

Highlights 2007

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

Contents

02	Measuring our success
04	Group profile
06	Divisional profile
08	Chairman's statement
10	Group Chief Executive's review

Divisional review

13	Corporate Markets
15	Retail Markets
17	Ulster Bank
18	Citizens
19	RBS Insurance
20	Manufacturing
21	ABN AMRO

Corporate Responsibility

22	Combating crime
22	Building financial capability
23	Promoting financial inclusion
24	Customer service
24	Citizens in the community
25	Our employees
25	RBS and the environment

Report and accounts

27	Business review
91	Governance
117	Financial statements
213	Additional information
235	Shareholder information

Measuring our success

Focus on growth and efficiency

Income (£m)



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

Adjusted cost:income ratio (%)



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

Group operating profit* (£m)



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

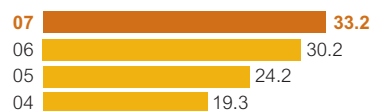
* profit before tax, purchased intangibles amortisation, integration costs, and net gain on sale of strategic investments and subsidiaries in 2005.

Adjusted earnings per share** (pence)



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

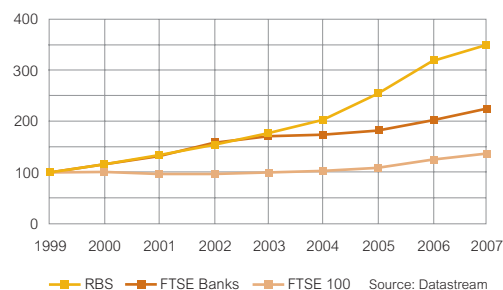
Dividend per ordinary share** (pence)



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

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

Cumulative growth in ordinary dividends per share 1999 – 2007



Group operating profit*

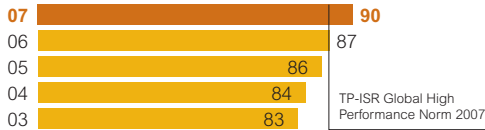
	2007 £m	2006 £m
Corporate Markets		
Global Banking & Markets	3,687	3,779
UK Corporate Banking	1,961	1,762
Total Corporate Markets	5,648	5,541
Retail Markets		
Retail	2,470	2,250
Wealth Management	413	318
Total Retail Markets	2,883	2,568
Ulster Bank	513	421
Citizens	1,323	1,582
RBS Insurance	683	749
Manufacturing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

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

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

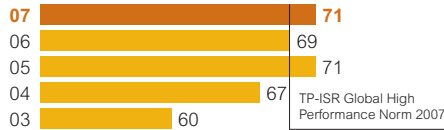
Our people – annual employee opinion survey

Response rate year on year progress (%)



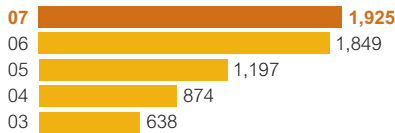
The RBS Employee Opinion Survey is conducted independently every year by ISR and circulated to all employees. Last year we achieved our highest response rate ever, ahead of the Global High Performance Norm.

Job satisfaction and engagement (%)



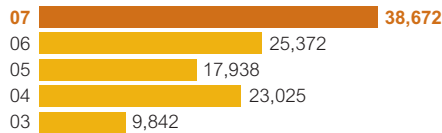
One of the indicators we watch most carefully is Job Satisfaction and Engagement. In 2007 we once again outperformed the Global High Performance Norm.

Work-Out data (number of events)



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

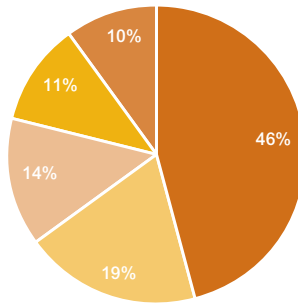
Work-Out data (number of employees participating)



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

Employees – Geographic analysis

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



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

Group profile

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

Great Britain

Corporate Markets
Retail Markets
Ulster Bank
RBS Insurance
Manufacturing
ABN AMRO

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

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



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

Americas

Corporate Markets
Citizens
ABN AMRO

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

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



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

Europe and Middle East

Corporate Markets
Retail Markets
Ulster Bank
RBS Insurance
Manufacturing
ABN AMRO

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

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



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

Asia-Pacific

Corporate Markets
Retail Markets
Manufacturing
ABN AMRO

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

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



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

Divisional profile

Corporate Markets

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

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

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

GBM – 2007 key global rankings

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

Contribution (£m)



UKCB – 2007 key highlights

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

Contribution (£m)



Retail Markets

Retail Markets comprises Retail and Wealth Management.

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

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

Retail – 2007 key highlights

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

Contribution (£m)



Wealth Management – 2007 key highlights

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

Contribution (£m)



Ulster Bank

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

2007 key highlights

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

Contribution (£m)



Citizens

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

2007 key highlights

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

Contribution (\$m)



RBS Insurance

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

2007 key highlights

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

Contribution (£m)



Manufacturing

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

2007 key highlights

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

Total costs (£m)



ABN AMRO

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

2007 key highlights

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

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

