

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
February 28, 2008

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

**Report of Foreign Private Issuer**

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

For the month of February 2008

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-  
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The following information was issued as Company announcements, in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K: \_\_\_\_\_

**Annual Results 2007**

Annual Results  
for the year ended  
31 December 2007

THE ROYAL BANK OF SCOTLAND GROUP plc

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## **FORWARD-LOOKING STATEMENTS**

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'should', 'intend', 'plan', 'probability', 'risk', 'Value-at-Risk ("VaR")', 'target', 'goal', 'objective', 'will', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions and sections such as 'Group Chief Executive's review' and 'Financial review'.

In particular, this document includes forward-looking statements relating, but not limited, to the Group's potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G-7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes; changes in competition and pricing environments; natural and other disasters; the inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this report, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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### **Acquisition of ABN AMRO**

On 17 October 2007, RFS Holdings B.V. ("RFS Holdings"), a company jointly owned by RBS, Fortis N.V., Fortis SA/NV ("Fortis") and Banco Santander S.A. ("Santander") (together, the "Consortium Banks") and controlled by RBS, completed the acquisition of ABN AMRO Holding N.V. ("ABN AMRO").

In due course, RFS Holdings will implement an orderly separation of the business units of ABN AMRO with RBS retaining the following ABN AMRO business units:

- Continuing businesses of Business Unit North America;

- Business Unit Global Clients and wholesale clients in the Netherlands  
(including former Dutch wholesale clients) and Latin America (excluding Brazil);
- Business Unit Asia (excluding Saudi Hollandi); and
- Business Unit Europe (excluding Antonveneta).

Certain other assets will continue to be shared by the Consortium Banks.

### **Statutory results**

RFS Holdings is jointly owned by the Consortium Banks. It is controlled by RBS and is therefore fully consolidated in its financial statements. Consequently, the statutory results of the RBS Group for the year ended 31 December 2007 include the results of ABN AMRO for the period from 17 October 2007 to 31 December 2007. The interests of Fortis and Santander are included in minority interests.

### **Presentation of ABN AMRO**

The financial review in this Company Announcement focuses on RBS excluding ABN AMRO in order to provide a meaningful comparison with the prior year. The performance of ABN AMRO for the period from 17 October 2007 to 31 December 2007 is discussed separately.



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## 2007 HIGHLIGHTS

### **RBS GROUP – including ABN AMRO**

- Group operating profit<sup>2</sup> up 9% to £10,282 million
- Profit after tax up 19% to £7,712 million
- Adjusted earnings per ordinary share up 18% to 78.7 p
- Total dividend up 10% to 33.2p
- Tier 1 capital ratio 7.3%
- Total capital ratio 11.2%
- Underlying performance of retained ABN AMRO businesses in line with expectations
- Synergies increased by 33% to €2.3 billion
- Improved financial returns and earnings accretion

### **RBS - excluding ABN AMRO**

- Operating profit up 9% to £10,298 million
- Profit after tax up 22% to £7,940 million
- Adjusted earnings per ordinary share up 22% to 81.7p



- Income up 3% to £28,864 million
- Cost:income ratio down to 40.7 % from 42.1%
- Impairment losses declined to 0.40% of loans and advances from 0.46% in 2006
- Average customer deposits up 11%
- Average customer lending up 10%
- Net interest margin 2.46%, compared with 2.47% in 2006
- Adjusted return on equity 20.4%, up from 19.0%



## THE ROYAL BANK OF SCOTLAND GROUP plc

## 2007 RESULTS SUMMARY - GROUP INCLUDING ABN AMRO \*

	<b>2007</b>	2006	<b>Increase</b>
	<b>£m</b>	£m	<b>£m</b>
Total income	<b>31,115</b>	28,002	<b>3,113</b>
Operating expenses <sup>(1)</sup>	<b>14,053</b>	12,252	<b>1,801</b>
Operating profit before impairment losses <sup>(1)</sup>	<b>12,410</b>	11,292	<b>1,118</b>
Group operating profit <sup>(2)</sup>	<b>10,282</b>	9,414	<b>868</b>
Purchased intangibles amortisation	<b>274</b>	94	<b>180</b>
Integration costs	<b>108</b>	134	<b>(26)</b>
Profit before tax	<b>9,900</b>	9,186	<b>714</b>
Basic earnings per ordinary share	<b>76.4p</b>	64.9p	<b>11.5p</b>
Adjusted earnings per ordinary share <sup>(3)</sup>	<b>78.7p</b>	66.7p	<b>12.0p</b>

\* includes ABN AMRO from date of acquisition

(1) *excluding purchased intangibles amortisation and integration costs.*

(2) *profit before tax, purchased intangibles amortisation and integration costs.*

(3) *adjusted earnings per ordinary share is based on earnings adjusted for purchased intangibles amortisation and integration costs.*

**Sir Fred Goodwin, Group Chief Executive, said:**

" 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 staff."



## THE ROYAL BANK OF SCOTLAND GROUP plc

## 2007 RESULTS SUMMARY - EXCLUDING ABN AMRO

	<b>2007</b>	2006	<b>Increase</b>
	<b>£m</b>	£m	<b>£m</b>
Total income	<b>28,864</b>	28,002	<b>862</b>
Operating expenses <sup>(1)</sup>	<b>12,173</b>	12,252	<b>(79)</b>
Operating profit before impairment losses <sup>(1)</sup>	<b>12,163</b>	11,292	<b>871</b>
Group operating profit <sup>(2)</sup>	<b>10,298</b>	9,414	<b>884</b>
Purchased intangibles amortisation	<b>124</b>	94	<b>30</b>
Integration costs	<b>108</b>	134	<b>(26)</b>
Profit before tax	<b>10,066</b>	9,186	<b>880</b>
Cost:income ratio <sup>(3)</sup>	<b>40.7%</b>	42.1%	

(1) *excluding purchased intangibles amortisation and integration costs.*

(2) *profit before tax, purchased intangibles amortisation and integration costs.*

(3) *the cost:income ratio is based on total income and operating expenses as defined in (1) above, and after netting operating lease depreciation against rental income.*



THE ROYAL BANK OF SCOTLAND GROUP plc

## **GROUP CHIEF EXECUTIVE'S REVIEW**

2007 for The Royal Bank of Scotland Group 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. Adjusted earnings per share increased by 18% to 78.7p. Our earnings momentum remained powerful, notwithstanding the impact of challenging credit market conditions in the second half of the year.

Our Group headline results reflect the inclusion of the whole of ABN AMRO, whose results from 17 October 2007 are consolidated in our statutory accounts. ABN AMRO has enhanced the diversity of the Group, giving us a pre-eminent position in global corporate banking and providing us with new capabilities in transaction banking while presenting additional retail and commercial growth opportunities in Asia and the Middle-East.

### **RBS excluding ABN AMRO**

Our operating performance in 2007 is best seen in the results of RBS excluding the 76 days of ownership of ABN AMRO. We continued our strong momentum, with total income increasing by 3% to £28,864 million and operating profit by 9% to £10,298 million. Adjusted earnings per share rose by 22% to 81.7p, benefiting from a lower than usual tax rate of 21%.

These results have been held back by the second half credit market deterioration, which led our Global Banking & Markets division to incur write-downs on its US mortgage-related and leveraged finance exposures. The valuations of our credit market positions have been stable since our trading update in December. However, the weakening credit profile of some financial guarantors has caused us to mark down the value of our positions with these counterparties. During 2007 we also made £119 million of goodwill payments to customers in respect of current account fees. After deducting costs and adjusting for fair value gains on liabilities, these one-off elements reduced RBS's profit in 2007 by £1,163 million.

We also realised good gains on the planned disposal of a number of non-strategic assets, including Southern Water. The gains increased profit by £1,187 million after deducting costs and fees, almost exactly offsetting the effects of the negative one-offs, so the headline operating profit reflects our underlying performance.

Our businesses demonstrated the value of diversification, delivering good growth in our major customer bases in corporate, commercial and retail banking. We achieved particularly strong performances in UK Corporate Banking, Retail, Ulster and Wealth Management. Total RBS income rose by 3% to £28,864 million, while costs were reduced by 1% to £12,173 million, resulting in a further improvement in the cost:income ratio to 40.7%. Against a weaker economic backdrop in the US, Citizens, whilst performing well relative to its peers, experienced testing conditions, while otherwise good results in Insurance were set back by the exceptionally severe flooding that affected many of our UK customers in June and July.

Overall credit metrics remained very strong, and impairment losses declined by 1% to £1,865 million. As a result of our cautious approach to the UK personal credit market, in particular to the direct loans market, we achieved a further reduction in UK personal impairments, and the credit quality of our UK corporate customers remained stable in 2007. We have taken active steps to manage our risk profile and ensure that our lending portfolio remains appropriately positioned, nowhere more so than in the US, where the overall quality of our book remains high but we have

experienced a reversion from the low levels of impairment seen in recent years.





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## GROUP CHIEF EXECUTIVE'S REVIEW (continued)

### Our Businesses

In 2007 we benefited from our diverse income streams and the quality of our franchises. We were able to use our platform to increase activity in attractive markets, while moving away from areas where the risk:return equation was less positive, ensuring the Group's underlying earnings momentum remained strong.

**Global Banking & Markets** enjoyed another strong first half performance and took full advantage of the market 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 as well as write-downs on its sub-prime related exposures, leaving operating profit for the year at £3,687 million, 2% lower than 2006's record figure.

**UK Corporate Banking** had another successful year, with operating profit up 11% to £1,961 million. By continuing to invest in service quality we have now achieved market-leading customer satisfaction scores, helping us to increase customer numbers by 4%.

**Retail** delivered a strong performance, increasing operating profit by 10% to £2,470 million. We achieved strong growth in savings and investment products while maintaining a cautious approach to personal credit. Earnings momentum built over the course of the year, with a strong second half reflecting good growth in savings balances and a further reduction in unsecured credit defaults. Our success in developing our franchise 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** growth trajectory remains very strong, with operating profit increasing by 30% to £413 million as we continued to expand Coutts UK's regional franchise and achieved significant growth in both customer numbers and income in the Asia-Pacific region. Our growth opportunities in Asia-Pacific are significantly enhanced as a result of the Group's increased presence in the region.

**Ulster Bank** has maintained its strong growth record, notwithstanding a moderation in the pace of Ireland's economic expansion, with operating profit rising by 22% to £513 million. We have continued to invest in the good opportunities for future growth presented by the Irish banking market.

**Citizens** has continued to develop its franchise, increasing its consumer banking customer base by 2% and achieving good results in its growing corporate and commercial banking operations. Market conditions remain difficult, however, and we continued to respond to challenging income prospects with tight cost control. The credit quality of the Citizens portfolio is high, although we have seen impairment losses reverting from the very low levels seen in recent years, resulting in a 9% decrease in operating profit to \$2,647 million. With the dollar weaker over the year, this decline was more marked in sterling terms.

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 some less profitable segments. Results were held back by the £274 million impact of the floods that resulted from the UK's

wettest summer for 250 years, and excluding this, operating profit increased by 28%. Including the adverse effects of the floods, operating profit declined by 9% to £683 million.

**Manufacturing** is central to the way we operate, underpinning our determination to deliver efficient, consistent and reliable service to our customers while deriving scale benefits achievable from sharing infrastructure, processes and services across our businesses. We held costs to £2,914 million, just 1% higher than in 2006, despite continued investment in technology and property to support increased transaction volumes and the development of our business.



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**GROUP CHIEF EXECUTIVE'S REVIEW (continued)**

**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 product capabilities and customer franchises to our portfolio of businesses.

As a result of the acquisition, our Global Banking & Markets division can lay claim to be the pre-eminent corporate bank globally for large corporates, financial institutions and governments. It has top 5 rankings across a broad range of products, extended global reach and leading customer franchises in the UK and Continental Europe and top 5 customer franchises in the US and Asia-Pacific.

Underpinning this position is the global transaction banking strength of the enlarged Group, which will deepen customer relationships and provide further opportunities to cross-sell GBM's strong product capabilities. ABN AMRO is one of a small number of banks with global scale and competence in international payments, trade finance and cash management and it would have been extremely difficult to develop an equivalent business organically.

Similarly, while we have over recent years sought to develop our activities in fast-growing markets in Asia, the Middle-East and Eastern Europe and have achieved strong growth in GBM and Wealth Management, ABN AMRO now significantly expands our presence in many new markets.

The integration has made a strong start, and we have identified additional cost savings and revenue benefits over and above those we originally anticipated. We now expect to achieve cost savings totalling €1,596 million in three years, 21% more than we originally indicated. We have identified another €100m of net revenue benefits in Global Banking & Markets and €200m in the International Retail businesses, bringing the total for net revenue benefits we expect to achieve in three years to €688 million. All told, integration benefits are now expected to total €2.3 billion, compared with our original estimate of €1.7 billion.

Applying these increased synergies to the financial targets originally announced in our offer would have yielded increased accretion in adjusted earnings per share of 9%, a return on investment in 2010 of 16% and an internal rate of return of 18%.

We completed our transition plans on schedule and now have the support of the relevant staff bodies for the plan. We expect to make further rapid progress in separating businesses over the course of this year.

After reviewing the assets acquired and considering the practicalities and economics of separating them, we transferred the Global Clients activities in Brazil to Santander for a consideration of €750 million, and there may be further smaller adjustments to the original allocation between the Consortium partners.

For 2007 as a whole, the ABN AMRO businesses that will be retained by RBS made an underlying operating profit of £439 million. We have concluded our initial review of the ABN AMRO balance sheet and applying RBS valuation methodologies have recorded a reduction of £978 million in the carrying value of financial instruments we acquired. While credit market activities reflected the prevailing market conditions, equities, currencies and rates all achieved good growth. Transaction banking maintained good momentum and the Asian retail operations achieved very strong growth.



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## **GROUP CHIEF EXECUTIVE'S REVIEW (continued)**

### **Capital**

The Group's Tier 1 capital ratio at 31 December was 7.3% and our total capital ratio 11.2%. We remain within our target ranges of 7%-8% for Tier 1 and 11% to 12% for total capital. Our core Tier 1 ratio was 4.5% at year end. At the time of the bid for ABN AMRO we indicated that it was our intention to continue to rebuild our capital ratios and revert to a preference capital content in the range 25% to 30%. 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.

From January 1 2008 the Basel II capital framework came into effect in many of the key markets in which the Group operates, with the notable exception of the US. We have received approval from the Financial Services Authority to adopt the Advanced Internal Ratings Based approach to calculating capital requirements for the majority of our businesses, placing us among the small number of banks whose risk systems and approaches have achieved the advanced standard for credit – the most sophisticated available under Basel II. Our reported capital ratios are expected to be similar to their Basel I equivalents.

The Board is recommending a final dividend of 23.1p, making a total of 33.2p for the full year, an increase of 10%. This represents a payout ratio of 42%.

### **Group structure**

RBS's organisational architecture has remained largely unchanged since 2000, but it now needs to evolve to recognise our presence in over 50 countries and to facilitate the integration and operation of our expanded footprint. 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 our customers' needs by organising themselves on a global basis, while others are best managed with a more regional focus. We have therefore established Global Markets, which is made up of two divisions, Global Banking & Markets (GBM) and Global Transaction Services (GTS). The first of these corresponds largely to the existing GBM, enhanced by the related product capabilities and customer franchises of ABN AMRO. GTS will combine ABN AMRO's world class capability in international payments with our substantial existing corporate transaction banking and merchant acquiring activities. This new division ranks among the top five payments businesses in the world with pro forma operating profit of approximately £1.6 billion in 2007. Both GTS and GBM will report to Johnny Cameron as Chairman, Global Markets.

The remainder of our banking franchises have more distinctively national or regional characteristics and 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, and Asia Retail and Commercial Banking. Gordon Pell will oversee these divisions as Chairman, Regional Markets.

RBS Insurance is a distinctive business and will retain its existing structure and strategy.

We will maintain and build on the Group's Manufacturing model, which has proved so effective in driving efficiency in our UK activities, and will now extend this across the Group globally, with Ron Teerlink moving from his current role at ABN AMRO to become Chief Executive, Group Manufacturing.

Provisional pro forma financials for the Group under the revised divisional structure are set out in a separate document.





THE ROYAL BANK OF SCOTLAND GROUP plc

**GROUP CHIEF EXECUTIVE'S REVIEW (continued)****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 staff.

**Sir Fred Goodwin**  
**Group Chief Executive**

THE ROYAL BANK OF SCOTLAND GROUP plc

**SUMMARY CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2007**

In the income statement set out below, amortisation of purchased intangible assets and integration costs are shown separately. In the statutory income statement on page 39, these items are included in operating expenses.

	<b>*Group including ABN AMRO 2007 £m</b>	<b>Excluding ABN AMRO 2007 £m</b>	2006 £m
<b>Net interest income</b>	<b>12,668</b>	<b>11,377</b>	10,596
Non-interest income (excluding insurance net premium income)	<b>12,338</b>	<b>11,505</b>	11,433
Insurance net premium income	<b>6,109</b>	<b>5,982</b>	5,973
<b>Non-interest income</b>	<b>18,447</b>	<b>17,487</b>	17,406
<b>Total income</b>	<b>31,115</b>	<b>28,864</b>	28,002
<b>Operating expenses</b>	<b>14,053</b>	<b>12,173</b>	12,252
<b>Profit before other operating charges</b>	<b>17,062</b>	<b>16,691</b>	15,750

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Insurance net claims	4,652	4,528	4,458
<b>Operating profit before impairment losses</b>	<b>12,410</b>	<b>12,163</b>	11,292
Impairment losses	2,128	1,865	1,878
<b>Profit before tax, purchased intangibles amortisation and integration costs</b>	<b>10,282</b>	<b>10,298</b>	9,414
Amortisation of purchased intangible assets	274	124	94
Integration costs	108	108	134
<b>Profit before tax</b>	<b>9,900</b>	<b>10,066</b>	9,186
Tax	2,052	2,126	2,689
Loss from discontinued operations, net of tax	136	-	-
<b>Profit for the year</b>	<b>7,712</b>	<b>7,940</b>	6,497
Minority interests	163	149	104
Other owners	246	246	191
<b>Profit attributable to ordinary shareholders</b>	<b>7,303</b>	<b>7,545</b>	6,202
<b>Basic earnings per ordinary share (Note 4)</b>	<b>76.4p</b>		64.9p
<b>Adjusted earnings per ordinary share (Note 4)</b>	<b>78.7p</b>		66.7p

\* includes ABN AMRO from date of acquisition.



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## FINANCIAL REVIEW

The following discussion is based on the results of the Group excluding the contribution of ABN AMRO, which is discussed separately on page 35.

### GROUP (excluding ABN AMRO)

#### Profit

Profit before tax was up 10%, from £9,186 million to £10,066 million. Group operating profit increased by 9% or £884 million, from £9,414 million to £10,298 million.

#### Total income

The Group achieved strong growth in income during 2007. Total income was up 3% or £862 million to £28,864 million, notwithstanding the significant impact of the developments in global credit markets in the second half of 2007.

**Net interest income** increased by 7% to £11,377 million and represents 39% of total income (2006 – 38%). Average loans and advances to customers and average customer deposits grew by 10% and 11% respectively.

**Non-interest income** increased by £81 million to £17,487 million and represents 61% of total income (2006 – 62%).

#### Net interest margin

The Group's net interest margin at 2.46% was down marginally from 2.47% in 2006.

#### Operating expenses

Operating expenses, excluding purchased intangibles amortisation and integration costs, decreased by 1% to £12,173 million.

#### Cost:income ratio

The Group's cost:income ratio was 40.7% compared with 42.1% in 2006.

#### Net insurance claims

Bancassurance and general insurance claims, after reinsurance, increased by 2% to £4,528 million reflecting adverse weather conditions in the summer of 2007. Excluding the impact of the floods in the summer, net insurance claims decreased by 7%.

**Impairment losses**

Impairment losses fell 1% to £1,865 million, compared with £1,878 million in 2006.

Risk elements in lending and potential problem loans represented 1.49% of gross loans and advances to customers excluding reverse repos at 31 December 2007 (2006 – 1.57%).

Provision coverage of risk elements in lending and potential problem loans was 61% (2006 – 62%).

**Integration**

Integration costs were £108 million compared with £134 million in 2006.



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## **FINANCIAL REVIEW (continued)**

### **Taxation**

The effective tax rate for 2007 was 21.1% (2006 – 29.3%). The headline rate is lower than the standard rate of UK corporation tax of 30% principally due to certain non-taxable capital gains and changes to deferred tax balances following the change in rate of corporation tax.

### **Earnings**

Basic earnings per ordinary share increased by 23%, from 64.9p to 79.8p. Earnings per ordinary share adjusted for purchased intangibles amortisation and integration costs increased by 22%, from 66.7p to 81.7p.

### **Restatements**

Divisional results for 2006 have been restated to reflect transfers of businesses between divisions in 2007. These changes do not affect the Group's results. A divisional analysis of these restatements is set out on page 64.

The number of ordinary shares in issue and per share data for the prior year have been restated to reflect the bonus issue in May 2007.

THE ROYAL BANK OF SCOTLAND GROUP plc

## **FINANCIAL REVIEW (continued)**

### **GROUP – INCLUDING ABN AMRO**

#### **Capital**

Capital ratios at 31 December 2007 were 7.3% (Tier 1) and 11.2% (Total).

#### **Profitability**

The adjusted after-tax return on ordinary equity, which is based on profit attributable to ordinary shareholders before purchased intangibles amortisation and integration costs, and average ordinary equity, was 19.9% compared with 19.0% in 2006.

#### **Bonus issue**

In May 2007, the Group capitalised £1,576 million of its share premium account by way of a bonus issue of two new ordinary shares of 25p each for every one held.



## **Dividends**

A final dividend of 23.1p per ordinary share is recommended, giving a total dividend for the year of 33.2p, an increase of 10%. If approved, the final dividend will be paid on 6 June 2008 to shareholders registered on 7 March 2008. The total dividend is covered 2.4 times by earnings before purchased intangibles amortisation and integration costs.



THE ROYAL BANK OF SCOTLAND GROUP plc

## DESCRIPTION OF BUSINESS

**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.

**Retail Markets** leads the co-ordination and delivery of our multi-brand retail strategy across our product range and comprises Retail and Wealth Management.

**Retail** comprises both The Royal Bank of Scotland 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, as well as through telephone and internet banking. Retail is the UK market leader in SME banking.

Retail issues a comprehensive range of credit and charge cards and other financial products through The Royal Bank of Scotland, NatWest and other brands, including MINT,

First Active UK and Tesco Personal Finance. It is the leading merchant acquirer in Europe and ranks 3<sup>rd</sup> globally.

**Wealth Management** provides private banking and investment services to its global clients through Coutts Group, Adam & Company, The Royal Bank of Scotland International and NatWest Offshore.

**Ulster Bank**, including *First Active*, provides a comprehensive range of retail and wholesale financial services in the Republic of Ireland and Northern Ireland. Retail Banking has a network of branches throughout Ireland and operates in the personal, commercial and wealth management sectors. Corporate Markets provides a wide range of services in the corporate and institutional markets. RBS's European Consumer Finance ("ECF") activities, previously part of RBS Retail Markets, are now managed within Ulster Bank. ECF provides consumer finance products, particularly card-based revolving credits and fixed-term loans, in Germany and the Benelux countries.

**Citizens** is engaged in retail and corporate banking activities through its branch network in 13 states in the United States and through non-branch offices in other states. Citizens was ranked the 9<sup>th</sup> largest commercial banking organisation in the US based on deposits as at 30 September 2007. Citizens Financial Group includes two banks, RBS Citizens, NA and Citizens Bank of Pennsylvania, which operate under the Citizens brand in Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont, and under the Charter One brand in Illinois, Indiana, Michigan and Ohio. Citizens also includes RBS Lynk, our US merchant acquiring business, and Kroger Personal Finance, our credit card joint venture with the second largest US supermarket group.

**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.



THE ROYAL BANK OF SCOTLAND GROUP plc

**DESCRIPTION OF BUSINESS (continued)**

**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.

*The expenditure incurred by Manufacturing relates to costs principally in respect of the Group's banking and insurance operations in the UK and Ireland. These costs reflect activities that are shared between the various customer-facing divisions and consequently cannot be directly attributed to individual divisions. Instead, the Group monitors and controls each of its customer-facing divisions on revenue generation and direct costs whilst in Manufacturing such control is exercised through appropriate efficiency measures and targets. For financial reporting purposes the Manufacturing costs have been allocated to the relevant customer-facing divisions on a basis management considers to be reasonable.*

**The Centre** comprises group and corporate functions, such as capital raising, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital requirements and Group-wide regulatory projects and provides services to the operating divisions.

**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 and commercial banking services in Asia and the Middle East, Europe, the Netherlands, North America and Latin America. On 17 October 2007 the majority of ABN AMRO's share capital was acquired by RFS Holdings, which is in turn owned jointly by RBS, Fortis and Santander. 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.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**DIVISIONAL PERFORMANCE**

The profit before amortisation of purchased intangible assets and integration costs and after allocation of Manufacturing costs where appropriate, of each division is detailed below, and is described as 'operating profit' in the divisional analyses that follow. The allocations of Manufacturing costs are shown separately in the results for each division.

	<b>2007</b>	2006	<b>Increase</b>
	<b>£m</b>	£m	%
Corporate Markets			
- Global Banking & Markets	<b>3,687</b>	3,779	<b>(2)</b>
- UK Corporate Banking	<b>1,961</b>	1,762	<b>11</b>
Total Corporate Markets	<b>5,648</b>	5,541	<b>2</b>
Retail Markets			
- Retail	<b>2,470</b>	2,250	<b>10</b>
- Wealth Management	<b>413</b>	318	<b>30</b>
Total Retail Markets	<b>2,883</b>	2,568	<b>12</b>
Ulster Bank	<b>513</b>	421	<b>22</b>
Citizens	<b>1,323</b>	1,582	<b>(16)</b>
RBS Insurance	<b>683</b>	749	<b>(9)</b>
Manufacturing	-	-	-
Central items	<b>(752)</b>	(1,447)	<b>48</b>
Group operating profit (excluding ABN AMRO)	<b>10,298</b>	9,414	<b>9</b>
ABN AMRO <sup>(1)</sup>	<b>128</b>	-	-
Central items	<b>(144)</b>	-	-
Group operating profit (including ABN AMRO)	<b>10,282</b>	9,414	<b>9</b>

Risk-weighted assets of each division were as follows:

	<b>2007</b>	2006
	<b>£bn</b>	£bn
Corporate Markets		
- Global Banking & Markets	<b>152.6</b>	138.1
- UK Corporate Banking	<b>104.6</b>	93.1
Total Corporate Markets	<b>257.2</b>	231.2
Retail Markets		
- Retail	<b>73.3</b>	70.6
- Wealth Management	<b>7.5</b>	6.4
Total Retail Markets	<b>80.8</b>	77.0
Ulster Bank	<b>36.0</b>	29.7



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Citizens	<b>57.1</b>	57.6
Other	<b>9.5</b>	4.8
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	<b>440.6</b>	400.3
ABN AMRO	<b>168.4</b>	-
	<hr/>	<hr/>
	<b>609.0</b>	400.3
	<hr/>	<hr/>

Note:

- (1) ABN AMRO excludes discontinued operations: Antonveneta, Business Unit Asset Management and Business Unit Private Equity.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**CORPORATE MARKETS**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income from banking activities	<b>4,111</b>	3,805
Non-interest income	<b>6,211</b>	6,488
Total income	<b>10,322</b>	10,293
Direct expenses		
- staff costs	<b>2,457</b>	2,539
- other	<b>732</b>	628
- operating lease depreciation	<b>684</b>	736
	<b>3,873</b>	3,903
Contribution before impairment losses	<b>6,449</b>	6,390
Impairment losses	<b>219</b>	274
Contribution	<b>6,230</b>	6,116
Allocation of Manufacturing costs	<b>582</b>	575
Operating profit	<b>5,648</b>	5,541
	<b>£bn</b>	£bn
Total assets*	<b>682.1</b>	472.4
Loans and advances to customers – gross*		
- banking book	<b>221.7</b>	181.1
- trading book	<b>20.0</b>	15.4
Rental assets	<b>12.0</b>	13.9
Customer deposits*	<b>159.5</b>	132.6
Risk-weighted assets	<b>257.2</b>	231.2

\* excluding reverse repos and repos

Corporate Markets grew operating profit in 2007 by 2% to £ 5,648 million , notwithstanding difficult conditions in global credit markets. Total income was flat at £ 10,322 million , as the credit market deterioration in the second half of the year resulted in substantial write-downs in Global Banking & Markets income , but good progress in UK Corporate Banking combined with tight expense control and declining impairments lifted profits.

Average loans and advances to customers, excluding reverse repos, grew by 17 % and average customer deposits (excluding repos) by 19 %. The portfolio remains well diversified by counterparty, sector and geography, and the average credit grade continues to improve. Assets grew strongly outside the UK, particularly in Western Europe and Asia. Overall corporate credit conditions remained benign, and impairment losses represented 0.1% of loans and advances to customers. Risk-weighted assets rose by 11%.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**CORPORATE MARKETS – GLOBAL BANKING & MARKETS**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income from banking activities	<b>1,785</b>	1,632
Net fees and commissions receivable	<b>1,368</b>	1,032
Trading activities	<b>849</b>	2,211
Income from rental assets (net of related funding costs)	<b>679</b>	677
Other operating income (net of related funding costs)	<b>1,899</b>	1,279
Non-interest income	<b>4,795</b>	5,199
Total income	<b>6,580</b>	6,831
Direct expenses		
- staff costs	<b>1,826</b>	1,975
- other	<b>518</b>	442
- operating lease depreciation	<b>365</b>	406
	<b>2,709</b>	2,823
Contribution before impairment losses	<b>3,871</b>	4,008
Impairment losses	<b>39</b>	85
Contribution	<b>3,832</b>	3,923
Allocation of Manufacturing costs	<b>145</b>	144
Operating profit	<b>3,687</b>	3,779
	<b>£bn</b>	£bn
Total assets*	<b>579.4</b>	383.7
Loans and advances to customers – gross*		
- banking book	<b>121.1</b>	94.3
- trading book	<b>20.0</b>	15.4
Rental assets	<b>10.2</b>	12.2
Customer deposits*	<b>72.9</b>	54.1
Risk-weighted assets	<b>152.6</b>	138.1

\* excluding reverse repos and repos

Global Banking & Markets (GBM) achieved strong performances in many of its businesses in 2007, with particularly strong growth in interest rate and currency trading activities, but financial results were held back by challenging credit

market conditions in the second half of the year. Operating profit was £3,687 million, 2% lower than 2006's record result.

While many parts of GBM grew strongly, total income of £6,580 million was 4% lower than in 2006, reflecting both cumulative 2007 write-downs of our sub-prime-related and leveraged finance positions and an additional £456 million in response to the weakening credit profile of certain financial guarantors.

These losses were partially offset by a reduction of £123 million in the carrying value of our own debt and by a gain of £950 million realised on the sale of Southern Water. The resulting reduction in profit, net of write-downs, gains and variable costs, was £484 million. Excluding these effects, underlying income rose by 8% and underlying operating profit by 10%, reflecting the business's continued operating momentum.

THE ROYAL BANK OF SCOTLAND GROUP plc

### **CORPORATE MARKETS – GLOBAL BANKING & MARKETS (continued)**

The strength of GBM and the successful diversification of its product capabilities resulted in a continuation of the strong growth we have achieved in Asia and continental Europe in recent years. In Asia we have now established a solid platform, with good product capabilities and client relationships. In 2007 this resulted in Asian income growing by 96%, with outstanding growth in our activities in China and Japan. In Europe, income grew by 39%, with particularly good results in the Nordic region and in the Iberian Peninsula, where GBM further expanded its strong position in the provision of financing and risk management services to corporates and financial institutions. Income in the UK grew by 21%, while results in North America declined as a result of credit market conditions affecting GBM's asset-backed and structured credit businesses.

Net interest income increased by 9% to £1,785 million. Average loans and advances to customers, excluding reverse repos, increased by 22% as we expanded our customer base outside the UK and average customer deposits increased by 25%.

Net fee income rose by 33% to £1,368 million, reflecting our top tier position in arranging, structuring and distributing large scale financings. We achieved particularly strong growth in non-US loan markets.

Income from trading activities declined by £1,362 million. Interest rate and currency trading activities took advantage of increased volatility leading to income growth of 78% and 48% respectively. These strong performances were supplemented by good growth in our broadening product range, including equity derivatives and retail investor products. However, in credit markets write-downs reflecting the weakening of the US housing market led to a sharp fall in income.

Rental and other asset-based activities achieved continuing success in originating, structuring, financing and managing physical assets such as aircraft, trains, ships and real estate for our customers. Income from rental assets, net of related funding costs and operating lease depreciation, increased by 16% to £314 million.

Other operating income increased to £1,899 million, net of related funding costs, including the successful sale of Southern Water concluded during the second half. The majority of our remaining private equity portfolio has been sold into a fund, managed by RBS, thereby improving capital efficiency while offering more predictable and stable returns.

Costs were reduced by 4% to £2,854 million, in line with income. We continued to invest in expanding our geographical footprint, our infrastructure and our product range.

Portfolio credit risk remained stable and impairment losses declined to £39 million in 2007, with no deterioration in overall corporate credit quality. The liquidity and profitability of our corporate customers remains generally strong.

Total assets increased to £579.4 billion, primarily reflecting an increase of £128.8 billion in derivative assets (mostly rates and currencies) accompanied by a corresponding increase in derivative liabilities. The increase was a result of the strong growth in client-driven interest rate and currency trading activities in a more volatile market environment. Careful risk and capital management held our risk-weighted assets to £152.6 billion, an increase of 10% over the prior year.





## THE ROYAL BANK OF SCOTLAND GROUP plc

**CORPORATE MARKETS – UK CORPORATE BANKING**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income from banking activities	<b>2,326</b>	2,173
Non-interest income	<b>1,416</b>	1,289
Total income	<b>3,742</b>	3,462
Direct expenses		
- staff costs	<b>631</b>	564
- Other	<b>214</b>	186
- operating lease depreciation	<b>319</b>	330
	<b>1,164</b>	1,080
Contribution before impairment losses	<b>2,578</b>	2,382
Impairment losses	<b>180</b>	189
Contribution	<b>2,398</b>	2,193
Allocation of Manufacturing costs	<b>437</b>	431
Operating profit	<b>1,961</b>	1,762
	<b>£bn</b>	£bn
Total assets*	<b>102.7</b>	88.7
Loans and advances to customers – gross*	<b>100.6</b>	86.8
Customer deposits*	<b>86.6</b>	78.5
Risk-weighted assets	<b>104.6</b>	93.1

\* excluding reverse repos and repos

UK Corporate Banking had another successful year of profitable growth, building further on our market-leading position and achieving significant improvements in customer satisfaction. Total income rose by 8% to £3,742 million and contribution by 9% to £2,398 million. Operating profit rose by 11% to £1,961 million.

There has been good growth in customer volumes, with average loans and advances up 11% and average deposits up 14%. Net interest income from banking activities increased by 7% to £2,326 million as net interest margin narrowed slightly from the prior year. In recent months we have seen firmer margins in some areas.

Non-interest income rose by 10% to £1,416 million, as a result of growth in fees and continued progress in the distribution of trade and invoice finance products as well as of interest rate and foreign exchange products.

Total expenses rose by 6% to £1,601 million, with investment targeted towards improving customer service. Around 600 new front line roles were created and major new functionality was added to the Bankline electronic banking platform. These initiatives have contributed to strongly favourable customer satisfaction scores in 2007.

Impairment losses totalled £180 million, 5% lower than in 2006, reflecting the strong quality of the portfolio. Corporate credit metrics remained stable.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**RETAIL MARKETS**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income	<b>4,760</b>	4,604
Non-interest income	<b>4,030</b>	3,851
Total income	<b>8,790</b>	8,455
Direct expenses		
- staff costs	<b>1,699</b>	1,616
- other	<b>742</b>	748
	<b>2,441</b>	2,364
Insurance net claims	<b>518</b>	488
Contribution before impairment losses	<b>5,831</b>	5,603
Impairment losses	<b>1,200</b>	1,311
Contribution	<b>4,631</b>	4,292
Allocation of Manufacturing costs	<b>1,748</b>	1,724
Operating profit	<b>2,883</b>	2,568
	<b>£bn</b>	£bn
Total banking assets	<b>125.1</b>	118.4
Loans and advances to customers – gross		
- mortgages	<b>72.0</b>	69.7
- personal	<b>21.5</b>	20.5
- cards	<b>8.4</b>	8.2
- business	<b>20.2</b>	18.1
Customer deposits*	<b>130.4</b>	115.5
Investment management assets – excluding deposits	<b>42.1</b>	34.9
Risk-weighted assets	<b>80.8</b>	77.0

\* customer deposits exclude bancassurance.

Retail Markets delivered a strong performance in 2007 with operating profit rising by 12% to £2,883 million as a result of good income growth, tight expense control and reduced impairment costs. Total income rose 4% to £8,790 million, and income net of claims also grew by 4% to £8,272 million.

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These strong results reflect the emphasis on savings and investment products, our focus on profitability rather than volume in consumer lending, and significant investment in our Wealth Management business in the UK and Asia. Customer deposits increased by 13% to £130.4 billion , while loans and advances grew by 5% to £122.1 billion .

The full year results show momentum developing in the business, with operating profit in the second half of the year 14% higher than in the same period of 2006.

Expenses have been kept under tight control, with efficiency gains allowing us to invest and grow the business. Impairment losses maintained the improvement witnessed in the first half of the year, fall ing by 8 % for the year as a whole. Arrears trends on credit cards and unsecured personal loans continued to improve, as did the quality of our asset base.

R isk-weighted assets rose by 5% to £80.8 billion at the end of 2007.

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**RETAIL MARKETS – RETAIL**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income	<b>4,191</b>	4,108
Non-interest income	<b>3,571</b>	3,458
Total income	<b>7,762</b>	7,566
Direct expenses		
- staff costs	<b>1,361</b>	1,317
- other	<b>614</b>	621
	<b>1,975</b>	1,938
Insurance net claims	<b>518</b>	488
Contribution before impairment losses	<b>5,269</b>	5,140
Impairment losses	<b>1,196</b>	1,310
Contribution	<b>4,073</b>	3,830
Allocation of Manufacturing costs	<b>1,603</b>	1,580
Operating profit	<b>2,470</b>	2,250
	<b>£bn</b>	£bn
Total banking assets	<b>111.1</b>	107.4
Loans and advances to customers – gross		

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-	Mortgages	<b>67.3</b>	65.6
-	Personal	<b>17.3</b>	17.2
-	Cards	<b>8.3</b>	8.1
-	Business	<b>18.7</b>	16.9
	Customer deposits*	<b>96.5</b>	87.1
	Risk-weighted assets	<b>73.3</b>	70.6

\* customer deposits exclude bancassurance.

Retail achieved strong results in 2007, increasing operating profit by 10% to £2,470 million as a result of good income growth in both consumer and business banking combined with tight cost control and a reduction in impairment losses. Total income grew by 3% to £7,762 million, while income net of claims grew by 2% to £7,244 million and contribution by 6 % to £4,073 million .

We have accelerated the expansion of our consumer banking franchise, opening more than 975,000 new personal current accounts in 2007 and maintaining the Group's joint number one position in the current account market. RBS and NatWest continue to lead the other major high street banks in Great Britain for customer satisfaction. We continue to focus on sales through the branch channel, and by adding more customer advisers in our branches have achieved a significant uplift in volumes.

Bancassurance continued its excellent progress with sales growth of 28% to £342 million annual premium equivalent, representing a doubling of 2005 sales. We invested further in our sales force, ending the year with more than 1,000 financial planning managers.

In business banking we strengthened our management team and improved operational processes, producing good results. During 2007 we placed an additional 500 business managers back in branches, launched additional products to support the start-up market, and added new roles supporting ethnic minorities , women in business and community banking.

In our cards and direct finance business, we have maintained our focus on credit card sales through the branch channel, where new business sales were up 47% on 2006, while continuing to take a cautious view on direct sales. Our cards acquiring business continued to grow market share, strengthening its market leading position with an 11% increase in transactions in 2007.





THE ROYAL BANK OF SCOTLAND GROUP plc

**RETAIL MARKETS – RETAIL (continued)**

Average customer deposit balances were 9% higher, driven by accelerating growth in both personal savings, up 12%, and business deposits, up 11%, alongside modest growth in current account balances. Savings balance growth was helped by good sales of new accounts to branch customers, with NatWest opening more than 1 million new savings accounts.

Average loans and advances to customers increased by 3%, with average mortgage lending up 5% and average business lending up 9%. Mortgage activity focused on branch channels, where net lending was 14% higher than in the previous year. We also took advantage of improved margins in the intermediary segment in the latter part of the year to improve volumes. Direct loan balances declined over the year as we maintained our strategy of focussing unsecured personal lending on profitability rather than volume, although we continued to grow lending through the branch channel. After a decline in credit card balances in the first half of the year we improved recruitment and retention in the second half.

Net interest income increased by 2% to £4,191 million, with strong growth in deposits helping to mitigate the impact of lower unsecured lending volumes and lower average card balances. Net interest margin declined modestly, in line with previous guidance, with savings margins consistent with 2006, despite increased competition for deposits.

Non-interest income was £3,571 million, 3% ahead of 2006, with strong growth in investment income offset by lower levels of direct lending and reduced instances of current account fees.

Total expenses rose by 2% to £3,578 million, driven by increased investment in customer-facing staff in branches and in our bancassurance and investment businesses. Other costs reduced by 1% to £614 million.

Impairment losses decreased by 9% to £1,196 million, reflecting the improvement in arrears trends on both credit cards and unsecured personal loans. Mortgage arrears remained very low, and we have maintained conservative lending criteria – the average loan-to-value ratio of Retail's mortgages was 46% overall and 63% on new mortgages written in 2007, and this improved as the year progressed. Small business credit quality remained good.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**RETAIL MARKETS – WEALTH MANAGEMENT**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income	<b>569</b>	496
Non-interest income	<b>459</b>	393
Total income	<b>1,028</b>	889
Direct expenses		
- staff costs	<b>338</b>	299
- other	<b>128</b>	127
	<b>466</b>	426
Contribution before impairment losses	<b>562</b>	463
Impairment losses	<b>4</b>	1
Contribution	<b>558</b>	462
Allocation of Manufacturing costs	<b>145</b>	144
Operating profit	<b>413</b>	318
	<b>£bn</b>	£bn
Loans and advances to customers – gross	<b>10.5</b>	8.8
Investment management assets – excluding deposits	<b>35.1</b>	28.2
Customer deposits	<b>33.9</b>	28.4
Risk-weighted assets	<b>7.5</b>	6.4

Wealth Management's offering of private banking and investment services continued to deliver very strong growth in income, up 16% in 2007 to £1,028 million. Contribution grew by 21% to £558 million and operating profit by 30% to £413 million.

We have continued Coutts & Co's UK regional expansion programme, and this has helped us to grow customer numbers by 7% and income by 22%. Outside the UK, Coutts International has been re-branded as RBS Coutts to leverage the global brand strength of the group in the continental European and Asia-Pacific markets and RBS Coutts has maintained its momentum in the Asia-Pacific region, succeeding in growing customer numbers by 27% and income by 51 % in US dollar terms.

Growth in banking volumes contributed to a 15% rise in net interest income to £569 million. Average loans and

advances to customers rose by 13% and average deposits by 17%.

Non-interest income grew by 17% to £459 million, reflecting higher investment management fees and new product sales, including new investment vehicles specialising in private equity and natural resources, as well as continued growth in underlying new business volumes, particularly in the UK and Asia. Assets under management rose to £35.1 billion at 31 December 2007, up 24% from a year earlier.

Total expenses rose by 7% to £611 million, with direct expense up 9% at £466 million, reflecting continued investment in the UK and continental Europe along with a further significant expansion of our team of private bankers in Asia. Total headcount increased by 12%.

## THE ROYAL BANK OF SCOTLAND GROUP plc

### ULSTER BANK

	<b>2007</b>	2006
	<b>£m</b>	£m
Net interest income	<b>979</b>	873
Non-interest income	<b>318</b>	252
Total income	<b>1,297</b>	1,125
Direct expenses		
- staff costs	<b>302</b>	254
- other	<b>159</b>	131
	<b>461</b>	385
Contribution before impairment losses	<b>836</b>	740
Impairment losses	<b>104</b>	104
Contribution	<b>732</b>	636
Allocation of Manufacturing costs	<b>219</b>	215
Operating profit	<b>513</b>	421
Average exchange rate - €/£	<b>1.461</b>	1.467
	<b>£bn</b>	£bn

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Total assets	<b>54.8</b>	44.5
Loans and advances to customers – gross		
- mortgages	<b>18.3</b>	15.0
- corporate	<b>24.8</b>	19.6
- other	<b>4.0</b>	3.6
Customer deposits	<b>21.8</b>	18.1
Risk-weighted assets	<b>36.0</b>	29.7
Spot exchange rate - €/£	<b>1.361</b>	1.490

Ulster Bank maintained its success in building its personal and corporate banking business in the island of Ireland, with total income rising by 15% to £1,297 million, contribution by 15% to £732 million and operating profit by 22% to £513 million. These results reflect solid sales growth across all activities, driven by an enhanced range of innovative products and an expanded distribution network.

Net interest income increased by 12% to £979 million, reflecting good growth in both loans and deposits. Average loans and advances to customers increased by 24 %, with particular strength in business lending, with a 29% increase spread across a variety of industrial sectors. Our mortgage book also saw very good growth in 2007, in spite of the slowdown in the housing market, with average balances up 17%. We achieved particular success in attracting remortgagers with our Switcher package. We were also successful in the current account switching market, winning 100,000 new current account customers during the year. This, together with new product launches such as the eSavings Account and Reward Reserve savings accounts, contributed to a 17% increase in average customer deposits. Net interest margin tightened, reflecting more competitive market conditions and increased funding costs.

Non-interest income rose by 26% to £318 million, driven by strong performances in Corporate Markets and credit cards. We successfully launched our new wealth business in the course of the year.

Total expenses increased by 13% to £680 million, as we continued our investment programme to support the future growth of the business. We continued to expand our branch and business centre footprint and recruited additional customer-facing staff, particularly in Corporate Markets.

Despite tighter housing market conditions, arrears trends saw no deterioration in 2007 and impairment losses remained stable at £104 million.

THE ROYAL BANK OF SCOTLAND GROUP plc

**CITIZENS**

	<b>2007</b>	2006	<b>2007</b>	2006
	<b>£m</b>	£m	<b>\$m</b>	\$m
Net interest income	<b>1,975</b>	2,085	<b>3,954</b>	3,844
Non-interest income	<b>1,147</b>	1,232	<b>2,295</b>	2,271

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Total income	<b>3,122</b>	3,317	<b>6,249</b>	6,115
Direct expenses				
- staff costs	<b>741</b>	803	<b>1,483</b>	1,480
- other	<b>717</b>	751	<b>1,437</b>	1,385
	<b>1,458</b>	1,554	<b>2,920</b>	2,865
Contribution before impairment losses	<b>1,664</b>	1,763	<b>3,329</b>	3,250
Impairment losses	<b>341</b>	181	<b>682</b>	333
Operating profit	<b>1,323</b>	1,582	<b>2,647</b>	2,917
Average exchange rate – US\$/£	<b>2.001</b>	1.844		
			<b>\$bn</b>	\$bn
Total assets			<b>161.1</b>	162.2
Loans and advances to customers – gross				
- mortgages			<b>19.1</b>	18.6
- home equity			<b>35.9</b>	34.5
- other consumer			<b>21.7</b>	23.2
- corporate and commercial			<b>37.6</b>	32.7
Customer deposits			<b>115.0</b>	106.8
Customer deposits (excluding wholesale funding)			<b>105.0</b>	101.8
Risk-weighted assets			<b>114.4</b>	113.1
Spot exchange rate – US\$/£			<b>2.004</b>	1.965

Against the background of weaker housing and credit market conditions, Citizens' franchise demonstrated resilience in 2007, with a particularly good performance in corporate and commercial banking. Modest growth in net interest margins and strong fee growth in several products lifted income by 2% to \$6,249 million which, coupled with tight cost control, resulted in contribution before impairment losses growing by 2% to \$3,329 million. However, impairment losses increased from 0.31% of loans and advances to 0.60%, resulting in a decrease in operating profit of 9% to \$2,647 million. In sterling terms, total income decreased by 6% to £3,122 million and operating profit fell by 16% to £1,323 million.

Net interest income rose by 3% to \$3,954 million. Average loans and advances to customers increased by 4%, with strong growth in corporate and commercial lending, up 13%, with close attention being paid to our risk appetite in light of prevailing market conditions. Average customer deposits increased by 1% but deposit margins narrowed as a result of deposit pricing competition and continued migration from low-cost checking accounts and liquid savings to higher-cost products. Notwithstanding this migration, Citizens' net interest margin increased slightly to 2.80% in 2007, compared with 2.72% in 2006, thanks in part to improved lending spreads in the latter part of the year.

Non-interest income rose by 1% to \$2,295 million. Business and corporate fees rose strongly, with good results

especially in foreign exchange, interest rate derivatives and cash management, driven by increasing cooperation with RBS Corporate Markets. Good progress was also made in credit card issuing, where we increased our customer base by 20%, and in merchant acquiring, where RBS Lynk achieved significant growth, processing 30% more transactions than in 2006 and expanding its merchant base by 5%.





## THE ROYAL BANK OF SCOTLAND GROUP plc

**CITIZENS (continued)**

In response to more difficult market conditions Citizens intensified cost discipline, with a reduction in headcount helping to limit total expense growth to 2%, despite enhancements to infrastructure and processes as well as continued investment in growth opportunities including mid-corporate banking, contactless debit cards and merchant acquiring.

Rising losses and increased provisions lifted impairment costs from \$333 million in 2006 to \$682 million in 2007. Against a background of weaker economic activity the Citizens portfolio is performing well, although we have experienced a reversion from the very low levels of impairment seen in recent years, reflecting both the planned expansion of our commercial loan book and the impact of a softer housing market. There has also been an increase in reserving. The average FICO scores on our consumer portfolios, including home equity lines of credit, remain in excess of 700, with 97% of lending secured. Average loan-to-value ratios at the end of 2007 were 58% on our residential mortgage book and 74% on our home equity book.

## THE ROYAL BANK OF SCOTLAND GROUP plc

**RBS INSURANCE**

	<b>2007</b>	2006
	<b>£m</b>	£m
Earned premiums	<b>5,607</b>	5,713
Reinsurers' share	<b>(220)</b>	(212)
Insurance premium income	<b>5,387</b>	5,501
Net fees and commissions	<b>(465)</b>	(486)
Other income	<b>734</b>	664
Total income	<b>5,656</b>	5,679
Direct expenses		
- staff costs	<b>297</b>	319
- other	<b>447</b>	426
	<b>744</b>	745
Gross claims	<b>4,091</b>	4,030
Reinsurers' share	<b>(81)</b>	(60)
Net claims	<b>4,010</b>	3,970
Contribution	<b>902</b>	964
Allocation of Manufacturing costs	<b>219</b>	215

Operating profit	<b>683*</b>	749
	_____	_____

\* The impact of the June and July floods was to reduce operating profit by £274 million

In-force policies (thousands)			
-	Own-brand motor	<b>6,713</b>	6,790
-	Own-brand non-motor (home, rescue, pet, HR24)	<b>3,752</b>	3,759
-	Partnerships & broker (motor, home, rescue, SMEs, pet, HR24)	<b>9,302</b>	11,242
General insurance reserves – total (£m)		<b>8,192</b>	8,068
		_____	_____

RBS Insurance has made good progress in 2007 in competitive markets. Total income was maintained at £5,656 million, in line with 2006 levels, with growth in our own-brand businesses offset by a decline in partnerships.

Operating profit declined by 9% to £683 million, reflecting the impact of the severe flooding experienced in June and July. Excluding the £ 274 million impact of the floods, contribution grew by 22% and operating profit by 28% , supported by strong claims management and the benefits of improved risk selection in this and prior years. We have continued to focus on selective underwriting of more profitable business.

Our own-brand businesses have performed well, with income rising by 1% and contribution growing by 4% . Excluding the impact of the floods, own-brand contribution grew by 24 % . In the UK motor market we have pursued a strategy of targeting lower risk drivers and have increased premium rates to offset claims inflation, improving profitability by implementing heavier price increases in higher risk categories. Our international businesses performed well, with Spain delivering strong profit growth while, in line with plan, our German and Italian businesses also achieved profitability in 2007. Home insurance grew across all of our own brands in the second half, and we achieved particular success in the distribution of home policies through our bank branches, with sales up 40 %.

THE ROYAL BANK OF SCOTLAND GROUP plc

### **RBS INSURANCE (continued)**

In our partnerships and broker business, providing underwriting and processing services to third parties, we have concentrated on more profitable opportunities and have consequently not renewed a number of large rescue contracts. We also pulled back from some less profitable segments of the broker market. This resulted in a 17% reduction in in-force policies, but income fell by only 2 % . Contribution from partnerships and brokers fell by 22% as a result of flood-related claims. Excluding the impact of the floods, contribution from partnerships and brokers increased by 18%.

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For RBS Insurance as a whole, insurance premium income, net of fees and commissions, was 2% lower at £4,922 million, reflecting modest growth in our own brands offset by a 5% decline in the partnerships and broker segment. Other income rose by 11% to £734 million, reflecting increased investment income.

Total expenses were held flat at £ 963 million. Within this, staff costs reduced by 7%, reflecting our continued focus on improving efficiency whilst maintaining service standards. A 5% rise in non-staff costs reflects increased marketing investment in our own brands.

Net claims rose by 1 % to £4 ,010 million. Gross claims relating to the floods in June and July cost more than £330 million, with a net impact, after allowing for profit sharing and reinsurance, of £274 million. Excluding the i mpact of the floods, net claims costs were reduced by 7 %. In the motor book, while average claims costs have continued to rise, this has been mitigated by improvements in risk selection and management and by continuing efficiencies in claims handling.

The UK combined operating ratio for 2007, including manufacturing costs, increased to 98.0 %, reflecting a higher loss ratio and the reduction in partnership income . Excluding the impact of the floods, the combined operating ratio was 91.9 %.

### THE ROYAL BANK OF SCOTLAND GROUP plc

#### MANUFACTURING

	<b>2007</b>	2006
	<b>£m</b>	£m
Staff costs	<b>763</b>	762
Other costs	<b>2,151</b>	2,110
	<hr/>	<hr/>
Total Manufacturing costs	<b>2,914</b>	2,872
Allocated to divisions	<b>(2,914)</b>	(2,872)
	<hr/>	<hr/>
	<b>-</b>	-
	<hr/>	<hr/>
Analysis of Manufacturing costs:		
Group Technology	<b>984</b>	974
Group Property	<b>962</b>	932
Customer Support and other operations	<b>968</b>	966
	<hr/>	<hr/>
Total Manufacturing costs	<b>2,914</b>	2,872
	<hr/>	<hr/>

Manufacturing costs increased by 1% to £2,914 million, as further improvements in productivity enabled us to support growth in business volumes and to maintain high levels of customer satisfaction while continuing to invest in the further development of our business. Staff costs were flat, as salary inflation was offset by reduced headcount in

Operations, resulting from process efficiencies. Other costs increased by 2%, reflecting property investment and continued growth in the volumes of transactions handled.

Group Technology costs remained under tight control, increasing by only 1% to £984 million, as significant improvements in productivity were balanced by investment in software development.

Group Property costs rose by 3% to £962 million, reflecting refurbishment and expansion of the Ulster Bank network and continuing investment to support the strong growth of our business in Europe and Asia, including the opening of a new Corporate Markets office in Paris and further development of our office portfolio in India and Singapore.

Customer Support and other operations costs remained broadly flat at £968 million, with further significant improvements in productivity enabling us to continue to absorb significant increases in service volumes. At the same time we maintained our focus on service quality, and our UK-based telephony centres continued to record market-leading customer satisfaction scores. Our investment in process reengineering across our operational centres under the 'Work-Out' banner is expected to deliver further improvements in efficiency.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**CENTRAL ITEMS**

	<b>2007</b>	2006
	<b>£m</b>	£m
Funding and corporate costs	<b>145</b>	862
Departmental and other costs	<b>461</b>	442
	<hr/>	<hr/>
	<b>606</b>	1,304
Allocation of Manufacturing costs	<b>146</b>	143
	<hr/>	<hr/>
Total central items	<b>752</b>	1,447
	<hr/>	<hr/>

Central costs were substantially lower, reflecting in part the gains realised on a number of planned disposals that formed part of the Group's funding arrangements for the acquisition of ABN AMRO. These gains contributed to a reduction of £717 million in funding and corporate costs, which also benefited from a reduction of £152 million in the carrying value of our own debt accounted for at fair value and the receipt of a dividend on our investment in Bank of China. These benefits were partially offset by goodwill payments amounting to £119 million in respect of current account administration fees. Excluding realised gains totalling £475 million, funding and corporate costs were £620 million, 28% lower than in 2006.

Departmental and other costs increased by 4% to £461 million. This largely reflects the centralisation of certain functions and increased regulatory requirements.

**CENTRAL ITEMS RELATING TO ABN AMRO**

	<b>2007</b>	2006
	<b>£m</b>	£m
Funding and corporate costs	<b>144</b>	-
	<hr/>	<hr/>

## THE ROYAL BANK OF SCOTLAND GROUP plc

**ABN AMRO – RBS BUSINESSES**

In order to provide a basis for comparison of the performance of ABN AMRO businesses to be retained by the Group, set out below are the underlying full year results adjusted for credit market related write-downs, the impact of the sale of LaSalle Bank and some minor normalisations.

	<b>ABN AMRO RBS businesses 2007 €m</b>
Total income	<b>6,886</b>
Expenses	<b>5,906</b>
	<hr/>
Impairment losses	<b>338</b>
	<hr/>
Underlying profit	<b>642</b>
	<hr/>

For 2007 as a whole, the RBS acquired businesses of ABN AMRO performed in line with expectations, producing an underlying operating profit of €642 million, excluding shared assets, credit market write-downs and the impact of the sale of LaSalle Bank. RBS's portion of shared central costs and assets produced a net loss of €76 million for the full year.

While credit market activities reflected the prevailing market conditions in the second half of the year, ABN AMRO's equities, rates and financial institutions business lines all achieved solid income growth in 2007. Transaction banking maintained good momentum, with income up 7%, reflecting strong growth in cash management balances and significant expansion in trade finance.

International retail banking businesses performed well over the whole of 2007, increasing customer numbers by 12% to 3.7 million with strong growth in India. There was also strong growth in China, Singapore and Hong Kong for Van Gogh Preferred Banking, which offers a premium service to its customer base, as well as an 18% increase in credit card customers. ABN AMRO continued to invest in its Asian footprint, opening 16 new branches across China, India, Indonesia, Hong Kong and Malaysia.

The cost:income ratio in 2007 was 86%, with some redundancy costs in the second half of the year taken in business as usual expenses. The ABN AMRO cost base in 2007 was made less flexible by the bonus arrangements put in place when ABN AMRO originally announced its merger plans with Barclays.

Impairments increased to €338 million for the full year from around €180 million in 2006, primarily reflecting 2006 non-recurring provision releases in North America. There was also a modest increase in provisioning across Asia in line with balance growth, partially offset by a significant reduction in impairments on the Taiwan credit card portfolio.

The integration has made a strong start, with a further €570 million of cost savings and revenue benefits identified in addition to those originally anticipated. Cost savings are now expected to total €1,596 million in three years, 21% more than originally indicated. Another €100m of net revenue benefits have been identified in Global Banking & Markets and €200m in the International Retail businesses, bringing the total for net revenue benefits expected in three years to €688 million. All told, integration benefits are now expected to total €2.3 billion, compared with our original estimate of €1.7 billion.

Applying these increased synergies to the financial targets originally announced in our offer would have yielded increased accretion in adjusted earnings per share of 9%, a return on investment in 2010 of 16% and an internal rate of return of 18%.

Transition plans were completed on schedule, and following extensive consultation we have now received the support of the relevant staff bodies. Further rapid progress in separating businesses is expected over the course of this year.

THE ROYAL BANK OF SCOTLAND GROUP plc

**ABN AMRO**

As discussed on page 3, the results of ABN AMRO for the period from 17 October 2007 to 31 December 2007 are fully consolidated for the purpose of the Group's statutory results. However, we are also showing separately the results of ABN AMRO and of the businesses that will be retained by the Group.

	<b>ABN AMRO 2007 (note 1) £m</b>
Net interest income from banking activities	<b>1,419</b>
Net fees and commissions receivable	<b>571</b>
Trading activities	<b>104</b>
Other operating income (net of related funding costs)	<b>174</b>
Insurance premium income	<b>127</b>
Non-interest income	<b>976</b>
Total income	<b>2,395</b>
Direct expenses	
- staff costs	<b>937</b>
- other	<b>943</b>
	<b>1,880</b>
Insurance claims	<b>124</b>
Contribution before impairment losses	<b>391</b>
Impairment losses	<b>263</b>
Operating profit from continuing operations (note 2)	<b>128</b>
	<b>£bn</b>
Total assets	<b>774.3</b>
Loans and advances to customers – gross	<b>287.7</b>
Customer deposits	<b>240.8</b>
Risk-weighted assets	<b>168.4</b>

Notes:



- (1) Results of ABN AMRO for the period 17 October 2007 to 31 December 2007 and as at 31 December 2007.
- (2) The discontinued operations of ABN AMRO – Banca Antonveneta, Business Unit Asset Management and Business Unit Private Equity reported losses after tax for the period from 17 October 2007 to 31 December 2007 of £136 million.

ABN AMRO as a whole recorded income totalling £2,395 million and operating profit from continuing operations of £128 million for the period from 17 October to 31 December 2007.

Within this total, the businesses to be retained by RBS, including our portion of shared assets, accounted for total income of £814 million. Trading profits of these businesses totalled £49 million, offset by £91 million of credit market write-downs and a £73 million cost for our portion of shared assets. The results of the businesses to be transferred to Fortis and Santander, together with their portion of the shared assets, are reflected in minority interests in the Group's financial statements.

We have concluded our initial review of the ABN AMRO balance sheet and, applying RBS's valuation methodologies, have recorded a reduction of £978 million in the carrying value of financial instruments we acquired.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**AVERAGE BALANCE SHEET – EXCLUDING ABN AMRO**

	2007			2006		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
<b>Assets</b>						
Treasury and other eligible bills	488	21	4.30	2,129	93	4.37
Loans and advances to banks	27,397	1,350	4.93	23,290	979	4.20
Loans and advances to customers	397,149	25,964	6.54	360,562	22,181	6.15
Debt securities	31,986	1,790	5.60	35,155	1,713	4.87
Interest-earning assets – banking business	457,020	29,125	6.37	421,136	24,966	5.93
Trading business	276,766			202,408		
Non-interest-earning assets	274,910			210,358		
Total assets	1,008,696			833,902		
<b>Liabilities</b>						
Deposits by banks	64,899	2,776	4.28	64,811	2,621	4.04
Customer accounts	284,899	11,691	4.10	254,678	8,899	3.49
Debt securities in issue	97,593	5,160	5.29	81,161	3,746	4.62
Subordinated liabilities	26,113	1,439	5.51	26,647	1,391	5.22
Internal funding of trading business	(64,816)	(3,180)	4.91	(49,405)	(2,100)	4.25
Interest-bearing liabilities – banking business	408,688	17,886	4.38	377,892	14,557	3.85
Trading business	279,038			204,810		
Non-interest-bearing liabilities						
- demand deposits	30,417			29,577		
- other liabilities	247,194			184,747		
Shareholders' equity	43,359			36,876		
Total liabilities	1,008,696			833,902		

## Notes:

1. Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
2. Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance assets and liabilities in view of their distinct nature. As a result, interest income has been adjusted by £85 million (2006 - £63 million).
3. Changes in the fair value of interest-bearing financial instruments designated as at fair value through profit or loss are recorded in other operating income in the consolidated income statement.

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In the average balance sheet shown above, interest includes interest income and interest expense related to these instruments of £313 million (2006 - £215 million) and £536 million (2006 - £465 million) respectively and the average balances have been adjusted accordingly.

**AVERAGE INTEREST RATES, YIELDS, SPREADS AND MARGINS– EXCLUDING ABN AMRO**

<b>Average rate</b>	<b>2007</b>	2006
	%	%
The Group's base rate	<b>5.51</b>	4.64
London inter-bank three month offered rates:		
- Sterling	<b>6.00</b>	4.85
- Eurodollar	<b>5.29</b>	5.20
- Euro	<b>4.28</b>	3.08
Yields, spreads and margins of the banking business:		
Gross yield on interest-earning assets of banking business	<b>6.37</b>	5.93
Cost of interest-bearing liabilities of banking business	<b>(4.38)</b>	(3.85)
<b>Interest spread of banking business</b>	<b>1.99</b>	2.08
Benefit from interest-free funds	<b>0.47</b>	0.39
<b>Net interest margin of banking business</b>	<b>2.46</b>	2.47



## THE ROYAL BANK OF SCOTLAND GROUP plc

**AVERAGE BALANCE SHEET – INCLUDING ABN AMRO**

	Average balance £m	2007 Interest £m	Rate %
<b>Assets</b>			
Interest-earning assets – banking business	535,158	33,818	6.32
Trading business	313,204		
Non-interest-earning assets	311,914		
Total assets	<u>1,160,276</u>		
<b>Liabilities</b>			
Interest-bearing liabilities – banking business	484,053	21,288	4.40
Trading business	316,540		
Non-interest-bearing liabilities			
- demand deposits	32,871		
- other liabilities	283,453		
Shareholders' equity	43,359		
Total liabilities	<u>1,160,276</u>		

**AVERAGE YIELDS, SPREADS AND MARGINS– INCLUDING ABN AMRO**

	2007 %
Yields, spreads and margins of the banking business:	
Gross yield on interest-earning assets of banking business	6.32
Cost of interest-bearing liabilities of banking business	(4.40)
<b>Interest spread of banking business</b>	<u>1.92</u>
Benefit from interest-free funds	0.42
<b>Net interest margin of banking business</b>	<u>2.34</u>



THE ROYAL BANK OF SCOTLAND GROUP plc

**STATUTORY RESULTS**

The results presented on pages 39 to 52 inclusive are on a statutory basis and include the results of ABN AMRO for the period from 17 October 2007 to 31 December 2007. The interests of Fortis and Santander in RFS Holdings are included in minority interests.

THE ROYAL BANK OF SCOTLAND GROUP plc

**CONDENSED CONSOLIDATED INCOME STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2007**

In the income statement below, amortisation of purchased intangible assets and integration costs are included in operating expenses.

	2007 £m	2006 £m
Interest receivable	33,420	24,688
Interest payable	20,752	14,092
<b>Net interest income</b>	<b>12,668</b>	<b>10,596</b>
Fees and commissions receivable	8,465	7,116
Fees and commissions payable	(2,311)	(1,922)
Income from trading activities	1,327	2,675
Other operating income (excluding insurance premium income)	4,857	3,564
Insurance premium income	6,398	6,243
Reinsurers' share	(289)	(270)
<b>Non-interest income</b>	<b>18,447</b>	<b>17,406</b>
<b>Total income</b>	<b>31,115</b>	<b>28,002</b>
Staff costs	7,552	6,723
Premises and equipment	1,766	1,421
Other administrative expenses	3,147	2,658
Depreciation and amortisation	1,970	1,678
<b>Operating expenses*</b>	<b>14,435</b>	<b>12,480</b>
<b>Profit before other operating charges and impairment losses</b>	<b>16,680</b>	<b>15,522</b>
Insurance claims	4,770	4,550
Reinsurers' share	(118)	(92)



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Impairment losses	<b>2,128</b>	1,878
<b>Operating profit before tax</b>	<b>9,900</b>	9,186
Tax	<b>2,052</b>	2,689
<b>Profit from continuing operations</b>	<b>7,848</b>	6,497
Loss from discontinued operations, net of tax	<b>136</b>	-
<b>Profit for the year</b>	<b>7,712</b>	6,497
Minority interests	<b>163</b>	104
Other owners	<b>246</b>	191
<b>Profit attributable to ordinary shareholders</b>	<b>7,303</b>	6,202
<b>Basic earnings per ordinary share (Note 4)</b>	<b>76.4p</b>	64.9 p
<b>Diluted earnings per ordinary share (Note 4)</b>	<b>75.7p</b>	64.4 p
* Operating expenses include:	<b>£m</b>	£m
Integration costs:		
Administrative expenses	<b>48</b>	118
Depreciation and amortisation	<b>60</b>	16
	<b>108</b>	134
Amortisation of purchased intangible assets	<b>274</b>	94
	<b>382</b>	228



## THE ROYAL BANK OF SCOTLAND GROUP plc

**CONDENSED CONSOLIDATED BALANCE SHEET****AT 31 DECEMBER 2007**

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Assets</b>		
Cash and balances at central banks	<b>17,866</b>	6,121
Treasury and other eligible bills	<b>18,229</b>	5,491
Loans and advances to banks	<b>219,460</b>	82,606
Loans and advances to customers	<b>829,250</b>	466,893
Debt securities	<b>276,427</b>	127,251
Equity shares	<b>53,026</b>	13,504
Settlement balances	<b>16,589</b>	7,425
Derivatives	<b>337,410</b>	116,681
Intangible assets	<b>48,492</b>	18,904
Property, plant and equipment	<b>18,750</b>	18,420
Prepayments, accrued income and other assets	<b>19,066</b>	8,136
Assets of disposal groups	<b>45,954</b>	-
<b>Total assets</b>	<b>1,900,519</b>	871,432
<b>Liabilities</b>		
Deposits by banks	<b>312,633</b>	132,143
Customer accounts	<b>682,365</b>	384,222
Debt securities in issue	<b>273,615</b>	85,963
Settlement balances and short positions	<b>91,021</b>	49,476
Derivatives	<b>332,060</b>	118,112
Accruals, deferred income and other liabilities	<b>34,024</b>	15,660
Retirement benefit liabilities	<b>496</b>	1,992
Deferred taxation	<b>5,510</b>	3,264
Insurance liabilities	<b>10,162</b>	7,456
Subordinated liabilities	<b>37,979</b>	27,654
Liabilities of disposal groups	<b>29,228</b>	-
<b>Total liabilities</b>	<b>1,809,093</b>	825,942
<b>Equity:</b>		
Minority interests	<b>38,388</b>	5,263
Owners' equity*		
Called up share capital	<b>2,530</b>	815
Reserves	<b>50,508</b>	39,412
<b>Total equity</b>	<b>91,426</b>	45,490
<b>Total liabilities and equity</b>	<b>1,900,519</b>	871,432

\*Owners' equity attributable to:

Ordinary shareholders	<b>44,684</b>	36,546
Other equity owners	<b>8,354</b>	3,681
	<hr/>	<hr/>
	<b>53,038</b>	40,227
	<hr/>	<hr/>



THE ROYAL BANK OF SCOTLAND GROUP plc

## OVERVIEW OF CONDENSED CONSOLIDATED BALANCE SHEET

Total assets of £1,900.5 billion at 31 December 2007 were up £1,029.1 billion compared with 31 December 2006, of which £774.2 billion relates to the acquisition of ABN AMRO. Excluding ABN AMRO, total assets were up £254.9 billion, 29% to £1,126.3 billion largely reflecting an increase in derivative assets, which was accompanied by a corresponding increase in derivative liabilities, and secured financing through reverse repos and lending growth across all divisions.

Treasury and other eligible bills increased by £12.7 billion to £18.2 billion. Excluding ABN AMRO, treasury and other eligible bills grew £11.0 billion to £16.5 billion due to increased trading activity.

Loans and advances to banks increased by £136.9 billion to £219.5 billion with reverse repurchase agreements and stock borrowing ("reverse repos") up by £121.8 billion to £175.9 billion. Excluding ABN AMRO, loans and advances to banks increased by £14.8 billion, 18%, to £97.4 billion of which reverse repos increased by £13.5 billion, 25% to £67.6 billion and bank placings increased by £1.3 billion, 5%, to £29.8 billion.

Loans and advances to customers rose by £362.4 billion to £829.3 billion. Within this, reverse repos increased by £79.4 billion to £142.4 billion. Excluding ABN AMRO, loans and advances to customers were up £76.9 billion, 16%, to £543.8 billion with reverse repos increasing by £16.1 billion, 26% to £79.1 billion. Excluding reverse repos, lending rose by £60.8 billion, 15% to £464.7 billion, reflecting growth across all divisions.

Debt securities increased by £149.2 to £276.4 billion of which £121.8 billion related to the acquisition of ABN AMRO. Excluding ABN AMRO, debt securities increased by £27.4 billion, 22%, to £154.6 billion principally due to increased trading book holdings in Corporate Markets.

Equity shares rose by £39.5 billion to £53.0 billion primarily reflecting the acquisition of ABN AMRO, partially offset by a £0.8 billion reduction in the value of the Bank of China shareholding.

Intangible assets increased by £29.6 billion to £48.5 billion due to the acquisition of ABN AMRO and represented goodwill of £24.5 billion and other intangible assets of £5.1 billion.

Property, plant and equipment were up £0.3 billion, 2% to £18.8 billion. Excluding ABN AMRO, property, plant and equipment were down £1.9 billion, 10% to £16.6 billion mainly as a result of the sale of the Canary Wharf investment properties and sale and leaseback transactions in the UK and US.

Settlement balances rose £9.2 billion to £16.6 billion. Excluding ABN AMRO, settlement balances were down £2.1 billion, 28% to £5.3 billion as a result of reduced customer activity.

Derivatives, assets and liabilities increased reflecting the acquisition of ABN AMRO, growth in trading volumes and the effects of interest and exchange rate movements amidst current market conditions.

Prepayments, accrued income and other assets were up £10.9 billion to £19.1 billion primarily reflecting the acquisition of ABN AMRO.

Assets and liabilities of disposal groups comprise those business units of ABN AMRO that were acquired exclusively

with a view to disposal, including Banca Antonveneta, Asset Management and Private Equity.

Deposits by banks rose by £180 .5 billion to £312 .6 billion of which repurchase agreements and stock lending ("repos") were up £86.7 billion to £163.0 billion. Excluding ABN AMRO, deposits by banks rose by £10.7 billion, 8% to £142.8 billion. Inter-bank deposits were up £11.9 billion, 21% at £67.7 billion, partially offset by a reduction in repos down £1.2 billion, 2% to £75.2 billion.





THE ROYAL BANK OF SCOTLAND GROUP plc

**OVERVIEW OF CONDENSED CONSOLIDATED BALANCE SHEET (continued)**

Customer accounts were up £298 .1 billion to £682.4 billion with repos up £70.9 billion to £134.9 billion. Excluding ABN AMRO, customer accounts were up £57.8 billion, 15% at £442.1 billion with repos up £11.0 billion, 17% to £75.0 billion. Excluding repos, deposits rose by £46.8 billion, 15%, to £367.0 billion with good growth in all divisions.

Debt securities in issue have increased by £187.7 billion to £273.6 billion. Excluding ABN AMRO, the increase was £58.7 billion, 68% to £144.7 billion.

Settlement balances and short positions were up £41.5 billion to £91.0 billion. Excluding ABN AMRO, the increase in settlement balances and short positions was £4.4 billion, 9% to £53.8 billion reflecting growth in customer activity.

Accruals, deferred income and other liabilities increased £18 .4 billion to £34 .0 billion largely reflecting the acquisition of ABN AMRO.

Subordinated liabilities were up £10 .3 billion, 37% to £38 .0 billion. Excluding ABN AMRO, subordinated liabilities were unchanged at £27.7 billion. The issue of £1.0 billion dated loan capital and £0.7 billion movement in exchange rates was offset by the redemption of £0.7 billion dated loan capital, £0.4 billion undated loan capital and £0.6 billion non-cumulative preference shares.

Deferred taxation liabilities rose by £2.2 billion, 69% to £5.5 billion largely due to the acquisition of ABN AMRO.

Equity minority interests increased by £33.1 billion to £38.4 billion reflecting £33.8 billion in respect of the acquisition of ABN AMRO, partially offset by a reduction of £0.4 billion in the value of the investment in Bank of China.

Owners' equity increased by £12.8 billion, 32%, to £53.0 billion. The profit for the year of £7.6 billion, issue of £2.7 billion of ordinary share capital, £3.2 billion of non-cumulative fixed rate equity preference shares and £1.1 billion of other paid-in equity to fund the Group's investment in ABN AMRO, together with other issues of £0 .4 billion non-cumulative fixed rate equity preference shares and £0.1 billion of ordinary shares in respect of the exercise of share options, a £1.5 billion net decrease after tax in the Group's pension liability and £0.4 billion resulting from the effect of exchange rates, were partly offset by the payment of the 2006 final ordinary dividend and the 2007 interim dividend, £3.0 billion and preference dividends of £0.3 billion, £0.5 billion reduction in available-for-sale reserves, and a £0.4 billion decrease in cash flow hedging reserve.



THE ROYAL BANK OF SCOTLAND GROUP plc

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

	<b>2007</b>	2006
	<b>£m</b>	£m
Net movements in reserves:		
Available-for-sale	<b>(1,289)</b>	4,479
Cash flow hedges	<b>(564)</b>	(249)
Currency translation	<b>2,210</b>	(1,681)
Actuarial gains on defined benefit plans	<b>2,189</b>	1,781
Tax on items recognised direct in equity	<b>(170)</b>	(1,173)
Net income recognised direct in equity	<b>2,376</b>	3,157
Profit for the year	<b>7,712</b>	6,497
<b>Total recognised income and expense for the year</b>	<b>10,088</b>	9,654
<b>Attributable to:</b>		
Equity shareholders	<b>8,610</b>	7,707
Minority interests	<b>1,478</b>	1,947
	<b>10,088</b>	9,654

The net movement in the available- for- sale reserves relates principally to the gains realised on disposals and decline in the value of the investment in Bank of China. The value of the Group's investment (excluding external investors' interests) amounts to £2.8 billion and the original cost of the acquisition was £0.8 billion.

Currency translation differences relate predominantly to the minority interests arising on the acquisition of ABN AMRO.



THE ROYAL BANK OF SCOTLAND GROUP plc

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2007**

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Operating activities</b>		
Operating profit before tax	<b>9,900</b>	9,186
<i>Adjustments for:</i>		
Depreciation and amortisation	<b>1,970</b>	1,678
<b>Interest on subordinated liabilities</b>	<b>1,542</b>	1,386
<b>Charge for defined benefit pension schemes</b>	<b>489</b>	580
Cash contribution to defined benefit pension schemes	<b>(599)</b>	(536)
<b>Elimination of foreign exchange differences and other non-cash items</b>	<b>(13,517)</b>	3,396
<b>Net cash inflow from trading activities</b>	<b>(215)</b>	15,690
<b>Changes in operating assets and liabilities</b>	<b>28,261</b>	3,980
<b>Net cash flows from operating activities before tax</b>	<b>28,046</b>	19,670
<b>Income taxes paid</b>	<b>(2,442)</b>	(2,229)
<b>Net cash flows from operating activities</b>	<b>25,604</b>	17,441
<b>Investing activities</b>		
Sale and maturity of securities	<b>63,007</b>	27,126
Purchase of securities	<b>(61,020)</b>	(19,126)
Sale of property, plant and equipment	<b>5,786</b>	2,990
Purchase of property, plant and equipment	<b>(5,080)</b>	(4,282)
Investment in business interests and intangible assets	<b>13,640</b>	(63)
Discontinued activities	<b>(334)</b>	-
<b>Net cash flows from investing activities</b>	<b>15,999</b>	6,645
<b>Financing activities</b>		
Issue of ordinary shares	<b>77</b>	104
Issue of other equity interests	<b>3,600</b>	671
Issue of paid up equity	<b>1,073</b>	-
Issue of subordinated liabilities	<b>1,018</b>	3,027
<b>Proceeds of minority interests issued</b>	<b>31,095</b>	1,354
Redemption of minority interests	<b>(545)</b>	(81)
Repurchase of ordinary shares	<b>-</b>	(991)
Shares purchased by employee trusts	<b>(65)</b>	(254)
Shares issued under employee share schemes	<b>79</b>	108
Repayment of subordinated liabilities	<b>(1,708)</b>	(1,318)

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<b>Dividends paid</b>	<b>(3,411)</b>	<b>(2,727)</b>
Interest paid on subordinated liabilities	<b>(1,522)</b>	<b>(1,409)</b>
<b>Net cash flows from financing activities</b>	<b>29,691</b>	<b>(1,516)</b>
Effects of exchange rate changes on cash and cash equivalents	<b>6,010</b>	<b>(3,468)</b>
<b>Net increase in cash and cash equivalents</b>	<b>77,304</b>	<b>19,102</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>71,651</b>	<b>52,549</b>
<b>Cash and cash equivalents at end of year</b>	<b>148,955</b>	<b>71,651</b>



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES

**1. Accounting policies**

There have been no significant changes to the Group's accounting policies.

**2. Loan impairment provisions**

Operating profit is stated after charging loan impairment losses of £2,106 million (2006 - £1,877 million). The balance sheet loan impairment provisions increased in the year ended 31 December 2007 from £3,935 million to £6,441 million, and the movements thereon were:

	<b>2007</b>	2006
	<b>£m</b>	£m
At 1 January	<b>3,935</b>	3,887
Currency translation and other adjustments	<b>137</b>	(61)
Acquisition of subsidiaries	<b>2,210</b>	-
Amounts written-off	<b>(2,171)</b>	(1,841)
Recoveries of amounts previously written-off	<b>390</b>	215
Charge to income statement	<b>2,106</b>	1,877
Unwind of discount	<b>(166)</b>	(142)
	<hr/>	<hr/>
At 31 December	<b>6,441</b>	3,935
	<hr/>	<hr/>

The provision at 31 December 2007 includes £3 million (2006 - £2 million) in respect of loans and advances to banks.

**3. Taxation**

The charge for taxation on continuing operations comprises:

	<b>2007</b>	2006
	<b>£m</b>	£m
Tax on profit before intangibles amortisation and integration costs	<b>2,149</b>	2,750
Tax relief on intangibles amortisation and integration costs	<b>(97)</b>	(61)
	<hr/>	<hr/>
	<b>2,052</b>	2,689
	<hr/>	<hr/>
Overseas tax included above	<b>508</b>	1,100
	<hr/>	<hr/>

The charge for taxation represents 20.7% (2006 – 29.3%) of profit before tax. It differs from the tax charge computed by applying the standard UK corporation tax rate of 30% as follows:

<b>2007</b>	2006
<b>£m</b>	£m



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Profit before tax	<b>9,900</b>	9,186
	<hr/>	<hr/>
Expected tax charge at 30%	<b>2,970</b>	2,756
Non-deductible items	<b>263</b>	288
Non-taxable items	<b>(595)</b>	(251)
Foreign profits taxed at other rates	<b>(37)</b>	63
Reduction in deferred tax liability following change in the rate of UK Corporation Tax	<b>(189)</b>	-
Other	<b>7</b>	19
Adjustments in respect of prior periods	<b>(367)</b>	(186)
	<hr/>	<hr/>
Actual tax charge	<b>2,052</b>	2,689
	<hr/>	<hr/>



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

**4. Earnings per share**

Earnings per share have been calculated based on the following:

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Earnings</b>		
Profit attributable to ordinary shareholders	<b>7,303</b>	6,202
Add back finance cost on dilutive convertible securities	<b>60</b>	64
	<hr/> <b>7,363</b>	<hr/> 6,266
	<hr/>	<hr/>
	<b>Number of shares</b>	
	<b>- millions</b>	
<b>Weighted average number of ordinary shares*</b>		
In issue during the year	<b>9,557</b>	9,555
Effect of dilutive share options and convertible securities	<b>166</b>	174
	<hr/>	<hr/>
Diluted weighted average number of ordinary shares in issue during the year	<b>9,723</b>	9,729
	<hr/>	<hr/>
<b>Basic earnings per share*</b>	<b>76.4p</b>	64.9 p
Intangibles amortisation (net of minority interest share)	<b>1.5p</b>	0.7 p
Integration costs	<b>0.8p</b>	1.1 p
	<hr/>	<hr/>
<b>Adjusted earnings per share*</b>	<b>78.7p</b>	66.7 p
	<hr/>	<hr/>
<b>Diluted earnings per shares*</b>	<b>75.7p</b>	64.4p
	<hr/>	<hr/>
<b>Adjusted diluted earnings per shares*</b>	<b>77.9p</b>	66.1p
	<hr/>	<hr/>

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



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

## 5. Segmental analysis from continuing operations

The revenues for each division in the table below are gross of intra-group transactions.

	2007	2006
	£m	£m
<b>Total revenue</b>		
Corporate Markets		
- Global Banking & Markets	22,126	19,057
- UK Corporate Banking	7,321	5,980
Retail Markets		
- Retail	13,936	12,755
- Wealth Management	3,140	2,421
Ulster Bank	3,038	2,557
Citizens	5,528	5,874
RBS Insurance	6,422	6,447
Manufacturing	42	54
ABN AMRO	5,959	-
Central items	10,730	8,109
Elimination of intra-group transactions	(23,775)	(18,968)
	<u>54,467</u>	<u>44,286</u>
	2007	2006
	£m	£m
<b>Operating profit before tax</b>		
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	-	-
ABN AMRO	(16)	-
Central items	(752)	(1,447)
	<u>10,282</u>	<u>9,414</u>
Amortisation of purchased intangible assets	(274)	(94)

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Integration costs	(108)	(134)
	<u>9,900</u>	<u>9,186</u>



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

**6. Dividends \***

During the year dividends of 22.1p per ordinary share (2006 – 17.7p) in respect of the final dividend for 2006 and 10.1p per ordinary share (2006 – 8.1p) in respect of the interim dividend for 2007 were paid to ordinary shareholders. The directors have recommended a final dividend for 2007 of 23.1p per ordinary share. Subject to approval by shareholders at the Annual General Meeting, the final dividend will be paid on 6 June 2008 to shareholders registered on 7 March 2008.

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

**7. Analysis of repurchase agreements**

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Reverse repurchase agreements and stock borrowing</b>		
Loans and advances to banks	<b>175,941</b>	54,152
Loans and advances to customers	<b>142,357</b>	62,908
	<hr/>	<hr/>
<b>Repurchase agreements and stock lending</b>		
Deposits by banks	<b>163,038</b>	76,376
Customer accounts	<b>134,916</b>	63,984
	<hr/>	<hr/>

**8. Retirement benefit surplus/(liability)**

	<b>2007</b>	2006
	<b>£m</b>	£m
Fair value of plan assets	<b>27,662</b>	18,959
Present value of defined benefit obligations	<b>27,322</b>	20,951
	<hr/>	<hr/>
Net pension surplus/(liability)	<b>340</b>	( 1,992 )
	<hr/>	<hr/>
Schemes in net surplus (included in Other assets)	<b>8 36</b>	-
Schemes in net deficit	<b>(496)</b>	(1,992)
	<hr/>	<hr/>

The transition to a net surplus of £340 million at 31 December 2007 from a net pension liability of £1,992 million at 31 December 2006 reflects strong growth in scheme assets coupled with a higher discount rate due to the rise in AA rated corporate bond yields.





## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

## 9. Analysis of consolidated equity

	2007	2006
	£m	£m
<b>Called-up share capital</b>		
At beginning of year	815	826
Bonus issue of ordinary shares*	1,576	-
Shares issued during the year	139	2
Shares repurchased during the year	-	(13)
	<hr/>	<hr/>
At end of year	2,530	815
	<hr/>	<hr/>
<b>Paid-in equity</b>		
Securities issued during the year	1,073	-
	<hr/>	<hr/>
At end of year	1,073	-
	<hr/>	<hr/>
<b>Share premium account</b>		
At beginning of year	12,482	11,777
Bonus issue of ordinary shares*	(1,576)	-
Shares issued during the year	6,257	815
Shares repurchased during the year	-	(381)
Redemption of preference shares classified as debt	159	271
	<hr/>	<hr/>
At end of year	17,322	12,482
	<hr/>	<hr/>
<b>Merger reserve</b>		
At beginning and end of year	10,881	10,881
	<hr/>	<hr/>
<b>Available-for-sale reserves</b>		
At beginning of year	1,528	(73)
Unrealised (losses)/gains in the year	(191)	2,609
Realised gains in the year	(513)	(313)
Taxation	208	(695)
	<hr/>	<hr/>
At end of year	1,032	1,528
	<hr/>	<hr/>
<b>Cash flow hedging reserve</b>		
At beginning of year	(149)	59

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Amount recognised in equity during the year	<b>(460)</b>	(109)
Amount transferred from equity to earnings in the year	<b>(138)</b>	(140)
Taxation	<b>192</b>	41
	<hr/>	<hr/>
At end of year	<b>(555)</b>	(149)
	<hr/>	<hr/>
<b>Foreign exchange reserve</b>		
At beginning of year	<b>(872)</b>	469
Retranslation of net assets, net of related hedges	<b>376</b>	(1,341)
Taxation	<b>70</b>	-
	<hr/>	<hr/>
At end of year	<b>(426)</b>	(872)
	<hr/>	<hr/>

\*in May 2007, the Group capitalised £1,576 million of its share premium account by way of a two for one bonus issue of ordinary shares of 25p each.



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

## 9. Analysis of consolidated equity (continued)

	2007	2006
	£m	£m
<b>Capital redemption reserve</b>		
At beginning of year	170	157
Shares repurchased during the year	-	13
At end of year	<u>170</u>	<u>170</u>
<b>Retained earnings</b>		
At beginning of year	15,487	11,346
Profit attributable to ordinary and equity preference shareholders	7,549	6,393
Ordinary dividends paid	(3,044)	(2,470)
Equity preference dividends paid	(246)	(191)
Shares repurchased during the year	-	(624)
Redemption of preference shares classified as debt	(159)	(271)
Actuarial gains recognised in retirement benefit schemes, net of tax	1,517	1,262
Net cost of shares bought and used to satisfy share-based payments	(40)	(38)
Share-based payments, net of tax	8	80
At end of year	<u>21,072</u>	<u>15,487</u>
<b>Own shares held</b>		
At beginning of year	(115)	(7)
Shares purchased during the year	(65)	(254)
Shares issued under employee share schemes	119	146
At end of year	<u>(61)</u>	<u>(115)</u>
<b>Owners' equity at end of year</b>	<u>53,038</u>	<u>40,227</u>
<b>Minority interests</b>		
At beginning of year	5,263	2,109
Currency translation adjustments and other movements	1,834	(297)
Acquisition of ABN AMRO	32,245	-
Profit attributable to minority interests	163	104
Dividends paid	(121)	(66)
(Losses)/gains on available-for-sale securities, net of tax	(564)	2,140
Movements in cash flow hedging reserves, net of tax	26	-

<b>Actuarial gains recognised in retirement benefit schemes, net of tax</b>	<b>19</b>	-
<b>Equity raised</b>	<b>76</b>	1,354
<b>Equity withdrawn</b>	<b>(553)</b>	(81)
	<hr/>	<hr/>
<b>At end of year</b>	<b>38,388</b>	5,263
	<hr/>	<hr/>
<b>Total equity at end of year</b>	<b>91,426</b>	45,490
	<hr/>	<hr/>



## THE ROYAL BANK OF SCOTLAND GROUP plc

## NOTES (continued)

**Analysis of contingent liabilities and  
10. commitments**

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Contingent liabilities</b>		
Guarantees and assets pledged as collateral security	<b>46,441</b>	1 0,725
Other contingent liabilities	<b>15,479</b>	9,121
	<b>61,920</b>	19,846
<b>Commitments</b>		
Undrawn formal standby facilities, credit lines and other commitments to lend	<b>335,688</b>	2 42, 655
Other commitments	<b>2,491</b>	2,402
	<b>338,179</b>	2 45, 057
Total contingent liabilities and commitments	<b>400,099</b>	2 64, 903

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

**11. Litigation**

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

On 27 July 2007, following discussions between the Office of Fair Trading ('OFT'), the Financial Ombudsman Service, the Financial Services Authority and all the major UK banks (including the Group) in the first half of 2007, the OFT issued proceedings in a test case against the banks including the Group to determine the legal status and enforceability of certain charges relating to unauthorised overdrafts. The hearing of the test case commenced on 17 January 2008. The Group maintains that its charges are fair and enforceable and is defending its position vigorously. It cannot, however, at this stage predict with any certainty the outcome of the test case and is unable reliably to estimate the liability, if any, that may arise or its effect on the Group's consolidated net assets,



operating results or cash flows in any particular period.

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



THE ROYAL BANK OF SCOTLAND GROUP plc

**NOTES (continued)**

**12. Regulatory enquiries and investigations**

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

As previously disclosed by ABN AMRO, the United States Department of Justice has been conducting a criminal investigation into ABN AMRO's dollar clearing activities, Office of Foreign Assets Control compliance procedures and other Bank Secrecy Act compliance matters. ABN AMRO has cooperated and continues to cooperate fully with the investigation. Prior to the acquisition by the Group, ABN AMRO had reached an agreement in principle with the Department of Justice that would resolve all presently known aspects of the ongoing investigation by way of a Deferred Prosecution Agreement in return for a settlement payment by ABN AMRO of US\$500 million (which amount was accrued by ABN AMRO in its interim financial statements for the six months ended 30 June 2007). Negotiations are continuing to enable a written agreement to be concluded.

Certain of the Group's subsidiaries have received requests for information from various US governmental agencies and self regulatory organisations including in connection with sub-prime mortgages and securitisations, collateralised debt obligations and synthetic products related to sub-prime mortgages. The Group and its subsidiaries are cooperating with these various requests for information and investigations.

**13. Statutory accounts**

Financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ("the Act"). The statutory accounts for the year ended 31 December 2007 will be filed with the Registrar of Companies following the company's Annual General Meeting. The auditors have reported on these accounts: their report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

**14. Date of approval**

This announcement was approved by the Board of directors on 27 February 2008.

**15. Form 20-F**

A report on Form 20-F will be filed with the Securities and Exchange Commission in the United States.



## THE ROYAL BANK OF SCOTLAND GROUP plc

## ANALYSIS OF INCOME, EXPENSES AND IMPAIRMENT LOSSES

	Statutory 2007 £m	Excluding ABN AMRO 2007 £m	2006 £m
<b>Non-interest income</b>			
Fees and commissions receivable	8,465	7,730	7,116
Fees and commissions payable			
- banking	(1,845)	(1,665)	(1,432)
- insurance related	(466)	(466)	(490)
<b>Net fees and commissions</b>	<b>6,154</b>	<b>5,599</b>	5,194
Foreign exchange	1,050	928	738
Interest rate	1,466	1,748	973
Credit	(1,430)	(1,620)	841
Other	241	167	123
<b>Income from trading activities</b>	<b>1,327</b>	<b>1,223</b>	2,675
Rental and other asset-based activities	2,601	2,484	2,149
Other income			
- principal investments	1,213	1,213	794
- net realised gains on available-for-sale securities	293	293	196
- dividend income	116	116	73
- profit on sale of property, plant and equipment	430	430	125
- other	204	147	227
<b>Other operating income</b>	<b>4,857</b>	<b>4,683</b>	3,564
<b>Non-interest income (excluding insurance premiums)</b>	<b>12,338</b>	<b>11,505</b>	11,433
<b>Insurance net premium income</b>	<b>6,109</b>	<b>5,982</b>	5,973
<b>Total non-interest income</b>	<b>18,447</b>	<b>17,487</b>	17,406

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Staff costs				
-	Wages, salaries and other staff costs	<b>6,434</b>	<b>5,640</b>	5,641
-	social security costs	<b>522</b>	<b>407</b>	389
-	pension costs	<b>578</b>	<b>550</b>	617
	Premises and equipment	<b>1,762</b>	<b>1,538</b>	1,411
	Other	<b>3,081</b>	<b>2,494</b>	2,626
	<b>Administrative expenses</b>	<b>12,377</b>	<b>10,629</b>	10,684
	Operating lease depreciation	<b>727</b>	<b>699</b>	787
	Other depreciation and amortisation	<b>949</b>	<b>845</b>	781
	<b>Operating expenses</b>	<b>14,053</b>	<b>12,173</b>	12,252
	General insurance	<b>4,010</b>	<b>4,010</b>	3,970
	Bancassurance	<b>642</b>	<b>518</b>	488
	<b>Insurance net claims</b>	<b>4,652</b>	<b>4,528</b>	4,458
	Loan impairment losses	<b>2,106</b>	<b>1,843</b>	1,877
	Impairment of available-for-sale securities	<b>22</b>	<b>22</b>	1
	<b>Impairment losses</b>	<b>2,128</b>	<b>1,865</b>	1,878

Note: the data above exclude amortisation of purchased intangibles and integration costs.



## THE ROYAL BANK OF SCOTLAND GROUP plc

**REGULATORY RATIOS**

	<b>2007</b>	2006
	<b>£m</b>	£m
<b>Capital base</b>		
Ordinary shareholders' funds and minority interests less intangibles	<b>27,324</b>	20,281
Preference shares and tax deductible securities	<b>17,040</b>	9,760
	<hr/>	<hr/>
Tier 1 capital	<b>44,364</b>	30,041
Tier 2 capital	<b>33,693</b>	27,491
Tier 3 capital	<b>200</b>	-
	<hr/>	<hr/>
	<b>78,257</b>	57,532
Less: Supervisory deductions	<b>(10,283)</b>	(10,583)
	<hr/>	<hr/>
	<b>67,974</b>	46,949
	<hr/>	<hr/>
<b>Risk-weighted assets</b>		
Banking book		
- on-balance sheet	<b>480,200</b>	318,600
- off-balance sheet	<b>84,600</b>	59,400
Trading book	<b>44,200</b>	22,300
	<hr/>	<hr/>
	<b>609,000</b>	400,300
	<hr/>	<hr/>
<b>Risk asset ratio</b>		
Tier 1	<b>7.3%</b>	7.5%
Total	<b>11.2%</b>	11.7%
	<hr/>	<hr/>
<b>Composition of capital</b>		
<b>Tier 1</b>		
Shareholders' equity and minority interests	<b>88,311</b>	41,700
Innovative tier 1 securities and preference shares	<b>6,919</b>	4,900
Goodwill and other intangible assets	<b>(48,492)</b>	(18,904)
Regulatory and other adjustments	<b>(2,374)</b>	2,345
	<hr/>	<hr/>
Total qualifying tier 1 capital	<b>44,364</b>	30,041
	<hr/>	<hr/>
<b>Tier 2</b>		
Unrealised gains in available-for-sale equity securities in shareholders' equity and minority interests	<b>3,115</b>	3,790
Collective impairment losses, net of taxes	<b>2,582</b>	2,267
Qualifying subordinated liabilities	<b>27,681</b>	21,024
Minority and other interests in tier 2 capital	<b>315</b>	410



Total qualifying tier 2 capital	<b>33,693</b>	27,491
<b>Tier 3</b>	<b>200</b>	-
<b>Supervisory deductions</b>		
Unconsolidated investments	<b>4,297</b>	3,870
Investments in other banks <sup>(1)</sup>	<b>463</b>	5,203
Other deductions	<b>5,523</b>	1,510
	<b>10,283</b>	10,583
Total regulatory capital	<b>67,974</b>	46,949

Note:

- (1) The reduction in supervisory deductions for investments in other banks reflects changes to the FSA rules following the implementation of certain provisions of the EU Capital Requirements Directive with effect from 1 January 2007.

THE ROYAL BANK OF SCOTLAND GROUP plc

## ASSET QUALITY

### Analysis of loans and advances to customers

The following table analyses loans and advances to customers (including reverse repurchase agreements and stock borrowing) by industry and geography.

	Statutory	Excluding ABN AMRO	
	2007	2007	2006
	£m	£m	£m
Central and local government	3,135	3,129	6,732
Finance	70,690	40,542	25,017
Individuals – home	73,916	72,726	70,884
Individuals – other	28,186	28,122	27,922
Other commercial and industrial comprising:			
- Manufacturing	13,452	11,943	11,051
- Construction	10,202	10,088	8,251
- Service industries and business activities	53,965	48,578	43,887
- Agriculture, forestry and fishing	2,473	2,467	2,767

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-	Property	50,051	46,157	39,296
	Finance leases and instalment credit	15,632	15,632	14,218
	Interest accruals	2,344	1,860	1,497
		<hr/>	<hr/>	<hr/>
	Total domestic	324,046	281,244	251,522
	Overseas residents	98,845	98,845	69,242
		<hr/>	<hr/>	<hr/>
	<b>Total UK offices</b>	<b>422,891</b>	<b>380,089</b>	<b>320,764</b>
		<hr/>	<hr/>	<hr/>
	<b>Overseas</b>			
	US	135,059	87,054	92,166
	Rest of the World	277,738	80,855	57,896
		<hr/>	<hr/>	<hr/>
	<b>Total Overseas offices</b>	<b>412,797</b>	<b>167,909</b>	<b>150,062</b>
		<hr/>	<hr/>	<hr/>
	<b>Loans and advances to customers - gross</b>	<b>835,688</b>	<b>547,998</b>	<b>470,826</b>
	Loan impairment provisions	(6,438)	(4,233)	(3,933)
		<hr/>	<hr/>	<hr/>
	<b>Total loans and advances to customers</b>	<b>829,250</b>	<b>543,765</b>	<b>466,893</b>
		<hr/>	<hr/>	<hr/>
	<b>Reverse repurchase agreements included in the analysis above:</b>			
	Central and local government	-	-	3,677
	Finance	55,159	26,984	17,540
	Accruals	228	228	220
		<hr/>	<hr/>	<hr/>
		55,387	27,212	21,437
	Overseas residents	31,425	31,425	18,487
		<hr/>	<hr/>	<hr/>
	Total UK offices	86,812	58,637	39,924
	US	47,151	15,557	19,383
	Rest of the World	8,394	4,862	3,601
		<hr/>	<hr/>	<hr/>
	<b>Total</b>	<b>142,357</b>	<b>79,056</b>	<b>62,908</b>
		<hr/>	<hr/>	<hr/>
	<b>Loans and advances to customers excluding reverse repurchase agreements - net</b>	<b>686,893</b>	<b>464,709</b>	<b>403,985</b>
		<hr/>	<hr/>	<hr/>



## THE ROYAL BANK OF SCOTLAND GROUP plc

## ASSET QUALITY (continued)

## Risk elements in lending

The Group's loan control and review procedures do not include the classification of loans as non-accrual, accruing past due, restructured and potential problem loans, as defined by the Securities and Exchange Commission ('SEC') in the US. The following table shows the estimated amount of loans which would be reported using the SEC's classifications. The figures are stated before deducting the value of security held or related provisions. REIL, PPL and customer loans and advances are, where appropriate, shown gross of provisions recorded by ABN AMRO at the date of its acquisition by the Group.

	Statutory	Excluding ABN AMRO	
	2007	2007	2006
	£m	£m	£m
Loans accounted for on a non-accrual basis (2):			
- Domestic	5,599	5,577	5,420
- Foreign	4,763	1,091	812
	<u>10,362</u>	<u>6,668</u>	<u>6,232</u>
Accruing loans which are contractually overdue 90 days or more as to principal or interest (3):			
- Domestic	217	217	81
- Foreign	152	39	24
	<u>369</u>	<u>256</u>	<u>105</u>
Total risk elements in lending	<u>10,731</u>	<u>6,924</u>	<u>6,337</u>
Potential problem loans (4)			
- Domestic	63	63	47
- Foreign	608	1	5
	<u>671</u>	<u>64</u>	<u>52</u>
Closing provisions for impairment as a % of			
total risk elements in lending and potential problem loans	<u>56%</u>	<u>61%</u>	<u>62%</u>
Risk elements in lending as a % of gross lending to			

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customers excluding reverse repos	<b>1.55%</b>	<b>1.48%</b>	1.55%
	—————	—————	—————
Risk elements in lending and potential problem loans as a %			
of gross lending to customers excluding reverse repos	<b>1.64%</b>	<b>1.49%</b>	1.57%
	—————	—————	—————

Notes:

1. For the analysis above, 'Domestic' consists of the United Kingdom domestic transactions of the

Group. 'Foreign' comprises the Group's transactions conducted through offices outside the

UK and through those offices in the UK specifically organised to service international banking

transactions.

2. All loans against which an impairment provision is held are reported in the non-accrual category.

3. Loans where an impairment event has taken place but no impairment recognised. This category

is used for fully collateralised non-revolving credit facilities.

4. Loans for which an impairment event has occurred but no impairment provision is necessary.

This category is used for fully collateralised advances and revolving credit facilities

where identification as 90 days overdue is not feasible.

THE ROYAL BANK OF SCOTLAND GROUP plc

**CREDIT MARKET EXPOSURES**

<b>Group (in cluding ABN AMRO)</b>	Net exposure at 31 December 2007 £m	Average price %
Super senior tranches of ABS CDOs		
High grade CDOs	2,581	84
Mezzanine CDOs	1,253	70

CDO squared	-	-
Sub-prime trading inventory		
Investment grade	937	79
Non-investment grade	255	54
Residuals	100	50
Leveraged finance	8,698	95

The Group has a leading position in structuring, distributing and trading asset-backed securities (ABS). These activities include buying mortgage-backed securities, including securities backed by US sub-prime mortgages, and repackaging them into collateralised debt obligations (CDOs) for subsequent sale to investors. The Group retains exposure to some of the super senior tranches of these CDOs which are all carried at fair value.

At 31 December 2007 the Group's exposure to these super senior tranches, net of hedges and write-downs, totalled £2.6 billion to high grade CDOs, which include commercial loan collateral as well as prime and sub-prime mortgage collateral, and £1.3 billion to mezzanine CDOs, which are based primarily on residential mortgage collateral. Both categories of CDO have high attachment points. There was also £1.2 billion of exposure to sub-prime mortgages through a trading inventory of mortgage-backed securities and CDOs and £100 million through securitisation residuals.

In the second half of 2007, rising mortgage delinquencies and expectations of declining house prices in the US led to a deterioration of the estimated value of these exposures. Our valuations of the ABS CDO super senior exposures take into consideration outputs from our proprietary model, observable market benchmarks and prudent valuation adjustments. Trading book exposures and residuals are marked to market on the basis of direct prices, where available, or observable market benchmarks.

Since our Trading Update in December, we have decided to take an additional mark-down of 10% on the valuation of high grade CDOs in ABN AMRO's portfolio.

Drawn leveraged finance positions totalled £8.7 billion at 31 December 2007. Positions are valued by considering recent syndication prices in the same or similar assets, prices in the secondary loan market, and with reference to relevant indices for credit products such as the LevX, LCDX and ITraxx and CDX credit default swap indices.

THE ROYAL BANK OF SCOTLAND GROUP plc

#### CREDIT MARKET EXPOSURES (continued)

Group (in cluding ABN AMRO)	Exposure net of
	hedges at 31
	December 2007
	£m
Alt-A	
Investment grade	1,972
Non-investment grade	261
CLOs	1,386
Commercial mortgages	8,808
Financial guarantors	2,547

The Group has £2.2 billion of US Alt-A residential mortgage trading inventory, of which more than 85% is investment grade. Collateralised loan obligation exposures totalled £1.4 billion. Commercial mortgage exposure, consisting of loans originated for the purposes of securitisation, totalled £8.8 billion at 31 December. The portfolio consisted predominantly of commercial mortgages originated in Europe. The Group hedges some of its positions with counterparties including financial guarantors. At 31 December 2007 the Group had £2.5 billion of derivative exposure to financial guarantors. All of the above exposures are carried at fair value.

THE ROYAL BANK OF SCOTLAND GROUP plc

## FAIR VALUE - FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of management estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Where such data are not observable, they are estimated by management. The table below shows financial instruments carried at fair value at 31 December 2007 in the Group's financial statements, by valuation method.

	<b>Assets</b>	<b>Liabilities</b>
	<b>2007</b>	<b>2007</b>
	<b>£bn</b>	<b>£bn</b>
Quoted prices in active markets	<b>159.4</b>	<b>65.7</b>
Valuation techniques		
- based on observable market data	<b>669.5</b>	<b>510.3</b>
- incorporating information other than observable data	<b>32.7</b>	<b>15.3</b>
At 31 December	<b>861.6</b>	<b>591.3</b>

Financial assets and liabilities valued based on information other than observable market data include certain syndicated and commercial mortgage loans, certain residual interests in securitisations, super senior tranches of high grade and mezzanine collateralised debt obligations and other sub-prime trading inventory, less liquid debt securities, certain structured debt securities in issue and OTC derivatives. On the initial recognition of financial assets and liabilities valued using valuation techniques incorporating information other than observable market data, any difference between the transaction price and that derived from the valuation technique is deferred. Such amounts are recognised in profit or loss over the life of the transaction; when market data become observable; or when the transaction matures or is closed out as appropriate. At 31 December 2007, net gains of £7.2 million (2006 - £15 million) were carried forward in the balance sheet. During the year net gains of £6.7 million (2006 - £3 million) were deferred and £10 million (2006 - £4 million) released to profit or loss.

## THE ROYAL BANK OF SCOTLAND GROUP plc

**DERIVATIVES**

	<b>Assets</b>	<b>Liabilities</b>
	<b>2007</b>	<b>2007</b>
	<b>£m</b>	<b>£m</b>
<b>Exchange rate contracts</b>		
Spot, forwards and futures	29,829	29,629
Currency swaps	14,785	13,789
Options purchased	13,750	-
Options written	-	13,892
<b>Interest rate contracts</b>		
Interest rate swaps	202,478	201,487
Options purchased	30,681	-
Options written	-	31,199
Futures and forwards	807	987
<b>Credit derivatives</b>	<b>34,123</b>	<b>29,855</b>
<b>Equity and commodity contracts</b>	<b>10,957</b>	<b>11,222</b>
	<b>337,410</b>	<b>332,060</b>

The Group enters into master netting agreements in respect of its derivatives activities. These arrangements, which give the Group a legal right to set-off derivative assets and liabilities with the same counterparty, do not result in a net presentation in the Group's balance sheet for which IFRS requires an intention to settle net as well as a legally enforceable right to set off. They are however effective in reducing the Group's credit exposure from derivative assets. The Group has executed master netting agreement with the majority of its derivative counterparties resulting in a significant reduction in its net exposure to derivative assets. Furthermore it holds substantial collateral against this net derivative asset exposure.





## THE ROYAL BANK OF SCOTLAND GROUP plc

**MARKET RISK**

The Group manages the market risk in its trading and treasury portfolios through its market risk management framework. This expresses limits based on, but not limited to: value-at-risk (VaR); stress testing and scenario analysis; and position and sensitivity analyses. VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at given confidence levels. The table below sets out the VaR, at a 95% confidence level and a one-day time horizon, for the Group's trading and treasury portfolios. The VaR for the Group's trading portfolios includes idiosyncratic risk and is segregated by type of market risk exposure.

	Average £m	Year end £m	Maximum £m	Minimum £m
<b>Excluding ABN AMRO</b>				
<b>Trading VaR</b>				
Interest rate	11.7	9.6	17.6	7.6
Credit spread	17.7	37.9	44.0	12.6
Currency	2.6	2.6	6.9	1.1
Equity	2.4	1.9	6.8	1.4
Commodity	0.2	0.1	1.6	-
Diversification effects		(12.4)		
<b>31 December 2007</b>	<b>20.3</b>	<b>39.7</b>	<b>45.5</b>	<b>13.2</b>
31 December 2006	14.2	15.6	18.9	10.4
<b>Treasury VaR</b>				
<b>31 December 2007</b>	<b>3.6</b>	<b>5.3</b>	<b>5.8</b>	<b>1.3</b>
31 December 2006	2.4	1.5	4.4	0.6
	Average £m	Year end £m	Maximum £m	Minimum £m
<b>Including ABN AMRO</b>				
<b>Trading VaR</b>				
Interest rate	12.5	15.0	21.8	7.6
Credit spread	18.8	41.9	45.2	12.6
Currency	2.6	3.0	6.9	1.1
Equity	5.4	14.0	22.0	1.4
Commodity	0.2	0.5	1.6	-
Diversification effects		(28.7)		

<b>31 December 2007</b>	<b>21.6</b>	<b>45.7</b>	<b>50.1</b>	<b>13.2</b>
	_____	_____	_____	_____
<b>Treasury VaR</b>				
<b>31 December 2007</b>	<b>3.7</b>	<b>5.5</b>	<b>6.4</b>	<b>1.3</b>
	_____	_____	_____	_____

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#### **MARKET RISK (continued)**

The Group's VaR should be interpreted in light of the limitations of the methodologies used. These limitations include:

- Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.
- VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- VaR using a 95% confidence level does not reflect the extent of potential losses beyond that percentile.

The Group largely computes the VaR of trading portfolios at the close of business and positions may change substantially during the course of the trading day. Controls are in place to limit the Group's intra-day exposure, such as the calculation of VaR for selected portfolios. These limitations and the nature of the VaR measure mean that the Group cannot guarantee that losses will not exceed the VaR amounts indicated. The Group undertakes stress testing to identify the potential for losses in excess of the VaR.

The Group's treasury activities include its money market business and the management of internal funds flow within the Group's businesses.

## THE ROYAL BANK OF SCOTLAND GROUP plc

**OTHER INFORMATION**

	<b>2007</b>	2006
<b>Ordinary share price*</b>	<b>£4.44</b>	£ 6. 64
<b>Number of ordinary shares in issue*</b>	<b>10,006m</b>	9 ,459 m
<b>Market capitalisation</b>	<b>£44.4bn</b>	£62.8bn
<b>Net asset value per ordinary share*</b>	<b>£4.47</b>	£ 3. 86
<b>Employee numbers in continuing operations</b>		
<b>(full time equivalents rounded to the nearest hundred)</b>		
Global Banking & Markets	<b>10,300</b>	8, 600
UK Corporate Banking	<b>9,500</b>	8,800
Retail	<b>37,500</b>	3 8 , 900
Wealth Management	<b>5,000</b>	4,500
Ulster Bank	<b>6,400</b>	5 , 6 00
Citizens	<b>22,500</b>	23,100
RBS Insurance	<b>17,300</b>	17,500
Manufacturing Centre	<b>2,900</b>	2,600
Total excluding ABN AMRO	<b>136,600</b>	135,000
ABN AMRO	<b>89,800</b>	-
<b>Group total</b>	<b>226,400</b>	135,000

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

## THE ROYAL BANK OF SCOTLAND GROUP plc

**RESTATEMENTS**

Divisional results for 2006 have been restated to reflect transfers of operations and businesses between divisions in 2007, principally the transfer of our European Consumer Finance business from Retail to Ulster Bank. These changes do not affect the Group's results.

	Previously reported £m	Transfers £m	Restated £m
<b>Global Banking &amp; Markets</b>			
- Net interest income	1,629	3	<b>1,632</b>

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-	Non-interest income	5,197	2	<b>5,199</b>
-	Other costs	427	15	<b>442</b>
<b>Contribution</b>		<b>3,933</b>	<b>(10)</b>	<b>3,923</b>
<hr/>				
<b>UK Corporate Banking</b>				
-	Net interest income	2,169	4	<b>2,173</b>
-	Non-interest income	1,284	5	<b>1,289</b>
-	Staff costs	562	2	<b>564</b>
-	Other costs	183	3	<b>186</b>
<b>Contribution</b>		<b>2,189</b>	<b>4</b>	<b>2,193</b>
<hr/>				
<b>Retail</b>				
-	Net interest income	4,211	(103)	<b>4,108</b>
-	Non-interest income	3,492	(34)	<b>3,458</b>
-	Staff costs	1,349	(32)	<b>1,317</b>
-	Other costs	656	(35)	<b>621</b>
-	Impairment losses	1,343	(33)	<b>1,310</b>
<b>Contribution</b>		<b>3,867</b>	<b>(37)</b>	<b>3,830</b>
<hr/>				
<b>Wealth Management</b>				
-	Net interest income	500	(4)	<b>496</b>
-	Non-interest income	434	(41)	<b>393</b>
-	Other costs	137	(10)	<b>127</b>
<b>Contribution</b>		<b>497</b>	<b>(35)</b>	<b>462</b>
<hr/>				
<b>Ulster Bank</b>				
-	Net interest income	773	100	<b>873</b>
-	Non-interest income	215	37	<b>252</b>
-	Staff costs	224	30	<b>254</b>
-	Other costs	91	40	<b>131</b>
-	Impairment losses	71	33	<b>104</b>
<b>Contribution</b>		<b>602</b>	<b>34</b>	<b>636</b>
<hr/>				
<b>Manufacturing</b>				
-	Staff costs	763	(1)	<b>762</b>
-	Other costs	2,089	21	<b>2,110</b>
<b>Contribution</b>		<b>(2,852)</b>	<b>(20)</b>	<b>(2,872)</b>
<hr/>				
<b>Centre</b>				
-	Funding and corporate costs	917	(55)	<b>862</b>
-	Departmental and other costs	451	(9)	<b>442</b>
<b>Contribution</b>		<b>(1,368)</b>	<b>64</b>	<b>(1,304)</b>
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THE ROYAL BANK OF SCOTLAND GROUP plc

## FINANCIAL CALENDAR

2008 Annual General Meeting at 2pm at the EICC, The Exchange, Morrison Street, Edinburgh EH3 8EE	23 April 2008
2007 final dividend payment	6 June 2008
2008 interim results announcement	8 August 2008
2008 interim dividend payment	October 2008
2008 annual results announcement	February 2009

## CONTACTS

Sir Fred Goodwin	Group Chief Executive	020 7672 0008 0131 523 2203
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Guy Whittaker	Group Finance Director	020 7672 0003 0131 523 2028
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Richard O'Connor	Head of Investor Relations	020 7672 1758
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### For media enquiries:

Andrew McLaughlin	Director, Economic and Corporate Affairs	0131 626 3868 07786 111689
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Carolyn McAdam	Group Head of Media Relations	020 7672 1914 07796 274968
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27 February 2008

<sup>1</sup> Includes ABN AMRO from date of acquisition, 17 October 2007

<sup>2</sup> P rofit before tax, purchased intangibles amortisation and integration costs

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 28 February 2008

THE ROYAL BANK OF SCOTLAND  
GROUP plc (Registrant)

By: /s/ A N Taylor

Name: A N Taylor

Title: Head of Group Secretariat