



*The Royal Bank of Scotland Group*

**delivering on  
our promises**

**strength**  
**diversity**  
**flexibility**



# 2002 Results

27 February 2003



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

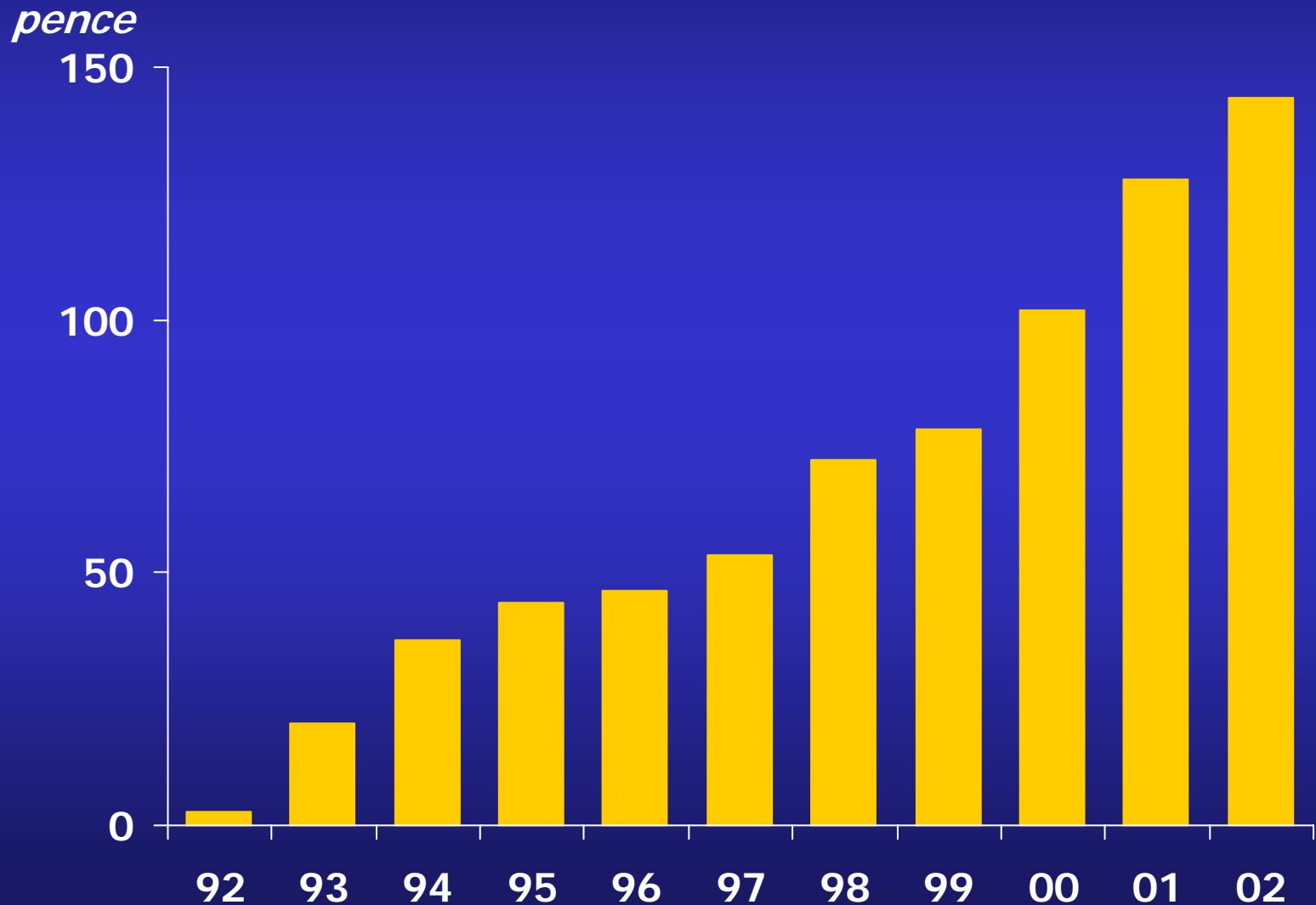
# 2002 Results

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i>
Profit before tax, goodwill amortisation and integration costs (Group operating profit)	6,451	5,778	+12%
Adjusted earnings per share	144.1	127.9	+13%

# Dividends

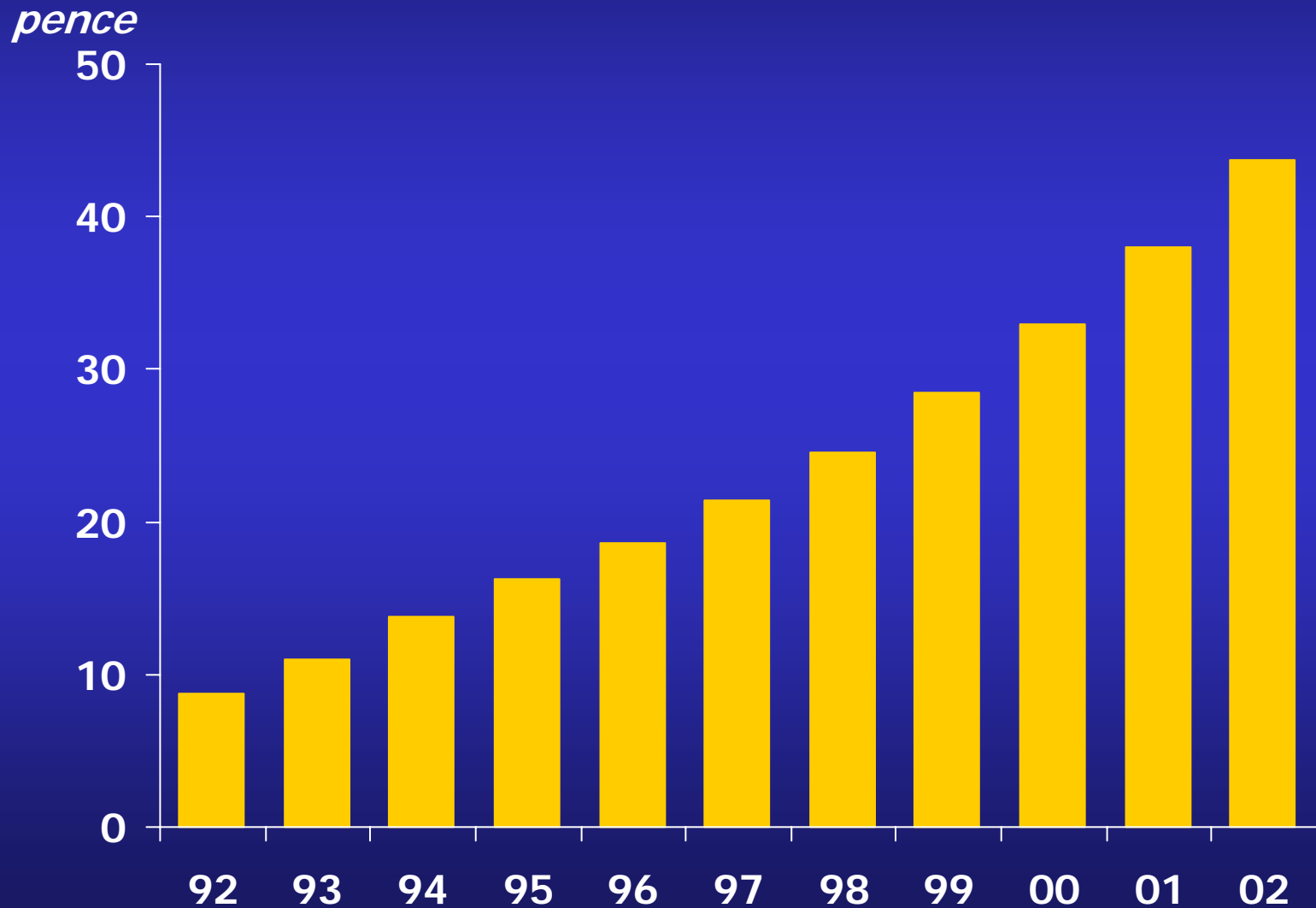
	<i>2002</i>	<i>2001</i>
Dividend per ordinary share	43.7 pence	38.0 pence
Dividend growth	+15%	+15%
AVS dividend	30.0 pence	15.0 pence
Total ordinary and AVS dividends	£2,065m	£1,484m

# Adjusted Earnings Per Share



*Earnings per share before exceptional items, goodwill amortisation, integration costs and AVS dividends*

# Dividends Per Share



*Dividends per ordinary share, excluding AVS Dividends*

# 2002 Results

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## *Agenda*

- ⌘ Group and divisional results
- ⌘ Integration progress report
- ⌘ Credit quality
- ⌘ Strategy and outlook





*The Royal Bank of Scotland Group*

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



# Group and Divisional Results

# 2002 Results

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Profit before tax, goodwill amortisation and integration costs (Group operating profit)	6,451	5,778	+12%

# Group Operating Profit

	<i>2002</i>	<i>2001</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	16,815	14,558	2,257	+16%
Operating expenses	7,669	6,841	828	+12%
Income less expenses	9,146	7,717	1,429	+19%
Net insurance claims	1,350	948	402	+42%
Total provisions	1,345	991	354	+36%
<b>Group operating profit</b>	<b>6,451</b>	<b>5,778</b>	<b>673</b>	<b>+12%</b>

# Group Operating Profit

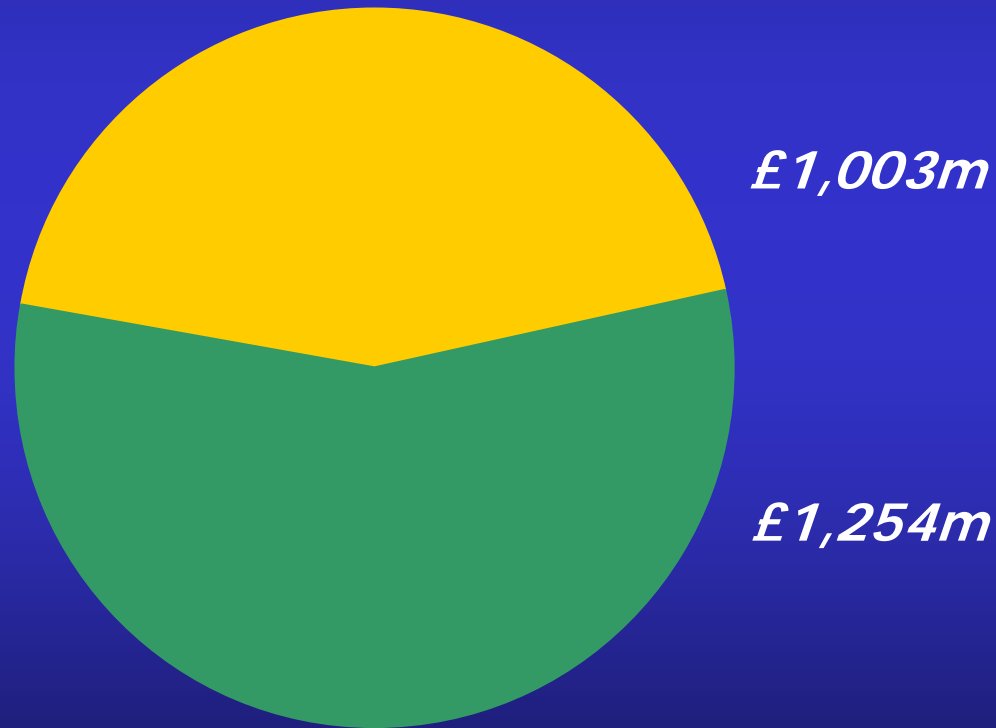
<i>Excluding Acquisitions</i>	<i>2002</i>	<i>2001</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	16,132	14,468	1,664	+12%
Operating expenses	7,267	6,798	469	+7%
Income less expenses	8,865	7,670	1,195	+16%
Net insurance claims	1,278	938	340	+36%
Total provisions	1,333	990	343	+35%
<b>Group operating profit</b>	<b>6,254</b>	<b>5,742</b>	<b>512</b>	<b>+9%</b>

# Income

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	6,052	5,457	595	+11%
Retail Banking	4,193	3,899	294	+8%
Retail Direct	1,590	1,370	220	+16%
Manufacturing	—	—	—	—
Wealth Management	907	933	(26)	-3%
Direct Line Group	2,139	1,543	596	+39%
Ulster Bank	520	483	37	+8%
Citizens	1,716	1,120	596	+53%
Central items	(302)	(247)	(55)	-22%
<b>Total income</b>	<b>16,815</b>	<b>14,558</b>	<b>2,257</b>	<b>+16%</b>

# Increase in Income £2,257m

Net Interest Income 44%



Non-Interest Income 56%

# Net Interest Margin

	<i>2002</i> %	<i>2001</i> %
Group	3.1	3.1



# Cost:Income Ratio

	<i>2002</i> %	<i>2001</i> %
Group	45.6	47.0
Group, excluding acquisitions	45.0	47.0

# Provisions

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i>
Net new provisions and amounts written off fixed asset investments	1,408	1,071	+31%
Recoveries of amounts previously written off	63	80	-21%
<b>Total provisions</b>	<b>1,345</b>	<b>991</b>	<b>+36%</b>

# Asset Quality

	<i>2002</i>	<i>2001</i>
	<i>£m</i>	<i>£m</i>
Total provisions	3,927	3,653
Risk elements in lending	4,871	4,493
Potential problem loans	1,183	1,080
Provisions as percentage of risk elements in lending	81%	81%
Provisions as percentage of risk elements in lending and potential problem loans	65%	66%

# Group Operating Profit

	<i>2002</i>	<i>2001</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	16,815	14,558	2,257	+16%
Operating expenses	7,669	6,841	828	+12%
Net insurance claims	1,350	948	402	+42%
Operating profit before provisions	7,796	6,769	1,027	+15%
Total provisions	1,345	991	354	+36%
<b>Group operating profit</b>	<b>6,451</b>	<b>5,778</b>	<b>673</b>	<b>+12%</b>

# Corporate Banking and Financial Markets

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i>
Net interest income	2,349	2,138	+10%
Non-interest income	3,703	3,319	+12%
Total income	6,052	5,457	+11%
Direct expenses	2,124	1,931	+10%
Contribution before provisions	3,928	3,526	+11%
Provisions	725	502	+44%
<b>Contribution</b>	<b>3,203</b>	<b>3,024</b>	<b>+6%</b>

# Corporate Banking and Financial Markets

<i>Excluding Acquisitions</i>	<i>2002 £m</i>	<i>2001 £m</i>	<i>Change</i>
Net interest income	2,344	2,135	+10%
Non-interest income	3,634	3,315	+10%
Total income	5,978	5,450	+10%
Direct expenses	2,057	1,924	+7%
Contribution before provisions	3,921	3,526	+11%
Provisions	724	502	+44%
<b>Contribution</b>	<b>3,197</b>	<b>3,024</b>	<b>+6%</b>

# Retail Banking

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	2,840	2,622	+8%
Non-interest income	1,353	1,277	+6%
Total income	4,193	3,899	+8%
Direct expenses	961	928	+4%
Contribution before provisions	3,232	2,971	+9%
Provisions	213	164	+30%
<b>Contribution</b>	<b>3,019</b>	<b>2,807</b>	<b>+8%</b>

# Retail Direct

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	749	674	+11%
Non-interest income	841	696	+21%
Total income	1,590	1,370	+16%
Direct expenses	608	564	+8%
Contribution before provisions	982	806	+22%
Provisions	281	255	+10%
<b>Contribution</b>	<b>701</b>	<b>551</b>	<b>+27%</b>



# Manufacturing

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i>
Group Technology	662	632	+5%
Group Purchasing and Property Operations	528	467	+13%
Customer Support and other operations	492	469	+5%
<b>Total Manufacturing costs</b>	<b>1,682</b>	<b>1,568</b>	<b>+7%</b>

# Wealth Management

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	460	464	-1%
Non-interest income	447	469	-5%
Total income	907	933	-3%
Expenses	486	479	+1%
Contribution before provisions	421	454	-7%
Net (release) of provisions	(11)	(5)	+120%
<b>Contribution</b>	<b>432</b>	<b>459</b>	<b>-6%</b>

# Direct Line Group

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Insurance premium income	1,894	1,375	+38%
Other income	245	168	+46%
Total income	2,139	1,543	+39%
Expenses	434	334	+30%
Net claims	1,350	948	+42%
<b>Contribution</b>	<b>355</b>	<b>261</b>	<b>+36%</b>

# Direct Line Group

<i>Excluding Acquisitions</i>	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i>
Insurance premium income	1,816	1,364	+33%
Other income	239	168	+42%
Total income	2,055	1,532	+34%
Expenses	386	321	+20%
Net claims	1,278	938	+36%
<b>Contribution</b>	<b>391</b>	<b>273</b>	<b>+43%</b>

# Ulster Bank

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	339	313	+8%
Non-interest income	181	170	+6%
Total income	520	483	+8%
Expenses	254	239	+6%
Contribution before provisions	266	244	+9%
Provisions	22	15	+47%
<b>Contribution</b>	<b>244</b>	<b>229</b>	<b>+7%</b>

# Citizens

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	1,248	814	+53%
Non-interest income	468	306	+53%
Total income	1,716	1,120	+53%
Expenses	855	550	+55%
Contribution before provisions	861	570	+51%
Provisions	95	69	+38%
<b>Contribution</b>	<b>766</b>	<b>501</b>	<b>+53%</b>

# Citizens

	<i>Underlying Change*</i>		<i>Exchange Impact</i>	<i>Mellon+ Medford Change*</i>		<i>Reported Change</i>
	<i>£m</i>	<i>%</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>%</i>
Net interest income	104	+14%	(34)	364	434	+53%
Non-interest income	54	+19%	(13)	121	162	+53%
Total income	158	+15%	(47)	485	596	+53%
Expenses	72	+14%	(23)	256	305	+55%
Contribution before provisions	86	+16%	(24)	229	291	+51%
Provisions	19	+29%	(3)	10	26	+38%
<b>Contribution</b>	<b>67</b>	<b>+14%</b>	<b>(21)</b>	<b>219</b>	<b>265</b>	<b>+53%</b>

\* 2001 and 2002 results converted at constant exchange rate (2002 average rate)

# Group Operating Profit

	<i>2002</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	3,203	3,024	179	+6%
Retail Banking	3,019	2,807	212	+8%
Retail Direct	701	551	150	+27%
Manufacturing	(1,682)	(1,568)	(114)	-7%
Wealth Management	432	459	(27)	-6%
Direct Line Group	355	261	94	+36%
Ulster Bank	244	229	15	+7%
Citizens	766	501	265	+53%
Central items	(587)	(486)	(101)	-21%
<b>Group operating profit</b>	<b>6,451</b>	<b>5,778</b>	<b>673</b>	<b>+12%</b>



# Earnings Per Share

	<i>2002</i>	<i>2001</i>	<i>Change</i>
	<i>pence</i>	<i>pence</i>	
Basic earnings per share	68.4	67.6	+1%
Goodwill amortisation	24.2	23.2	
Integration costs	23.8	22.6	
AVS dividend	27.7	14.5	
Adjusted earnings per share	144.1	127.9	+13%
Dividend per share	43.7	38.0	+15%
Dividend cover	3.3x	3.3x	

# Capital Ratios

	<i>Dec 2002 %</i>	<i>Dec 2001 %</i>
Tier 1	7.3	7.1
Total capital	11.7	11.5

# Capital Generation

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

\* Profit attributable to ordinary shareholders before goodwill amortisation

# Income Growth

<i>£m</i>	<i>2H01</i>	<i>1H02</i>	<i>2H02</i>
Total income	7,736	8,182	8,633
Acquisitions	(90)	(322)	(361)
“Exceptional” income	(200)	–	–
Citizens exchange rate impact	–	–	47
	7,446	7,860	8,319
Growth:			
Half on half		6%	6%
Year on year			12%

# RBS Main Pension Fund

<i>£m</i>	<i>2002 Results Existing Basis</i>	<i>2002 Results FRS 17</i>
<i><b>Profit &amp; Loss Account</b></i>		
Pension costs	187	106
Group operating profit	6,451	6,532
<i><b>Balance Sheet</b></i>		
Pension fund surplus (deficit) after tax	548	(1,215)
Tier 1 capital	17,155	17,212
Regulatory capital	27,280	27,337



*The Royal Bank of Scotland Group*

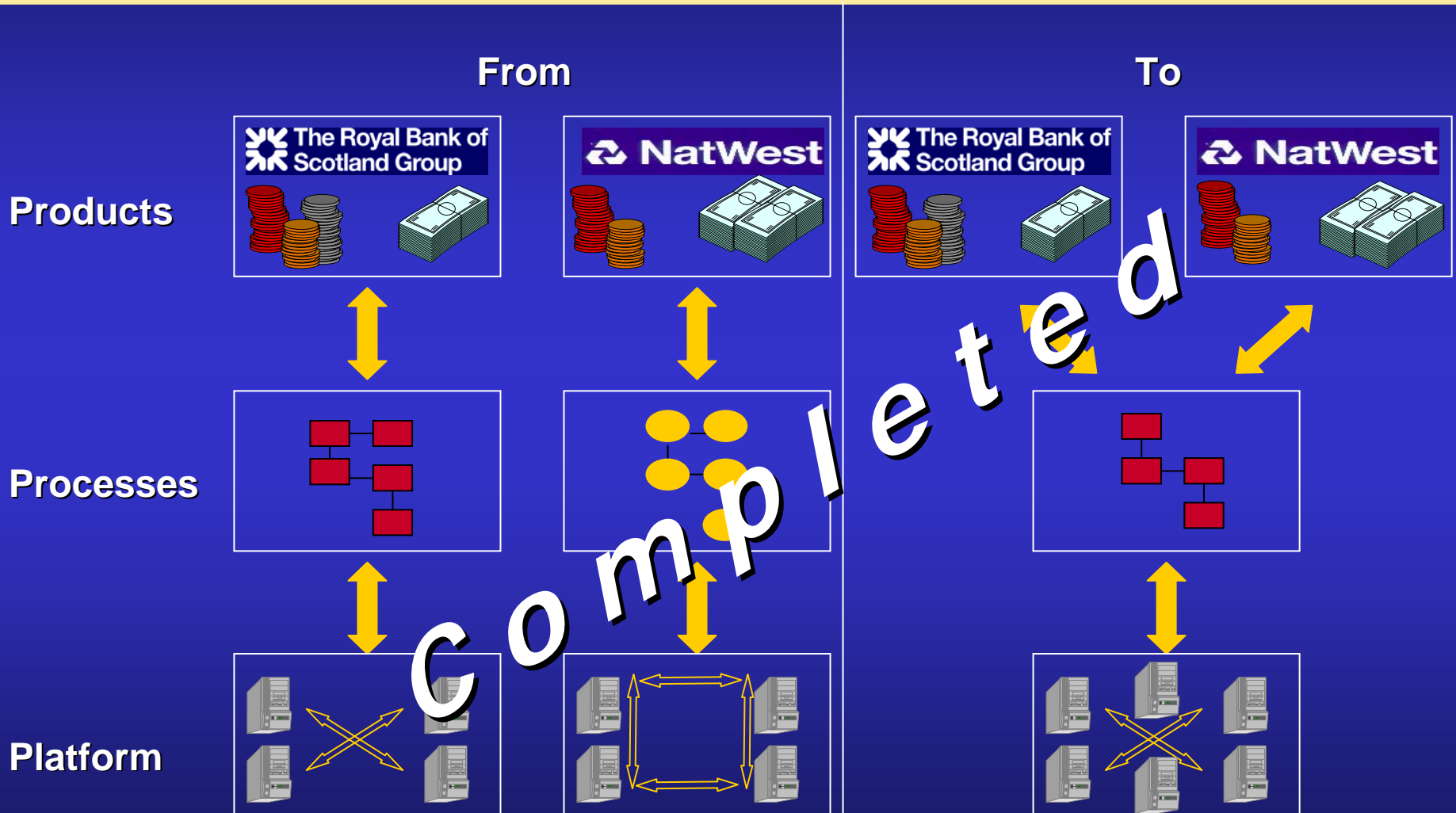
**Fred Goodwin**  
**Group Chief Executive**



# Integration Progress Report

# Clear Business Plan

## Common Products





# IT Integration

## *Stone Data Centre*



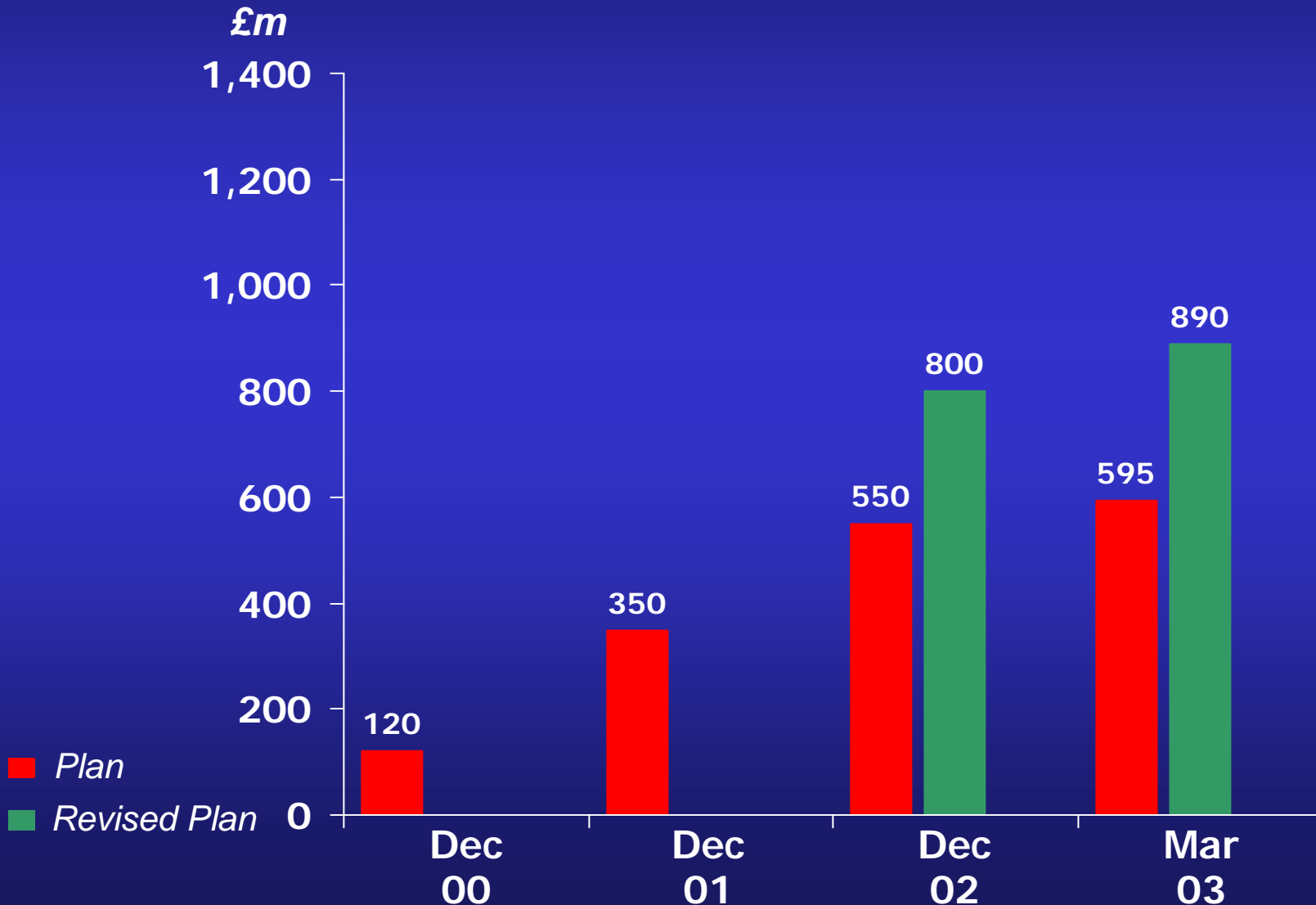
# IT Integration

## *Stone Data Centre*



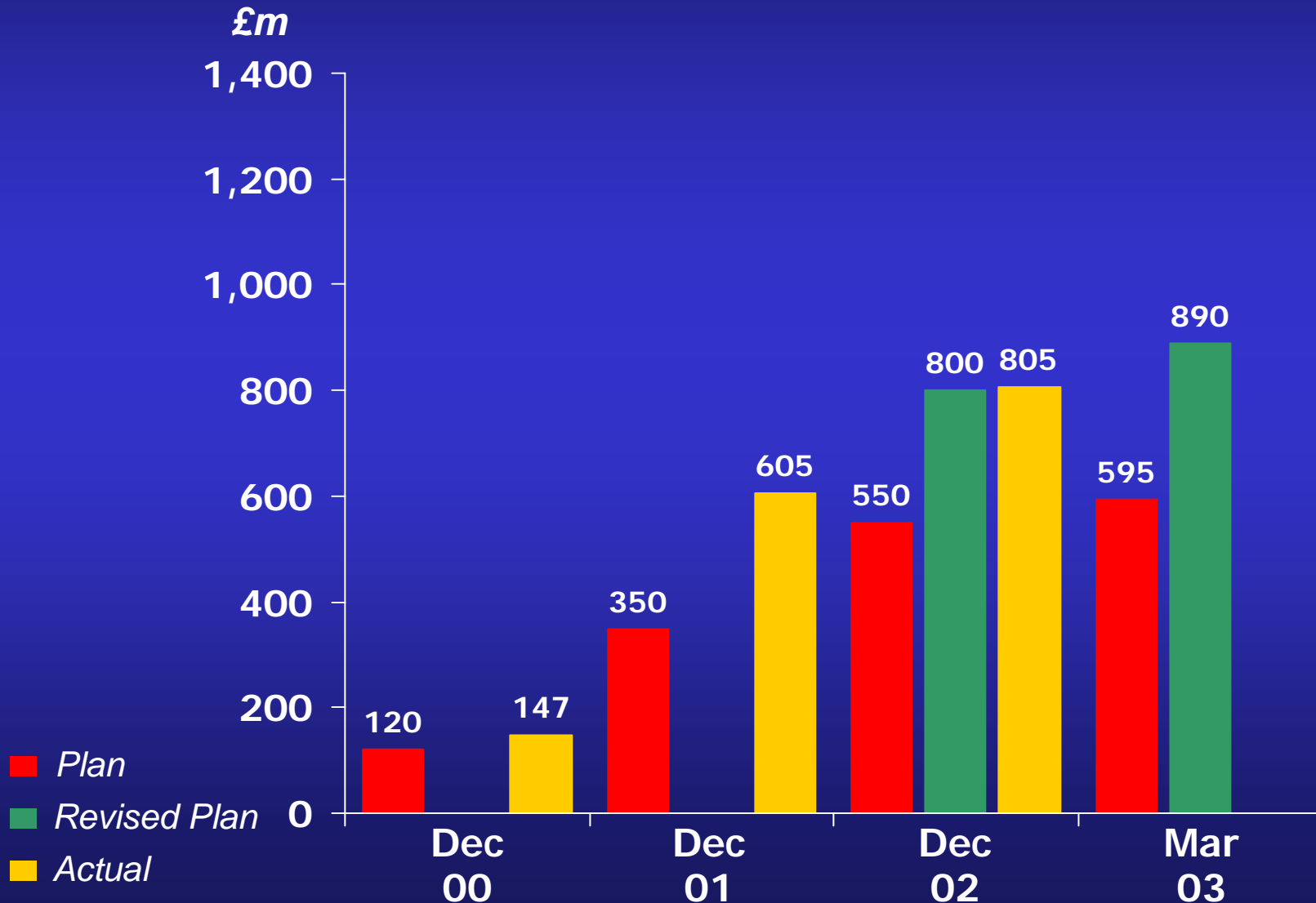
# Revenue Benefits

## Cumulative Annualised Amount Implemented



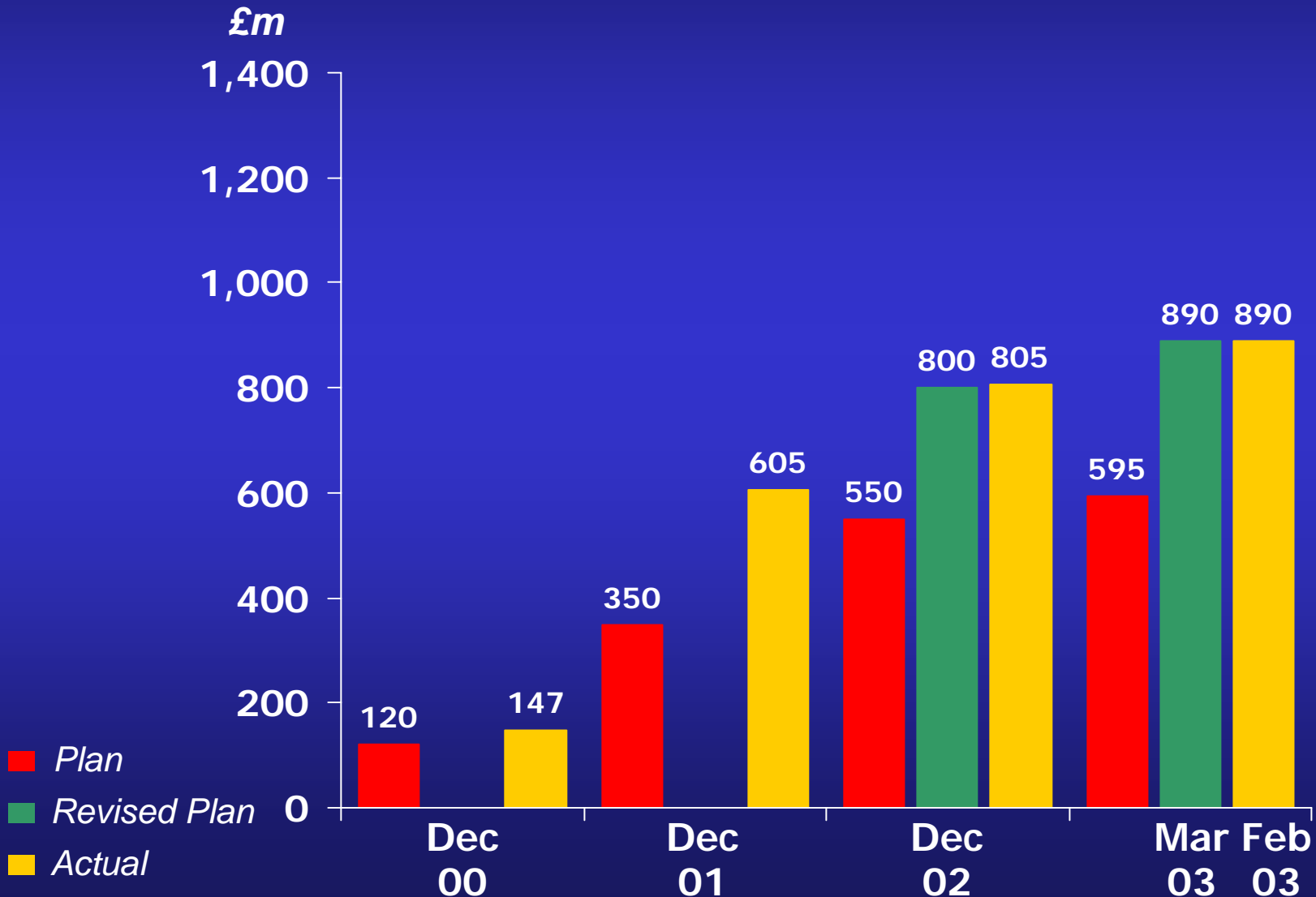
# Revenue Benefits

## Cumulative Annualised Amount Implemented



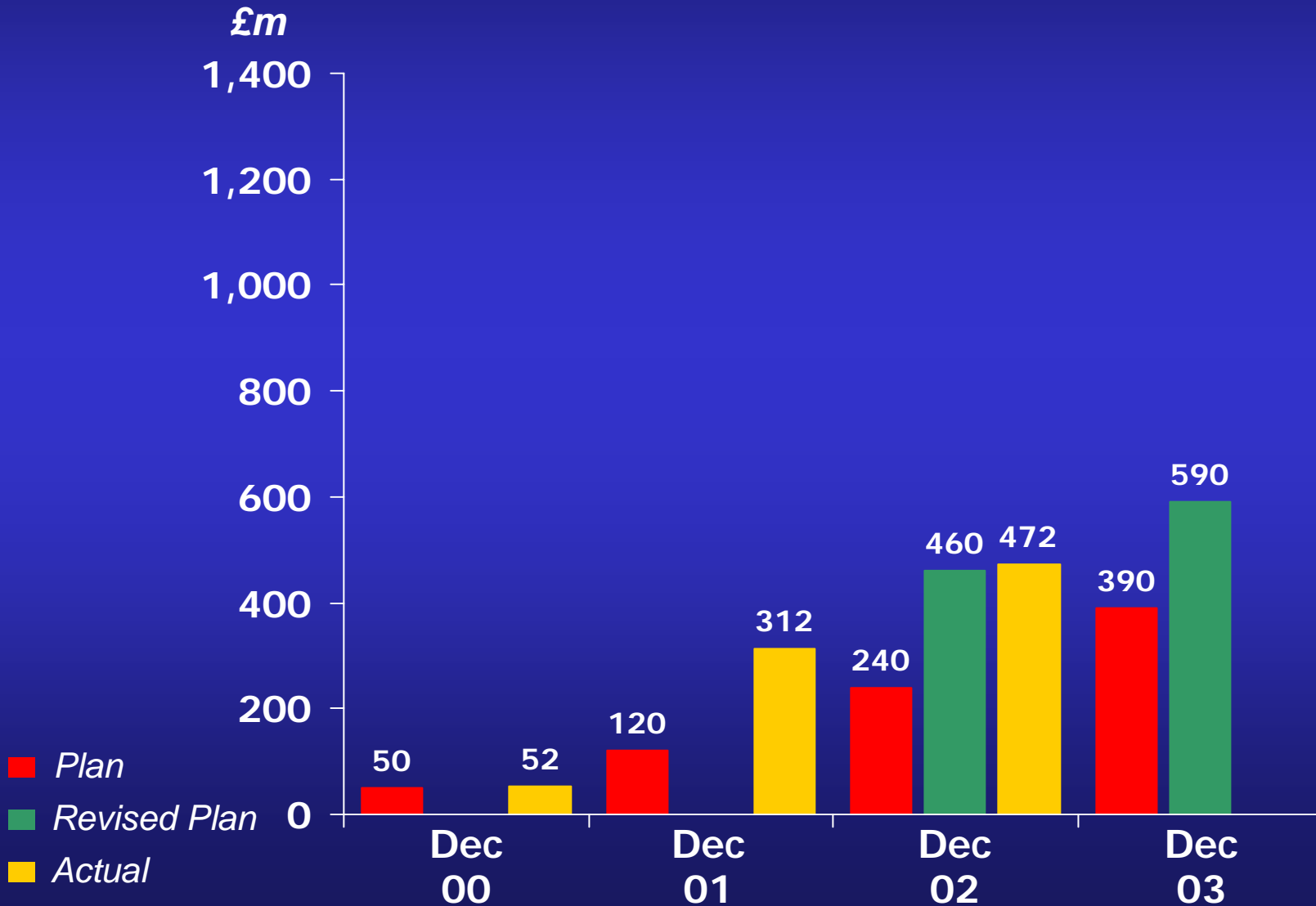
# Revenue Benefits

## Cumulative Annualised Amount Implemented



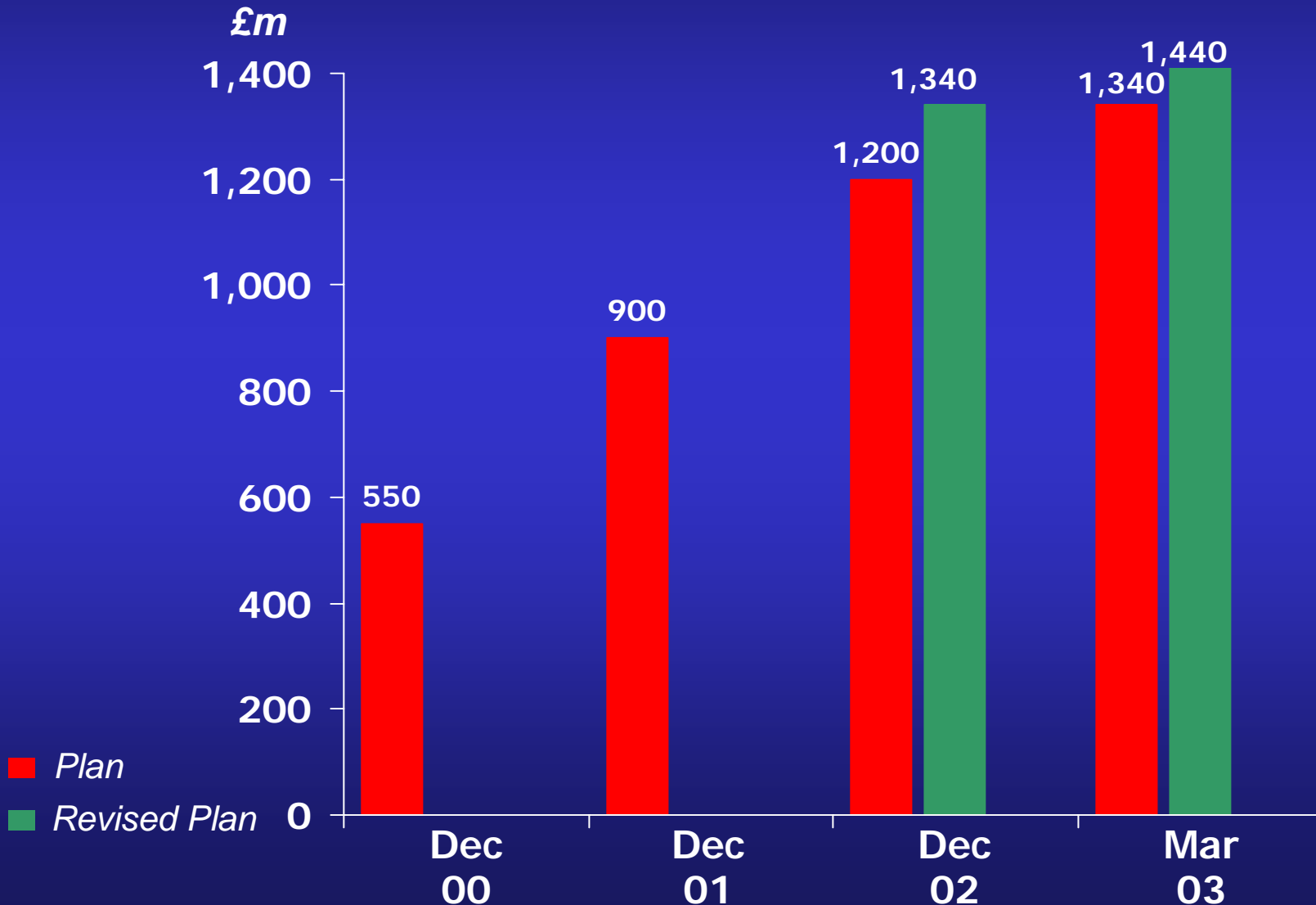
# Revenue Benefits

## Impact on Profit Before Tax



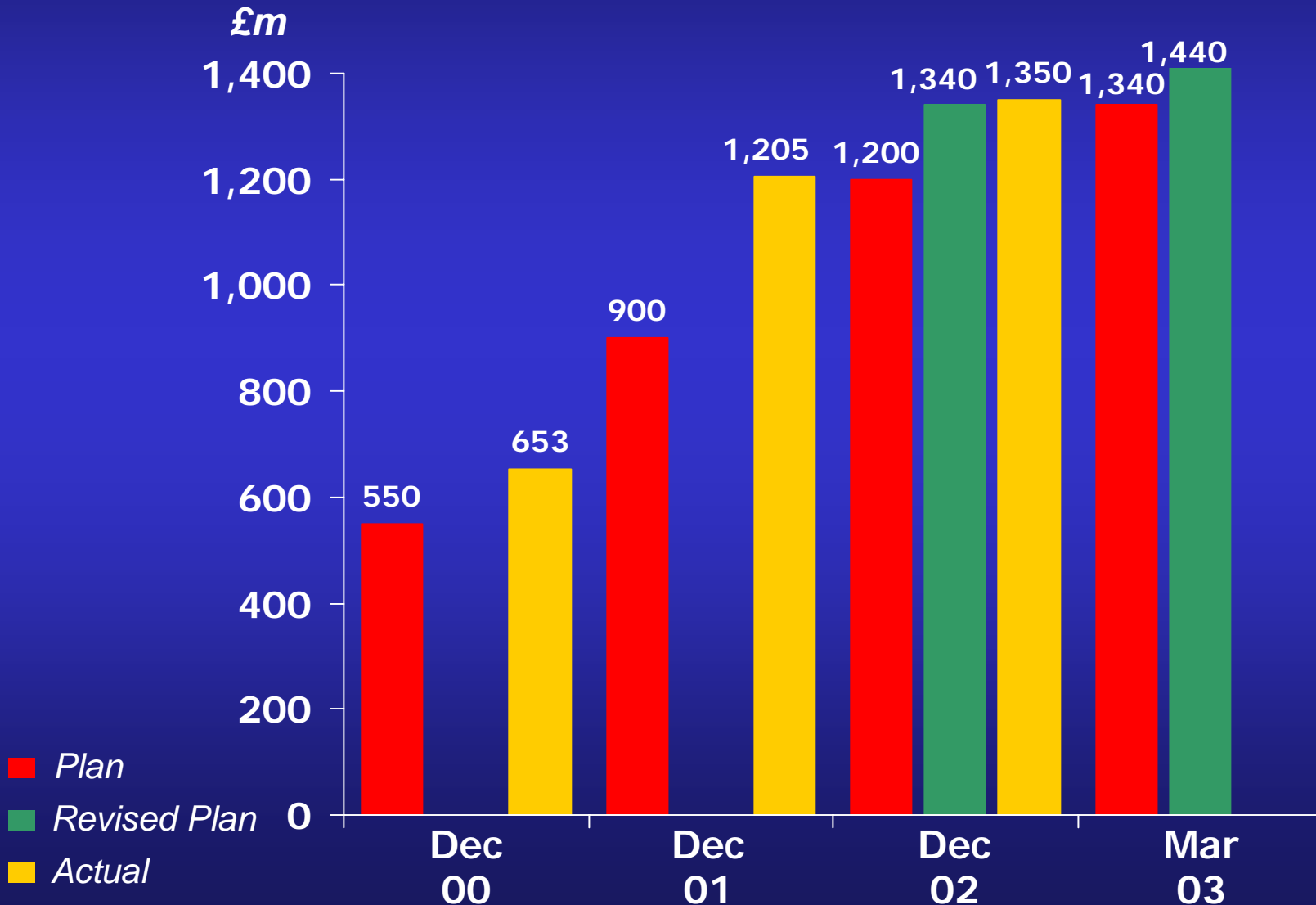
# Cost Savings

## Cumulative Annualised Amount Implemented



# Cost Savings

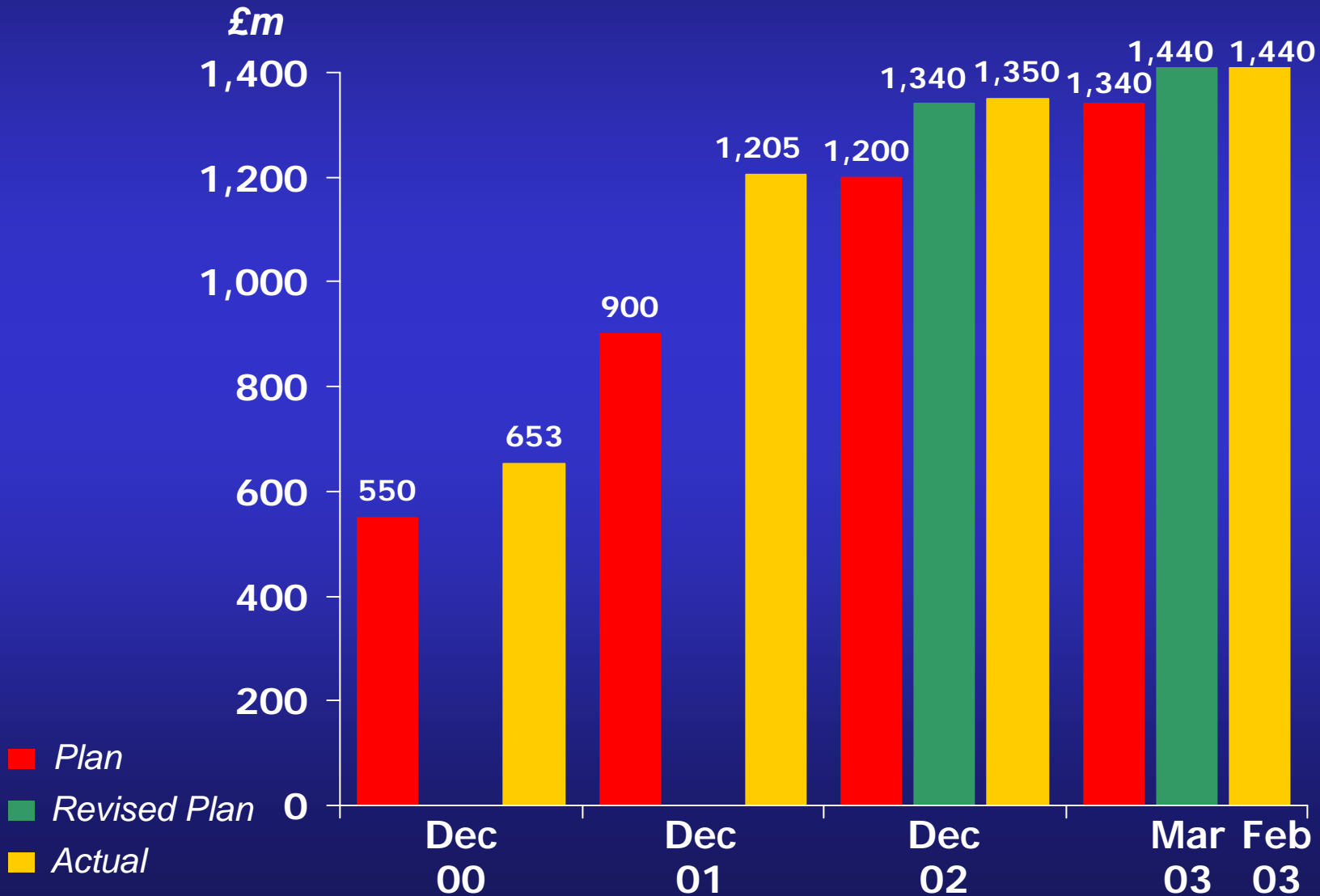
## Cumulative Annualised Amount Implemented





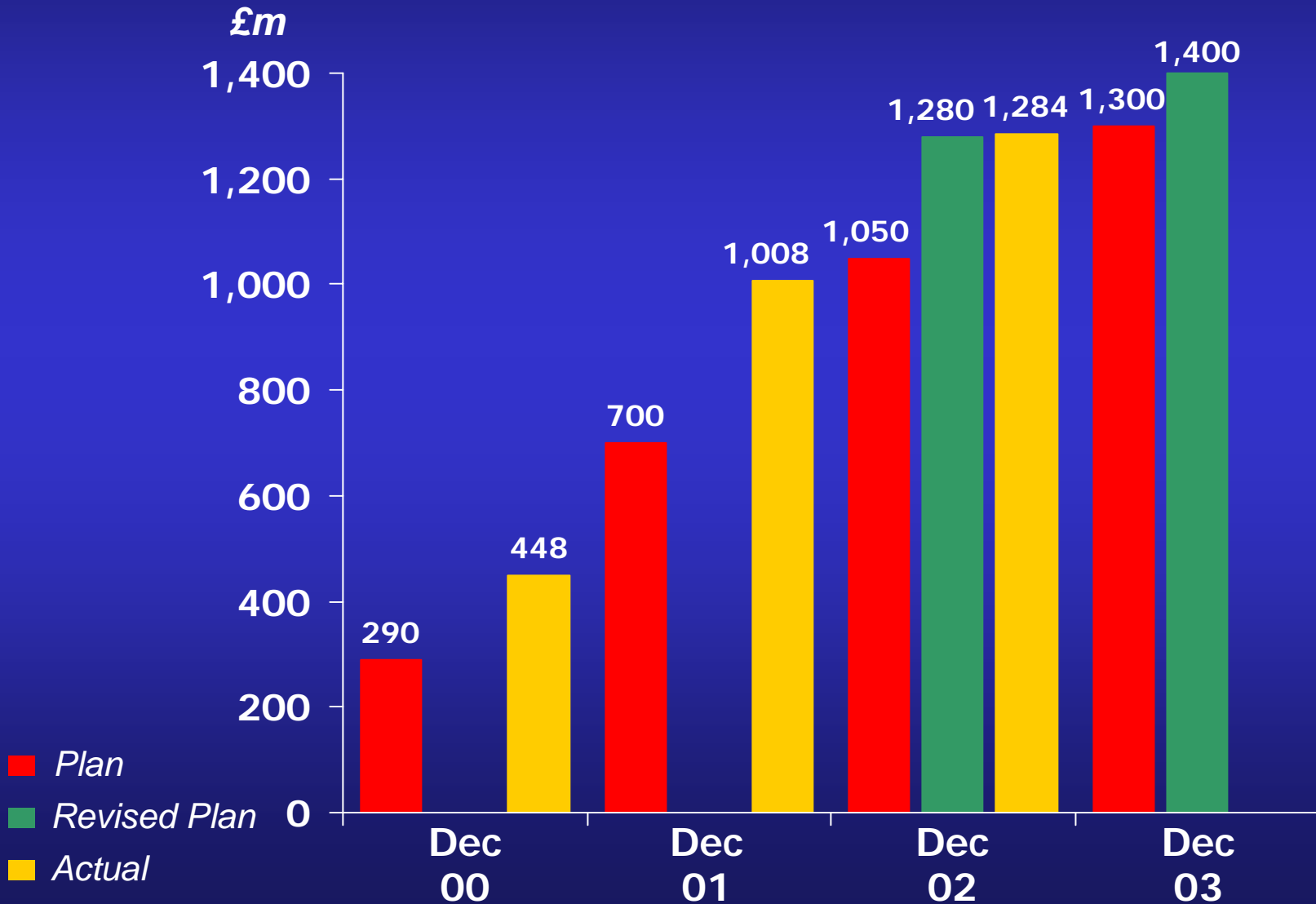
# Cost Savings

## Cumulative Annualised Amount Implemented



# Cost Savings

## Impact on Profit Before Tax



# NatWest Transaction Benefits

## *Impact on Profit Before Tax*

<i>£m</i>	<i>Bid Nov 99</i>	<i>30 Day Report Apr 00</i>	<i>Revised Plan Feb 02</i>	<i>Achieved</i>
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## *Recurring Annual Benefits*

Revenue benefits	240	390	590	590*
Cost savings	1,180	1,340	1,440	1,440*
Transaction benefits	1,420	1,730	2,030	2,030*

## *Achieved 2000 - 2002*

Cumulative benefits		2,450	3,560	3,576
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*\* Annualised benefits implemented by February 2003, but full impact will not flow through to Profit & Loss Account until 2004*

# NatWest Integration

- ⌘ Revenue benefits
- ⌘ Cost savings
- ⌘ IT integration
- ⌘ Implementation by March 2003

**Completed**

# Mellon Transaction Benefits

<i>\$m</i>	<i>Achieved 2002</i>	<i>Plan 2002</i>	<i>Plan 2004</i>
<b>Revenue Benefits</b>			
- Cumulative annualised amount implemented	70	57	242
- Impact on profit before tax	19	2	104
<b>Cost Savings</b>			
- Cumulative annualised amount implemented	95	71	101
- Impact on profit before tax	70	46	98
<b>Integration Costs</b>			
- Cumulative total	239	241	267

# Income and Expenses 1999 - 2002

	<i>Pro forma</i>			
	<i>1999</i>	<i>2002</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	16,815	+5,750	+52%
Operating expenses	6,563	7,669	+1,106	+17%
Income less expenses	4,502	9,146	+4,644	+103%
Cost:income ratio	59.3%	45.6%		

# Income Growth 1999 - 2002

	<i>Pro forma</i>		<i>Change</i>	<i>Change</i>
	<i>1999</i>	<i>2002</i>	<i>Change</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	16,815	+5,750	+52%

<i>Components of Income Growth</i>	<i>£m</i>	<i>% Total</i>
Transaction benefits	+712	12%
Acquisitions	+1,036	18%
Organic growth	+4,002	70%
Total	+5,750	100%



**Credit Quality**

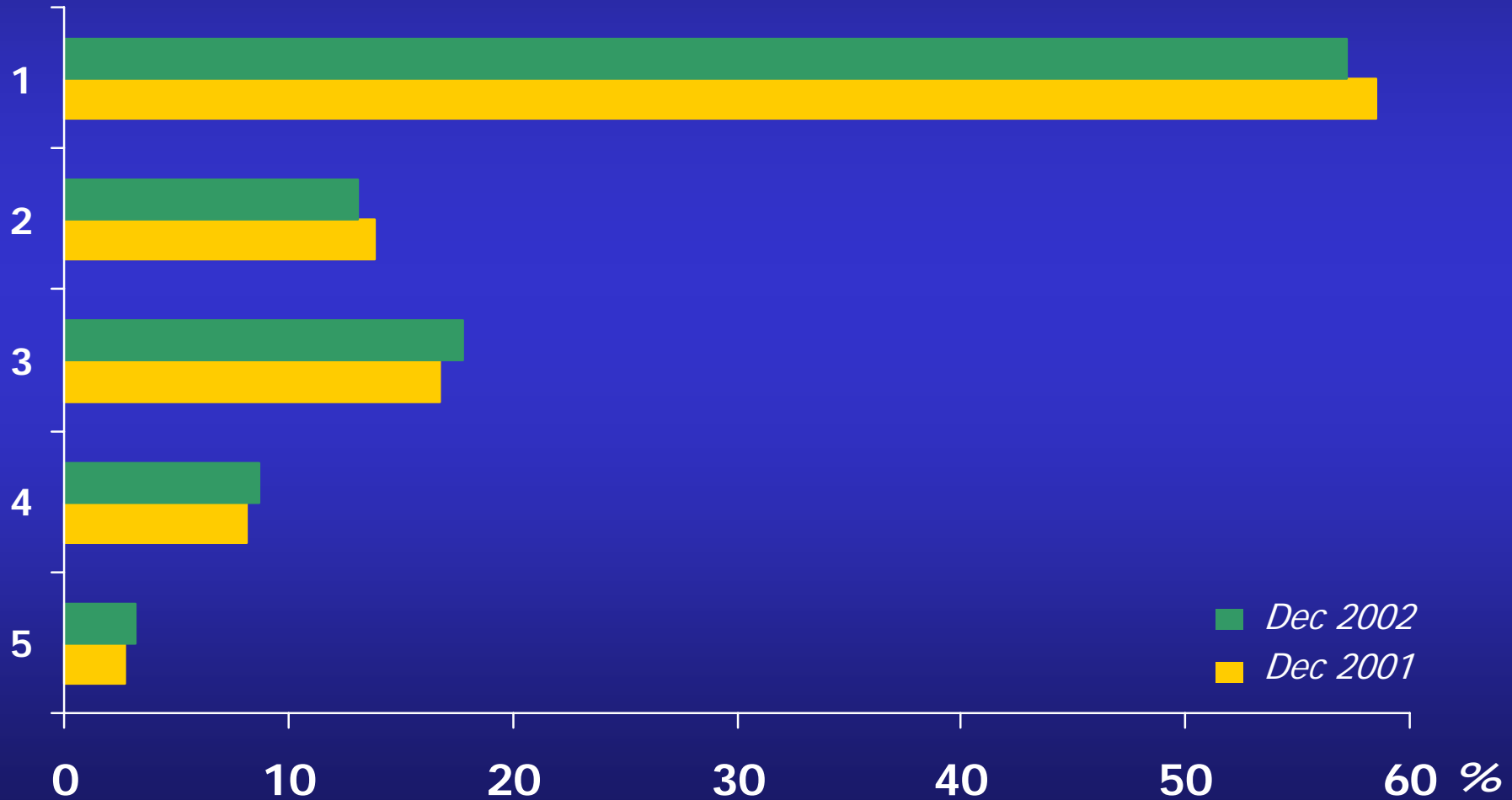
**Our Portfolio**



# Credit Grades

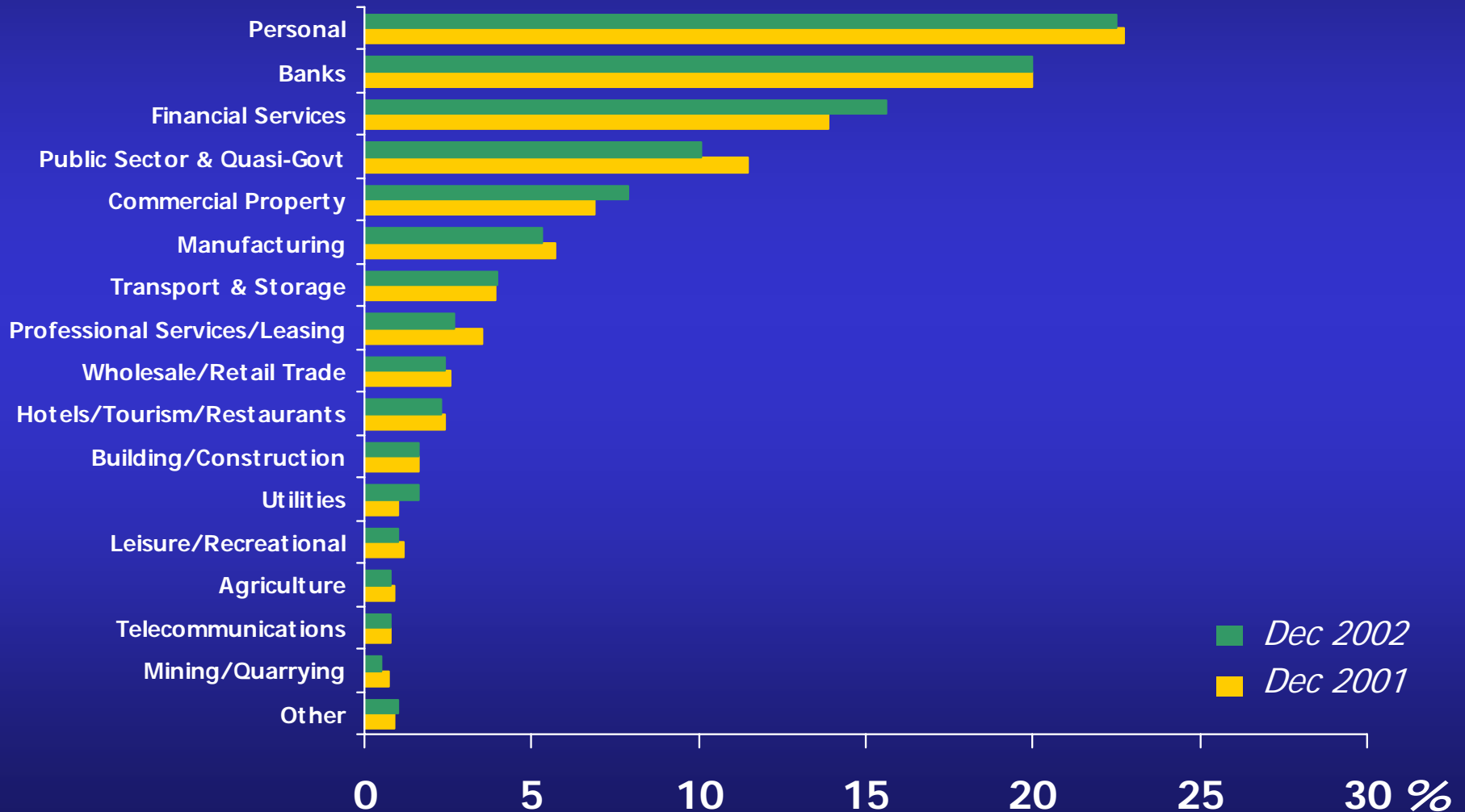
<i>RBS Main Grade</i>	<i>RBS Internal Grade</i>	<i>S&amp;P Range</i>
1	A1	AAA
	A2	to
	A3	AA-
	B1	A+
	B2	to
	B3	BBB-
2	C1	BB+
	C2	to
	C3	BB
3	D1	BB-
	D2	B+
4	D3	B+/B
5	E1	B
	E4	to
	F	C

# Group Risk Assets by Credit Grade

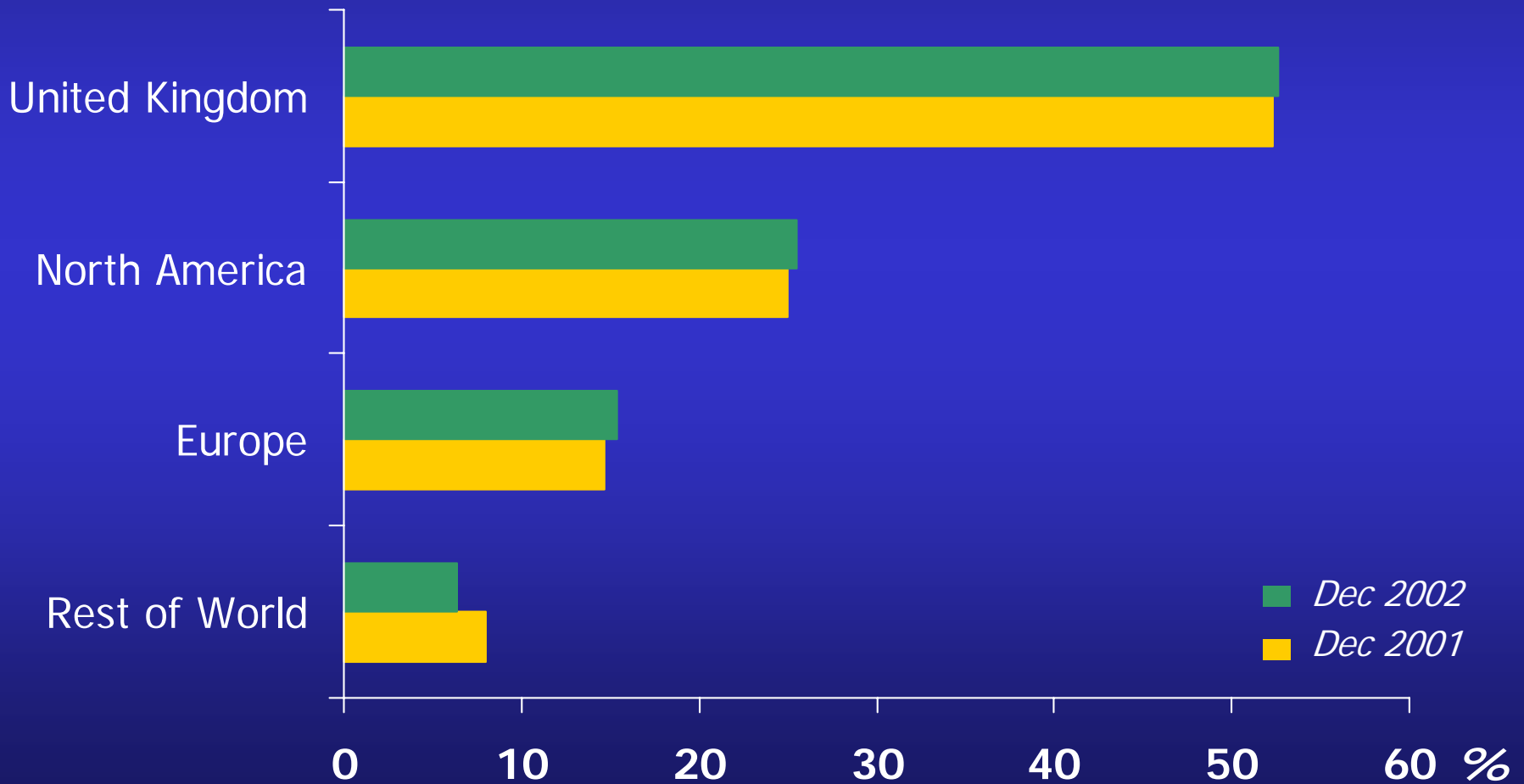


*Exposures net of provisions*

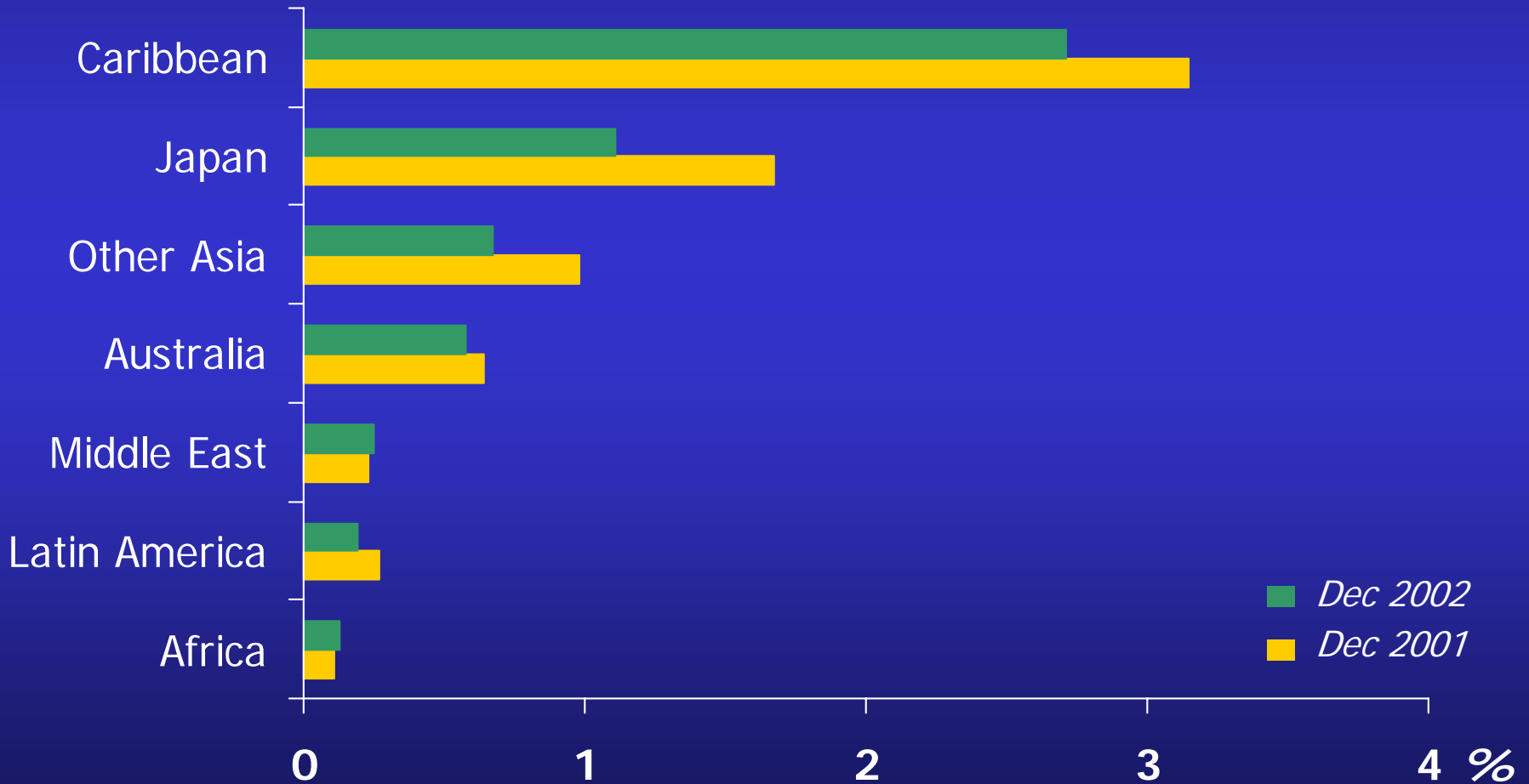
# Group Risk Assets by Industry Sector



# Group Risk Assets by Geographic Area



# Group Risk Assets - Rest of World



# Group Risk Assets - Selected Countries

<i>£m</i>	<i>Bank</i>	<i>Non-Bank</i>	<i>Total Dec 02</i>	<i>Total Dec 01</i>
Turkey	25	65	90	140
Argentina	30	15	45	51
Brazil	–	14	14	180
Mexico	66	91	157	170
Venezuela	–	115	115	99



# **Credit Quality**

## **Provision Coverage**

# Asset Quality

<i>£m</i>	<i>Dec 2002</i>	<i>Jun 2002</i>	<i>Dec 2001</i>	<i>Jun 2001</i>	<i>Dec 2000</i>
Loans and advances to customers (gross)	227,244	213,734	194,137	182,615	171,215
Risk elements in lending	4,871	4,791	4,493	4,045	3,821
Potential problem loans	1,183	1,230	1,080	880	772
Provisions	3,927	3,856	3,653	3,236	3,153



# Asset Quality

<i>%</i>	<i>Dec 2002</i>	<i>Jun 2002</i>	<i>Dec 2001</i>	<i>Jun 2001</i>	<i>Dec 2000</i>
Risk elements in lending as percentage of loans and advances to customers	2.14	2.24	2.31	2.22	2.23
Risk elements in lending and potential problem loans as percentage of loans and advances to customers	2.66	2.82	2.87	2.70	2.68

# Asset Quality

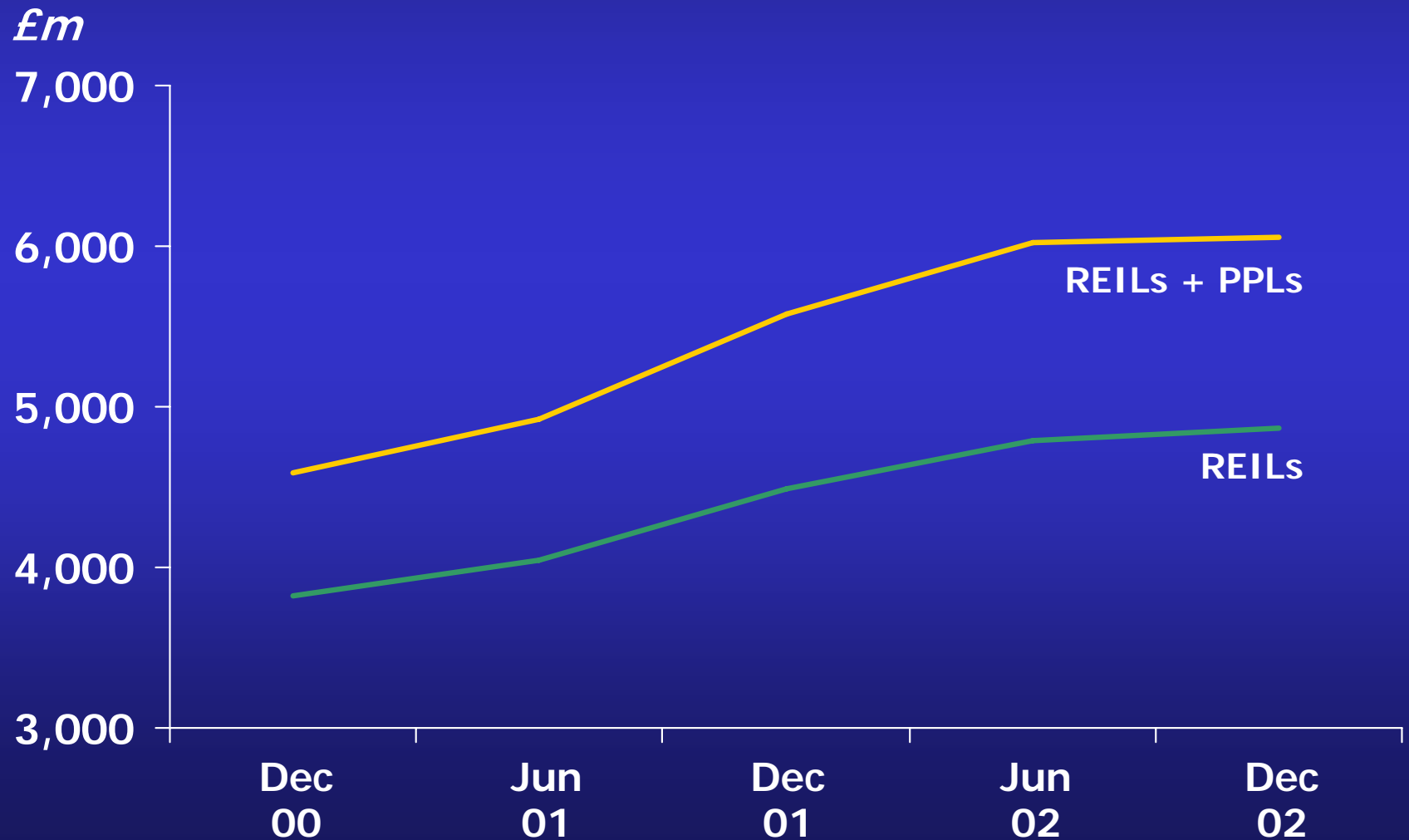
<i>%</i>	<i>Dec 2002</i>	<i>Jun 2002</i>	<i>Dec 2001</i>	<i>Jun 2001</i>	<i>Dec 2000</i>
Provisions as percentage of risk elements in lending	81	80	81	80	83
Provisions as percentage of risk elements in lending and potential problem loans	65	64	66	66	69



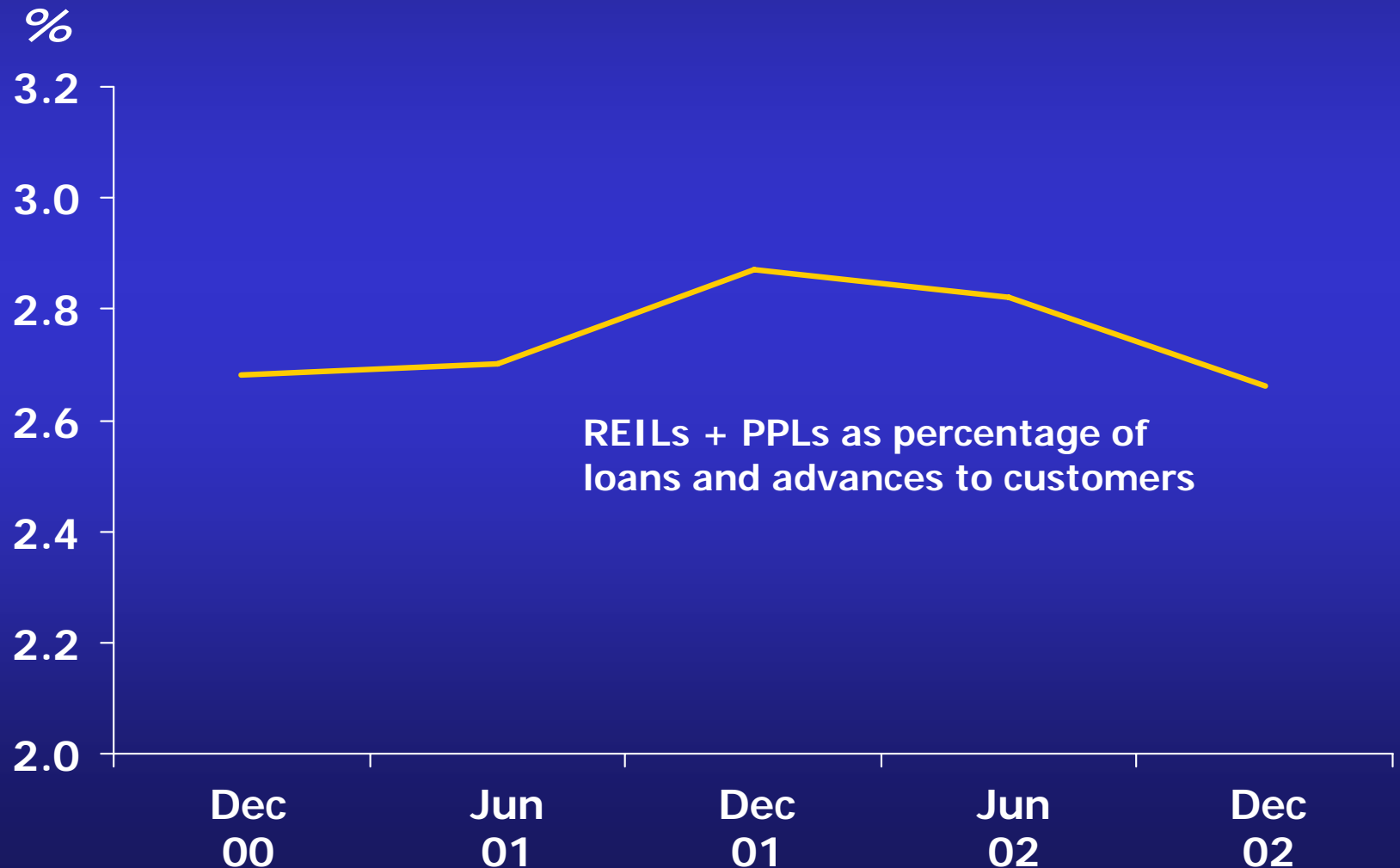
# Credit Quality

## Outlook

# Risk Elements in Lending and Potential Problem Loans



# Risk Elements in Lending and Potential Problem Loans





# Strategy and Outlook

# Strategy

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## *Is it Working?*

- ⌘ Generating superior sustainable value for our shareholders
  
- ⌘ To achieve this we need to add value for:
  - Our customers
  - Our people

# Our Customers

## *2002 Net Increase*

### Retail Banking

Personal current accounts	408,000	+4%
Packaged current accounts	371,000	+18%
Small business current accounts	20,000	+2%

### Retail Direct

Credit cards accounts (active)	363,000	+4%
Merchant acquirer outlets	22,000	+11%
TPF customer accounts	749,000	+29%
One Account customers	27,000	+33%

### Direct Line

UK motor insurance policies	651,000	+16%
International motor insurance policies	623,000	+104%
UK home insurance policies	227,000	+17%



# Our Customers

## *2002 Net Increase*

### Ulster Bank

Personal customers	29,000	+5%
Business customers	2,000	+2%

### Citizens

Personal customers		
New England	142,000	+12%
Mid Atlantic	100,000	+17%
Total	242,000	+13%

### Business customers

New England	11,000	+9%
Mid Atlantic	1,000	+2%
Total	12,000	+6%

# Our People

## Royal Bank 2003 v UK Financial Services norm\*



# Our People

## Royal Bank 2003 v Global Financial Services norm\*



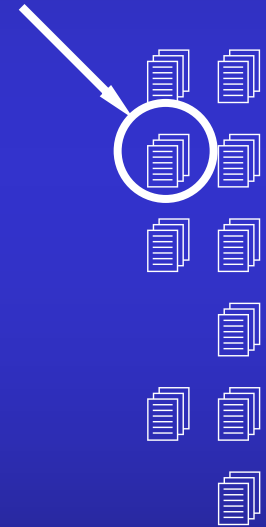
# United Kingdom + Ireland

## *Options for Additional Growth*

### ⌘ Organic growth

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

*paused*



### ⌘ Acquisitions

- Tactical
- Strategic



# United Kingdom + Ireland

<i>UK Market Shares</i>	<i>RBS + NatWest</i>	<i>Other RBS</i>	<i>Total RBS</i>
Current accounts	21%	–	21%
Savings accounts	6%	2%	8%
Personal loans	6%	4%	10%
Mortgages	4%	1%	5%
Credit cards	–	17%	17%
Life insurance	2%	–	2%
Motor insurance	–	16%	16%
Home insurance	1%	6%	7%
Small business relationships	30%	–	30%
Corporate lead relationships	33%	–	33%

*Source: NOP 2002, NFO 2002, RBS estimates*

# Continental Europe

## *Options for Additional Growth*

- ⌘ Organic growth
  - Retail Banking
  - Corporate Banking and Financial Markets
  - Retail Direct
  - Wealth Management
  - Direct Line
- ⌘ Joint ventures
- ⌘ Acquisitions of businesses
- ⌘ Acquisitions of universal banks
- ⌘ Merger of equals


*paused*



# United States

## *Options for Additional Growth*

### ⌘ Organic growth

- Citizens  
- Corporate Banking and Financial Markets 

### ⌘ Acquisitions of businesses

### ⌘ Acquisitions of banks

- In-market  
- Market extension 
- Out of market 

# Economic Outlook

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- ⌘ UK fundamentals reasonable
- ⌘ US fundamentals reasonable
- ⌘ European fundamentals mixed
- ⌘ International uncertainty casts a large shadow



# Outlook - What Next?

## *Context*

### *2000 - 2002*

- ⌘ Not just about the integration of NatWest
- ⌘ 70% of income growth has been organic
- ⌘ Acquisitions in UK, Europe and the US
- ⌘ Expanded US regional footprint
- ⌘ Continued to de-risk

# Outlook - What Next?

## *Ingredients*

- ⌘ Organic income growth
- ⌘ Further efficiency improvement
- ⌘ Acquisition opportunities
- ⌘ Strong capital generation
- ⌘ Bias towards lower volatility

## *Providing*

- ⌘ Multiple options for growth
- ... more of the same

# 2002 Results

## *Summary*

- ⌘ Increased customer numbers in all divisions
- ⌘ Strong income growth
- ⌘ Further improvement in efficiency
- ⌘ Stable credit quality
- ⌘ NatWest integration completed
- ⌘ Good and improving capital position
- ⌘ 15% dividend increase



*The Royal Bank of Scotland Group*

**delivering on  
our promises**

**strength**

**diversity**

**flexibility**