ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
February 24, 2005
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of February 2005

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

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42 St Andrew Square

Edinburgh EH2 2YE

Scotland

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

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

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

Yes ¨ No x

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

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

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RESULTS SUMMARY

	2004 £m	2003 (restated) £m	Increase £m	Increase %
Total income	**22,754**	19,281	**3,473**	**18**
Operating expenses*	**9,662**	8,524	**1,138**	**13**
Operating profit before provisions*	**9,612**	8,562	**1,050**	**12**
Profit before tax, goodwill amortisation and integration costs	**8,101**	7,068	**1,033**	**15**
Profit before tax	**6,917**	6,076	**841**	**14**
Cost:income ratio**	**40.8%**	42.6%		
Basic earnings per ordinary share	**138.0p**	76.9p	**61.1p**	**79**
Adjusted earnings per ordinary share	**172.5p**	157.2p	**15.3p**	**10**
Dividends per ordinary share	**58.0p**	50.3p	**7.7p**	**15**

* excluding goodwill amortisation and integration costs.

** the cost:income ratio is based on operating expenses excluding goodwill amortisation and integration costs, and after netting operating lease depreciation against rental income.

Sir Fred Goodwin, Group Chief Executive, said:

These results demonstrate very clearly three key features of the Group strong organic income growth, the creation of additional growth options, both at home and internationally and our ability to deliver integration benefits from acquisitions. Consequently, we believe that we can deliver superior value for our shareholders, our customers and our people in 2005.

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2004 HIGHLIGHTS

Income up 18% to £22,754 million.

Profit before tax, goodwill amortisation and integration costs up £1,033 million, 15% to £8,101 million.

Profit before tax up 14% to £6,917 million.

Underlying margin stable and in line with expectations.

Further efficiency gains - cost:income ratio 40.8%, improved from 42.6% in 2003.

Customer growth in all divisions.

Average loans and advances to customers up 19%.

Average customer deposits up 10%.

Credit quality remains strong.

Basic earnings per ordinary share up 79%.

Adjusted earnings per ordinary share up 10%.

Total dividend 58.0p per ordinary share up 15%.

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THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE S REVIEW

Our results for 2004 demonstrate the Group s ability to sustain growth across the broad range of our businesses. Strong organic income growth has been supplemented by a significant contribution from recent acquisitions, while efficiency and credit quality have continued to improve. The result has been a 15% increase in our profit before tax, goodwill amortisation and integration costs to £8,101 million. Our profit before tax rose by 14% to £6,917 million and adjusted earnings per share by 10% to 172.5p.

Total income rose 18%. The key to this strong performance has been the Group s ability to maintain momentum in organic income growth across its divisions. Excluding acquisitions and exchange rate fluctuations, total income grew by 11%, with good contributions from each of our divisions. Every division delivered organic increases in customer numbers, income and contribution to Group operating profit.

This organic performance has been complemented by a number of important acquisitions, which have strengthened the market position of our businesses and enhanced their ability to continue to grow their income. The most significant of these was the acquisition of Charter One, which expanded Citizens footprint into a number of adjacent states in the Mid West, creating one of the ten largest banks in the US.

The diversity of our income streams is an important factor in our ability to maintain consistent growth. Non-interest income represents 60% of the Group s total income, and our business and geographical diversity also means that our future income is not unduly exposed to any single activity.

Net interest income grew by 11%, reflecting strong growth in average loans and advances to customers and in average customer deposits. The Group net interest margin was 2.92%, five basis points lower than in 2003, but unchanged from the first half of 2004. The inclusion of First Active, with its portfolio of low-risk mortgages, contributed to this modest year-on-year decline, as did the strong organic growth in mortgage lending, while consumer lending spreads continued to tighten. Against this, Group margins benefited from increased lending to commercial and mid-corporate customers and from the impact of rising interest rates. Non-interest income grew by 23%, reflecting strong organic growth in insurance premium income, good growth in fees and commissions and the acquisition in September 2003 of Churchill.

We have maintained our focus on efficiency, improving the Group cost:income ratio to 40.8%, compared with 42.6% in 2003 and underlying cost:income ratio improved again in the second half of the year. Operating expenses increased by 9% to support organic growth and by a further 4% as a result of acquisitions. The Group continued to invest in initiatives that will enhance its ability to serve its customers and improve its efficiency. We have invested in CBFM s debt capital markets capability in the US. The Group Efficiency Programme, launched in 2003, is progressing well, and we remain confident that it will lead to further improvements in the Group cost:income ratio.

Overall credit quality continued to improve, and the charge for provisions rose by just 1% to £1,511 million, much less than the rise in lending. Credit metrics continue to improve, with risk elements in lending and potential problem loans falling to 1.66% of gross loans and advances, compared with 2.24% at the end of 2003. Balance sheet provision coverage of risk elements in lending and potential problem loans improved from 68% at the end of 2003 to 73% at the end of 2004. Provisions in Retail Banking have risen, reflecting the seasoning of NatWest s loan portfolio following its strong growth since 2000, while UK credit cards, in line with the market, are seeing some increase in arrears levels. Offsetting this, the improving corporate credit environment resulted in lower provisions in CBFM.

At 31 December 2004, following the completion of the Charter One acquisition, our Tier 1 capital ratio was 7.0% and our total capital ratio was 11.7%.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

REVIEW OF DIVISIONS

Corporate Banking and Financial Markets (CBFM) increased its income by 12% and its contribution by 18% to £4,265 million. CBFM is the largest provider of banking services to UK businesses.

Net interest income rose by 10%, or by 12% if the cost of funding rental assets is excluded. The increase reflects strong growth in lending to mid-corporate customers, while customer deposits also grew. The strength of our mid-corporate business led to an improvement in net interest margin.

Non-interest income increased by 14%, as a result of steady growth in lending fees and income from rental assets and financial markets. Dealing profits increased by 12%, reflecting growth across all customer segments. The Group s average trading value-at-risk (VaR) remains modest and was £10.8 million (2003 - £9.4 million).

CBFM s expenses were 15% higher, reflecting strong growth in all businesses and the investment we have made in the expansion of our overseas operations including our US debt capital markets business.

CBFM s contribution before provisions for bad debts was up by 11%. Provisions were 23% lower than in 2003.

Retail Banking increased its income by 6% and its contribution by 3% to £3,279 million.

Net interest income was up by 5%, reflecting good growth in mortgage lending and an increase in other loans, albeit at lower interest margins. Our market share of net mortgage lending has risen to over 7% in 2004 from around 5% in 2003. This strong growth in low-risk mortgage assets has contributed to the reduction in net interest margin. Both mortgage and non-mortgage lending have evidenced a slowdown in growth in the second half of the year. Non-interest income grew by 8%. Our customer base expanded, with the number of personal current accounts growing by 3% and particularly strong recruitment of student and youth accounts. We added 1,000 extra front-line staff to the branch network. Including this, the overall increase in costs was contained to 4%.

Retail Banking s contribution before provisions was up by 7%. As anticipated, provisions rose from £273 million in 2003 to £389 million in 2004, reflecting the seasoning of NatWest s loan portfolio following its strong growth since 2000, as well as some increase in fraud, as reported in the first half.

Retail Direct increased its income by 16% and its contribution by 18% to £1,040 million. Excluding acquisitions, its contribution rose by 14%.

Higher net interest income reflected an increase in average loans and advances to customers, spread across mortgages, credit card balances and personal loans.

Customer numbers rose by 14%, partly as a result of the acquisition of the US credit card business of People s Bank. Retail Direct also reached agreements to distribute consumer loans to the customers of Tchibo, a leading German retailer, and credit cards to the customers of Kroger, the second largest US supermarket group. The new MINT credit card was launched in December 2003, and 711,000 cards have been issued to date. Tesco Personal Finance increased its customer base to 4.8 million, with particularly strong sales of insurance products.

Retail Direct enhanced its position in international card and internet payments through the acquisitions of Bibit, a leading European internet payments specialist, and Lynk Systems, an Atlanta-based US merchant acquirer.

Manufacturing s costs increased by 15% to £2,439 million. Of the £325 million increase, £82 million reflects the acquisitions of Churchill and First Active. The balance of the increase in costs results from higher business volumes, continued investment in Group Efficiency Programme initiatives, which are expected to improve the future performance of the Group, and the ongoing upgrade of the Group s property portfolio.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

Wealth Management increased its total income by 17% and its contribution by 16% to £468 million. Net interest income increased by 9% to £497 million, as a result of growth in both lending and deposits. Non-interest income grew by 28% to £451 million, reflecting higher fee income as a result of improved equity markets and the acquisition of Bank von Ernst in November 2003. Bank von Ernst remains on track to deliver the expected benefits. Excluding acquisitions and disposals, income rose by 12% and contribution by 14%.

RBS Insurance increased its income by 52% and its contribution by 42% to £862 million, reflecting both the acquisition of Churchill in September 2003 and organic growth. Excluding Churchill, income grew 17% and contribution 13%. Churchill s performance has also been good and the integration is on track. The Privilege brand was successfully relaunched in August, targeting motorists with four years or more of no-claims discount. RBS Insurance remains the market leader in UK motor insurance and is now the second largest general insurer in the UK.

Ulster Bank increased income by 28% and its contribution by 32% to £468 million. This reflects strong organic growth, particularly in mortgage lending, as well as the acquisition of First Active, which was completed in January 2004. Both these factors contributed to a narrowing of the net interest margin. Trading momentum at First Active is good and the integration is proceeding well.

Citizens increased its income, in US dollars, by 31% and its contribution by 36% to $1,900 million. Excluding acquisitions, Citizens contribution in US dollars increased by 13% to $1,570 million. The acquisition of Charter One was completed on 31 August 2004, its trading performance has been good, and integration is on track to deliver the cost savings and income benefits we anticipated. Charter One s balance sheet has been successfully restructured to reduce risk and position it for a rising interest rate environment. The weakness of the US dollar relative to sterling meant that income in sterling terms rose by 17% and contribution by 21% to £1,037 million.

Our customers

We aim to deliver value for our customers. Our success in achieving this in 2004 is shown by increased customer numbers in each of our divisions, as well as by positive surveys of customer satisfaction. In NatWest, the option to telephone branches direct, along with the appointment of over 1,000 additional branch staff, has led to significant improvements in customer satisfaction. During 2004 our products and our services again won many awards.

Our people

Our people are the key to our success. The continuing commitment of our employees is evident from the results of our 2004 Employee Opinion Survey. The response rate to this survey was 84%, our highest ever, and the Group outperformed the UK and Global Financial Services Norm in 13 out of 14 categories. We continue to invest in our employees through an extensive range of development and leadership programmes. As a result of organic growth and acquisitions, staff numbers increased by 15,700 in 2004. We now employ 136,600 people worldwide.

Our shareholders

Our goal is to generate superior sustainable value for our shareholders. The scale and diversity of our businesses, together with their ability to maintain consistent organic income growth, provide a strong platform for this. Our confidence that we can continue to deliver growth is reflected in a 15% increase in our dividend to 58p per ordinary share. This is the twelfth consecutive year in which we have increased our dividend per share by 15% or more.

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GROUP CHIEF EXECUTIVE S REVIEW (continued)

Outlook

Economic growth during 2004 was strong in virtually all of the economies in which we operate, and this trend is expected to continue in 2005 albeit at a slightly lower rate.

We continue to see strong growth in lending to commercial and mid-corporate customers, and some recovery in demand from large corporates, with consumers continuing to behave rationally given the prevailing climate and stimuli in their particular economies. Whilst in the UK context we would expect the transition away from consumer credit-led activity to continue, the outlook for employment and hence the economy remains positive.

In a number of respects, 2004 represented a continuation of established themes within our results: strong income growth, improving efficiency, good credit quality. Importantly however, the continued development, both organic and through acquisition, of our businesses has introduced further strength and diversity in key areas.

As a consequence, we remain confident that we can deliver superior value for our shareholders, our customers and our people in 2005.

Sir Fred Goodwin

Group Chief Executive

THE ROYAL BANK OF SCOTLAND GROUP plc

FINANCIAL REVIEW

Profit

Profit before tax, goodwill amortisation and integration costs increased by 15% or £1,033 million, from £7,068 million to £8,101 million. At constant exchange rates the increase was 18% or £1,278 million.

Profit before tax was up 14%, from £6,076 million to £6,917 million.

The Group made a number of acquisitions during 2004 which had a bearing on the year s results. These included:

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

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

In August 2004, Citizens completed the acquisition of Charter One Financial, Inc. for a cash consideration of US$10.1 billion.

The Group has adopted Financial Reporting Standard 17 Retirement Benefits (FRS 17) the standard that replaces SSAP24 Pension Costs . The effect on the prior year of adopting FRS 17 is shown on page 51.

Total income

The Group achieved strong growth in income during 2004. Total income was up 18% or £3,473 million to £22,754 million. Excluding acquisitions and at constant exchange rates, total income was up by 11%, £2,004 million.

Net interest income increased by 11% to £9,208 million and represents 40% of total income (2003 - 43%). Excluding acquisitions and at constant exchange rates, net interest income was up 8%. Average loans and advances to customers and average customer deposits grew by 19% and 10% respectively.

Non-interest income increased by 23% to £13,546 million and represents 60% of total income (2003 - 57%). Excluding acquisitions and at constant exchange rates, non-interest income was up 13%. There was good growth in transmission income and other fees, up 17% while general insurance premium income increased by 58%, reflecting organic growth and the acquisition of Churchill in September 2003. Gross income from rental assets grew by 18%, reflecting strong growth in operating lease assets.

Net interest margin

The Group s net interest margin at 2.92% was in line with expectations. Excluding the acquisition of First Active, the Group s net interest margin was down 0.03% from 2.97% in 2003, principally as a result of strong organic growth in mortgage lending and the increased funding cost of rental assets, the income from which is included in other income.

Operating expenses

Operating expenses, excluding goodwill amortisation and integration costs, rose by 13% to £9,662 million to support the strong growth in business volumes. Excluding acquisitions and at constant exchange rates, operating expenses were up by 9%, £739 million.

Cost:income ratio

The Group s ratio of operating expenses (excluding goodwill amortisation and integration costs and after netting operating lease depreciation against rental income) to total income improved further to 40.8% from 42.6%. Excluding Charter One, the Group s cost:income ratio was 40.6%.

Net insurance claims

General insurance claims, after reinsurance, increased by 59% to £3,480 million. Excluding Churchill, the increase was 20%, consistent with volume growth and business mix.

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Financial Review (continued)

Provisions

The profit and loss charge for bad and doubtful debts and amounts written off fixed asset investments was £1,511 million compared with £1,494 million in 2003. The charge for provisions in 2004 represented 0.51% of gross loans and advances to customers (excluding reverse repurchase agreements), compared with 0.64% in 2003.

Credit quality

Credit quality remains strong with no material change during 2004 in the distribution by grade of the Group s total risk assets.

The ratio of risk elements in lending to gross loans and advances to customers improved to 1.58% (2003 2.01%). Risk elements in lending and potential problem loans represented 1.66% of gross loans and advances to customers (2003 2.24%).

Provision coverage of risk elements in lending and potential problem loans improved to 73% (2003 68%).

Integration

Integration costs in 2004 were £269 million principally relating to the integration of Churchill and the acquisitions by Citizens.

Earnings and dividends

Basic earnings per ordinary share increased by 79%, from 76.9p to 138.0p. The final dividend on the Additional Value Shares (AVS) paid in December 2003 reduced earnings per ordinary share for that year by 49.9p. Adjusting for this and for goodwill amortisation and integration costs, earnings per ordinary share increased by 10%, from 157.2p to 172.5p.

A final dividend of 41.2p per ordinary share is recommended, making a total for the year of 58.0p per share, an increase of 15%. If approved, the final dividend will be paid on 3 June 2005 to shareholders registered on 11 March 2005. The total dividend is covered 2.9 times by earnings before goodwill amortisation and integration costs.

Balance sheet

Total assets were £583 billion at 31 December 2004, 28% higher than total assets of £454 billion at 31 December 2003.

Lending to customers, excluding repurchase agreements and stock borrowing (reverse repos), increased in 2004 by 28% or £64.8 billion to £293.3 billion. Excluding acquisitions and reverse repos, lending increased by 18%. Customer deposits, excluding repurchase agreements and stock lending (repos), grew in 2004 by 16% or £33.0 billion to £242.9 billion. Excluding acquisitions and repos, deposits increased by 7%.

Although the adoption of FRS 17 has reduced shareholders funds by £3,220 million (2003 £2,001 million), this has no effect on the Group s regulatory capital at 31 December 2004.

Capital ratios at 31 December 2004 were 7.0% (tier 1) and 11.7% (total), against 7.4% (tier 1) and 11.8% (total) at 31 December 2003.

Profitability

The adjusted after-tax return on ordinary equity was stable at 20.1%. This is based on profit attributable to ordinary shareholders before goodwill amortisation, integration costs and in 2003 the AVS dividend, and average ordinary equity.

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SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2004

In the profit and loss account set out below, goodwill amortisation and integration costs are shown separately. In the statutory profit and loss account on page 29, these items are included in the captions prescribed by the Companies Act 1985.

	2004 £m	2003 (restated) £m
Net interest income	**9,208**	8,301
Non-interest income (excluding general insurance)	**8,602**	7,857
General insurance net premium income	**4,944**	3,123
Non-interest income	**13,546**	10,980
Total income	**22,754**	19,281
Operating expenses	**9,662**	8,524
Profit before other operating charges	**13,092**	10,757
General insurance net claims	**3,480**	2,195
Operating profit before provisions	**9,612**	8,562
Provisions	**1,511**	1,494
Profit before tax, goodwill amortisation and integration costs	**8,101**	7,068
Goodwill amortisation	**915**	763
Integration costs	**269**	229
Profit before tax	**6,917**	6,076
Tax	**2,155**	1,888
Profit after tax	**4,762**	4,188
Minority interests (including non-equity)	**250**	210
Preference dividends	**256**	261
	4,256	3,717
Additional Value Shares dividend		1,463
Profit attributable to ordinary shareholders	**4,256**	2,254
Ordinary dividends	**1,837**	1,490

Retained profit	**2,419**	764
Basic earnings per ordinary share (Note 4)	**138.0p**	76.9p
Adjusted earnings per ordinary share (Note 4)	**172.5p**	157.2p

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DIVISIONAL PERFORMANCE

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

	2004 £m	2003 £m	Increase %
Corporate Banking and Financial Markets	**4,265**	3,620	18
Retail Banking*	**3,279**	3,170	3
Retail Direct*	**1,040**	881	18
Manufacturing*	**(2,439)**	(2,114)	(15)
Wealth Management*	**468**	402	16
RBS Insurance*	**862**	609	42
Ulster Bank*	**468**	354	32
Citizens	**1,037**	857	21
Central items**	**(879)**	(711)	(24)
Profit before goodwill amortisation and integration costs	**8,101**	7,068	15

* the prior year has been restated to reflect the transfer in 2004 of certain activities from Wealth Management to Retail Banking and from other divisions, principally RBS Insurance and Ulster Bank, to Manufacturing (see page 50).

** the prior year has been restated following the implementation of FRS 17.

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CORPORATE BANKING AND FINANCIAL MARKETS

	2004 £m	2003 £m
Net interest income excluding funding cost of rental assets	**2,959**	2,653
Funding cost of rental assets	**(414)**	(329)
Net interest income	**2,545**	2,324
Fees and commissions receivable	**1,723**	1,537
Fees and commissions payable	**(277)**	(220)
Dealing profits (before associated direct costs)	**1,855**	1,661
Income from rental assets	**1,282**	1,088
Other operating income	**381**	307
Non-interest income	**4,964**	4,373
Total income	**7,509**	6,697
Direct expenses		
- staff costs	**1,642**	1,410
- other	**412**	394
- operating lease depreciation	**610**	518
	2,664	2,322
Contribution before provisions	**4,845**	4,375
Provisions	**580**	755
Contribution	**4,265**	3,620

	£bn	£bn
Total assets**	**265.3**	219.0
Loans and advances to customers gross**		
- banking book	**114.9**	99.3
- trading book	**10.0**	5.0
Rental assets	**11.2**	10.1
Customer deposits**	**74.9**	68.6
Weighted risk assets banking	**160.9**	140.0
trading	**16.9**	12.6

** excluding reverse repos and repos

Corporate Banking and Financial Markets (CBFM) *is the largest provider of banking services and structured financing to medium and large businesses in the UK and a growing provider of debt financing and risk management solutions to large businesses in Europe and North America. It provides an integrated range of products and services to mid-sized and large corporate and institutional customers in the UK and overseas, including corporate and commercial banking, treasury and capital markets products, structured and acquisition finance, trade finance, leasing and factoring. Treasury and capital markets products are provided through Financial Markets, which is a leading provider of debt, foreign exchange and derivatives products.*

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CORPORATE BANKING AND FINANCIAL MARKETS (continued)

Contribution increased by 18%, £645 million to £4,265 million reflecting growth in all business areas.

Total income was up 12% or £812 million to £7,509 million. Strong growth in all locations was partially masked by the effect of stronger sterling on the translation of income from Europe and North American businesses. At constant exchange rates, income grew by 14% and contribution was up 20%.

Net interest income, excluding the cost of funding rental assets, increased 12% or £306 million to £2,959 million. Average loans and advances to customers of the banking business increased by 10% or £9.5 billion to £103.8 billion. The second half of 2004 saw a modest recovery in large corporate lending. Average customer deposits within the banking business increased by 8% or £5.0 billion to £66.0 billion. An improvement in margins was achieved through strong growth in our UK mid-corporate relationships.

Fees receivable rose by £186 million, 12% to £1,723 million with growth driven by lending, structured finance and capital markets activities. Fees payable, including brokerage, were up £57 million to £277 million due to the greater volumes of trading and structuring business.

Dealing profits, which is income (before associated direct costs) arising from our role in providing customers with debt and risk management products in interest rate, currency and credit asset classes, rose by 12% to £1,855 million. Growth was achieved across all our customer segments and product classes with further diversification of dealing revenues in the US to compensate for lower residential mortgage refinancing volume than in 2003. The Group s trading value-at-risk (VaR) remains modest and the average VaR was £10.8 million (2003 - £9.4 million).

The asset rental business, comprising operating lease assets and investment properties continued to grow strongly. Rental assets increased to £11.2 billion and income after deducting funding costs and operating lease depreciation increased by 7%, £17 million to £258 million.

Other operating income also grew strongly, up £74 million or 24% to £381 million.

Direct expenses increased by 15% or £342 million to £2,664 million. Excluding operating lease depreciation, operating expenses were up 14%, £250 million. This was mainly due to the mix effect of faster growth in businesses with inherently higher cost:income ratios, such as Capital Markets and our overseas businesses, together with the investment in new revenue initiatives in the US.

The charge for provisions for bad debts and amounts written off fixed asset investments amounted to £580 million, a decrease of 23%, £175 million. The reduction reflects an improvement in corporate credit quality and the economic environment in 2004.

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RETAIL BANKING

	2004 £m	2003* £m
Net interest income	**3,112**	2,959
Non-interest income	**1,630**	1,514
Total income	**4,742**	4,473
Direct expenses		
- staff costs	**834**	793
- other	**240**	237
	1,074	1,030
Contribution before provisions	**3,668**	3,443
Provisions	**389**	273
Contribution	**3,279**	3,170
	£bn	**£bn**
Total banking assets	**74.2**	63.9
Loans and advances to customers gross		
- mortgages	**44.1**	36.6
- small business	**15.2**	13.8
- consumer lending	**12.9**	11.4
Customer deposits	**70.6**	66.5
Weighted risk assets	**49.7**	42.9

* *the prior year has been restated to reflect the transfer in 2004 of certain activities from Wealth Management.*

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

The division continued to achieve strong volume growth across all key product areas - in particular mortgages, loans and savings supported by increased customer numbers. As a result, income increased by 6% or £269 million to £4,742 million, and contribution by 3% or £109 million to £3,279 million.

Net interest income rose by 5% or £153 million to £3,112 million, reflecting strong growth in lending and deposits which more than offset the impact of business mix particularly strong growth in low risk mortgage lending and the impact of lower margin in some areas, especially unsecured lending. Average loans to customers, excluding mortgages, grew by 12% or £2.8 billion to £26.5 billion. Average mortgage lending grew by 21% or £7.0 billion to £40.7 billion. Both mortgage and non-mortgage lending have evidenced a slowdown in growth in the second half of the year. Average customer deposits increased by 8% or £4.9 billion to £66.0 billion.

Non-interest income rose by 8% or £116 million to £1,630 million. This reflected higher fee income associated with strong asset growth in both personal and business sectors together with increased volumes of money transmission activity.

Direct expenses increased by 4% or £44 million to £1,074 million. Staff expenses increased 5% or £41 million to £834 million, principally due to the deployment of an additional one thousand customer facing staff in the NatWest network. The increase in other expenses was 1% or £3 million, reflecting rigorous cost management.

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RETAIL BANKING (continued)

The charge for provisions for bad and doubtful debts increased by £116 million to £389 million. The increased charge reflects the anticipated increase in delinquency rates in the NatWest portfolio following growth in unsecured lending in recent years. NatWest credit experience is now broadly consistent with the RBS portfolio which has been stable for a number of years. As reported in the first half, there has also been a higher incidence of fraud which has led to some deterioration in recovery rates.

The overall quality of the loan portfolio, the majority of which is mortgage lending, as measured by probability of default, remained in line with expectations.

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RETAIL DIRECT

	2004 £m	2003* £m
Net interest income	**938**	849
Non-interest income	**1,191**	986
Total income	**2,129**	1,835
Direct expenses		
- staff costs	**259**	211
- other	**453**	446
	712	657
Contribution before provisions	**1,417**	1,178
Provisions	**377**	297
Contribution	**1,040**	881
	£bn	**£bn**
Total assets	**26.9**	21.9
Loans and advances to customers - gross		
- mortgages	**9.2**	8.2
- other	**16.0**	13.8
Customer deposits	**4.4**	4.4
Weighted risk assets	**21.1**	16.8

* *the prior year has been restated to reflect the transfer in 2004 of certain activities to Manufacturing.*

Retail Direct *issues a comprehensive range of credit and debit cards to personal and corporate customers and engages in merchant acquiring and processing facilities for retail businesses. It also includes: Tesco Personal Finance (TPF), The One account, Direct Line Financial Services, Lombard Direct, WorldPay Limited, the Group s internet banking platform, the Primeline brand, and the consumer lending business in Continental Europe, all of them offering products to customers through direct channels. During 2004, Retail Direct significantly expanded its international operations. In the US it acquired the credit card business of People s Bank and Lynk Systems Inc. a merchant acquisition business and entered into an agreement to distribute credit cards to customers of Kroger. In continental Europe, the acquisition of the leading European internet payment specialist, Bibit, was completed in May and agreement to distribute consumer loan products to the customers of Tchibo, a leading German retailer, was concluded.*

Contribution increased by 18% or £159 million to £1,040 million.

Total income was up 16% or £294 million to £2,129 million, reflecting continued strong growth across all products, particularly credit cards. Excluding acquisitions income rose by 9%, £155 million, and contribution was up by 14%, £125 million. Net interest income was up 10% or £89 million to £938 million. Average lending rose by 19% to £24.2 billion, of which average mortgage lending was 16% higher at £8.8 billion, mainly in The One account. Average customer deposits were stable. The new MINT branded credit card was launched in December 2003 and while the 0% introductory interest rate for nine months on MINT cards depressed net interest margin, over 711,000 MINT credit cards have been issued and attracted significant balances. During 2004, the total number of customer accounts increased by 2.3 million.

Non-interest income was up 21% or £205 million to £1,191 million, reflecting increased volumes and acquisitions.

Direct expenses increased by 8% or £55 million to £712 million. Staff costs were up 23%, due to the acquisitions and increased headcount to support higher business volumes. Excluding acquisitions, staff costs were up 8%. The increase in other expenses was limited to 2%, as a result of tight cost management and efficiencies within the core businesses.

The charge for provisions for bad debts increased by £80 million or 27% to £377 million, reflecting the growth in lending volumes and the acquisition of the credit card business from People s Bank.

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RETAIL DIRECT (continued)

Excluding acquisitions, provisions for bad debts were up 14%, £41 million. Credit metrics across the portfolio remain broadly stable, however consistent with the market there was some increase in the levels of arrears towards the end of the year in credit cards.

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THE ROYAL BANK OF SCOTLAND GROUP plc

MANUFACTURING

	2004 £m	2003* £m
Staff costs	**794**	671
Other costs	**1,645**	1,443
Total manufacturing costs	**2,439**	2,114
Analysis:		
Group Technology	**807**	686
Group Purchasing and Property Operations	**854**	718
Customer Support and other operations	**778**	710
Total manufacturing costs	**2,439**	2,114

* *prior periods have been restated following the transfer of certain activities, principally from RBS Insurance and Ulster Bank. These increased costs by £370m in 2004 and £239m in 2003.*

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

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

The expenditure incurred by Manufacturing relates to shared costs principally in respect of the Group s banking operations in UK and Ireland. These costs reflect activities which are shared between the various customer-facing divisions and consequently cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets.

Manufacturing s costs increased by £325 million, 15% to £2,439 million.

Manufacturing is now supporting RBS Insurance and Ulster Bank and of the £325 million increase, £82 million reflects technology and property operations of Churchill (2004 - £96 million; 2003 - £33 million) and First Active (2004 - £19 million; 2003 - £nil) which were acquired in September 2003 and January 2004 respectively.

The balance of the increase was required to support higher business volumes, to upgrade the Group s regional property portfolio and to invest in the Group Efficiency Programme initiatives that are improving the Group s overall efficiency.

A number of initiatives aimed at improving efficiency and customer service were introduced in the year, including a sales prompt system on screens in NatWest branches and in RBS and NatWest telephony: enhanced fraud prevention; conversion of paper based branch reports to screen; image and workflow capability in service centres; the introduction of a new image enabled mortgage platform which has improved the efficiency and quality of our service and the introduction of an on-line customer query management system.

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THE ROYAL BANK OF SCOTLAND GROUP plc

WEALTH MANAGEMENT

	2004	**2003***
	£m	**£m**
Net interest income	**497**	457
Non-interest income	**451**	352
Total income	**948**	809
Expenses		
- staff costs	**299**	259
- other	**164**	139
	463	398
Contribution before provisions	**485**	411
Provisions	**17**	9
Contribution	**468**	402
	£bn	**£bn**
Loans to customers	**9.2**	7.9
Investment management assets excluding deposits	**22.3**	22.3
Customer deposits	**31.7**	29.1
Weighted risk assets	**8.3**	9.1

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

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

Contribution at £468 million was £66 million or 16% higher than 2003. Excluding the acquisition and adjusting for the disposal, contribution was up 14%, £54 million.

Total income increased by 17% or £139 million to £948 million, including a full year contribution from Bank von Ernst. Excluding the acquisition and disposal, income was 12%, £94 million higher.

Net interest income increased by 9% or £40 million to £497 million. The increase reflects growth in both lending and deposit volumes, combined with the benefit of higher average interest rates.

Non-interest income increased by 28% or £99 million to £451 million, reflecting higher fee income as a result of the improved equity markets and the acquisition of Bank von Ernst.

Investment management assets were stable at £22.3 billion. Excluding the acquisition and disposal and at constant exchange rates, investment assets increased 7%.

Expenses were up by 16% or £65 million to £463 million to support the growth in income and reflecting the acquisition of Bank von Ernst. Excluding the acquisition and disposal, expenses were up 9%, £33 million.

The charge for provisions for bad and doubtful debts was £17 million compared with £9 million in 2003, reflecting a small number of specific cases.

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THE ROYAL BANK OF SCOTLAND GROUP plc

RBS INSURANCE

	2004 £m	2003* £m
Earned premiums	**5,357**	3,627
Reinsurers share	**(413)**	(504)
Insurance premium income	**4,944**	3,123
Net fees and commissions	**(488)**	(161)
Other income	**478**	283
Total income	**4,934**	3,245
Expenses		
- staff costs	**293**	222
- other	**299**	219
	592	441
Gross claims	**3,724**	2,644
Reinsurers share	**(244)**	(449)
Net claims	**3,480**	2,195
Contribution	**862**	609
In-force policies (000)		
- motor: UK	**8,338**	8,086
- motor: Continental Europe	**1,639**	1,425
- non-motor (including home, rescue, pet): UK	**10,919**	10,518
Gross insurance reserves total (£m)	**7,394**	6,582

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

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

Contribution increased by 42% or £253 million to £862 million and included the first full year s contribution from Churchill, which was acquired in September 2003. Excluding Churchill, contribution grew by 13%, £73 million.

Total income was up 52% or £1,689 million to £4,934 million. Excluding Churchill, total income grew by 17%, £450 million.

After reinsurance, insurance premium income was up 58% or £1,821 million to £4,944 million. Excluding Churchill, net insurance premium income grew by 17%. At 31 December 2004, the number of UK in-force motor insurance policies was 8.3 million and the number of in-force motor policies in Continental Europe was 1.6 million. The International Division passed the milestone of 1 million motor policies in Spain in December. Non-motor policies, including home, rescue and pet insurance, increased to 10.9 million at 31 December 2004.

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RBS INSURANCE (continued)

Net fees and commissions payable increased from £161 million to £488 million, due mainly to commissions payable to intermediaries in the broker division acquired as part of Churchill. Other income was up due to the acquisition of Churchill and increased investment income driven by higher business volumes.

Expenses increased by 34% or £151 million to £592 million. Excluding Churchill, expenses increased by 10%, £37 million, to support higher business volumes.

Net claims, after reinsurance, increased by 59% or £1,285 million to £3,480 million. Excluding Churchill, net claims increased by 20%, consistent with mix and volume growth.

The UK combined operating ratio, which includes manufacturing costs, was 93.7% compared with 91.2% for 2003. This deterioration is attributable in part to a change in business mix due to the full year impact of commissions payable to brokers and intermediaries in Churchill. Excluding Churchill, the UK ratio was broadly in line with the prior year (2004 89.9%; 2003 88.6%).

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ULSTER BANK

	2004	2003*
	£m	**£m**
Net interest income	**550**	396
Non-interest income	**193**	185
Total income	**743**	581
Expenses		
- staff costs	**158**	137
- other	**77**	58
	235	195
Contribution before provisions	**508**	386
Provisions	**40**	32
Contribution	**468**	354
	£bn	**£bn**
Total assets	**27.4**	15.6
Loans and advances to customers - gross		
- mortgages	**8.8**	2.8
- other	**12.9**	8.8
Customer deposits	**13.5**	9.7
Weighted risk assets	**18.5**	11.0
Average exchange rate - /£	**1.474**	1.445
Spot exchange rate - /£	**1.418**	1.416

* *the prior year has been restated to reflect the transfer in 2004 of certain activities to Manufacturing.*

Ulster Bank *provides a comprehensive range of retail and wholesale financial services in Northern Ireland and the Republic of Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, commercial and wealth management sectors. Corporate Banking and Financial Markets provides a wide range of services in the corporate and institutional markets. In January 2004, Ulster Bank completed the acquisition of First Active plc.*

Contribution increased by 32% or £114 million to £468 million.

Total income increased by 28% or £162 million to £743 million reflecting the acquisition of First Active and strong organic growth, particularly in residential mortgages. Adjusting for First Active and the disposal in October 2003 of NCB Stockbrokers (NCB), income increased by 12% at constant exchange rates. During 2004, the number of customers increased by 454,000, of which 374,000 relate to First Active.

Net interest income rose by 39% or £154 million to £550 million, reflecting strong growth across all customer lending products and in customer deposits. Excluding First Active and NCB and at constant exchange rates, net interest income increased by 14%. The net interest margin decreased mainly due to strong growth in low risk mortgage lending both organic and due to the acquisition of First Active, a leading mortgage provider in the Republic of Ireland. Underlying product margins remain stable.

Non-interest income increased by £8 million, 4% to £193 million. Strong growth in lending fees and sales of treasury products was partially offset by a reduction in brokerage fees following the disposal of NCB. Excluding First Active and NCB, non-interest income was up 6%, £10 million.

Expenses increased by 21% or £40 million to £235 million. Excluding First Active and NCB expenses increased by 8% to support the growth in business.

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THE ROYAL BANK OF SCOTLAND GROUP plc

ULSTER BANK (continued)

The charge for provisions for bad debts increased by £8 million to £40 million, reflecting the growth in lending business. Excluding First Active and NCB provisions for bad and doubtful debts were up £4 million. Asset quality remains strong.

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THE ROYAL BANK OF SCOTLAND GROUP plc

CITIZENS

	2004 £m	2003 £m
Net interest income	**1,540**	1,310
Non-interest income	**601**	514
Total income	**2,141**	1,824
Expenses		
- staff costs	**551**	505
- other	**473**	374
	1,024	879
Contribution before provisions	**1,117**	945
Provisions	**80**	88
Contribution	**1,037**	