

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

26 June 2008

The Royal Bank of Scotland Group plc

Gogarburn  
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Edinburgh EH12 1HQ  
Scotland  
United Kingdom

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_

THE ROYAL BANK OF SCOTLAND plc

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## THE ROYAL BANK OF SCOTLAND plc

### Explanatory note

The Royal Bank of Scotland Group plc is filing this report in order for its wholly-owned subsidiary, The Royal Bank of Scotland plc (hereafter the “Bank” or “Company”), to meet the requirements of item 1115 of Regulation AB issued by the Securities and Exchange Commission. This report contains selected financial data (on pages 4 - 7) and audited financial statements (on pages 14 - 93) as required by Item 3.A. and Item 17 of Form 20-F respectively and other related information. In filing this report, the Bank is omitting certain financial information and selected financial data as permitted by Instruction G ‘First-Time Application of International Financial Reporting Standards’ of Form 20-F.

### Presentation of information

For the purpose of this report, the terms ‘Group’ and ‘RBS’ mean the Bank and its subsidiary and associated undertakings and the term ‘RBS Group’ means The Royal Bank of Scotland Group plc and its subsidiary and associated undertakings. The term ‘the holding company’ means The Royal Bank of Scotland Group plc.

The Bank publishes its financial statements in pounds sterling (“£” or “sterling”). The abbreviations ‘£m’ and ‘£bn’ represent millions and thousands of millions of pounds sterling, respectively, and references to ‘pence’ represent pence in the United Kingdom (“UK”). Reference to ‘dollars’ or ‘\$’ are to United States of America (“US”) dollars. The abbreviations ‘\$m’ and ‘\$bn’ represent millions and thousands of millions of dollars, respectively, and references to ‘cents’ represent cents in the US. The abbreviation ‘€’ represents the ‘euro’, the European single currency and the abbreviations ‘€m’ and ‘€bn’ represent millions and thousands of millions of euros, respectively.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, the Group believes that any resulting misclassification is not material.

### International Financial Reporting Standards

As required by the Companies Act 1985 and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together ‘IFRS’) as adopted by the European Union. It also complies with IFRS as issued by the IASB. On implementation of IFRS on 1 January 2005, the Group took advantage of the option in IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ to implement IAS 39 ‘Financial Instruments: Recognition and Measurement’ and IAS 32 ‘Financial Instruments: Disclosure and Presentation’ from 1 January 2005 without restating its 2004 income statement and balance sheet. The date of transition to IFRS for the Group and the date of its opening IFRS balance sheet is 1 January 2004.

The Group’s published 2004 financial statements were prepared in accordance with then current UK generally accepted accounting principles (“UK GAAP” or “previous GAAP”) comprising standards issued by the UK Accounting Standards Board, pronouncements of the Urgent Issues Task Force, relevant Statements of Recommended Accounting Practice and provisions of the Companies Act 1985.

The Group is no longer required to include reconciliations of shareholders’ equity and net income under IFRS and US GAAP in its filings with the Securities and Exchange Commission in the US.

THE ROYAL BANK OF SCOTLAND plc

Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believes’, ‘should’, ‘could’, ‘intend’, ‘plan’, ‘probability’, ‘risk’, ‘Value-at-Risk (“VaR”)', ‘target’, ‘goal’, ‘object’, ‘will’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

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

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

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

For a further discussion on certain risks faced by the Group, see Risk Factors on page 11.

## THE ROYAL BANK OF SCOTLAND plc

## SELECTED FINANCIAL DATA

The Group's accounts are prepared in accordance with IFRS as issued by the IASB. Selected data under IFRS for each of the four years ended 31 December 2007 are presented on pages 4 and 5. Selected data under UK GAAP for each of the two years ended 31 December 2004 are presented on pages 6 and 7.

The dollar financial information included below has been translated for convenience at the rate of £1.00 to US\$1.9843, the Noon Buying Rate on 31 December 2007.

Amounts in accordance with IFRS

Summary consolidated income statement	2007		2006	2004		Continuing
	\$m	£m	£m	2005 Discontinued*	£m	
Net interest income	22,058	11,116	10,392	9,711	263	8,790
Non-interest income (excluding insurance net premium income)	22,206	11,191	11,176	9,963	(35)	8,441
Insurance net premium income	-	-	-	-	3,357	-
Total income	44,264	22,307	21,568	19,674	3,585	17,231
Operating expenses	22,397	11,287	11,341	10,672	656	9,225
Profit before other operating charges and impairment losses	21,867	11,020	10,227	9,002	2,929	8,006
Insurance net claims	-	-	-	-	2,418	-
Impairment losses	3,701	1,865	1,873	1,709	-	1,485
Loss on disposal of interests in subsidiaries	-	-	-	-	96	-
Operating profit before tax	18,166	9,155	8,354	7,293	415	6,521
Tax	3,776	1,903	2,433	2,267	157	1,751
Profit after tax	14,390	7,252	5,921	5,026	258	4,770
Discontinued operations	-	-	-	-	-	258
Profit for the year	14,390	7,252	5,921	5,026	-	5,028
Minority interests	105	53	45	27	-	53
Preference dividends	657	331	252	154	-	315
Profit attributable to ordinary shareholders	13,628	6,868	5,624	4,845	-	4,660
Ordinary dividends	3,969	2,000	3,250	1,928	-	2,689

\* On 31 December 2004 the general insurance businesses were transferred to The Royal Bank of Scotland Group plc.

Summary consolidated balance sheet	2007		2006	2005	2004
	\$m	£m	£m	£m	£m
Loans and advances	1,285,420	647,795	547,042	485,488	405,512

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Debt securities and equity shares	304,437	153,423	126,621	120,351	91,356
Derivatives and settlement balances	506,455	255,231	124,148	101,677	23,586
Other assets	117,508	59,219	50,416	49,806	50,436
Total assets	2,213,820	1,115,668	848,227	757,322	570,890
Shareholders' equity	94,617	47,683	37,936	34,510	34,320
Minority interests	302	152	396	104	679
Subordinated liabilities	55,156	27,796	27,786	28,422	21,262
Deposits	1,179,646	594,490	516,462	452,729	383,669
Derivatives, settlement balances and short positions	596,979	300,851	167,589	140,493	52,101
Other liabilities	287,120	144,696	98,058	101,064	78,859
Total liabilities and equity	2,213,820	1,115,668	848,227	757,322	570,890

## THE ROYAL BANK OF SCOTLAND plc

## SELECTED FINANCIAL DATA (continued)

## Other financial data

	2007	2006	2005	2004
Based upon IFRS				
Return on average total assets(1)	0.70%	0.70%	0.67%	0.92%
Return on average ordinary shareholders' equity(2)	19.9%	18.4%	16.9%	17.6%
Average shareholders' equity as a percentage of total assets	4.2%	4.4%	4.4%	6.2%
Risk asset ratio				
- Tier 1	7.9%	6.7%	6.8%	N/A(4)
- Total	12.8%	12.1%	12.3%	N/A(4)
Ratio of earnings to fixed charges and preference dividends(3)				
- including interest on deposits	1.50	1.57	1.62	1.83
- excluding interest on deposits	5.68	6.30	6.77	6.79
Ratio of earnings to fixed charges only(3)				
- including interest on deposits	1.53	1.59	1.64	1.91
- excluding interest on deposits	6.89	7.54	7.73	9.37

## Notes:

- (1) Return on average total assets represents profit attributable to ordinary shareholders as a percentage of average total assets.
- (2) Return on average ordinary shareholders' equity represents profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity.
- (3) For this purpose, earnings consist of income before taxes and minority interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).
- (4) Upon adoption of IFRS by listed banks in the UK on 1 January 2005, the Financial Services Authority ("FSA") changed its regulatory requirements such that the measurement of capital adequacy was based on IFRS subject to a number of prudential filers. The Risk Asset Ratios as at 31 December 2007, 2006 and 2005 have been presented in compliance with these revised FSA requirements.

## THE ROYAL BANK OF SCOTLAND plc

## SELECTED FINANCIAL DATA (continued)

Amounts in accordance with UK GAAP

Summary consolidated income statement	2004		Total £m	2003 £m
	Continuing £m	Discontinued* £m		
Net interest income	8,886	257	9,143	8,338
Non-interest income (excluding insurance net premium income)	8,531	(26)	8,505	7,553
Insurance net premium income	-	3,248	3,248	2,793
Total income	17,417	3,479	20,896	18,684
Operating expenses excluding goodwill amortisation	8,777	626	9,403	8,295
Goodwill amortisation	857	15	872	750
Profit before other operating charges and provisions	7,783	2,838	10,621	9,639
General net insurance claims	-	2,340	2,340	1,999
Provisions for bad and doubtful debts	1,428	-	1,428	1,461
Amounts written off fixed asset investments	83	-	83	33
Loss on disposal of interests in subsidiary undertakings	-	119	119	-
Profit on ordinary activities before tax	6,272	379	6,651	6,146
Tax on profit on ordinary activities			2,074	1,891
Profit on ordinary activities after tax			4,577	4,255
Minority interests (including non-equity)			131	122
Preference dividends - non-equity			315	280
Profit attributable to ordinary shareholders			4,131	3,853
Ordinary dividends			2,689	2,400

\*On 31 December 2004 the general insurance businesses were transferred to The Royal Bank of Scotland Group plc.

Summary consolidated balance sheet	2004	2003
	£m	£m
Loans and advances	402,898	306,341



Debt securities and equity shares	90,859	80,813
Intangible fixed assets	16,657	12,342
Other assets	56,959	44,688
Total assets	567,373	444,184
Shareholders' funds	35,874	29,683
Minority interests	1,013	826
Subordinated liabilities	21,262	17,897
Deposits	384,684	304,582
Debt securities in issue	56,301	38,120
Other liabilities	68,239	53,076
Total liabilities	567,373	444,184

## THE ROYAL BANK OF SCOTLAND plc

## SELECTED FINANCIAL DATA (continued)

## Other financial data

	2004	2003
Based upon UK GAAP		
Return on average total assets(1)	0.82%	0.91%
Return on average ordinary shareholders' equity(2)	14.9%	15.2%
Average shareholders' equity as a percentage of total assets	6.5%	6.9%
Risk asset ratio		
- Tier 1	6.8%	7.6%
- Total	12.7%	13.0%
Ratio of earnings to fixed charges and preference dividends(3)		
- including interest on deposits	1.81	1.97
- excluding interest on deposits	6.42	6.87
Ratio of earnings to fixed charges only(3)		
- including interest on deposits	1.88	2.07
- excluding interest on deposits	8.79	9.55

## Notes:

- (1) Return on average total assets represents profit attributable to ordinary shareholders as a percentage of average total assets.
- (2) Return on average ordinary shareholders' equity represents profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity.
- (3) For this purpose, earnings consist of income before taxes and minority interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).

## Description of business

### Introduction

The Royal Bank of Scotland plc is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc, one of the world's largest banking and financial services groups. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

### Organisational structure and business overview for 2007

For the year ended December 31, 2007, the Group's activities were organised in the following business divisions: Corporate Markets (comprising Global Banking & Markets and UK Corporate Banking), Retail Markets (comprising Retail and Wealth Management), Ulster Bank, Citizens and Manufacturing. A description of each of the divisions is given below.

Corporate Markets is focused on the provision of debt and risk management services to medium and large businesses and financial institutions in the UK and around the world.

Global Banking & Markets ('GBM') is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt financing, risk management and investment services to its customers. GBM has a wide range of clients across its chosen markets. It has relationships with an overwhelming majority of the largest UK, European and US corporations and institutions. GBM's principal activity in the US is conducted through RBS Greenwich Capital.

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

Retail Markets leads the co-ordination and delivery of our multi-brand retail strategy across our product range and comprises Retail (including our direct channels businesses) and Wealth Management.

Retail comprises both the Royal Bank and NatWest retail brands, and a number of direct providers offering a full range of banking products and related financial services to the personal, premium and small business markets across several distribution channels.

In core retail banking, Retail offers a comprehensive product range across the personal and small business market: money transmission, savings, loans and mortgages. Customer choice and product flexibility are central to the retail banking proposition and customers are able to access services through a full range of channels, including the largest network of branches and ATMs in the UK, the internet and the telephone.

Retail also includes the Group's non-branch based retail businesses that issue a comprehensive range of credit and charge cards to personal and corporate customers and provides card processing services for retail businesses. Retail is the leading merchant acquirer in Europe and ranks third globally.

It also includes Tesco Personal Finance, The One account, MINT, First Active UK, Direct Line Financial Services and Lombard Direct, all of which offer products to customers through direct channels principally in the UK. In continental Europe, Retail offers a similar range of products through the RBS and Comfort Card brands.

Wealth Management provides private banking and investment services to its clients through a number of leading UK and overseas private banking subsidiaries and offshore banking businesses. Coutts is one of the world's leading international wealth managers with offices in Switzerland, Dubai, Monaco, Hong Kong and Singapore, as well as its premier position in the UK. Adam & Company is the major private bank in Scotland. The offshore banking businesses – The Royal Bank of Scotland International and NatWest Offshore – deliver retail banking services to local and expatriate customers, principally in the Channel Islands, the Isle of Man and Gibraltar.

Ulster Bank Group including First Active, provides a comprehensive range of retail and wholesale financial services in the Republic of Ireland and Northern Ireland, supported by an extensive network of branch and business centres. Retail Markets operates in the personal and affluent banking sectors. Corporate Markets provides a wide range of services in the commercial, corporate and wealth markets. RBS's European Consumer Finance ('ECF') activities, previously part of RBS Retail Markets, are now managed within Ulster Bank. ECF provides consumer finance products, particularly card-based revolving credits and fixed-term loans, in Germany and the Benelux countries.

Citizens is the second largest commercial banking organisation in New England and the ninth largest commercial banking organisation in the US measured by deposits. Citizens provides retail and corporate banking services under the Citizens brand in Connecticut, Delaware, Massachusetts, New Hampshire, New Jersey, New York state, Pennsylvania, Rhode Island and Vermont and the Charter One brand in Illinois, Indiana, Michigan and Ohio. Through its branch network Citizens provides a full range of retail and corporate banking services, including personal banking, residential mortgages and cash management.

In addition, Citizens engages in a wide variety of commercial lending, consumer lending, commercial and consumer deposit products, merchant credit card services, trust services and retail investment services. Citizens includes RBS Lync, our merchant acquiring business, and Kroger Personal Finance, our credit card joint venture with the second largest US supermarket group.

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

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

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

#### Organisational structure and business overview of the RBS Group as of 28 February 2008

On 28 February 2008, the RBS Group announced changes to its organisational structure which are aimed at recognising the RBS Group's presence in over 50 countries and facilitating the integration and operation of its expanded footprint. Following the acquisition of ABN AMRO in October 2007, the RBS Group's new organisational structure incorporates those ABN AMRO businesses to be retained by the RBS Group but excludes the ABN AMRO businesses to be acquired by Fortis and Santander. This new organisational structure is expected to give the RBS Group the appropriate framework for managing the enlarged RBS Group in a way that fully capitalises on the enhanced range of attractive growth opportunities now available to it. The RBS Group's organisational structure as of 28 February 2008 comprises the following divisions: Global Markets (comprising Global Banking & Markets and Global Transaction Services), Regional Markets (comprising UK Retail and Commercial Banking, US Retail and Commercial Banking, Europe & Middle East Retail and Commercial Banking and Asia Retail and Commercial Banking, RBS Insurance, Group Manufacturing and the Centre. All of these activities are relevant to the Group with the exception of those conducted through RBS Insurance and ABN AMRO and its subsidiaries.

## Competition

The Group faces intense competition in all the markets it serves. In the UK, the Group's principal competitors are the other UK retail and commercial banks, building societies and the other major international banks represented in London.

Competition for corporate and institutional customers in the UK is from UK banks and from large foreign financial institutions who are also active and offer combined investment and commercial banking capabilities. In asset finance, the Group competes with banks and specialised asset finance providers, both captive and non-captive. In European and Asian corporate and institutional banking markets the Group competes with the large domestic banks active in these markets and with the major international banks.

In the small business banking market, the Group competes with other UK clearing banks, specialist finance providers and building societies.

In the personal banking segment the Group competes with UK banks and building societies, major retailers and internet-only players. In the mortgage market the Group competes with UK banks and building societies.

In the UK credit card market large retailers and specialist card issuers, including major US operators, are active in addition to the UK banks. Competitive activity is across a number of dimensions including introductory and longer term pricing, loyalty and reward schemes, and packaged benefits. In addition to physical distribution channels, providers compete through direct marketing activity and the internet. The market remains competitive, both between issuers and with other payment methods.

In Wealth Management, The Royal Bank of Scotland International competes with other UK and international banks to offer offshore banking services. Coutts and Adam & Company compete as private banks with UK clearing and private banks, and with international private banks. Competition in wealth management activities has intensified as banks have increased their focus on competing for affluent and high net worth customers.

In Ireland, Ulster Bank and First Active compete in retail and commercial banking with the major Irish banks and building societies, and with other UK and international banks and building societies active in the market. Competition is intensifying as UK, Irish and other European institutions seek to expand their businesses.

In the United States, where competition is intense, Citizens competes in the New England, Mid-Atlantic and Mid West retail and mid-corporate banking markets with local and regional banks and other financial institutions. The Group also competes in the US in large corporate lending and specialised finance markets, and in fixed-income trading and sales. Competition is principally with the large US commercial and investment banks and international banks active in the US.

## Risk factors

Set out below are certain risk factors which could affect the Group's future results and cause them to be materially different from expected results. The Group's results are also affected by competition and other factors. The factors discussed in this report should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

The Group's business and earnings are affected by general business and geopolitical conditions

The performance of the Group is influenced by economic conditions particularly in the UK, US and Europe. Downturns in these economies could result in a general reduction in business activity and a consequent loss of income for the Group. It could also cause a higher incidence of credit losses and losses in the Group's trading portfolios. Geopolitical conditions can also affect the Groups earnings. Terrorist acts and threats and the response of governments in the UK, US and elsewhere to them could affect the level of economic activity. The Group's business is also exposed to the risk of business interruption and economic slowdown following the outbreak of a pandemic.

The financial performance of the Group is affected by borrower credit quality

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties or a general deterioration in UK, US, European or global economic conditions, or arising from systemic risks in the financial systems, could affect the recoverability and value of the Group's assets and require an increase in the provision for impairment losses and other provisions.

Changes in interest rates, foreign exchange rates, equity prices and other market factors affect the Group's business

The most significant market risks the Group faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates, particularly in the sterling-dollar and sterling-euro exchange rates, affect the value of assets and liabilities denominated in foreign currencies and affect earnings reported by the Group's non-UK subsidiaries, mainly Citizens, RBS Greenwich Capital and Ulster Bank, and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Group's investment and trading portfolios. The Group has implemented risk management methods to mitigate and control these and other market risks to which the Group is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

The Group's business performance could be affected if its capital resources are not managed effectively

The Group's capital is critical to its ability to operate its businesses, to grow organically and to take advantage of strategic opportunities. The Group is required by regulators in the UK and in other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. The Group mitigates the risk by careful management of its balance sheet and capital resources, through capital raising activities, disciplined capital allocation and the hedging of capital currency exposures.

Liquidity risk is inherent in the Group's operations

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors such as an over reliance on a particular source of funding, changes in credit ratings or by marketwide phenomena such as market dislocation and major disasters. The Group's liquidity management focuses on maintaining a diverse and appropriate funding strategy for its assets, in controlling the mis-match of maturities and from carefully monitoring its undrawn commitments and contingent liabilities.

The Group's future earnings could be affected by market illiquidity

Financial markets are sometimes subject to significant stress conditions where steep falls in perceived or actual asset values are accompanied by severe reduction in market liquidity, such as recent events in the U.S. sub-prime residential mortgage market. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions. Severe market events are difficult to foresee and, if they occur, could result in the Group incurring significant losses. In 2007, the Group recorded significant write-downs on its credit market positions, principally on its US sub-prime exposures. As market conditions change the fair value of the Group's instruments could fall further. Furthermore, recent market volatility and illiquidity has made it difficult to value certain of the Group's financial instruments. Valuations in future periods, reflecting prevailing market conditions, may result in significant changes in the fair values of these instruments. In addition, the value ultimately realised by the Group will depend on the market price at that time and may be materially lower than current fair value. Any of these factors could require the Group to recognise further write-downs which may adversely affect the Group's future results.

Operational risks are inherent in the Group's business

The Group's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper authorisation, failure to comply with regulatory requirements and Conduct of Business rules, equipment failures, natural disasters or the failure of external systems, for example, the Group's suppliers or counterparties. Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by the Group.

Each of the Group's businesses is subject to substantial regulation and regulatory oversight. Any significant regulatory developments could have an effect on how the Group conducts its business and on the results of operations

The Group is subject to financial services laws, regulations, administrative actions and policies in each location in which the Group operates. This supervision and regulation, in particular in the UK and US, if changed could materially affect the Group's business, the products and services offered or the value of assets.





Future growth in the Group's earnings and shareholder value depends on strategic decisions regarding organic growth and potential acquisitions

The Group devotes substantial management and planning resources to the development of strategic plans for organic growth and identification of possible acquisitions, supported by substantial expenditure to generate growth in customer business. If these strategic plans do not meet with success, the Group's earnings could grow more slowly or decline.

The risk of litigation is inherent in the Group's operations

In the ordinary course of the Group's business, legal actions, claims against and by the Group and arbitrations arise; the outcome of such legal proceedings could affect the financial performance of the Group.

The Group is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes in the jurisdictions in which it operates

The Group's activities are subject to tax at various rates around the world computed in accordance with local legislation and practice. Action by governments to increase tax rates or to impose additional taxes would reduce the profitability of the Group. Revisions to tax legislation or to its interpretation might also affect the Group's results in the future.

Report of independent registered public accounting firm to the members of The Royal Bank of Scotland plc

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We have audited the financial statements of The Royal Bank of Scotland plc (“the Bank”) 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 42. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the annual 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 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 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.

In addition we report to you if, in our opinion, the Bank 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 read the other information contained in the Annual Report and Accounts 2007 as described in the contents section 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 other 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. 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 Bank 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 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.

The Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control over financial reporting. Accordingly, we express no such opinion.

## UK Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Bank financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of affairs of the Bank as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
  - the information given in the directors' report is consistent with the financial statements.

## Separate opinion in relation to IFRS

As explained in the accounting policies, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with IFRS as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended.

## US opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007 and 2006 and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2007, in accordance with IFRS as adapted for use in the European Union and IFRS as issued by the IASB.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Edinburgh, United Kingdom  
28 March 2008

## Consolidated income statement for the year ended 31 December 2007

	Note	2007 £m	2006 £m	2005 £m
Interest receivable		28,310	24,319	21,037
Interest payable		(17,194)	(13,927)	(11,326)
Net interest income		11,116	10,392	9,711
Fees and commissions receivable		7,519	7,060	6,676
Fees and commissions payable		(1,496)	(1,426)	(1,381)
Income from trading activities	1	1,142	2,543	2,363
Other operating income		4,026	2,999	2,305
Non-interest income		11,191	11,176	9,963
Total income		22,307	21,568	19,674
Staff costs		6,181	6,280	5,451
Premises and equipment		1,521	1,405	1,261
Other administrative expenses		2,147	2,241	2,400
Depreciation and amortisation		1,438	1,415	1,560
Operating expenses	2	11,287	11,341	10,672
Profit before impairment losses		11,020	10,227	9,002
Impairment losses	11	1,865	1,873	1,709
Operating profit before tax		9,155	8,354	7,293
Tax	5	1,903	2,433	2,267
Profit for the year		7,252	5,921	5,026
Profit attributable to:				
Minority interests		53	45	27
Preference shareholders	6	331	252	154
Ordinary shareholders		6,868	5,624	