

Group Chief Executive's review



The Group maintained strength and momentum in 2006 with higher earnings growth and an improved return on equity. All our growth was organic and all our divisions contributed to it. We increased our total income by 10% and held our cost growth to 8%. Group operating profit increased by 14% to £9,414 million.

We are building a group whose diversity, scale, distribution capacity and operational excellence can deliver superior, sustainable income growth, controlled risk and strong returns. Our 2006 results demonstrate once again the success of this model with particularly strong performances from Global Banking & Markets ("GBM"), UK Corporate Banking, Wealth Management and Ulster Bank. UK Retail banking, Citizens and RBS Insurance made good progress in the face of headwinds in their markets.

In 2006, we continued to build our market share in UK retail, commercial and corporate banking, increased our customer base in Europe and made good progress in building a platform for sustained growth in North America. We have also laid the foundations for a growing share in the vibrant financial services markets of the Asia Pacific region. The breadth of the Group's businesses is reflected in our results: 42% of our operating profit came from our international operations.

Sound control of risk is fundamental to the Group's business. While we grew average customer lending by 14%, impairment losses have increased by just 10%. Central to this is our longstanding aversion to sub-prime lending, wherever we do business. We have also maintained the customer-driven nature of our trading activities, as reflected in trading income growth of 14%, compared with an increase of only 9% in our average daily value at risk.

Our customers

The Group continues to hold the highest market share in UK corporate banking and we are now the joint leader in the personal current account market. RBS has once again secured top position and NatWest is joint second among major High Street banks for extremely satisfied customers, and we continued to invest in the expansion of our branch network in the UK. Through Ulster Bank we expanded across the island of Ireland, and in the US, Citizens continued to

broaden its customer base through the expansion of its credit card, merchant acquiring, small business and mid-corporate activities. Our GBM and Wealth Management businesses are growing rapidly in Asia.

Our shareholders

The capital generated by our businesses during 2006 has enabled us to invest in profitable organic growth across the Group, carry out a £1 billion share buyback and we propose to raise our payout ratio to 45% through a final dividend of 66.4p, making a total of 90.6p for the year, an increase of 25%.

Our people

Our performance is the result of the hard work, energy and dedication of our 135,000 employees. We have made significant progress in recent years in the development of our people, by seeking and then acting upon feedback from them. A record 87% of our employees participated in the 2006 Employee Opinion Survey and we outperformed the Global Financial Services norm in every category. Our people told us, and our results demonstrate, that the Group provides a rewarding and stimulating working environment for personal and professional development. We continue to listen to them and invest to maintain our market-leading position.

Bank of China

We have made good progress in developing our partnership with Bank of China. Our joint credit card business has already issued 1.2 million cards, we are establishing a joint private banking business and have together completed a number of significant transactions in shipping, aviation and trade finance.

Outlook

Our proven business model delivered strong results in 2006. We are expanding our reach and making progress in all the major economies we operate in. We believe that the strategic choices we have made, together with the prospects for continued growth in the world economy, position us well for 2007. We remain confident in the Group's ability to take advantage of the many opportunities to invest profitably in sustainable growth.

Sir Fred Goodwin
Group Chief Executive