The Royal Bank of Scotland Group plc

Report & Accounts 1993

Contents

Report of the directors

The directors have pleasure in presenting their report together with the audited accounts for the year ended 30th September 1993.

Profit and dividends

The profit attributable to the ordinary shareholders of the company amounted to £138.7 million (after preference dividends of £43.3 million—see Note 7 on page 28) as set out in the consolidated profit and loss account on page 17.

An interim dividend of 3.0p per ordinary share was paid on 22nd July 1993 at a cost of £23.7 million. The directors now recommend that a final dividend of 8.0p per ordinary share be paid, absorbing £63.5 million. If this recommendation is approved by the shareholders at the annual general meeting, the retained profit for the year will amount to £51.5 million. Shareholders will be offered the choice of taking ordinary shares in lieu of cash in respect of the final dividend. Details are contained in the letter to shareholders concerning the additional business to be transacted at the annual general meeting.

Activities and business review

The company is a holding company owning the entire issued ordinary share capital of The Royal Bank of Scotland plc ("the Bank"), the direct operating subsidiary undertaking of the company. The Bank and its subsidiary undertakings 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 1993, of recent events, and of likely future developments is contained in the Annual Review and Summary Financial Statement.

Annual report on Form 20-F

An annual report on Form 20-F is being filed with the Securities and Exchange Commission ("the S.E.C.") in the U.S.A. and copies will be available on request to the secretary. Much of the detailed financial information therein is shown in the accounts and subsequent financial analyses.

Corporate structure

Details of the principal subsidiary undertakings of the company are shown on page 31.

On 21st May 1993, Citizens Financial Group, Inc. acquired from the Federal Deposit Insurance Corporation, New England Savings Bank. The consideration was U.S.$48.9 million.

On 3rd September 1993, the Bank declared its offer for Adam & Company Group PLC ("Adam") wholly unconditional. The consideration payable under the offers for the acquisition of the shares in Adam will be approximately £10.5 million.

On 28th September 1993, the Bank sold 90.1% of its shareholding in Charterhouse plc, a wholly-owned subsidiary undertaking, to Credit Commercial de France and Berliner Handels-und Frankfurter Bank, having received approval from the company's shareholders on 19th August 1993. The aggregate value of the transactions entered into to achieve this sale was estimated to be at least £235 million.

Premises

In view of the continuing uncertainty in the U.K. property market, the directors have kept the value of the Group's freehold and long leasehold premises under review. The Bank's internal professional surveyors have revalued its portfolio of premises and a shortfall of £80.0 million compared to carrying book value has been identified all of which relates to U.K. premises. Of this amount, £23.1 million has been written-off against the book value of the premises by charging £19.6 million to reserves to reduce previous surpluses arising on revaluations of the premises concerned and by charging £3.5 million to the profit and loss account. The directors are of the opinion that the remaining shortfall of £56.9 million will not prove to be of a permanent nature and for this reason no further adjustment has been made to the carrying value of the premises. A sample of premises were valued by independent professional valuers to support the work completed by the Bank's surveyors.

Report of the directors

Ordinary share capital

During the year, the ordinary share capital was increased as follows:

(a) 7,586,026 ordinary shares as a result of the exercise of options under the company's executive and savings-related share option schemes;
(b) 5,584,638 ordinary shares in lieu of cash dividends; and
(c) 24,268 ordinary shares as a result of the exercise of warrants to procure the subscription of ordinary shares under the terms of the company's £50 million 8¼% notes due 1994. Each of the 142 warrants issued per £1,000 principal amount of these notes entitled the holder to procure the subscription of one ordinary share of the company at a subscription price of 177p exercisable up to and including 3rd November 1992.

The proceeds from the above issues of shares amounted to £21.7 million.
Details of the current authorised and issued ordinary share capital are shown on page 35.

Loan capital

During the year, the Bank issued loan capital as follows:

(a) On 1st March 1993, £150 million 10½% subordinated bonds due 2013 were issued at a price of 99.887% of the principal amount of the bonds, the net proceeds being £148.8 million; and
(b) On 12th August 1993, £200 million 9½% undated subordinated bonds were issued at a price of 98.541% of the principal amount of the bonds, the net proceeds being £195.8 million.

Both of the above issues are guaranteed on a subordinated basis by the company.
Williams & Glyn's (Nederland) B.V., a subsidiary undertaking of the Bank, redeemed the remaining U.S.$30 million of its U.S.$100 million 11% guaranteed bonds due 1993 in accordance with the relative terms of issue. Citizens Financial Group, Inc., a subsidiary undertaking of the Bank, redeemed the remaining U.S.$22.8 million of its U.S.$38 million 9.4% senior notes 1995.
Details of the outstanding issues of loan capital are shown on page 34.

Shareholdings

The company has been notified of the following interests in its shares as at 2nd December 1993.

	% held
Ordinary shares:	
Banco Santander, S.A.	9.89
Tiger Management Corporation	4.00
Preference shares *11% cumulative:*	
Guardian Royal Exchange plc	25.97
Aetna Life Insurance Company Limited	10.30
Mr S. J. & Mrs J. A. Cockburn	6.16
Cleaning Tokens Limited	5.10

	% held
Preference shares *5½% cumulative:*	
Provincial Group PLC	22.83
Guardian Royal Exchange plc	20.25
Bassett-Patrick Securities Limited*	11.56
Mrs Gina Wild	4.95
Miss Elizabeth Hill	4.03
Mr W. T. Hardison Jr.	3.02

*Notification has been received on behalf of Mr A. W. R. Medlock and Mrs H. M. Medlock that they each have an interest in the holding of 5½% cumulative preference shares registered in name of Bassett-Patrick Securities Limited noted above and that there are further holdings of 5,000 and 4,875 shares, respectively, of that class registered in each of their names.

Turnover

For details of turnover attributable to non-banking business, see Note 2 on the accounts on page 26.

Directors

The names, brief biographical details and a photograph of the directors are contained in the Annual Review and Summary Financial Statement.
The Rt. Hon. The Earl of Airlie, Mr G. Graboys, Mr J. N. C. James and The Hon. F. R. Noel-Paton retired from the board of directors on 14th January 1993. Mr K. Thompson and Mr C. M. Winter also retired from the board of directors on 12th June 1993 and 31st July 1993 respectively. Mr M. V. Blank resigned from the board of directors on 27th October 1993. Mr L. K. Fish, Mr I. S. Robertson and Mr I. D. T. Vallance were appointed directors of the company on 14th January 1993. Mr W. M. Wilson and Mr R. Speirs were appointed directors on 26th May 1993 and 1st July 1993 respectively.

In accordance with the articles of association, all the directors appointed on and after 14th January 1993 will retire at the annual general meeting and, being eligible, they offer themselves for re-appointment.
The directors retiring by rotation are, The Rt. Hon. Lord Younger of Prestwick, Mr E. Botin, Sir Robin Duthie, Mr A. M. Hamilton and Mr I. C. Wood and, being eligible, offer themselves for re-appointment.
Mr L. K. Fish has a five year service contract ending on 31st March 1997 and thereafter it continues on a year to year basis, Mr I. S. Robertson has a three year revolving service contract and Mr R. Speirs has a one year revolving service contract. There are no service contracts in existence in respect of any of the other directors seeking re-appointment.

Directors' interests

The interests of the directors in the shares of the company at 30th September 1993 are shown on page 5.
None of the directors held an interest in the loan capital of the company or its subsidiary undertakings, or in the shares of any of the subsidiary undertakings of the company, during the period between 1st October 1992 and 2nd December 1993.

Transactions with a director

On 25th November 1993, the company announced that it proposed to enter into arrangements with Mr P. J. Wood, chief executive of Direct Line Insurance plc, to vary the terms of his existing service agreement and for the establishment of a new jointly-owned insurance venture. Full details of the proposed transactions, which will be submitted for shareholders' approval at the annual general meeting on 13th January 1994, are contained in the circular letter to shareholders dated 16th December 1993.

Audit committee

The audit committee comprises Sir Robin Duthie (chairman), Mr A. M. M. Grossart, Mr A. M. Hamilton, Mr W. M. Wilson and Mr I. C. Wood, all of whom are non-executive directors of the company.

Remuneration committee

The remuneration committee comprises The Rt. Hon. Lord Younger of Prestwick (chairman), Sir Robin Duthie, Mr A. M. M. Grossart and Mr A. M. Hamilton.

Directors' and officers' liability insurance policy

During the year, the company has maintained cover for its directors and officers and those of a number of its subsidiary undertakings under a directors' and officers' liability insurance policy, as permitted by section 137 of the Companies Act 1989.

Staff

The weekly average number of persons employed by the company and its subsidiary undertakings in the United Kingdom was 22,701 (1992–23,457) and their aggregate remuneration for the year amounted to £430.7 million (1992–£371.1 million).
For the purposes of this Report, aggregate remuneration comprises salaries, bonus payments, directors' fees, staff profit sharing payments and redundancy costs.

Staff involvement

The company and its subsidiary undertakings encourage staff involvement by a process of communication and consultation.
This takes the form of the provision of information through normal management channels, internal publications, video communication and regular dialogue with staff representatives.
Profit sharing schemes have existed since 1980 which have included the opportunity to acquire shares in the company.
Included in expenses for the year ended 30th September 1993 are sums totalling £23.0 million for payments under the profit sharing schemes. Share option schemes were introduced in 1986.

Share option schemes

On 4th June 1993, options were granted over 2,202,000 ordinary shares, at a price of 265p per share, under the company's executive share option scheme.
On 4th June 1993, options were granted over 5,369,057 ordinary shares, at a price of 212p per share, under the company's savings-related share option scheme.

Report of the directors

Equal opportunities

The company and its subsidiary undertakings' employment practices follow the best practice of each country in which they operate.

In the recruitment of staff and their subsequent career development, individuals are considered having regard to aptitude and ability, irrespective of sex, marital status, race or disability. For serving employees who become disabled, every help is given to ensure their continued employment and to arrange rehabilitative training.

Charitable and other contributions

The total amount given for charitable purposes by the company and its subsidiary undertakings during the year was £1,323,073. Additionally, contributions amounting to £350,115 were made by the Bank's community fund to support organisations which improve the quality of life for individuals within the community, enhance or conserve the environment, or preserve the national heritage.

Close company provisions

The close company provisions of the Income and Corporation Taxes Act 1988, as amended, do not apply to the company and there has been no change in this respect since 30th September 1993.

Corporate governance

The company complies with the provisions of the Cadbury Committee's code of best practice where guidelines are presently available. Details are given on page 26 of the Annual Review and Summary Financial Statement.

Auditors

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

By order of the board.
K. C. Foster *Secretary*
Edinburgh 2nd December 1993

Directors' interests in shares

Ordinary shares	30th September 1993		1st October 1992 or date of appointment if later	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
J. A. Barclay	34,277	—	30,359	—
M. V. Blank	50,554	156,141*	48,543	439,455*
Sir Robin Duthie	36,787	—	16,522	—
I. F. H. Grant	3,871	—	3,718	—
H. L. C. Greig	3,125	—	3,125	—
A. M. Hamilton	12,500	—	12,500	—
Dr G. R. Mathewson	11,470	—	11,014	—
N. C. McLuskie	9,224	—	5,291	—
I. S. Robertson	3,091	—	—	—
G. A. Schofield	47,091	—	5,229	—
R. Speirs	3,000	—	3,000	—
W. M. Wilson	1,000	—	—	—
P. J. Wood	573,414	—	334,610	—
The Rt. Hon. Lord Younger of Prestwick	9,155	—	9,155	—

*Mr M. V. Blank's non-beneficial interest relates to his acting as a co-trustee of the staff profit sharing share schemes of Charterhouse Bank Limited and Charterhouse Development Capital Limited.

Options to subscribe for ordinary shares of 25p each in The Royal Bank of Scotland Group plc granted to and exercised by directors during the year to 30th September 1993 are included in the table below:

	1st October 1992 or date of appointment if later	Options granted		Options exercised		30th September 1993
		Number	Price £	Number	Price £	
J. A. Barclay	98,750	5,467	2.12	—	—	104,217
M. V. Blank	220,000	—	—	100,000	1.30	32,500
				62,500	1.288	
				12,500	1.344	
				12,500	1.50	
Dr G. R. Mathewson	485,732	67,000	2.65	—	—	552,532
N. C. McLuskie	258,730	59,000	2.65	—	—	319,129
		1,399	2.12			
I. S. Robertson	200,000	101,000	2.65	—	—	304,417
		3,417	2.12			
G. A. Schofield	243,911	46,000	2.65	1,875	1.172	251,870
		1,334	2.12	12,500	1.50	
				25,000	1.65	
P. J. Wood	55,696	2,245	2.12	5,000	1.344	42,941
				10,000	1.50	
The Rt. Hon. Lord Younger of Prestwick	100,000	180,000	2.65	—	—	280,000

The following directors, Mr E. Botín, Mr J. Botín, Prof D. F. Channon, Mr L. K. Fish, Mr A. M. M. Grossart, Dr E. H. Nelson, Mr I. D. T. Vallance and Mr I. C. Wood did not have an interest in the ordinary shares during the year.

Preference shares

Mr A. M. Hamilton held a beneficial interest in 180, 11% cumulative preference shares of the company at 30th September 1993 and at 1st October 1992. Dr E. H. Nelson held a beneficial interest in 1,378 Series C non-cumulative dollar preference shares of U.S.$0.01 each of the company at 30th September 1993. No other director had an interest in the preference shares during the year.

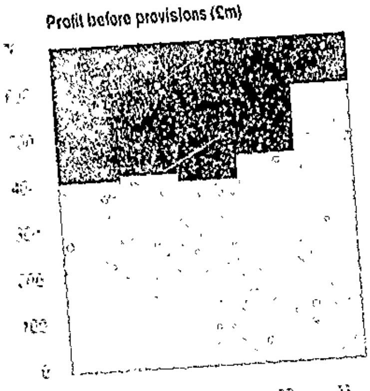
There has been no change in the directors' interests in the shares of the company shown above between 30th September 1993 and 2nd December 1993.

Operating and financial review

The following review is based on the principles contained in a Statement entitled "Operating and Financial Review" issued by the Accounting Standards Board in July 1993.

In a similar review contained in last year's Report and Accounts, it was stated that the results for the year to 30th September 1992 did not reflect the potential for substantial and sustained growth in profits from our insurance and core banking activities. In this year's results there are clear signs of that potential being realised and in most areas of the business the results have exceeded our targets for 1993.

Profit before provisions (£m)



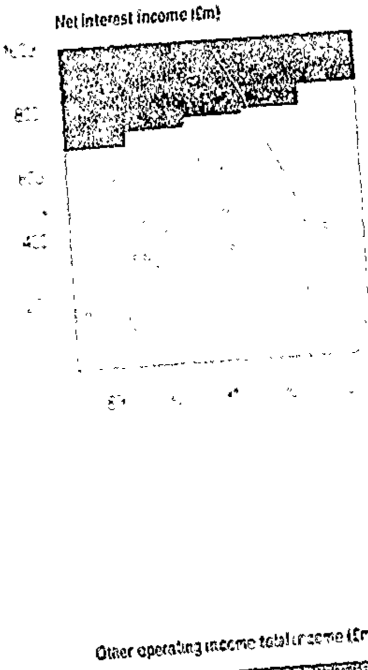
1. Operating review

Overview

Profit on ordinary activities before taxation increased to £265.2 million (1992–£12.6 million). Profit before provisions rose substantially to £596.9 million (1992–£459.6 million). With provisions for bad debts reducing to £293.0 million, Group operating profit increased to £300.3 million (1992–£50.9 million). Profits from the Group's continuing businesses amounted to £290.6 million (1992–£60.6 million).

Total income from the continuing businesses was up by 17% and this included net interest income growth of 9%. Other operating income, which is now 41% of total income, continued to grow at an encouraging rate and reflects the growth of insurance businesses, commissions and fees and income from treasury and capital markets. This diversification of income streams reduces the volatility of the Group's earnings by making them less dependent on interest income and it also reduces relative exposure to provisions for bad debts. Total expenses increased by 10%, but the cost:income ratio improved again to 58.4%, down four percentage points compared to 1992.

Net interest income (£m)

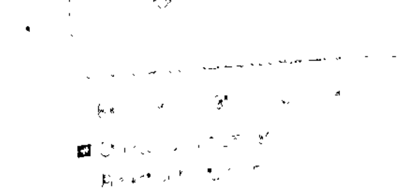


Commentary on results

The marked improvement in the Group's financial position is reflected in the Group operating profit which increased to £300.3 million.

Net interest income from the continuing operations was up by 9% compared with the prior year. This was achieved against a background of falling interest rates and modest growth in lending. The increase was due to the effect of the dollar exchange movement on net interest income, wider margins on business lending, the deployment of last year's dollar preference share proceeds and wider spreads achieved by treasury and capital markets. Lower base rates in 1993 did not have a material impact on the overall Group performance. The lower endowment benefit on interest free resources was offset by factors such as a widening of mortgage margins and a reduction in the cost of non-performing loans and advances. There was also an improvement in the mix of deposits with retail deposits and current accounts comprising 58% of the sterling deposit base at the financial year-end compared with 47% at 30th September 1992.

Other operating income total income (£m)



Other operating income continued its strong upward trend with a substantial increase of 32%. At £500 million it represents 41% of total income compared with 37% in 1992 and 31% five years ago. Commissions and fees increased by 16% principally from volume growth in chargeable accounts and improved technology systems which assist the collection of service charges. There was also an excellent increase of £44 million or 70% from foreign exchange and derivative activities in treasury and capital markets. The continuing successful growth and increased investment in Direct Line was reflected in its profits which more than doubled to £80.2 million. Other insurance income from insurance services and life assurance activities increased by £8.0 million.

The strong growth in income from the Group's core activities and management's actions throughout the Group to improve income generation are reflected in the significant 17% increase in total income.

Total expenses increased by 10% and there were increases in all three principal categories of expenses. Staff expenses increased by £31.9 million or 8% ... £12.0 million of that increase being due to redundancy costs in the U.K. banking operation where staff numbers were down by 6% to 19,380. Other factors were increased salary awards, Citizens' acquisitions and the effect of the dollar exchange rate movement on translating Citizens' expenses.

Premises and equipment expenses increased by 11% due principally to a higher level of expenditure on technology. Other expenses were higher by 13% as the Bank increased its use of external consultants to assist in the development of new systems and procedures.

The cost:income ratio improved by four percentage points to 58.4% as a result of the 17% income growth outstripping the 10% growth in expenses.

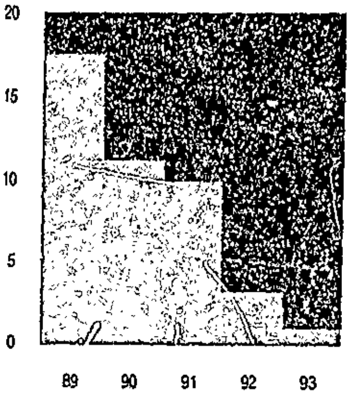
Bad debt provisions fell by £102.7 million to £293.0 million. The improvement in the economy and a more pro-active approach to managing the banking arrangements of customers experiencing trading difficulties contributed to this welcome decrease. The provisions were again well spread throughout most of the business sectors and the personal sector. There were two bad debt provisions for sums over £5 million compared with seven such provisions in 1992. Provisions of £110.7 million in the second half compares with £182.3 million in the first half of the financial year.

Staff profit sharing (which relates to the Group's approved Profit Sharing Scheme) has increased to £13.1 million as a consequence of the improvement in the results.

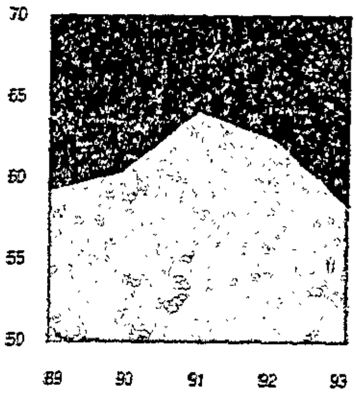
Profit from continuing businesses was £290.6 million compared to £60.6 million in the prior year. Profit from the Charterhouse business sold on 28th September 1993 was £20.2 million and this was partly offset by the £10.5 million cost of funding that business from 1st October 1992 up to the date of disposal.

As previously announced, a loss of £35.1 million was incurred on the disposal of Charterhouse during the year.

Underlying increase in staff expenses (%)



Cost: income ratio (%)



Divisional performances

Each of the divisions performed commendably. The continuing operations all performed substantially better than the prior year and operating profits before provisions reached record levels.

Branch Banking Division increased its profit before provisions by 17% to £307.1 million. An improvement in asset quality and improved credit control procedures led to a fall in bad debt provisions which enabled the division to turn last year's £16.1 million loss after provisions into a profit of £69.7 million. This was the second year of the Division's continuing change programme that focuses on *income generation*, cost control and credit control. The lower average base rate had an adverse impact on interest-free funds but this was more than offset by a widening of the margin on mortgages and by improvements in margins established in the branch network. There were major volume increases in mortgages and in the Royal Reward and Gold 90 deposit products. RoyScot Trust returned to profit with reduced bad debt provisions and the contribution from Royal Scottish Assurance was £10.9 million higher than the prior year at £17.5 million. Direct and allocated expenses were only 3% higher than the prior year despite redundancy costs and increased expenditure on consultancy fees and systems development.

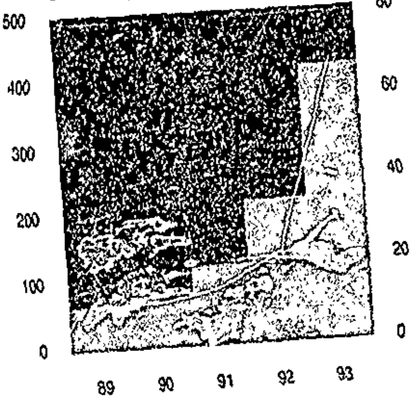
Corporate and Institutional Banking Division increased its profit before tax by 92% to £129.7 million in the year. Treasury and capital markets generated a strong performance in generally favourable market conditions through sales of a wider product range to a rapidly expanding customer base serviced from dealing rooms in London, Edinburgh and Manchester. Increased lending to corporates at improved spreads resulted in growth in net interest income. Strong contributions from securities services, shipping and leasing combined with the strong treasury performance to drive non-interest income up by 38% in the year. Non-interest income is now over 46% of total division income. A 5% reduction in the cost:income ratio despite heavy investment in skilled people and new technology and a near halving of bad debt provisions as asset quality improved, contributed to a very positive result.

Divisional analysis of profit before provisions

	1993 £m	1992 £m
Branch banking	307.1	262.1
Corporate and institutional banking	155.8	117.3
Direct Line	50.2	15.1
Citizens	55.0	35.5
Operations	51.5	35.6
Central items	(23.7)	(6.0)
Profit before provisions	595.9	459.6

Operating and financial review

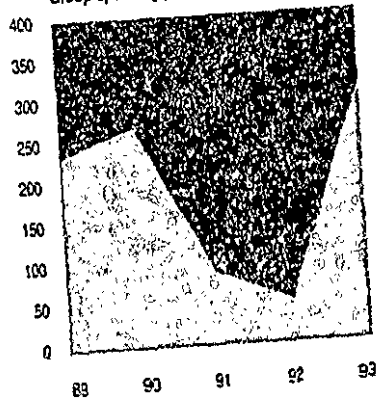
Direct Line (£m)



■ Gross written premium (£m)

▨ Profit before tax and bonuses (£m)

Group operating profit (£m)



Bad debt provisions

	1993 £m	1992 £m
Branch banking	226.9	275.8
Corporate and institutional banking	24.7	49.2
Citizens	19.7	15.9
Operations	18.6	[illegible]
Central items	3.3	28.9
	293.2	396.2

At Direct Line, profit before taxation and after bonuses more than trebled to £50.2 million compared with £15.1 million in the prior year. A profit of £54.0 million on the motor account was almost a fourfold increase on the prior year due to volume growth and an operating ratio which reduced from 88% to 79%. This compares with an industry average of 109% for 1992. New motor policies of 736,000 increased the number of policies in force to 1,254,000. The renewal ratio was similar to 1992. Average premiums increased by 13% while average claims rose by only 5%. Claims frequency also reduced from 18.3% to 17.9%. Following a small profit in 1992, the household account showed a profit of £7.2 million. The major reason for the improvement was a better claims experience. Average claims reduced while the claim frequency fell from 20.2% to 19.0%. 100,000 new household policies were written.

Citizens recorded the best performance in its history, achieving an increase of 84% in profit before tax to £36.3 million, while doubling the size of its branch network. The acquisitions of Plymouth Five and New England Savings Bank contributed about £3.0 million to Citizens' profits. Net interest income was 23% higher than the prior year due to acquisitions and other loan growth. Other operating income benefited from growth in mortgage banking and service operation income. An increase in expenses was largely due to the impact of the acquisitions. Provisions for loan losses were £4.0 million higher than the prior year due to acquisitions and exchange rate movements.

Operations Division also achieved excellent results with profit before provisions up by 45% to £51.5 million. The profitability of the Bank's credit card businesses increased as a result of wider margins, lower bad debt provisions and volume growth in fee income from retailer services. The cost base of the Division has been reduced primarily by reducing staff numbers by 12%.

Central items, before exceptional items, were lower by £7.4 million mainly due to a reduction in bad debt provisions held in the centre and not allocated to any of the divisions. £20.2 million of the £30.5 million costs arising in the centre represents the Bank's funding cost of investments in subsidiaries and associates.

Future development of the business

All sectors of the Group's U.K. banking business, mainly operating under The Royal Bank of Scotland brand name, performed substantially better in the year ended 30th September 1993. The recovery in the U.K. economy led to better trading conditions and it is expected that this trend will continue. Asset quality is one of the principal factors which influence the Group's results and improvements are now being seen in the loan book as a result of management action and the improved trading conditions. As noted below, action has been taken to strengthen the U.K. banking business. Specialist senior staff have been recruited to improve the quality of management. In addition, the customer orientation of business managers has been increased. For example, the strong team in Corporate and Institutional Banking Division's Treasury and Capital Markets business has extended the services available to customers, increased profits substantially and made a major contribution to the Bank's ability to compete in other markets.

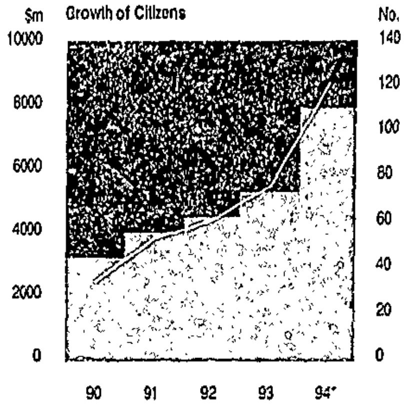
A start has been made in putting in place new processes to give better customer service, better quality assets and greater efficiency. In common with other banks, lending processes have been reviewed to ensure the highest degree of loan quality in future. A year ago, it was clear that bad debts had reached an unacceptably high level and to tackle this problem a new central unit, Specialised Lending Services, was set up. The traditional approach of banks to bad debts has been seen as much too passive. The Group's view is that relationships with customers in trouble can best be handled by a team of specialists. Their job is to assess each business and if possible agree a strategy with the customer, which is likely to involve restructuring both the customer's financial arrangements and the customer's business. Specialised Lending Services has already made a major contribution to dealing with problem loans, enabling businesses which are fundamentally sound to survive and prosper.

The Group's second core business is insurance, and the second strong brand, with its distinct customer base, is Direct Line. This business, which was created in 1985, has established itself as one of the U.K.'s leading insurance companies through fair pricing and superior service. During the year, additional capital was injected into the business to support its continuing growth and further investment will be made for its further expansion. Direct Line is now the largest insurer in the U.K. private motor insurance market. In the household market, telephone-based insurance offering good service at low prices is a more recent concept and in September 1993, Direct Line launched a campaign to become a major insurer in this market.

The Group's investment in Citizens provides it with diversification out of the U.K. economy. In the past year, Citizens has grown organically and by acquisition. The acquisition of New England Savings Bank and the Boston Five Bancorp and agreement to buy Neworld Bancorp will add $3.5 billion in assets, which will total more than $8 billion by spring 1994.

Although the state and direction of the World's larger economies has an influence over the Group's results, it is the clear intention of the management that the Group will not rely on the economic upturn to produce good results.

Growth of Citizens



■ Assets ($m)

▨ Branches (No.)

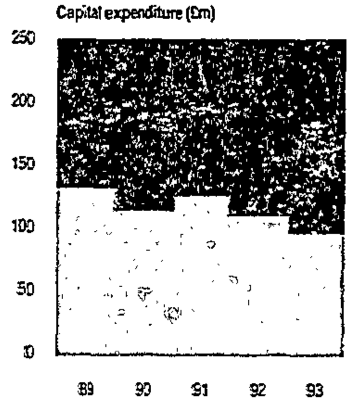
* 1994 projection includes acquisitions of Boston Five Bancorp and Neworld Bancorp.

Investment for the future

As noted above, total expenses for the year ended 30th September 1993 increased by 10% over the prior year. A significant part of that increase represented investment for the future growth of the Group's businesses. The U.K. banking business is in the midst of a far-reaching change programme that will enable it to compete and serve the needs of customers into the 21st century. Large scale organisational change inevitably means change for members of staff, including a significant reduction in the number of jobs in U.K. banking. Included in expenses for the year to 30th September 1993 were redundancy costs of £15.0 million (1992–£2.7 million). There was also significantly increased revenue expenditure on premises, equipment and other items of expenses incurred in connection with this programme for change.

Capital expenditure on premises and equipment during the year totalled £100.4 million (1992–£116.5 million). The reduction in capital expenditure was principally due to the completion of the Bank's new administration centre at Edinburgh, South Gyle during the course of 1992 partially offset by the acquisition of new premises by Direct Line in Glasgow and Croydon. There was increased capital expenditure on computers and related equipment arising from initiatives from the continuing change programme and from the acquisition of a new central processor by Operations Division. Contracts for future capital expenditure not provided for in the accounts for the year ended 30th September 1993 amounted to £12.6 million (1992–£17.0 million). In addition, the directors have authorised a further £35.7 million (1992–£14.5 million) for future capital expenditure which is not yet subject to agreed contracts.

Capital expenditure (£m)

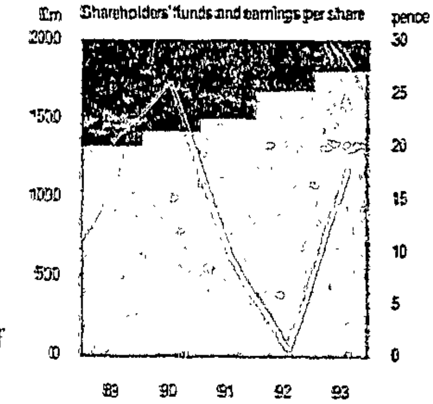


Shareholder value

In 1992, many of the normal indicators used to measure the Group's performance from the perspective of shareholders were adversely affected by the unprecedented high level of bad debt provisions. In the year to 30th September 1993, there was a good recovery in earnings per share, return on ordinary shareholders' funds and dividend cover.

Shareholders' funds at 30th September 1993 were £1,897.1 million (1992–£1,761.3 million). This increase of £135.8 million from 1st October 1992 arose principally from the retained profit of £51.5 million; a positive currency translation adjustment of £79.8 million on the share premium account for dollar preference shares on issue; a premium of £18.4 million arising from issues of ordinary shares during the year; and a write-back of £23.1 million goodwill relating to the disposal of Charterhouse. Partially offsetting the aforementioned items was a deficit of £19.6 million on the

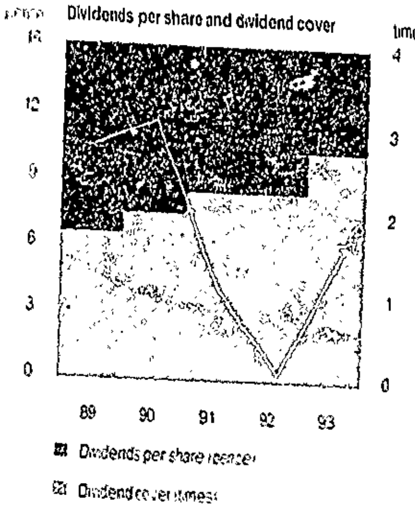
Shareholders' funds and earnings per share



■ Shareholders' funds (£m)

▨ Earnings per share (pence)

Dividends per share and dividend cover



revaluation of the Bank's premises and a £19.8 million write-off for goodwill arising on acquisitions.

Earnings per ordinary share increased from 0.7p to 17.7p. The adjusted earnings per share which exclude exceptional items that are considered to be outside the continuing operating activities of the Group increased from 4.0p to 22.1p. Pre-tax return on ordinary shareholders' equity (excluding the share premium arising from the proceeds of preference share issues) improved from 0.2% to 17.6%.

The directors have recommended a final dividend of 8.0p on the ordinary shares. With the interim dividend of 3.0p, this makes a total of 11.0p for the year (1992–8.8p), an increase of 25% and is covered 1.6 times. The increase in dividend is consistent with the Board's aim of generating a dependable and growing income stream for shareholders and reflects confidence about the coming financial years.

There was a marked improvement in the Group's share price in 1993 and at 30th September it stood at 327p (1992–184p).

During the year, a change was made to the Group's accounting policy on lease income receivable to bring it more into line with industry practice. The new policy will ensure that income is matched more closely with associated funding costs over the entire period during which a net cash investment (or surplus) arises in leasing contracts and it reflects more accurately the basis on which these contracts are priced. Details of the effect of this change in accounting policy are given on pages 14 and 15 of this Report and Accounts.

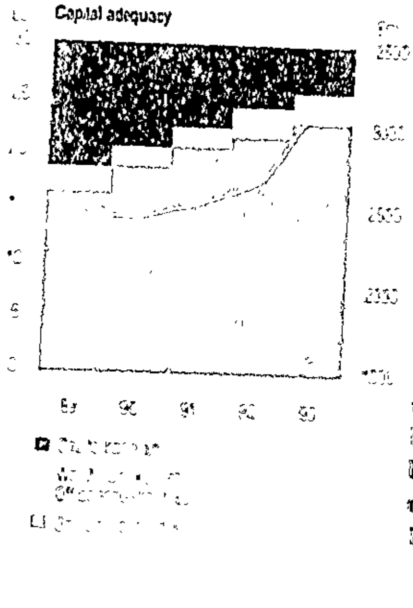
2. Financial review

Capital structure and treasury policy

The following table shows the structure of the Group's capital resources at 30th September.

	1993 £m	1992 £m
Share capital	199.5	196.2
Share premium—ordinary shares	198.6	180.2
—preference shares	512.9	433.1
Revaluation reserves	25.5	46.1
Distributable reserves	854.8	848.9
Other non-distributable reserves	105.8	56.8
Shareholders' funds	1,897.1	1,761.3
Minority interests	18.9	16.3
Dated loan capital	872.2	700.3
Undated loan capital	696.7	421.8
	3,484.9	2,899.7

Capital adequacy



It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy a guiding factor is the supervisory requirement of the Bank of England which applies a risk asset ratio as the principal measure of capital adequacy in the U.K. banking sector. This ratio compares a bank's capital, which is divided into two tiers, to its asset and off-balance sheet exposures weighted according to broad categories of relative credit risk. An internationally agreed minimum total risk asset ratio standard of 8% and a minimum tier 1 risk asset ratio of 4% are the base standards from which the Bank of England sets individual ratios reflecting each bank's particular circumstances. In most cases, it requires a minimum total risk asset ratio in excess of 8%. At 30th September 1993, the Group's total risk asset ratio was 12.2% (1992–10.7%) and the tier 1 ratio was 6.9% (1992–6.9%) both comfortably above the minimum required and these ratios are among the strongest in the U.K. banking sector.

During the year ended 30th September 1993, capital resources increased by £585.2 million principally as a result of the increase in shareholders' funds described above and the issues of dated and undated loan capital by the Bank during the year totalling £350 million. Also during the year, loan capital of U.S.$52.8 million was redeemed by subsidiary undertakings of the Bank. Currency translation adjustments on dated loan capital and undated loan capital denominated in U.S. dollars gave rise to a net increase of £127.2 million in capital resources.

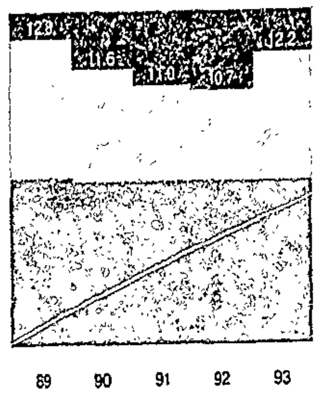
Treasury policy is primarily directed towards ensuring that the Group's funding requirements are met and that sensitivity to interest rate and exchange rate movements are closely monitored and kept to a minimum.

The Bank closely monitors interest rate movements, and controls and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the balance sheet and by use of financial futures, forward rate agreements, swaps and related off-balance sheet instruments. An important factor affecting interest rate exposure is the significant portion of deposits in the Bank in interest-free deposits. To the extent that they are used to fund rate sensitive assets, these deposits create an exposure to falling interest rates, thereby reducing net interest income, whereas rising interest rates have a favourable effect on net interest income. As competition for retail customers' deposits has increased in recent years, interest-free current accounts have declined as a percentage of total sterling deposits. In order to reduce the effect of fluctuating interest rates on net interest income, a portfolio of rate insensitive assets is also maintained.

The Bank is an active participant in World foreign exchange markets. Exposure to exchange rate movements is minimised by ensuring that mismatches are monitored constantly by officials and dealers in relation to established limits except where expressly sanctioned by senior management. Each dealing operation has established open position limits. Within these constraints, profit opportunities are exploited wherever possible.

Investments in overseas branches and subsidiaries and other foreign currency investments are generally funded in local currencies to minimise foreign exchange exposure. Where appropriate, capital is raised in currencies other than sterling and is generally used to fund long-term foreign currency assets and investments that would otherwise be exposed to exchange rate movements and maturity mismatches.

Capital ratios (%)

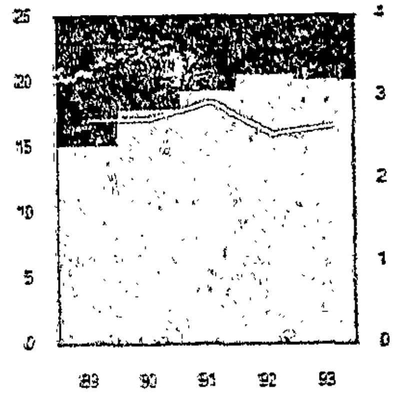


Taxation

Tax on profit on ordinary activities for the year to 30th September 1993 amounted to £80.9 million. This charge represents an effective rate of 31% and is lower than the expected U.K. corporation tax rate of 33%. This is a result of a partial release from deferred tax previously provided in respect of capital allowances on finance lease receivables which the directors consider will not be payable in the foreseeable future. This is counterbalanced by the loss on disposal of Charterhouse which is a carried forward capital loss for tax purposes and is therefore not allowable as a tax deduction in the year ended 30th September 1993.

The Group incurred irrecoverable Value Added Tax of £20.7 million in the year to 30th September 1993 and this amount was charged to the consolidated profit and loss account in arriving at the operating profit. In addition, £10.8 million of irrecoverable Value Added Tax was capitalised during the year as part of the cost of purchasing premises and equipment.

Sterling interest-free deposits and total sterling deposits (£bn)

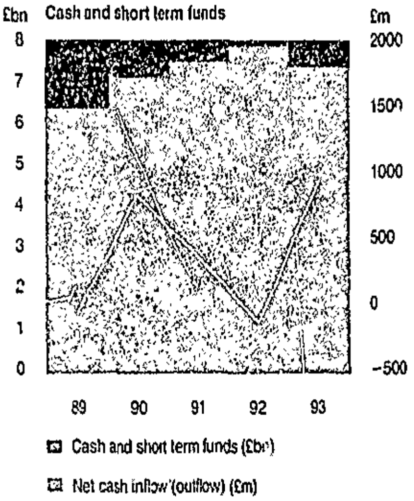


Total sterling deposits

Sterling interest-free deposits

Liquidity

Group liquidity policy is set by the Group Asset and Liability Management Committee. Liquidity is managed to ensure that a prudent level of high quality liquid assets is maintained at all times; these may be subject to upward variation dependent



on market conditions and the level of potential cash outflows. Group policy has established internal benchmarks for the components of the liquid asset portfolio which are visible to regulatory supervision by the Bank of England.

The management of liquidity is directed towards ensuring that the Group's funding requirements are met with deposits raised at the lowest possible cost, both to replace existing deposits as they mature and to satisfy the demands of customers for additional borrowings. The widespread customer base of the Group, together with the geographic spread of its branches in the United Kingdom have ensured that its retail deposit base has a core stability and is widely dispersed.

In the wholesale markets, the Group has a significant involvement in both the London and New York markets. This involvement and the underlying strength of the Group's earnings and balance sheet are important factors in assuring the continued availability of wholesale deposits to the Group at competitive market rates. Close control is exercised over the pricing, volume and quality of wholesale deposits raised and deployed, with sources and maturities being managed to avoid a concentration of funding requirements at any one time or from any one source.

During the year, there was an increase in cash and cash equivalents of £1,209.5 million. The major contributory factors to this increase were inflows from operating activities of £928.2 million, the proceeds of loan capital issues of £344.6 million and the effect of foreign exchange rate changes of £227.0 million. At the year-end, the ratio of cash and cash equivalents to total assets was 16.1% (1992–13.5%).

Five-year financial summary

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Continuing businesses:					
profit before provisions	596.9	459.6	403.8	421.0	413.9
provisions	(293.2)	(396.2)	(312.9)	(180.4)	(84.8)
staff profit sharing	(13.1)	(2.8)	(3.8)	(9.5)	(14.0)
Profit from continuing businesses	290.6	60.6	87.1	231.1	315.1
Profit from discontinued business	20.2	22.8	17.4	44.0	52.1
Funding cost of discontinued business	(10.5)	(21.8)	(26.6)	(31.7)	(27.9)
*Specific items not listed below**	—	(10.7)	10.3	20.8	(108.3)
Group operating profit	300.3	50.9	88.2	264.2	231.0
Loss on sale of Charterhouse	(35.1)	—	—	—	—
Provision for loss on termination of business segment	—	(38.3)	—	—	—
Loss on sale of assets of a subsidiary	—	—	(10.6)	—	—
Provision for restructuring costs	—	—	(28.5)	—	—
Profit on sale of investment in an associate	—	—	—	49.6	—
Loss on sale of investment in a subsidiary	—	—	—	(1.2)	—
Profit on ordinary activities before taxation	265.2	12.6	49.1	312.6	231.0
Tax on profit on ordinary activities	(80.9)	14.0	(6.1)	(107.0)	(81.6)
Exceptional release from deferred tax	—	—	40.0	—	—
Profit on ordinary activities after taxation	184.3	26.6	83.0	205.6	149.4
Earnings per 25p ordinary share					
before exceptional items	22.1p	4.0p	7.7p	21.3p	20.1p
after exceptional items	17.7p	0.7p	9.5p	25.9p	20.1p
Dividends per 25p ordinary share	11.0p	8.8p	8.8p	8.4p	7.2p
Dividend cover (times)	1.6	0.1	1.1	3.1	2.8
Cost: income ratio	56.4%	62.4%	64.1%	60.4%	59.2%
	£m	£m	£m	£m	£m
Shareholders' funds	1,897.1	1,761.3	1,588.3	1,495.8	1,396.7
Minority interests	18.9	16.3	15.5	7.8	7.8
Dated loan capital	872.2	700.3	726.3	720.1	785.8
Undated loan capital	696.7	421.8	427.7	400.0	462.3
Capital resources	3,484.9	2,899.7	2,757.8	2,623.7	2,652.6
	£bn	£bn	£bn	£bn	£bn
Deposits and customers' current accounts	30.3	29.5	27.8	25.7	23.2
Advances to customers and other accounts	25.3	24.0	22.5	21.0	19.1
Total assets	36.3	34.5	32.2	30.1	27.4
Bank branches	845	861	883	908	905
Other branches	112	116	119	111	394
Number of employees at 30th September	23,299	24,116	24,616	25,359	26,530

*In previous years these items were disclosed as *exceptional*. Under Financial Reporting Standard No. 3 "Reporting Financial Performance" (*"FRS No. 3"*) they do not require to be shown on the face of the consolidated profit and loss account. Therefore, they are not regarded as exceptional items in the earnings per share calculations.

Prior year figures have been restated in accordance with the accounting policies adopted for the year ended 30th September 1993 and to implement the requirements of FRS No. 3.

Accounting policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below. Compared to prior years, a change has been made to the accounting policy on lease income receivable. Details of this change are given below.
The consolidated accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to banking groups. The accounts of the company are prepared in accordance with section 226 of, and Schedule 4 to, the Companies Act 1985. As provided by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company.

1 Accounting convention and bases of consolidation

The accounts are prepared under the historical cost convention modified by the periodic valuations of premises and certain investments.
The consolidated accounts deal with the accounts of the company, its subsidiaries and associates (the "Group") made up to 30th September with the exception of certain subsidiary undertakings where accounts are made up to 30th June to avoid undue delay in publication of the Group's accounts.
In accounting for subsidiaries, the Group consolidates fully their assets, liabilities and results for the year and shows separately the interests of minority shareholders therein. All inter-company balances and transactions are eliminated from the consolidated statements.
Investments in associated undertakings are accounted for by the equity method and are stated in the consolidated balance sheet at the investing company's share of their net tangible assets. The investing company's share of the results of associated undertakings is included in the consolidated profit and loss account. For this purpose, the latest available audited accounts are used together with available unaudited interim accounts.

2 Goodwill

Goodwill arising on acquisitions of subsidiaries and associates, being the excess of cost over fair value of the Group's share of net tangible assets acquired, is charged against reserves in the year of acquisition and written back in the year of disposal.

3 Rates of exchange

The balance sheets of overseas branches and subsidiaries are translated into sterling at the rates of exchange ruling at 30th September and their profit and loss accounts are translated at the average rates of exchange for the year to 30th September.
Exchange differences relating to trading are dealt with in the profit and loss account; those arising from the application of closing rates of exchange to the opening net assets of overseas subsidiaries are taken to reserves.
At 30th September 1993, the principal rate of exchange for foreign currency translations was U.S.$1.5100=£1 (1992–U.S.$1.7780=£1).
The principal average rate of exchange for foreign currency translations for the year to 30th September 1993 was U.S.$1.5249=£1 (1992–U.S.$1.8147=£1).

4 Pension costs

In arriving at the operating profit, the costs of providing pensions are assessed and charged on a regular basis in accordance with the advice of independent professionally qualified actuaries.
In complying with Abstract No. 6 issued by the Urgent Issues Task Force of the Accounting Standards Board in the United Kingdom, the Group has accounted for post-retirement benefits other than pensions in accordance with Statement of Standard Accounting Practice No. 24 "Accounting for Pensions". The benefits are principally contributions to subscriptions for private healthcare schemes in the United Kingdom and the U.S.A. The accrued unprovided obligation of £1.6 million for these benefits as at 1st October 1992 is being spread forward and £0.2 million per annum is being charged to the consolidated profit and loss account over the expected average future service lives of the employees eligible for the benefits.

5 Lease income receivable

Total gross earnings under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net cash investment. Gross earnings are allocated to profit before and after taxation by applying the prevailing rate of corporation tax to the net income. Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease. Progress payments made prior to the commencement of the lease are included at cost.
In previous years, gross earnings were allocated over the primary period of the lease by calculating a notional funding cost

(which was apportioned in proportion to the net cash investment) and allocating the remaining margin on the sum of the digits basis. The new policy will ensure that income is matched more closely with associated funding costs over the entire period during which a net cash investment (or surplus) arises, and reflects more accurately the basis on which lease contracts are priced. The effect of this change of accounting policy is to reduce the Group's opening reserves at 1st October 1992 by £18.3 million, to reduce the Group's opening provision for deferred taxation by £6.6 million and to increase comparative profit on ordinary activities before taxation for the year ended 30th September 1992 by £0.8 million. Prior year figures in this regard in the Group's consolidated profit and loss account have been restated. The effect on the Group's profit on ordinary activities before taxation for the year ended 30th September 1993 was to increase it by approximately £2.0 million.

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

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

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

9 Provisions for bad and doubtful debts
Specific provisions are made against advances when, as a result of a detailed appraisal of the advances portfolio, it is considered that recovery is doubtful. A general provision is made against advances to cover bad and doubtful debts which have not been separately identified but are known from experience to be present in any portfolio of bank advances. The specific and general provisions are deducted from advances. Provisions made during the year (less amounts released and recoveries of amounts written-off in previous years) are charged against profits.
Interest receivable on doubtful advances is brought into the profit and loss account as it accrues provided that its collectibility is not subject to significant doubt. Interest debited to borrowers' accounts, the collectibility of which is subject to significant doubt is credited to an interest in suspense account. Advances classified as bad debts are written-off in part or in whole when the extent of the loss incurred has been confirmed.

10 Trade investments
Trade investments are included in the consolidated balance sheet at cost less amounts written-off and provision is made against the book value where in aggregate this exceeds current valuation and where there has been a permanent diminution in value. Income is recognised when dividends are received.

11 Investments (other than trade investments)
Premiums and discounts on the acquisition of dated stocks which are not held as dealing investments are amortised over the period from date of purchase to date of maturity and an appropriate proportion thereof is included in the profit and loss account. Such stocks are shown in the consolidated balance sheet at amortised cost. Dated stocks which are held as dealing investments are included at market value.

Accounting policies

Investments, other than dated stocks and those held for dealing purposes, are included in the consolidated balance sheet at the lower of cost and market value and, in the case of unlisted investments, at the lower of cost and directors' valuation.
Investments held for dealing purposes are included in the consolidated balance sheet at market value.
Investments in subsidiaries and in associated undertakings are included in the balance sheets at the investing company's share of the net tangible assets.
Profits and losses on sales of investments are dealt with in the profit and loss account as they arise.

12 Premises and equipment
Freehold and long leasehold buildings are maintained in a state of good repair with regular maintenance expenditure being charged against operating profit. Depreciation is not charged on freehold and long leasehold buildings as any such charge is considered to be insignificant in view of their useful economic lives and estimated residual values.
The costs of adapting buildings for the use of the Group are separately identified and depreciated on a straight-line basis over fifteen years.
Short leasehold premises are amortised by equal annual instalments over the unexpired term of the lease. Valuations of premises are carried out annually by the Bank's internal professional surveyors and in some instances by independent valuers. Any increase or deficit on revaluation is reflected in the carrying value of premises and reserves at that time unless the directors are of the opinion that the movement in value will not prove to be of a permanent nature in which case no adjustment is made in the accounts. Any permanent diminution in the value of premises is charged to the profit and loss account after eliminating previous revaluation surpluses arising on the premises. Any profit from the sale of revalued premises is calculated by deducting the revalued amount from the net proceeds.
Computers are depreciated on a straight-line basis over five years and other equipment over periods between four and fifteen years.

13 Off-balance sheet items
Off-balance sheet items such as forward rate agreements, interest rate swaps, currency swaps, interest rate options, foreign currency options and financial futures are segregated into hedging transactions and trading transactions.
Generally, hedging transactions are valued on the same basis as the assets, liabilities or positions which are the subject of the hedge. Any profit or loss is recognised at the same time as any profit or loss arising from the transactions which are the subject of the hedge. In respect of trading transactions, fees and amounts receivable and payable under contracts, together with gains and losses on any associated hedging instruments, are included in the profit and loss account at their net present value. This is calculated by reference to all anticipated future cash flows, valued at year-end interest and exchange rates, net of cash paid or received, discounted back to net present value. The net movement in net present value during the period is taken to the profit and loss account as other operating income, less provision for credit and market risk. All associated costs of dealing are recognised when incurred.
Forward foreign exchange contracts are valued at the forward market rates ruling at the balance sheet date and the difference between those values and the contract prices are taken to the profit and loss account as other operating income. However, where contracts are entered into in conjunction with loans and deposits, the resultant gains or losses are apportioned over the period of the contracts.

14 Restatement of prior year figures
The figures have been restated to implement the requirements of Financial Reporting Standard No. 3 "Reporting Financial Performance" and to reflect the change in accounting policy on lease income receivable (accounting policy 5 above).
In the year ended 30th September 1992, the effect of a change in accounting policy for the deferment of acquisition expenses for certain insurance policies amounted to a credit of £9.1 million (£6.1 million after tax). This amount related to years prior to 30th September 1992 and in the Group's consolidated profit and loss account for that year it was treated as an exceptional item. This treatment was adopted on the grounds that the item was not material in the context of the Group's accounts as a whole and the results of past years. The Financial Reporting Review Panel has considered this matter and has expressed the view that the amount should have been shown as a prior year adjustment; £2.0 million (£1.3 million after tax) related to the year ended 30th September 1991 and the balance of £7.1 million (£4.8 million after tax) related to years prior to 1991. In light of the Panel's opinion, the 1992 comparative figures in the consolidated profit and loss account have been restated to exclude the exceptional credit of £9.1 million and to reflect this in earlier years.

Consolidated profit and loss account

for the year ended 30th September 1993

	Note	1993 Continuing operations £m	1993 Discontinued operations £m	1993 Total £m	1992 restated Continuing operations £m	1992 restated Discontinued operations £m	1992 restated Total £m
Operating profit							
The company and its subsidiary undertakings		269.6	17.0	286.6	30.6	6.9	37.5
Acquisitions		3.7	—	3.7	—	—	—
Share of profits of associated undertakings		6.8	3.2	10.0	8.2	5.2	13.4
Group operating profit	3	280.1	20.2	300.3	38.8	12.1	50.9
Loss on sale of Charterhouse	5	—	(35.1)	(35.1)	—	—	—
Provision for loss on termination of business segment	5	—	—	—	(38.3)	—	(38.3)
Profit on ordinary activities before taxation		280.1	(14.9)	265.2	0.5	12.1	12.6
Tax on profit on ordinary activities	6			(80.9)			14.0
Profit on ordinary activities after taxation				184.3			26.6
Minority interests				2.3			1.3
Profit after minority interests				182.0			25.3
Preference dividends	7			43.3			20.1
Profit attributable to ordinary shareholders				138.7			5.2
Ordinary dividends	9			87.2			68.6
Retained profit/(deficit)	26			51.5			(63.4)
Earnings per 25p ordinary share	10			17.7p			0.7p
Adjustments:							
Loss on sale of Charterhouse				4.4p			—
Provision for loss on termination of business segment				—			3.3p
Adjusted earnings per 25p ordinary share				22.1p			4.0p

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

Consolidated balance sheet

at 30th September 1993

	Note	*1993* £m	*1992* restated £m
Assets employed:			
Cash and short-term funds		7,412.4	7,896.1
Collections on other banks		670.2	737.2
Investments	11	1,955.0	941.4
Advances to customers and other accounts	12	25,314.4	24,040.6
Trade investments	13	82.9	65.2
Investments in associated undertakings	14	121.9	137.2
Premises and equipment	18	737.0	746.2
		36,293.8	*34,563.9*
Financed by:			
Deposits and customers' current accounts	20	30,301.1	29,463.8
Other liabilities	21	2,507.8	2,200.4
Dated loan capital	23	872.2	700.3
Undated loan capital	24	696.7	421.8
Minority interests		18.9	16.3
Issued share capital	25	199.5	196.2
Reserves	26	1,697.6	1,565.1
		36,293.8	34,563.9

Younger of Prestwick *Chairman* Younger of Prestwick

George Mathewson *Group chief executive*

Robert Speirs *Group finance director*

Balance sheet–The company

at 30th September 1993

	Note	1993 £m	1992 restated £m
Fixed assets			
Investments:			
Shares in subsidiary undertaking	16	1,900.5	1,759.2
Loans to subsidiary undertaking	17	746.7	671.8
		2,647.2	2,431.0
Current assets			
Debtors:			
Due by subsidiary undertaking		85.8	74.7
Debtors and other accounts		0.2	0.1
		86.0	74.8
Creditors			
Amounts falling due within one year:			
Creditors		8.4	10.3
Current taxation		17.5	15.6
Proposed final dividend	9	63.5	46.8
		89.4	72.7
Net current (liabilities)/assets		(3.4)	2.1
Fixed assets plus net current assets		2,643.8	2,433.1
Dated loan capital	23	250.0	250.0
Undated loan capital	24	496.7	421.8
		746.7	671.8
Capital and reserves			
Called up share capital	25	199.5	196.2
Share premium account	26	711.5	613.3
Revaluation reserve	26	885.9	824.5
Profit and loss account	26	100.2	127.3
		1,897.1	1,761.3
		2,643.8	2,433.1

Younger of Prestwick *Chairman* Younger of Prestwick

George Mathewson *Group chief executive*

Robert Speirs *Group finance director*

Statement of total recognised gains and losses

for the year ended 30th September 1993

	1993 £m	1992 restated £m
Profit attributable to ordinary shareholders	138.7	5.2
Currency translation adjustments on foreign currency net investments	7.6	2.6
Loan capital issue expenses	(5.4)	—
Issue expenses of Series C Non-cumulative dollar preference shares	—	(7.0)
Reduction in previous years' revaluations of premises	(19.6)	—
Adjustment for change in accounting policy on premises and equipment	—	18.4
Total recognised gains and losses relating to the year	121.3	19.2
Prior year adjustment for change in accounting policy on lease income receivable	(18.3)	—
Total recognised gains	103.0	19.2

Note of historical cost profits and losses

for the year ended 30th September 1993

	1993 £m	1992 restated £m
Profit on ordinary activities before taxation	265.2	12.6
Realisation of premises revaluation gains of previous years	3.0	4.5
Historical cost profit on ordinary activities before taxation	268.2	17.1
Historical cost profit/(loss) for the year retained after taxation, minority interests and dividends	54.5	(58.9)

Reconciliation of movements in shareholders' funds

for the year ended 30th September 1993

	1993 £m	1992 restated £m
Profit attributable to ordinary shareholders	138.7	5.2
Ordinary dividends	(87.2)	(68.6)
Retained profit/(deficit)	51.5	(63.4)
Other recognised net gains and losses relating to the year	(17.4)	14.0
Currency translation adjustment on share premium account	79.8	19.3
Increase in share capital	3.3	2.3
Premium arising on issues of shares	18.4	213.3
Elimination of goodwill on acquisitions	(19.8)	(10.8)
Write-back of goodwill on disposals	23.1	1.9
Other movements	(3.1)	(3.6)
Net increase in shareholders' funds	135.8	173.0
Shareholders' funds at 1st October	1,761.3	1,588.3
Shareholders' funds at 30th September	1,897.1	1,761.3

Cash flow statement

for the year ended 30th September 1993

	1993 £m	1993 £m	1992 £m	1992 £m
Net cash inflow/(outflow) from operating activities		928.2		(131.9)
Returns on investments and servicing of finance				
Dividends received from associated undertakings	7.8		7.6	
Ordinary dividends paid	(70.5)		(68.1)	
Preference dividends paid	(43.3)		(20.1)	
Dividends paid to minority shareholders	—		(0.4)	
Net cash outflow from returns on investments and servicing of finance		(106.0)		(81.0)
Taxation				
Corporation tax recovered/(paid)	11.4		(12.3)	
Overseas tax paid	(18.7)		(13.1)	
Net cash outflow from taxation		(7.3)		(25.4)
Investing activities				
Acquisition of subsidiary undertakings (net of cash and cash equivalents acquired)	31.7		—	
Acquisition of additional branch networks in the U.S.A.	79.9		13.0	
Sale of subsidiary undertaking (net of cash and cash equivalents disposed of)	(184.1)		—	
Purchases of trade investments	(7.6)		(2.3)	
Sales of trade investments	3.6		—	
Investments in associated undertakings	(11.3)		(17.4)	
Sales of investments in associated undertakings	—		16.1	
Purchases of premises and equipment	(100.4)		(116.5)	
Sales of premises and equipment	19.2		12.1	
Net cash (outflow) from investing activities		(169.0)		(95.0)
Net cash inflow/(outflow) before financing		645.9		(333.3)
Financing				
Issue of ordinary share capital	21.7		13.1	
Issue of preference share capital	—		195.5	
Issue of loan capital	344.6		—	
Repayments of loan capital	(29.7)		(21.5)	
Net cash inflow from financing		336.6		187.1
Increase/(decrease) in cash and cash equivalents		982.5		(146.2)

Notes on the cash flow statement

(a) Analysis of changes in cash and cash equivalents during the year	1993 £m	1992 £m
Balance at 1st October	4,650.4	4,798.5
Net cash inflow/(outflow) before adjustments for the effect of foreign exchange rate changes	982.5	(146.2)
Effect of foreign exchange rate changes	227.0	(1.9)
Balance at 30th September	5,859.9	4,650.4

Notes on the cash flow statement

(b) Analysis of cash and short-term funds

	1993 £m	1992 £m	Change in year £m
Coin, bank notes and balances with the Bank of England	948.0	910.8	37.2
Money at call and short notice	4,832.2	3,617.6	1,214.6
Marketable bills of exchange	50.3	75.3	(25.0)
Certificates of deposit	29.4	46.7	(17.3)
Cash and cash equivalents	5,859.9	4,650.4	1,209.5
Other short-term funds	1,552.5	3,245.7	(1,693.2)
	7,412.4	7,896.1	(483.7)

Certain subsidiary undertakings of the Group are required to maintain balances with the Bank of England which, at 30th September 1993, amounted to £60.2 million (1992–£57.6 million). Certain subsidiary undertakings of the Group are required by law to maintain average reserve balances with the Federal Reserve Bank in the U.S.A. Such reserve balances amounted to U.S.$56.9 million at 30th September 1993 (1992–U.S.$38.0 million).

(c) Analysis of changes in financing during the year

	Share capital (including premium)		Loan capital	
	1993 £m	1992 £m	1993 £m	1992 £m
Balance at 1st October	809.5	581.6	1,122.1	1,154.0
Effect of foreign exchange differences	79.8	19.3	127.2	(10.4)
Cash inflow/(outflow) from financing	21.7	208.6	319.6	(21.5)
Balance at 30th September	911.0	809.5	1,568.9	1,122.1

(d) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	1993 £m	1992 restated £m
Operating profit–the company and its subsidiary undertakings	290.3	37.5
(Increase) in interest receivable and prepaid expenses	(416.7)	(80.8)
Increase in interest payable and accrued expenses	433.3	463.7
(Decrease)/increase in provisions for bad and doubtful debts	(21.4)	154.2
Depreciation	58.2	52.1
Loss/(profit) on sales of premises and equipment	1.5	(1.2)
(Profit) on sales of trade investments	(0.8)	—
Exceptional items	(35.1)	(38.3)
Other non-cash movements	9.9	(14.1)
Net cash inflow from trading activities	319.2	573.1
Net increase in deposits and customers' current accounts	1,506.8	1,626.6
Net (increase) in advances to customers	(691.1)	(1,384.4)
Net decrease in amounts receivable under finance leases	86.1	42.2
(Increase) in investments held (other than those treated as investment activities)	(1,088.7)	(174.5)
Decrease/(increase) in collections on other banks	67.0	(156.8)
Decrease/(increase) in other short-term funds	1,192.5	(542.4)
Net (increase) in placings with banks (repayable beyond one month)	(463.6)	(115.7)
Net cash inflow/(outflow) from operating activities	928.2	(131.9)

(e) Purchase of subsidiary undertakings

As required by Statement of Standard Accounting Practice No. 22 "Accounting for Goodwill", the following table shows the aggregate fair values of net assets acquired in connection with the acquisitions of subsidiary undertakings during the year ended 30th September 1993. No significant adjustments were required to the book values of the net assets as recorded in the acquired companies' books at the dates of acquisitions.

	£m
Net assets acquired	
Cash and cash equivalents	145.5
Investments held (other than those treated as investment activities)	66.0
Advances to customers	349.6
Interest receivable and prepaid expenses	12.2
Premises and equipment	9.6
Deposits and customers' current accounts	(562.5)
Interest payable and accrued expenses	(6.3)
	14.1
Goodwill written-off to Group reserves (see note 26)	19.8
Satisfied by cash	33.9

(f) Analysis of the net inflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings and branch networks in the U.S.A.

	£m
Cash consideration	(33.9)
Cash and cash equivalents acquired	145.5
Net inflow of cash and cash equivalents	111.6

(g) Sale of subsidiary undertaking

	£m
Net assets disposed of including goodwill	177.8
Loss on disposal	(35.1)
Net proceeds received (net of expenses)	142.7
Less cash and cash equivalents	(326.8)
Net outflow of cash and cash equivalents in respect of the sale of a subsidiary	(184.1)

Notes on the accounts

1. Segmental analysis

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

(a) Classes of business	Branch Banking	Corporate and Institutional Banking	Direct Line Insurance	Citizens Bank	Operations and central items	Discontinued operations— Charterhouse	Group Total
	1993	1993	1993	1993	1993	1993	1993
Result before taxation	£m	£m	£m	£m	£m	£m	£m
Profit before provisions	307.1	155.8	50.2	56.0	10.5	28.8	608.4
Charges for provisions	(226.9)	(24.7)	—	(19.7)	(21.9)	(11.8)	(305.0)
Segment result	80.2	131.1	50.2	36.3	(11.4)	17.0	303.4
Staff profit sharing	(10.5)	(1.4)	—	—	(1.2)	—	(13.1)
Exceptional items	—	—	—	—	—	(35.1)	(35.1)
Share of associates	—	—	—	—	6.8	3.2	10.0
Group result before taxation	69.7	129.7	50.2	36.3	(5.8)	(14.9)	265.2
Total assets							
Segment total assets	17,551.6	13,013.4	530.9	3,434.7	1,641.3	—	36,171.9
Carrying value of associates	—	—	—	—	121.9	—	121.9
Total assets	17,551.6	13,013.4	530.9	3,434.7	1,763.2	—	36,293.8
Net assets	866.0	453.2	177.3	203.1	197.5	—	1,897.1
	1992	1992	1992	1992	1992	1992	1992
Result before taxation (restated)	£m	£m	£m	£m	£m	£m	£m
Profit before provisions	262.1	117.3	15.1	35.5	(0.4)	19.5	449.1
Charges for provisions	(275.8)	(49.2)	—	(15.8)	(55.4)	(12.4)	(408.6)
Segment result	(13.7)	68.1	15.1	19.7	(55.8)	7.1	40.5
Staff profit sharing	(2.4)	(0.4)	—	—	—	(0.2)	(3.0)
Exceptional items	—	—	—	—	(38.3)	—	(38.3)
Share of associates	—	—	—	—	8.2	5.2	13.4
Group result before taxation	(16.1)	67.7	15.1	19.7	(85.9)	12.1	12.6
Total assets (restated)							
Segment total assets	17,455.1	11,034.8	283.3	2,469.6	1,457.4	1,726.5	34,426.7
Carrying value of associates	—	—	—	—	110.5	26.7	137.2
Total assets	17,455.1	11,034.8	283.3	2,469.6	1,567.9	1,753.2	34,563.9
Net assets	757.3	374.8	86.4	162.2	244.0	136.6	1,761.3

Note: the figures for Charterhouse are stated before any transfer to inner reserves and after making consolidation adjustments.
The Charterhouse Capital Markets Division and the Scottish business of Charterhouse Development Capital were integrated into Corporate and Institutional Banking during the year ended 30th September 1993. The figures for Citizens Bank are stated in accordance with U.K. generally accepted accounting principles (U.K. GAAP).
The 1992 analysis has also been restated to reflect a change in management responsibility for certain business activities.

Segmental analysis *continued*

(b) Geographical segments

The geographical analyses in the tables below have been compiled on the basis of location of office. In addition to Citizens Bank, U.S.A. includes the Bank's New York branch and San Francisco office.

	U.K.	Continental Europe	U.S.A.	Rest of the World	Group Total
	1993	1993	1993	1993	1993
Result before taxation	£m	£m	£m	£m	£m
Profit before provisions	535.0	9.9	54.0	9.5	608.4
Charges for provisions	(282.5)	(1.4)	(19.7)	(1.4)	(305.0)
Segment result	252.5	8.5	34.3	8.1	303.4
Staff profit sharing	(13.1)	—	—	—	(13.1)
Exceptional items	(35.1)	—	—	—	(35.1)
Share of associates	3.5	6.2	—	0.3	10.0
Group result before taxation	207.8	14.7	34.3	8.4	265.2
Total assets					
Segment total assets	31,069.1	354.0	3,495.5	1,253.3	36,171.9
Carrying value of associates	62.5	56.8	—	2.6	121.9
Total assets	31,131.6	410.8	3,495.5	1,255.9	36,293.8
Net assets	1,532.7	127.3	190.6	46.5	1,897.1

	1992	1992	1992	1992	1992
Result before taxation (restated)	£m	£m	£m	£m	£m
Profit before provisions	402.6	5.1	34.4	7.0	449.1
Charges for provisions	(392.9)	0.2	(15.8)	(0.1)	(408.6)
Segment result	9.7	5.3	18.6	6.9	40.5
Staff profit sharing	(3.0)	—	—	—	(3.0)
Exceptional items	(38.3)	—	—	—	(38.3)
Share of associates	8.2	5.2	—	—	13.4
Group result before taxation	(23.4)	10.5	18.6	6.9	12.6
Total assets (restated)					
Segment total assets	30,436.3	298.1	2,524.7	1,167.6	34,426.7
Carrying value of associates	71.6	65.6	—	—	137.2
Total assets	30,507.9	363.7	2,524.7	1,167.6	34,563.9
Net assets	1,446.0	130.2	152.1	33.0	1,761.3

Staff profit sharing in the above segmental analyses relates to amounts being set aside for payment by the Bank under the Group's approved Staff Profit Sharing Scheme. The level of these payments is set by reference to a formula based on the Group's operating profit.

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