Taxation

	2006 £m	2005 £m	2004 £m
Tax	2,689	2,378	1,995
	%	%	%
UK corporation tax rate	30.0	30.0	30.0
Effective tax rate	29.3	30.0	27.4

The actual tax charge differs from the expected tax charge computed by applying the standard rate of UK corporation tax as follows:

	2006 £m	2005 £m	2004 £m
Expected tax charge	2,756	2,381	2,185
Interest on subordinated debt not allowable for tax	58	79	—
Non-deductible items	230	230	110
Non-taxable items	(251)	(166)	(128)
Taxable foreign exchange movements	5	(10)	(10)
Foreign profits taxed at other rates	63	77	49
Unutilised losses – brought forward and carried forward	14	(5)	6
Adjustments in respect of prior periods	(186)	(208)	(217)
Actual tax charge	2,689	2,378	1,995

Divisional performance

The results of each division before amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries and, where appropriate, before allocation of manufacturing costs ("Contribution") and after allocation of manufacturing costs ("Operating profit before tax") are shown below. The Group continues to manage costs where they arise, with customer-facing divisions controlling their direct expenses whilst Manufacturing is responsible for shared costs. The Group does not allocate these shared costs between divisions in the day-to-day management of its businesses, and the way in which divisional results are presented reflects this. The results below include an allocation of Manufacturing costs to the customer-facing divisions on a basis management considers to be reasonable.

	2006			2005			2004		
	Contribution £m	Allocationof Manufacturing costs £m	Operating profit before tax £m	Contribution £m	Allocationof Manufacturing costs £m	Operating profit before tax £m	Contribution £m	Allocationof Manufacturing costs £m	Operating profit before tax £m
Global Banking & Markets	3,933	(143)	3,790	3,179	(138)	3,041	2,378	(128)	2,250
UK Corporate Banking	2,189	(427)	1,762	1,986	(414)	1,572	1,798	(383)	1,415
Retail Markets									
- Retail	3,867	(1,568)	2,299	3,781	(1,517)	2,264	4,082	(1,402)	2,680
- Wealth Management	497	(143)	354	410	(138)	272	359	(128)	231
Total Retail Markets	4,364	(1,711)	2,653	4,191	(1,655)	2,536	4,441	(1,530)	2,911
Ulster Bank	602	(214)	388	530	(207)	323	452	(192)	260
Citizens	1,582	-	1,582	1,575	-	1,575	1,071	-	1,071
RBS Insurance	964	(214)	750	935	(207)	728	873	(192)	681
Manufacturing	(2,852)	2,852	-	(2,758)	2,758	-	(2,552)	2,552	-
Central items	(1,368)	(143)	(1,511)	(1,387)	(137)	(1,524)	(612)	(127)	(739)
Profit before amortisation of purchased intangible assets, integration costs and net gain on sale of strategic investments and subsidiaries	9,414	-	9,414	8,251	-	8,251	7,849	-	7,849
Amortisation of purchased intangible assets	(94)	-	(94)	(97)	-	(97)	(45)	-	(45)
Integration costs	(134)	-	(134)	(458)	-	(458)	(520)	-	(520)
Net gain on sale of strategic investments and subsidiaries	-	-	-	240	-	240	-	-	-
Operating profit before tax	9,186	-	9,186	7,936	-	7,936	7,284	-	7,284

The performance of each of the divisions is reviewed on pages 20 to 34.

Global Banking & Markets

	2006 £m	2005 £m	2004 £m
Net interest income from banking activities	1,629	1,486	1,269
Funding costs of rental assets	(519)	(452)	(370)
Net interest income	1,110	1,034	899
Net fees and commissions receivable	861	678	674
Income from trading activities	2,379	2,061	1,766
Income from rental assets	1,196	1,074	924
Other operating income	1,280	744	350
Non-interest income	5,716	4,557	3,714
Total income	6,826	5,591	4,613
Direct expenses			
– staff costs	1,975	1,518	1,246
– other	427	357	318
– operating lease depreciation	406	398	360
	2,808	2,273	1,924
Impairment losses	85	139	311
Contribution	3,933	3,179	2,378
Allocation of Manufacturing costs	143	138	128
Operating profit before tax	3,790	3,041	2,250

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Total assets*	383.6	330.9	291.3
Loans and advances to customers – gross*			
– banking book	94.3	82.0	70.5
– trading book	15.4	11.8	10.1
Rental assets	12.2	11.9	10.3
Customer deposits*	54.1	44.7	45.3
Risk-weighted assets	138.1	120.0	104.9

* excluding repos and reverse repos

2006 compared with 2005

Global Banking & Markets performed strongly in 2006, delivering excellent growth in income while continuing to build our strong international franchise. Total income rose by 22% to £6,826 million, contribution by 24% to £3,933 million and operating profit by 25% to £3,790 million.

GBM is a leading provider of debt financing and risk management solutions covering the origination, structuring and distribution of a wide range of assets. In 2006 we arranged over $450 billion of financing for our corporate and institutional customers, up 17% from 2005. We ranked first among managers of global asset-backed and mortgage-backed securitisations and fourth among managers of global syndicated loans, while among managers of international bonds we moved from thirteenth place to eighth. These league table positions demonstrate our success in broadening and deepening our franchise.

In 2006 we have further invested in extending our product capabilities and our worldwide reach. Income in North America rose by 18% in local currency, despite flat revenues in our US residential mortgage-backed securities business, as the investments we have made in our debt capital markets, loan markets, rates and credit trading businesses have borne fruit.

In Europe, income increased by 26% in local currency as a result of good performances in Germany, France, Spain, Italy and the Nordic region. We participated in many of the largest cross-border financings in 2006. Asia-Pacific, too, showed marked progress, with income increasing by 35% in US dollar terms. We have established a promising presence in the region, building our product capability and client relationships.

Net interest income rose by 7% to £1,110 million, representing 16% of total GBM income. Average loans and advances to customers increased by 20% as we further expanded our customer base outside the UK.

Net fee income rose by 27% to £861 million, reflecting our top tier position in arranging, structuring and distributing large scale private and public financings. We have increased our customer penetration, and in 2006 were the third most active underwriter of bonds for European, including UK, corporates.

Income from trading activities continued to grow steadily, rising by 15% to £2,379 million as a result of good volumes of debt and risk management products provided to our customers. A strong performance in credit products was supplemented by growth in our broadening product range, including equity derivatives and structured credit, partially offset by the impact of a slower US mortgage-backed securities market. Average trading book value at risk remained modest at £14.2 million.

Our rental and other asset-based activities have achieved continuing success in originating, structuring, financing and managing physical assets such as aircraft, trains, ships and real estate for our customers. This success has driven good growth in income from rental assets, which increased to £1,196 million from £1,074 million.

These businesses also generate value through the ownership of a portfolio of assets which we manage actively. Good results from these activities, as well as from principal investments where we work with our corporate customers and with financial sponsors, leveraging our financial capability to structure and participate in a wide variety of investment opportunities, were reflected in other operating income, which increased to £1,280 million from £744 million in 2005.

We have maintained good cost discipline while continuing to invest in extending our geographical footprint, our infrastructure and our product range. Total expenses grew by 22% to £2,951 million. Variable performance-related compensation increased and now accounts for 41% of total costs.

Portfolio risk remained stable and the corporate credit environment remained benign. Impairment losses fell to £85 million, with the distribution of impairments over the course of the year reflecting recoveries in the first half.

Average risk-weighted assets grew by 11% and the ratio of operating profit to average risk-weighted assets improved from 2.6% to 2.9%.

2005 compared with 2004

An excellent performance from our Global Banking & Markets customer segment in 2005 shows the fruits of the global platform we have built over the last five years, with good growth in all major geographies and across-the-board success in income generation from our core banking, structured finance and financial markets activities.

Total income increased by 21% to £5,591 million, with contribution up 34% to £3,179 million, benefiting from cost discipline and continuing benign credit conditions. Operating profit before tax rose by 35% to £3,041 million.

Debt underwriting volumes remained strong throughout the course of the year, reflecting our involvement in many of the largest financings in the UK and Europe for both large corporates and private equity sponsors. We were the fourth most active bank worldwide in arranging and underwriting bank lending in 2005. A strong distribution performance brought weighted risk assets to £120 billion at year-end, up 14% over the year and back to a more consistent trend level than the amount at 30 June 2005.

Non-interest income grew by 23% to £4,557 million and now accounts for 82% of Global Banking & Markets revenues.

We recorded good growth in fees earned from customer services in risk management, financial structuring and debt-raising. A strong performance from RBS Greenwich Capital, which has been brought together with other Global Banking & Markets activities in North America, contributed to steady growth in income from trading activities. Customer volumes were higher across all products and particularly good in our credit markets businesses. Average trading Value at Risk was held steady at a very conservative level, £12 million.

Our continuing success in aircraft, train, ship and hotel leasing delivered good growth in net income from rental assets. Our operating income grew strongly, with our structured finance investment portfolio producing good realised gains, notably in the second half of the year.

Growth in direct expenses was 18%, reflecting variable performance-related costs.

UK Corporate Banking

	2006 £m	2005 £m	2004 £m
Net interest income	2,111	1,904	1,639
Non-interest income	1,342	1,265	1,347
Total income	3,453	3,169	2,986
Direct expenses			
– staff costs	562	488	458
– other	183	164	140
– operating lease depreciation	330	335	320
	1,075	987	918
Impairment losses	189	196	270
Contribution	2,189	1,986	1,798
Allocation of Manufacturing costs	427	414	383
Operating profit before tax	1,762	1,572	1,415

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Total assets*	88.7	78.3	68.1
Loans and advances to customers – gross*	86.8	76.7	66.4
Customer deposits*	78.4	66.4	55.4
Risk-weighted assets	93.1	82.6	73.5

* excluding repos and reverse repos

2006 compared with 2005

UK Corporate Banking had a successful year across all its businesses, strengthening its market leading positions in corporate and commercial banking and building good momentum in the provision of a broadening range of financing and risk management services to its customer base. As a result UKCB increased its total income by 9% to £3,453 million and contribution by 10% to £2,189 million. Operating profit before tax rose by 12% to £1,762 million.

Net interest income grew by 11% to £2,111 million. We achieved an 18% increase in average loans and advances to customers, with good growth across all customer segments. We increased average customer deposits by 21%, demonstrating the attractiveness of our range of deposit products for commercial and corporate customers. Changes in the deposit mix and some narrowing of lending margins, principally in the first half of the year, led to a modest decline in UKCB’s net interest margin.

Non-interest income rose by 6% to £1,342 million, reflecting good growth in origination fees and improved distribution of trade and invoice finance and interest rate and foreign exchange products.

Total expenses rose by 7% to £1,502 million. The increase in direct expenses, excluding operating lease depreciation, reflected the recruitment of additional relationship managers and other staff to strengthen the quality of service provided to our expanding customer base, as well as further investment in our electronic banking proposition.

Impairment losses were 4% lower than in 2005 at £189 million. Portfolio risk remained stable and the credit environment benign.

2005 compared with 2004

UK Corporate Banking generated good results in 2005, building on the strength of its UK franchise. We maintained our market-leading positions in corporate and commercial banking, asset finance and invoice finance. Total income rose by 6% to £3,169 million, whilst contribution rose by 10% to £1,986 million. Operating profit before tax rose by 11% to £1,572 million.

Net interest income increased 16% to £1,904 million as a result of strong growth in average lending and in average customer deposits.

Non-interest income declined by 6% to £1,265 million, reflecting the effect of IAS 39 on recognition of fee income being partially offset by our continued success in cross-selling our full range of products and services to customers. Our business has benefited from the co-location of our asset finance and invoice finance managers with our corporate and commercial banking operations.

Direct expense growth was 8% which included a further investment in customer-facing staff.

Impairment losses were 27% lower than in 2004 at £196 million, reflecting a further improvement in our credit metrics.

Retail Markets

Retail Markets was established in June 2005 to strengthen co-ordination and delivery of our multi-brand retail strategy across our product range, and comprises Retail and Wealth Management.

	2006 £m	2005 £m	2004 £m
Net interest income	4,711	4,510	4,261
Non-interest income	3,926	3,746	3,899
Total income	8,637	8,256	8,160
Direct expenses			
– staff costs	1,648	1,565	1,458
– other	793	829	839
	2,441	2,394	2,297
Insurance net claims	488	486	702
Impairment losses	1,344	1,185	720
Contribution	4,364	4,191	4,441
Allocation of Manufacturing costs	1,711	1,655	1,530
Operating profit before tax	2,653	2,536	2,911

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Total banking assets	119.9	114.4	104.9
Loans and advances to customers – gross			
– mortgages	69.8	64.6	56.9
– personal	21.0	21.5	20.2
– cards	9.1	9.6	9.4
– business	18.1	16.7	15.9
Customer deposits*	115.6	105.3	97.0
Investment management assets – excluding deposits	34.9	31.4	26.6
Risk-weighted assets	78.4	80.6	76.5

* customer deposits exclude bancassurance

2006 compared with 2005

Retail Markets achieved a good performance in 2006, with total income rising by 5% to £8,637 million. Contribution increased by 4% to £4,364 million and operating profit before tax by 5% to £2,653 million.

Responding to evolving demand from its customers, Retail Markets has added to its capabilities in deposits and investment products and has been rewarded by strong growth in these areas. Lending growth has been centred on high quality residential mortgages and small business loans, while personal unsecured lending was flat, as we limited our activity in the direct loans market and customer demand remained subdued. We have used our full range of brands to address markets flexibly, focusing on the most appropriate products and channels in the light of prevailing market conditions.

Expenses have been kept under tight control, with additional investment in our business offset by efficiency gains and the benefits of combining Retail Banking and Direct Channels into a unified business.

Customer recruitment has been centred on our branch channels, where we have achieved good growth in savings accounts and are joint market leader for personal current accounts. Our commitment to customer service, through the largest network of branches and ATMs in the UK, is reflected in our industry-leading customer satisfaction ratings.

Average risk-weighted assets fell by 1%, reflecting a change in business mix toward mortgage lending as well as careful balance sheet management, including increased use of securitisations.

2005 compared with 2004

Total income increased by 1% to £8,256 million and contribution decreased by 6% to £4,191 million, with good discipline on costs helping to partially offset increased impairment losses on unsecured lending. Operating profit before tax fell by 13% to £2,536 million.

At the end of 2004 we referred to the changes being seen in the retail markets with the consumer transitioning from an environment which had seen several years of very fast growth in consumer lending to an increased emphasis on savings and investment.

As a consequence, we planned to refocus our strategy to grow our sales of deposit and bancassurance products faster than the market, to exploit our potential for building profitable market share in the mortgage market and to concentrate more on the development of our branch franchise, building on our strong service proposition. During 2005 this transition has gathered momentum and we have achieved good progress in our strategies.

Branch deposit balances outgrew the market and our bancassurance sales accelerated strongly, with annual premium equivalent sales 25% higher than in 2004. Our share of net mortgage lending, assisted by the launch of the First Active brand, reached 8% in 2005. Our credit card business, meanwhile, made excellent headway in marketing through branch channels; we gained 60% more credit card customers in our core NatWest and RBS brands in the second half than in the same period of 2004.

Retail

	2006 £m	2005 £m	2004 £m
Net interest income	4,211	4,068	3,858
Non-interest income	3,492	3,374	3,529
Total income	7,703	7,442	7,387
Direct expenses			
– staff costs	1,349	1,307	1,196
– other	656	696	705
	2,005	2,003	1,901
Insurance net claims	488	486	702
Impairment losses	1,343	1,172	702
Contribution	3,867	3,781	4,082
Allocation of Manufacturing costs	1,568	1,517	1,402
Operating profit before tax	2,299	2,264	2,680

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Total banking assets	108.8	104.3	95.8
Loans and advances to customers – gross			
– mortgages	65.6	61.1	53.5
– personal	17.7	17.7	17.0
– cards	9.0	9.5	9.3
– business	16.9	16.3	15.3
Customer deposits*	87.1	79.8	74.7
Risk-weighted assets	71.9	74.5	70.5

* customer deposits exclude bancassurance

2006 compared with 2005

Retail has delivered a good performance in 2006, achieving 4% growth in total income to £7,703 million. Contribution was up by 2% to £3,867 million, and operating profit before tax by 2% to £2,299 million.

We have advanced in personal banking, with good growth in savings and investment products combined with effective cost control and improvements in the quality of our lending book. Credit card recruitment and unsecured personal lending continues to be focused on lower risk segments, with reduced emphasis on acquisition through direct marketing.

We have continued to expand our customer franchise, growing our personal current account base by 232,000 in 2006 as a result of our sustained focus on quality and customer service. We continue to have the highest share of customers switching current accounts from other banks, and are now joint leader in the personal current account market. RBS is first and NatWest is joint second among major high street banks in Great Britain for the percentage of main current account customers that are "extremely satisfied" overall.

Net interest income increased by 4% to £4,211 million, with faster growth in deposits helping to mitigate lower unsecured lending volumes. Net interest margin improved slightly in the second half.

Average customer deposit balances were 9% higher, driven by personal savings balances up 12% and accelerating growth in business deposits, up 7%. Average mortgage lending was up 8%, with stronger volumes in the second half leading to a 7% market share of net lending in that period. Our offset mortgage product continues to perform well. For the year as a whole, average personal unsecured and credit card lending was flat, reflecting the slower UK consumer demand and our concentration on quality business with existing customers. In the second half we further reduced our activity in the direct loans market, but unsecured balances from our RBS and NatWest customers are broadly in line with the first half. Average business lending rose 5%, reflecting our cautious credit stance.

Non-interest income rose by 4% to £3,492 million. There was strong growth in our investments and private banking businesses as well as business banking fees, mitigating the slowdown in personal loan related insurance income.

Despite investments for future growth, total expenses rose by just 2%, to £3,573 million, whilst direct expenses were held flat at £2,005 million. Staff costs increased by 3% to £1,349 million, reflecting sustained investment in customer service and the expansion of our bancassurance and investment businesses. We continue to make efficiency gains as a result of the consolidation of our retail businesses. Other costs, such as marketing expenses, fell by 6% to £656 million, also benefiting from consolidation.

Impairment losses increased by 15% to £1,343 million, but were lower in the second half of the year than in the first. The year-on-year change in impairment losses slowed from 18% in the first half to 11% in the second half. Credit card arrears have stabilised, while the rate of increase in arrears on unsecured personal loans continued to slow. Mortgage arrears remain very low – the average loan-to-value ratio of Retail’s mortgages was 46% overall and 64% on new mortgages written in 2006. Small business credit quality remains steady.

Bancassurance
Bancassurance has had an excellent year with sales increasing by 56% to £267 million annual premium equivalent. The growth reflects the continued increase in focus on the recruitment of Financial Planning Managers, up 25% and productivity levels, up 43%. Increased sales of collective investments on the back of a successful ISA season and strong individual pensions growth, boosted by A-Day, helped underpin the outturn. Sales of guaranteed bonds were also particularly strong, and helped support a new business margin which improved significantly over the period. The product proposition was strengthened across all lines. Latest market share data shows an increase from 6.6% to 9.0% . On a UK GAAP embedded value basis for life assurance, investment contracts and open ended investment companies, adjusted for investment market volatility, pre tax profit was £78 million compared with £42 million in 2005.

Net claims, which include maturities, surrenders and liabilities to policyholders, were stable at £488 million compared with £486 million in 2005.

2005 compared with 2004

Total income for 2005 of £7,442 million and contribution of £3,781 million were adversely affected by the implementation of IAS 32, IAS 39 and IFRS 4 on 1 January 2005. Operating profit before tax fell by 16% to £2,264 million.

During 2005 we continued to demonstrate our commitment to customer service, with significant progress in terms of the proportion of our customers who are “extremely” satisfied and we are making pleasing progress in the current account switcher market. Among the high street banks, Royal Bank of Scotland ranks first for customer satisfaction with NatWest in joint second place.

Against the backdrop of a slower rate of growth in consumer borrowing, we have delivered robust business growth in average loans and advances, especially mortgage lending with particularly good growth in higher margin products such as the offset mortgage. Average unsecured personal lending, where we took further steps to enhance our focus on high quality new business, was also up. Average customer deposits grew, with particularly good inflows into savings products.

Net interest income increased by 5%, or £210 million, to £4,068 million. This increase reflects, amongst other things, the success of the First Active brand in the UK mortgage market and the maturing of the MINT portfolio. Net interest margin was lower in 2005 than in 2004 with increased product margins offsetting mix effects. Spreads in mortgages and some savings products improved in the latter part of the year.

Non-interest income fell by 4% to £3,374 million. Growth in income from core personal and small business banking services, good progress in our private banking and investment businesses, higher volumes in both domestic and international card acquiring, strong sales through Tesco Personal Finance, the introduction of balance transfer fees and good growth in Europe were offset by the effect of IAS 39 and IFRS 4 on recognition of fee income and bancassurance income.

Direct expense grew by 5%, partly due to investment in future income initiatives in the second half of the year. Staff costs increased by 9% to £1,307 million primarily as a result of continued investment in customer-facing staff with over 500 additional customer advisors in branches, an increase in telephone banking advisors, and continued expansion of our bancassurance and investment businesses. We continue to make efficiency gains in other areas contributing to a decrease in other costs to £696 million. A more cautious approach to direct lending along with our successful focus on recruitment of customers through branches also contributed to this decrease.

Net claims in bancassurance, which under IFRS include maturities, surrenders and liabilities to policyholders, were £486 million compared with £702 million in 2004.

Impairment losses increased by 67% or £470 million to £1,172 million. The increased charge principally reflects the implementation of IAS 39 from 1 January 2005, growth in lending and increase in personal arrears over recent years. We have taken further steps to refine our credit policy, tighten lending criteria and improve our recoveries process.

Wealth Management

	2006 £m	2005 £m	2004 £m
Net interest income	500	442	403
Non-interest income	434	372	370
Total income	934	814	773
Direct expenses			
– staff costs	299	258	262
– other	137	133	134
	436	391	396
Impairment losses	1	13	18
Contribution	497	410	359
Allocation of Manufacturing costs	143	138	128
Operating profit before tax	354	272	231

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Loans and advances to customers – gross	8.8	7.8	7.1
Investment management assets – excluding deposits	28.2	25.4	21.6
Customer deposits	28.5	25.5	22.3
Risk-weighted assets	6.5	6.1	6.0

2006 compared with 2005

Wealth Management delivered strong growth, with total income rising by 15% to £934 million. Contribution grew by 21% to £497 million and operating profit before tax by 30% to £354 million.

Wealth Management’s offering of private banking and investment services delivered robust organic income growth in 2006. Our continuing investment in Coutts UK, Adam & Company and our offshore businesses helped us to achieve an overall increase in client numbers of 5%. Coutts UK customers rose by 9%. Outside the UK, Coutts International moved its headquarters to Singapore and was successful in the Asia-Pacific region in recruiting additional experienced private bankers. We grew customer numbers in the region by 13% and income by 24%.

Growth in banking volumes contributed to a 13% rise in net interest income to £500 million. Average loans and advances to customers rose by 14% and average deposits by 10%, with net interest margin maintained at close to 2005 levels.

Non-interest income grew by 17% to £434 million, reflecting higher investment management fees and performance fees, as well as strong growth in new business volumes, particularly in the UK. Assets under management rose by 11%, to £28.2 billion at the year-end.

Total expenses rose by 9% to £579 million. In a highly competitive recruitment market, headcount was successfully increased by 7%, reflecting our continued investment in the UK and further expansion in Asia.

Impairment losses returned to historic levels, following a number of specific items in prior years.

2005 compared with 2004

Total income rose by 5% to £814 million, reflecting good growth across all our businesses, and contribution was 14% higher at £410 million. Operating profit before tax rose by 18% to £272 million. Coutts UK and Adam & Co both gained good numbers of customers, with Coutts up 7% and Adam up 11%. 2005 also saw the continuation of rapid growth in Asia, where the number of private bankers increased by 20%, with particular emphasis placed on recruitment for the Chinese and Indian markets.

Net interest income increased by 10% to £442 million. Strong growth in average customer loans and deposits was partially offset by lower net interest margin due to a change in the mix of business.

Non-interest income was steady at £372 million. Average assets under management rose 9% to £23.1 billion as a result of good new business volumes in Coutts UK and the rise in equity markets. Assets under management at the year end were £25.4 billion, an increase of 18%.

Direct expenses decreased by 1% to £391 million, reflecting a continued focus on efficiency. Despite continued investment in growth markets in both the UK and overseas, staff costs were 2% lower than in 2004. Other costs reduced to £133 million.

Impairment losses amounted to £13 million, down £5 million.

Ulster Bank

	2006 £m	2005 £m	2004 £m
Net interest income	773	655	550
Non-interest income	215	203	193
Total income	988	858	743
Direct expenses			
– staff costs	224	191	172
– other	91	79	79
	315	270	251
Impairment losses	71	58	40
Contribution	602	530	452
Allocation of Manufacturing costs	214	207	192
Operating profit before tax	388	323	260

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn
Total assets	43.1	35.9	28.7
Loans and advances to customers – gross			
– mortgages	15.0	13.2	10.1
– corporate	19.6	13.7	12.2
– other	2.1	1.3	0.7
Customer deposits	18.0	15.9	13.6
Risk-weighted assets	28.3	22.4	18.6
Average exchange rate – €/£	1.467	1.463	1.474
Spot exchange rate – €/£	1.490	1.457	1.418

2006 compared with 2005

Ulster Bank made strong progress in both personal and corporate banking in the Republic of Ireland and in Northern Ireland, with total income rising by 15% to £988 million. Contribution increased by 14% to £602 million and operating profit before tax by 20% to £388 million.

Net interest income increased by 18% to £773 million, reflecting growth in both loans and customer deposits. Average loans and advances to customers increased by 28%, and average customer deposits by 15%. A principal focus during 2006 was the expansion of our corporate banking franchise, and we succeeded in increasing corporate customer numbers by 7% in the Republic of Ireland and by 4% in Northern Ireland. This contributed to strong growth in both corporate lending, where average loans and advances increased by 32%, and deposits, with Ulster Bank winning a share of new business current accounts well in excess of its historic market share, particularly in the Republic of Ireland. Average mortgage balances grew by 26%, although the rate of growth was slower in the second half when there was some evidence of a more subdued pace of expansion in the mortgage market. The change in business mix resulting from strong growth in corporate lending and mortgages, together with some competitive pressures, led to a modest reduction in net interest margin in the first half, with margin stabilising in the second half.

Non-interest income rose by 6% to £215 million. Ulster Bank achieved good growth in fees from credit cards and ATMs as well as in sales of investment products, which was only partially offset by the introduction of Ulster Bank’s new range of current accounts, which are free of transaction fees.

Total expenses increased by 11% to £529 million, as we continued our investment programme to support the future growth of the business. We recruited additional customer-facing staff, particularly in corporate banking, opened three new business centres and continued with our branch improvement programme. By the end of 2006, 70% of Ulster Bank branches had been upgraded.

During 2006 we successfully completed the migration of our core systems to the RBS Group manufacturing model and, as a result, we now have access to the complete RBS product range.

The credit environment remains benign. Impairment losses rose by £13 million to £71 million, consistent with growth in lending.

2005 compared with 2004

Total income increased by 15% to £858 million, with contribution up 17% to £530 million, as Ulster Bank achieved another year of strong growth, with excellent customer recruitment, robust lending volumes and very good growth in deposits. First Active continues to perform well and in line with our integration plan. It led the Republic of Ireland market with the introduction of new mortgage products, as well as launching new credit card and direct loan products. Operating profit before tax rose by 24% to £323 million.

The number of personal and business customers increased by 68,000 in the year. Ulster Bank personal customer numbers rose by 9% in the Republic of Ireland, where our switcher mortgage product has helped us to gain market share. In Northern Ireland, Ulster Bank significantly enhanced its personal current account offering in the fourth quarter to provide free banking to all customers.

Net interest income rose by 19% to £655 million. Average loans and advances and average customer deposits both grew strongly. However, the continuing strong growth in mortgages and business loans led to a decline in net interest margin.

Direct expenses increased by 8% to £270 million, as a result of investment to support the growth of the business. This investment will continue into 2006. We have continued with our branch improvement programme, upgrading 50 branches in the Republic of Ireland and 39 in Northern Ireland.

Impairment losses increased by £18 million to £58 million, reflecting the growth in lending.

Citizens

	2006 £m	2005 £m	2004 £m	2006 US$m	2005 US$m	2004 US$m
Net interest income	2,085	2,122	1,609	3,844	3,861	2,948
Non-interest income	1,232	1,142	659	2,271	2,079	1,207
Total income	3,317	3,264	2,268	6,115	5,940	4,155
Direct expenses						
– staff costs	803	819	580	1,480	1,490	1,063
– other	751	739	500	1,385	1,344	916
	1,554	1,558	1,080	2,865	2,834	1,979
Impairment losses	181	131	117	333	239	214
Operating profit before tax	1,582	1,575	1,071	2,917	2,867	1,962

	31 December 2006 £bn	31 December 2005 £bn	1 January 2005 £bn	31 December 2006 US$bn	31 December 2005 US$bn	1 January 2005 US$bn
Total assets	82.6	92.2	73.2	162.2	158.8	141.7
Loans and advances to customers – gross						
– mortgages	9.5	10.9	7.5	18.6	18.8	14.4
– home equity	17.6	18.5	14.1	34.5	31.8	27.2
– other consumer	11.7	14.4	10.9	23.2	24.8	21.2
– corporate and commercial	16.7	17.0	14.9	32.7	29.2	28.9
Customer deposits	54.3	61.7	51.3	106.8	106.3	99.2
Risk-weighted assets	57.6	61.8	48.3	113.1	106.4	93.5
Average exchange rate – US$/£				1.844	1.820	1.832
Spot exchange rate – US$/£				1.965	1.721	1.935

2006 compared with 2005

Citizens grew its total income by 2% to £3,317 million, while its operating profit rose slightly to £1,582 million. In dollar terms, Citizens total income increased by 3% to $6,115 million and its operating profit before tax by 2% to $2,917 million.

We have achieved good growth in lending volumes, with average loans and advances to customers increasing by 10%. In business lending, average loans excluding finance leases increased by 15%, reflecting Citizens' success in adding new mid-corporate customers and increasing its total number of business customers by 4% to 467,000. In personal lending, Citizens increased average mortgage and home equity lending by 14%, though the mortgage market slowed in the second half. Average credit card receivables, while still relatively small, increased by 19%.

We increased average customer deposits by 4%, although spot balances at the end of 2006 were little changed from the end of 2005. As interest rates rose further and the US yield curve inverted, we saw migration from low-cost checking and liquid savings to higher-cost term and time deposits. This migration is a principal reason for the decline in Citizens' net interest margin to 2.72% in 2006, compared with 3.00% in 2005. The decline slowed over the course of the year, with net interest margin in the second half 6 basis points lower than in the first. Lower net interest margins more than offset the benefit of higher average loans and deposits, leaving net interest income marginally lower at $3,844 million.

Non-interest income rose by 8% to £1,232 million. In dollar terms, non-interest income rose by 9% to $2,271 million. Business and corporate fees rose strongly, with good results especially in foreign exchange, interest rate derivatives and cash management benefiting from increased activity with Corporate Markets. There was good progress in debit cards, where issuance has been boosted by the launch in September of our "Everyday Rewards" programme. Citizens has also become the US's leading issuer of Paypass™ contactless debit cards, with 3.65 million cards issued. Our credit card customers increased by 20%, whilst RBS Lynk, our merchant acquiring business, also achieved significant growth, processing 40% more transactions than it did in 2005 and expanding its merchant base by 11%.

Total expenses were flat, reflecting tight cost control and a 5% reduction in headcount, despite continued investment in growth opportunities such as mid-corporate banking, contactless debit cards, merchant acquiring and supermarket banking.

Citizens continued to expand its branch network. Our partnership with Stop & Shop Supermarkets has helped us to expand our supermarket banking franchise into New York, while in October we announced the purchase of GreatBanc, Inc., strengthening our position in the Chicago market and making us the 4th largest bank in the Chicago area, based on deposits. The acquisition was completed in February 2007.

Impairment losses totalled £181 million ($333 million), representing just 0.31% of loans and advances to customers and illustrating the prime quality of our portfolio. Underlying strong credit quality remained unchanged as our portfolio grew, with risk elements in lending and problem loans representing 0.32% of loans and advances, the same level as in 2005. Our consumer lending is to prime customers with average FICO scores on our portfolios, including home equity lines of credit, in excess of 700, and 95% of lending is secured.

2005 compared with 2004

Citizens performed well in 2005, delivering a strong underlying performance in challenging market conditions both from the old Citizens franchise and from Charter One. Total income grew by 44% to £3,264 million and contribution by 47% to £1,575 million. Total income, in US dollars, rose by 43% to $5,940 million and contribution by 46% to $2,867 million, including a full year's contribution from Charter One. Excluding Charter One and other acquisitions, income rose by 7% and contribution by 10%, despite the impact of the flattening of the yield curve, which reduced net interest margin and the rate of growth in net interest income.

We have grown our customer numbers in both personal and business segments, with Charter One increasing its small business and corporate customer base by 10%. Cooperation between Citizens and RBS Global Banking & Markets and UK Corporate Banking is yielding good results. Citizens' new international cash management service has already won nearly 300 new accounts with existing RBS customers, bringing in more than $80 million of new core deposits.

Our cards businesses, which are only active in the prime and superprime segments, have made good progress. Credit card balances increased by 19% to $2.5 billion, as RBS National launched into a number of new channels such as Charter One branches. RBS Lynk, our merchant acquiring business, increased its customer base by 24%.

The integration of Charter One progressed well and all phases of the IT conversion were completed in July 2005, five months ahead of schedule. This involved the conversion to Citizens' systems of over 750 branches and three million customer accounts spread over a wide geography. Despite the focus on the integration process, Charter One achieved good growth in business volumes, with loans and advances up 18% over the course of the year and customers deposits up 10%.

Net interest income increased by 32% to £2,122 million. In dollar terms, net interest income increased by 31% to $3,861 million. This reflected strong growth in both lending and deposits. Excluding acquisitions, average lending increased by 13% or $6.7 billion, with robust growth in secured consumer lending, and average customer deposits by 9% or $5.7 billion. However, as a consequence of the flattening yield curve, net interest income excluding acquisitions was only 4% higher at $2,534 million.

Non-interest income was up 73% to £1,142 million. In dollar terms, non-interest income was up 72% to $2,079 million. Excluding acquisitions, non-interest income grew by 15% to $1,004 million, benefiting from higher fee income, increased student loan and leasing activities, and investment gains.

Direct expenses were up 44% to £1,558 million. In dollar terms, direct expenses were up 43% to $2,834 million. Expense growth, excluding acquisitions, was contained to 6%.

Impairment losses were up £14 million to £131 million. In dollar terms, impairment losses, including acquisitions, were up $25 million to $239 million. Credit quality overall remained stable. More than 90% of our personal sector lending is secured, and as a result there was minimal impact from the change in US bankruptcy laws in 2005.

RBS Insurance

	2006 £m	2005 £m	2004 £m
Earned premiums	5,713	5,641	5,507
Reinsurers' share	(212)	(246)	(454)
Insurance premium income	5,501	5,395	5,053
Net fees and commissions	(486)	(449)	(481)
Other income	664	543	467
Total income	5,679	5,489	5,039
Direct expenses			
– staff costs	319	316	295
– other	426	411	313
	745	727	608
Gross claims	4,030	3,903	3,826
Reinsurers' share	(60)	(76)	(268)
Net claims	3,970	3,827	3,558
Contribution	964	935	873
Allocation of Manufacturing costs	214	207	192
Operating profit before tax	750	728	681

	31 December 2006	31 December 2005	31December 2004
In-force policies (000's)			
– Core motor: UK	7,490	7,439	7,174
– Core motor: Continental Europe	2,114	1,862	1,639
– Core non-motor (including home, rescue, SMEs, pet, HR24): UK	4,920	4,799	4,450
– Partnerships (including motor, home, rescue, SMEs, pet, HR24)	7,267	7,559	7,370
General insurance reserves – total (£m)	8,068	7,776	7,379

2006 compared with 2005

RBS Insurance increased total income by 3% to £5,679 million, with contribution also rising by 3% to £964 million and operating profit before tax by the same percentage to £750 million.

We achieved good overall policy growth of 3% in our core businesses including excellent progress in our European businesses. Our joint venture in Spain grew policy numbers by 14% to 1.34 million.

In the UK we have grown our core motor book by 1% whilst focusing on more profitable customers acquired through our direct brands, with good results achieved through the internet channel, which accounted for half of all new own-brand motor policies last year.

We implemented price rises in motor insurance in the second half of the year, and average motor premium rates across the market increased in the fourth quarter. Higher premium rates will, however, take time to feed through into income, and competition on prices remains strong.

Our core non-motor personal lines policies grew by 3%, with particularly good progress in Tesco Personal Finance. SME has also performed well with policies sold through our intermediary business growing by 10%.

However, some of our partnership books continue to age and we did not renew a number of other partnerships. As a result, the number of partnership policies in force fell by 8% in motor and by 9% in home.

Insurance premium income was up 2% to £5,501 million, reflecting a modest overall increase in the total number of in-force policies.

Net fees and commissions payable increased by 8% to £486 million, whilst other income rose by 22% to £664 million, reflecting increased investment income.

Total expenses rose by 3% to £959 million. Good cost discipline held direct expenses to £745 million, up 2%. Staff costs rose by 1%, reflecting improved efficiency despite continued investment in service standards. A 4% rise in non-staff costs included increased marketing expenditure to support growth in continental Europe.

Net claims rose by 4% to £3,970 million. The environment for home claims remained benign, whilst underlying increases in average motor claims costs were partially offset by purchasing efficiencies and improvements in risk management.

The UK combined operating ratio for 2006, including Manufacturing costs, was 94.6%, compared with 93.4% in 2005, reflecting a higher loss ratio and the discontinuation of some partnerships.

2005 compared with 2004

RBS Insurance produced a good performance in 2005, with total income increasing by 9% to £5,489 million and contribution by 7% to £935 million. Operating profit before tax rose by 7% to £728 million. The integration of Churchill was completed in September 2005, ahead of plan, and Churchill delivered greater transaction benefits than anticipated at the time of the acquisition. Following the integration of Churchill, all our direct general insurance businesses in the UK now operate on a common platform.

RBS Insurance achieved 4% growth in UK motor policies in force. In achieving this against a background of very strong competition in UK motor insurance, we benefited from the strength of our brands and the diversity of our distribution channels. Growth came through our direct brands, through our partnership business, where we operate insurance schemes on behalf of third parties who in turn sell insurance products to their customers, and through NIG, our intermediary business acquired as part of Churchill. Our businesses in Spain, Germany and Italy together delivered 14% growth in motor policies in force. Linea Directa, our joint venture with Bankinter, increased its customer base by 17% and, with more than 1 million policies, is the largest direct motor insurer and sixth largest motor insurer in Spain.

Total home insurance policies declined by 1%. Within this total, we continued to expand through our direct brands but there was attrition of some partner-branded books.

In addition to expanding its intermediary business in motor and home insurance, NIG achieved 10% growth in commercial policies sold to SMEs.

Direct expenses rose by 20%. Excluding the impact of a change in reinsurance arrangements, total income rose by 6% and expenses by 9%. Net insurance claims on the same basis were up by 5%, reflecting increased volumes, claims inflation in motor and an increase in home claims following severe storms in the UK in January 2005.

The UK combined operating ratio for 2005 was 93.4%.

Manufacturing

	2006 £m	2005 £m	2004 £m
Staff costs	763	725	757
Other costs	2,089	2,033	1,795
Total Manufacturing costs	2,852	2,758	2,552
Allocated to divisions	(2,852)	(2,758)	(2,552)
	—	—	—
Analysis of Manufacturing costs:			
Group Technology	966	953	860
Group Property	910	834	733
Customer Support and other operations	976	971	959
Total Manufacturing costs	2,852	2,758	2,552

2006 compared with 2005

Manufacturing costs increased by 3% to £2,852 million, benefiting from investment in efficiency programmes while supporting business growth and maintaining high levels of customer satisfaction. Staff costs rose by 5%, with increases in Group Technology partially offset by reduced headcount in Operations.

Group Technology costs were 1% higher at £966 million, as we achieved significant improvements in productivity balanced by investment in software development. In the biggest integration project undertaken since NatWest, we brought Ulster Bank onto the RBS technology platform.

Group Property costs increased by 9% to £910 million, reflecting the continuation of our branch improvement programme and ongoing investment in major operational centres, including Manchester, Birmingham and Glasgow.

Customer Support and other operations held costs virtually flat at £976 million and, like Group Technology, achieved significant improvements in productivity. At the same time we maintained our focus on service quality, and our UK-based telephony centres continued to record market-leading customer satisfaction scores. Our investment in ‘lean manufacturing’ approaches across our operational centres is expected to deliver further improvements in efficiency.

2005 compared with 2004

Manufacturing’s costs increased by 8% to £2,758 million. Excluding software amortisation, costs rose by 4%. Costs relating to internal software development, which under UK GAAP were written off as incurred, are now under IFRS capitalised and amortised.

Group Technology costs increased by 11% to £953 million. Excluding software amortisation, costs were up 2%, with support for increased business volumes offset by efficiency improvements. The Group Efficiency Programme was substantially completed during the year, with major implementations such as a new system for handling customer queries and a new customer account-opening platform. The Churchill systems integration was completed in September 2005.

Group Property costs increased by 14% to £834 million. We improved the efficiency of our property utilisation in 2005 while continuing our programme of investment both in the branch networks and in our major operational centres, including Birmingham, Manchester and our new headquarters in Edinburgh.

Customer Support and other operations costs increased by 1% to £971 million despite a much greater increase in the business volumes supported. Cash withdrawals from ATMs, for example, rose by 13%, while we handled 10% more mortgage applications and 7% more personal loan volumes. These increases were absorbed by improved efficiency through the delivery of new systems and ways of working.