



Royal Bank of Scotland Group PLC - Trading Statement

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THE ROYAL BANK OF SCOTLAND GROUP PLC
Pre-close Trading Update

Introduction

The Royal Bank of Scotland Group ('RBS') will be holding discussions with analysts and investors ahead of its close period for the year ending 31 December 2006. This statement sets out the information that will be covered in those discussions.

Summary

RBS is performing well and our results for 2006 are expected to be slightly ahead of market consensus forecasts*. Highlights of the Group results for 2006 are expected to include good organic growth in income, an improvement in efficiency, strong credit metrics and stable returns.

Group

The Group is maintaining good organic growth in total income in 2006, notwithstanding recent US dollar weakness. Non-interest income continues to grow faster than net interest income and is expected to account for more than 60% of total income. Net interest margin trends remain in line with previous guidance underpinned by balanced growth in loans and deposits.

Productivity gains from our manufacturing platform allow continuing investment for the future, whilst delivering further improvement to the cost:income ratio for the Group.

Overall credit metrics are expected to have improved with total impairment losses representing a slightly lower proportion of total loans and advances.

Returns on equity, and capital generation, remain strong. The Tier 1 capital ratio is expected to be in the middle of the 7% to 8% range and we anticipate completing our £1 billion share buyback by the year end. Strong growth in loan origination is being complemented by the Group's increasing distribution capabilities.

Divisions

Corporate Markets is achieving strong growth in income across its full range of activities, while continuing to invest in people and technology. Both the proportion of income from trading activities and our risk profile remain stable. We have made excellent progress in building a strong and sustainable position in Global Banking & Markets and have reinforced our leading position in UK Corporate Banking. The corporate credit environment remains favourable.

Retail Markets is performing well, achieving good growth in income, particularly from savings and bancassurance products. This, as well as stronger mortgage lending in the second half, has offset weaker demand for consumer credit. Wealth Management continues to perform strongly. Costs remain under tight control. Growth in unsecured impairment losses continues to moderate.

Ulster Bank is delivering strong growth in income against a buoyant economic

backdrop, with strong lending and deposit volumes partially offset by tighter margins. Credit metrics remain stable.

Citizens is growing loan and deposit volumes but the benefit is being largely offset by lower margins caused by the continuing impact of the flattening of the US yield curve and a change in the mix of deposits. Underlying credit metrics remain stable, reflecting the overall quality of the portfolio. The weaker average US dollar exchange rate will also affect second half results in sterling terms.

RBS Insurance is maintaining a disciplined approach to pricing and is growing income by concentrating on more profitable market segments. International motor and commercial policies continue to grow strongly. Claims inflation continues to impact results, however RBS Insurance is increasing its prices in line with the market, which should be reflected in our results in due course.

Sir Fred Goodwin, Group Chief Executive, commented:

"Our 2006 results will underscore the diversity of our income and inherent strength of our business model. We expect to deliver profitable organic growth and improvements in key financial metrics, while continuing to invest in our businesses and generating surplus capital. I believe these attributes will be every bit as important in the year ahead as they have been in 2006."

CONTACTS

Sir Fred Goodwin	Group Chief Executive	0131 523 2203
Guy Whittaker	Group Finance Director	0131 523 2028
Richard O'Connor	Head of Investor Relations	0131 626 1014

0207 672 1758

For media enquiries

Howard Moody	Group Director, Communications	0131 523 2056
Carolyn McAdam	Head of Media Relations	0131 523 2055

* Market consensus forecasts for 2006 profit before tax, purchased intangibles amortisation and integration costs are £9,158 million, and adjusted earnings per ordinary share of 190.7p. (Source: RBS Investor Relations, 5 December 06)

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