

**RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2008**

National Westminster Bank Plc ('NatWest' or the 'Group') is a wholly-owned subsidiary of The Royal Bank of Scotland plc and its ultimate parent company is The Royal Bank of Scotland Group plc (the 'ultimate parent company' or the 'RBS Group').

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## FINANCIAL REVIEW

### Profit

Profit before tax was £1,448 million compared with £1,884 million in the first half of 2007. The results have been adversely affected by difficult trading conditions, particularly in the credit markets.

### Total income

Total income was down 8% to £4,349 million, principally due to the slower market conditions.

**Net interest income** increased by £257 million, 11% to £2,623 million and represents 60% of total income (2007 - 50%).

**Non-interest income** decreased to £1,726 million from £2,365 million principally due to lower income from trading activities, and represents 40% of total income (2007 - 50%).

### Operating expenses

Operating expenses rose by 2% to £2,490 million.

### Cost:income ratio

The Group's cost:income ratio was 57.3% compared with 51.6% in the first half of 2007.

### Impairment losses

Impairment losses were £411 million, compared with £407 million in 2007.

### Taxation

The effective tax rate for the first half of 2008 was 26.2% compared with 32.8% in the first half of 2007.

## RESTATEMENTS

In February 2008, the Group changed its organisational structure to align with its ultimate parent company. The new structure is aimed at recognising the RBS Group's presence in over 50 countries and facilitating the integration and operation of its expanded footprint, following the ultimate parent's acquisition of ABN AMRO. This new organisational structure is expected to give the Group the appropriate framework for managing the enlarged Group in a way that fully capitalises on the enhanced range of attractive growth opportunities now available to it.

Divisional results for 2007 have been restated to reflect the new organisational structure announced in February 2008. These changes do not affect the Group's results.

**CONDENSED CONSOLIDATED INCOME STATEMENT  
FOR THE HALF YEAR ENDED 30 JUNE 2008 (unaudited)**

|   | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|---|----------------------------|--------------------|--------------------------------|
|   | <b>£m</b>                  | £m                 | £m                             |
| Interest receivable                                 | <b>6,186</b>               | 5,619              | 12,178                         |
| Interest payable                                    | <b>3,563</b>               | 3,253              | 7,087                          |
| <b>Net interest income</b>                          | <b>2,623</b>               | 2,366              | 5,091                          |
| Fees and commissions receivable                     | <b>2,089</b>               | 2,025              | 4,226                          |
| Fees and commissions payable                        | <b>(524)</b>               | (493)              | (1,036)                        |
| (Loss)/income from trading activities               | <b>(15)</b>                | 612                | (360)                          |
| Other operating income                              | <b>176</b>                 | 221                | 433                            |
| <b>Non-interest income</b>                          | <b>1,726</b>               | 2,365              | 3,263                          |
| <b>Total income</b>                                 | <b>4,349</b>               | 4,731              | 8,354                          |
| <b>Operating expenses</b>                           | <b>2,490</b>               | 2,440              | 4,420                          |
| <b>Profit before impairment losses</b>              | <b>1,859</b>               | 2,291              | 3,934                          |
| Impairment losses                                   | <b>411</b>                 | 407                | 849                            |
| <b>Operating profit before tax</b>                  | <b>1,448</b>               | 1,884              | 3,085                          |
| Tax   | <b>380</b>                 | 618                | 768                            |
| <b>Profit for the period</b>                        | <b>1,068</b>               | 1,266              | 2,317                          |
| Minority interests                                  | <b>53</b>                  | 35                 | 89                             |
| <b>Profit attributable to ordinary shareholders</b> | <b>1,015</b>               | 1,231              | 2,228                          |

**CONDENSED CONSOLIDATED BALANCE SHEET  
AT 30 JUNE 2008 (unaudited)**

|   | <b>30 June<br/>2008</b> | 31 December<br>2007<br>(Audited) | 30 June<br>2007 |
|---|-------------------------|----------------------------------|-----------------|
|   | £m                      | £m                               | £m              |
| <b>Assets</b>                                   |                         |                                  |                 |
| Cash and balances at central banks              | 886                     | 1,363                            | 1,109           |
| Treasury and other eligible bills               | 1,807                   | 2,021                            | 1,000           |
| Loans and advances to banks                     | 63,705                  | 71,449                           | 82,228          |
| Loans and advances to customers                 | 190,587                 | 188,976                          | 181,040         |
| Debt securities                                 | 29,370                  | 35,916                           | 37,364          |
| Equity shares                                   | 1,136                   | 1,110                            | 1,078           |
| Settlement balances                             | 4,197                   | 2,700                            | 6,558           |
| Derivatives                                     | 4,460                   | 3,575                            | 3,448           |
| Intangible assets                               | 1,283                   | 1,244                            | 1,210           |
| Property, plant and equipment                   | 1,635                   | 1,514                            | 1,519           |
| Prepayments, accrued income and other assets    | 2,124                   | 2,414                            | 1,830           |
| Assets of disposal groups                       | 1,366                   | -                                | -               |
| <b>Total assets</b>                             | <b>302,556</b>          | <b>312,282</b>                   | <b>318,384</b>  |
| <b>Liabilities</b>                              |                         |                                  |                 |
| Deposits by banks                               | 41,249                  | 44,861                           | 49,678          |
| Customer accounts                               | 194,144                 | 205,519                          | 197,026         |
| Debt securities in issue                        | 22,332                  | 20,923                           | 18,895          |
| Settlement balances and short positions         | 13,507                  | 14,955                           | 27,990          |
| Derivatives                                     | 3,453                   | 3,251                            | 2,915           |
| Accruals, deferred income and other liabilities | 3,758                   | 3,417                            | 3,685           |
| Retirement benefit liabilities                  | 1,281                   | 1,322                            | 1,302           |
| Subordinated liabilities                        | 8,902                   | 5,932                            | 5,614           |
| Liabilities of disposal groups                  | 1,088                   | -                                | -               |
| <b>Total liabilities</b>                        | <b>289,714</b>          | <b>300,180</b>                   | <b>307,105</b>  |
| <b>Equity:</b>                                  |                         |                                  |                 |
| Minority interests                              | 1,320                   | 1,314                            | 1,305           |
| Shareholders' equity                            |                         |                                  |                 |
| Called up share capital                         | 1,678                   | 1,678                            | 1,678           |
| Reserves  | 9,844                   | 9,110                            | 8,296           |
| Total equity                                    | 12,842                  | 12,102                           | 11,279          |
| <b>Total liabilities and equity</b>             | <b>302,556</b>          | <b>312,282</b>                   | <b>318,384</b>  |

## OVERVIEW OF CONDENSED CONSOLIDATED BALANCE SHEET

Total assets of £302.6 billion at 30 June 2008 were down £9.7 billion, 3%, compared with 31 December 2007.

Cash and balances at central banks were down £0.5 billion, 35% to £0.9 billion.

Loans and advances to banks decreased by £7.7 billion, 11%, to £63.7 billion. Reverse repurchase agreements and stock borrowing ("reverse repos") were down by £2.1 billion, 24% to £6.4 billion. Excluding reverse repos, bank placings decreased by £5.6 billion, 9%, to £57.3 billion.

Loans and advances to customers increased £1.6 billion, 1%, to £190.6 billion. Within this, reverse repos decreased by 49%, £7.6 billion to £7.9 billion. Excluding reverse repos, lending rose by £9.2 billion, 5% to £182.7 billion reflecting organic growth.

Debt securities decreased by £6.5 billion, 18%, to £29.4 billion principally due to lower holdings in Global Banking & Markets.

Settlement balances rose by £1.5 billion, 55% to £4.2 billion.

Movements in the value of derivatives, assets and liabilities, primarily reflect changes in interest and exchange rates, together with growth in trading volumes.

Prepayments, accrued income and other assets were down £0.3 billion, 12% to £2.1 billion.

Assets and liabilities of disposal groups reflect the disposal of European Consumer Finance businesses in Germany and Austria (which completed on 1 July).

Deposits by banks declined by £3.6 billion, 8% to £41.2 billion. This reflected lower repurchase agreements and stock lending ("repos"), down £3.4 billion, 26% to £9.7 billion combined with lower inter-bank deposits, down £0.2 billion, 1% to £31.5 billion.

Customer accounts were down £11.4 billion, 6% to £194.1 billion. Within this, repos decreased £10.1 billion, 33% to £20.1 billion and customer deposits declined by £1.3 billion, 1%, to £174.0 billion.

Debt securities in issue increased £1.4 billion, 7% to £22.3 billion.

Settlement balances and short positions were down £1.4 billion, 10%, to £13.5 billion.

Accruals, deferred income and other liabilities increased £0.3 billion, 10%, to £3.8 billion.

Subordinated liabilities were up £3.0 billion, 50% to £8.9 billion reflecting the issue of £2.0 billion dated loan capital, £0.7 billion undated loan capital and the effect of exchange rate and other adjustments, £0.3 billion.

Shareholders' equity increased by £0.7 billion, 7% to £11.5 billion. Attributable profit for the period of £1.0 billion, together with exchange rate movements of £0.2 billion were partially offset by the payment of ordinary dividends of £0.5 billion to the holding company.

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE HALF YEAR ENDED 30 JUNE 2008 (unaudited)**

|   | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|---|----------------------------|--------------------|--------------------------------|
|   | <b>£m</b>                  | £m                 | £m                             |
| Net movements in reserves:                                |                            |                    |                                |
| Available-for-sale  | <b>6</b>                   | 22                 | 2                              |
| Cash flow hedges  | <b>(19)</b>                | (11)               | (20)                           |
| Currency translation                                      | <b>218</b>                 | (82)               | 247                            |
| Tax on items recognised direct in equity                  | <b>7</b>                   | (9)                | 7                              |
| Net income /(expense) recognised direct in equity         | <b>212</b>                 | (80)               | 236                            |
| Profit for the period                                     | <b>1,068</b>               | 1,266              | 2,317                          |
| <b>Total recognised income and expense for the period</b> | <b>1,280</b>               | 1,186              | 2,553                          |
| <b>Attributable to:</b>                                   |                            |                    |                                |
| Equity shareholders                                       | <b>1,234</b>               | 1,151              | 2,465                          |
| Minority interests  | <b>46</b>                  | 35                 | 88                             |
|   | <b>1,280</b>               | 1,186              | 2,553                          |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE HALF YEAR ENDED 30 JUNE 2008 (unaudited)**

|   | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|---|----------------------------|--------------------|--------------------------------|
|   | £m                         | £m                 | £m                             |
| <b>Operating activities</b>                                   |                            |                    |                                |
| Operating profit before tax                                   | <b>1,448</b>               | 1,884              | 3,085                          |
| Adjustments for non-cash items                                | <b>(227)</b>               | 177                | 11                             |
| <b>Net cash inflow from trading activities</b>                | <b>1,221</b>               | 2,061              | 3,096                          |
| Changes in operating assets and liabilities                   | <b>(15,610)</b>            | 22,191             | 15,004                         |
| Income taxes paid   | <b>(284)</b>               | (361)              | (592)                          |
| <b>Net cash flows from operating activities</b>               | <b>(14,673)</b>            | 23,891             | 17,508                         |
| <b>Net cash flows from investing activities</b>               | <b>376</b>                 | (121)              | (1,464)                        |
| <b>Net cash flows from financing activities</b>               | <b>2,045</b>               | (1,218)            | (1,679)                        |
| Effects of exchange rate changes on cash and cash equivalents | <b>787</b>                 | (542)              | 364                            |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(11,465)</b>            | 22,010             | 14,729                         |
| Cash and cash equivalents at beginning of period              | <b>66,189</b>              | 51,460             | 51,460                         |
| <b>Cash and cash equivalents at end of period</b>             | <b>54,724</b>              | 73,470             | 66,189                         |

**NOTES****1. Accounting policies**

The annual accounts of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU"). It also complies with IFRS as issued by the IASB. There have been no significant changes to the Group's principal accounting policies as set out on pages 14 to 19 of the 2007 Report and Accounts. The Group adopted IFRS 8 'Operating Segments' with effect from 1 January 2008. These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

**2. Loan impairment provisions**

Operating profit is stated after charging loan impairment losses of £410 million (first half 2007 - £407 million; full year 2007 - £848 million). The balance sheet loan impairment provisions decreased in the half year ended 30 June 2008 from £2,340 million to £2,314 million, and the movements thereon were:

|  | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|--|----------------------------|--------------------|--------------------------------|
|  | £m                         | £m                 | £m                             |
| At beginning of period                         | 2,340                      | 2,061              | 2,061                          |
| Currency translation and other adjustments     | 25                         | 17                 | 41                             |
| Disposals                                      | (40)                       | -                  | -                              |
| Transfer of assets relating to disposal groups | (28)                       | -                  | -                              |
| Amounts written-off                            | (383)                      | (274)              | (617)                          |
| Recoveries of amounts written-off              | 37                         | 48                 | 94                             |
| Charge to the income statement                 | 410                        | 407                | 848                            |
| Unwind of discount                             | (47)                       | (43)               | (87)                           |
| At end of period                               | <u>2,314</u>               | <u>2,216</u>       | <u>2,340</u>                   |

The provision at 30 June 2008 includes £2 million (31 December 2007 - £2 million; 30 June 2007 - £2 million) in respect of loans and advances to banks.

Total impairment losses charged to the income statement comprises:

|  | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|--|----------------------------|--------------------|--------------------------------|
|  | £m                         | £m                 | £m                             |
| Loans and receivables and finance leases | 410                        | 407                | 848                            |
| Available-for-sale securities            | 1                          | -                  | 1                              |
| <b>Impairment losses</b>                 | <u>411</u>                 | <u>407</u>         | <u>849</u>                     |

**NOTES (continued)**

**3. Taxation**

The actual tax charge differs from the tax charge computed by applying the standard UK corporation tax rate of 28.5% (2007 - 30%) as follows:

|   | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|---|----------------------------|--------------------|--------------------------------|
|   | £m                         | £m                 | £m                             |
| Profit before tax   | <b>1,448</b>               | 1,884              | 3,085                          |
| Expected tax charge at 28.5% (2007 - 30%)   | <b>413</b>                 | 565                | 926                            |
| Non-deductible items  | <b>15</b>                  | 28                 | 52                             |
| Non-taxable items   | <b>(21)</b>                | (27)               | (178)                          |
| Taxable foreign exchange movements  | <b>7</b>                   | (4)                | (3)                            |
| Group relief at non-standard rates  | <b>(7)</b>                 | 30                 | 94                             |
| Foreign profits taxed at other rates  | <b>(33)</b>                | (6)                | (57)                           |
| Reduction in deferred tax asset following change<br>in the rate of UK Corporation Tax | -                          | 35                 | 18                             |
| Other   | <b>1</b>                   | (2)                | 1                              |
| Adjustments in respect of prior periods   | <b>5</b>                   | (1)                | (85)                           |
| Actual tax charge   | <b>380</b>                 | 618                | 768                            |
| Overseas tax included above   | <b>(28)</b>                | 195                | (10)                           |

**4. Segmental analysis**

| <b>Total revenue</b>                               | External<br>£m | Inter<br>segment<br>£m | Total<br>£m    |
|--|----------------|------------------------|----------------|
| <b>Half year ended 30 June 2008</b>                |                |                        |                |
| Global Markets                                     |                |                        |                |
| - Global Banking & Markets                         | <b>856</b>     | <b>664</b>             | <b>1,520</b>   |
| - Global Transaction Services                      | <b>811</b>     | -                      | <b>811</b>     |
| Regional Markets                                   |                |                        |                |
| - UK Retail & Commercial Banking                   | <b>4,506</b>   | <b>22</b>              | <b>4,528</b>   |
| - Europe & Middle East Retail & Commercial Banking | <b>1,676</b>   | -                      | <b>1,676</b>   |
| - Asia Retail & Commercial Banking                 | <b>322</b>     | <b>25</b>              | <b>347</b>     |
| Group Manufacturing                                | <b>(16)</b>    | -                      | <b>(16)</b>    |
| Central items                                      | <b>281</b>     | <b>398</b>             | <b>679</b>     |
| Elimination of intra-group transactions            | -              | <b>(1,109)</b>         | <b>(1,109)</b> |
|  | <b>8,436</b>   | -                      | <b>8,436</b>   |
| <b>Half year ended 30 June 2007</b>                |                |                        |                |
| Global Markets                                     |                |                        |                |
| - Global Banking & Markets                         | 1,654          | 979                    | 2,633          |
| - Global Transaction Services                      | 756            | -                      | 756            |
| Regional Markets                                   |                |                        |                |
| - UK Retail & Commercial Banking                   | 4,160          | 1                      | 4,161          |
| - Europe & Middle East Retail & Commercial Banking | 1,317          | 4                      | 1,321          |
| - Asia Retail & Commercial Banking                 | 271            | 17                     | 288            |
| Group Manufacturing                                | (4)            | -                      | (4)            |
| Central items                                      | 323            | 293                    | 616            |
| Elimination of intra-group transactions            | -              | (1,294)                | (1,294)        |
|  | <b>8,477</b>   | -                      | <b>8,477</b>   |

**NOTES (continued)**

**4. Segmental analysis (continued)**

| <b>Total revenue (continued)</b>                   | External<br>£m                    | Inter<br>segment<br>£m            | Total<br>£m                      |
|--|-----------------------------------|-----------------------------------|----------------------------------|
| <b>Year ended 31 December 2007</b>                 |                                   |                                   |                                  |
| Global Markets                                     |                                   |                                   |                                  |
| - Global Banking & Markets                         | 2,213                             | 1,768                             | 3,981                            |
| - Global Transaction Services                      | 1,582                             | -                                 | 1,582                            |
| Regional Markets                                   |                                   |                                   |                                  |
| - UK Retail & Commercial Banking                   | 8,700                             | 44                                | 8,744                            |
| - Europe & Middle East Retail & Commercial Banking | 3,043                             | -                                 | 3,043                            |
| - Asia Retail & Commercial Banking                 | 579                               | 34                                | 613                              |
| Group Manufacturing                                | (85)                              | 1                                 | (84)                             |
| Central items                                      | 445                               | 617                               | 1,062                            |
| Elimination of intra-group transactions            | -                                 | (2,464)                           | (2,464)                          |
|  | <u>16,477</u>                     | <u>-</u>                          | <u>16,477</u>                    |
|  | <b>First half<br/>2008<br/>£m</b> | <b>First half<br/>2007<br/>£m</b> | <b>Full year<br/>2007<br/>£m</b> |
| <b>Operating profit before tax</b>                 |                                   |                                   |                                  |
| Global Markets                                     |                                   |                                   |                                  |
| - Global Banking & Markets                         | <b>(274)</b>                      | (47)                              | (553)                            |
| - Global Transaction Services                      | <b>363</b>                        | 424                               | 868                              |
| Total Global Markets                               | <b>89</b>                         | 377                               | 315                              |
| Regional Markets                                   |                                   |                                   |                                  |
| - UK Retail & Commercial Banking                   | <b>1,891</b>                      | 1,911                             | 3,582                            |
| - Europe & Middle East Retail & Commercial Banking | <b>397</b>                        | 361                               | 766                              |
| - Asia Retail & Commercial Banking                 | <b>43</b>                         | 43                                | 81                               |
| Total Regional Markets                             | <b>2,331</b>                      | 2,315                             | 4,429                            |
| Group Manufacturing                                | <b>(925)</b>                      | (883)                             | (1,754)                          |
| Central items                                      | <b>(30)</b>                       | 101                               | 144                              |
|  | <u>1,465</u>                      | <u>1,910</u>                      | <u>3,134</u>                     |
| Amortisation of purchased intangible assets        | <b>(4)</b>                        | (3)                               | (6)                              |
| Integration costs                                  | <b>(13)</b>                       | (23)                              | (43)                             |
|  | <u>1,448</u>                      | <u>1,884</u>                      | <u>3,085</u>                     |

**NOTES (continued)****4. Segmental analysis (continued)**

|  | <b>30 June<br/>2008</b> | 31 December<br>2007<br>(Audited) |
|--|-------------------------|----------------------------------|
|  | <b>£m</b>               | £m                               |
| <b>Total assets</b>                                |                         |                                  |
| Global Markets                                     |                         |                                  |
| - Global Banking & Markets                         | <b>98,728</b>           | 116,085                          |
| - Global Transaction Services                      | <b>6,286</b>            | 6,598                            |
| Total Global Markets                               | <b>105,014</b>          | 122,683                          |
| Regional Markets                                   |                         |                                  |
| - UK Retail & Commercial Banking                   | <b>121,316</b>          | 115,653                          |
| - Europe & Middle East Retail & Commercial Banking | <b>60,850</b>           | 59,654                           |
| - Asia Retail & Commercial Banking                 | <b>11,436</b>           | 10,725                           |
| Total Regional Markets                             | <b>193,602</b>          | 186,032                          |
| Group Manufacturing                                | <b>2,003</b>            | 1,709                            |
| Central items                                      | <b>1,937</b>            | 1,858                            |
|  | <b>302,556</b>          | 312,282                          |

As noted on page 2, the Group has changed its organisational structure. The divisional results for 2007 have been restated to reflect this new organisational structure.

**5. Dividend**

|  | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|--|----------------------------|--------------------|--------------------------------|
|  | <b>£m</b>                  | £m                 | £m                             |
| Ordinary dividend paid to parent company | <b>500</b>                 | 1,350              | 1,850                          |

**6. Litigation**

Proceedings, including consolidated class actions on behalf of former Enron securities holders, have been brought in the United States against a large number of defendants, including the Group, following the collapse of Enron. The claims against the Group could be significant; the class plaintiff's position is that each defendant is responsible for an entire aggregate damage amount less settlements – they have not quantified claimed damages against the Group in particular. The Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. Recent Supreme Court and Fifth Circuit decisions provide further support for the Group's position. The Group is unable reliably to estimate the liability, if any, that might arise or its effect on the Group's consolidated net assets, its operating results or cash flows in any particular period.

On 27 July 2007, following agreement between the Office of Fair Trading ('OFT'), the Financial Services Authority and all the major UK banks (including the Group), the OFT issued proceedings in a test case against those banks to determine the legal status and enforceability of certain charges relating to unarranged overdrafts. Following a hearing of preliminary issues in January 2008, the High Court concluded that charges relating to unarranged overdrafts are capable of being assessed for fairness. That decision is subject to an appeal that is likely to be heard towards the end of 2008. A second phase of the preliminary issues hearing was heard by the High Court in July 2008 and the Court's decision is awaited. The Group maintains that its charges are fair and enforceable and is defending its position vigorously. It cannot, however, at this stage predict with any certainty the outcome of the test case, which will involve a number of further hearings and possible appeals. The Group is unable reliably to estimate the liability, if any, that may arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Members of the Group are engaged in other litigation in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them arising in the ordinary course of business. The Group has reviewed these other actual, threatened and known potential claims and proceedings and, after consulting with its legal advisers, does not expect that the outcome of these other claims and proceedings will have a material adverse effect on its consolidated net assets, operating results or cash flows in any particular period.

**NOTES (continued)****7. Regulatory enquiries and investigations**

In the normal course of business the Group and its subsidiaries co-operate with regulatory authorities in various jurisdictions in their enquiries or investigations into alleged or possible breaches of regulations.

Certain of the Group's subsidiaries have received requests for information from various US governmental agencies and self regulatory organisations including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. In particular, during March 2008 RBS Group was advised by the SEC that it had commenced a non public, formal investigation relating to the RBS Group's US sub-prime securities exposure and US residential mortgage exposures. The Group and its subsidiaries are cooperating with these various requests for information and investigations.

**8. Analysis of consolidated equity**

|  | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|--|----------------------------|--------------------|--------------------------------|
|  | £m                         | £m                 | £m                             |
| <b>Called-up share capital</b>                           |                            |                    |                                |
| At beginning and end of period                           | <b>1,678</b>               | 1,678              | 1,678                          |
| <b>Share premium account</b>                             |                            |                    |                                |
| At beginning and end of period                           | <b>1,291</b>               | 1,291              | 1,291                          |
| <b>Available-for-sale reserves</b>                       |                            |                    |                                |
| At beginning of period                                   | <b>23</b>                  | 18                 | 18                             |
| Unrealised gains in the period                           | <b>9</b>                   | 36                 | 87                             |
| Realised gains in the period                             | <b>(3)</b>                 | (14)               | (85)                           |
| Taxation   | <b>2</b>                   | (11)               | 3                              |
| At end of period   | <b>31</b>                  | 29                 | 23                             |
| <b>Cash flow hedging reserve</b>                         |                            |                    |                                |
| At beginning of period                                   | <b>56</b>                  | 72                 | 72                             |
| Amount transferred from equity to earnings in the period | <b>(19)</b>                | (11)               | (20)                           |
| Taxation   | <b>5</b>                   | 2                  | 4                              |
| At end of period   | <b>42</b>                  | 63                 | 56                             |
| <b>Foreign exchange reserve</b>                          |                            |                    |                                |
| At beginning of period                                   | <b>(66)</b>                | (314)              | (314)                          |
| Retranslation of net assets, net of related hedges       | <b>225</b>                 | (82)               | 248                            |
| At end of period   | <b>159</b>                 | (396)              | (66)                           |
| <b>Other reserves</b>                                    |                            |                    |                                |
| At beginning of period                                   | <b>614</b>                 | 486                | 486                            |
| Redemption of preference shares classified as debt       | <b>-</b>                   | 128                | 128                            |
| At end of period   | <b>614</b>                 | 614                | 614                            |
| <b>Retained earnings</b>                                 |                            |                    |                                |
| At beginning of period                                   | <b>7,192</b>               | 6,942              | 6,942                          |
| Profit attributable to ordinary shareholders             | <b>1,015</b>               | 1,231              | 2,228                          |
| Ordinary dividends paid                                  | <b>(500)</b>               | (1,350)            | (1,850)                        |
| Redemption of preference shares classified as debt       | <b>-</b>                   | (128)              | (128)                          |
| At end of period   | <b>7,707</b>               | 6,695              | 7,192                          |
| <b>Shareholders' equity at end of period</b>             | <b>11,522</b>              | 9,974              | 10,788                         |

**NOTES (continued)****8. Analysis of consolidated equity (continued)**

|  | <b>First half<br/>2008</b> | First half<br>2007 | Full year<br>2007<br>(Audited) |
|--|----------------------------|--------------------|--------------------------------|
|  | <b>£m</b>                  | £m                 | £m                             |
| Minority interests                                   |                            |                    |                                |
| At beginning of period                               | <b>1,314</b>               | 1,012              | 1,012                          |
| Currency translation adjustments and other movements | <b>(7)</b>                 | -                  | (1)                            |
| Profit attributable to minority interests            | <b>53</b>                  | 35                 | 89                             |
| Dividends paid                                       | <b>(53)</b>                | (27)               | (72)                           |
| Equity raised  | <b>13</b>                  | 288                | 288                            |
| Equity withdrawn and disposals                       | <b>-</b>                   | (3)                | (2)                            |
| At end of period                                     | <b><u>1,320</u></b>        | <u>1,305</u>       | <u>1,314</u>                   |
| Total equity at end of period                        | <b><u>12,842</u></b>       | <u>11,279</u>      | <u>12,102</u>                  |

**9. Contingent liabilities and commitments**

|   | <b>30 June<br/>2008</b> | 31 December<br>2007<br>(Audited) | 30 June<br>2007 |
|---|-------------------------|----------------------------------|-----------------|
|   | <b>£m</b>               | £m                               | £m              |
| <b>Contingent liabilities</b>   |                         |                                  |                 |
| Guarantees and assets pledged as collateral security                          | <b>3,010</b>            | 2,438                            | 2,395           |
| Other contingent liabilities  | <b>2,736</b>            | 2,907                            | 2,746           |
| Total   | <b><u>5,746</u></b>     | <u>5,345</u>                     | <u>5,141</u>    |
| <b>Commitments</b>  |                         |                                  |                 |
| Undrawn formal standby facilities, credit lines and other commitments to lend | <b>76,101</b>           | 76,116                           | 75,548          |
| Other commitments   | <b>223</b>              | 220                              | 172             |
| Total   | <b><u>76,324</u></b>    | <u>76,336</u>                    | <u>75,720</u>   |

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

**10. Related party transactions**

Related party transactions in the half year ended 30 June 2008 were similar in nature to those for the year ended 31 December 2007 and were not material. Full details of the Group's related party transactions for the year ended 31 December 2007 are included in the Group's 2007 Annual Report and Accounts.

**11. Statutory accounts**

Financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ("the Act"). The statutory accounts for the year ended 31 December 2007 have been filed with the Registrar of Companies and have been reported on by the auditors under section 235 of the Act. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

**12. Auditors' review**

The interim results have been reviewed by the Group's auditors, Deloitte & Touche LLP, and their review report is set out on page 14.

**13. Date of approval**

The interim results for the half year ended 30 June 2008 were approved by the Board of directors on 2 September 2008.

## **INDEPENDENT REVIEW REPORT TO NATIONAL WESTMINSTER BANK Plc**

We have been engaged by National Westminster Bank Plc ('the company') to review the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of recognised income and expense, the condensed consolidated cash flow statement and related notes 1 to 13 (the "condensed financial statements"). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed financial statements.

This report is made solely to the company in accordance with the International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

### **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditor  
2 September 2008

Edinburgh, UK

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties for the Group in the second half of 2008 are:

### ***Credit risk***

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. The global economy slowed during the first half of 2008 and the outlook for the UK economy has deteriorated as growth reduced sharply and house prices fell. In the US, the labour market has deteriorated and real estate prices continued to fall. As a result, the Group may see adverse changes in the credit quality of its borrowers and counterparties in the second half of 2008 with increasing delinquencies and defaults leading to higher impairment charges.

In 2007 and the first half of 2008, the Group recorded significant write-downs on its credit market positions. The Group continues to have exposure to these markets and as market conditions change the fair value of the Group's instruments could fall further. Furthermore, recent market volatility and illiquidity has made it difficult to value certain of the Group's financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in significant changes in the fair values of these instruments.

### ***Liquidity risk***

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. Credit markets continue to experience a severe reduction in liquidity in the aftermath of events in the US sub-prime residential mortgage market. The Group's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its assets, in controlling the mis-match of maturities and from carefully monitoring its undrawn commitments and contingent liabilities. Further tightening of credit markets could affect the Group's earnings in the second half of 2008.

### ***Market risk***

The most significant market risks the Group faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads in the second half of 2008 may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and affect earnings reported by the Group's non-UK subsidiaries, mainly RBS Greenwich Capital and Ulster Bank, and may affect income from foreign exchange dealing. The performance of financial markets during the second half of 2008 may cause reductions in the value of the Group's investment and trading portfolios.

### ***Regulatory risk***

The Group is subject to financial services laws, regulations, administrative actions and policies in each location in which it operates. Changes during the second half of 2008 in the regulatory and supervisory framework, in particular in the UK and US, could materially affect the Group's business.

### ***Litigation***

The outcome of existing and future legal actions, claims against and by the Group and arbitrations could affect the financial performance of the Group in the second half of 2008.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Sir Tom McKillop  
Chairman

Sir Fred Goodwin  
Group Chief Executive

Guy Whittaker  
Group Finance Director

### Board of directors

#### Chairman

Sir Tom McKillop

#### Executive directors

Sir Fred Goodwin  
Johnny Cameron  
Mark Fisher  
Gordon Pell  
Guy Whittaker

#### Non-executive directors

Colin Buchan  
Jim Currie  
Lawrence Fish  
Bill Friedrich  
Archie Hunter  
Charles 'Bud' Koch  
Janis Kong  
Joe MacHale  
Sir Steve Robson  
Bob Scott  
Peter Sutherland

NATIONAL WESTMINSTER BANK Plc

**CONTACTS**

|                  |                            |                                |
|------------------|----------------------------|--------------------------------|
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| Richard O'Connor | Head of Investor Relations | 020 7672 1758                  |