

## Business review continued

### Analysis of results

#### Net interest income

	2007 £m	2006 £m	2005 £m
Interest receivable (1, 2)	33,818	24,966	21,505
Interest payable (1, 2)	(21,288)	(14,557)	(11,720)
Net interest income (1, 2)	12,530	10,409	9,785
	%	%	%
Gross yield on interest-earning assets of the banking business	6.32	5.93	5.60
Cost of interest-bearing liabilities of the banking business	(4.40)	(3.85)	(3.35)
Interest spread of the banking business	1.92	2.08	2.25
Benefit from interest-free funds	0.42	0.39	0.30
Net interest margin of the banking business	2.34	2.47	2.55
	%	%	%
<b>Yields, spreads and margins of the banking business</b>			
Gross yield (3)			
Group	6.32	5.93	5.60
UK	6.72	6.16	6.07
Overseas	5.79	5.52	4.76
Interest spread (4)			
Group	1.92	2.08	2.25
UK	2.31	2.37	2.48
Overseas	1.41	1.52	1.89
Net interest margin (5)			
Group	2.34	2.47	2.55
UK	2.46	2.57	2.66
Overseas	2.18	2.29	2.35
The Royal Bank of Scotland plc base rate (average)	5.51	4.64	4.65
London inter-bank three month offered rates (average):			
Sterling	6.00	4.85	4.76
Eurodollar	5.29	5.20	3.56
Euro	4.28	3.08	2.18

#### Notes:

- (1) Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance assets and liabilities attributable to policyholders, in view of their distinct nature. As a result, net interest income has been adjusted by £85 million (2006 – £63 million; 2005 – £59 million).
- (2) Interest income has been adjusted by £313 million (2006 – £215 million; 2005 – £115 million) and interest expense by £536 million (2006 – £465 million; 2005 – £307 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (3) Gross yield is the interest rate earned on average interest-earning assets of the banking business.
- (4) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.
- (5) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.