

Annual Review and Summary Financial Statement 2007

Profit before tax up
8%



Return on equity
19.9%



Adjusted earnings per share up
18%



Dividend up
10%





Highlights 2007

- Group operating profit up 9% to £10.3 billion
- Profit after tax up 19% to £7.7 billion
- Adjusted earnings per ordinary share up 18% to 78.7p
- Total dividend up 10% to 33.2p
- Tier 1 capital ratio 7.3%
- Total capital ratio 11.2%

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Measuring our success

Focus on growth and efficiency

Income (£m)



The Group's total income grew by 11% to £31,115 million in 2007.

Adjusted cost:income ratio (%)



The Group's cost:income ratio was 43.9%. Excluding ABN AMRO, the Group's cost:income ratio improved by 1.4 percentage points to 40.7%. The cost:income ratio is calculated excluding purchased intangibles amortisation, integration costs and net gain on sale of strategic investments and subsidiaries in 2005, and after netting operating lease depreciation against rental income.

Group operating profit* (£m)



Group operating profit increased by 9% to £10,282 million in 2007.

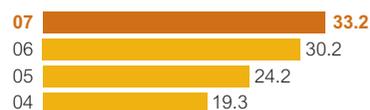
* profit before tax, purchased intangibles amortisation, integration costs, and net gain on sale of strategic investments and subsidiaries in 2005.

Adjusted earnings per share** (pence)



Earnings per share increased by 18% to 78.7p for 2007, adjusted for purchased intangibles amortisation, integration costs, and net gain on sale of strategic investments and subsidiaries in 2005.

Dividend per ordinary share** (pence)



The directors have recommended a final dividend of 23.1p per ordinary share which, when added to the interim dividend of 10.1p, makes a total for 2007 of 33.2p, an increase of 10%.

** prior year data have been restated to reflect the two for one bonus issue of ordinary shares in May 2007.

Cumulative growth in ordinary dividends per share 1999 – 2007



Group operating profit*

	2007 £m	2006 £m
Corporate Markets		
Global Banking & Markets	3,687	3,779
UK Corporate Banking	1,961	1,762
Total Corporate Markets	5,648	5,541
Retail Markets		
Retail	2,470	2,250
Wealth Management	413	318
Total Retail Markets	2,883	2,568
Ulster Bank	513	421
Citizens	1,323	1,582
RBS Insurance	683	749
Manufacturing	—	—
Central items	(752)	(1,447)
Group operating profit (excluding ABN AMRO)	10,298	9,414
ABN AMRO	128	—
Central items	(144)	—
Group operating profit	10,282	9,414

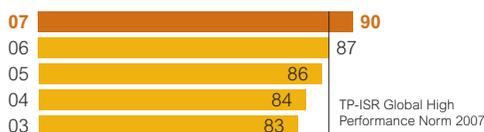
* operating profit for each division is profit before tax, purchased intangibles amortisation and integration costs and after allocation of Manufacturing costs where appropriate.

The accounts are prepared in accordance with International Financial Reporting Standards. Certain standards relating to financial instruments were not adopted until January 2005. The Group has provided comparative information on a pro forma basis that includes the estimated effect of these standards for the year ended 31 December 2004.

Our people – annual employee opinion survey

Response rate year on year progress

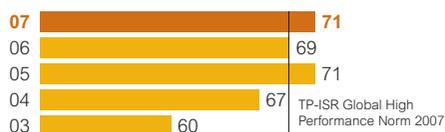
(%)



The RBS Employee Opinion Survey is conducted independently every year by ISR and circulated to all employees. Last year we achieved our highest response rate ever, ahead of the Global High Performance Norm.

Job satisfaction and engagement

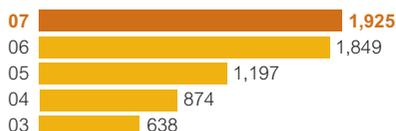
(%)



One of the indicators we watch most carefully is Job Satisfaction and Engagement. In 2007 we once again out performed the Global High Performance Norm.

Work-Out data

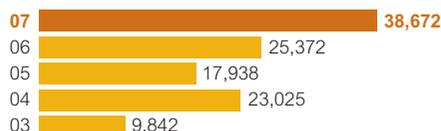
(number of events)



Work-Out is designed to remove unnecessary process from the organisation, improve team performance and customer service. The entire Work-Out programme is driven by our employees who identify the potential areas for improvement. The programme has had a significant impact and in 2007 we had a record number of events taking place.

Work-Out data

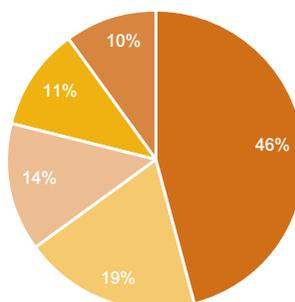
(number of employees participating)



The profile and success of the Work-Out initiative has grown every year and in 2007 we had a record number of employees participating across the globe. Employees who participate in Work-Out sessions consistently record higher levels of job satisfaction and engagement in the annual Employee Opinion Survey.

Employees – Geographic analysis

RBS including ABN AMRO	%
UK	46
Europe	19
Rest of World	14
US	11
Asia-Pacific	10
Total employees	226,400



£57.7m	invested in our communities.	1m	new savings accounts opened in the UK
36%	reduction in the Group's carbon footprint.	24%	reduction in global fraud losses
40m	customers served in six continents	No.1	in the UK for reduction in internet fraud

Group profile

RBS was named Global Bank of the Year 2007 by The Banker magazine

Great Britain

Corporate Markets
Retail Markets
Ulster Bank
RBS Insurance
Manufacturing
ABN AMRO

The Royal Bank of Scotland has operated in Great Britain since 1727. The Group enjoys leading positions in a number of markets, including corporate and SME banking, current accounts, merchant acquiring and car insurance. In corporate banking, RBS is the number one brand in England & Wales and Scotland while RBS and NatWest rank first and second among major high street banks for customers who say they are 'extremely satisfied' with their main current account provider.

As well as RBS and NatWest, our brands include Direct Line, Churchill, Coutts and Lombard. Last year saw the tenth anniversary of our Tesco Personal Finance joint venture. In 2007 we expanded our UK businesses and see attractive options for continued organic growth.



- We operate the largest free-to-use ATM network in the UK with over 6,800 machines.
- Our Global Banking & Markets division ('GBM') has a relationship with more than 95% of the FTSE 100 companies.
- RBS Insurance is the UK's number one car insurer and number two for general and household insurance.

Americas

Corporate Markets
Citizens
ABN AMRO

Citizens Financial Group ('CFG') was a small Rhode Island company when RBS acquired it in 1988. It has since grown to become the ninth largest US commercial banking group based on deposits. With the NatWest acquisition in 2000, Greenwich Capital joined the Group. RBS Greenwich Capital is among the principal suppliers of corporate finance and debt capital markets services across the US.

Our US brands include Citizens, Charter One, RBS Greenwich Capital, RBS Lynk and the Kroger Personal Finance joint venture. The ABN AMRO acquisition extends our presence in the Americas, a market of 750 million people and GDP of \$19,000 billion in 2007. We will continue to develop our strong US franchises while capitalising on these new opportunities.



- Citizens is the ninth largest bank in the US ranked by deposits.
- Global Banking & Markets in North America has a relationship with 80% of the Fortune 100 companies.
- RBS Greenwich Capital's Interest Rate Derivatives business is ranked in the top five in the US.

Europe and Middle East

Corporate Markets
Retail Markets
Ulster Bank
RBS Insurance
Manufacturing
ABN AMRO

Ulster Bank became part of RBS on the acquisition of NatWest in 2000, giving the Group a presence in retail and corporate banking across the island of Ireland. In recent years we have achieved strong organic growth in corporate markets in continental Europe and the Nordic region through GBM. With the acquisition of ABN AMRO, GBM ranks number one in Europe in terms of relationships with large corporates and financial institutions. Direct Line operates in Germany, Italy and Spain. We have recently developed our presence in the Middle East, most notably through our private banking and wealth management businesses.

In 2007, the countries in which we have a presence in Europe and the Middle East had a combined population of more than 750 million people. Their GDP of over \$15,000 billion makes the region more than seven times the size of the UK.



- RBS has a relationship with more than 95% of the Dow Jones Eurostoxx 50.
- In Europe, our GBM Division's income grew by 39%.
- Ulster Bank has more than 1,100 ATMs.

Asia-Pacific

Corporate Markets
Retail Markets
Manufacturing
ABN AMRO

RBS has grown organically in Asia-Pacific, building on our strengths in businesses such as wealth management and project finance. In 2005 we entered into a strategic partnership with the Bank of China. The acquisition of ABN AMRO enhances our presence in the fastest-growing region of the world economy.

In 2007, the countries in which we have a presence in the Asia-Pacific region had a combined population approaching 3.4 billion people. With GDP of more than \$27,500 billion, its economy is already more than twice the size of the US. Between 2000 and 2007, these countries are estimated to have grown by 86%. Despite their rapid growth, and including Japan, GDP per person in the Asia-Pacific countries in which we operate stood at only 17% of the US level in 2007, implying that there remains scope for continued growth over the long term.



- RBS is the number five corporate bank in Asia-Pacific, excluding Japan, as measured by number of corporate relationships.
- With the ABN AMRO acquisition, we have access to 3.7 million new retail customers.
- RBS Coutts grew income by 51% in US dollar terms.

Divisional profile

Corporate Markets

Corporate Markets is focused on the provision of debt and risk management services to medium and large businesses and financial institutions in the UK and around the world. Its activities have been organised into two businesses, Global Banking & Markets and UK Corporate Banking, in order to enhance our focus on the distinct needs of these two customer segments.

Global Banking & Markets is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt financing, risk management and investment services to its customers.

UK Corporate Banking is the largest provider of banking, finance and risk management services to UK corporate customers. Through its network of relationship managers across the country it distributes the full range of Corporate Markets' products and services to companies.

GBM – 2007 key global rankings

- ▶ ifr magazine named us Sterling Bond House of the Year in 2007.
- ▶ In the Risk Magazine Awards, we were named Inflation Derivatives House of 2007.

Contribution (£m)



UKCB – 2007 key highlights

- ▶ Impairment losses fell 5%, reflecting the strong quality of the portfolio.
- ▶ Average loans and advances were up 11% and average deposits were up 14%.

Contribution (£m)



Retail Markets

Retail Markets comprises Retail and Wealth Management.

Retail comprises both RBS and NatWest retail brands. It offers a full range of banking products and related financial services to the personal, premium and small business (SMEs) markets through the largest network of branches and ATMs in the UK, by telephone and internet. Retail is the UK market leader in SME banking. Retail issues credit and charge cards and other financial products through RBS, NatWest and other brands, including MINT, First Active UK and Tesco Personal Finance. It is the leading merchant acquirer in Europe and ranks third globally.

Wealth Management provides private banking and investment services to its global clients through Coutts Group, Adam & Company, RBS International and NatWest Offshore, in the UK and internationally in selected markets in Europe and Asia-Pacific.

Retail – 2007 key highlights

- ▶ We opened more than 975,000 new personal current accounts, maintaining the Group's joint number one position in that market.
- ▶ Bancassurance grew sales by 28% to £342 million.

Contribution (£m)



Wealth Management – 2007 key highlights

- ▶ Coutts & Co's UK income grew by 22%.
- ▶ A ComPeer survey found Adam & Company market leading in providing investment operations, reporting and performance services to wealth managers

Contribution (£m)



Ulster Bank

Ulster Bank, including First Active, provides a comprehensive range of financial services across the island of Ireland. Retail Banking has a network of branches and operates in the personal, commercial and wealth management sectors. Corporate Markets provides services in the corporate and institutional markets.

2007 key highlights

- ▶ Business lending grew by 29%, spread across a variety of industrial sectors.
- ▶ Innovative products launched in 2007 included eSavings, First Active Regular Saver and Reward Reserve.

Contribution (£m)



Citizens

Citizens is engaged in retail and corporate banking activities through its branch network in 13 states in the US and through non-branch offices in other states. Citizens was ranked the ninth largest commercial banking organisation in the US based on deposits as at 30 September 2007. Citizens Financial Group includes the two Citizens Banks, RBS Lynk, our US merchant acquiring business, and Kroger Personal Finance, our credit card joint venture with the second largest US supermarket group.

2007 key highlights

- ▶ RBS Lynk, our US merchant acquiring business, processed 30% more transactions than in 2006.
- ▶ Kroger Personal Finance, our joint venture with the second largest US supermarket group, sold over two million products.

Contribution (\$m)



RBS Insurance

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Direct Line, Churchill and Privilege sell general insurance products direct to the customer. Through its International division, RBS Insurance sells general insurance, mainly motor, in Spain, Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

2007 key highlights

- ▶ Home insurance grew across all of our own brands in the second half, with sales of home policies through our bank branches up 40%.
- ▶ As a founder signatory in 2007 of the ClimateWise principles, we will work with government and customers to embed environmentally-friendly behaviour.

Contribution (£m)



Manufacturing

Manufacturing supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Manufacturing drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and has become the centre of excellence for managing large-scale and complex change.

2007 key highlights

- ▶ We held cost growth to 1%, despite investing to support increased transaction volumes and the development of our businesses.
- ▶ We helped to launch mobile phone banking in September, allowing customers to access mini-statements and account balances through text alerts.

Total costs (£m)



ABN AMRO

ABN AMRO is a major international banking group with a leading position in international payments and a strong investment banking franchise with particular strengths in emerging markets, as well as offering a range of retail financial services in Asia and the Middle East. ABN AMRO has regional business units in Europe, the Netherlands, North America, Latin America and Asia. The businesses of ABN AMRO to be retained by RBS comprise principally its global wholesale businesses and its international retail businesses in Asia, Eastern Europe and the Middle East.

2007 key highlights

- ▶ Transaction banking income rose 7%, reflecting strong growth in cash management balances and significant expansion in trade finance.
- ▶ GBM and ABN AMRO's capabilities will make us a global top five bank in products including Global Securitisation, International Bonds and International Cash Management.

Contribution (£m) – from date of acquisition 17 October 2007.



Chairman's statement

RBS enjoyed another successful year in 2007 despite some of the most challenging market conditions in the financial and credit markets for some time. The hard work of our employees allowed us to deliver a strong financial and operational performance as well as successfully completing the acquisition of ABN AMRO, the largest banking acquisition ever undertaken.

In 2007 the Group's total income grew by 11% to £31,115 million (2006 – £28,002 million) and operating profit increased by 9% to £10,282 million (2006 – £9,414 million), with adjusted earnings per ordinary share rising 18% to 78.7p. The Board is recommending a total dividend of 33.2p, 10% higher than in 2006.

Acquisition of ABN AMRO

The Group entered 2007 focused on continued organic growth, for which we had created a range of attractive options. When it emerged that ABN AMRO was seeking alternative options for that company's growth, it was incumbent on us to consider the implications and opportunities raised by that decision. Following very thorough analysis and debate by the Board, and consultation with shareholders, the Group decided to bid for ABN AMRO as part of a consortium involving our partners Banco Santander and Fortis.

It was, and remains the Board's view that the acquisition of ABN AMRO will deliver good, long-term value enhancement to shareholders. The businesses which the Group has secured will enable us to accelerate the implementation of our growth strategy and also provide the Group with a significant presence and options for expansion in the world's most rapidly growing economies.

Financial market and economic developments

Rising mortgage delinquencies and declining house prices in the US combined to trigger a significant disruption to credit markets in the second half of the year. One consequence has been a decline in the value of a range of assets and resultant,

often substantial write-downs for banks around the world. Another was to hasten a slowdown in the pace of activity in some economies, especially in the US.

We have witnessed the benefits of the Group's long-standing focus on credit quality and the diversification of our income streams which have allowed us to deliver record profits despite the challenging environment.

Board of directors

There were no changes to the composition of the Board during the year. This stability and continuity served the Group well and is particularly important in the current environment. I would like to thank my colleagues for their support and commitment in 2007.

The environment

I was pleased that others have recognised the seriousness of the Group's approach to the environment. RBS was included in the Carbon Disclosure Project's Climate Disclosure Leadership Index, while Innovent, a ratings agency, upgraded us to AAA for our management of social and environmental risks and opportunities, culminating in RBS being named as one of the 100 most sustainable companies globally at the Davos World Economic Forum in 2008. Our commitment to the environment is also good for our business and in 2007 we remained one of the world's leading financiers of renewable energy projects.

2008

We have a great deal to do in 2008. Markets will continue to be demanding and we have a major integration to deliver. But we also have an unparalleled set of opportunities and their realisation will allow us to continue on the impressive growth trajectory that has characterised RBS over the past decade.

Sir Tom McKillop
Chairman



Group Chief Executive's review



For The Royal Bank of Scotland Group, 2007 was defined by another strong operating performance and by the acquisition of ABN AMRO.

The diversity and quality of our business platform enabled us to deliver good financial results, with operating profit for the enlarged RBS Group rising by 9% to £10,282 million. Our earnings momentum remained powerful, notwithstanding the impact of challenging credit market conditions in the second half of the year.

Our results demonstrate the resilience of the Group in the face of testing circumstances. The summer floods came during the wettest May to July in England and Wales since records began in 1766. While RBS Insurance responded magnificently to meet the needs of customers in distress, the impact on profits is evident. The pace of activity in the US slowed as the housing market weakened, leading to challenging conditions for Global Banking & Markets ('GBM') and Citizens. Later in the summer began the dislocation in credit markets, which made the second half a turbulent period for the financial services sector.

Delivering such a robust financial performance in this environment is the consequence of action in two areas: over a number of years we have diversified the Group's income streams and last year also saw us benefit from our focus on credit quality and risk management with our impairments, excluding ABN AMRO, down 1%.

Our customers and businesses

The Group now serves over 40 million customers in 53 countries worldwide. In each of those markets we will continue our relentless focus on customers' needs.

GBM enjoyed another strong first half performance and took full advantage of the volatility in the second half to deliver excellent performances in interest rate and currency trading. Inevitably, the second half witnessed significantly lower origination volumes in credit markets and write-downs on US mortgage-related exposures. Our UK Corporate Banking business enjoyed another very successful year maintaining its consistent record of high single-figure income growth and further advancing its market share from a position of leadership. By continuing to invest in service quality we have achieved market-leading customer satisfaction scores and customer numbers increased by 4%.

Retail delivered strong growth in savings and investment products while maintaining a cautious approach to unsecured credit. Our success is built on customer satisfaction, and on this metric RBS and NatWest maintained their lead over the other major high street banks. Wealth Management's trajectory remains very strong. We continued to expand Coutts UK's regional franchise and achieved significant growth in Asia-Pacific.

Ulster Bank maintained its strong growth record and we have continued to invest in the good opportunities for future growth presented by the Irish market. Citizens further developed its franchise, increasing its consumer banking customer base by 2% and achieving good results in its growing corporate and commercial banking operations.

In RBS Insurance, we have built on our strong position as the UK's leading personal lines insurer by further sharpening our focus on selective underwriting of the more profitable segments, reducing volumes in others. Of course, results were held back by the floods, but excluding this, operating profit grew strongly.

Manufacturing is central to the way we operate, underpinning our determination to deliver service to our customers while deriving scale benefits achievable from sharing infrastructure, processes and services across our businesses. We held cost growth to just 1%, despite continued investment in technology and property to support increased transaction volumes and the development of our business.

Capital

The Group's Tier 1 capital ratio at 31 December was 7.3% and our total capital ratio 11.2%, within our target ranges. At the time of the bid for ABN AMRO we indicated our intention to rebuild our capital ratios. We remain committed to this goal, and the improved financial returns now expected on the acquisition will help to accelerate delivery of the Group's capital regeneration commitments.

Positioned for growth

This decade has seen considerably stronger economic growth in the developing world, especially Asia, than in the West. Trade and capital flows have been the main drivers of rising prosperity. This growth has spurred demand for many commodities, notably energy. Within the dynamic Asian economies, the number of wealthy people is growing and around the world affluence is increasingly common.

In recent years we have created options that will allow the Group to pursue the opportunities for profitable growth stemming from these economic changes. Rapid economic growth raises demand for the routine risk management and payments services in which we have excellent capabilities. Economic development requires infrastructure investment, playing to our strengths in project finance. Growing demand for commodities was among the factors prompting our forthcoming joint venture with Sempra Commodities. We increased the number of private bankers in Coutts Asia to capitalise on the region's growing wealth management market.

We had also positioned the Group for continued growth in mature markets. In UK retail banking we anticipated that households would save more and successfully boosted our sales of savings and investment products. We focused on investing in customer service in UK Corporate Banking and have strengthened our market leading position. In the US our distribution and product capabilities now provide an excellent platform in the corporate and commercial markets.

ABN AMRO

The acquisition of ABN AMRO gives us the ability to accelerate our existing strategies for growth outside the UK, particularly in rapidly expanding markets, while adding complementary capabilities and customer franchises to our portfolio of businesses. The integration has made a strong start, and synergies are now expected to total €2.3 billion, compared with our original estimate of €1.7 billion.

Our employees

The quality and hard work of our employees are the source of the Group's success. Each year we seek their views, benchmark their responses against our peers and then act on what they tell us. While the weakening external environment and the demands of the ABN AMRO transaction made 2007 a challenging year for many employees, a record 90% of our employees participated in Your Feedback 2007. We made progress on all of the 15 measures, exceeding the Global Financial Services Norm on every indicator.

Group structure

RBS's organisational architecture has remained largely unchanged since 2000. It now needs to evolve to recognise the fact that we are present in over 50 countries and to facilitate the integration and operation of the ABN AMRO businesses. This new organisational structure will give us the right

framework for managing the enlarged Group in a way that fully capitalises on the enhanced range of attractive growth opportunities now available to us.

Some of our businesses can best serve customers' needs by organising themselves on a global basis. Others are best managed with a more regional focus. We have therefore established Global Markets which comprises two divisions, Global Banking & Markets ('GBM') and Global Transaction Services ('GTS'). The first corresponds largely to the existing GBM, enhanced by the product capabilities and customer franchises of ABN AMRO. GTS will combine ABN AMRO's world class capability in international payments with our existing corporate transaction banking and merchant acquiring activities. It ranks among the top five payments businesses in the world with operating profit of approximately £1.6 billion in 2007.

The remainder of our banking franchises have more distinctively national or regional characteristics. It makes sense to continue to manage them on this basis. We are now represented in an expanded range of countries, and in order to ensure effective coordination and control we have regrouped our retail and commercial banking activities into four regional divisions: UK Retail and Commercial Banking, US Retail and Commercial Banking, Europe and Middle East Retail and Commercial Banking, Asia Retail and Commercial Banking.

RBS Insurance will retain its existing structure and strategy. We will further extend our manufacturing model across the enlarged Group globally.

Outlook

It is tempting to think of the task before us in 2008 only in terms of the integration of ABN AMRO, and delivery of the substantial cost and revenue synergies. To do so, however, would overlook the real opportunities for the enlarged Group.

Whilst the future seems as difficult as ever to predict, it is clear that we enter 2008 with real momentum behind our organic growth, and with our product range, distribution capabilities and customer franchises materially enhanced. Coupled with our greater presence in the world's largest and fastest growing economies, there is much to be done, but a confidence that it will be, to the benefit of our shareholders, our customers and our employees.

Sir Fred Goodwin
Group Chief Executive

Divisional review

Corporate Markets – Global Banking & Markets

Highlights

- In terms of relationships with large corporates and financial institutions, we are now number one in the UK and Europe and number five in the US and Asia-Pacific, excluding Japan.
- GBM was named Inflation Derivatives House of the Year in the Risk Awards by Risk magazine.
- ifr magazine named us Sterling Bond House of the Year and European and North American Securitisation Houses of the Year.

Contribution (£m)

07	3,832
06	3,923

Our GBM division enjoyed another strong first half performance and throughout 2007 made good progress, in our Continental European and Asian businesses in particular. We took full advantage of market volatility in the second half to deliver excellent performances in interest rate and currency trading, with income growth of 78% and 48%, respectively. These same market conditions resulted in significantly lower origination volumes in the credit markets as well as write-downs on US mortgage-related exposures. Overall, we continued to benefit from the diversity of our income streams.

We continued to build GBM around the globe, making significant investments in people, infrastructure and technology to support growth and develop new product capabilities. Our Beijing office attained branch status, enabling us to deliver a wider range of products to clients in China. We moved to new premises in Paris to accommodate growth.

Building on our already extensive relationships, ABN AMRO will extend our presence to more than 50 countries, improving our ability to meet clients' needs around the globe. Integration of ABN AMRO's wholesale businesses within GBM brings considerable strengths in equities, corporate finance and advisory services, emerging markets and transaction services, including cash management and trade finance.



▲ GBM's Tokyo office was joint arranger of SoftBank Mobile's ¥65.1 billion securitisation of mobile handset instalment sales receivables.

◀ GBM was the sole bookrunner for a €266 million infrastructure facility for EDF Energies Nouvelles to fund construction of six wind farms in France.

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Corporate Markets – UK Corporate Banking



Highlights

- An independent survey showed our market share in Scotland rising to 46%. Even where we have a significant presence, we can grow if we deliver a high quality of service.
- RBS is the No.1 brand for service in England & Wales and Scotland according to an independent survey.

Contribution (£m)



Our UK Corporate Banking business enjoyed another very successful year maintaining its consistent record of high single-figure income growth and further advancing its market share from a position of leadership.

An important reason for this sustained performance is our relationship banking model, which involves a long-term commitment to customers. In 2007, we invested in several hundred more Relationship Managers, and co-located relationship and specialist product teams across the UK to provide 'joined-up' local delivery for customers. We also invested in simplified and easier-to-use documentation, and in new mobile technology which allows our people to spend more time with the companies we serve.

Product innovation has been central to meeting customers' needs. We greatly improved delivery channels with the launch of new Bankline, our advanced web-based electronic banking platform. 50,000 corporate and business customers enjoyed access to new Bankline and gave us strongly positive feedback about it. Lombard introduced a vehicle carbon offset scheme, while our services to businesses that trade internationally were enhanced by Supplier Finance – a new global supply chain finance product – and Tradeflow – an automated online trade finance service.

We maintained our rigorous focus on credit quality and risk management. As a result, while the amount we lent increased the quality of the portfolio remained stable and impairment losses fell.

▲ We began a new relationship with Wales' leading brewer and pub operator SA Brain & Co Ltd.

▶ After more than 200 years with one of our major UK competitors, one of Essex's longest established law firms, Gepp & Sons, was persuaded to move their banking relationship to UKCB.



Retail Markets – Retail

Highlights

- Among major high street banks, RBS and NatWest are number one and number two, respectively, for customers who say they are 'extremely satisfied' with their main current account provider.
- With 2,278 RBS and NatWest branches, our network is the UK's largest. We opened, upgraded or refurbished 224 branches in 2007.
- 50% of first year full-time undergraduates in England and Wales with a student account have one with RBS or NatWest.

Contribution (£m)

07	4,073
06	3,830

Our focus on customer service, strong products and a measured approach to risk were the foundations for success in 2007. We originated more personal loans through branches and fewer through direct channels. Recognising consumers' shift from borrowing to saving we focused on selling savings and investment products and NatWest opening more than one million new savings accounts.

In Business Banking we maintained our leading share of the SME market and invested in people, technology and service quality to secure future growth, including returning 500 managers to branches where they can work more closely with customers.

Tesco Personal Finance celebrated its tenth birthday, attracting 1.6 million new accounts, taking the total above 5.2 million.

2007 was another successful year for our credit card partnership with Bank of China. A total of 2.3 million new cards were issued across all channels, and our strength as a co-brand partner was reflected in seven new co-brand deals with major companies in China, including one with Air China.

Retailer Solutions – the number one merchant acquirer in the UK and number three worldwide – benefited from consumers' growing preference for cards over cash, and for e-shopping. These helped boost transactions by 11%, with online purchases up 39%.



▲ In September, Retail Markets launched its Revolve account for 11–18 year olds. Customers can design and personalise the look of their debit card.

◀ Working closely with RBS Insurance, Retail Markets has made excellent progress in selling home insurance through the RBS and NatWest brands.

Retail Markets – Wealth Management



Highlights

- Coutts' UK customer numbers rose by 7%.
- 11,000 clients worldwide invest more than £8 billion in securities markets using Coutts & Co's Discretionary Investment Management Scheme.
- Euromoney ranked Coutts & Co Best in the UK for Super Affluent and High Net Worth clients.

Contribution (£m)

07	558
06	462

Wealth Management delivered strong organic growth, reflecting our brand strength, product portfolio and geographic reach. There are significant, long-term opportunities in this market, with the wealth of the world's High Net Worth Individuals forecast to reach US\$51.6 trillion by 2011, growing at an annual rate of 7%.

Coutts' UK regional expansion programme continued and outside the UK, momentum was maintained particularly in the Asia-Pacific region. From the beginning of 2008 we have re-branded Coutts International as RBS Coutts to draw on the global brand strength of the Group.

As part of our partnership with the Bank of China, our new joint private banking initiative opened for business in Beijing and Shanghai in March.

Coutts & Co launched its first financial education programme for children of clients in July 2007. The 2½ day Assets & Responsibilities Course was designed to engage young people in wealth management and empower them to become financially successful.

▲ We have recently re-branded our Coutts International branches, such as this one in Singapore to RBS Coutts. This allows us to draw on the strength of the global brand.

▶ Asia-Pacific is an increasingly important region for Wealth Management. In 2007, we saw a 27% rise in customer numbers.



Ulster Bank

Highlights

- Ulster Bank Corporate Markets won the KPMG Business Banking Excellence Award for the third consecutive year.
- With more than 1,100 machines our ATM network is now the second largest on the island of Ireland.
- We funded the first large scale biodiesel production plant in Ireland, helping Ireland to meet its EU Biofuels Directive obligations.

Contribution (£m)

07	732
06	636

Ulster Bank Group achieved impressive results while expanding its footprint and introducing innovative new products. Across Ireland we opened seven joint Ulster Bank branch and business centres, three First Active stores and refurbished 46 locations. Two new mobile branches enabled us to improve further the service provided to customers in rural locations.

We built on our integration with the RBS IT platform to launch new products including a number unique to the Irish market. These included a new business banking proposition for start-ups; OneCard, the first all-in-one card in the Irish market allowing smaller companies to rationalise their payments process; and the first personalised credit card, allowing customers to brand their cards with the image of their choice.

First Active delivered a record year in investments, capitalising on the opportunity presented by the maturity of the Special Savings Account Ireland, a government-backed savings scheme.

Our Corporate Markets business leveraged the strengths of the wider Group to finance construction of the N6 motorway and widening of the M50 ring road around Dublin. The consortium for these Public Private Partnerships involved contractors from Spain and Ireland, and Ulster Bank worked closely with GBM in Madrid, the relationship bankers to the Spanish firms.



Ulster Bank Group continued to expand its footprint across the island of Ireland. In 2007, we opened seven new joint branch and business centres for Ulster Bank and three new First Active stores. This is the new branch and business centre at Blackpool in County Cork.

Citizens



Highlights

- We remained No.1 US Small Business Administration lender in New England, Pennsylvania and Delaware.
- Since the late 1980s, Citizens has approved more than 41,000 Small Business Administration loans totalling more than \$2 billion.
- We introduced e-Statements in 2007 and expect to save at least 10 million sheets of paper in 2008.
- The Customer Relationship Review, an automated profiling and customer data management tool, was introduced to enhance and improve customer service.

Contribution (\$m)



Very challenging economic conditions affected our personal lending, mortgage and auto loans businesses. However, Citizens continued to make progress in developing its corporate and commercial franchise. In doing so it drew on the strengths of the wider Group, enabling us to make private placements, public bond offerings and loan syndications and to provide cross-border solutions to clients. Citizens' Foreign Exchange and Derivatives revenue grew by more than 20%.

Kroger Personal Finance, our joint venture with the second largest US supermarket group, sold over two million products, including 1-2-3 Rewards[®] MasterCard[®], and prepaid and gift cards.

Our colleagues who serve customers every day often know best what we can do to improve our service. So last year we undertook a range of activities to make sure those ideas came to the fore. This resulted in more than 270 improvements to service provision. Our investment was rewarded with an increase in the customer satisfaction score to 85%.

▲ ePrize LLC, the world's largest interactive promotions agency, was one of the first recipients of Charter One's Job Creation Loan Program, a \$200 million loan commitment to companies that create jobs in Michigan.

▶ Ellen Wolf, CFO, American Water, with Thomas Connor, RBS Greenwich Capital and Steve Stambaugh of Citizens discuss the private placement of Senior Unsecured Notes.



RBS Insurance

Highlights

- Typically we receive 350 flood claims in a summer month. Between 14 June and 22 July we received nearly 11,500 flood claims, including 3,900 in one day.
- We managed £4 billion of claims and answered 8.5 million claims calls.
- Our Claims area received the Investors in Excellence award while our garage network achieved the BSI Kitemark for Vehicle Body Repair.
- Churchill, Direct Line and Green Flag all received 'Best Of' awards from Your Money in 2007.

Contribution (£m)

07	902
06	964

We are justifiably proud of how RBS Insurance responded to the floods of June and July. By any measure it was a major challenge. By invoking our Severe Weather Event Plan, we were able to handle the large increase in the numbers of calls and claims, ensuring our customers got the help they needed as quickly as possible.

Working closely with Retail Markets, we have made excellent progress in selling home insurance through the RBS and NatWest brands. We continued to develop our low cost operating model, streamlining our processes by bringing together the Sales, Service and Claims functions, enabling us to provide efficient and consistent service standards to our customers.

We continued to diversify our income streams from the traditional core of UK household and motor insurance. Direct Line 'Open for Business' was introduced in September offering simple, accessible insurance products for small businesses, while our International division returned strong growth, with motor policies up by 7%.



▲ In the last two weeks of June, the flood claims team at RBS Insurance dealt with more calls in one day than they usually receive in a typical summer month.

◀ Direct Line introduced its new 'Open For Business' insurance products in September.

Manufacturing



▲ Manufacturing supported the launch of contactless debit card when the AT&T Williams Formula 1 Team made the UK's first public transaction in East London.

► We launched a new customer service commitment, where we aim to refund customers who have been innocent victims of fraud within 24 hours of contact.



Highlights

- Manufacturing played a central role in developing Tesco Compare, a website allowing customers to compare and buy motor insurance from more than 30 different brands in the UK.
- If a customer's debit card is lost or stolen, we can help them access emergency cash from over 7,000 ATMs.
- Our Property team managed the development of new offices in India, Singapore and Paris, as well as refurbishing and expanding the Ulster Bank branch network.

Total costs (£m)

07	2,914
06	2,872

Our Manufacturing division had a very strong year, supporting the development of our businesses while continuing our rigorous focus on cost control.

We invested significantly to protect our customers from fraud in 2007, introducing Chip & PIN to our branches in the UK and Ireland and launching 2 Factor Authentication for online banking transactions. Our Identity Theft Support Team now helps victims of crime in the UK; and the introduction of improved processes means we now aim to refund those customers who have suffered fraud within 24 hours of contact.

Manufacturing was at the forefront of a range of innovations. In August, RBS became the first UK bank to use Contactless Payment technology. Manufacturing also supported the launch of mobile phone banking in September.

Our eSourcing programme continues to deliver savings, helping us limit total cost growth to 1%. This online tool is used across all divisions and geographies to source goods and services. Savings are realised more quickly through reducing tender time, helping to make this programme one of the top ten in the world.

ABN AMRO

Highlights

- Retail banking customer numbers in Asia increased by 12% to 3.7 million, with growth driven principally by Van Gogh Preferred Banking, our relationship banking service for mass affluent clients.
- The number of credit cardholders in Asia grew by 18% to 3.3 million.
- Asia corporate banking income saw good growth across the region in 2007.
- We opened 16 new branches across China, India, Indonesia, Hong Kong and Malaysia.

Contribution (£m) – from date of acquisition 17 October 2007.

07 | 128

Since we completed the acquisition of ABN AMRO in October our confidence in the opportunities it offers the Group has deepened. It brings many excellent people, strong franchises and products, and extends our presence in the world's fastest growing markets, as well as further diversifying our income streams. We expect to secure greater cost savings and revenue benefits than originally anticipated.

We have made good progress on integration. Appointments have been made to the Supervisory and Managing Boards and to senior management positions. We have confirmed which businesses RBS will retain. Migration to RBS brand and model has begun.

While credit market activities reflected the prevailing market conditions, equities, rates and financial institutions performed well. Transaction banking maintained good momentum, reflecting strong growth in cash management balances and significant expansion in trade finance. International retail banking businesses performed well over the whole of 2007.



▲ Combined with ABN AMRO, RBS is now the leading corporate bank in Europe in terms of relationships with large corporates and financial institutions. This is the Paris office of ABN AMRO.

◀ India is already an important market for ABN AMRO. It has a network of 28 branches.

Corporate Responsibility



▲ Ben Morris took advantage of our YourWorld bike-to-work scheme that allows employees to make considerable savings on the cost of a cycle. He also uses YourWorld carbon offsets and tax free bus season tickets.

▶ In June we launched the YourWorld employee website. There is a carbon calculator, energy efficiency tips and discounted offers on products which reduce their carbon footprint.



RBS is a responsible company. We carry out rigorous research so that we can be confident we know the issues that are most important to our stakeholders and we take practical steps to respond to what they tell us. In 2007 we extended that research, engaging more fully the stakeholders of Ulster Bank and RBS Insurance, and stakeholders in the US. In this section we outline some of our stakeholders' priorities and describe the actions we have taken in response.

Combating crime

Stakeholders have told us that financial crime is their leading concern. This reflects the fact that identity fraud is the UK's fastest-growing crime and the media coverage that high profile cases receive. We understand the reasons for stakeholders' concerns and work hard to achieve our vision of RBS being the safest place to do business.

We have taken a range of actions to protect our customers. Working with others, our contribution to industry initiatives in 2007 was equivalent to 14,000 days of police officers' time. RBS was among the first banks to load data onto the new Fraud Intelligence Sharing System. Our internal team dedicated to improving security and combating fraud employs more than 900 people in the UK alone. During 2007 the Group implemented 30 initiatives to tackle fraud. In the US, Citizens' Fraud Stopper Program rewards employees who go above and beyond their normal job responsibilities to prevent fraud against the Group.

Our focus on crime makes good business sense. In an independent survey of customers who had experienced fraud on their cards, the satisfaction score for RBS and NatWest was over 80%.

Building financial capability

When people have been educated about money and how to work with financial services firms they are more likely to make the right decisions and to avoid difficulties. Our commitment to building financial capability began over 14 years ago with the

- ▶ 100% of electricity purchased in the UK and for the island of Ireland came from renewable energy sources
- ▶ Employee double matching programmes extended to the US, Europe and Asia-Pacific

Face2Face with Finance for Schools programme. During that time we have invested more than £40 million in related activities, from providing lessons to almost 1.5 million school children to supporting 20,000 free training courses for debt advisers. In 2007 our employees delivered more than 16,000 lessons to over 635,000 pupils.

To ensure we have a sound evidence base for our activities in this field we have established the MoneySense Research Panel, a cohort of 10,000 secondary school pupils aged between 11 and 18 years. We will keep in touch with this group of young people over the next five years to understand how different levels of financial education and understanding affect the capabilities, aspirations and decisions they make as they enter early adulthood.

The work we do to build financial capability extends beyond young people in schools. In October, Face2Face with Finance was brought even more firmly into the heart of our business and rebranded as MoneySense.

We reached beyond our customer base in building capability through media partnerships with two UK national newspapers. The Metro Debt Alert campaign, run in partnership with Citizens Advice sought to help people better understand their finances and encouraged those with concerns to seek help early. Our partnership with the Daily Mail offered its readers a free guide on How to Take Control of Your Money.

Promoting financial inclusion

Some people can find it difficult to access financial services, with challenges in three areas: bank accounts, credit and debt advice. We are the UK's largest provider of Basic Bank Accounts, which are designed for customers who have had difficulty in entering the banking system.

We recognise that some people's financial needs may be better fulfilled by organisations outside the banking sector and we work with Third Sector bodies to improve the provision of affordable credit to people on low incomes. In January, RBS was chosen as the main banking partner of Scotcash, a new Community Development Finance Institution set up to provide access to affordable credit to people in Glasgow who have not had full access to mainstream financial services.



◀ 20 employees from Wealth Management spent a week working with charity, Habitat for Humanity, constructing five houses for a rural community near Bangalore, India.

In supplying money advice, our work aims to improve the quality and availability of information for people facing difficulties managing their finances. Of course, much of what we do in this area is part of the service we routinely offer to customers. In addition to general advice, available through MoneySense, our research shows that customers value tailored money management advice that helps them when they are making specific decisions. In 2007, our response included recruiting an additional 1,000 Customer Service Advisers in our RBS and NatWest branches and undertaking 1.2 million personal financial reviews with our customers.

We also support the money advice sector. Our efforts here are channelled through the Money Advice Trust ("MAT"), a charity formed in 1991 to improve the supply of free and independent money advice. We continue to be the largest corporate sponsor of MAT. Our support allows the MAT to train Debt Advisers. More than 90% of the free money advice sector is trained using RBS funded materials and our funding supports 5,000 free places on training courses each year. We have chosen to focus our support specifically on face-to-face advice because it is the preferred channel for those on lowest incomes.

In the US, Citizens' Individual Development Account offers low income families incentives to save for home ownership, post-secondary education or business ownership. This anti-poverty strategy combines learning about financial management with incentives to save for long-term assets that improve the economic security and lifetime earning power of participants.



▲ In December, we gave £1 million to 91 children's charities, chosen by staff and readers of the Daily Mail. Children's Minister, Rt Hon Beverley Hughes MP handed over £100,000 to the winning charity, Tommy's.

► Ulster Bank's musical outreach programme is designed to nurture young primary school talent across the island of Ireland. Children from St Paul's Junior National School in Dublin enjoy their workshop.



Customer service

Our consistent leadership among the main high street banks in customer satisfaction is a consequence of our desire to make it as easy as possible to use our services. We operate the largest branch network in Britain and the second largest in the island of Ireland and continue to extend them in both locations. We operate one in five of all free-to-use ATMs in the UK, the largest free-to-use network in the country. However, our stakeholders told us that some communities in the UK do not have reasonable access to a free-to-use ATM. To address this, we committed to installing additional free-to-use ATMs in neighbourhoods without existing provision and with 494 in place we will soon reach our target of 500 machines.

People living in remote communities across Scotland, England and Wales, often distant from a branch and other services, can use one of our 20 mobile branches. They make more than 25,000 stops each year and cover in excess of 190,000 miles. Last year we introduced four new mobile branches in North Wales and Yorkshire, operated by RBS, and in Cumbria and Devon under the NatWest brand.

In January we launched a new product designed to meet the needs of the UK's growing Polish community. The NatWest Welcome Account provides easy access to banking services for Polish speakers in the UK. Since we know that sending money home is important to them, we have made arrangements with PKO Bank Polski, Poland's largest retail bank, so that customers can make free money transfers between their NatWest Welcome Account and any account at PKO Bank Polski. The Welcome Account won the Best Innovation in Banking award from Scottish Financial Enterprise.

Ulster Bank has added foreign language specialists to a number of its branches, as well as publishing a 'Welcome Brochure' with sections in Polish, Portuguese, Lithuanian and Chinese Mandarin.

Citizens in the community

In the US, Citizens has a proud tradition of community involvement and investment. During 2007, we invested \$25 million with more than 4,000 non-profit organisations and over the last six years

- ▶ £57.7 million invested in our communities during 2007
- ▶ RBS achieved the highest AAA rating from Innovest for managing social and environmental risks

our charitable investments have grown by 500%. We extended our UK Give As You Earn programme to the US; under the Colleague Matching Gift Program launched in August, Citizens matches the charitable donations qualifying employees make to eligible organisations up to \$1,000 per year.

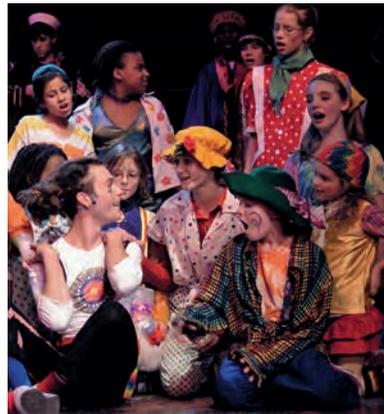
The Community Reinvestment Act (CRA) in the US encourages financial institutions to help meet the needs of low and moderate income communities. There are four CRA ratings: Outstanding, Satisfactory, Needs to Improve and Substantial Non-Compliance. Citizens has Outstanding ratings in every state where it operates and we have retained the Outstanding CRA rating throughout all of our acquisitions.

Our employees

Involvement in voluntary work is one example of how our employees support the communities in which they work. We give employees more hours off work to participate in charitable activities than any company in the UK. We launched Colleagues in Action in Citizens to give greater prominence to the voluntary work of our employees. More than half of our employees report that the Group does 'a very good job' in supporting charitable giving and almost nine out of ten say we are socially responsible in the communities in which we operate.

Our supportive approach to community involvement is one of the reasons for the consistently strong results achieved in the annual Employee Opinion Survey where we consistently exceed the performance of our peers. More than 80% of employees feel they are treated with respect at work. Two out of three employees believe RBS does a good job in developing our people to their full potential. We seem to get right the balance between work and home life, with eight in ten employees saying the hours they put in to get the job done are reasonable. Almost nine out of ten employees feel they are sufficiently informed about the Group's performance and more than 80% say we are good at keeping them informed more generally. In all of these instances, and more, our results exceed the Global High Performance Norm, the results achieved by the world's best performing companies.

Since we believe that our people are the source of our enduring success we invest to develop them. The RBS Business School is central to our commitment to our people to bring out the best



◀ Charter One's Champion in Action programme has assisted more than 90 small non-profit agencies who support their local communities. Near West Theatre, Cleveland, Ohio provides local youngsters with the chance to engage in creative activities and was the first to benefit when the programme was extended to the Midwest.

in them. It also helps us to develop the products and services to meet our customers' needs, and to sustain and enhance the value we return to our shareholders. Last year we convened the new Strategic Advisory Board of our Business School, with membership drawn from some of the world's leaders in executive education. Our Senior Manager Development Programme, designed and delivered for us by Harvard Business School, was supplemented by the Executive Leadership Programme which was developed by Duke Corporate Education.

RBS and the environment

We recognise the threats posed by climate change and endeavour to make a difference where we can. That involves reducing the Group's carbon footprint and wider environmental impacts, helping our employees as they change their behaviour and lending responsibly to the highest internationally-agreed standards. In 2007 we elevated the priority given to the environment and brought greater coherence to our activities with the establishment of the Group Environment Programme.

Our footprint

Financial services is an industry with a low carbon footprint and RBS has one of the lowest among UK banks. We are committed to reducing further the carbon intensity of our operations and the initiatives we have taken should reduce our carbon dioxide emissions by as much as one-fifth by 2011. We will achieve that in a number of ways. Since October 2007, all of our electricity in the UK and Ireland has come from renewable sources. Phase one of our £55 million property

Corporate Responsibility continued



▲ Barbara Norris is one of the 6,000 members of staff who have delivered MoneySense lessons to 1,500 schools across the UK. Here she is helping pupils at Ramsey School Essex.

▶ Sharon Johnson who has worked for RBS since leaving school 17 years ago, took a two month sabbatical to work at the Sepilok Orangutan Sanctuary in Borneo.



investment programme is nearing completion and will cut our annual carbon dioxide emissions by 97,000 tonnes. We are piloting energy efficient technologies at our 'Building for the Future' sites in Blackpool and Rotherham in England. Last year the Group recycled 21,000 tonnes of paper and the introduction of e-statements in November will reduce significantly the 15 million statements we send through the post each month.

Our employees

Our employees have told us that they take seriously their personal impact on the environment and strive to minimise it where they can. We took a major step to helping them with the launch of 'Your World'. Through this web-based service, employees in the UK, Ireland and the US can calculate their carbon footprint, obtain advice about how to reduce it and buy competitively-priced energy and transport services that will also help them to reduce their emissions.

Our lending

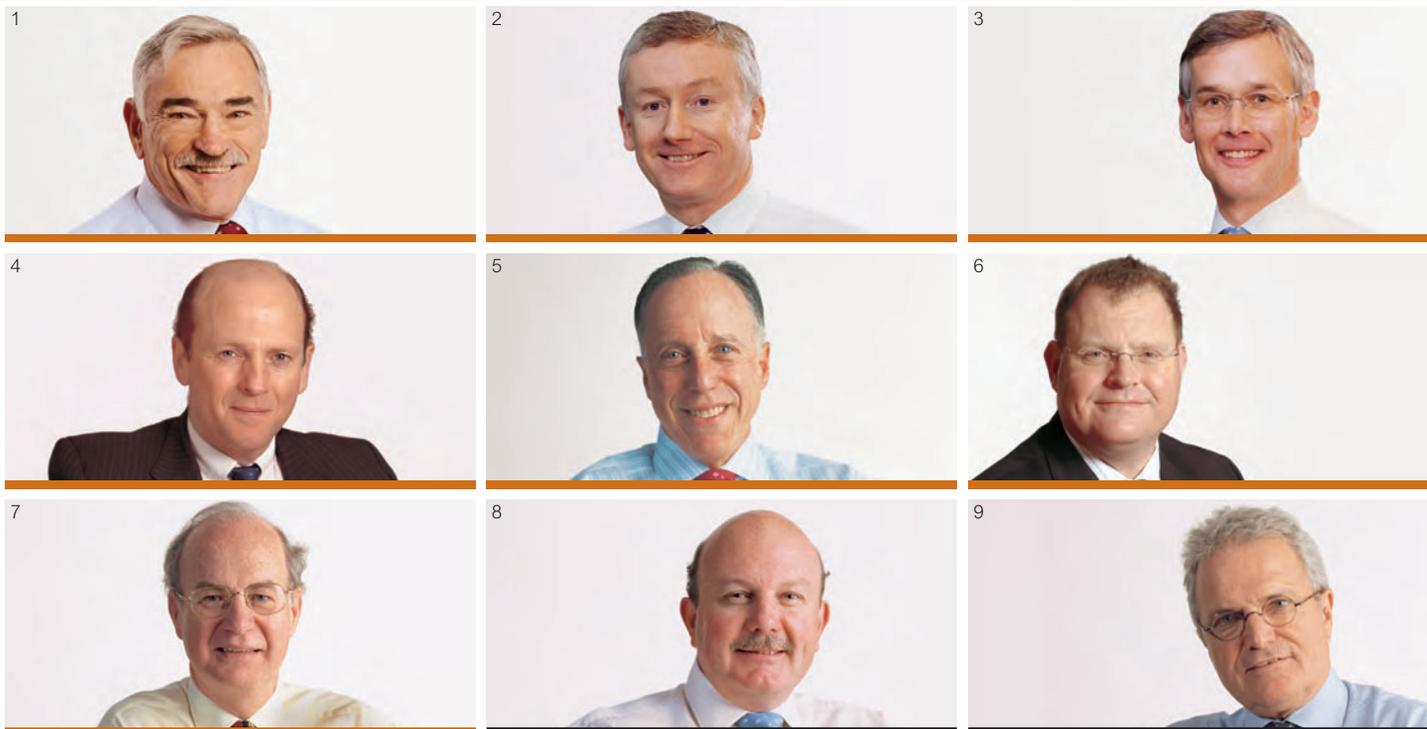
RBS is one of the ten initial adopters of the Equator Principles, a benchmark for managing the social and environmental impact of financing projects. We lend only to projects which satisfy these exacting standards. Our regard for the environment also makes good business sense and the Group is among the largest funders of renewable energy projects in the world.

Recognition

Our efforts in managing the Group's environmental impact have been recognised by others. The ratings agency Innovent upgraded us to AAA for managing social and environmental risks and opportunities, and we were again included in the Dow Jones and FTSE4GOOD sustainability indices. RBS was included in the Carbon Disclosure Project's Climate Disclosure Leadership Index and we were one of only four banks globally to receive a score of 95% or higher. At the World Economic Forum in Davos, we were included among the world's 100 most sustainable companies for the first time.

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Board of directors and secretary



Chairman

1. Sir Tom McKillop (age 64)

C, N, R

Appointed to the Board as Deputy Chairman in September 2005, Sir Tom is a non-executive director of BP p.l.c., and president of the Science Council. He was formerly chief executive of AstraZeneca PLC, and was previously president of the European Federation of Pharmaceutical Industries and Associations and chairman of the British Pharma Group. He is a trustee of the Council for Industry and Higher Education.

Chief Executive, Corporate Markets

4. Johnny Cameron (age 53) FCIBS

Appointed to the Board in March 2006, Johnny Cameron joined RBS from Dresdner Kleinwort Benson in 1998. In 2000, he was appointed Deputy Chief Executive of Corporate Banking & Financial Markets (CBFM) with responsibility for the integration of the NatWest and RBS Corporate Banking businesses. In October 2001 he was appointed Chief Executive CBFM, subsequently renamed Corporate Markets in January 2006.

Chief Executive, Retail Markets

7. Gordon Pell (age 58) FCIBS, FCIB

Appointed to the Board in March 2000, Gordon Pell was formerly group director of Lloyds TSB UK Retail Banking before joining National Westminster Bank Plc as a director in February 2000 and then becoming Chief Executive, Retail Banking. He is also a director of Race for Opportunity and a member of the FSA Practitioner Panel. He was appointed chairman of the Business Commission on Racial Equality in the Workplace in July 2006 and deputy chairman of the Board of the British Bankers Association in September 2007.

Executive directors

Group Chief Executive

2. Sir Fred Goodwin (age 49)

DUniv, FCIBS, FCIB, FIB, LLD

C

Appointed to the Board in August 1998, Sir Fred is a Chartered Accountant. He was formerly chief executive and director, Clydesdale Bank PLC and Yorkshire Bank PLC. He is chairman of The Prince's Trust, a non-executive director of Bank of China Limited and a former president of the Chartered Institute of Bankers in Scotland.

Chairman, RBS America and

Citizens Financial Group, Inc.

5. Lawrence Fish (age 63)

Appointed to the Board in January 1993, Lawrence Fish is an American national. He is a career banker and was previously a director of the Federal Reserve Bank of Boston. He is an incorporator of the Massachusetts Institute of Technology (MIT), a trustee of The Brookings Institution, and a director of Textron Inc. and numerous community organisations in the US.

Non-executive directors

8. Colin Buchan* (age 53)

A, C, R

Appointed to the Board in June 2002, Colin Buchan was educated in South Africa and spent the early part of his career in South Africa and the Far East. He has considerable international investment banking experience, as well as experience in very large risk management in the equities business. He was formerly a member of the group management board of UBS AG and head of equities of UBS Warburg, and was the former chairman of UBS Securities Canada Inc. He is a director of Standard Life plc, Merrill Lynch World Mining Trust Plc, Merrill Lynch Gold Limited, Royal Scottish National Orchestra Society Limited and World Mining Investment Company Limited.

Group Finance Director

3. Guy Whittaker (age 51)

C

Appointed to the Board in February 2006, Guy Whittaker joined RBS after spending 25 years with Citigroup. He was formerly the Group treasurer based in New York and prior to that had held a number of management positions within the financial markets business based in London.

Chairman, Managing Board, ABN AMRO

6. Mark Fisher (age 47) FCIBS

Appointed to the Board in March 2006, Mark Fisher is a career banker having joined National Westminster Bank Plc in 1981. In 2000, he was appointed Chief Executive, Manufacturing with various responsibilities including the integration of RBS and NatWest systems platforms. Mark Fisher is Chief Executive Officer of ABN AMRO and was appointed as Chairman of the Managing Board in November 2007.

9. Jim Currie* (age 66) D.Litt

R

Appointed to the Board in November 2001, Jim Currie is a highly experienced senior international civil servant who spent many years working in Brussels and Washington. He was formerly director general at the European Commission with responsibility for the EU's environmental policy and director general for Customs and Excise and Indirect Taxation. He is currently a director of Total Upstream UK Limited, The Met Office and Vimetco N.V. as well as an international adviser to Eversheds.



10. Bill Friedrich* (age 59)

A
Appointed to the Board in March 2006, Bill Friedrich is the former deputy chief executive of BG Group plc. He previously served as general counsel for British Gas plc and is a former partner of Shearman & Sterling where he practised as a general corporate lawyer working for several of the world's leading financial institutions.

11. Archie Hunter* (age 64)

A (Chairman), C, N
Appointed to the Board in September 2004, Archie Hunter is a Chartered Accountant. He was Scottish senior partner of KPMG between 1992 and 1999 and president of The Institute of Chartered Accountants of Scotland in 1997/1998. He has extensive professional experience in the UK and North and South America. He is currently chairman of Macfarlane Group plc, a director of Edinburgh US Tracker Trust plc and a governor of the Beatson Institute for Cancer Research.

12. Charles 'Bud' Koch (age 61)

Appointed to the Board in September 2004, Bud Koch is an American national. He has extensive professional experience in the US and is immediate past chairman of the board of John Carroll University and a trustee of Case Western Reserve University. He was chairman, president and chief executive officer of Charter One Financial, Inc. and its wholly owned subsidiary, Charter One Bank, N.A. between 1973 and 2004. He is also a director of Assurant, Inc and a public interest director of the Federal Home Loan Bank of Cincinnati.

13. Janis Kong* (age 57) OBE, DUniv

R
Appointed to the Board in January 2006, Janis Kong was formerly executive chairman of Heathrow Airport Limited, chairman of Heathrow Express Limited and a director of BAA plc. She is currently a non-executive director of Kingfisher plc and Portmeirion Group plc. She is also chairman of Forum for the Future and a member of the board of Visit Britain.

14. Joe MacHale* (age 56)

A
Appointed to the Board in September 2004, Joe MacHale is currently the senior independent director and chairman of the audit committee of Morgan Crucible plc, a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings plc, and a trustee of MacMillan Cancer Support. He held a number of senior executive positions with J P Morgan between 1979 and 2001 and was latterly chief executive of J P Morgan Europe, Middle East and Africa Region.

15. Sir Steve Robson* (age 64)

A
Appointed to the Board in July 2001, Sir Steve is a former senior UK civil servant, who had responsibility for a wide variety of Treasury matters. His early career included the post of private secretary to the Chancellor of the Exchequer and secondment to ICFC (now 3i). He was also a second permanent secretary of HM Treasury, where he was managing director of the Finance and Regulation Directorate. He is a non-executive director of JP Morgan Cazenove Holdings, Xstrata Plc, The Financial Reporting Council Limited and Partnerships UK plc, and a member of the Chairman's Advisory Committee of KPMG.

**16. Bob Scott* (age 66) CBE, FCIBS
C, N, R (Chairman)**

Appointed to the Board in January 2001, Bob Scott is an Australian national. He is the senior independent director. He has many years' experience in the international insurance business and played a leading role in the consolidation of the UK insurance industry. He is a former group chief executive of CGNU plc (now Aviva plc) and former chairman of the board of the Association of British Insurers. He is currently chairman of Yell Group plc and a non-executive director of Swiss Reinsurance Company and Jardine Lloyd Thompson Group plc. He is also a trustee of the Crimestoppers Trust, an adviser to Duke Street Capital Private Equity and a board member of Pension Insurance Corporation Holdings LLP.

**17. Peter Sutherland* (age 61) KCMG
C, N, R**

Appointed to the Board in January 2001, Peter Sutherland is an Irish national. He is a former attorney general of Ireland and from 1985 to 1989 was the European Commissioner responsible for competition policy. He is chairman of BP p.l.c. and Goldman Sachs International. He was formerly chairman of Allied Irish Bank and director general of GATT and its successor, the World Trade Organisation.

**Group Secretary and General Counsel
18. Miller McLean (age 58)
FCIBS, FIB**

C
Miller McLean was appointed Group Secretary in August 1994. He is a trustee of the Industry and Parliament Trust, non-executive chairman of The Whitehall and Industry Group, director of The Scottish Parliament and Business Exchange and president of the Chartered Institute of Bankers in Scotland.

A member of the Audit Committee
C member of the Chairman's Advisory Group
N member of the Nominations Committee
R member of the Remuneration Committee
***** independent non-executive director

Summary remuneration report

Remuneration policy

The Remuneration Committee conducted a comprehensive review of all aspects of the remuneration package in 2005, and the executive remuneration policy outcome was approved by shareholders at the company's Annual General Meeting in 2006. A new executive share option plan was approved by shareholders at the company's 2007 Annual General Meeting. During 2007 the Remuneration Committee continued to review policy in light of business needs, market changes and shareholder comments.

The objective of the executive remuneration policy is to provide, in the context of the company's business strategy, remuneration in form and amount which will attract, motivate and retain high-calibre executives. In order to achieve this objective, the policy is framed around the following core principles:

- Total rewards will be set at levels that are competitive within the relevant market, taking each executive director's remuneration package as a whole. The relevant market is FTSE top 20 companies and major UK, European and US Banks.
- Total potential rewards will be earned through achievement of demanding performance targets based on measures consistent with shareholder interests over the short, medium and longer term.
- Remuneration arrangements will strike an appropriate balance between fixed and performance-related rewards. Performance-related elements will comprise the major part of executive remuneration packages.
- Incentive plans and performance metrics will be structured to be robust through the business cycle.
- Remuneration arrangements will be designed to support the company's business strategy, to promote teamwork and to conform to best practice standards.

Components of executive remuneration

UK-based directors

Salary

Salaries are reviewed annually as part of total remuneration, having regard to remuneration packages received by executives of comparable companies. The Remuneration Committee uses a range of survey data from published and proprietary sources and reaches individual salary decisions taking account of the remuneration environment and the performance and responsibilities of the individual director.

Benefits

The Group operates The Royal Bank of Scotland Group Pension Fund ('the RBS Fund'), a non-contributory defined benefit fund for employees (including executive directors) who joined the Group prior to 1 October 2006. Any new executive directors will not be eligible to participate in the RBS Fund unless they were already a member prior to 1 October 2006; instead they will receive a cash allowance.

Executive directors also receive additional cover for death-in-service benefits.

Executive directors are eligible to receive a choice of various employee benefits or a cash equivalent, on a similar basis to other employees. In addition, as employees, executive directors are eligible to participate in Sharesave, Buy As You Earn and the Profit Sharing scheme. These schemes are not subject to performance conditions since they are operated on an all-employee basis.

Short-term annual incentives

UK-based executive directors normally have a maximum annual incentive potential of between 160% and 200% of salary. For exceptional performance, as measured by the achievement of additional challenging objectives, executive directors may be awarded incentive payments of up to 200% of salary, or 250% of salary, in the case of the Group Chief Executive, the Chief Executive, Corporate Markets and the Chief Executive, Retail Markets. Awards will normally be based on the delivery of a combination of appropriate Group and individual financial and operational targets approved each year by the Remuneration Committee.

For the Group Chief Executive, the annual incentive is primarily based on specific Group financial performance measures such as operating profit, earnings per share growth and return on equity. The remainder of the Group Chief Executive's annual incentive is based on a range of non-financial measures which may include measures relating to shareholders, customers and staff.

For the other executive directors, a proportion of the annual incentive is based on Group financial performance and a proportion on divisional financial performance. The remainder of each individual's annual incentive opportunity is dependent on achievement of a range of non-financial measures, specific objectives and key result areas. Divisional performance includes measures such as operating income, costs, loan impairments or operating profit. Non-financial measures include customer measures (e.g. customer numbers, customer satisfaction), staff measures (e.g. employee engagement) and efficiency and change objectives.

In respect of 2007, the Remuneration Committee reviewed the annual incentive payments for all executive directors taking into account performance against targets set at the beginning of the year and covering Group financial performance, each director's operational targets, and where appropriate, divisional financial targets. For all directors operational targets included specified strategic developments and improvement in customer and employee satisfaction scores.

Group operating profit targets were met in full notwithstanding the impact of challenging credit market conditions in the second half of the year, and customer and employee satisfaction scores showed improvement in line with or above expectations. Financial performance in most divisions exceeded target. As a result, the Remuneration Committee proposed and the Board (excluding executive directors) agreed annual incentive payments of up to 112.5% of normal maximum levels. Levels of incentive payments to executive directors covered a wide range, reflecting variations in divisional performance.

Long-term incentives

The company provides long-term incentives in the form of share options and share or share equivalent awards. Their objective is to encourage the creation of value over the long term and to align the rewards of the executive directors with the returns to shareholders.

Medium-term Performance Plan

The Medium-term Performance Plan ('MPP') was approved by shareholders in April 2001. Each executive director is eligible for an annual award under the plan in the form of share or share equivalent awards. Whilst the rules of the plan allow awards over shares worth up to one and a half times earnings, the Remuneration Committee has adopted a policy of granting awards based on a multiple of salary. Normally awards are made at one times salary to executive directors, with one and a half times salary being granted in the case of the Group Chief Executive. No changes will be made to this policy without prior consultation with shareholders. All awards under the plan are subject to three-year performance targets.

Awards made in 2006 and 2007 are subject to two performance measures; 50% of the award vests on a relative Total Shareholder Return ('TSR') measure and 50% vests on growth in adjusted earnings per share ('EPS') over the three year performance period.

For the TSR element, vesting is based on the level of outperformance by the Group of the median of the comparator group TSR over the performance period. Awards made under the plan will not vest if the company's TSR is below the median of the comparator group. Achievement of median TSR performance against comparator companies will result in vesting of 25% of the award. Outperformance of median TSR performance by up to 9% will result in vesting on a straight-line basis from 25% to 125%, outperformance by 9% to 18% will result in vesting on a straight-line basis from 125% to 200%. Vesting at 200% will occur if the company outperforms the median TSR performance of the comparator group by at least 18%. For awards made in 2006 and 2007, the companies in the comparator group were ABN AMRO Holdings N.V.; Banco Santander Central Hispano, S.A.; Barclays PLC; Citigroup Inc; HBOS plc; HSBC Holdings plc; Lloyds TSB Group plc and Standard Chartered PLC. Following the acquisition of ABN AMRO by the Consortium Banks in October 2007, the Remuneration Committee agreed that Fortis N.V. would replace ABN AMRO in the comparator group for awards made in 2006 and 2007, and also for awards to be made in 2008.

The EPS element ensures a clear line of sight for executives to improve long-term financial performance. For this element, the level of EPS growth over the three year period is calculated by comparing the adjusted EPS in the year prior to the year of grant with that in the final year of the performance period. Each year the vesting schedule for the EPS growth measure is agreed by the Remuneration Committee at the time of grant, having regard to the business plan, performance relative to comparators and analysts' forecasts.

For the awards made in 2006 and 2007, the EPS element of the awards will not vest if EPS growth is below 5% per annum compound over the three year period. Where EPS growth is

between 5% per annum and 10% per annum vesting will occur on a straight-line basis from 25% to 100%. Vesting at 100% will occur if EPS growth is at least 10% per annum compound.

Options

A new executive share option plan was approved by shareholders at the company's 2007 Annual General Meeting. Options were subsequently granted to executive directors over shares worth up to a maximum of three times salary with an EPS performance condition. The performance condition is based on the average annual growth in the Group's adjusted EPS over the three year performance period commencing in the year of grant. The calibration of the EPS growth measure is agreed by the Remuneration Committee at the time of each grant having regard to the business plan, prevailing economic conditions and analysts' forecasts.

In respect of the grant to executive directors in 2007, options will only be exercisable if, over the three year period, the growth in the company's adjusted EPS has been at least 6% per annum ('the threshold level'). The percentage of options that vest is then determined on a straight line basis between 30% at the threshold level and 100% at the maximum level for growth in adjusted EPS of 12% per annum.

Shareholding guidelines

In 2006, the Remuneration Committee reviewed the policy on shareholding requirements and the Group has now adopted shareholding guidelines for executive directors.

The target shareholding level is 200% of gross annual salary for the Group Chief Executive and 100% of gross annual salary for executive directors. Target shareholding levels are determined by reference to ordinary shares held, together with any vested awards under the Group's Medium-term Performance Plan. Executive directors have a period of five years in which to build up their shareholdings to meet the guideline levels.

US based director – Larry Fish,

Larry Fish was previously Chairman and Chief Executive Officer of Citizens Financial Group, Inc. From 23 March 2007, he was appointed Chairman, RBS America and Citizens. With effect from 1 January 2008 he has undertaken that role in a non-executive capacity and is being paid a fixed fee of US\$600,000 per annum (inclusive of fees as a non-executive director of the company with effect from 1 May 2008).

He will not participate in any annual bonus plan nor will he be eligible for further grants under any long term incentive plans. Existing long term incentive awards will vest to him, subject to achievement of all relevant service and performance conditions, at the completion of the appropriate performance period.

Accrual of pension entitlement will cease at 30 April 2008. He will participate in the Citizens medical insurance plan to this date, after which he is eligible to join the Citizens retiree medical plan.

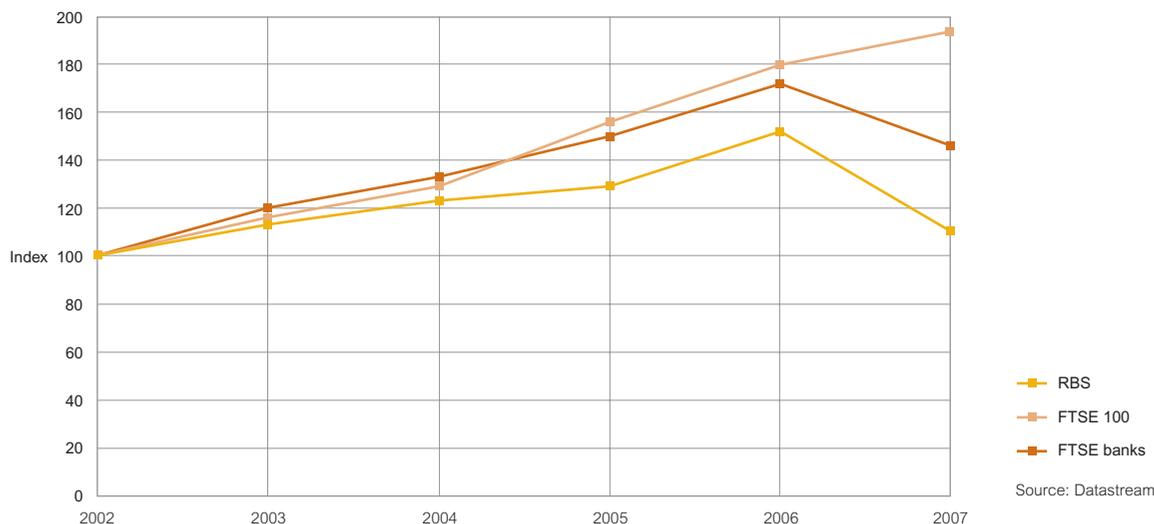
Summary remuneration report continued

Total shareholder return performance

The undernoted performance graph illustrates the performance of the company over the past five years in terms of total shareholder return compared with that of the companies comprising the FTSE 100 Index. This Index has been selected

because it represents a cross-section of leading UK companies. The total shareholder return for FTSE banks for the same period has been added for comparison. The total shareholder return for the company and the indices have been rebased to 100 for 2002.

Total shareholder return



Service contracts

The company's policy in relation to the duration of contracts with directors is that executive directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement. The notice period under the service contracts of executive directors will not normally exceed 12 months. In relation to newly recruited executive directors, subject to the prior approval of the Remuneration Committee, the notice period from the employing company required to terminate the contract will not normally exceed 12 months unless there is a clear case for this. Where a longer period of notice is initially approved on appointment, it will normally be structured such that it will automatically reduce to 12 months in due course.

All new service contracts for executive directors are subject to approval by the Remuneration Committee. Those contracts normally include standard clauses covering the performance review process, the company's normal disciplinary procedure, and terms for dismissal in the event of failure to perform or in situations involving actions in breach of the Group's policies.

Any compensation payment made in connection with the departure of an executive director will be subject to approval by the Remuneration Committee, having regard to the terms of the service contract and the reasons for termination.

Directors' remuneration

	Salary/ fees £000	Performance bonus (1) £000	Pension allowance £000	Benefits £000	2007 Total £000	2006 Total £000
Chairman						
Sir Tom McKillop	750	—	—	—	750	471
Executive directors						
Sir Fred Goodwin	1,290	2,860	—	40	4,190	3,996
Mr Cameron	988	1,900	341	27	3,256	3,496
Mr Fish (2)	999	200	—	54	1,253	2,679
Mr Fisher (3)	726	1,428	178	26	2,358	1,894
Mr Pell	825	1,377	—	2	2,204	2,120
Mr Whittaker	760	1,425	262	3	2,450	4,475

Notes:

- (1) Includes 10% profit sharing.
- (2) Mr Fish is a non-executive director of Textron Inc. and retains the fees paid to him in this respect. For 2007, he received a remuneration package from Textron Inc. equivalent to approximately US\$87,565
- (3) On his appointment as Chairman of the Managing Board of ABN AMRO on 1 November 2007, Mr Fisher transferred to the Netherlands. In line with the Group's international assignment policy he was eligible for assistance in moving his home and family to the Netherlands and for ongoing tax equalisation, cost of living, housing and other secondment benefits, the value of which is £15,419 and is included under benefits, above.

	Board fees £000	Board committee fees £000	2007 Total £000	2006 Total £000
Non-executive directors				
Mr Buchan	70	52	122	120
Dr Currie	70	15	85	80
Mr Friedrich	70	30	100	69
Mr Hunter	70	92	162	158
Mr Koch (1)	70	—	70	65
Mrs Kong	70	15	85	73
Mr MacHale	70	30	100	95
Sir Steve Robson	70	30	100	95
Mr Scott (2)			160	155
Mr Sutherland	70	27	97	88

Notes:

- (1) In addition to his role as a non-executive director, Mr Koch had an agreement with Citizens Financial Group, Inc. to provide consulting services for a period of three years, which ended on 1 September 2007, following the acquisition by Citizens of Charter One Financial, Inc. For these services Mr Koch received \$268,333 in 2007.
- (2) Mr Scott's senior independent director fee covers all Board and Board Committee work including Chairmanship of the Remuneration Committee.

No director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The non-executive directors did not receive any bonus payments or benefits.

Summary remuneration report continued

Medium Term Performance Plan

Scheme interests at 1 January 2007 and the related market price on award in the table below have been restated to reflect the bonus issue of ordinary shares in May 2007.

	Scheme interests (share equivalents) at 1 January 2007	Awards granted in 2007	Market price on award £	Awards vested in 2007 ⁽¹⁾	Awards exercised in 2007	Share interest (share equivalents) at 31 December 2007	End of period for qualifying conditions to be fulfilled
Sir Fred Goodwin	279,120		5.45			279,120	vested 31.12.03
	101,565		6.20			101,565	vested 31.12.04
	286,293		5.76	Nil		—	lapsed 31.12.07
	291,579		6.17			291,579	31.12.08
		278,970	6.99			278,970	31.12.09
	958,557					951,234	
Mr Cameron	167,472		5.45			167,472	vested 31.12.03
	66,234		6.20			66,234	vested 31.12.04
	138,810		5.76	Nil		—	lapsed 31.12.07
	145,791		6.17			145,791	31.12.08
		143,064	6.99			143,064	31.12.09
	518,307					522,561	
Mr Fish	31,485		5.76	Nil		—	lapsed 31.12.07
	93,351		6.17			93,351	31.12.08
		85,905	6.99			85,905	31.12.09
	124,836					179,256	
Mr Fisher	60,000		5.45			60,000	vested 31.12.03
	24,000		6.20			24,000	vested 31.12.04
	104,109		5.76	Nil		—	lapsed 31.12.07
	105,294		6.17			105,294	31.12.08
		100,146	6.99			100,146	31.12.09
	293,403					289,440	
Mr Pell	121,458		5.76	Nil		—	lapsed 31.12.07
	124,731		6.17			124,731	31.12.08
		115,881	6.99			115,881	31.12.09
	246,189					240,612	
Mr Whittaker	113,391		6.17			113,391	31.12.08
		107,298	6.99			107,298	31.12.09
	113,391					220,689	

Note:

(1) Awards were granted on 28 April 2005 and these awards have now lapsed.

For any awards that have vested, participants holding option-based awards can exercise their right over the underlying share equivalents at any time up to ten years from the date of grant.

No variation was made to any of the terms of the plan during the year.

Restricted Stock Award

Interests at 1 January 2007 and the related prices on award and vesting in the table below have been restated to reflect the bonus issue of ordinary shares in May 2007.

	Awards held at 1 January 2007	Market price on award £	Awards vested in 2007	Market price on vesting £	Value of awards vested £	Awards held at 31 December 2007	End of the period for qualifying conditions to be fulfilled ⁽²⁾
Mr Whittaker ⁽¹⁾	168,855	6.46	168,855	6.78	1,144,837	—	
	91,449	6.46				91,449	01.02.08 ⁽³⁾
	75,966	6.46				75,966	01.02.09
	37,263	6.46				37,263	01.02.10
	373,533					204,678	

Notes:

- (1) Awards were granted to Mr Whittaker in lieu of unvested share awards from his previous employer.
- (2) The end period for qualifying conditions is subject to any restrictions on dealing in the Group's shares which may be in place and to which Mr Whittaker may be subject. As a result of the close period prior to the announcement of the Group's results, the end of the period for qualifying conditions to be fulfilled in 2008 is 28 February 2008.
- (3) Award has now vested and shares will be released to Mr Whittaker on 28 February 2008.

Citizens Long Term Incentive Plan ⁽¹⁾

	Interests at 1 January 2007	Awards granted during year	Benefits received during year	Interests at 31 December 2007
Mr Fish	LTIP awards for the 3 year periods: 01.01.04 – 31.12.06	LTIP award for the 3 year period: 01.01.05 – 31.12.07 01.01.06 – 31.12.08	LTIP award for the 3 year period: 01.01.04 – 31.12.06 was US\$1,389,148	LTIP awards for the 3 year periods: 01.01.05 – 31.12.07 01.01.06 – 31.12.08 01.01.07 – 31.12.09
		01.01.07 – 31.12.09		

Note:

- (1) A new cash LTIP was approved by shareholders at the company's Annual General Meeting in April 2005. Performance is measured on a combination of Growth in Profit before Tax and Relative Return on Equity based on a comparison of Citizens with comparator US banks.

No variation was made to any of the terms of the plan during the year.

Financial results

Summary financial statement

Important note

This summary financial statement is a summary of information in the 2007 Report and Accounts (the 'R&A'). It does not contain sufficient information to allow for a full understanding of the results of the Group and of the state of affairs of the company or of the Group. For further information, the 2007 R&A, the auditors' report on those accounts and the report of the directors should be consulted. A copy of the R&A may be obtained, free of charge, from the company's registrar at the address shown on the inside back cover.

Shareholders who wish to receive the R&A may also complete (if they have not done so previously) the request card which accompanies this document and return it to the company's registrar.

The income statement set out below shows amortisation of purchased intangible assets and integration costs separately. In the statutory summary consolidated income statement on page 41, these items are included in operating expenses.

Summary consolidated income statement for the year ended 31 December 2007 – non statutory

	2007 £m	2006 £m
Net interest income	12,668	10,596
Non-interest income (excluding net insurance premium income)	12,338	11,433
Net insurance premium income	6,109	5,973
Non-interest income	18,447	17,406
Total income	31,115	28,002
Operating expenses	14,053	12,252
Profit before other operating charges	17,062	15,750
Insurance net claims	4,652	4,458
Operating profit before impairment losses	12,410	11,292
Impairment losses	2,128	1,878
Profit before tax, amortisation of purchased intangible assets and integration costs	10,282	9,414
Amortisation of purchased intangible assets	274	94
Integration costs*	108	134
Profit before tax	9,900	9,186
Tax	2,052	2,689
Loss from discontinued operations, net of tax	136	—
Profit for the year	7,712	6,497
Minority interests	163	104
Other owners	246	191
Profit attributable to ordinary shareholders	7,303	6,202
Basic earnings per ordinary share**	76.4p	64.9p
Adjusted earnings per ordinary share**	78.7p	66.7p

* Integration costs comprise expenditure incurred in respect of cost reduction and revenue enhancement targets set in connection with the various acquisitions made by the Group.

** Prior year per share data have been restated to reflect the bonus issue of ordinary shares in May 2007.

Corporate governance

The company is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2007, the company has complied with all of the provisions of the revised Combined Code issued by the Financial Reporting Council in June 2006 except in relation to the authority reserved to the Board to make the final determination of the remuneration of the executive directors.

Summary directors' report

Activities and business review

A review of the activities and business of the Group for the year ended 31 December 2007, of recent events and of likely future developments is contained on pages 4 to 26.

Directors

Photographs and biographical details of the directors are shown on pages 28 and 29.

Under the US Sarbanes-Oxley Act of 2002 (the 'Act'), specific standards of corporate governance and business and financial disclosures apply to companies with securities registered in the US. The company complies with all applicable sections of the Act.

A full explanation of how these principles are applied is contained in the corporate governance and remuneration reports in the Group's 2007 Report and Accounts.

Report of the auditors

The auditors' report on the full accounts for the year ended 31 December 2007 was unqualified and did not include a statement under sections 237(2) (inadequate accounting records or returns or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

The following additional information is required to be disclosed by Part 7 of the Companies Act 1985 as amended.

Share capital

Details of the ordinary and preference share capital are provided below.

	Allotted, called up and fully paid 31 December 2007 £m	Authorised 31 December 2007 £m
Ordinary shares of 25p	2,501	3,018
Non-voting deferred shares of £0.01	27	323
Additional Value Shares of £0.01	—	27
Non-cumulative preference shares of US\$0.01	2	2
Non-cumulative convertible preference shares of US\$0.01	—	—
Non-cumulative preference shares of €0.01	—	—
Non-cumulative convertible preference shares of €0.01	—	—
Non-cumulative convertible preference shares of £0.25	—	225
Non-cumulative convertible preference shares of £0.01	—	—
Cumulative preference shares of £1	1	1
Non-cumulative preference shares of £1	1	300

	Allotted, called up and fully paid 31 December 2007	Authorised 31 December 2007
Number of shares – thousands		
Ordinary shares of 25p	10,006,215	12,070,492
Non-voting deferred shares of £0.01	2,660,556	32,300,000
Additional Value Shares of £0.01	—	2,700,000
Non-cumulative preference shares of US\$0.01	308,015	419,500
Non-cumulative convertible preference shares of US\$0.01	1,000	3,900
Non-cumulative preference shares of €0.01	2,526	66,000
Non-cumulative convertible preference shares of €0.01	—	3,000
Non-cumulative convertible preference shares of £0.25	—	900,000
Non-cumulative convertible preference shares of £0.01	200	1,000
Cumulative preference shares of £1	900	900
Non-cumulative preference shares of £1	750	300,000

Financial results continued

The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

On a show of hands at a general meeting of the company every holder of ordinary shares and cumulative preference shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote for every share held. On a poll holders of cumulative preference shares present in person or by proxy and entitled to vote shall have four votes for every share held. The Notice of the Annual General Meeting specifies the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the general meeting.

The cumulative preference shares represent less than 0.04% of the total voting rights of the company, the remaining being represented by the ordinary shares.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). Pursuant to the Listing Rules of the Financial Services Authority certain employees of the company require the approval of the company to deal in the company's shares.

A number of the company's share plans include restrictions on transfer of shares while the shares are subject to the plans, in particular the Employee Share Ownership Plan.

Non-cumulative preference shares

Non-cumulative preference shares entitle the holders thereof (subject to the terms of issue) to receive periodic non-cumulative cash dividends at specified fixed rates for each Series payable out of distributable profits of the company.

The non-cumulative preference shares are redeemable at the option of the company, in whole or in part from time to time at the rates detailed below plus dividends otherwise payable for the then current dividend period accrued to the date of redemption.

Class of preference share	Number of shares in issue	Interest rate	Redemption date on or after	Redemption price per share	Debt or equity (1)
Non-cumulative preference shares of US\$0.01					
Series F	8 million	7.65%	31 March 2007	US\$25	Debt
Series H	12 million	7.25%	31 March 2004	US\$25	Debt
Series L	34 million	5.75%	30 September 2009	US\$25	Debt
Series M	37 million	6.4%	30 September 2009	US\$25	Equity
Series N	40 million	6.35%	30 June 2010	US\$25	Equity
Series P	22 million	6.25%	31 December 2010	US\$25	Equity
Series Q	27 million	6.75%	30 June 2011	US\$25	Equity
Series R	26 million	6.125%	30 December 2011	US\$25	Equity
Series S	38 million	6.6%	30 June 2012	US\$25	Equity
Series T	64 million	7.25%	31 December 2012	US\$25	Equity
Series U	15,000	7.64%	29 September 2017	US\$100,000	Equity
Non-cumulative convertible preference shares of US\$0.01					
Series 1	1 million	9.118%	31 March 2010	US\$1,000	Debt
Non-cumulative preference shares of €0.01					
Series 1	1.25 million	5.5%	31 December 2009	€1,000	Equity
Series 2	1.25 million	5.25%	30 June 2010	€1,000	Equity
Series 3	26,000	7.0916%	29 September 2017	€50,000	Equity
Non-cumulative convertible preference shares of £0.01					
Series 1	200,000	7.387%	31 December 2010	£1,000	Debt
Non-cumulative preference shares of £1					
Series 1	750,000	8.162%	5 October 2012	£1,000	Equity

Note:

- (1) Those preference shares where the Group has an obligation to pay dividends are classified as debt; those where distributions are discretionary are classified as equity. The conversion rights attaching to the convertible preference shares may result in the Group delivering a variable number of equity shares to preference shareholders; these convertible preference shares are treated as debt.

In the event that the non-cumulative convertible preference shares are not redeemed on or before the redemption date, the holder may convert the non-cumulative convertible preference shares into ordinary shares in the company.

Under existing arrangements, no redemption or purchase of any non-cumulative preference shares may be made by the company without the prior consent of the UK Financial Services Authority.

On a winding-up or liquidation of the company, the holders of the non-cumulative preference shares will be entitled to receive, out of any surplus assets available for distribution to the company's shareholders (after payment of arrears of dividends on the cumulative preference shares up to the date of repayment) *pari passu* with the cumulative preference shares, and all other shares of the company ranking *pari passu* with the non-cumulative preference shares as regards participation in the surplus assets of the company, a liquidation distribution per share equal to the applicable redemption price detailed above, together with an amount equal to dividends for the then current dividend period accrued to the date of payment, before any distribution or payment may be made to holders of the ordinary shares as regards participation in the surplus assets of the company.

Except as described above, the holders of the non-cumulative preference shares have no right to participate in the surplus assets of the company.

Holders of the non-cumulative preference shares are not entitled to receive notice of or attend general meetings of the company except if any resolution is proposed for adoption by the shareholders of the company to vary or abrogate any of

the rights attaching to the non-cumulative preference shares or proposing the winding-up or liquidation of the company. In any such case, they are entitled to receive notice of and to attend the general meeting of shareholders at which such resolution is to be proposed and are entitled to speak and vote on such resolution (but not on any other resolution). In addition, in the event that, prior to any general meeting of shareholders, the company has failed to pay in full the three most recent quarterly dividend payments due on the non-cumulative dollar preference shares (other than series U), the two most recent semi-annual dividend payments due on the non-cumulative convertible dollar preference shares and the most recent dividend payments due on the non-cumulative euro preference shares, the non-cumulative sterling preference shares, the series U non-cumulative dollar preference shares and the non-cumulative convertible sterling preference shares, the holders shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters together with the holders of the ordinary shares, and in these circumstances only, the rights of the holders of the non-cumulative preference shares so to vote shall continue until the company shall have resumed the payment in full of the dividends in arrears.

Authority to repurchase shares

At the Annual General Meeting in 2007, shareholders renewed the authority for the company to make market purchases of up to 958,712,195 ordinary shares. The directors have not exercised this authority to date. Shareholders will be asked to renew this authority at the Annual General Meeting in April 2008.

Shareholdings

The table below shows the shareholders that have notified us that they hold more than 3% of the voting rights in the undernoted classes of shares.

	Number of shares	% held		Number of shares	% held
Ordinary shares:			5½% cumulative preference shares:		
Legal & General Group plc	504,686,799	5.04	Mr P S and Mrs J M Allen;		
11% cumulative preference shares:			Miss C L Allen, and Miss J C Allen	451,796	28.23
Guardian Royal Exchange Assurance plc	129,830	25.97	Commercial Union Assurance plc	91,429	22.86
Windsor Life Assurance Company Limited	51,510	10.30	Bassett-Patrick Securities Limited*	46,255	11.56
Mr S. J. and Mrs J. A. Cockburn	15,520	3.10	E M Behrens Charitable Trust	20,000	5.00
Mr Stephen J Cockburn	15,290	3.06	Mrs Gina Wild	19,800	4.95
Cleaning Tokens Limited	25,500	5.10	Trustees of The Stephen Cockburn		
			Limited Pension Scheme	19,879	4.97
			Miss Elizabeth Hill	16,124	4.03
			Mr W. T. Hardison Jr.	13,532	3.38

* 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 the name of Bassett-Patrick Securities Limited noted above and that there are further holdings of 5,300 and 5,000 shares, respectively, of that class registered in each of their names.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and or voting rights. There are no persons holding securities carrying special rights with regard to control of the company.

Under the rules of certain employee share plans eligible employees are entitled to acquire shares in the company and shares are held in trust for participants by The Royal Bank of Scotland plc and Ulster Bank Dublin Trust Company as Trustees. Voting rights are exercised by the Trustees on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee no vote is registered.

The Royal Bank of Scotland Group plc 2001 Employee Share Trust and The Royal Bank of Scotland plc 1992 Employee Share Trust are used to hold shares on behalf of the Group's executive share schemes. The voting rights are exercisable by the Trustees, however, in accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer for the company in a takeover bid situation.

Independent auditors' statement to the members of The Royal Bank of Scotland Group plc

We have examined the summary financial statement which comprises the summary consolidated income statement (statutory basis), the summary consolidated balance sheet, the summary directors' report and the summary remuneration report.

This report is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Review and Summary Financial Statement in accordance with United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review and Summary Financial Statement with the full annual accounts, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

At each Annual General Meeting, one third of the directors retire and offer themselves for re-election and each director must stand for re-election at least once every three years. Any non-executive directors who have served for more than nine years will also stand for annual re-election and the Board will consider their independence at that time. The proposed re-election of directors is subject to prior review by the Board.

The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. In addition, a number of executive directors' service agreements and employee share plans would be affected on a change of control. In the context of the company as a whole, these agreements are not considered to be significant.

We also read the other information contained in the Annual Review and Summary Financial Statements as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the company's full annual financial statements describes the basis of our audit opinion on those financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the directors' report and the directors' remuneration report of The Royal Bank of Scotland Group plc for the year ended 31 December 2007 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Edinburgh
27 February 2008

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Summary consolidated income statement for the year ended 31 December 2007 (statutory basis)

	2007 £m	2006 £m
Net interest income	12,668	10,596
Non-interest income (excluding net insurance premium income)	12,338	11,433
Net insurance premium income	6,109	5,973
Non-interest income	18,447	17,406
Total income	31,115	28,002
Administrative expenses	12,465	10,802
Depreciation and amortisation	1,970	1,678
Operating expenses*	14,435	12,480
Profit before other operating charges and impairment losses	16,680	15,522
Insurance net claims	4,652	4,458
Impairment losses	2,128	1,878
Operating profit before tax	9,900	9,186
Tax	2,052	2,689
Loss from discontinued operations, net of tax	136	—
Profit for the year	7,712	6,497
Profit attributable to:		
Minority interests	163	104
Other owners	246	191
Ordinary shareholders	7,303	6,202
	7,712	6,497
Earnings per 25p ordinary share**	76.4p	64.9p
Diluted earnings per 25p ordinary share**	75.7p	64.4p

* Integration costs included in operating expenses comprise:

	2007 £m	2006 £m
Administrative expenses	48	118
Depreciation and amortisation	60	16
	108	134

** Prior year per share data have been restated to reflect the bonus issue of ordinary shares in May 2007.

Directors' remuneration

	2007 £000	2006 £000
Non-executive directors – emoluments	1,081	998
Chairman and executive directors – emoluments	16,461	19,448
– contributions and allowances in respect of defined contribution pension schemes	30	101
	17,572	20,547
– amounts receivable under long-term incentive plans	1,839	3,997
– gains on exercise of share options	1,474	2
	20,885	24,546

Retirement benefits are accruing to five directors (2006 – five) under defined benefit schemes, one (2006 – two) of whom also accrued benefits under defined contribution schemes.

Financial results continued

Summary consolidated balance sheet at 31 December 2007

	2007 £m	2006 £m
Assets		
Cash and balances at central banks	17,866	6,121
Treasury and other eligible bills	18,229	5,491
Loans and advances to banks	219,460	82,606
Loans and advances to customers	829,250	466,893
Debt securities	276,427	127,251
Equity shares	53,026	13,504
Settlement balances	16,589	7,425
Derivatives	337,410	116,681
Intangible assets	48,492	18,904
Property, plant and equipment	18,750	18,420
Prepayments, accrued income and other assets	19,066	8,136
Assets of disposal groups	45,954	—
Total assets	1,900,519	871,432
Liabilities		
Deposits by banks	312,633	132,143
Customer accounts	682,365	384,222
Debt securities in issue	273,615	85,963
Settlement balances and short positions	91,021	49,476
Derivatives	332,060	118,112
Accruals, deferred income and other liabilities	34,024	15,660
Retirement benefit liabilities	496	1,992
Deferred taxation	5,510	3,264
Insurance liabilities	10,162	7,456
Subordinated liabilities	37,979	27,654
Liabilities of disposal groups	29,228	—
Total liabilities	1,809,093	825,942
Minority interests	38,388	5,263
Equity owners	53,038	40,227
Total equity	91,426	45,490
Total liabilities and equity	1,900,519	871,432
Memorandum items		
Contingent liabilities and commitments	400,099	264,903

At 31 December 2007, provisions for loan impairment amounted to £6,441 million (2006 – £3,935 million).

The summary financial statement on pages 36 to 42 was approved by the Board of directors on 27 February 2008.

Sir Tom McKillop
Chairman

Sir Fred Goodwin
Group Chief Executive

Guy Whittaker
Group Finance Director

Shareholder information

Analyses of ordinary shareholders at 31 December 2007

	Shareholdings	Number of shares – millions	%
Individuals	174,438	693.7	6.9
Banks and nominee companies	25,434	8,898.1	88.9
Investment trusts	172	4.3	0.1
Insurance companies	329	5.1	0.1
Other companies	2,148	321.6	3.2
Pension trusts	45	32.7	0.3
Other corporate bodies	94	50.7	0.5
	202,660	10,006.2	100.00
Range of shareholdings:			
1 – 1,000	84,387	34.5	0.3
1,001 – 10,000	99,951	336.1	3.4
10,001 – 100,000	16,400	351.8	3.5
100,001 – 1,000,000	1,202	420.8	4.2
1,000,001 – 10,000,000	569	1,853.4	18.5
10,000,001 and over	151	7,009.6	70.1
	202,660	10,006.2	100.00

Financial calendar

Annual General Meeting

23 April 2008 at 2.00 pm
Edinburgh International Conference Centre,
The Exchange, Morrison Street, Edinburgh

Interim results

8 August 2008

Dividends

Payment dates:

Ordinary shares (2007 Final) 6 June 2008
Ordinary shares (2008 Interim) October 2008
Cumulative preference shares 30 May and 31 December 2008
Non-cumulative preference shares 31 March, 30 June, 30 September and 31 December 2008

Ex-dividend dates:

Ordinary shares (2007 Final) 5 March 2008
Cumulative preference shares 30 April 2008

Record dates:

Ordinary shares (2007 Final) 7 March 2008
Cumulative preference shares 2 May 2008

Shareholder Information continued

Corporate Responsibility Report

If you wish to obtain a copy please contact:

Corporate Responsibility
The Royal Bank of Scotland Group plc
PO Box 1000
Gogarburn
Edinburgh EH12 1HQ

It is also available on our website at www.rbs.com/crreports

Investor Relations

Shareholders can access updated information on RBS via our website (www.rbs.com/ir).

Shareholder enquiries

Shareholdings in the company may be checked by visiting our website (www.rbs.com/shareholder). You will need the shareholder reference number printed on your share certificate or tax voucher to gain access to this information.

Dividend payments

The company pays its dividends in pounds sterling although shareholders may choose to receive payment in US dollars or euros.

Shareholders wishing to receive payment in either US dollars or euros should request an instruction form from the Company's Registrar:

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 702 0135
Fax: 0870 703 6009
Email: web.queries@computershare.co.uk

Shareholders may also download an instruction form via our website (www.rbs.com/shareholder).

Completed instruction forms must be returned to the Registrar no later than 15 working days before the relevant dividend payment date.

Braille and audio Annual Review and Summary Financial Statement

Shareholders requiring a Braille or audio version of the Annual Review and Summary Financial Statement should contact the Registrar on 0870 702 0135.

ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift, the charity share donation scheme is a free service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

Should you wish to donate your shares to charity in this way you should contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation,
17 Carlton House Terrace, London SW1Y 5AH
Telephone: 020 7930 3737
www.sharegift.org

Donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes and you may be able to reclaim UK income tax on gifted shares. Further information can be obtained from HM Revenue & Customs.

Capital gains tax

For shareholders who held RBS ordinary shares at 31 March 1982, the market value of one ordinary share held was 103p. After adjusting for the 1 March 1985 rights issue, the 1 September 1989 capitalisation issue, the bonus issue of Additional Value Shares on 12 July 2000 and the bonus issue of ordinary shares on 8 May 2007, the adjusted 31 March 1982 base value of one ordinary share held currently is 15.4p.

For shareholders who held NatWest ordinary shares at 31 March 1982, the market value of one ordinary share held was 28.39p for shareholders who accepted the basic terms of the RBS offer. This takes account of the August 1984 and June 1986 rights issues and the June 1989 bonus issue of NatWest ordinary shares as well as the subsequent issue of Additional Value Shares and the bonus issue of ordinary shares on 8 May 2007.

When disposing of shares, shareholders are also entitled to indexation allowance (to April 1998 only in the case of individuals and non-corporate holders), which is calculated on the 31 March 1982 value, on the cost of subsequent purchases from the date of purchase and on the subscription for rights from the date of that payment. Further adjustments must be made where a shareholder has chosen to receive shares instead of cash for dividends. Individuals and non-corporate shareholders may also be entitled to some taper relief to reduce the amount of any chargeable gain on disposal of shares.

It was announced in the Pre-Budget Report on 9 October 2007 that the capital gains tax treatment for individuals will change for disposals made on or after 6 April 2008. There will be a single rate of capital gains tax set at 18%. Indexation allowance and taper relief will no longer be available and for assets held on 31 March 1982, the market value of the asset on that date will automatically be used for the purpose of calculating the gain or loss arising on a disposal.

The information set out above is intended as a general guide only and is based on current United Kingdom legislation and HM Revenue & Customs practice as at this date. This information deals only with the position of individual shareholders who are resident in the United Kingdom for tax purposes, who are the beneficial owners of their shares and who hold their shares as an investment. It does not deal with the position of shareholders other than individual shareholders, shareholders who are resident outside the United Kingdom for tax purposes or certain types of shareholders, such as dealers in securities.

Important addresses

Shareholder enquiries

Registrar

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 702 0135
Facsimile: 0870 703 6009
Email: web.queries@computershare.co.uk

ADR Depository Bank

The Bank of New York Mellon
Investor Services
PO Box 11258
Church Street Station
New York NY 10286-1258
Telephone: 1 888 269 2377 (US callers)
Telephone: 212 815 3700 (International)
Email: shareowners@bankofny.com

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