

Chairman's statement

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

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

Acquisition of ABN AMRO

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

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

Financial market and economic developments

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

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

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

Board of directors

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

The environment

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

2008

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

Sir Tom McKillop
Chairman

