



 The Royal Bank of  
Scotland Group plc

Annual review &  
summary financial  
statement 1997

“These results demonstrate  
a year of excellent  
progress in which  
foundations were laid for  
further strategic gains”

*George Osborne*

# Creating

**The Royal Bank of Scotland Group plc** Our principal objective is to deliver a stable and growing earnings stream to our shareholders. We believe that the most direct route to creating lasting value for shareholders is through creating enduring customer value. Our customers gain through the professionalism and dedication of our staff.

## Business profiles

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### The UK Bank

The UK Bank offers the widest range of banking services to customers of all kinds. From the largest corporates to the small business and personal sectors, Royal Bank customers know they can expect a relationship built on innovation and quality service.

### Direct Line Group

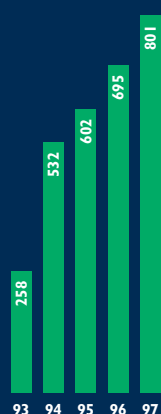
Direct Line has been a pioneer of direct financial services in the UK and now offers motor, home, travel and pet insurance, personal loans, mortgages, savings, life insurance and investment products to UK customers. Another Group company, Direct Line Accident Management, has created a network of motor accident repair centres in the UK.

### Citizens

Citizens Financial Group is the third largest bank in New England and among the top 45 in the USA. With almost 300 branches it has market dominance in much of its home territory and offers a growing range of products and services. Citizens provides an increasing number of alternative delivery channels.

# real value for shareholders

Profit before tax and write-down of finance leases (£m)



The Group's profit before tax and before write-down of finance leases was, at £801 million, 15% higher than the prior year. Profit before exceptional items rose by 19% to a record level of £768 million (1996 – £644 million). Profit before tax increased by 9% to £760 million.

Earnings per share (pence)



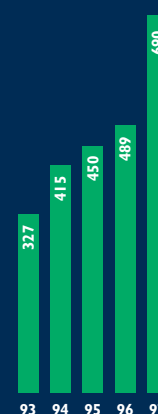
Earnings per share increased to 55.4p. Adjusted earnings per share which shows the effect of excluding exceptional items increased by 15% to 53.5p (1996 – 46.4p).

Dividends per ordinary share (pence)



The directors have recommended a final dividend of 15.2p which, when added to the interim dividend of 6.2p, will produce a total for the year of 21.4p, an increase of 15%. The dividend is covered 2.6 times by the earnings per share.

Share price (pence)



Market perception of the Group's performance is reflected in the higher share price of 690p at 30th September 1997.

## Financial highlights

<i>for the year ended 30th September</i>	1997 £m	1996 £m
Profit before tax and write-down of finance leases	801	695
Profit before provisions and exceptional items	916	758
Bad debt provisions and investment write-offs	148	114
Profit before tax and exceptional items	768	644
Profit before taxation	760	695
Profit attributable to ordinary shareholders	457	439
Cost: income ratio – Group	52.5%	50.0%
– UK Bank	56.6%	58.1%
Return on ordinary shareholders' equity – pre-tax*	33.2%	38.1%
– post-tax*	22.6%	25.8%
Earnings per ordinary share – unadjusted	55.4p	54.0p
– adjusted	53.5p	46.4p
Dividends per ordinary share	21.4p	18.6p
Dividend cover (times)	2.6	2.9
Total assets	72,601	61,116
Total shareholders' funds – ordinary	2,308	1,871
– preference	734	639
Risk asset ratio – tier 1	6.8%	6.8%
– total	11.6%	11.0%

\*Including exceptional items

# Delivering



## SCOTTISH WIDOWS

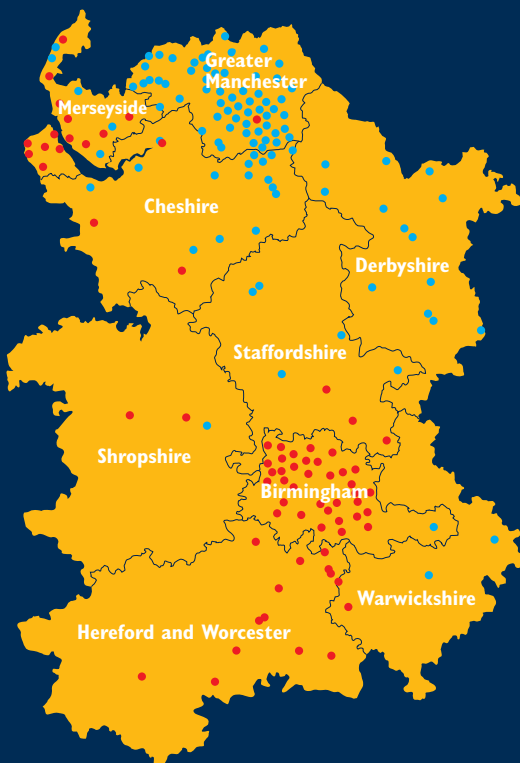
### Great partnerships

Our strategic partnership with Scottish Widows is already providing benefits for our customers. With its unrivalled expertise in life assurance, Scottish Widows is working closely with our life and pensions subsidiary, Royal Scottish Assurance, to develop new products. Direct Line Life, now an equal joint venture with Scottish Widows, will launch additional services in life assurance and unit trusts using the unrivalled expertise of both companies.



### In with the bricks

Backed by a £16 million investment by Royal Bank Development Capital, the £53 million institutional buy-out of five brick manufacturing plants from Ibstock Buildings Products Ltd led to the formation of a new company, Ambion Brick, which automatically became one of the UK's top six brickmakers.



### Growing in size and stature

The proposed acquisition of Birmingham Midshires Building Society will double the Bank's mortgage book and give access to one million new customers, most of them in areas where the Bank is under-represented.



- Royal Bank of Scotland branches
- Birmingham Midshires outlets

# real value for shareholders

“ We continue to **achieve success** in our core activities while **growing new businesses** and developing new channels ”



Dr George Mathewson, Chief Executive



## A square deal for all

By joining forces with one of the UK's leading retail brands, the Tesco Personal Finance joint venture is making available new standards of convenience to the 10 million shoppers who are regular Tesco customers. The combination of in-store facilities and high quality direct service is making Tesco Personal Finance one of the UK's fastest growing financial services operations.

### Corporate statement

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

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

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

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

## Chairman's statement

These results demonstrate a year of excellent progress in our existing businesses, and one in which foundations were laid for further strategic gains in the years to come. Our core banking business in the UK once again delivered a very strong performance both in retail and corporate banking. In the USA, Citizens continued to expand through acquisition and organic growth. The increased profitability of Direct Line reflects improved conditions in the motor insurance market and its continued dominance as the lowest cost operator. The proposed acquisition of Birmingham Midshires, combined with the highly successful launch of Tesco Personal Finance and the link with Virgin Direct all demonstrate how our customer acquisition strategy is extending our market reach.

**Financial performance** Profit before tax and before the write-down of finance leases rose by 15% to £801 million (1996 – £695 million). Profit before provisions and exceptional items rose from £758 million to £916 million. Provisions for bad debts and investments increased to £148 million. This increase does not reflect any change in credit quality but is accounted for by provisioning against increased credit card lending and the absence of major releases. Earnings per share increased to 55.4p (1996 – 54.0p). Adjusted earnings per share increased by 15% to 53.5p (1996 – 46.4p).

**Dividend** The directors have recommended a final dividend of 15.2p which, when added to the interim dividend of 6.2p, will produce a total for the year of 21.4p, an increase of 15%. The dividend is covered 2.6 times.

**Staff profit sharing** The continuing improvement in the Group's performance has been made possible by the commitment of staff throughout the Group. Staff entitled to participate in the Group's profit sharing schemes will receive a profit share of 9.5% (1996 – 8.4%) of basic salaries as at 30th September 1997. The total payment to be made will be £36 million (1996 – £31 million).

**Business developments** In February 1997, we announced our agreement to establish a joint venture in financial services with Tesco PLC, the UK's leading supermarket group.

In August, we agreed terms for the acquisition of Birmingham Midshires Building Society, subject to certain conditions.

In March 1997, our new custody subsidiary, RBS Trust Bank, commenced trading.

As part of our strategic partnership, we completed the sale to Scottish Widows of 30% of Royal Scottish



“ This Group will remain on its  
course of **consistent  
and profitable  
expansion** ”

*Younger of Leckie*

Assurance in May, and in July we completed the sale to Scottish Widows of 50% of Direct Line Life Holdings. We also placed 33.4 million new ordinary shares with Scottish Widows for a cash consideration of £201 million.

In the USA, Citizens made three acquisitions of banks in Connecticut and Massachusetts, and completed the sale of its third party mortgage servicing business for a gain of £28 million.

In September, we completed the sale of our 2% stake in Banesto, acquired in 1994, for a gain of £34 million.

**Board of directors** John Barclay retired from the board at the annual general meeting in January. Peter Wood left the board in June when he was succeeded as chief executive of Direct Line Group by Ian Chippendale. Peter made a major contribution to the success of The Royal Bank of Scotland Group over 13 years. Sir Ian Wood resigned from the board in October 1997 on his appointment as chairman of Scottish Enterprise. Sir Ian was a member of the board for six years. Also in October, Elizabeth Nelson retired from the board after six years. I wish to pay tribute to the contribution all have made to the Group.

**Economic developments** The UK economy has grown strongly in the last year, reflecting the recovery in consumer confidence. The most significant policy development was the decision to give the Bank of England independence to set monetary policy. Though the economy has been growing above trend, immediate inflationary pressures have remained muted. The Bank of England has felt it necessary to tighten monetary policy, which should have the effect of slowing growth to a more sustainable rate.

**Prospects** The performance of all our main businesses in banking and insurance, the growing success of our new businesses and the prospects created by the new opportunities we announced during the year all give confidence that the Group will remain on its course of consistent and profitable expansion.

Viscount Younger of Leckie, Chairman

## Chief Executive's review

**UK Bank** In the largest part of our business, the UK Bank, we increased our profit before exceptional items by 19% to £636 million (1996 – £535 million). The return on equity increased to 26%, while our cost:income ratio improved to 56.6% (1996 – 58.1%).

In Retail Banking, we achieved significant increases in our new business volumes in each of personal loans, credit cards, life and pensions, and investments. We were the first bank to launch a personal banking service on the Internet. We were rated highly for our service to small business customers.

In Corporate and Institutional Banking, we made good progress in the specialist businesses which we have established in recent years. These businesses together contributed £72 million to our profit before tax (1996 – £32 million).

In Offshore Banking, we increased our profit by 18% to £45 million (1996 – £38 million).

**Investor Services** RBS Trust Bank was formed during the year, bringing together our Global Custody business with that of S.G. Warburg which looked after the assets of Mercury Asset Management.

Registrars won and successfully delivered the flotations of Halifax and Northern Rock. With these developments, we reduced our loss in Investor Services to £12 million (1996 – loss £17 million).

**Direct Line Insurance** The profit before tax of Direct Line Insurance increased to £36 million (1996 – £26 million).

After three years of declining premium rates, prices began to recover in both motor and home insurance. However, because increases were limited and occurred only gradually through the year, they did not feed through to higher profits in 1997.

The number of our in-force motor insurance policies declined from 2.2 million to 2.1 million as we continued to strike a balance between volume and profit. In home insurance, we continued to grow. The number of in-force policies increased from 796,000 to 833,000.

**Citizens** Citizens enjoyed another excellent year. Its profit before exceptional items rose to £189 million (1996 – £168 million), its cost:income ratio improved to 54.4% (1996 – 54.9%) and its return on equity was 23% (1996 – 24%).

The strongest organic growth occurred in Massachusetts, where Citizens has now built the state's third largest commercial bank from its earlier

acquisition of six small savings banks. In New Hampshire, where First New Hampshire Bank was acquired in 1996, results have exceeded our expectations.

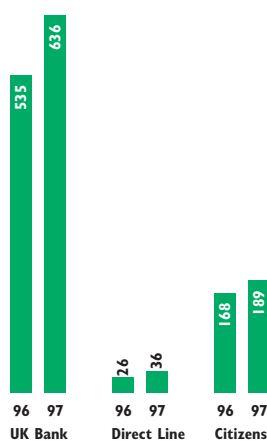
**New retail businesses** We made good progress in the various new retail businesses which we have established in recent years. Direct Line Financial Services doubled its mortgage book to £1.2 billion (1996 – £0.6 billion), RBS Advanta grew its customer base to over 400,000 (1996 – 110,000) and Direct Line Accident Management extended its range of large repair centres to six, throughout the UK.

We launched Tesco Personal Finance in July. It is too early to judge how successful this will be but the early signs are extremely encouraging.

These new retail businesses almost inevitably report accounting losses in their early years because of start-up and customer acquisition costs. However, even after additional costs in establishing Direct Line Accident Management and start-up costs in Tesco Personal Finance, the losses associated with these new retail businesses declined to £35 million (1996 – £43 million). We expect these businesses to break even by 1999 and make a significant contribution to our profits by the year 2000.

**Strategic alliances** It is now almost 10 years since we established our alliance with Banco Santander. We have appreciated this relationship more than ever over the last year when there has been so much talk about the European common currency. During the year, we

**Divisional performance**  
– profit before exceptional items (£m)



worked together in a number of areas. By the end of September, the value of our 4.9% stake in Banco Santander had risen to £480 million against its cost of £180 million.

A year ago, we announced our intention to establish a partnership with Scottish Widows. During the year, Direct Line Life was re-launched in July, new Royal Scottish Assurance pension products were launched in October and a joint venture was established to sell credit cards to Scottish Widows' customers. Our relationship with Scottish Widows enabled us to offer Tesco customers an unequalled range of financial products.

**Strategy** In retail financial services, we are growing our business by offering appropriate products through different channels and under different brands. This enables us to appeal to various customer groups. We also see opportunities to expand our offshore banking activities.

In corporate banking, we continue to achieve success through a relationship management approach, in which we offer our customers a co-ordinated combination of essential banking services – lending, payment and treasury – together with innovative skills in a number of specialist areas.

In the USA, where we are proud of our uniquely successful track record, we continue to improve the value of our strong franchise in New England.

**Outlook** With these strategies, we are confident that we can continue to achieve growth in our customer bases, market shares and profits.



Dr George Mathewson, Chief Executive

“ We are confident that we can continue to achieve **growth in** our customer bases, **market shares and profits** ”



From left to right; Tony Schofield, managing director, Retail Banking. Iain Robertson, managing director, Corporate and Institutional Banking. Norman McLuskie, managing director, Operations Division.

## UK Bank

**A robust performance in our UK Bank businesses again produced record results making them the major contributor to Group profit. Profit before exceptional items rose by 19% to £636 million. This follows a rise of 28% in 1996.**

**The cost: income ratio improved to 56.6%. Income rose by 13% while expenses increased by 10%.**

**Provisions for bad debts increased by 4% with much of this increase being accounted for by provisions resulting from higher credit card lending.**

**A number of our new corporate businesses, including Structured Finance, Royal Bank Development Capital, and Acquisition Finance added to income and profit. Treasury and Capital Markets performed particularly well and Royal Scottish Assurance's sales performance has improved. There was rapid growth in credit card balances.**

*Note: The UK Bank excludes Investor Services (comprising RBS Trust Bank, the RBS Global Custody business and the Registrars business), Tesco Personal Finance and RBS Advanta.*

## Retail Banking

The year saw a strong performance across the range of our business and reflected the continuing benefits of our change programme and enhanced retail focus which has enabled us to concentrate fully on our personal and small business customers. The benefits were seen in improved customer service and increased business volumes both in our core banking operation and in our subsidiaries.

We announced a series of initiatives during the year which will bring opportunities for substantial future growth – the proposed acquisition of Birmingham Midshires, our joint venture with Tesco in supermarket banking, our strategic partnership with Scottish Widows and the creation of a joint venture with Virgin Direct. These initiatives will significantly extend the scale and role of our retail banking business. We also became the first bank in the UK to announce the introduction of a full Internet banking service.

Our existing businesses grew strongly. Sales of personal products increased significantly reflecting in part the success of our Royalties current account. With account openings in excess of 4,000 per week it has proved our most popular new product.

Our personal lending book grew by 25% during the year, assisted by the successful launch of Royal Bank Direct Loans – a telephone based service which through selective advertising has let us add market share in areas of the UK where we have little branch representation.

Our savings growth was underpinned by our *RATEWatch* pledge promising our customers to pay rates consistently above the average of four of the UK's leading savings institutions.

Our increased concentration on the small business market enabled us to gain market share reflecting the successful introduction of our specialist business manager



Cameron McPhail, chief executive of The Royal Bank of Scotland International (left), with a colleague at Royal Bank House, the company's impressive headquarters building in St Helier, Jersey.

## The Royal Bank of Scotland International

Launched in March 1996, The Royal Bank of Scotland International is one of the world's largest offshore banks and one of the fastest growing parts of the Group, increasing profit by 18% to £45million. We performed well in all areas of business, increasing market share and extending our leading role in serving the offshore financial sector in Jersey, Guernsey and the Isle of Man. We provide a wide range of sophisticated banking services including electronic banking, treasury and security services.

Our offshore banking division, serving expatriates across the globe, increased market share, assisted by the success of our rapidly growing telephone banking service. We also launched a private banking service for offshore customers during the year.



**“Our increased focus on  
our personal and  
small business customers**

**has brought improved customer service  
and greater business volumes”**

**Tony Schofield, Managing Director, Retail Banking**



## Business review continued

network bringing the benefits of relationship banking to small business.

We continue to develop our Cashline network of automated teller machines becoming the first bank in the UK to offer access to all the UK's 22,000 cash machines.

We have continued to invest in our branch network. During the year more than 30% of our branches were equipped with a new technology platform providing improved customer service. Installation of this technology will be completed by the end of 1998.

Our life and pensions company, Royal Scottish Assurance, had a record year in the course of which Scottish Widows took a 30% interest in the company. Working with Scottish Widows we will see an improved range of products, particularly pensions.

Adam & Company, our private banking subsidiary, had a record year, adding new customers and increasing profits by 63%.

## Corporate and Institutional Banking

As an acknowledged leader in each of our business areas, we again achieved substantial progress. During the year we brought together all of our corporate customer relationships into one structure, serving the spectrum of companies from the small to some of the country's largest corporations and financial institutions. We are providing each segment with an expanded range of products.

We have grown our portfolio of large corporate customers, and our asset commitment to those customers by 60% over the last five years while improving our income performance year on year. The portfolio's core earnings are much less concentrated than five years ago, partly reflecting a more benign credit environment, but also as a testament to our ability to diversify earnings. More than five times as many customers contribute to these earnings as did five years ago. We have also seen solid growth in our relationships with smaller companies.

These achievements have been delivered in a year which has seen the continued dominance of two factors in the financial markets – increased competition and the erosion of pricing in commodity-type banking products. Consequently, banks have had to become more focused on providing targeted and tailored services.

## Investment – the fabric for growth

**Royal Bank Development Capital (“RBDC”) led and arranged a multi-million pound investment in Textstyle World, the UK's largest independent retailer of household textiles and soft furnishings, providing £17 million equity to fuel the company's plans for expansion. Textstyle World chairman Eric Reid is flanked by his son Mark, managing director, and RBDC's Douglas Kearney (standing).**

Against this challenging background our solid performance across our entire customer base has been achieved by maintaining a balance between nurturing a relationship banking approach – a traditional strength – and widening our product range.

Our widening portfolio of businesses in risk finance grew strongly. Royal Bank Development Capital confirmed its position as Scotland's leading private equity provider and a significant player throughout the UK. Acquisition Finance, a top-five debt provider, completed 66 deals this year, valued at £4.9 billion across a broad range of business sectors. During the year, Acquisition Finance also launched a new, and already flourishing, mezzanine capital business – RBS Mezzanine – with £150 million of initial start up capital.

In Structured Finance we grew our total assets to £5 billion. There was substantial growth in loan syndications where we established ourselves as a top-five player, arranging deals for customers such as Scottish Media and Scottish Hydro-Electric. In Project Finance we continued to grow steadily, participating in deals around the world, building on our expertise in the energy sector and establishing our Singapore office.

Treasury and Capital Markets was a significant income generator, principally by providing risk management services to enable corporate customers and investors to manage their interest rate and currency risks in a year of heightened sterling volatility. In addition to managing the Bank's own interest rate risks it continues to build its capital markets capabilities in order to provide clients with wider investment and securities-based financing alternatives.

Other subsidiaries continue to perform well, most notably Royal Bank Invoice Finance, now one of the UK's fastest-growing providers of working capital finance.

Our business targets are ambitious, but by judging our relationships with customers from their perspective and continuing to understand their changing needs we will grow our business further while continuing to contribute to overall shareholder value.

### Investor Services

Investor Services embraces RBS Trust Bank, Registrars and the Bank's existing Global Custody business, and serves many customers which are common to other Corporate and Institutional Banking businesses.

RBS Trust Bank is set on its path of becoming the UK's premier provider of high quality investment administration solutions to institutional investors. RBS Trust Bank products are now used to administer more than 20% of UK unit trust and PEP holdings and,

“Our business targets are ambitious,  
but by **judging our  
relationships  
with customers  
from their  
perspective** we will  
grow our business further”

Iain Robertson, Managing Director,  
Corporate and Institutional Banking



### Number one in shipping

With an established position as the number one provider of shipping finance to the important Greek market, we continued to move ahead. We had a record year for lending, particularly in funding for new building.

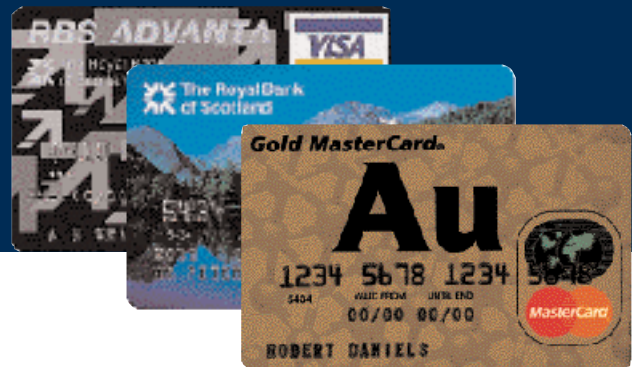
“ We delivered significant success in the markets we serve, with  
**dramatic growth in card services**  
while pioneering new advances in on-line  
services to business ”

*Norman McLuskie*

Norman McLuskie, Managing Director, Operations

## Continued success in core cards

The Au Gold MasterCard is the latest of our growing family of credit cards which through our innovative approach to customer acquisition have carved out a growing market share.



### Business review continued

together with the Bank's Global Custody business, has total assets under custody of £275 billion.

The Registrars business successfully handled the UK's largest-ever flotation, the Halifax demutualisation, and is planning to extend its capabilities with its new Australian partner, Computershare. Registrars now serves almost 13 million registered shareholders.

### Operations

Continued advances in our core businesses combined with the launch of new products enabled us to deliver significant success in the markets we serve. We also continued to provide a range of high quality services to UK Banking in technology, property, human resources and business consultancy.

Our Card Services business continued its dramatic growth with the successful introduction of a series of new ventures combined with rapid expansion in our established businesses, both in number of accounts and volume.

A new company, RBS Cards, was created to lead the development of new products, with its first launch being the Au Gold MasterCard. Offering exceptionally low rates of interest, the card is attracting substantial new balances from its target market of low-risk customers.

A series of cards was also launched as part of the joint ventures we entered during the year. The Scottish Widows MasterCard is offered through independent financial advisers and to the direct policyholders of Scottish Widows. The Tesco Visa Card and Tesco ClubCard Plus cards are offered by Tesco Personal Finance to customers of the UK's leading food retailer.

A new product for companies, the Visa Purchasing Card, enables them to purchase products and settle with

suppliers quickly and easily. Customers include Scottish Hydro-Electric and United Distillers.

Our existing business also prospered. RBS Advanta, offering cards with low rates of interest and marketed through direct mailing campaigns, achieved balances outstanding of more than £500 million, a year ahead of business plan. The Royal Bank low cost, no fee MasterCard continued its successful expansion.

Developing our leading role in card technology, we are participating in two card pilot programmes. The chip or smart card is being piloted in Northampton and Dunfermline. The VisaCash card, an alternative to cash for small purchases, was launched in Leeds in October.

Payment Services enjoyed considerable success winning significant new business and increasing our comprehensive range of cash management and electronic products.

Significant new business was won from Kingfisher, Marks & Spencer and Tesco, confirming our position as a leading provider of money transmission services. Royline for Windows™ continued to grow, offering corporate customers a comprehensive domestic and international cash management solution. In May 1997, we successfully launched Royline Account Master – a Windows™ based service aimed at smaller businesses.

We continued to increase our international business through innovative products such as Roytrade, our Windows™ based electronic banking service which offers exporters and importers a fast and secure means of transferring documentation associated with international trade via their office PC. Royworld Budget was introduced to provide retail customers with a cost-effective means of transferring low value payments to overseas destinations.

# Options

Royline for Windows™

Roybank

Royline Account Master

Roytrade

Roylink

Payroll solutions

EDI Masterpay

Electronic banking for small businesses

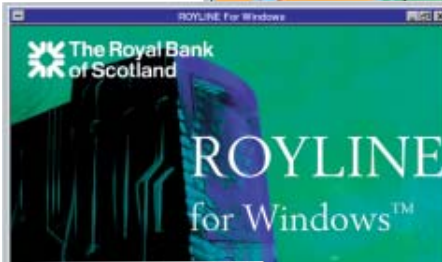
## Improving financial control

Developed specifically for smaller businesses, Royline Account Master provides a simple and easy to use solution, offering companies even more control over their financial resources.

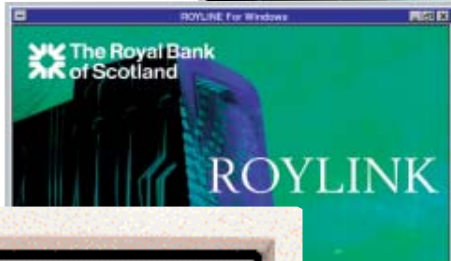


Royline for Windows™ – the comprehensive cash management solution, including IBOS, our unique service to manage overseas accounts

Roylink – a fast, flexible service to manage large volumes of accounts and transactions

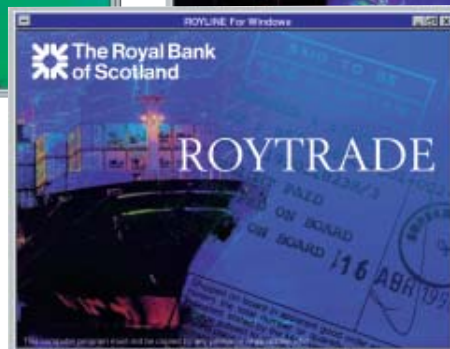


Payroll solutions – payroll processing and reporting



EDI Masterpay – the award winning service for trade payments

Roybank – a complete client cash management service



Roytrade provides fast, secure international documentary services

## Direct Line Group

With our emphasis on service and value for money, Direct Line Group continues to outperform the industry. Direct Line Insurance recorded increases in gross written premiums and profits while retaining our market share. In addition, the Direct Line Group made further progress as a broadly-based provider of financial services and through involvement in strategic alliances widened the reach of our products and brands.

All this happened in a year when Direct Line's founder, Peter Wood, left the Group to pursue other business interests. After a well planned period of transition, Peter leaves behind a strong management team under the leadership of Direct Line Group Chief Executive, Ian Chippendale.

In a fiercely competitive market, our motor insurance business returned a profit as we kept tight

control of the costs of accident damage claims and invested further in the quality of our service. This performance underlines our status as the lowest-cost motor insurer in the UK and vindicates our strategy of carefully balancing profitability and market share. As the market improves, Direct Line is well placed to widen our lead.

The home insurance business continued its steady growth with rising customer numbers and another increase in profit. As in motor insurance, further steps were taken to improve service through the expansion of opening hours and the introduction of a full teleclaims service. The message was driven home with memorable TV advertising. There were good results, too, from our creditor and travel insurance products.

Our accident repair company, Direct Line



“With our emphasis on service  
and value for money,

**Direct Line Group continues  
to outperform the industry** and made

further progress as a broadly-based

provider of financial services”

Ian Chippendale,  
Chief Executive,  
Direct Line Group Ltd

### Focus on customers

The strength, value and quality of the Direct Line proposition have led to growing numbers of homeowners arranging mortgages, personal loans, savings and insurance with the company during the course of the year as people increasingly recognise the benefits of arranging their finances direct.

Mortgage book **up** to £1.19 billion  
Home insurance policies **up** to 833,000

Mortgages—  
year end balance £m  
(at 30th September)

Home insurance—  
number of in-force policies  
(at 30th September)



Accident Management, made good progress developing our network of high-tech, industrial scale repair centres. This time last year there were two such centres in operation. Now there are six, with two more planned to open during 1998. The centres provide extra capacity to complement our existing motor repair network. New systems and practices are also developed, applying to motor repairs many of the disciplines and standards of manufacturing industry.

It was also a good year for Linea Directa Aseguradora, our Spanish joint venture with BankInter. Now Spain's fastest growing general insurer, the company has over 130,000 policies in force.

During the year, Direct Line's PEP and life insurance businesses were transferred to a new joint venture with Scottish Widows, Direct Line Life

Holdings. The combined skills of the two partners will help to develop an already thriving business and open the way to a broader range of products.

Direct Line Financial Services, through its personal loans, mortgages and instant access savings products, grew strongly during the year. Such has been the success of our mortgage product that in February What Mortgage? magazine awarded the company its Best Direct Mortgage Lender award.

In another strategic alliance, Direct Line is playing a key part in the Bank's joint venture with Tesco to offer financial services to the 10 million holders of the Tesco ClubCard. Direct Line currently provides Tesco customers with travel and home insurance and plans to offer motor insurance under the Tesco Personal Finance brand.



“ We continue to deliver and build value  
for shareholder and customer alike, with  
**quality growth in all key businesses**  
and solidified presence  
in every banking market ”

Lawrence K. Fish, Chairman,  
President and Chief Executive Officer,  
Citizens Financial Group, Inc.



## Citizens

Profit before exceptional items at Citizens increased by 12% to £189 million, reflecting a year in which our franchise in New England experienced quality growth in all key businesses and solidified our presence in every banking market in which we do business.

Citizens' asset quality, already one of the best among New England-based banks, experienced further improvement in 1997. Non-performing assets dropped to 0.54% of total assets and we continue to carry strong reserves against our loan portfolio. With our supercommunity approach to banking, we continue to deliver and build value for shareholders and customers alike. As a result of the service and products we provide, Citizens has seen strong organic growth over the year in commercial lending, consumer lending, fee-based business and retail deposits.

We completed three acquisitions during the year: Grove Bank in Massachusetts, and Farmers & Mechanics and Bank of New Haven in Connecticut. The acquisitions, funded with Citizens' internal capital, brought us into important new retail and commercial banking territory and increased assets by US\$1.5 billion.

Citizens' latest purchases capped five consecutive years of aggressive, yet prudent, growth in which we completed 12 acquisitions and expanded to nearly 300 branches and 400 ATM machines throughout the region. During that time, we have grown in size from US\$4 billion to more than US\$16 billion in assets. This ranks Citizens among the top 45 bank holding companies in the USA.

In the same five year period Citizens' customer base has grown from 450,000 to 1.1 million. Our operations centre in East Providence, Rhode Island, now handles 2.2 million customer accounts, up from 650,000. Our

state-of-the-art telephone banking centre in Warwick, Rhode Island processes more than 13 million customer calls per year compared to 1.4 million in 1992.

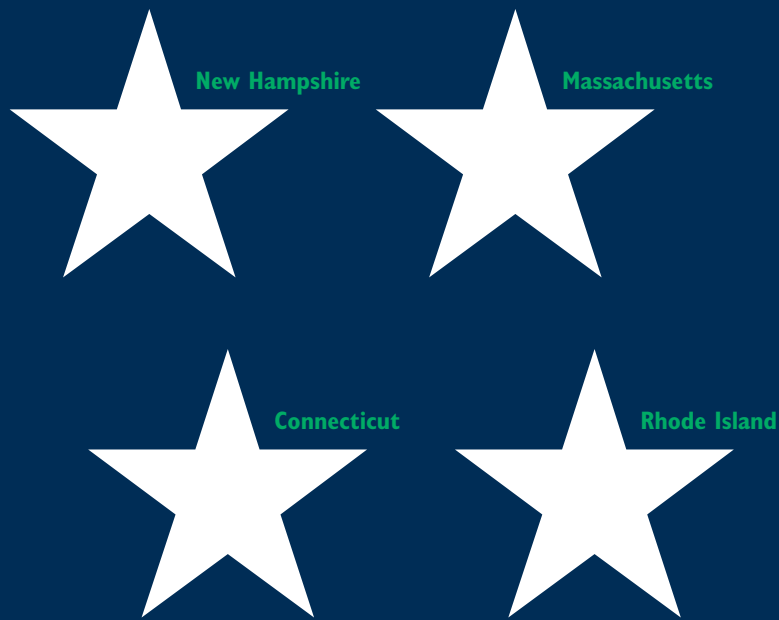
Our New Hampshire state bank has exceeded expectations since its acquisition in 1996. As that state's market leader, it has brought substantial new revenue to the company. Citizens Bank of Massachusetts has produced the strongest organic growth within the Citizens franchise, largely as a result of weaving six small savings banks into what is now the state's third-largest commercial bank with US\$5 billion in assets.

Citizens' 'Not Your Typical Bank' branding campaign, launched in 1997, reinforced its supercommunity banking strategy of combining the range and quality of products from a large bank with the

## Shopping aisles – new delivery channels

**Citizens doubled its supermarket banking network through an exclusive agreement with Massachusetts-based Star Market to open 22 in-store branches within a 30-mile radius of Boston and on Cape Cod.**





1997: 16.2

Citizens – asset growth (US\$bn)

1996: 14.4

1995: 10.2

personal service expected from smaller, neighbourhood institutions. Our new Circle Account line of relationship products, which rewards customers for the level of banking services they use at Citizens, has enabled us to grow our deposits and accounts organically. We also launched a community-focused Internet site ([www.citizensbank.com](http://www.citizensbank.com)) on the world wide web to tell the Citizens success story and acquaint more potential customers with our specialised products and services.

### Leading players team up

Citizens landed an extensive business and marketing partnership with the Boston Celtics of the National Basketball Association, one of the best-known franchises in American sports. As 'the official bank of the Boston Celtics', Citizens is providing substantial lending and other corporate banking services to the organisation, and personal banking to coaches, players and employees. It is teaming up with the Celtics on extensive community programmes.





### **An active contributor**

Staff at our Barrow in Furness branch gave up their time to erect wooden play equipment in the playground of Barrow Island Primary School. Our Community Action Programme, which supports projects run by members of staff, provided £1000 to fund the equipment. The headmaster, Mr John Ireland, is joined by staff volunteers.

“The outdoor activity complex, supported by The Royal Bank of Scotland, will prove of great benefit and **enhance the fun in learning** for our 250 pupils”

*John Ireland*

John Ireland, Headmaster,  
Barrow Island Primary School

## Community and environment

The Bank has consistently recognised its obligation to the communities in which it operates, reflecting the social and environmental responsibility which is an important part of its culture. During the year we gave more than £2.4 million to support organisations engaged in a wide range of activities, from the arts and sport to heritage, the environment, and encouraging enterprise and employment opportunities, particularly for young people.

Introduced a year ago, our Community Action Programme is designed to provide financial support to enable our staff to become involved in activities supporting their local communities. The programme has already made significant progress. A Chairman's Award has been introduced for the most imaginative scheme, and will be presented to the winning team in 1998. We are also assisting communities through a joint project with the Wise Group to establish pilot schemes in Bolton and Nottingham assisting long-term unemployed back to work.

We also supported a wide range of cultural and sporting activities through our sponsorship programme. The exhibition Georges Braque – The Late Works, featuring the French contemporary of Picasso, was held to great critical acclaim at the Royal Academy, London. It was widely regarded as the top exhibition in Britain in 1997 and one of the top three in the world. At the Edinburgh International Festival we sponsored a revival of

the T.S. Eliot play, "The Cocktail Party", which was originally produced for the 1949 Festival.

The first exhibition devoted to the Royal collection of insignia contained more than 200 pieces, many of them dazzling pieces of jewellery in their own right. Held first at Windsor Castle, the exhibition transferred to the Palace of Holyrood House in November 1997.

Increasing awareness of the importance of environmental issues has challenged government, business, and individuals to define their priorities and to recognise that the pursuit of economic growth, a healthy environment and human welfare are interlinked. The Bank's response has been to adopt a more cohesive and planned approach to environmental issues.

We recognise that concern for the environment is a key issue for our customers, shareholders and staff. Our business decisions have environmental consequences and in the past year we have concentrated on identifying and understanding our environmental effects.

We are introducing measures to improve our environmental performance. We are producing an environmental programme and have appointed a specialist manager to oversee it. We have introduced an environmental management system in areas such as energy, paper, recycling and transport. Our policy seeks to integrate the environment into our purchasing policies, staff training and lending practices.



### Recognising crucial links

In March 1997, we launched our commemorative banknote marking the 150th anniversary of the birth in Edinburgh of Alexander Graham Bell. The charity Childline gains £1 from the sale of each presentation pack.



## Board of directors and secretary

### 1 Viscount Younger of Leckie

KT, KCVO, TD, DL \*†∅ Chairman (age 66), 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 and Scottish Equitable plc. He is also chairman of Siemens Plessey Electronic Systems Limited and a number of the Murray Johnstone Investment Trusts. (Chairman of the remuneration committee).

### 2 Sir Iain Vallance

Vice-chairman †∅ (age 54), was appointed a director in January 1993 and became a vice-chairman in March 1994. He is chairman of British Telecommunications plc. He is a member of the board of directors of the Mobil Corporation,

the Confederation of British Industry President's Committee, the President's Committee and Advisory Council of Business in the Community and the governing body of the London Business School. He is chairman of The Princess Royal Trust for Carers and a trustee of the Monteverdi Trust.

### 3 Sir Angus Grossart

CBE, LLD, DL †∅ Vice-chairman (age 60), 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. He is a former chairman of the Trustees of the National Galleries of Scotland.

## Executive directors

### 4 Dr George Mathewson

CBE, LLD, FRSE, FCIBS \*∅∅ Group Chief Executive (age 57), was appointed a director in September 1987 and to his present position in January 1992. He is a former chief executive of the Scottish Development Agency and his current directorships include Citizens Financial Group, Inc., Interbank On-Line System Limited, Direct Line Group Limited, of which he is chairman, and Scottish Investment Trust PLC.

### 5 Bob Speirs

Group Finance Director \*∅ (age 61), was appointed Group finance director in July 1993. He was formerly finance director, Olympia & York Canary Wharf Limited prior to which he was finance director of Britoil plc. He is chairman of Direct Line Insurance plc and deputy chairman of Direct Line Group Limited, a director of Privilege Insurance Company Limited, and a director of Stagecoach Holdings plc.

### 6 Lawrence Fish \*

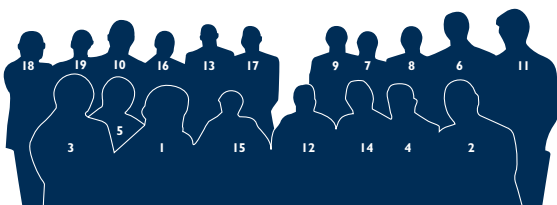
(age 53), was appointed a director in January 1993. He is chairman, president and chief executive officer of Citizens Financial Group, Inc. He is also a director of John Hancock Financial Services and numerous community organisations in the USA.

### 7 Norman McLuskie \*∅

(age 53), was appointed a director in June 1992 and is managing director of the Bank's Operations Division. He is chairman of BACS Limited, RBS Advanta Limited, RoyScot Financial Services Limited and the Bank's Pension Fund Trustees. He is a director of Interbank On-Line System Limited, RBS Cards Limited, and Tesco Personal Finance Limited. He is also deputy chairman of APACS.

### 8 Iain Robertson \*

(age 51), was appointed a director in January 1993. He is managing director of Corporate and Institutional Banking and chairman of Royal Bank Development Capital Limited and RBS Mezzanine Limited. He is also a director of Citizens Financial Group, Inc., Privilege Insurance Company Limited and British Empire Securities and General Trust plc.





**9 Tony Schofield \*** (age 57), was appointed a director in June 1992. He is managing director of Retail Banking. He is chairman of The Royal Bank of Scotland International Limited, Virgin Direct Personal Finance Limited and Royal Scottish Assurance plc. He is also a director of Adam & Company Group PLC and Newton Management Limited.

#### Non-executive directors

**10 Emilio Botin** (age 63), is chairman of Banco Santander. He is also chairman or a director of several Banco Santander Group subsidiaries and a director of a number of Spanish companies.

**11 Jaime Botin** (age 61), is chairman of BankInter and vice-chairman of Banco Santander.

**12 Sir Robin Duthie, CBE, LLD** †∅ (age 69), is a chartered accountant. He was formerly chairman of Britoil plc and of the Scottish Development Agency. He is a director of a number of other public companies. He is also

vice-chairman of the Scottish Advisory Board of BP. (Chairman of the audit committee).

**13 Ian Grant, JP, DL** □ (age 58), is managing director of Glenmoriston Estates Limited and is chairman of Pacific Assets Trust plc. He is a director of a number of British and overseas public companies in Holland, Hong Kong and the USA as well as Banco Santander in Spain. (Chairman of the personnel committee and the joint consultative committee).

**14 Eileen Mackay CB, MA** ◇ (age 54), was formerly principal finance officer at The Scottish Office. She is a director of Moray Firth Maltings plc and Edinburgh Investment Trust plc. She is chairman of the Government's Standing Advisory Committee on Trunk Road Assessment and a board member of Scottish Screen. Among her other appointments she is a member of The University of Edinburgh Court and the Management Committee of the Margaret Blackwood Housing Association.

**15 Dr Elizabeth Nelson OBE** □ (age 66), is chair of Council, Roehampton Institute London and

chairman of the UK ECO Labelling Board. She is a past president of the World Association of Public Opinion Research and is vice-chair of the Open University Council. She is also a member of the Review Body on Doctors' and Dentists' Remuneration and a member of the Advisory Board, Judge Institute, University of Cambridge. Retired 1st October 1997.

**16 Murray Stuart CBE** □ (age 64), is chairman of Scottish Power plc, Hammersmith Hospitals NHS Trust and Intermediate Capital Group PLC. He is also a non-executive director of Willis Corroon Group plc.

**17 Sir Ian Wood CBE, LLD** (age 55), is chairman and managing director of John Wood Group PLC and chairman of J.W. Holdings Limited in Aberdeen. He is chairman of Scottish Enterprise; chairman of the Oil & Gas Projects & Supplies Office Board (OSO); and a member of the Scottish Economic Council. Retired 22nd October 1997.

**18 Bill Wilson** ◇ (age 60), is chairman of Alexander & Alexander, Europe. His other public directorships include

American Trust plc and New London Capital plc. He is also a part-time member of the British Railways Board and a director of the Glasgow Royal Infirmary University NHS Trust.

#### Secretary

**19 Miller McLean** ∅ Secretary (age 47), was appointed director, Group Legal and Regulatory Affairs and Group Secretary in August 1994. He is vice-chairman of Banco de Comercio e Industria, S.A. and chairman of the council and management committee of the Industry and Parliament Trust.

- \* Executive
- † member of the Remuneration Committee
- ◇ member of the Audit Committee
- member of the Personnel Committee
- ∅ member of the Chairman's Advisory Group

## Corporate governance

In accordance with the recommendations of the Cadbury Committee on the Financial Aspects of Corporate Governance, the company has complied with the relevant provisions of the Code of Best Practice throughout the financial year. A full corporate governance statement is contained in the company's 1997 Report and Accounts.

## Remuneration committee report

In line with the listing rules of the London Stock Exchange, which implement the recommendations of the Greenbury Committee on Directors' Remuneration and adopt the Greenbury Committee Code of Best Practice, the Remuneration Committee's annual report to shareholders is contained in the company's 1997 Report and Accounts. The remuneration received by each director during the year is summarised in the undernoted tables.

	Salary £000	Performance related bonuses £000	Profit sharing £000	Pension contributions £000	Benefits £000	<b>Total 1997 £000</b>	Total 1996 £000
<i>Chairman</i>							
Viscount Younger	235	—	—	33	9	<b>277</b>	255
<i>Executive directors</i>							
Dr G. R. Mathewson	392	229	30	58	16	<b>725</b>	557
R. Speirs	227	107	18	17	11	<b>380</b>	316
L. K. Fish	455	1,694	—	87	13	<b>2,249</b>	2,570
N. C. McLuskie	215	78	18	32	13	<b>356</b>	316
I. S. Robertson	263	144	20	40	12	<b>479</b>	359
G. A. Schofield	215	78	18	32	12	<b>355</b>	339
P. J. Wood	290	—	—	941	17	<b>1,248</b>	500
<b>1997</b>	<b>2,292</b>	<b>2,330</b>	<b>104</b>	<b>1,240</b>	<b>103</b>	<b>6,069</b>	
1996	2,185	2,431	126	361	109		5,212

	Board fees £000	Board committee fees £000	Fees from subsidiary companies £000	<b>Total 1997 £000</b>	Total 1996 £000
<i>Non-executive directors</i>					
Sir Iain Vallance	25	—	25	<b>50</b>	50
A. M. Hamilton (retired 18th January 1996)	—	—	—	<b>—</b>	14
Sir Angus Grossart (from 1st May 1996)	25	—	25	<b>50</b>	36
J. A. Barclay (retired 16th January 1997)	3	—	35	<b>38</b>	60
E. Botin	10	—	10	<b>20</b>	20
J. Botin	10	—	10	<b>20</b>	20
Sir Robin Duthie	15	5	23	<b>43</b>	35
I. F. H. Grant	10	—	15	<b>25</b>	23
E. A. Mackay	10	—	13	<b>23</b>	8
Dr E. H. Nelson (retired 1st October 1997)	10	—	12	<b>22</b>	20
C. M. Stuart	10	—	12	<b>22</b>	14
W. M. Wilson	10	—	17	<b>27</b>	21
Sir Ian Wood (retired 22nd October 1997)	10	—	10	<b>20</b>	20
<b>1997</b>	<b>148</b>	<b>5</b>	<b>207</b>	<b>360</b>	
1996	141	13	187		341
Aggregate emoluments of directors who served during the year				<b>6,429</b>	5,553

## Summary financial statement

**Important note** This summary financial statement is a summary of information in the 1997 Report and Accounts. It does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the company or of the Group. For further information, the full annual accounts, the auditors' report on those accounts and the report of the directors should be consulted. A copy of the full 1997 Report and Accounts may be obtained, free of charge, from the company's registrar at the address shown on page 24. All shareholders receive the Annual Review and Summary Financial Statement. Shareholders who also wish to receive the Report and Accounts should complete (if they have not done so previously) the request card which accompanies this document and return it to the company's registrar.

## Summary directors' report

**Activities and business review** The company is a holding company owning the entire issued share capital of The Royal Bank of Scotland plc, the direct operating subsidiary of the company. The Royal Bank of Scotland plc and its subsidiaries are engaged principally in providing a comprehensive range of banking, insurance and other financial services. A review of the business for the year ended 30th September 1997, of recent events, and of likely future developments is contained on pages 2 to 15.

**Directors** The names, biographical details and a photograph of the directors are shown on pages 18 and 19. Mr J. A. Barclay, Mr P. J. Wood, Dr E. H. Nelson and Sir Ian Wood retired from the board of directors on 16th January 1997, 25th June 1997, 1st October 1997 and 22nd October 1997, respectively.

**Report of the auditors** The auditors' report on the full accounts for the year ended 30th September 1997 was unqualified and did not include a statement under sections 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

## Auditors' statement to the members of The Royal Bank of Scotland Group plc

We have examined the summary financial statement on pages 21 to 23.

**Respective responsibilities of directors and auditors** The summary financial statement is the responsibility of the directors. Our responsibility is to report to you our opinion on its preparation and consistency with the annual financial statements and directors' report.

**Basis of opinion** We conducted our work in accordance with Auditing Guideline "The auditors' statement on summary financial statement" adopted by the Auditing Practices Board.

**Opinion** In our opinion the summary financial statement on pages 21 to 23 is consistent with the annual financial statements and the directors' report of The Royal Bank of Scotland Group plc for the year ended 30th September 1997 and complies with the requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder.

Coopers & Lybrand  
*Chartered Accountants and Registered Auditors*  
Edinburgh  
27th November 1997

## Summary consolidated profit and loss account

for the year ended 30th September 1997

	Before exceptional items £m	1997 Exceptional items £m	Total £m	1996 Total £m
Net interest income	1,414	—	1,414	1,202
Non-interest income	1,003	—	1,003	827
General insurance – earned premiums	658	—	658	656
– reinsurance	(123)	—	(123)	(45)
<b>Total income</b>	<b>2,952</b>	<b>—</b>	<b>2,952</b>	<b>2,640</b>
<b>Operating expenses</b>	<b>1,549</b>	<b>—</b>	<b>1,549</b>	<b>1,320</b>
Year 2000 costs	—	29	29	—
Restructuring costs – Citizens Bank New Hampshire	—	—	—	21
<b>Profit before other operating charges</b>	<b>1,403</b>	<b>(29)</b>	<b>1,374</b>	<b>1,299</b>
General insurance – gross claims	582	—	582	593
– reinsurance	(95)	—	(95)	(31)
<b>Profit before provisions for bad and doubtful debts</b>	<b>916</b>	<b>(29)</b>	<b>887</b>	<b>737</b>
Provisions for bad and doubtful debts	146	—	146	113
Amounts written off fixed asset investments	2	—	2	1
Write-down of finance leases	—	41	41	—
<b>Group operating profit</b>	<b>768</b>	<b>(70)</b>	<b>698</b>	<b>623</b>
Profit on sale of mortgage servicing business	—	28	28	—
Profit on sale of fixed asset investment	—	34	34	—
Profit on sale of associated undertaking	—	—	—	72
<b>Profit on ordinary activities before tax</b>	<b>768</b>	<b>(8)</b>	<b>760</b>	<b>695</b>
Tax on ordinary activities	(247)	28	(219)	(191)
<b>Profit on ordinary activities after tax</b>	<b>521</b>	<b>20</b>	<b>541</b>	<b>504</b>
Minority interests	(27)	(4)	(31)	(8)
<b>Profit after minority interests</b>	<b>494</b>	<b>16</b>	<b>510</b>	<b>496</b>
Preference dividends	53	—	53	57
<b>Profit attributable to ordinary shareholders</b>	<b>441</b>	<b>16</b>	<b>457</b>	<b>439</b>
Ordinary dividends	179	—	179	154
<b>Retained profit</b>	<b>262</b>	<b>16</b>	<b>278</b>	<b>285</b>
<b>Earnings per 25p ordinary share</b>			<b>55.4p</b>	54.0p
Adjustments:				
Year 2000 costs			2.3p	—
Write-down of finance leases			1.5p	—
Profit on sale of mortgage servicing business			(1.7p)	—
Profit on sale of fixed asset investment			(4.0p)	—
Restructuring costs – Citizens Bank New Hampshire			—	1.2p
Profit on sale of associated undertaking			—	(8.8p)
<b>Adjusted earnings per 25p ordinary share (see note below)</b>			<b>53.5p</b>	<b>46.4p</b>

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

<b>Directors' emoluments</b>	1997 £000	1996 £000
Non-executive directors – emoluments	360	341
Executive directors – emoluments	4,829	4,851
– pensions contributions	1,240	361
	6,429	5,553
– gains on exercise of share options	996	167
	<b>7,425</b>	<b>5,720</b>

Retirement benefits are accruing to six directors under defined benefit schemes.

# Summary consolidated balance sheet

at 30th September 1997

	1997 £m	1996 £m
<b>Assets</b>		
Cash and balances at central banks	1,213	1,211
Treasury bills and other eligible bills	629	561
Loans and advances to banks	14,091	11,981
Items in course of collection due from other banks	1,070	1,028
Loans and advances to customers	38,606	33,446
Debt securities	9,925	7,392
Equity shares	463	428
Interests in associated undertakings	52	63
Tangible fixed assets	1,078	955
Other assets, prepayments and accrued income*	5,474	4,051
<b>Total assets</b>	<b>72,601</b>	<b>61,116</b>
<b>Liabilities</b>		
Deposits by banks	5,395	5,323
Items in course of collection due to other banks	636	775
Customer accounts	47,582	38,087
Debt securities in issue	4,997	5,553
Other liabilities, accruals and deferred income and provisions*	8,209	6,468
Subordinated liabilities including convertible debt	2,550	2,250
Minority interests	190	150
Called up share capital	216	205
Share premium account	1,229	881
Reserves	103	94
Revaluation reserve	(19)	(19)
Profit and loss account	1,513	1,349
Shareholders' funds		
– equity	2,308	1,871
– non-equity	734	639
<b>Total liabilities</b>	<b>72,601</b>	<b>61,116</b>
<b>Memorandum items†</b>		
Contingent liabilities	2,641	2,359
Commitments	17,133	14,218

\*Other assets and liabilities include foreign exchange and interest rate contracts.

†Contingent liabilities comprise mainly guarantees; commitments include undrawn formal standby facilities, credit lines and other commitments to lend.

At 30th September 1997, provisions for bad and doubtful debts amounted to £459 million (1996 – £474 million).

The summary financial statement on pages 21 to 23 was approved by the board of directors on 27th November 1997.

Viscount Younger of Leckie  
*Chairman*

George Mathewson  
*Group Chief Executive*

Robert Speirs  
*Group Finance Director*

## Notice of meeting

**Notice is hereby given** that the thirtieth annual general meeting of the members of The Royal Bank of Scotland Group plc will be held in the Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh on Thursday 15th January 1998, at 12 noon, for the following purposes:

- 1 To receive and approve the accounts to 30th September 1997 and the reports of the directors and auditors thereon (resolution numbered 1 on the proxy form).
- 2 To declare a final dividend on the ordinary shares (resolution numbered 2 on the proxy form).
- 3 To reappoint directors (resolutions numbered 3 to 7 inclusive on the proxy form).
- 4 To reappoint Coopers & Lybrand as auditors (resolution numbered 8 on the proxy form).
- 5 To authorise the directors to fix the remuneration of the auditors (resolution numbered 9 on the proxy form).
- 6 To authorise the directors to issue shares on a non-pre-emptive basis (resolution numbered 10 on the proxy form).
- 7 To approve the creation of an additional 8 million category II non-cumulative dollar preference shares of US\$0.01 each (resolution numbered 11 on the proxy form).
- 8 To increase the directors' fees (resolution numbered 12 on the proxy form).
- 9 To adopt new articles of association (resolution numbered 13 on the proxy form).
- 10 To authorise the directors to offer a share dividend alternative (resolution numbered 14 on the proxy form).

The resolutions to be proposed as additional business at the annual general meeting in respect of items 6 to 10 above are set out in full in Appendix 2 to the circular letter to shareholders dated 11th December 1997 accompanying this Annual review and summary financial statement of which this notice forms part.

By order of the board.

M. R. McLean

Secretary

36 St. Andrew Square, Edinburgh

11th December 1997

### *Note:*

Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the company gives notice that only those shareholders entered on the register of members of the company at close of business on Tuesday 13th January 1998 will be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on Tuesday 13th January 1998 will be disregarded in determining the rights of any person to attend or vote at the meeting. Every member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of the member. A proxy need not be a member of the company. A form appointing a proxy is enclosed with this notice and may be returned in the enclosed pre-paid envelope. To be effective, it must be completed and be received at the company's transfer office not less than 48 hours before the time fixed for the meeting. A statement of all transactions of each director of the company and, so far as each director is aware or can reasonably ascertain, of their family interests in the shares of the company and of its subsidiaries and in the loan capital of the company and its subsidiaries covering the period from 12th December 1996 to 10th December 1997, will be available for inspection at the company's registered office during the usual business hours on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the meeting and at the place of the meeting for at least 15 minutes prior to the meeting and during the meeting.

#### **General enquiries**

Secretary's Department  
The Royal Bank of Scotland plc  
42 St. Andrew Square  
Edinburgh EH2 2YE  
Telephone: 0131-523 4045  
Facsimile: 0131-557 6140

#### **Registrars (shareholder enquiries)**

The Royal Bank of Scotland plc  
PO Box 435, Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0131-523 6666  
Facsimile: 0131-442 4924

#### **Registered office**

36 St. Andrew Square  
Edinburgh EH2 2YB  
Telephone: 0131-556 8555

#### **Auditors**

Coopers & Lybrand  
Chartered Accountants and  
Registered Auditors  
Edinburgh

## Analyses of ordinary shareholders

	shareholdings	millions	% of total
Individuals	41,089	110.6	12.9
Banks and nominee companies	7,058	624.7	72.6
Investment trusts	109	2.6	0.3
Insurance companies	17	11.1	1.3
Other companies	920	12.1	1.4
Pension trusts	17	6.7	0.8
Other corporate bodies	402	92.3	10.7
	<b>49,612</b>	<b>860.1</b>	<b>100.0</b>
Range of shareholdings:			
1– 1,000	21,699	9.0	1.0
1,001– 10,000	24,808	78.4	9.1
10,001– 100,000	2,569	61.4	7.2
100,001– 1,000,000	429	137.7	16.0
1,000,001–10,000,000	97	262.8	30.6
10,000,001 and over	10	310.8	36.1
	<b>49,612</b>	<b>860.1</b>	<b>100.0</b>

## Shareholder information

### Annual general meeting

15th January 1998 at 12 noon, Edinburgh International Conference Centre, The Exchange, Morrison Street, Edinburgh

### Interim results

7th May 1998

### Final results

3rd December 1998

### Dividends

#### Payment dates:

*Ordinary shares (1997 Final)	19th February 1998
Ordinary shares (1998 Interim)	17th July 1998
Cumulative preference shares Series B, C, D, E and F non-cumulative dollar preference shares	31st December 1997, 29th May and 31st December 1998 31st March, 30th June, 30th September and 31st December 1998

#### Ex-dividend dates:

Ordinary shares (1997 Final)	8th December 1997
Cumulative preference shares	1st December 1997

#### Record dates:

Ordinary shares (1997 Final)	12th December 1997
Cumulative preference shares	5th December 1997

\*If the necessary approval for the payment of the final dividend is obtained from shareholders at the annual general meeting on 15th January 1998 and if shareholders resolve to renew the directors' authority, as an alternative to cash, a scrip dividend election will be offered and shareholders will receive details of this by letter after that date.

**Capital gains tax** The market value of one ordinary share held at 31st March 1982 was £1.03. After adjusting for the 1st March 1985 rights issue and the 1st September 1989 capitalisation issue, the adjusted 31st March 1982 base value of one current ordinary share held currently is £0.4976. When disposing of shares, shareholders are also entitled to indexation relief, which is calculated on the 31st 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.