</b>                                    | (172)  |
| Profit on sale of tangible fixed assets                               | <b>(12)</b>                                     | (5)  |
| Income from associated undertakings                                   | <b>(1)</b>                                      | (5)  |
| Profit on sale of subsidiary and associate undertakings               | <b>—</b>  | (35)   |
| Profit on sale of investment securities                               | <b>(345)</b>                                    | (77)   |
| Provisions for liabilities and charges                                | <b>42</b>                                       | 61   |
| Provisions utilised   | <b>(76)</b>                                     | (84)   |
| Depreciation and amortisation of tangible and intangible fixed assets | <b>1,327</b>                                    | 279  |
| Increase/(decrease) in value of long-term assurance business          | <b>34</b>                                       | (55)   |
| Net cash inflow from trading activities                               | <b>6,065</b>                                    | 1,686  |
| Decrease/(increase) in items in the course of collection              | <b>1,538</b>                                    | (3)  |
| Decrease/(increase) in treasury and other eligible bills              | <b>121</b>                                      | (62)   |
| Decrease in loans and advances to banks                               | <b>8,193</b>                                    | 2,915  |
| Increase in loans and advances to customers                           | <b>(25,793)</b>                                 | (8,425)  |
| (Increase)/decrease in securities                                     | <b>(1,749)</b>                                  | 159  |
| (Increase)/decrease in other assets                                   | <b>(1,434)</b>                                  | 1,823  |
| (Decrease)/increase in items in the course of transmission            | <b>(891)</b>                                    | 455  |
| Increase in deposits by banks   | <b>3,179</b>                                    | 1,941  |
| Increase in customer accounts   | <b>27,378</b>                                   | 4,495  |
| (Decrease)/increase in debt securities in issue                       | <b>(659)</b>                                    | 1,740  |
| Decrease in other liabilities   | <b>(3,926)</b>                                  | (1,733)  |
| Effect of other accruals/deferrals and other non-cash movements       | <b>(694)</b>                                    | 7  |
| Net cash inflow from operating activities                             | <b>11,328</b>                                   | 4,998  |

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

|                         | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months<br>ended<br>30 September<br>1999<br>£m |
|-------------------------|---|--|
| Cash consideration paid | <b>(9,603)</b>                                  | (64)   |
| Cash acquired           | <b>5,465</b>                                    | 35   |
| Net outflow of cash     | <b>(4,138)</b>                                  | (29)   |

**44 Sale of subsidiary and associated undertakings**

|  | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
|--|--|--|
| Net assets disposed of                                       | <b>1,119</b>   | 1  |
| Goodwill   | <b>5</b>   | 9  |
| Profit on disposal   | <b>100</b>   | 35   |
| Net inflow of cash in respect of disposals (net of expenses) | <b>1,224</b>   | 45   |

**45 Analysis of changes in financing during the period**

|  | Share capital<br>(including share premium)                 |  | Loan capital   |  |
|--|--|--|--|--|
|  | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
| At 1 October                           | 2,354  | 1,678  | 3,032  | 2,611  |
| Currency translation adjustments       | 184  | 23   | 356  | —  |
| Cash inflow from financing             | 4,383  | 525  | 148  | 434  |
| Acquisition of subsidiary undertakings | 391  | —  | 6,900  | —  |
| Other non-cash movements               | 66   | 128  | —  | (13)   |
| At 31 December/30 September            | <b>7,378</b>   | 2,354  | <b>10,436</b>  | 3,032  |

**46 Analysis of cash**

|   | <b>31 December<br/>2000<br/>£m</b> | 30 September<br>1999<br>£m | Change in<br>period<br>£m |
|---|------------------------------------|----------------------------|---------------------------|
| Cash and balances at central banks              | <b>3,049</b>                       | 1,394                      | 1,655                     |
| Loans and advances to banks repayable on demand | <b>7,578</b>                       | 4,408                      | 3,170                     |
| Cash  | <b>10,627</b>                      | 5,802                      | 4,825                     |

Certain subsidiary undertakings are required to maintain balances with the Bank of England which, at 31 December 2000, amounted to £183 million (30 September 1999 – £46 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\$277 million at 31 December 2000 (30 September 1999 – US\$162 million).

**47 Analysis of changes in cash during the period**

|                             | <b>15 months<br/>ended<br/>31 December<br/>2000<br/>£m</b> | 12 months<br>ended<br>30 September<br>1999<br>£m |
|-----------------------------|--|--|
| At 1 October                | <b>5,802</b>   | 3,927  |
| Net cash inflow             | <b>4,825</b>   | 1,875  |
| At 31 December/30 September | <b>10,627</b>  | 5,802  |

## 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.

Following the acquisition of NatWest, the Group has been re-organised. The segmental disclosures set out below reflect the new organisational structure. Comparative figures have been restated to reflect this new structure.

### a) Classes of business

|   | Net interest income<br>£m | Non-interest income<br>£m | Total income<br>£m | Operating expenses and other operating charges<br>£m | Provisions for bad and doubtful debts<br>£m | Amounts written off investments<br>£m | Profit/(loss) on ordinary activities before tax<br>£m |
|---|---------------------------|---------------------------|--------------------|--|---|---------------------------------------|---|
| 15 months ended 31 December 2000                                    |                           |                           |                    |  |   |                                       |   |
| Corporate Banking and Financial Markets                             | 1,718                     | 2,738                     | 4,456              | (1,576)  | (171)                                       | (42)                                  | 2,667   |
| Retail Banking  | 2,259                     | 1,015                     | 3,274              | (902)  | (153)                                       | —                                     | 2,219   |
| Retail Direct   | 541                       | 534                       | 1,075              | (477)  | (232)                                       | —                                     | 366   |
| Manufacturing   | —                         | —                         | —                  | (1,550)  | —   | —                                     | (1,550)   |
| Wealth Management   | 400                       | 411                       | 811                | (437)  | 5   | —                                     | 379   |
| Direct Line Insurance Group   | 118                       | 1,264                     | 1,382              | (1,165)  | —   | —                                     | 217   |
| Ulster Bank   | 245                       | 139                       | 384                | (205)  | (15)  | —                                     | 164   |
| Citizens  | 787                       | 284                       | 1,071              | (606)  | (44)  | —                                     | 421   |
| Central items   | (286)                     | (72)                      | (358)              | (291)  | (19)  | —                                     | (668)   |
| Operating profit before goodwill amortisation and integration costs | 5,782                     | 6,313                     | 12,095             | (7,209)  | (629)                                       | (42)                                  | 4,215   |
| Goodwill amortisation   | —                         | —                         | —                  | (541)  | —   | —                                     | (541)   |
| Integration costs   | —                         | —                         | —                  | (401)  | —   | —                                     | (401)   |
| Exited businesses   | 5                         | 8                         | 13                 | (13)   | —   | —                                     | —   |
| Operating profit  | 5,787                     | 6,321                     | 12,108             | (8,164)  | (629)                                       | (42)                                  | 3,273   |
| Profit on disposal of businesses                                    |                           |                           |                    |  |   |                                       | 100   |
| Profit on ordinary activities before tax                            |                           |                           |                    |  |   |                                       | 3,373   |
| 12 months ended 30 September 1999                                   |                           |                           |                    |  |   |                                       |   |
| Corporate Banking and Financial Markets                             | 523                       | 802                       | 1,325              | (438)  | (95)  | (12)                                  | 780   |
| Retail Banking  | 539                       | 297                       | 836                | (290)  | (73)  | —                                     | 473   |
| Retail Direct   | 216                       | 107                       | 323                | (162)  | (85)  | —                                     | 76  |
| Manufacturing   | —                         | —                         | —                  | (455)  | —   | —                                     | (455)   |
| Wealth Management   | 93                        | 52                        | 145                | (68)   | (1)   | —                                     | 76  |
| Direct Line Insurance Group   | 69                        | 794                       | 863                | (777)  | —   | —                                     | 86  |
| Citizens  | 408                       | 141                       | 549                | (292)  | (15)  | —                                     | 242   |
| Central items   | (106)                     | 6                         | (100)              | 10   | 3   | (1)                                   | (88)  |
| Operating profit before goodwill amortisation                       | 1,742                     | 2,199                     | 3,941              | (2,472)  | (266)                                       | (13)                                  | 1,190   |
| Goodwill amortisation   | —                         | —                         | —                  | (1)  | —   | —                                     | (1)   |
| Exited businesses   | 6                         | 155                       | 161                | (139)  | —   | —                                     | 22  |
| Profit on ordinary activities before tax                            | 1,748                     | 2,354                     | 4,102              | (2,612)  | (266)                                       | (13)                                  | 1,211   |

**48 Segmental analysis** (continued)

|   | Total assets           |                         | Net assets             |                         |
|---|------------------------|-------------------------|------------------------|-------------------------|
|   | 31 December 2000<br>£m | 30 September 1999<br>£m | 31 December 2000<br>£m | 30 September 1999<br>£m |
| Corporate Banking and Financial Markets | 191,083                | 44,454                  | 7,161                  | 2,626                   |
| Retail Banking                          | 57,942                 | 15,558                  | 2,772                  | 787                     |
| Retail Direct                           | 14,355                 | 5,798                   | 790                    | 438                     |
| Manufacturing                           | 2,611                  | 1,003                   | 181                    | 77                      |
| Wealth Management                       | 10,428                 | 2,571                   | 492                    | 171                     |
| Direct Line Insurance Group             | 2,480                  | 1,675                   | 632                    | 473                     |
| Ulster Bank                             | 11,068                 | —                       | 809                    | —                       |
| Citizens                                | 20,323                 | 11,824                  | 1,699                  | 905                     |
| Central items                           | 9,714                  | (649)                   | 8,580                  | (1,355)                 |
| Exited businesses                       | —                      | 6,618                   | —                      | 80                      |
|   | <b>320,004</b>         | <b>88,852</b>           | <b>23,116</b>          | <b>4,202</b>            |

**(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.

|   | UK<br>£m | USA<br>£m | Rest of<br>the World<br>£m | Total<br>£m |
|---|----------|-----------|----------------------------|-------------|
| 15 months ended 31 December 2000                      |          |           |                            |             |
| Interest receivable                                   | 11,053   | 2,359     | 1,082                      | 14,494      |
| Dividend income                                       | 26       | 12        | 16                         | 54          |
| Fees and commissions receivable                       | 3,369    | 318       | 198                        | 3,885       |
| Dealing profits                                       | 718      | 240       | 45                         | 1,003       |
| Other operating income                                | 923      | 38        | (2)                        | 959         |
| General insurance premium income (net of reinsurance) | 1,166    | —         | —                          | 1,166       |
| Gross income  | 17,255   | 2,967     | 1,339                      | 21,561      |
| Profit on ordinary activities before tax              | 2,784    | 256       | 333                        | 3,373       |
| Total assets  | 229,839  | 67,943    | 22,222                     | 320,004     |
| Net assets  | 20,039   | 2,002     | 1,075                      | 23,116      |

|   |        |        |       |        |
|---|--------|--------|-------|--------|
| 12 months ended 30 September 1999                     |        |        |       |        |
| Interest receivable                                   | 3,813  | 823    | 217   | 4,853  |
| Dividend income                                       | 19     | 4      | 11    | 34     |
| Fees and commissions receivable                       | 932    | 132    | 17    | 1,081  |
| Dealing profits                                       | 190    | 3      | 6     | 199    |
| Other operating income                                | 437    | 11     | 11    | 459    |
| General insurance premium income (net of reinsurance) | 710    | —      | —     | 710    |
| Gross income  | 6,101  | 973    | 262   | 7,336  |
| Profit on ordinary activities before tax              | 940    | 221    | 50    | 1,211  |
| Total assets  | 73,232 | 12,140 | 3,480 | 88,852 |
| Net assets  | 2,777  | 870    | 555   | 4,202  |

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

## 49 Investment funds

Certain investment funds which the Group manages and invests in are, by virtue of the definition contained in the Companies Act 1985 and FRS2 'Accounting for Subsidiary Undertakings', subsidiary undertakings of the group and are, therefore, required to be included in the consolidated financial statements. However, the directors believe that full consolidation of these funds, which are in substance collective investment schemes managed by the Group, would not present a true and fair view. To reflect the true commercial effect of the funds, only the Group's share of their results and underlying investments have been included in the consolidated financial statements. The effect on the Group's balance sheet at 31 December 2000 of consolidating these funds would be to increase loans and advances to banks by £229 million (30 September 1999 – nil), investment equity shares by £891 million (30 September 1999 – nil), other assets by £2 million (30 September 1999 – nil), other liabilities by £165 million (30 September 1999 – nil), accruals and deferred income by £4 million (30 September 1999 – nil) and minority interests by £953 million (30 September 1999 – nil). Group profit on ordinary activities before tax would be £17 million lower (30 September 1999 – nil) with an offsetting change in minority interest (after tax). Profit for the financial year and shareholders' funds would be unaffected.

## 50 Directors' emoluments

|  | 15 months<br>ended<br>31 December<br>2000<br>£000 | 12 months<br>ended<br>30 September<br>1999<br>£000 |
|--|---|--|
| Non-executive directors – emoluments                               | 449   | 315  |
| Executive directors – emoluments                                   | 10,023  | 4,384  |
| – pension contributions in respect of defined contribution schemes | 93  | 65   |
|  | <b>10,565</b>                                     | 4,764  |
| – gains on exercise of share options                               | 5,630   | 3,682  |
| – long-term cash incentive and shadow equity plans                 | 9,330   | 1,905  |
|  | <b>25,525</b>                                     | 10,351   |

Retirement benefits are accruing to eight directors (30 September 1999 – six) under defined benefit schemes, three (30 September 1999 – two) of whom also accrued benefits under defined contribution schemes.

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

|   | 15 months<br>ended<br>31 December<br>2000<br>£000 | 12 months<br>ended<br>30 September<br>1999<br>£000 |
|---|---|--|
| Aggregate emoluments including long-term cash incentive and shadow equity plans | 10,677  | 2,903  |
| Pension contributions   | 36  | 28   |
| Defined benefit pension scheme – accrued pension at end of period               | 220   | 128  |

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 45. Details of the remuneration received by each director during the year and each directors' pension arrangements are given on pages 43 and 44.

## 51 Transactions with directors, officers and others

- (a) At 31 December 2000, the amounts outstanding in relation to transactions, arrangements and agreements entered into by authorised institutions in the Group were £301,044 in respect of loans to 19 persons who were directors of the company (or persons connected with them) at any time during the financial period and £41,253 to one person who was an officer of the company at any time during the financial period.
- (b) Sir George Mathewson, an executive director of the company, the Bank and NatWest, 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 at 31 December 2000, or during the 15 months then ended, 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 19. In accordance with Financial Reporting Standard No. 8 “Related Party Disclosures” (FRS 8), 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 18. The amounts of loans and advances due from associated undertakings at 31 December 2000 are shown in Note 13 and the amounts of deposits received from associated undertakings as at 31 December 2000 are shown in Note 26. 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 arm’s-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.

**National Westminster Bank Plc** Under the provisions of FRS 8 ‘Related Party Transactions’, National Westminster Bank Plc and its subsidiaries were related parties of other members of the Group throughout the 15 months ended 31 December 2000. FRS 8 does not require disclosure of any transactions or balances between Group entities that have been eliminated on consolidation. However, as significant participants in financial markets in the UK and overseas, the pre-existing Group and the National Westminster Bank Plc Group entered into a significant volume of arm’s-length banking and financial transactions with each other in the period from 1 October 1999 to 6 March 2000 (the date the Group acquired National Westminster Bank Plc). The transactions were entered into in the normal course of business and are not considered to be material.

**The Royal Bank of Scotland Staff Pension Scheme (the “Scheme”)** The Bank recharges the Scheme with the cost of administration services incurred by it. The amounts involved are not material to the Group.

**Banco Santander Central Hispano S.A. (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 2.96% of BSCH’s capital stock and BSCH holds 9.62% of the company’s ordinary shares and in addition has a 50% minority shareholding in The Royal Bank of Scotland (Gibraltar) Limited.

In March 2000, a total of 191.5 million new ordinary shares of 25p each were issued to BSCH for a total consideration of £1.7 billion. In December 2000, the Group invested £475 million in BSCH in the form of 44.7 million ordinary shares of €0.50 for a total consideration of €494 million (£307 million) and 10.3 million preference shares of US\$25 nominal per share for a total consideration of US\$250 million (£168 million).

**Directors, officers and others** Details of directors’ emoluments are set out in Note 50 and the Remuneration Report on pages 41 to 44. Details of transactions with directors, officers and others connected to them are shown in Note 51.

**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:

|  | 31 December<br>2000<br>£m | 30 September  |               |               |               |
|--|---------------------------|---------------|---------------|---------------|---------------|
|  |                           | 1999<br>£m    | 1998<br>£m    | 1997<br>£m    | 1996<br>£m    |
| <b>UK</b>                                    |                           |               |               |               |               |
| ECGD and government                          | 1,957                     | 150           | 78            | 116           | 90            |
| Manufacturing                                | 6,806                     | 2,715         | 2,075         | 1,739         | 1,732         |
| Construction                                 | 2,615                     | 648           | 543           | 404           | 530           |
| Finance                                      | 9,944                     | 2,891         | 2,197         | 3,100         | 3,173         |
| Service industries                           | 17,242                    | 5,585         | 4,968         | 4,660         | 3,374         |
| Agriculture, forestry and fishing            | 2,373                     | 673           | 643           | 613           | 493           |
| Property                                     | 10,385                    | 3,668         | 2,935         | 2,617         | 1,525         |
| Business and other services                  | 3,579                     | 2,477         | 2,011         | 2,140         | 2,715         |
| Persons                                      |                           |               |               |               |               |
| – home mortgages (including staff)           | 32,600                    | 9,544         | 8,317         | 7,371         | 6,532         |
| – other                                      | 17,496                    | 6,283         | 4,550         | 3,530         | 2,713         |
| Instalment credit and other loans            | 5,041                     | 1,059         | 900           | 856           | 630           |
| Finance leases                               | 6,272                     | 2,555         | 2,587         | 2,569         | 2,333         |
|  | <b>116,310</b>            | <b>38,248</b> | <b>31,804</b> | <b>29,715</b> | <b>25,840</b> |
| Overseas residents                           | 19,257                    | 2,799         | 2,248         | 1,880         | 1,403         |
| <b>Total UK</b>                              | <b>135,567</b>            | <b>41,047</b> | <b>34,052</b> | <b>31,595</b> | <b>27,243</b> |
| <b>Overseas</b>                              |                           |               |               |               |               |
| USA  | 23,050                    | 6,807         | 5,811         | 6,063         | 5,416         |
| Rest of the World                            | 12,598                    | 2,223         | 1,787         | 1,407         | 1,261         |
| <b>Total overseas</b>                        | <b>35,648</b>             | <b>9,030</b>  | <b>7,598</b>  | <b>7,470</b>  | <b>6,677</b>  |
| <b>Total loans and advances to customers</b> | <b>171,215</b>            | <b>50,077</b> | <b>41,650</b> | <b>39,065</b> | <b>33,920</b> |

*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 1996.

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

|                                   | 31 December<br>2000<br>£m | 30 September  |               |               |               |
|-----------------------------------|---------------------------|---------------|---------------|---------------|---------------|
|                                   |                           | 1999<br>£m    | 1998<br>£m    | 1997<br>£m    | 1996<br>£m    |
| <b>UK</b>                         |                           |               |               |               |               |
| Demand deposits                   |                           |               |               |               |               |
| – interest free                   | 22,913                    | 4,006         | 4,451         | 5,741         | 3,437         |
| – interest bearing                | 62,727                    | 26,158        | 23,712        | 19,444        | 14,725        |
| Time deposits                     |                           |               |               |               |               |
| – savings                         | 19,945                    | 3,486         | 4,183         | 3,354         | 3,987         |
| – other                           | 50,838                    | 14,584        | 11,176        | 12,355        | 10,659        |
| <b>Total UK</b>                   | <b>156,423</b>            | <b>48,234</b> | <b>43,522</b> | <b>40,894</b> | <b>32,808</b> |
| <b>Overseas</b>                   |                           |               |               |               |               |
| Demand deposits                   |                           |               |               |               |               |
| – interest free                   | 4,206                     | 1,197         | 1,052         | 1,014         | 696           |
| – interest bearing                | 8,127                     | 1,903         | 1,468         | 1,560         | 1,246         |
| Time deposits                     |                           |               |               |               |               |
| – savings                         | 15,293                    | 6,563         | 6,121         | 6,522         | 5,664         |
| – other                           | 28,383                    | 3,701         | 2,959         | 2,987         | 2,996         |
| <b>Total overseas (see below)</b> | <b>56,009</b>             | <b>13,364</b> | <b>11,600</b> | <b>12,083</b> | <b>10,602</b> |
| <b>Total deposits</b>             | <b>212,432</b>            | <b>61,598</b> | <b>55,122</b> | <b>52,977</b> | <b>43,410</b> |
| <b>Overseas</b>                   |                           |               |               |               |               |
| USA                               | 39,567                    | 10,510        | 8,614         | 8,651         | 7,633         |
| Rest of the World                 | 16,442                    | 2,854         | 2,986         | 3,432         | 2,969         |
| <b>Total overseas</b>             | <b>56,009</b>             | <b>13,364</b> | <b>11,600</b> | <b>12,083</b> | <b>10,602</b> |

**Risk elements in lending** The Group's loan control and review procedures generally 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. The figures incorporate estimates and are stated before deducting the value of security held or related provisions.

|  | 31 December<br>2000<br>£m | 1999<br>£m | 30 September |            | 1996<br>£m |
|--|---------------------------|------------|--------------|------------|------------|
|  |                           |            | 1998<br>£m   | 1997<br>£m |            |
| Loans accounted for on a non-accrual basis:  |                           |            |              |            |            |
| Domestic   | 2,482                     | 378        | 416          | 462        | 534        |
| Foreign  | 344                       | 170        | 148          | 75         | 86         |
| Total  | 2,826                     | 548        | 564          | 537        | 620        |
| Accruing loans which are contractually overdue 90 days or more as to principal or interest*: |                           |            |              |            |            |
| Domestic   | 662                       | 322        | 311          | 217        | 236        |
| Foreign  | 168                       | 110        | 117          | 14         | 3          |
| Total  | 830                       | 432        | 428          | 231        | 239        |
| Loans not included above which are classified as "troubled debt restructurings" by the SEC:  |                           |            |              |            |            |
| Domestic   | 43                        | 13         | 15           | 13         | 34         |
| Foreign  | 122                       | 104        | 5            | —          | —          |
| Total  | 165                       | 117        | 20           | 13         | 34         |
| <b>Total risk elements</b>   | <b>3,821</b>              | 1,097      | 1,012        | 781        | 893        |
| Closing provisions for bad and doubtful debts as a % of total risk elements in lending       | <b>83%</b>                | 67%        | 63%          | 59%        | 53%        |

\*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 management has serious doubts as to the ability of the borrower to comply with contractual repayment terms, totalled approximately £772 million at 31 December 2000 (30 September 1999 – £246 million). Substantial security is held in respect of these loans and appropriate provisions have already been made in accordance with the Group's provisioning policy for bad and doubtful debts.

**Cross border outstandings in excess of 1% of total assets** The table below sets out the Group's cross border outstandings to countries for which outstandings individually represented in excess of 1% of Group total assets (including acceptances) at 31 December 2000 and 30 September 1999. None has experienced repayment difficulties which have required refinancing of outstanding debt.

|             | 31 December<br>2000<br>£m | 30 September<br>1999<br>£m |
|-------------|---------------------------|----------------------------|
| USA         | 6,520                     | 3,452                      |
| Germany     | 6,156                     | 3,135                      |
| Japan       | 3,891                     | *                          |
| France      | 3,310                     | 1,722                      |
| Netherlands | 3,446                     | *                          |

\*Less than 1% of Group total assets (including acceptances)

At 31 December 2000, Switzerland (£3,137 million) and Cayman Islands (£2,878 million) were the only countries that had cross border outstandings of between 0.75% and 1% of Group total assets (including acceptances).

At 30 September 1999, Belgium (£894 million), Canada (£784 million) and Spain (£756 million) were the only countries that had cross border outstandings of between 0.75% and 1% of Group total assets (including acceptances).



# Five-year financial summary (statutory basis)

|  | 15 months<br>ended<br>31 December<br>2000<br>£m | 12 months ended 30 September |            |            |            |
|--|---|------------------------------|------------|------------|------------|
|  |   | 1999<br>£m                   | 1998<br>£m | 1997<br>£m | 1996<br>£m |
| Profit before provisions and exceptional items | <b>3,944</b>                                    | 1,490                        | 1,212      | 909        | 754        |
| Provisions for bad and doubtful debts          | <b>(629)</b>                                    | (266)                        | (195)      | (139)      | (109)      |
| Amounts written off fixed asset investments    | <b>(42)</b>                                     | (13)                         | (10)       | (2)        | (1)        |
| Profit before exceptional items                | <b>3,273</b>                                    | 1,211                        | 1,007      | 768        | 644        |
| Operating exceptional items                    | <b>—</b>  | —                            | (63)       | (70)       | (21)       |
| Group operating profit                         | <b>3,273</b>                                    | 1,211                        | 944        | 698        | 623        |
| Profit on disposal of businesses               | <b>100</b>                                      | —                            | 57         | 62         | 72         |
| Profit on ordinary activities before taxation  | <b>3,373</b>                                    | 1,211                        | 1,001      | 760        | 695        |
| Tax on profit on ordinary activities           | <b>(1,157)</b>                                  | (361)                        | (286)      | (219)      | (191)      |
| Profit on ordinary activities after taxation   | <b>2,216</b>                                    | 850                          | 715        | 541        | 504        |
| Earnings per 25p ordinary share                |   |                              |            |            |            |
| – adjusted                                     | <b>126.4p</b>                                   | 87.8p                        | 72.3p      | 53.5p      | 46.4p      |
| – unadjusted                                   | <b>90.0p</b>                                    | 87.8p                        | 73.4p      | 55.4p      | 54.0p      |
| Dividend per 25p ordinary share                | <b>33.0p</b>                                    | 28.5p                        | 24.6p      | 21.4p      | 18.6p      |
| Dividend cover (times)                         | <b>2.1</b>                                      | 3.1                          | 3.0        | 2.6        | 2.9        |
| Cost:income ratio                              | <b>60.3%</b>                                    | 49.3%                        | 50.5%      | 53.4%      | 49.9%      |
| Share price at period end                      | <b>1582p</b>                                    | 1303p                        | 670p       | 690p       | 489p       |
| Shareholders' funds                            |   |                              |            |            |            |
|  | £m  | £m                           | £m         | £m         | £m         |
| Shareholders' funds                            | <b>23,116</b>                                   | 4,202                        | 2,953      | 3,042      | 2,510      |
| Minority interests                             | <b>546</b>                                      | 146                          | 92         | 190        | 150        |
| Dated loan capital                             | <b>6,316</b>                                    | 1,917                        | 1,391      | 1,383      | 1,241      |
| Undated loan capital                           | <b>4,120</b>                                    | 1,115                        | 1,220      | 1,167      | 1,009      |
| Capital resources                              | <b>34,098</b>                                   | 7,380                        | 5,656      | 5,782      | 4,910      |
| Loans and advances to customers                |   |                              |            |            |            |
|  | £bn   | £bn                          | £bn        | £bn        | £bn        |
| Loans and advances to customers                | <b>168.1</b>                                    | 49.3                         | 41.0       | 38.6       | 33.4       |
| Customer accounts – deposits                   | <b>177.3</b>                                    | 55.2                         | 50.7       | 47.6       | 38.1       |
| Total assets                                   | <b>320.0</b>                                    | 88.9                         | 79.7       | 72.6       | 61.1       |
| Bank branches                                  |   |                              |            |            |            |
| Bank branches                                  | <b>2,900</b>                                    | 933                          | 984        | 959        | 930        |
| Number of employees at period end              | <b>94,000</b>                                   | 32,670                       | 31,680     | 30,900     | 27,200     |

# Principal UK and overseas offices

## 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

## National Westminster Bank Plc

135 Bishopsgate London EC2M 3UR

## Corporate Banking and Financial Markets

### UK Offices

135 Bishopsgate London EC2M 3UR  
Waterhouse Square 138-142 Holborn London EC1N 2TH  
1 Princes Street London EC2R 8PB  
6-8 George Street Edinburgh EH2 2SA  
Drummond House 1 Redheughs Avenue Edinburgh  
EH12 9JN  
100 Barbirolli Square Lower Mosley Street Manchester  
M60 3NA  
8 Park Row Leeds LS1 1QT  
NatWest House 10 Newhall Street Birmingham B3 3EN  
79-83 Colmore Row Birmingham B3 2AP  
3rd Floor Phase 2 Trinity Quay Avon Street Bristol  
BS2 0YY  
1 Exchange Flags Liverpool L2 3XN

### Overseas Offices

10th Floor 101 Park Avenue New York NY10178 USA  
65 East 55th Street New York NY10022 USA  
600 Travis Street Suite 6070 Houston Texas 77002 USA  
46th Floor NatWest Tower Times Square 1 Matheson St.  
Causeway Bay Hong Kong  
6 Battery Road #27-01 Singapore 049909 Singapore  
Riverside Yomiuri Building 36-2 Nihonbashi Hakozaicho  
Chuo-Ku Tokyo 103 Japan  
World Trade Centre 13th Floor JI Jenderel Sudirman Kav.  
29-31 Jakarta 12920 Indonesia  
Level 48 Australia Square Tower Building  
264-278 George Street Sydney 2000 Australia  
Via F. Turati 16-18 20121 Milan Italy  
61 Akti Miaouli 185 36 Piraeus Greece  
Feldburgstrasse 35 D-60045 Frankfurt am Main Germany  
66 rue de Monceau 75008 Paris France  
Marques de Cubas 4 Madrid Spain

## Angel Train Contracts Limited

Portland House Stag Place Victoria London SW1E 5BH

## Greenwich Capital Markets Inc

600 Steamboat Road Greenwich Connecticut 06830 USA

## Lombard North Central PLC

3 Princess Way Redhill Surrey RH1 1NP

## RBS Commercial Services

Smith House Elmwood Avenue Feltham Middlesex  
TW13 7QD

## Retail Banking

The Younger Building 3 Redheughs Avenue South Gyle  
Edinburgh EH12 9RB  
Drapers Gardens 12 Throgmorton Avenue London  
EC2N 2DL

## Regional Retail Offices

36 St Andrew Square Edinburgh EH2 2YB  
100 West George Street Glasgow G2 1PP  
49 Charing Cross London SW1A 2DX  
55 Spring Gardens Manchester M2 2BY  
National Westminster House 5 Sydenham Road Croydon  
CRO 5BJ  
West House Mercury Court Bixteth Street Liverpool L2 2RB  
National Westminster House Westbury Road Redland  
Bristol BS6 6XL  
National Westminster House 10 Newhall Street Birmingham  
B3 3EN  
National Westminster House 225 Shenley Road  
Borehamwood Herts WD6 1TE

## NatWest Mortgage Services

PO Box 156 Priory House 38 Colmore Circus Birmingham  
West Midlands B4 6AL

## National Westminster Life Assurance Limited

Trinity Quay Avon Street Bristol BS2 0YY

## Royal Scottish Assurance plc

The Broadstone 50 South Gyle Crescent Edinburgh  
EH12 9UZ

## National Westminster Insurance Services Limited

PO Box 106 37 Broad Street Bristol BS99 7NQ

## 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

## Retail Direct

42 St Andrew Square Edinburgh EH2 2YE

## RBS Cards

The Younger Building 3 Redheughs Avenue South Gyle  
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

**Direct Line Financial Services Limited**

Direct Line House 250 St Vincent Street Glasgow G2 5SH

**Lombard Direct**

Lombard House 339 Southbury Road Enfield EN1 1TW

**Manufacturing**

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

Regents House 42 Islington High Street London N1 8XL

38 Mosley Street Manchester M60 2BE

Lowry House Marble Street Manchester M60 2QP

Goodmans Fields 74 Alie Street London E1 8HL

**Wealth Management**

Royal Bank House 71 Bath Street St Helier Jersey  
Channel Islands JE4 8PJ

**The Royal Bank of Scotland  
International Limited**

Royal Bank House 71 Bath Street St Helier Jersey  
Channel Islands JE4 8PJ

**NatWest Offshore**

23/25 Broad Street St Helier Jersey Channel Islands  
JE4 8QG

**Coutts Group**

440 Strand London WC2R 0QS

**Adam & Company Group PLC**

22 Charlotte Square Edinburgh EH2 4DF

**Direct Line Insurance Group**

Direct Line House 3 Edridge Road Croydon CR9 1AG

**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 Life Holdings Limited**

Direct Line House 3 Edridge Road Croydon CR9 1AG

**Direct Line Accident Management Limited**

Direct Line House 3 Edridge Road Croydon CR9 1AG

**Linea Directa Aseguradora S.A.**

Isaac Newton 7 28760 Tres Cantos Madrid Spain

**Privilege Insurance Company Limited**

The Wharf Neville Street Leeds LS1 4AZ

**Green Flag Group Ltd**

Green Flag House Cote Lane Leeds LS28 5GF

**jamjar.com Ltd**

Direct Line House 3 Edridge Road Croydon CR9 1AG

**Ulster Bank Limited**

11-16 Donegall Square East Belfast BT1 5UB

George's Quay Dublin 2

**Citizens****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 Bank of Massachusetts**

28 State Street Boston Massachusetts 02109 USA

**Citizens Leasing Corporation**

One Citizens Plaza Providence Rhode Island 02903 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

**United States Trust Company**

40 Court Street Boston Massachusetts 02109 USA

## Analyses of ordinary shareholders

|                             | shareholdings  | millions       | %<br>of total |
|-----------------------------|----------------|----------------|---------------|
| Individuals                 | 152,100        | 461.6          | 17.2          |
| Banks and nominee companies | 18,539         | 2,021.7        | 75.5          |
| Investment trusts           | 322            | 4.3            | 0.2           |
| Insurance companies         | 220            | 51.6           | 1.9           |
| Other companies             | 6,680          | 104.7          | 3.9           |
| Pension trusts              | 50             | 21.4           | 0.8           |
| Other corporate bodies      | 54             | 13.0           | 0.5           |
|                             | <b>177,965</b> | <b>2,678.3</b> | <b>100.0</b>  |
| Range of shareholdings:     |                |                |               |
| 1– 1,000                    | 106,376        | 40.6           | 1.5           |
| 1,001– 10,000               | 65,668         | 185.3          | 6.9           |
| 10,001– 100,000             | 4,704          | 115.0          | 4.3           |
| 100,001– 1,000,000          | 914            | 291.9          | 10.9          |
| 1,000,001– 10,000,000       | 264            | 749.5          | 28.0          |
| 10,000,001 and over         | 39             | 1,296.0        | 48.4          |
|                             | <b>177,965</b> | <b>2,678.3</b> | <b>100.0</b>  |

## Shareholder information

### Annual general meeting

11 April 2001 at 11 am, Edinburgh International  
Conference Centre, The Exchange, Morrison Street, Edinburgh

### Interim results

2 August 2001

### Final results

28 February 2002

### Dividends

#### Payment dates:

|  |  |
|--|--|
| *Ordinary shares (2000 Final)  | 18 May 2001  |
| Ordinary shares (2001 Interim)   | October 2001   |
| Cumulative preference shares   | 31 May and 31 December 2001                          |
| Series B, C, D, E, F, G, H, I and J non-cumulative<br>dollar preference shares | 30 March, 29 June, 28 September and 31 December 2001 |

#### Ex-dividend dates:

|                               |               |
|-------------------------------|---------------|
| *Ordinary shares (2000 Final) | 14 March 2001 |
| Cumulative preference shares  | 2 May 2001    |

#### Record dates:

|                               |               |
|-------------------------------|---------------|
| *Ordinary shares (2000 Final) | 16 March 2001 |
| Cumulative preference shares  | 8 May 2001    |

\*If the necessary approval for the payment of the final dividend is obtained from shareholders at the annual general meeting on 11 April 2001, as an alternative to cash, a scrip dividend election will be offered and shareholders will receive details of this by letter after that date.

### Shareholder enquiries

Your shareholding in the company may be checked by visiting our website at [www.rbs.co.uk](http://www.rbs.co.uk). You will need the holder identifier number printed on your share certificate to gain access to this information.

### Capital gains tax

Information in relation to the capital gains tax base cost of shareholdings, following the takeover of National Westminster Bank Plc (“NatWest”) and the bonus issue of Additional Value Shares is set out below:

#### (a) Apportionment of the capital gains tax base cost of ordinary shares in NatWest (“NatWest shares”)

For those NatWest shareholders who are individuals and who accepted the offer by The Royal Bank of Scotland Group plc (“RBSG”) on or before 6 March 2000, it is expected that the Inland Revenue will be prepared to accept that the tax base cost of the NatWest shares will be apportioned across the different elements of consideration received in the manner set out below. The apportioned amounts are derived from information published by Financial Times Information (formerly published by Extel) and the outcome of the mix and match elections. The market value of RBSG ordinary shares for capital gains tax purposes on 6 March 2000 was £8.75 per share.

Expected Inland Revenue apportionment:

**Shareholders receiving the Basic Terms** – 0.67923 of the base cost to be apportioned to RBSG ordinary shares and 0.32077 to cash.

**Shareholders receiving the Partial Cash Alternative** – 0.64143 of the base cost to be apportioned to RBSG ordinary shares and 0.35857 to cash.

**Shareholders participating in the Additional Share Election** – (i) For shareholders who elected to receive only RBSG ordinary shares the whole base cost should be apportioned to RBSG ordinary shares (but reduced by an amount equal to any cash received in respect of fractional entitlements to RBSG ordinary shares).

(ii) For shareholders who elected to receive part of their sale proceeds as cash the base cost should be apportioned between RBSG ordinary shares and cash based on the number of RBSG ordinary shares (taken to have a market value of £8.75 per share – see above) and cash received.

**Shareholders participating in the Additional Cash Election** – The base cost to be apportioned between RBSG ordinary shares and cash based on the number of RBSG ordinary shares (taken to have a market value of £8.75 per share – see above) and cash received.

**Loan Notes** – If an election was made to receive loan notes instead of cash, the base cost of the NatWest shares to be apportioned to the loan notes on the basis that £1 nominal value of loan notes replaces £1 of cash.

- (b) Apportionment of the capital gains tax base cost of ordinary shares in RBSG (“RBSG shares”) to Additional Value Shares** It is expected that the capital gains base cost of RBSG shares will be apportioned between the RBSG ordinary shares and the Additional Value Shares by reference to their respective market values for capital gains purposes on the first day for which market prices were quoted for the Additional Value Shares (12 July 2000).

The market value of RBSG ordinary shares and Additional Value Shares for capital gains tax purposes on 12 July 2000 were £9.98 and £0.7925 per share respectively. These market values give rise to apportionment factors of 0.92643 of the base cost to ordinary shares and 0.07357 to Additional Value Shares. These market values and apportionment factors are derived from information published by Financial Times Information (formerly published by Extel).

- (c) Other relevant capital gains tax base cost information** For shareholders who held RBSG ordinary shares at 31 March 1982 the market value of one ordinary share held was £1.03. After adjusting for the 1 March 1985 rights issue, the 1 September 1989 capitalisation issue and the bonus issue of Additional Value Shares on 12 July 2000, the adjusted 31 March 1982 base value of one ordinary share held currently is £0.461.

For shareholders who held NatWest ordinary shares at 31 March 1982 the market value of one ordinary share held was 85.16p for shareholders who accepted the basic terms of the RBSG offer. This takes account of the August 1984 and June 1986 rights issues and the June 1989 bonus issue of NatWest shares as well as the subsequent issue of Additional Value Shares.

When disposing of shares, shareholders are also entitled to indexation allowance (to April 1998 only in the case of individuals and non-corporate holders), 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. Individuals and non-corporate shareholders may also be entitled to some taper relief to reduce the amount of any chargeable gain on disposal of shares.

**The information set out above is intended as a general guide only and is based on current United Kingdom legislation and Inland Revenue practice as at this date. This information deals only with the position of individual shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. It does not deal with the position of shareholders other than individual shareholders, shareholders who are resident outside the United Kingdom for tax purposes or certain types of shareholders, such as dealers in securities.**

**The information provided above should not be treated as a substitute for obtaining advice on individual circumstances from an independent adviser. It must be stressed that the company cannot give specific tax advice to shareholders. Each individual shareholder must compute his or her own taxation liability and agree it as necessary with the Inland Revenue. If you are in any doubt as to your tax position or if you require more detailed information than that outlined above, you should consult your own independent adviser.**

