

Board of directors and secretary



Chairman

1. Sir Tom McKillop (age 64)

C, N, R

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

Chief Executive, Corporate Markets

4. Johnny Cameron (age 53) FCIBS

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

Chief Executive, Retail Markets

7. Gordon Pell (age 58) FCIBS, FCIB

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

Executive directors

Group Chief Executive

2. Sir Fred Goodwin (age 49)

DUniv, FCIBS, FCIB, FIB, LLD

C

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

Chairman, RBS America and

Citizens Financial Group, Inc.

5. Lawrence Fish (age 63)

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

Non-executive directors

8. Colin Buchan* (age 53)

A, C, R

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

Group Finance Director

3. Guy Whittaker (age 51)

C

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

Chairman, Managing Board, ABN AMRO

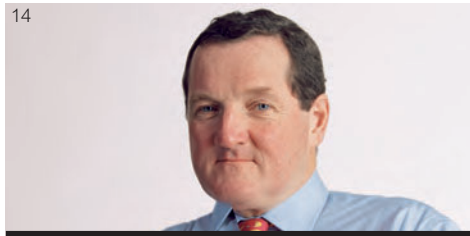
6. Mark Fisher (age 47) FCIBS

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

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

R

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



10. Bill Friedrich* (age 59)

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

11. Archie Hunter* (age 64)

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

12. Charles 'Bud' Koch (age 61)

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

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

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

14. Joe MacHale* (age 56)

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

15. Sir Steve Robson* (age 64)

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

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

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

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

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

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

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

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

Report of the directors

The directors have pleasure in presenting their report together with the audited accounts for the year ended 31 December 2007.

Profit and dividends

The profit attributable to the ordinary shareholders of the company for the year ended 31 December 2007 amounted to £7,303 million compared with £6,202 million for the year ended 31 December 2006, as set out in the consolidated income statement on page 120.

An interim dividend of 10.1p per ordinary share was paid on 5 October 2007 totalling £953 million (2006 – £771 million). The directors now recommend that, subject to approval at the Annual General Meeting, a final dividend of 23.1p per ordinary share totalling £2.3 billion (2006 – £2.1 billion) be paid on 6 June 2008 to members on the register at the close of business on 7 March 2008.

Business review

Activities

The company is a holding company owning the entire issued ordinary share capital of The Royal Bank of Scotland, the principal direct operating subsidiary undertaking of the company. The “Group” comprises the company and all its subsidiary and associated undertakings, including The Royal Bank of Scotland and NatWest. Details of the principal subsidiary undertakings of the company are shown in Note 16 on the accounts.

The Group is engaged principally in providing a wide range of banking, insurance and other financial services. Further details of the organisational structure and business overview of the Group, including the products and services provided by each of its divisions and the competitive markets in which they operate, is contained on pages 30 to 32 of the Business review.

Risk factors

The Group's future performance and results could be materially different from expected results depending on the outcome of certain potential risks and uncertainties. Details of the principal risk factors the Group faces are given on pages 32 and 33 of the Business review.

The reported results of the Group are also sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of accounting judgements are included in the Accounting policies on pages 131 to 138.

The Group's approach to risk management, including its financial risk management objectives and policies and information on the Group's exposure to price, credit, liquidity and cash flow risk is discussed in Note 31 on the accounts.

Financial performance

A review of the Group's performance during the year ended 31 December 2007, including details of each division, and the Group's financial position as at that date is contained in the Business review on pages 34 to 69.

Business developments

In October 2007, RFS Holdings B.V. (“RFS Holdings”), a company jointly owned by the company, Fortis N.V., Fortis SA/NV and Banco Santander S.A. (the “Consortium Banks”) and controlled by the company, 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 the company 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.

Employees

As at 31 December 2007, the Group employed over 226,000 employees (full-time equivalent basis) throughout the world including almost 90,000 employees in ABN AMRO. Details of employee related costs are included in Note 2 on the accounts on page 140.

Employee recruitment

Across the Group worldwide, over 30,000 employees are recruited at different levels every year. The Group utilises a wide range of recruitment channels including its in-house search function, external executive search suppliers, general advertising, an open internal jobs market, talent reviews and detailed succession planning to ensure that the recruitment and development of its employees is fully aligned to its organisational requirements.

Employee reward

The Group recognises that its continuing success is closely linked to the performance, skills and individual commitment of its employees.

The Group aims to attract and retain the most talented people. To stay ahead of the market, salaries are routinely compared with those paid for similar roles by competitors, and individual performance is recognised and rewarded.

The Group offers a comprehensive remuneration and benefits package, Total Reward, to all employees. Total Reward is externally recognised as offering one of the most innovative and flexible remuneration and benefits programmes in the financial services sector.

Within this package, RBSelect, the Group's benefits choice programme, aims to provide employees with a wide range of benefits to choose from that suits their needs and lifestyle. Its aim is to make sure there are choices to suit everyone right across the Group, and during 2007 this approach was extended to a number of non-UK employees.

Employees also participate in bonus incentive plans specific to their business and share in the Group's ongoing success through the Profit Share, Buy As You Earn and Sharesave schemes, which align their interests with those of shareholders.

Employee learning and development

The Group maintains a strong commitment to creating and providing learning opportunities for all its employees through a variety of personal development and training programmes and learning networks. The Group's employees are encouraged to volunteer to work with its community partners. The Group continues to invest in leadership and management development which is consistent with its objective of being the employer of choice: attracting, rewarding and retaining the very best talent.

Many of the Group's development programmes are delivered at the RBS Business School based on the Gogarburn Campus.

Employee communication

Employee engagement is encouraged through a range of communication channels, at both a divisional and Group level. These channels provide access to news and information in a number of ways, including the intranet, magazines, team meetings led by line managers, briefings held by senior managers and regular dialogue with employees and employee representatives.

The Group Chief Executive and other senior Group executives regularly communicate with employees through 'Question Time' style programmes, broadcast on the Group's internal television network.

Employee consultation

Each year, all employees are invited to complete the global Employee Opinion Survey. The survey is confidential and independently managed by Towers-Perrin Independent Survey Research (TP-ISR). The survey provides a channel for employees to express their views and opinions about the Group on a range of key issues.

In 2007, the response rate was 90%. This is the highest it has ever been, and 20% higher than the financial services norm. This represents over 129,000 employees participating in the survey across 36 countries and in nine languages. Online coverage of the survey increased to 95% globally.

The Group outperformed the 'global financial services norm' in every one of the 15 categories for the third year in succession. The survey results are presented to the Board and at divisional and team levels. Action plans are developed to address any issues identified.

The Group recognises employer representative organisations such as trade unions and work councils in a number of businesses and countries. The Group has a European Employee Communication Council that provides elected representatives with an opportunity to better understand the impact on its European operations.

Diversity

The Group's Managing Diversity policy sets a framework for broadening the Group's talent base, achieving the highest levels of performance and enabling all employees to reach their full potential irrespective of age, disability, gender, marital status, political opinion, race, religious belief or sexual orientation.

The Group is also committed to ensuring that all prospective applicants for employment are treated fairly and equitably throughout the recruitment process. Its comprehensive resourcing standards cover the attraction and retention of individuals with disabilities. Reasonable adjustments are provided to support applicants in the recruitment process where these are required. The Group provides reasonable workplace adjustments for new entrants into the Group and for existing employees who become disabled during their employment.

Health, safety, wellbeing and security

The health, safety, wellbeing and security of employees and customers continues to be a priority for the Group. Regular reviews are undertaken of both policies and processes to ensure compliance with current legislation and best practice. The Group focus is on ensuring that these policies are closely linked to the operational needs of the business. Health and safety standards within high risk areas and activities have been reviewed and action taken to further improve performance.

During 2007, the development of global health, safety and wellbeing arrangements has been a key priority, to ensure equitable standards of health and safety for all Group employees. The Employee Assistance Programme, which provides advice on a range of personal and work related matters, has been further enhanced and the coverage extended during the year.

Pre-employment screening

The Group has a comprehensive pre-employment screening policy to guard against possible infiltration and employee-related fraud. In addition to existing workplace security measures, all people engaged in the Group are screened prior to commencing employment.

Code of ethics

The Group has a code of ethics applicable to all employees in every country of its operations and is available in eleven languages.

Corporate responsibility

Business excellence requires that the Group meets changing customer, shareholder, investor, employee and supplier expectations. The Group believes that meeting high standards of environmental, social and ethical responsibility is key to the way it does business.

In 2007, the Group undertook a survey to identify and prioritise the issues that stakeholders care about in relation to the financial services sector. This allows the Group to focus corporate responsibility activities on issues which matter most to stakeholders. Financial crime and corruption is the primary focus, followed by consumer banking issues, employee practices, direct environmental impact, community investment, global lending and project finance, financial inclusion and capability and support for small businesses. The Group takes all these responsibilities seriously, continually monitoring and managing them through policies and practices across the Group. The Board regularly considers corporate responsibility issues and receives a formal report on these each year.

Further details of the Group's corporate responsibility policies will be contained in the 2007 Corporate Responsibility Report.

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the 'going concern' basis for preparing the accounts.

Corporate governance

The company is committed to high standards of corporate governance. Details are given on pages 99 to 104.

Ordinary share capital

In May 2007, the company 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 ordinary share held by shareholders at close of business on 4 May 2007. As of 8 May 2007, the authorised ordinary share capital of the company increased by £1,609 million (6,434,972,616 ordinary shares of 25p each) and the allotted, called-up and fully paid ordinary share capital increased by £1,576 million (6,304,298,670 ordinary shares of 25p each).

During the year, the ordinary share capital was also increased by 530.6 million ordinary shares issued to former ABN AMRO shareholders and 19.1 million ordinary shares allotted as a result of the exercise of options under the company's share schemes.

Details of the authorised and issued ordinary share capital at 31 December 2007 are shown in Note 26 on the accounts.

Preference share capital

Details of issues and redemptions of preference shares during the year and the authorised and issued preference share capital at 31 December 2007 are shown in Note 26 on the accounts.

Authority to repurchase shares

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

Additional information

Where not provided previously in the Report of the directors, the following provides the additional information required to be disclosed by Part 7 of the Companies Act 1985 as amended.

Details of the ordinary and preference share capital are provided in Note 26 on the accounts on pages 177 to 179. The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Group Secretary and General Counsel.

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

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

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

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

The rights and obligations of holders of non-cumulative preference shares are set out in Note 26 on the accounts on page 179.

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

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

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

The rules governing the appointment of directors is set out in the Corporate Governance Report on page 99. The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. In addition, a number of executive directors' service agreements may be affected on a change of control. All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

Directors

The names and brief biographical details of the directors are shown on pages 92 and 93. All directors served throughout the year and to the date of signing of the financial statements.

Larry Fish became non-executive Chairman, RBS America and Citizens Financial Group, Inc. with effect from 1 January 2008. On 1 May 2008, he will become a non-executive director of the company and will continue in the role of non-executive Chairman, RBS America and Citizens Financial Group, Inc.

Colin Buchan, Jim Currie, Janis Kong, Sir Tom McKillop, Sir Steve Robson and Guy Whittaker will retire and offer themselves for re-election at the company's Annual General Meeting on 23 April 2008.

Details of the service agreement for Guy Whittaker are set out on pages 108 and 109. No other director seeking election or re-election has a service agreement.

Directors' interests

The interests of the directors in the shares of the company at 31 December 2007 are shown on page 115. None of the directors held an interest in the loan capital of the company or in the shares and loan capital of any of the subsidiary undertakings of the company, during the period from 1 January 2007 to 27 February 2008.

Directors' indemnities

In terms of section 236 of the Companies Act 2006, the directors of the company, members of the Group Executive Management Committee and Approved Persons of the Group (under the Financial Services and Markets Act 2000) have been granted Qualifying Third Party Indemnity Provisions by the company.

In terms of section 236 of the Companies Act 2006, Qualifying Pension Scheme Indemnity Provisions ('QPSIP') have been issued by the company to a number of pension trustees/directors of in-house corporate trustees of the Group's pension schemes. The intention is to issue QPSIPs to all pension trustees of the Group's pension schemes during 2008.

Directors' disclosure to auditors:

Each of the directors at the date of approval of this report confirms that:

- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Report of the directors continued

Shareholdings

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

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

*Notification has been received on behalf of Mr A. W. R. Medlock and Mrs H. M. Medlock that they each have an interest in the holding of 5½% cumulative preference shares registered in the name of Bassett-Patrick Securities Limited noted above and that there are further holdings of 5,300 and 5,000 shares, respectively, of that class registered in each of their names.

Charitable contributions

In 2007 the contribution to the Group's Community Investment programmes was £57.7 million (2006 – £58.6 million). The total amount given for charitable purposes by the company and its subsidiary undertakings during the year ended 31 December 2007 was £32.1 million (2006 – £25.4 million).

Political donations

At the Annual General Meeting in 2006, shareholders gave authority for the company to make political donations and incur political expenditure up to a maximum aggregate sum of £500,000 as a precautionary measure in light of the wide definitions in The Political Parties, Elections and Referendums Act 2000, for a period of four years. These authorities have not been used.

No political donations were made during the year and it is not proposed that the Group's longstanding policy of not making contributions to any political party be changed.

Policy and practice on payment of creditors

The Group is committed to maintaining a sound commercial relationship with its suppliers. Consequently, it is the Group's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract or such other payment period as may be agreed.

At 31 December 2007, the Group's trade creditors represented 30 days (2006 – 28 days) of amounts invoiced by suppliers.

Auditors

The auditors, Deloitte & Touche LLP, have indicated their willingness to continue in office. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the Board.

Miller McLean
Secretary
27 February 2008

The Royal Bank of Scotland Group plc
is registered in Scotland No. 45551.

Corporate governance

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

Throughout the year ended 31 December 2007, the company has complied with all of the provisions of the revised Combined Code issued by the Financial Reporting Council in June 2006 (the "Code") except in relation to the authority reserved to the Board to make the final determination of the remuneration of the executive directors, which is explained in the paragraph headed 'Remuneration Committee'.

The company has also complied with the Smith Guidance on Audit Committees in all material respects.

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

The New York Stock Exchange

As a foreign issuer with American Depositary Shares ("ADS") representing ordinary shares, preference shares and debt securities listed on the New York Stock Exchange ("NYSE"), the company must disclose any significant ways in which its corporate governance practices differ from those followed by US companies under the NYSE's corporate governance listing standards. In addition, the company must comply fully with the provisions of the listing standards that relate to the composition, responsibilities and operation of audit committees. These provisions incorporate the relevant rules concerning audit committees of the US Securities Exchange Act of 1934.

The company has reviewed its corporate governance arrangements and is satisfied that these are consistent with the NYSE's corporate governance listing practices, with the exception of the following. The Nominations Committee is chaired by the Chairman of the Board, who may not be currently considered independent under the UK Combined Code, and the Chairman of the Board is a member of the Remuneration Committee, both of which are permitted by the UK Combined Code (since the Chairman was considered independent on appointment). The company's Audit, Nomination and Remuneration Committees are otherwise composed solely of non-executive directors deemed by the Board to be independent. The NYSE's corporate governance listing standards also require that a compensation committee has direct responsibility to review and approve Group Chief Executive remuneration. The Board, rather than the Remuneration Committee, reserves the authority to make the final determination of the remuneration of the Group Chief Executive, which is explained on page 101 in the paragraph headed 'Remuneration Committee'.

The Group Audit Committee complies with the provisions of the NYSE's corporate governance listing standards that relate to the composition, responsibilities and operation of audit committees. In May 2007, the company submitted its required annual written affirmation to the NYSE confirming its full

compliance with those and other applicable provisions. In addition, following the listing of ADS representing common shares on the NYSE, an interim written affirmation was required and was filed in October 2007. More detailed information about the Audit Committee and its work during 2007 is set out in the Audit Committee's Report on pages 103 and 104.

Board of directors

The Board is the principal decision-making forum for the company. It has overall responsibility for leading and controlling the company and is accountable to shareholders for financial and operational performance. The Board approves Group strategy and monitors performance. The Board has adopted a formal schedule of matters detailing key aspects of the company's affairs reserved to it for its decision. This schedule is reviewed annually.

The roles of the Chairman and Group Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all non-executive and executive directors. The Group Chief Executive has responsibility for all Group businesses and acts in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Group Chief Executive and other executive directors.

All directors participate in discussing strategy, performance and the financial and risk management of the company. Meetings of the Board are structured to allow open discussion.

There were nine scheduled Board meetings during 2007. The directors were supplied with comprehensive papers in advance of each Board meeting covering the Group's principal business activities. Members of executive management attend and make regular presentations at meetings of the Board. In addition to scheduled meetings, 20 ad hoc Board meetings and Chairman's Committee meetings were held during 2007 to consider the acquisition of ABN AMRO. These meetings were attended by the majority of directors.

The Board is aware of the other commitments of its directors and is satisfied that these do not conflict with their duties as directors of the company.

Board balance and independence

The Board currently comprises the Chairman, six executive directors and ten non-executive directors (with effect from 1 May 2008, and the change in role of Larry Fish to non-executive director of the company, the Board will comprise the Chairman, five executive directors and eleven non-executive directors). The Board functions effectively and efficiently, and is considered to be of an appropriate size in view of the scale of the company and the diversity of its businesses. The directors provide the Group with the knowledge, mix of skills, experience and networks of contacts required. The Board Committees contain directors with a variety of relevant skills and experience so that no undue reliance is placed on any individual.

The non-executive directors combine broad business and commercial experience with independent and objective judgement. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the company's business activities. The names and biographies of all Board members are set out on pages 92 and 93.

The composition of the Board is subject to continuing review and the provisions of the Code will be taken into account in respect of the balance of the Board. The Code requires the Board to determine whether its non-executive members are independent.

The Board comprises nine independent and seven non-independent directors (including executive directors), in addition to the Chairman. Bob Scott has been nominated as the senior independent director.

The Board considers that all non-executive directors are independent for the purposes of the Code, with the exception of Bud Koch who was formerly Chairman, President and Chief Executive Officer of Charter One Financial, Inc. which was acquired by Citizens Financial Group, Inc. in 2004. Larry Fish will not be considered an independent non-executive director from 1 May 2008.

Re-election of directors

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

The names of directors standing for re-election at the 2008 Annual General Meeting are contained on page 97 and further information will be given in the Chairman's letter to shareholders in relation to the company's Annual General Meeting.

Information, induction and professional development

All directors receive accurate, timely and clear information on all relevant matters. All directors have access to the advice and services of the Group Secretary and General Counsel who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, all directors are able, if necessary, to obtain independent professional advice at the company's expense.

Each new director receives a formal induction on joining the Board, including visits to the Group's major businesses and meetings with directors and senior management. The induction is tailored to the director's specific requirements. Directors are advised of appropriate training and professional development opportunities and undertake the training and professional development they consider necessary in assisting them to carry out their duties as a director.

Performance evaluation

The Board has undertaken a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

The performance evaluation of the operation and effectiveness of the Board, the Remuneration Committee and the Nominations Committee was undertaken in the autumn of 2007. This was conducted internally using a detailed questionnaire and individual meetings with each director. Amongst the areas reviewed were the role of the Board, Board composition, Board meetings and processes, Board performance and reporting, external relationships and Board Committees. A separate performance evaluation of the Audit Committee was also undertaken internally in late 2007 using a detailed questionnaire and meetings with Audit Committee members and attendees.

The report on the Board evaluation, which was designed to assist the Board in further improving its performance, was considered and discussed by the Board as a whole and a separate report on the outcomes of the evaluation of the Audit Committee was also considered and discussed by the Board. The Board evaluation involved detailed consideration of Board composition, Board engagement in risk management and capital planning and the format of the Board meetings. The Board also considered the range and balance of its activities and was content that it was allocating appropriate time to such key matters as monitoring business performance, risk appetite and strategy.

Taking into account their review and discussions the directors have concluded that the Board is effective in meeting its objectives and fulfilling its duties and obligations. The directors are also satisfied that each of the Board's Committees (Audit, Remuneration and Nominations) carries out its delegated duties effectively.

In addition, each director discussed his or her own performance as a director and their Board evaluation questionnaire with the Chairman. The senior independent director canvassed the views of the executive directors and met with the non-executive directors as a group without the Chairman present to consider the Chairman's performance. The Board is satisfied that each director continues to contribute effectively to the Board and the Group and demonstrates commitment to his or her role as a director.

Board Committees

In order to provide effective oversight and leadership, the Board has established a number of Board Committees with particular responsibilities. The Committee chairmanship and membership are reviewed on a regular basis. The names and biographies of all Board Committee members are set out on pages 92 and 93.

The terms of reference of the Audit, Remuneration and Nominations Committees and the standard terms and conditions of appointment of non-executive directors are available on the Group's website (www.rbs.com) and copies are available on request.

Audit Committee

All members of the Audit Committee are independent non-executive directors. The Audit Committee holds at least five meetings each year. The Audit Committee's report is set out on pages 103 and 104.

Remuneration Committee

The members of the Remuneration Committee comprise independent non-executive directors, together with the Chairman of the Board. The Remuneration Committee holds at least three meetings each year.

The Remuneration Committee is responsible for assisting the Board in discharging its responsibilities and making all relevant disclosures in relation to the formulation and review of the Group's executive remuneration policy. The Remuneration Committee makes recommendations to the Board on the remuneration arrangements for the executive directors and the Chairman. The Directors' Remuneration Report is contained on pages 105 to 114.

Responsibility for determining the remuneration of executive directors has not been delegated to the Remuneration Committee, and in that respect the provisions of the Code have not been complied with. The Board as a whole reserves the authority to make the final determination of the remuneration of directors as it considers that this two stage process allows greater consideration and evaluation and is consistent with the unitary nature of the Board. No director is involved in decisions regarding his or her own remuneration.

Nominations Committee

The Nominations Committee comprises independent non-executive directors, under the chairmanship of the Chairman of the Board. The Nominations Committee meets as required.

The Nominations Committee is responsible for assisting the Board in the formal selection and appointment of directors. It considers potential candidates and recommends appointments of new directors to the Board. The appointments are based on merit against objective criteria, including the time available of the potential director and the commitment which will be required.

In addition, the Nominations Committee considers succession planning for the Chairman, Group Chief Executive and non-executive directors. The Nominations Committee takes into account the knowledge, mix of skills, experience and networks of contacts which are anticipated to be needed on the Board in the future. The Chairman, Group Chief Executive and non-executive directors meet to consider executive succession planning. No director is involved in decisions regarding his or her own succession.

Meetings

The number of scheduled meetings of the Board and the Audit, Remuneration and Nominations Committees and individual attendance by members is shown below.

	Board	Audit	Remuneration	Nominations
Total number of meetings in 2007	9	6	3	2
Number of meetings attended in 2007				
Sir Tom McKillop	9	—	3	2
Sir Fred Goodwin	9	—	—	—
Mr Buchan	8	6	3	—
Mr Cameron	8	—	—	—
Dr Currie	9	—	3	—
Mr Fish	9	—	—	—
Mr Fisher	9	—	—	—
Mr Friedrich	9	6	—	—
Mr Hunter	9	6	—	2
Mr Koch	9	—	—	—
Mrs Kong	9	—	3	—
Mr MacHale	9	6	—	—
Mr Pell	9	—	—	—
Sir Steve Robson	9	5	—	—
Mr Scott	9	—	3	2
Mr Sutherland	8	—	3	1
Mr Whittaker	9	—	—	—

Relations with shareholders

The company communicates with shareholders through the Annual Report and by providing information in advance of the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year. Shareholders are given the opportunity to ask questions at the Annual General Meeting or submit written questions in advance. The chairmen of the Audit, Remuneration and Nominations Committees are available to answer questions at the Annual General Meeting.

Communication with the company's largest institutional shareholders is undertaken as part of the company's investor relations programme. The Chairman meets with the Group's top 20 investors once every 12 to 18 months to receive their feedback on issues such as strategy, business performance and corporate governance. During the year, the directors received copies of analysts' reports and a monthly report from the Group's investor relations department which includes an analysis of share price movements, the Group's performance against the sector, and key broker comments. In addition, information on major investor relations activities and changes to external ratings is provided. The senior independent director would be available to shareholders if concerns could not be addressed through the normal channels. The arrangements used to ensure that directors develop an understanding of the views of major shareholders are considered as part of the annual Board performance evaluation.

The Chairman, Group Chief Executive, Group Finance Director and, if appropriate, the senior independent director communicate shareholder views to the Board as a whole.

The Board commissions a survey of investor perceptions periodically. The survey is undertaken on behalf of the Board by independent consultants and the outcomes of the study are considered by the Board.

Internal control

The Board of directors is responsible for the Group's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Board has established a process for the identification, evaluation and management of the significant risks faced by the Group, which operated throughout the year ended 31 December 2007 and to 27 February 2008, the date the directors approved the Report and Accounts. This process is regularly reviewed by the Board and meets the requirements of the guidance 'Internal Control: Revised Guidance for Directors on the Combined Code' issued by the Financial Reporting Council in October 2005.

The effectiveness of the Group's internal control system is reviewed regularly by the Board and the Audit Committee. Executive management committees or boards of directors in each of the Group's businesses receive regular reports on significant risks facing their business and how they are being controlled. In addition, the Group Board receives monthly risk management reporting. Additional details of the Group's approach to risk management are given in the 'Risk management' section of the 'Business review' on pages 70 to 90. The Audit Committee also receives regular reports from RBS Risk Management and Group Internal Audit. In addition, the Group's independent auditors present to the Audit Committee reports that include details of any significant internal control matters which they have identified. The system of internal controls of the authorised institutions and other regulated entities in the Group is also subject to regulatory oversight in the UK and overseas. Additional details of the Group's regulatory oversight are given in the 'Supervision and regulation' section on pages 231 to 233.

Internal Control over Financial Reporting

The Group is required to comply with Section 404 of the US Sarbanes-Oxley Act of 2002 and assess the effectiveness of internal control over financial reporting as of 31 December 2007.

The Group assessed the effectiveness of its internal control over financial reporting as of 31 December 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 'Internal Control – Integrated Framework'.

Management has excluded from its assessment the internal control over financial reporting of ABN AMRO Holdings N.V., which was acquired on 17 October 2007. ABN AMRO Holdings N.V. represented 40.7% of the Group's total assets, a negligible proportion of the shareholders' total equity, 7.7% of the Group's total income and 0.2% of the Group's profit after tax as of and for the year ended 31 December 2007.

Based on its assessment, management has concluded that, as of 31 December 2007, the Group's internal control over financial reporting is effective.

The Group's auditors have audited the effectiveness of the Group's internal control over financial reporting and have given an unqualified opinion.

Management's report on the Group's internal control over financial reporting will be filed with the SEC at the same time as the Annual Report on Form 20-F.

Disclosure controls and procedures

As required by US regulations, the effectiveness of the company's disclosure controls and procedures (as defined in the rules under the US Securities Exchange Act of 1934) have been evaluated. This evaluation has been considered and approved by the Board which has instructed the Group Chief Executive and the Group Finance Director to certify that, as at 31 December 2007, the company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the company and its consolidated subsidiaries would be made known to them by others within those entities.

Changes in internal controls

There was no change in the company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Audit Committee Report

The members of the Audit Committee are Archie Hunter (Chairman), Colin Buchan, Bill Friedrich, Joe MacHale and Sir Steve Robson. All members of the Audit Committee are independent non-executive directors. The Audit Committee holds at least five meetings each year, two of which are held immediately prior to submission of the interim and annual financial statements to the Group Board. This core programme is supplemented by additional meetings as required, four being added in 2007. Audit Committee meetings are attended by relevant executive directors, the internal and external auditors and finance and risk management executives. At least twice per annum the Audit Committee meets privately with the external auditors. Since 2000, the Audit Committee has undertaken an annual programme of visits to the Group's business divisions and control functions. The object of the programme is to allow the Audit Committee to gain a better understanding of the risk and control issues facing the Group and an invitation to attend is extended to all non-executive directors. The programme of future visits is considered annually and the norm is for three or four visits to be undertaken each year.

The Board is satisfied that all the Audit Committee members have recent and relevant financial experience. Although the Board has determined that each member of the Audit Committee is an 'Audit Committee Financial Expert' and is independent, each as defined in the SEC rules under the US Securities Exchange Act of 1934 and related guidance, the members of the Audit Committee are selected with a view to the expertise and experience of the Audit Committee as a whole, and the Audit Committee reports to the Board as a single entity. The designation of a director or directors as an 'Audit Committee Financial Expert' does not impose on any such director, any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such director as a member of the Audit Committee and Board in the absence of such a designation. Nor does the designation of a director as an 'Audit Committee Financial Expert' affect the duties, obligations or liability of any other member of the Board.

The Audit Committee is responsible for:

- assisting the Board in discharging its responsibilities and in making all relevant disclosures in relation to the financial affairs of the Group;
- reviewing accounting and financial reporting and regulatory compliance;
- reviewing the Group's systems of internal control; and
- monitoring the Group's processes for internal audit, risk management and external audit.

Full details of the responsibilities of the Audit Committee are available at www.rbs.com

The Audit Committee has adopted a policy on the engagement of the external auditors to supply audit and non-audit services, which takes into account relevant legislation regarding the provision of such services by an external audit firm. The Audit Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the external auditors.

Annual audit services include all services detailed in the annual engagement letter including the annual audit and interim reviews (including US reporting requirements), periodic profit verifications and reports to regulators including skilled persons reports commissioned by the Financial Services Authority (e.g. Reporting Accountants Reports).

Annual audit services also include statutory or non-statutory audits required by any Group companies that are not incorporated in the UK. Terms of engagement for these audits are agreed separately with management, and are consistent with those set out in the audit engagement letter, as local regulations permit.

The prospectively approved non-audit services include the following classes of service:

- capital raising, including consents, comfort letters and relevant reviews of registration statements;
- provision of accounting opinions relating to the financial statements of the Group;
- provision of reports that, according to law or regulation, must be rendered by the external auditors;
- tax compliance services;
- corporate finance services relative to companies that will remain outside the Group; and
- insolvency work relating to the Group's customers.

The Audit Committee approves all other permitted non-audit services on a case by case basis before their commencement. In addition, the Audit Committee reviews and monitors the independence and objectivity of the external auditors when it approves non-audit work to be carried out by them, taking into consideration relevant legislation and ethical guidance. Information on the audit and non-audit services carried out by the external auditors is detailed in Note 4 to the Group's accounts.

The Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The results of this evaluation are reported to the Board.

The Audit Committee is responsible for making recommendations to the Board, for it to submit the Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting in relation to the appointment, reappointment and removal of the external auditors. The Board has endorsed the Audit Committee's recommendation that shareholders be requested to approve the reappointment of Deloitte & Touche LLP as external auditors at the Annual General Meeting in April 2008.

The Audit Committee also fixes the remuneration of the external auditors as authorised by shareholders at the Annual General Meeting.

The Audit Committee approves the terms of engagement of the external auditors.

It is intended that there will be an external review of the effectiveness of Group Internal Audit every three to five years, in line with best practice, with internal reviews continuing in the intervening years. In 2007, KPMG conducted a review of the effectiveness of Group Internal Audit and concluded that the function operated effectively. The Board considered the external review findings and also concluded that the Group Internal Audit function was effective.

It is intended that there will be an external review of the effectiveness of the Audit Committee every three to five years, with internal reviews by the Board continuing in the intervening years. PricewaterhouseCoopers conducted an external review of the effectiveness of the Audit Committee in 2005. An internal review of the Audit Committee's performance was undertaken in 2007 and a separate report on the outcome was considered and discussed by the Board which concluded that it effectively discharged its responsibilities.

Since 2005, divisional audit committees have been responsible for reviewing each division's business. These committees report to the Audit Committee which has concluded that they operate effectively.

Archie Hunter
Chairman of the Audit Committee
27 February 2008

Directors' remuneration report

The Remuneration Committee

The members of the Remuneration Committee are Bob Scott (Chairman), Colin Buchan, Jim Currie, Janis Kong, Sir Tom McKillop and Peter Sutherland. The members of the Remuneration Committee comprise independent non-executive directors, together with the Chairman of the Board.

During the year, the Remuneration Committee received advice from Watson Wyatt and Mercer on matters relating to directors' remuneration in the UK (Watson Wyatt) and US (Mercer), together with advice from the Group Director, Human Resources and the Group Secretary and General Counsel on general remuneration matters. In addition, the Remuneration Committee has taken account of the views of the Group Chief Executive on performance assessment of the executive directors.

In addition to advising the Remuneration Committee, Watson Wyatt provided professional services in the ordinary course of business, including actuarial advice and benefits administration services to subsidiaries of the Group and investment consulting and actuarial advice to the trustees of some of the Group's pension funds. Mercer provided advice and support in connection with a range of compensation benefits, pension actuarial and investment matters. The advisers to the Remuneration Committee are appointed independently by the Committee, which reviews its selection of advisers annually. The Committee is satisfied that the consultants from Watson Wyatt and Mercer who advise the Committee operate independently of the consulting teams undertaking other work with the Group.

Compensation

Remuneration policy

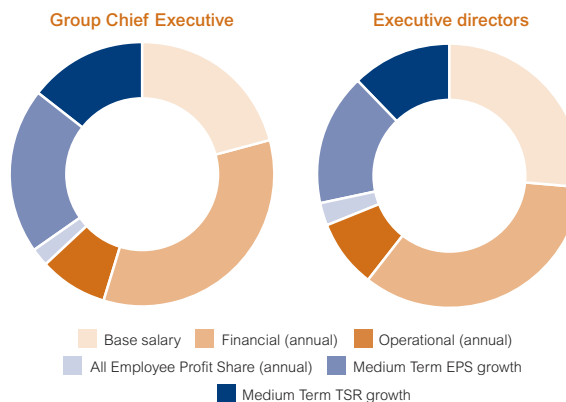
The Remuneration Committee conducted a comprehensive review of all aspects of the remuneration package in 2005, and the executive remuneration policy outcome was approved by shareholders at the company's Annual General Meeting in 2006. A new executive share option plan was approved by shareholders at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

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

- Total rewards will be set at levels that are competitive within the relevant market, taking each executive director's remuneration package as a whole. The relevant market is FTSE top 20 companies and major UK, European and US banks.
- Total potential rewards will be earned through achievement of demanding performance targets based on measures consistent with shareholder interests over the short, medium and longer term.

- Remuneration arrangements will strike an appropriate balance between fixed and performance-related rewards. Performance-related elements will comprise the major part of executive remuneration packages. See illustrative charts below.
- Incentive plans and performance metrics will be structured to be robust through the business cycle.
- Remuneration arrangements will be designed to support the company's business strategy, to promote teamwork and to conform to best practice standards.

UK-based executive directors' remuneration balance



The above diagram has been prepared to illustrate the use of performance metrics in the total direct compensation package. For the Group Chief Executive, 21% of the package is fixed and 79% is performance related. For the executive directors, 27% is fixed and 73% is performance related. Values are shown on the basis of on-target annual performance with long term incentives at the approximate fair value at grant (80% of the face value of the shares for the MPP and 12% for the ESOP). In 2007 the MPP grant due to vest lapsed in its entirety having not met the required performance conditions. The executive share options due to vest in 2007 vested in full. At the date of vesting the share price was £6.96 and the exercise price was £5.78. Pension and other benefits have been excluded from this diagram. Financial metrics include profit growth, cost control and return on equity.

The non-executive directors' fees are reviewed annually by the Board, on the recommendation of its Chairman. The level of remuneration reflects the responsibility and time commitment of directors and the level of fees paid to non-executive directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan.

The Remuneration Committee makes recommendations to the Board on the remuneration arrangements for the executive directors and the Chairman. The Remuneration Committee also approves the remuneration arrangements of senior executives below Board level who are members of the Group Executive Management Committee, on the recommendation of the Group Chief Executive, and maintains oversight of the application of remuneration policy below this level. The Committee reviews all long-term incentive arrangements operated by the Group.

Components of executive remuneration

UK based directors

Salary

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

Benefits

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

Details of pension arrangements of directors are shown on page 114. Where cash allowances are paid in place of pension accrual (or of pension accrual on salary over the pension earnings cap), they are shown on page 110. Executive directors also receive additional cover for death-in-service benefits.

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

Short-term annual incentives

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

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

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

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

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

Long-term incentives

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

Medium-term Performance Plan

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

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

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

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

For the awards made in 2006 and 2007, the EPS element of the awards will not vest if EPS growth is below 5% per annum compound over the three year period. Where EPS growth is between 5% per annum and 10% per annum vesting will occur on a straight-line basis from 25% to 100%. Vesting at 100% will occur if EPS growth is at least 10% per annum compound.

Options

A new executive share option plan was approved by shareholders at the company's 2007 Annual General Meeting. Options were subsequently granted to executive directors over shares worth up to a maximum of three times salary with an EPS performance condition.

The performance condition is based on the average annual growth in the Group's adjusted EPS over the three year performance period commencing in the year of grant. The calibration of the EPS growth measure is agreed by the Remuneration Committee at the time of each grant having regard to the business plan, prevailing economic conditions and analysts' forecasts.

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

Shareholding guidelines

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

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

US based director – Larry Fish

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

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

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

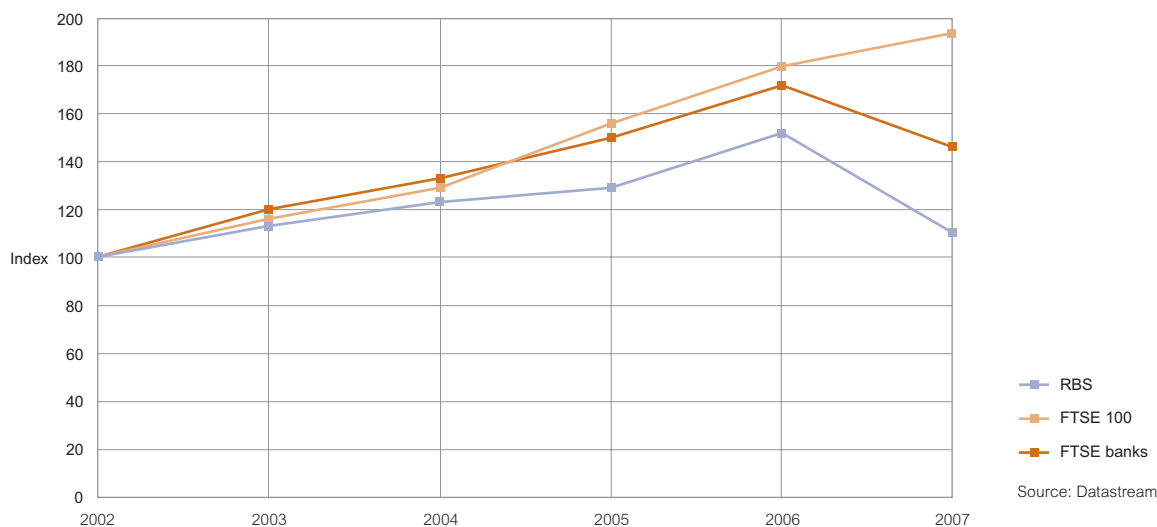
Directors' remuneration report continued

Total shareholder return performance

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

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

Total shareholder return



Service contracts

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

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

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

Information regarding executive directors' service contracts is summarised in the table and note below.⁽¹⁾

Name	Date of current contract/ Employing company	Notice period – from company	Notice period – from executive
Sir Fred Goodwin	1 August 1998 The Royal Bank of Scotland plc	12 months	6 months
Mr Cameron	29 March 1998 The Royal Bank of Scotland plc	12 months	6 months
Mr Fisher	27 February 2007 The Royal Bank of Scotland plc	12 months	12 months
Mr Pell	20 February 2006 The Royal Bank of Scotland plc	12 months	6 months
Mr Whittaker	19 December 2005 The Royal Bank of Scotland plc	12 months	12 months

Note:

(1) With effect from 1 May 2008, Mr Fish will become a non-executive director of the company. In line with other non-executive directors, his appointment will be covered by a letter of engagement. The appointment will be for an initial term expiring on 9 October 2009 and is terminable earlier by either party upon written notice.

Except as noted below, in the event of severance where any contractual notice period is not worked, the employing company may pay a sum to the executive in lieu of this period of notice. Any such payment would, at maximum, comprise base salary and a cash value in respect of fixed benefits (including pension plan contributions). In the event of situations involving breach of the employing company's policies resulting in dismissal, reduced or no payments may be made to the executive. Depending on the circumstances of the termination of employment, the executive may be entitled, or the Remuneration Committee may exercise its discretion to allow, the executive to exercise outstanding awards under long-term incentive arrangements subject to the rules of the relevant plan. All UK based directors, with the exception of Guy Whittaker, are members of The Royal Bank of Scotland

Group Pension Fund ('the RBS Fund') and are contractually entitled to receive all pension benefits in accordance with its terms. The RBS Fund rules allow all members who retire early at the request of their employer to receive a pension based on accrued service with no discount applied for early retirement.

The Remuneration Committee has reviewed this provision of the RBS Fund, which applies equally to executive directors and other employees. The Remuneration Committee concluded that a change to the terms of the RBS Fund in respect of early retirement at the company's request would not be a cost effective route to take at this time. The RBS Fund is closed to employees, including any executive directors, joining the Group after 30 September 2006.

Chairman and non-executive directors

The original date of appointment as a director of the company and the latest date for the next re-election are as follows:

	Date first appointed	Latest date for next re-election
Sir Tom McKillop	1 September 2005	2009
Mr Buchan	1 June 2002	2009
Dr Currie	28 November 2001	2008
Mr Friedrich	1 March 2006	2009
Mr Hunter	1 September 2004	2010
Mr Koch	29 September 2004	2010
Mrs Kong	1 January 2006	2009
Mr MacHale	1 September 2004	2010
Sir Steve Robson	25 July 2001	2008
Mr Scott	31 January 2001	2009
Mr Sutherland	31 January 2001	2009

The non-executive directors do not have service contracts or notice periods although they have letters of engagement reflecting their responsibilities and commitments. Under the company's Articles of Association, all directors must retire by rotation and seek re-election by shareholders at least every three years. The dates in the table above reflect the latest date

for re-election. However, in 2008, at least one-third of the Board will retire by rotation as required by the company's Articles of Association. No compensation would be paid to the Chairman or to any non-executive director in the event of early termination.

Directors' remuneration report continued

The tables and explanatory notes on pages 110 to 114 report the remuneration of each director for the year ended 31 December 2007 and have been audited by the company's auditors, Deloitte & Touche LLP

Directors' remuneration

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

Notes:

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

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

Notes:

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

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

Share options

Options to subscribe for ordinary shares of 25p each in the company granted to, and exercised by, directors during the year to 31 December 2007 are included in the table below. Options held at 1 January 2007 and the related option price have been restated to reflect the bonus issue of ordinary shares in May 2007.

	Options held at 1 January 2007	Options granted in 2007	Options exercised in 2007		Options held at 31 December 2007	
			Number	Market price at date of exercise £	Option price £	Number
Sir Fred Goodwin	493,713		493,713	5.32	2.92	—
	8,889				3.73	8,889
	81,918				3.99	81,918
	460,944				2.60	460,944
	131,100				5.73	131,100
	123,900				6.06	123,900
	218,400				4.12	218,400
	432,525				5.78	432,525
	477,153				5.76	477,153
	485,961				6.17	485,961
	3,801				4.35	3,801
		695,188			5.61	695,188
	2,918,304					3,119,779
Mr Cameron	57,582				3.73	57,582
	115,233				2.60	115,233
	450		450	6.77	5.21	—
	78,600				5.73	78,600
	95,400				6.06	95,400
	157,800				4.12	157,800
	151,383				5.78	151,383
	5,595		5,595	5.24	3.28	—
	242,916				5.76	242,916
	255,129				6.17	255,129
		374,332			5.61	374,332
	1,160,088					1,528,375
Mr Fish	323,631				3.11	323,631
	112,809				5.76	112,809
	333,387				6.17	333,387
		523,640			5.61	523,640
	769,827					1,293,467
Mr Fisher	42,843				3.08	42,843
	99,873				2.60	99,873
	65,400				5.73	65,400
	68,100				6.06	68,100
	121,500				4.12	121,500
	118,944				5.78	118,944
	182,187				5.76	182,187
	933		933	5.24	4.03	—
	435				4.35	435
	184,260				6.17	184,260
		262,033			5.61	262,033
		1,611			4.69	1,611
	884,475					1,147,186
Mr Pell	153,648		153,648	4.40	2.60	—
	87,300				5.73	87,300
	82,800				6.06	82,800
	149,400				4.12	149,400
	141,651				5.78	141,651
	151,821				5.76	151,821
	187,095				6.17	187,095
		259,894			5.61	259,894
	953,715					1,059,961
Mr Whittaker	170,085				6.17	170,085
	3,705				4.61	3,705
		280,749			5.61	280,749
	173,790					454,539

Note:

(1) Options held under the sharesave schemes, which are not subject to performance conditions.

The performance conditions for options granted in 2007 are detailed on page 107.

Directors' remuneration report continued

No options had their terms and conditions varied during the accounting period to 31 December 2007. No payment is required on the award of an option.

The performance condition applying to executive share options granted in 2007 and exercisable in August 2010 is outlined on page 107.

For executive share options where the first exercisable date is between March 2002 and March 2009 inclusive, options are exercisable only if, over a three year period, the growth in the company's EPS has exceeded the growth in the Retail Prices Index (RPI) plus 9%. In respect of executive share options

exercisable before March 2002, the performance condition is that the growth in the company's EPS over three years has exceeded the growth in the RPI plus 6%.

The market price of the company's ordinary shares at 31 December 2007 was £4.44 and the range during the year to 31 December 2007 was £3.97 to £7.20.

In the ten year period to 31 December 2007, awards made that could require new issue shares under the company's share plans represented 5.5% of the company's issued ordinary share capital, leaving an available dilution headroom of 4.5%.

Medium Term Performance Plan

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

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

Note:

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

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

No variation was made to any of the terms of the plan during the year. The performance measures are detailed on pages 106 and 107.

Restricted Stock Award

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

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

Notes:

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

Citizens Long Term Incentive Plan ⁽¹⁾

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

Note:

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

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

Directors' remuneration report continued

Directors' pension arrangements

During the year, Johnny Cameron, Sir Fred Goodwin and Gordon Pell accrued pensionable service in The Royal Bank of Scotland Group Pension Fund ("the RBS Fund"). The RBS Fund is a defined benefit fund registered with HM Revenue & Customs under the Finance Act 2004.

Sir Fred Goodwin and Gordon Pell are provided with additional pension benefits on a defined benefit basis outwith the RBS Fund. The figures shown below include the accrual in respect of these arrangements. A funded, non-registered, arrangement has been set up to provide Sir Fred Goodwin's benefits to the extent they are not provided by the RBS Fund.

Johnny Cameron's benefits are based on salary limited to the pensions earning cap and he receives a cash allowance in place of pension on salary above this cap.

Mark Fisher opted to cease future accrual of pension benefit within the RBS Fund with effect from 6 April 2006. The increase in pension shown in the table arises from his increase in pensionable salary over the year. He is provided with a cash allowance in place of further pension benefits.

Guy Whittaker is provided with a cash allowance in place of pension benefits.

The cash allowances for Johnny Cameron, Mark Fisher and Guy Whittaker are shown on page 110.

Larry Fish accrues pension benefits under a number of arrangements in the US. Defined benefits are built up under the Citizens' Qualified Plan, Excess Plan and Supplemental Executive Retirement Arrangement. In addition, he is a member of two defined contribution arrangements: a Qualified 401(k) Plan and an Excess 401(k) Plan. He will continue to accrue benefits under these plans until 30 April 2008.

Of the total transfer value shown as at 31 December 2007, 54% relates to benefits in funded pension schemes.

Disclosure of these benefits has been made in accordance with the United Kingdom Listing Authority Listing Rules and with the Directors' Remuneration Report Regulations 2002.

	Age at 31 December 2007	Accrued entitlement at 31 December 2007 £000 p.a.	Additional pension earned during the year ended 31 December 2007 £000 p.a.	Additional pension earned during the year ended 31 December 2007* £000 p.a.	Transfer value as at 31 December 2007 £000	Transfer value as at 31 December 2006 £000	Increase in transfer value during year ended 31 December 2007 £000	Transfer value for the additional pension earned during the year ended 31 December 2007* £000
Defined benefit arrangements								
Sir Fred Goodwin	49	579	69	50	8,370	7,043	1,327	722
Mr Cameron	53	57	6	3	931	824	107	56
Mr Fish	63	\$2,080	\$251	\$251	\$24,101	\$17,800	\$6,301	\$2,915
Mr Fisher	47	337	35	24	4,562	3,904	658	323
Mr Pell	57	423	62	49	8,403	6,744	1,659	971

* net of statutory revaluation applying to deferred pensions

Notes:

- (1) There is a significant difference in the form of disclosure required by the Combined Code and the Directors' Remuneration Report Regulations 2002. The former requires the disclosure of the additional pension earned during the year and the transfer value equivalent to this pension based on stock market conditions at the end of the year. The latter requires the disclosure of the difference between the transfer value at the start and end of the year and is therefore dependent on the change in stock market conditions over the course of the year. The above disclosure has been made in accordance with the Combined Code and the Directors' Remuneration Report Regulations 2002.
- (2) The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the Group pension scheme.
- (3) No allowance is made in these transfer values for any enhanced benefits that may become payable on early retirement.
- (4) The proportion of benefits represented by funded pension schemes for Gordon Pell and Larry Fish is 53% and 2% respectively. All benefits for Johnny Cameron, Mark Fisher and Sir Fred Goodwin are in funded pension schemes.
- (5) In accordance with US market practice, Larry Fish's pensionable remuneration is limited to US\$4 million per annum.
- (6) Larry Fish's executive director service contract effective from February 2004 provides that he may retire at any age between 60 and 65. As noted on page 107, he will cease pension accrual with effect from 1 May 2008 and draw his pension from that date. The valuation of his benefits in the table above as at the end of 2007 allow for this payment date; previous figures assumed retirement at age 65.

Contributions and allowances paid in the year ended 31 December 2007 under defined contribution arrangements were:

	2007 000	2006 000
Mr Cameron	—	£46
Mr Fish	\$60	\$56

Bob Scott
Chairman of the Remuneration Committee
27 February 2008

Directors' interests in shares

Shares beneficially owned at 1 January 2007 in the tables below have been restated to reflect the bonus issue of ordinary shares in May 2007.

	Shares beneficially owned at 1 January 2007	31 December 2007				Value as at 31 December 2007 ^(2,3) £
		Shares owned beneficially	Vested MPP shares or share equivalents	Vested share options	Total	
Executive directors						
Sir Fred Goodwin	200,532	694,498	380,685	1,457,676	2,532,859	5,732,777
Mr Cameron	6,036	16,582	233,706	655,998	906,286	1,413,969
Mr Fish	33,360	33,360	—	323,631	356,991	578,548
Mr Fisher	13,494	21,345	84,000	516,660	622,005	747,907
Mr Pell	1,746	155,394	—	461,151	616,545	737,259
Mr Whittaker	154,815	278,191	—	—	278,191	1,235,168

Notes:

- The numbers shown in this table are taken from the audited disclosures shown elsewhere in this Annual Report.
- The value is based on the share price at 31 December 2007, which was £4.44. During the year ended 31 December 2007 the share price ranged from £3.97 to £7.20.
- The notional value of the vested share options has been calculated on the 'in the money' value using the share price of £4.44 as at 31 December 2007 less the option prices of vested options.
- As at 31 December 2007, the executive directors held a technical interest as potential beneficiaries in The Royal Bank of Scotland Group plc 2001 Employee Share Trust (9,570,456 shares) and The Royal Bank of Scotland plc 1992 Employee Share Trust (904,326 shares), being trusts operated for the benefit of employees of the company and its subsidiaries.

	Shares beneficially owned at 1 January 2007	Shares beneficially owned at 31 December 2007
Non-executive directors		
Chairman		
Sir Tom McKillop	90,000	208,000
Mr Buchan	15,000	40,000
Dr Currie	1,668	1,668
Mr Friedrich	60,768	110,475
Mr Hunter	10,500	10,500
Mr Koch	60,000	90,000
Mrs Kong	21,000	26,000
Mr MacHale	30,000	72,200
Mr Scott	13,344	23,344
Mr Sutherland	16,770	17,643

No other director had an interest in the company's ordinary shares during the year.

On 7 January 2008 and 7 February 2008, 29 and 33 ordinary shares of 25p each, respectively, were acquired by both Sir Fred Goodwin and Mr Fisher under the Group's Buy As You Earn share scheme.

Preference shares

Mr Fish held 20,000 non-cumulative preference shares of US\$0.01 each at 31 December 2007 (2006 – 20,000) and Mr Koch held 20,000 non-cumulative preference shares of US\$0.01 each at 31 December 2007 (2006 – 20,000). No other director had an interest in the preference shares during the year.

No director held a non-beneficial interest in the shares of the company at 31 December 2007, at 1 January 2007 or date of appointment if later.

Statement of directors' responsibilities

The directors are required by Article 4 of the IAS Regulation (European Commission Regulation No 1606/2002) to prepare Group accounts, and as permitted by the Companies Act 1985 have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Group and the company. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board.

Miller McLean
Secretary
27 February 2008

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

We have audited the financial statements of The Royal Bank of Scotland Group plc ("the company") and its subsidiaries (together "the Group") for the year ended 31 December 2007 which comprise the accounting policies, the balance sheets as at 31 December 2007 and 2006, the consolidated income statements, the cash flow statements, the statements of recognised income and expense for each of the three years in the period ended 31 December 2007 and the related Notes 1 to 43. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS), as adopted by the European Union, are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985, and as regards the Group's consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion, the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Business review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

The Listing Rules do not require us to consider whether the Board or management's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Accounts 2007 as described in the contents section, including the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report and Accounts 2007.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the standards of the Public Company Accounting Oversight Board (United States). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.