ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 06, 2003

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

6 August 2003

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

42 St Andrew Square
Edinburgh EH2 2YE
Scotland

(Address of principal executive offices)

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

Form 20-F _X_ Form 40-F __

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

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Yes ___ No _X_

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

Interim results for the half year ended 30 June 2003

THE ROYAL BANK OF SCOTLAND GROUP plc

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THE ROYAL BANK OF SCOTLAND GROUP plc

RESULTS SUMMARY

	First half 2003 £m	First half 2002 £m	**Increase**	Full year 2002 £m
Total income	**9,080**	8,182	**11%**	16,815
Operating expenses*	**4,051**	3,740	**8%**	7,669
Operating profit before provisions*	**4,193**	3,803	**10%**	7,796
Profit before tax, goodwill amortisation and integration costs	**3,451**	3,151	**10%**	6,451
Profit before tax	**2,896**	2,325	**25%**	4,763
Cost:income ratio**	**43.0%**	44.2%	-	44.0%
Basic earnings per ordinary share	**60.0p**	46.6p	**29%**	68.4p
Adjusted earnings per ordinary share	**76.5p**	69.8p	**10%**	144.1p
Dividends per ordinary share	**14.6p**	12.7p	**15%**	43.7p

* excludes goodwill amortisation and integration costs.

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

Sir George Mathewson, Chairman of The Royal Bank of Scotland Group plc, said:

"These are strong results, the more so for having been delivered against a backdrop of a lower growth environment in the markets in which we operate".

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THE ROYAL BANK OF SCOTLAND GROUP plc

FIRST HALF 2003 HIGHLIGHTS

- Profit before tax, goodwill amortisation and integration costs up 10% to £3,451 million.
- Profit before tax up 25% to £2,896 million.
- Income up 11% to £9,080 million.
- Operating expenses up 8% to £4,051 million.
- Excluding acquisitions, income up 10%, expenses up 7%.
- Customer growth in all divisions.
- Net interest margin in line with guidance at 3.0%.
- Further efficiency gains - cost:income ratio 43.0%, improved from 44.2%.
- Profit and loss charge for provisions £742 million, in line with growth in lending.
- Credit quality remains strong and problem loan metrics continue to improve.
- Basic earnings per share up 29%.
- Adjusted earnings per share up 10%.
- Interim dividend 14.6p per share, up 15%.

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THE ROYAL BANK OF SCOTLAND GROUP plc

GROUP CHIEF EXECUTIVE S REVIEW

The Group continued to make good progress during the first half of 2003. We achieved strong growth in income, a further improvement in efficiency and maintained credit quality. As a result, we increased both our Group profit before tax, goodwill amortisation and integration costs, and our adjusted earnings per share, by 10%.

During the first half of 2003, we grew income across the Group as a whole by £898 million, with Direct Line, Retail Direct and Corporate Banking and Financial Markets achieving particularly strong year-on-year growth. We continue to see good growth in loans and deposits in both the UK and the US while maintaining our cautious stance towards corporate lending in particular. In addition, our credit card and general insurance businesses continue to perform strongly. All divisions of the Group increased their customer numbers.

Net interest margin at 3.0% (2002   3.1%) was in line with guidance given in February 2003, with the lower interest rate environment reducing both the benefit of interest-free funds and treasury income; and net interest income in the UK was reduced by the outcome of the Competition Commission inquiry into SME banking. A key strength of the Group however is the diversity of its revenue streams and, although interest margin was lower than the same period last year, non-interest income, including fees, commissions and income from financial markets, was strong.

In addition to growing its income, the Group improved its efficiency further in the first half of 2003. Whilst expenses increased to support higher business volumes, the Group cost:income ratio improved to 43.0% (2002   44.2%).

Provisions for bad debts amounted to £746 million in the first half of 2003, a level consistent with provisions reported in 2002 and the growth in the loan book. Credit quality remains strong, with no material change to the distribution by grade of our risk assets. Credit metrics have continued to improve, with risk elements in lending representing 2.01% of loans and advances to customers compared with 2.14% at 31 December 2002 and 2.24% at 30 June 2002. Potential problem loans saw a reduction of 18% from the position reported at 31 December 2002.

REVIEW OF DIVISIONS

Corporate Banking and Financial Markets increased its income by 12% and contribution before Manufacturing costs by 10% to £1,739 million (2002   £1,581 million). Corporate Banking and Financial Markets maintained leading positions in the UK in corporate lending, leasing, deposits, payments, derivatives and foreign exchange and across a wide range of specialised corporate banking activities. It achieved good growth in customer numbers; in particular, UK mid-corporate customers increased by over 4,000 in the six months to June 2003. While good growth in loans and deposits was again achieved, net interest income was impacted by the outcome of the Competition Commission inquiry into SME banking and by the effect on deposit and treasury income of lower interest rates. Volumes in Financial Markets were up strongly in both the UK and the US as a result of growth in customer-driven activity in interest rate protection, mortgage securitisation and foreign exchange. Outside the UK, the division achieved good growth in Continental Europe through its offices in Paris, Frankfurt, Milan and Madrid.

Retail Banking achieved good volume growth across all areas of personal current accounts and mortgages, personal loans and deposits, and small business loans and current accounts. Total customers in the first six months of the year increased by 113,000. Average non-mortgage lending increased by 11%, mortgages increased by 12% and deposit balances increased by 5%. Both income and contribution were reduced in this period by the outcome of the Competition Commission inquiry into SME banking and by the impact of lower interest rates. Despite these significant negative factors, the division increased its income by 5% and contribution before Manufacturing costs by 3% to £1,535 million (2002 - £1,488 million).

GROUP CHIEF EXECUTIVE S REVIEW (continued)

Retail Direct increased its income by 15% and contribution before Manufacturing costs by 23% to £407 million (2002   £330 million). Retail Direct increased its customer accounts by 500,000 while expanding balances and fee income associated with these accounts. In July 2003, RBS bought the credit card and personal loan portfolios of Santander Direkt Bank which will add 480,000 customers in Germany.

Manufacturing costs increased by 2% to £900 million (2002   £886 million). Technology costs were down 6% to £291 million (2002 £309 million), while other costs were up by 6% to £609 million (2002   £577 million), reflecting increased volume of customer transactions.

Wealth Management's income declined by 8% and contribution by 10% to £219 million (2002   £244 million), reflecting continued difficult stock market conditions, although customer numbers and funds under management saw positive movements. In July 2003, RBS sold the Miami-based operations of Coutts to Santander Central Hispano.

Direct Line Group increased its income by 30% and contribution by 32% to £202 million (2002   £153 million). Direct Line Group increased its UK motor insurance policies by 193,000 and its UK home insurance policies by 60,000. In Continental Europe, Direct Line businesses in Spain, Italy and Germany increased their total policy numbers by 143,000. In June 2003, RBS announced the acquisition of Churchill Insurance Group PLC, which has subsequently received Office of Fair Trading clearance, but is still subject to approval from the Financial Services Authority.

Ulster Bank increased its income by 9% and its contribution by 5% to £131 million (2002   £125 million). Ulster Bank achieved strong growth in loans and deposits but recorded lower income from treasury and stockbroking activities. Customers in total increased by 7,000 in the first six months.

Citizens increased its US dollar income by 16% and contribution by 23% to $685 million (2002 $555 million). In sterling terms, Citizens income growth was 4% and its contribution growth 11% to £425 million (2002 - £384 million). Citizens increased its personal customer base by 237,000 and its business customers by 18,000 as a result of organic growth, through both traditional branches and supermarket branches, and through the acquisition of Commonwealth Bancorp, Inc., Pennsylvania, which was completed in January 2003. In July 2003, Citizens announced the acquisition of Community Bancorp, Inc., Massachusetts and completed the acquisition of Port Financial Corp., Massachusetts.

OUTLOOK

These results provide further evidence of the core strengths of our Group: the ability to grow income strongly while improving efficiency and maintaining credit quality. Coupled with our strong cash generation these attributes present us with a wide range of strategic options.

Consequently, whilst an inherently and fundamentally optimistic outlook is tempered to a degree by elements of uncertainty in the markets in which we operate, we remain confident of our ability to continue to deliver superior value for our shareholders, customers and staff.

Fred Goodwin
Group Chief Executive

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THE ROYAL BANK OF SCOTLAND GROUP plc

FINANCIAL REVIEW

Profit

The Group increased its profit before tax, goodwill amortisation and integration costs by 10% or £300 million, from £3,151 million to £3,451 million.

Profit before tax was up 25%, from £2,325 million to £2,896 million.

Total income

The Group continued to achieve strong growth in income. Total income at £9,080 million was up 11% or £898 million. Excluding acquisitions, total income rose by 10%.

Net interest income increased by 4% to £4,025 million. The Group has maintained the good volume growth seen in the second half of last year. Average loans and advances to customers are up 12% over the comparable period last year, and average customer deposits have grown by 8%. While volume growth has been strong, income growth in this period has been affected by foreign exchange translation and the outcome of the Competition Commission inquiry into SME banking. In addition, lower interest rates have reduced the benefit of interest-free funds.

Non-interest income increased by 17% to £5,055 million. Growth in general insurance premium income was a major contributor to this as a result of strong growth across both motor and home products.

In addition, volumes in financial markets were up strongly in both the UK and the US as a result of growth in customer-driven activity in interest rate protection, mortgage securitisation and foreign exchange.

Operating lease income was also up strongly due to expansion of the operating lease portfolio in Corporate Banking and Financial Markets.

Net interest margin

The Group's net interest margin at 3.0% was, as anticipated, down from 3.1% due to a reduced benefit from interest-free funds arising from lower interest rates and the outcome of the Competition Commission inquiry into SME banking.

Operating expenses

Operating expenses, excluding goodwill amortisation and integration costs, rose by 8% to £4,051 million. Excluding acquisitions, operating expenses were up 7% or £251 million in support of strong growth in business volumes.

Cost:income ratio

Strong income growth coupled with tight cost management resulted in a further improvement in the Group's ratio of operating expenses (excluding goodwill amortisation and integration costs and after netting operating lease depreciation against rental income) to total income, to 43.0% from 44.2%. Excluding the effect of acquisitions, the cost:income ratio improved to 42.7%.

Net insurance claims

Consistent with volume growth and reflecting stability in claims experience, general insurance claims, after reinsurance, increased by 31% to £836 million.

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FINANCIAL REVIEW (continued)

Provisions

The profit and loss charge for bad debts and amounts written off fixed asset investments was £742 million compared with £652 million in the first half of 2002 and £693 million in the second half of 2002. The profit and loss charge is in line with the growth in loans and advances.

Credit quality

Overall credit quality remains strong with no material change in the distribution by grade of the Group's total risk assets compared with the position at 31 December 2002.

The ratio of risk elements in lending to gross loans and advances to customers at 2.01% at 30 June 2003 showed an improving trend (31 December 2002 - 2.14%; 30 June 2002 - 2.24%).

Risk elements in lending and potential problem loans represented 2.40% of total loans and advances to customers compared with 2.66% at 31 December 2002 and 2.82% at 30 June 2002.

Integration

By February 2003 all integration initiatives in relation to NatWest had been implemented. The programme annualised benefits, comprising £890 million revenue benefits and £1,440 million cost savings, were fully implemented less than three years after the acquisition of NatWest. Total costs for the integration programme were £2.3 billion, in line with the revised plan.

Integration costs for the six months ended 30 June 2003 were £182 million. Of this amount, £143 million related to the final elements of the NatWest integration, which has now been completed.

Earnings and dividends

Basic earnings per ordinary share increased by 29%, from 46.6p to 60.0p, reflecting lower integration costs in the first half of 2003. Earnings per ordinary share, adjusted for goodwill amortisation and integration costs, increased by 10%, from 69.8p to 76.5p.

An interim dividend of 14.6p per ordinary share, an increase of 15%, will be paid on 10 October 2003 to shareholders registered on 15 August 2003. The interim dividend is covered 5.2 times by earnings before goodwill amortisation and integration costs.

Balance sheet

Total assets were £449 billion at 30 June 2003, 9% higher than total assets of £412 billion at 31 December 2002.

In the first half of 2003, lending to customers, excluding repurchase agreements and stock borrowing (reverse repos), increased by 8% or £17 billion to £218 billion. Customer deposits, excluding repurchase agreements and stock lending (repos), grew by 6% or £12 billion to £206 billion.

Capital ratios at 30 June 2003 were 7.6% (tier 1) and 12.3% (total), against 7.3% (tier 1) and 11.7% (total) at 31 December 2002. These ratios are slightly higher than our target ratios ahead of the acquisition of Churchill Insurance.

Profitability

The adjusted after-tax return on ordinary equity was 18.2% compared with 17.4% for the first half of 2002. This is based on profit attributable to ordinary shareholders before goodwill amortisation and integration costs, and average ordinary equity.

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FINANCIAL REVIEW (continued)

Acquisitions

In January 2003, Citizens completed the acquisition of Pennsylvania-based commercial bank, Commonwealth Bancorp, Inc. for a cash consideration of US$450 million.

In April 2003, Citizens announced the acquisition of Port Financial Corp., the holding company of the Massachusetts savings bank, CambridgePort Bank for a cash consideration of US$285 million. This transaction was completed on 31 July 2003.

In May 2003, RBS announced the acquisition of Nordisk Renting AB, a Swedish leasing company, for a cash consideration of €104 million. This transaction was completed on 2 June 2003.

In May 2003, RBS announced the purchase of the credit card and personal loans portfolios of Frankfurt-based Santander Direkt Bank for a consideration of €486 million. This transaction was completed on 31 July 2003.

In June 2003, RBS announced the acquisition of Churchill Insurance Group PLC for a consideration of £1.1 billion. OFT clearance has been received and the transaction, which is still subject to approval of the FSA, is expected to be completed by the fourth quarter of 2003.

In July 2003, Citizens announced the acquisition of Community Bancorp, Inc., the holding company for Community National Bank, for a cash consideration of US$116 million. This transaction is subject to Community Bancorp, Inc. shareholder and US regulatory approvals and is expected to be completed by the end of 2003.

Disposals

In May 2003, RBS announced the sale of the Miami-based Latin American private banking operations of Coutts Group to Santander Central Hispano for a premium of approximately US$75 million. This transaction was completed on 31 July 2003.

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SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2003 (unaudited)

In the profit and loss account set out below goodwill amortisation and integration costs are shown separately. In the statutory profit and loss account on page 25, these items are included in the captions prescribed by the Companies Act 1985.

	First half 2003 £m	First half 2002 £m	Full year 2002 £m
Net interest income	**4,025**	3,873	7,849
Dividend income	**30**	29	58
Fees and commissions receivable	**2,719**	2,609	5,308
Fees and commissions payable	**(554)**	(481)	(965)
Dealing profits (before associated direct costs)	**985**	724	1,462
Other operating income	**726**	543	1,209
	3,906	3,424	7,072
General insurance premium income	**1,149**	885	1,894
Non-interest income	**5,055**	4,309	8,966
Total income	**9,080**	8,182	16,815
Staff costs	**2,126**	1,930	3,942
Other operating expenses	**1,925**	1,810	3,727

Operating expenses	**4,051**	3,740	7,669
Profit before other operating charges	**5,029**	4,442	9,146
General insurance claims	**836**	639	1,350
Operating profit before provisions	**4,193**	3,803	7,796
Provisions for bad and doubtful debts	**746**	611	1,286
Amounts written off fixed asset investments	**(4)**	41	59
Profit before tax, goodwill amortisation and integration costs	**3,451**	3,151	6,451
Goodwill amortisation	**373**	365	731
Integration costs	**182**	461	957
Profit before tax	**2,896**	2,325	4,763
Tax	**927**	781	1,556
Profit after tax	**1,969**	1,544	3,207
Minority interests (including non-equity)	**87**	49	133
Preference dividends	**137**	159	305
	1,745	1,336	2,769
Additional Value Shares dividend	-	-	798
Profit attributable to ordinary shareholders	**1,745**	1,336	1,971
Ordinary dividends	**431**	368	1,267
Retained profit	**1,314**	968	704
Basic earnings per ordinary share (Note 4)	**60.0p**	46.6p	68.4p
Adjusted earnings per ordinary share (Note 4)	**76.5p**	69.8p	144.1p

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DIVISIONAL PERFORMANCE

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

	First half 2003	First half 2002	Increase/ (decrease) in contribution	Full year 2002
	£m	£m	%	£m
Corporate Banking and Financial Markets*	**1,739**	1,581	10	3,261
Retail Banking	**1,535**	1,488	3	3,019
Retail Direct	**407**	330	23	701
Manufacturing*	**(900)**	(886)	(2)	(1,762)
Wealth Management*	**219**	244	(10)	454
Direct Line Group	**202**	153	32	355
Ulster Bank	**131**	125	5	244
Citizens	**425**	384	11	766
Central items	**(307)**	(268)	(15)	(587)
Profit before goodwill amortisation and integration costs	**3,451**	3,151	10	6,451

* prior periods have been restated to reflect the transfer in the first half of 2003 of certain activities from Corporate Banking and Financial Markets and Wealth Management to Manufacturing.

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CORPORATE BANKING AND FINANCIAL MARKETS

	First half 2003	First half 2002 (restated*)	Full year 2002 (restated*)
	£m	£m	£m
Net interest income excluding funding cost of operating lease assets	**1,246**	1,264	2,529
Operating lease funding cost	**(100)**	(85)	(180)
Net interest income	**1,146**	1,179	2,349
Fees and commissions receivable	**704**	680	1,394
Fees and commissions payable	**(101)**	(74)	(157)
Dealing profits (before associated direct costs)	**913**	656	1,338
Operating lease rentals	**446**	356	791
Other operating income	**186**	137	337
Non-interest income	**2,148**	1,755	3,703

Total income	**3,294**	2,934	6,052
Direct expenses			
- staff costs	**710**	602	1,230
- other	**189**	178	375
- operating lease depreciation	**252**	217	461
	1,151	997	2,066
Contribution before provisions	**2,143**	1,937	3,986
Provisions	**404**	356	725
Contribution	**1,739**	1,581	3,261

** prior periods have been restated following the transfer of certain activities to Manufacturing.*

	£bn	£bn	£bn
Total assets**	**234.4**	201.0	203.4
Loans and advances to customers** gross			
- banking book	**98.1**	88.0	92.1
- trading book	**5.9**	3.5	3.6
Operating lease assets	**5.9**	4.1	5.3
Customer deposits**	**67.6**	58.0	62.2
Weighted risk assets banking	**139.9**	119.3	125.2
trading	**13.2**	10.7	11.3

** excluding repos and reverse repos

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

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CORPORATE BANKING AND FINANCIAL MARKETS (continued)

Contribution increased over the first half of 2002 by 10% or £158 million to £1,739 million.

Total income was up 12% or £360 million to £3,294 million. Excluding the effect of the acquisition of Dixon Motors in May 2002, which added £36 million, total income was up 11%.

Net interest income, excluding the cost of funding operating lease assets, was £18 million lower at £1,246 million, reflecting the reduced benefit of interest-free funds due to lower interest rates and the outcome of the Competition Commission inquiry into SME banking. In addition, income from treasury was lower as a result of less favourable market conditions. Balance sheet growth however was good; average loans and advances to customers of the banking business increased by 9% or £7.9 billion to £93.0 billion and average customer deposits increased by 8% or £4.4 billion to £59.7 billion.

Non-interest income rose by 22% or £393 million to £2,148 million. Dealing profits before associated direct costs were up £257 million, reflecting increased volumes in the UK and the US as a result of growth in customer activity in interest rate protection, mortgage securitisation and foreign exchange. There was also a significant increase in operating lease rentals, up 25% or £90 million to £446 million, reflecting growth in the asset finance business.

Direct expenses increased by 15% or £154 million to £1,151 million. Excluding Dixon Motors, which added £31 million and after netting operating lease asset depreciation against rental income, expenses rose by 11%, in line with income growth.

The charge for provisions for bad debts and amounts written off fixed asset investments amounted to £404 million compared with £369 million in the second half of 2002 and £356 million in the first half of 2002.

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RETAIL BANKING

	First half 2003	First half 2002	Full year 2002
	£m	£m	£m
Net interest income	**1,433**	1,376	2,840
Non-interest income	**703**	661	1,353
Total income	**2,136**	2,037	4,193
Direct expenses			
- staff costs	**373**	349	707
- other	**93**	98	254
	466	447	961
Contribution before provisions	**1,670**	1,590	3,232
Provisions	**135**	102	213
Contribution	**1,535**	1,488	3,019
	£bn	£bn	£bn
Total assets	**63.4**	62.9	66.5
Loans and advances to customers - gross			
- mortgages	**33.6**	30.2	32.1
- other	**24.2**	21.4	23.5

Customer deposits