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# 2007 Results

28 February 2008

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**Sir Tom McKillop**

**Chairman**

# RBS Group 2007 Results



	<b>2006</b>	<b>2007</b>	<b>Change %</b>
Group operating profit (£bn)	9.4	10.3	+9
Adjusted EPS (p)	66.7	78.7	+18
Dividend (p)	30.2	33.2	+10

*Including ABN AMRO from date of acquisition*

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**Guy Whittaker**

**Group Finance Director**

# RBS Group – Statutory 2007 Results



	<i>£m</i>	<i>%</i>
Operating profit	10,282	+9
Attributable profit	7,303	+18
Adjusted EPS	78.7p	+18
Return on equity	19.9%	
Tier 1 capital ratio	7.3%	

*Includes ABN AMRO from date of acquisition*

# RBS Group – Excl ABN AMRO

## 2007 Results



	<i>£m</i>	<i>%</i>
Total income	28,864	+3
Operating expenses	12,173	-1
Insurance net claims	4,528	+2
Impairment losses	1,865	-1
Operating profit	10,298	+9

- Strong operating performance
- Focus on profitability
- Cost:income ratio down 1.4%
- Credit costs decline



# RBS Group – Excl ABN AMRO

## Group Operating Profit



<i>Post Manufacturing Costs</i>	<i>£m</i>	<i>%</i>
GBM	3,687	-2
UKCB	1,961	+11
Retail	2,470	+10
Wealth	413	+30
Ulster Bank	513	+22
Citizens (£)	1,323	-16
RBS Insurance	683	-9
Central items	(752)	+48
<b>Group</b>	<b>10,298</b>	<b>+9</b>

# RBS Group – Excl ABN AMRO

## Global Banking & Markets



	<i>£m</i>	<i>%</i>
Total income	6,580	-4
Direct expenses	2,709	-4
Impairment losses	39	-54
Manufacturing	145	+1
Operating profit	3,687	-2

	<i>£bn</i>	
Loans & advances	141.1	+29
Customer deposits	72.9	+35
RWAs	152.6	+10

- Strong fee growth
- Rates and currencies +67%
- Asia +96%
- Europe +39%
- Strong realised gains
- Impact of credit markets
- Underlying profit +10%

# RBS Group – Excl ABN AMRO

## 2007 Unusual Items

<i>£m</i>	<i>Income Impact</i>	<i>Division</i>
Credit markets		
– CDO write-downs	(659)	GBM
– Trading inventory and residuals	(495)	GBM
– Financial guarantors	(456)	GBM
– Leveraged finance	(285)	GBM
– Fair value on own debt	275	GBM/Centre
Gains on disposal		
– Southern Water	950	GBM
– Sale & leaseback	302	Centre
– LSE and MasterCard	173	Centre
Goodwill payments	(119)	Centre
<b>• Net impact on Group operating profit is £24m positive</b>		

# RBS Group – Incl ABN AMRO

## Credit Markets Exposures



	<i>Exposure Net of Hedges at 31 Dec £m</i>	<i>Average Price %</i>
Super senior tranches of ABS CDOs		
– High grade CDOs	2,581	84
– Mezzanine CDOs	1,253	70
Sub-prime trading inventory		
– Investment grade	937	79
– Non-investment grade	255	54
Residuals	100	50
Leveraged finance	8,698	95

# RBS Group – Excl ABN AMRO

## UK Corporate Banking



	<i>£m</i>	<i>%</i>
Total income	3,742	+8
Direct expenses	1,164	+8
Impairment losses	180	-5
Manufacturing	437	+1
Operating profit	1,961	+11

- Top rated service
- Growing market share
- Investing for growth
- Strong credit metrics

	<i>£bn</i>	
Loans & advances	100.6	+16
Customer deposits	86.6	+10
RWAs	104.6	+12

# RBS Group – Excl ABN AMRO

## Retail



	<i>£m</i>	<i>%</i>
Total income	7,762	+3
Direct expenses	1,975	+2
Insurance net claims	518	+6
Impairment losses	1,196	-9
Manufacturing	1,603	+1
Operating profit	2,470	+10

- Strong franchise growth
- Savings income +14%
- Customer deposits +11%
- Credit costs declining
- Strong H2

	<i>£bn</i>	
Loans & advances	111.6	+4
Customer deposits	96.5	+11
RWAs	73.3	+4

# RBS Group – Excl ABN AMRO Wealth Management



	<i>£m</i>	<i>%</i>
Total income	1,028	+16
Direct expenses	466	+9
Impairment losses	4	–
Manufacturing	145	+1
Operating profit	413	+30

- Coutts UK contribution +29%
- Asia contribution +51%
- AUM +24%
- Private Bankers +12%

	<i>£bn</i>	
Loans & advances	10.5	+19
Customer deposits	33.9	+19
RWAs	7.5	+17

	<i>£m</i>	<i>%</i>
Total income	1,297	+15
Direct expenses	461	+20
Impairment losses	104	0
Manufacturing	219	+1
Operating profit	513	+22

- Expanded distribution
- Ave deposits +17%
- Ave mortgages +17%
- Ave business lending +29%
- Strong capital markets
- Strong credit metrics

	<i>£bn</i>	
Loans & advances	47.1	+24
Customer deposits	21.8	+20
RWAs	36.0	+21



# RBS Group – Excl ABN AMRO Citizens



	<i>\$m</i>	<i>%</i>
Total income	6,249	+2
Direct expenses	2,920	+2
Impairment losses	682	+105
Operating profit	2,647	-9

- NIM +8bp
- Net interest income +3%
- Commercial lending +13%
- High quality portfolio
- Building reserves

	<i>\$bn</i>	
Loans & advances	114.3	+5
Customer deposits	115.0	+8
RWAs	114.4	+1

	<i>£m</i>	<i>%</i>
Total income	5,656	0
Direct expenses	744	0
Net claims	4,010	+1
Manufacturing	219	+1
Operating profit	683	-9

- Improved risk selection
- June/July floods £274m
- Excl floods
  - Own brand income +1%
  - Own brand contribution +24%
  - Partnership income -4%
  - Partnership contribution +18%
  - Claims down 7%

# RBS Group – Excl ABN AMRO Manufacturing



	<i>£m</i>	<i>%</i>
Group Technology	984	+1
Group Property	962	+3
Customer Support	968	0
Total costs	2,914	+1

- Base case –2%
- Investment +3%
- Scalable platform
- Productivity gains

**Group cost:income ratio down to 40.7%**

# RBS Group – Excl ABN AMRO Group Centre



	<i>£m</i>	<i>%</i>
Funding + corporate costs	145	-83
Departmental + other costs	461	+4
Manufacturing	146	+1
Total central items	752	-48

- Sale & leaseback
- LSE and MasterCard
- FV on own debt
- Goodwill payments
- Net +£508m

<b>€m</b>	<b><i>Underlying Results</i></b>
	<b>2007</b>
Total income	6,886
Expenses	5,906
Impairment losses	338
Operating profit	642

- Underlying result in line
- Improved equities and rates
- Transaction banking +7%
- International retail growth
- Cost:income ratio 86%
- Increased synergies

*Underlying results for ABN AMRO businesses acquired by RBS, excluding share of shared assets  
Underlying results adjusted for write-downs, impact of the sale of LaSalle and some minor normalisations*

# RBS Group – Incl ABN AMRO

## Balance Sheet



**31 Dec 07**

RWAs (£bn)	609.0
– RBS	440.6
– ABN AMRO	168.4
Core Tier 1 (%)	4.5
Tier 1 capital (%)	7.3
Total capital (%)	11.2
Adjusted return on equity (%)	19.9

- RBS RWAs up 10%
- Pension fund surplus £340m
- Total dividend +10%

## *Summary*

- Strong organic growth
- Improved operating leverage
- Declining credit costs
- Increased returns
- Enhanced opportunity

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**Sir Fred Goodwin**

**Group Chief Executive**

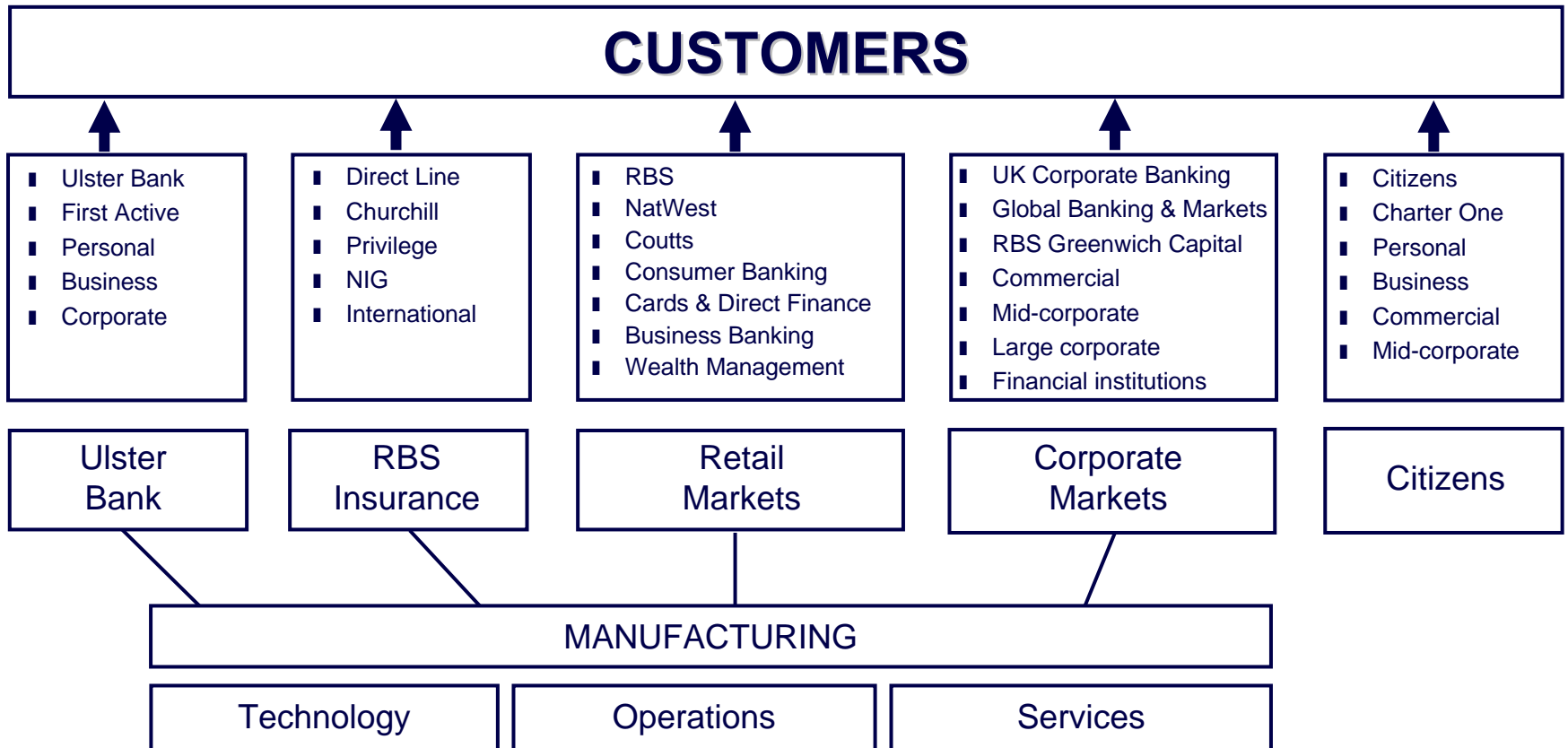


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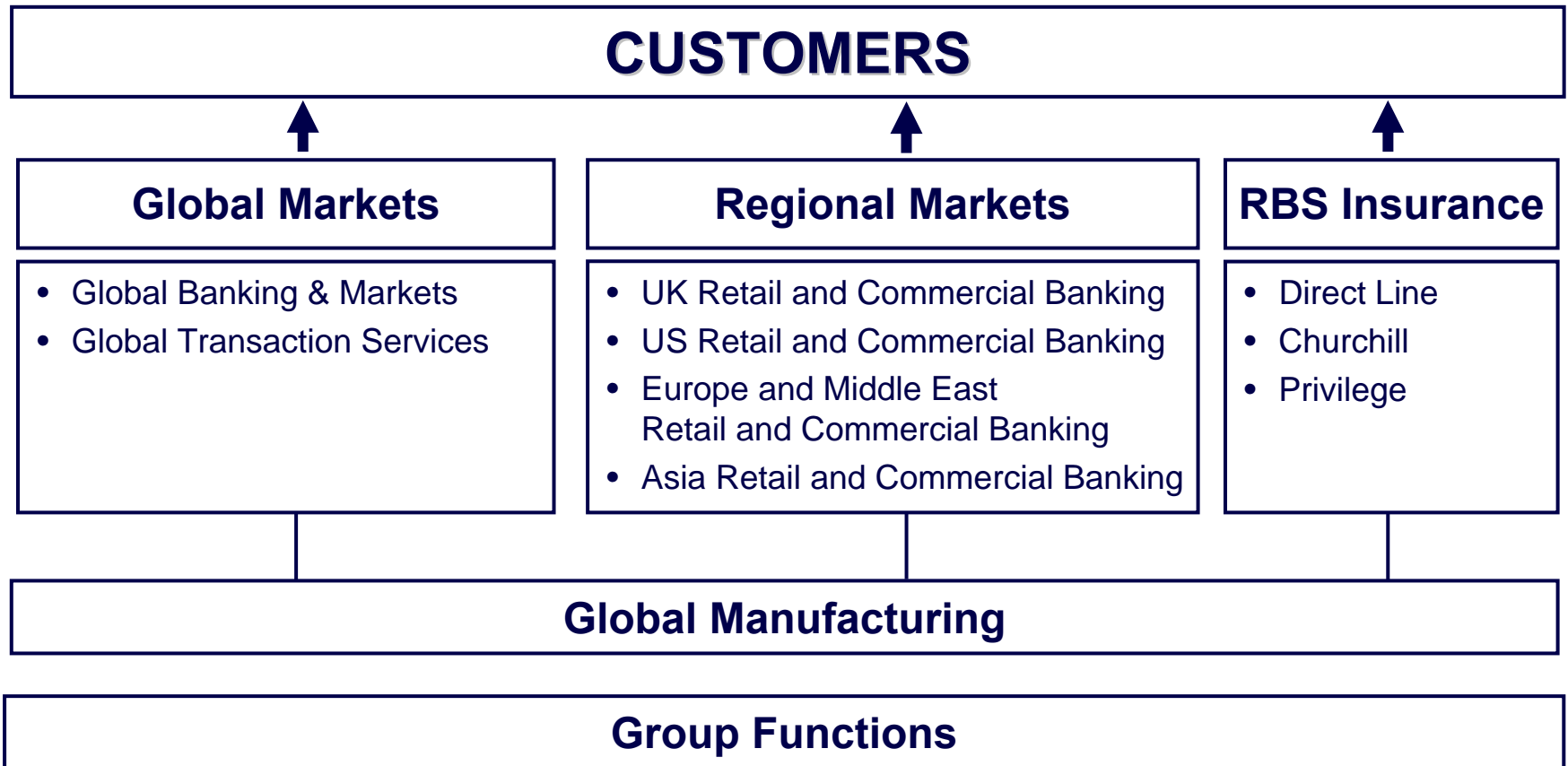


# Group Structure

# Group Structure



# Group Structure



# Group Structure – Components

## **Global Banking & Markets**

- GBM *except* Transaction Banking
- ABN AMRO 'GBM' *except* Transaction Banking

## **UK Retail + Com Banking**

- UKCB *except* Money Transmission
- Retail *except* Merchant Acquiring, Commercial Cards and Card Operations
- UK Wealth Management

## **US Retail + Com Banking**

- Citizens, *except* Corporate Money Transmission, RBS Lynk and Citizens Manufacturing

## **RBS Insurance**

- Direct Line
  - Churchill
  - Privilege
- (unchanged)*

## **Global Transaction Services**

- ABN AMRO Trans Bking
- GBM Trans Banking
- UKCB Money Transmis
- Citizens Corp Money Transmission
- Retail Merchant Acqring
- Retail Commercial Cards
- RBS Lynk

## **Europe + Middle East Retail + Com Banking**

- Ulster Bank, including ECF
- ABN AMRO Retail & Commercial in Europe and Middle East

## **Asia Retail + Com Banking**

- ABN AMRO Retail & Commercial in Asia
- International Wealth Management

## **Global Manufacturing**

- Manufacturing
- ABN AMRO Manufacturing
- Citizens Manufacturing
- Card Operations

# Contribution by Division

<i>Pro Forma Underlying £m</i>	<i>2006</i>	<i>2007</i>	<i>Change %</i>
Global Markets			
– Global Banking & Markets	4,365	4,916	+13%
– Global Transaction Services	1,561	1,632	+5%
Regional Markets			
– UK Retail and Commercial Banking	5,722	6,250	+9%
– US Retail and Commercial Banking	1,821	1,557	-14%
– EME Retail and Commercial Banking	662	760	+15%
– Asia Retail and Commercial Banking	119	209	+76%
RBS Insurance	964	902	-6%
Global Manufacturing	(4,164)	(4,234)	-2%

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# Acquisition of ABN AMRO

# Acquisition of ABN AMRO

- Confirmed positive view of ABN AMRO businesses
- Good engagement with DNB and Works Councils
- Transferred Global Clients Brazil to Santander for €750 million
- Validated transaction benefits and finalised business plans

# Acquisition of ABN AMRO Businesses



## Price

RBS at time of offer 38.28% of €71.0bn	€27.2bn
Less – LaSalle proceeds	€11.1bn
	<hr/>
	<b>€16.1bn</b>
Less – Share price and other movements	€1.1bn
– Global Clients Brazil proceeds	€0.75bn
	<hr/>
<b>Effective price</b>	<b>€14.3bn</b>
	<b>£10.0bn</b>
Financed by – Cash	£7.3bn
– Shares	£2.7bn

*Average £/€ exchange rate during ABN AMRO settlement period 1.4339*



# Synergies Cost Savings

<i>P&amp;L Impact in Year 3</i>	<i>Offer Doc July 07</i>		<i>Now</i>	
	<i>Initiatives</i>	<i>€m</i>	<i>Initiatives</i>	<i>€m</i>
Global Banking & Markets	39	912	42	1,027
Global Transaction Services	2	17	3	25
Manufacturing – Technology	5	100	6	127
Manufacturing – Other	12	208	20	320
Total before central cost savings	58	1,237	71	1,499
Central cost savings	9	82	10	97
<b>Total cost savings</b>	<b>67</b>	<b>1,319</b>	<b>81</b>	<b>1,596</b>

# Synergies Net Revenue Benefits

<i>P&amp;L Impact in Year 3</i>	<i>Offer Doc July 07</i>		<i>Now</i>	
	<i>Initiatives</i>	<i>€m</i>	<i>Initiatives</i>	<i>€m</i>
Global Banking & Markets	19	267	26	361
Global Transaction Services	11	128	11	128
International Retail	–	–	9	199
<b>Total net revenue benefits</b>	<b>30</b>	<b>395</b>	<b>46</b>	<b>688</b>

## *What would Offer model have looked like with revised synergies?*

	<i>Offer Doc July 2007</i>	<i>Now</i>
Forecast internal rate of return	15.5%	18%
Expected return on investment in 2010	13.2%	16%
Expected impact on Group EPS in 2010	7.0%	9%

- Improved financial returns will accelerate delivery of Group's capital regeneration commitments

*Financial appraisal calculations allow for higher transaction benefits, reduced price and fair value adjustments*

# ABN AMRO Businesses

<b>€m</b>	<b><i>Underlying Results 2007</i></b>	<b><i>U'lying Results 07 + Full Transaction Benefits</i></b>
Total income	6,886	8,346
Expenses	5,906	5,120
Impairment losses	338	397
<b>Operating profit</b>	<b>642</b>	<b>2,829</b>
Cost:income ratio	86%	61%

*Underlying results for ABN AMRO businesses acquired by RBS, excluding share of shared assets  
Underlying results adjusted for write-downs, impact of the sale of LaSalle and some minor normalisations  
Full transaction benefits excluding central cost savings*

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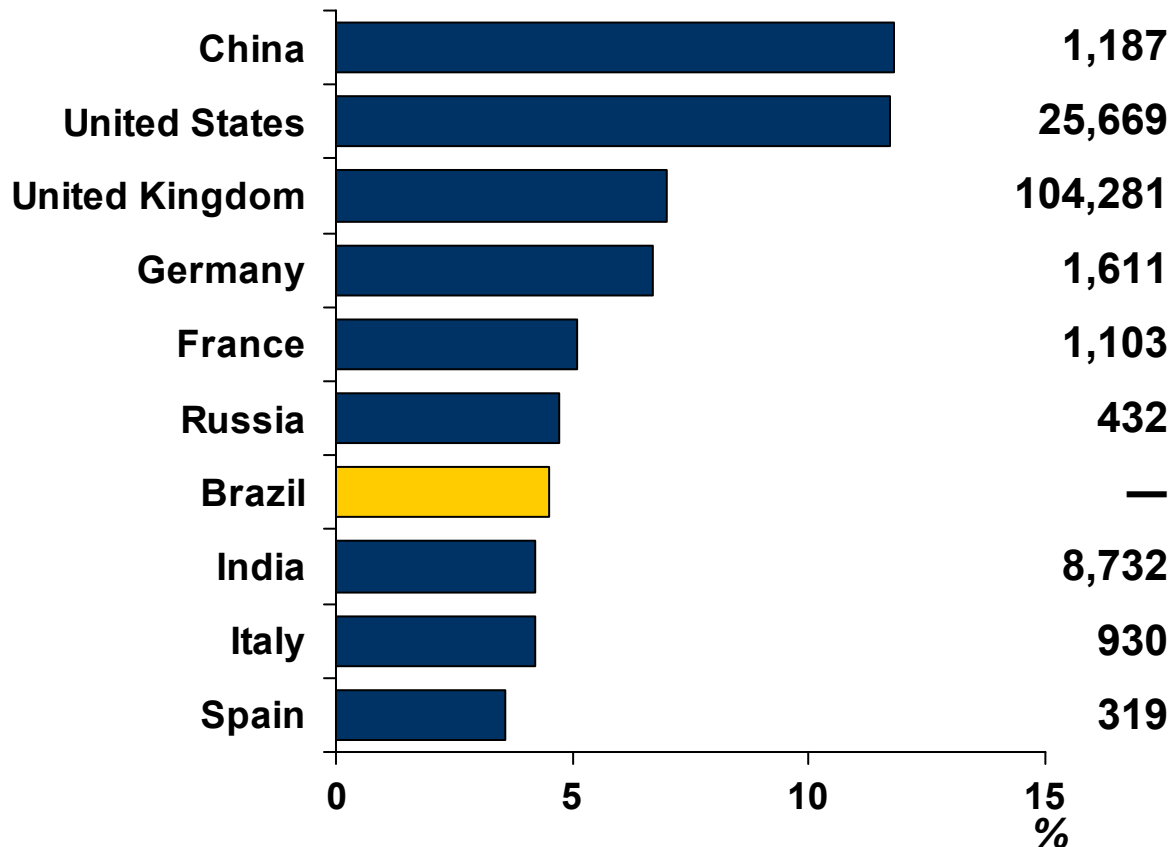
# Outlook

	<b><i>GDP Growth F'casts for 07</i></b>		<b><i>GDP Growth F'casts for 08</i></b>		
	<b><i>Jan 07</i></b>	<b><i>Feb 08</i></b>	<b><i>Jan 07</i></b>	<b><i>Jul 07</i></b>	<b><i>Feb 08</i></b>
UK	2.5%	3.1%	2.4%	2.2%	1.7%
US	2.4%	2.2%	3.0%	2.8%	1.6%
Eurozone	2.0%	2.6%	2.1%	2.3%	1.6%
Asia-Pacific	4.6%	5.6%	4.8%	5.0%	4.9%

# Global GDP Growth

## Top 10 Contributors to Global Growth 2007

**% Contribution to Total GDP Growth    RBS FTEs**



- RBS has presence in 9 of top 10 economies contributing to global GDP growth in 2007
- RBS has presence in economies accounting for 91% of global GDP growth in 2007

# Contribution by Division

<i>Pro Forma Underlying £m</i>	<i>2006</i>	<i>2007</i>	<i>Change %</i>
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Global Manufacturing	(4,164)	(4,234)	-2%



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# Johnny Cameron

Chairman, Global Markets

- Integration is an important opportunity for us
- Working to exploit
  - Much larger customer franchises
  - Enhanced product capabilities
  - Extended geographic reach, especially Asia
  - Position as leader in Global Transaction Services
- Much greater diversification
- Better placed to face 2008 and beyond



## RBS Global Banking & Markets + ABN AMRO Global Wholesale Businesses

### Complementary Product Strengths

Ranking	RBS	ABN AMRO	RBS+ABN AMRO
<b>RBS Strengths</b>			
Global All Bonds + Loans	6	17	3
Foreign Exchange	4	12	3
Global Securitisations	2	18	1
European Lev Loans	2	16	1
Global Project Finance	1	5	1
EMEA Syndicated Loans	1	9	1
<b>ABN AMRO Strengths</b>			
Euro Denominated Bonds	8	4	1
Int'l Covered Bonds	18	1	1
Emg Mkts Synd Credits	31	2	2
Int'l Cash Management	28	6	5
<b>RBS + ABN AMRO Strengths</b>			
All International Bonds	8	10	1
Asia-Pacific Synd Loans	13	15	5
US Syndicated Loans	8	18	7

Source: Dealogic, Thomson Financial, Euromoney polls

### Large Customer Franchise

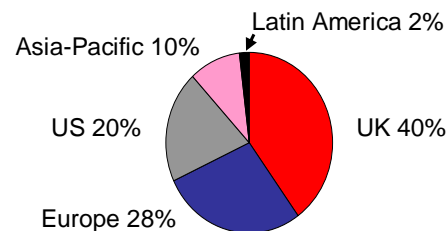
#### Relationships with Large Corporates and Financial Institutions

Ranking	GBM	ABN AMRO	GBM+ ABN AMRO
UK	1	8	1
Continental Europe	10	4	1
US	15	7	5
Asia-Pacific (ex Japan)	n/a	5	5

Source: RBS estimates

### Diversification by Geography

#### GBM + ABN AMRO 2006 Income



RBS estimates, based on ABN AMRO Business Units as reported for 2006

Slide 34

# Global Transaction Services

## Complementary Product Strengths

Ranking	RBS	ABN AMRO	RBS + ABN AMRO
<b>Corporate Cash Management</b>			
Global	22	5	<b>5</b>
UK	1	8	<b>1</b>
Europe	18	3	<b>3</b>
US	–	6=	<b>6=</b>
Asia	–	5	<b>5</b>
<b>Trade Finance</b>			
Global	–	5	<b>5</b>
<b>Merchant Acquiring</b>			
Global	3	–	<b>3</b>
UK	1	–	<b>1</b>
US	10	–	<b>10</b>

Source: Euromoney, Nilson, APACS, RBS estimates  
ABN AMRO US data includes LaSalle

## Large Income Stream

£m	2007
Net interest income	839
Non-interest income	1,348
Total income	2,187
Expenses	543
Impairment losses	12
Contribution	1,632

## Products

- Current accounts, deposits, MI, international payments + collections, liquidity management, FX
- International trade finance
- Merchant acquiring, commercial cards
- International network of branches, transaction services technology, licences, clearing memberships

# Selected Market Positions

## **All Debt (All currencies)**

1. JPMorgan Chase
2. Citi
- 3. RBS**
4. Deutsche Bank
5. Bank of America

## **Customers Europe**

- 1. RBS**
2. Deutsche Bank
3. Citi
4. BNP Paribas
5. HSBC

## **Customers United States**

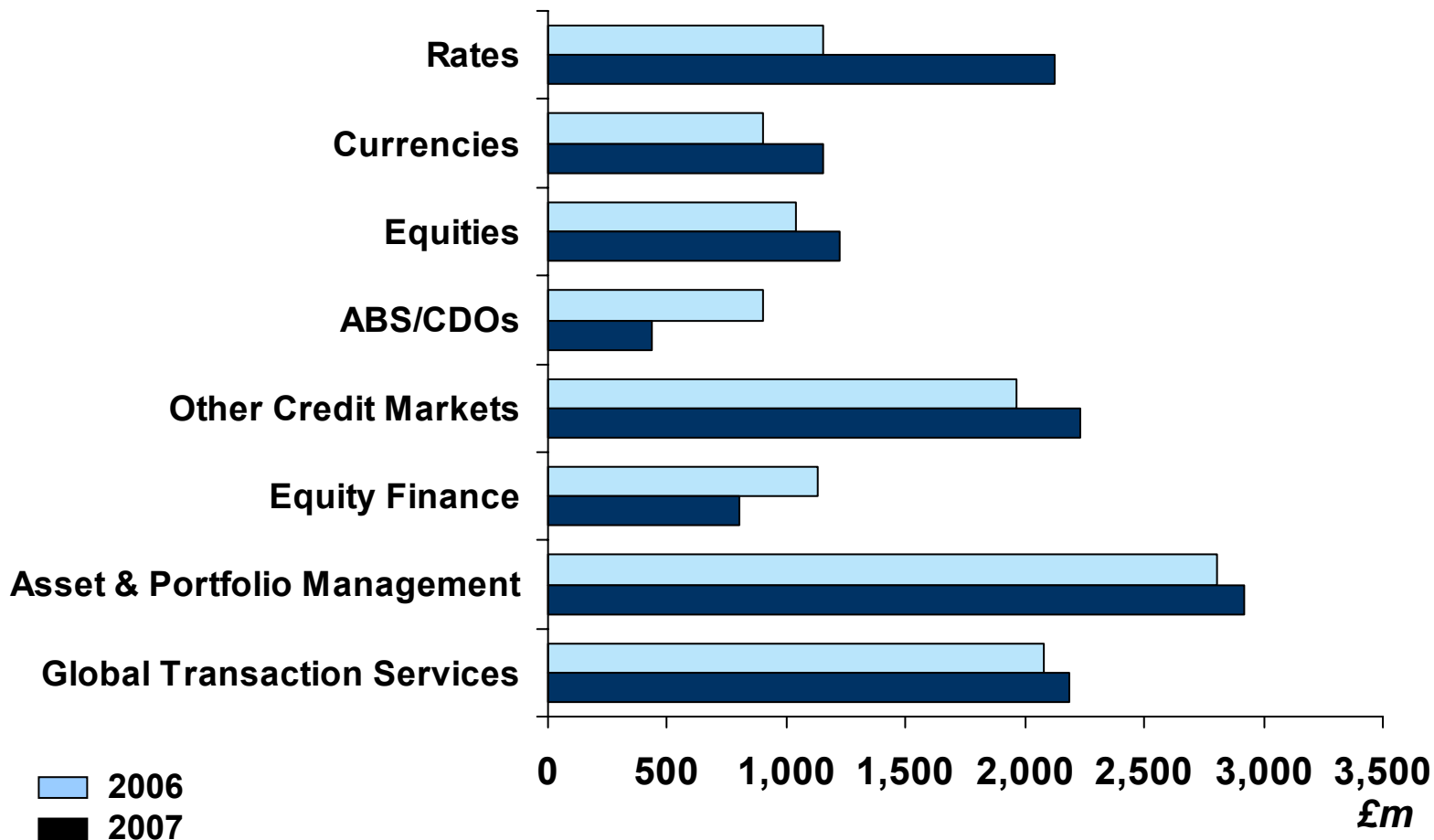
1. Bank of America
2. JPMorgan Chase
3. Citi
4. Wachovia
- 5. RBS**

## **Customers Asia (ex Japan)**

1. HSBC
2. Citi
3. Standard Chartered
4. Deutsche Bank
- 5. RBS**

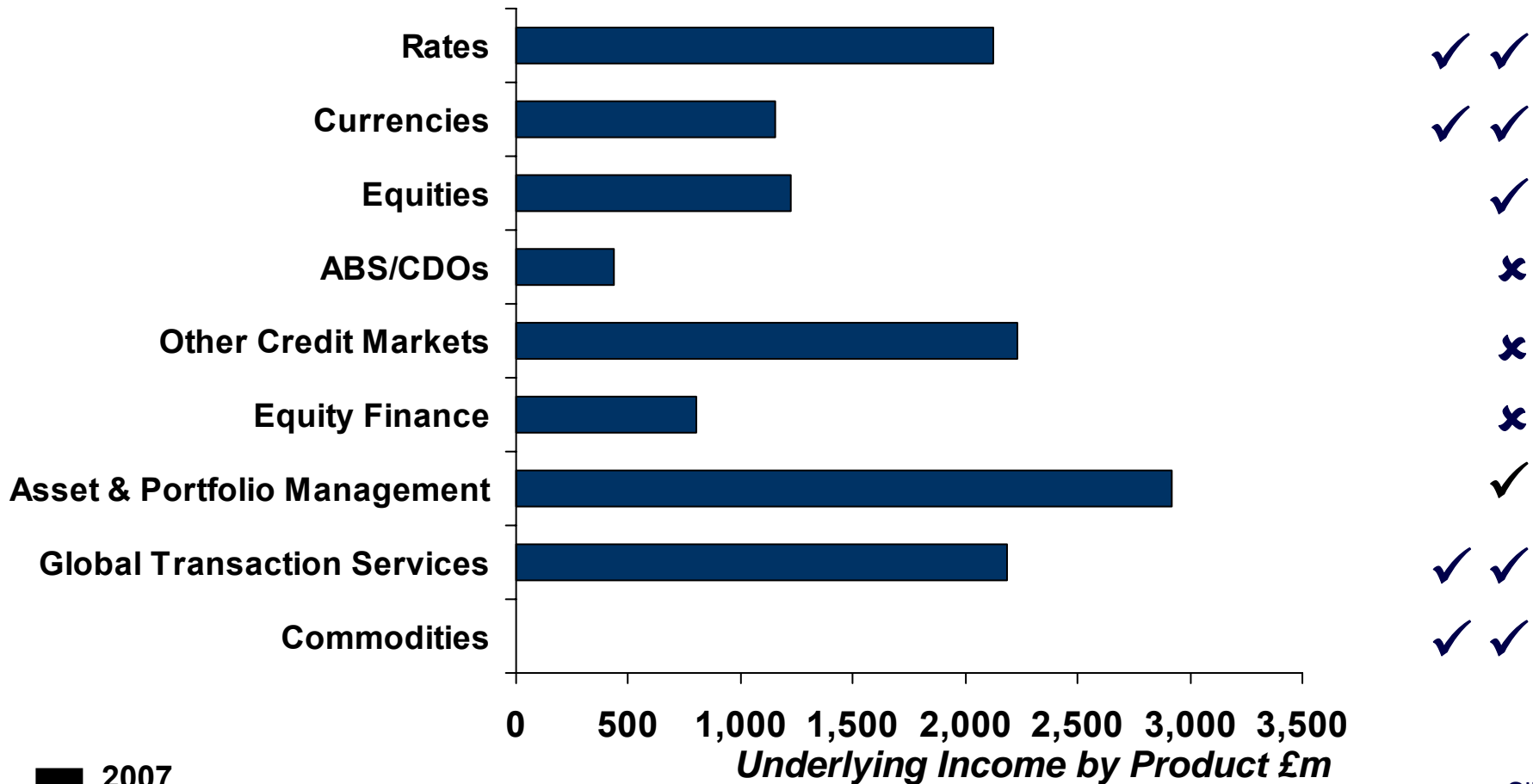
# Diversified Income Streams

## *Underlying Income by Product*



## *Positive Outlook Supported by Greater Diversification*

## *Outlook*



# Contribution by Division

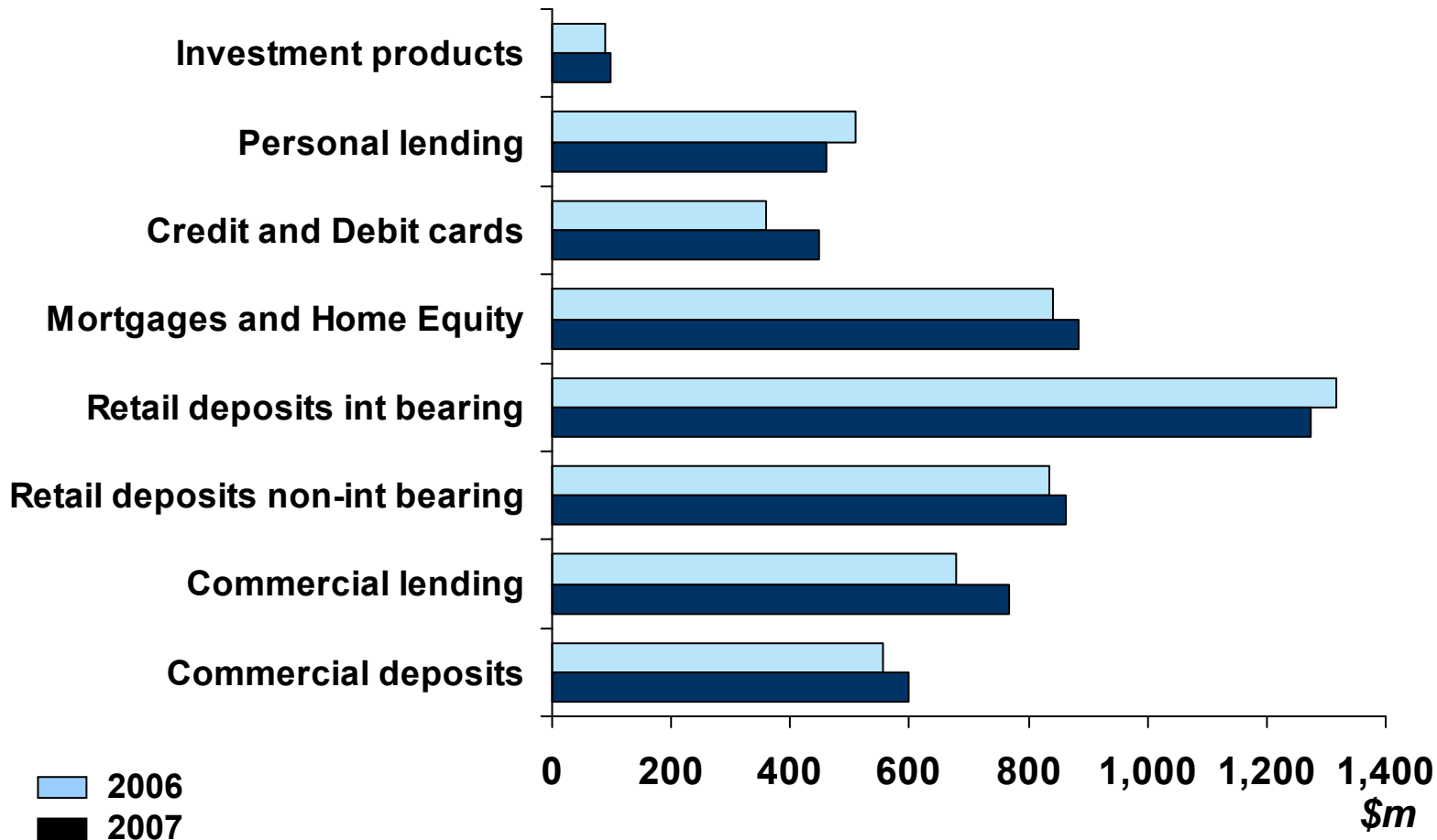
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– Asia Retail and Commercial Banking	119	209	+76%
RBS Insurance	964	902	-6%
Global Manufacturing	(4,164)	(4,234)	-2%



- Citizens continues to diversify from retail deposits
- Double digit income growth in 2007 from
  - Commercial lending and deposits
  - Credit and debit cards
  - Sales of investment products
- Deposit margins stabilised, normalising yield curve
- Total income growth 4%, excluding gains

# US Retail and Commercial Banking

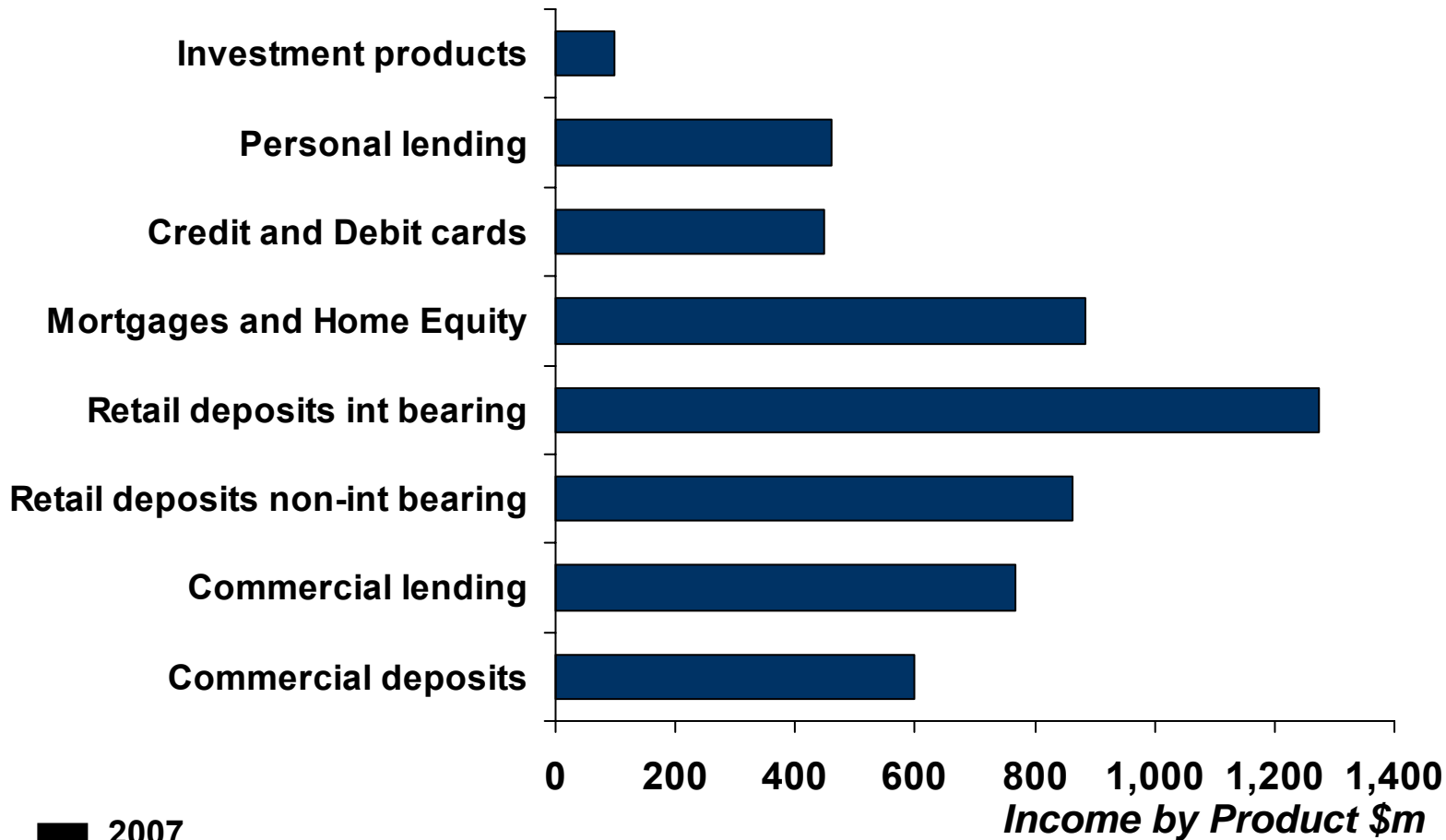
## *Income by Product*



# US Retail and Commercial Banking

## *Positive Outlook Supported by Greater Diversification*

## *Outlook*



# Contribution by Division

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Global Manufacturing	(4,164)	(4,234)	-2%

<i>Pro Forma Underlying Contribution £m</i>	<i>2006</i>	<i>2007</i>	<i>Change %</i>
<b>Asia Retail and Commercial Banking</b>	<b>119</b>	<b>209</b>	<b>+76%</b>
Global Markets	436	604	+39%
Total RBS Asia underlying contribution	555	813	+46%

*Excludes cost re-charges*

- ABN AMRO has an established presence in 8 countries in Asia

	<i>Branches</i>	<i>Population (m)</i>	<i>GDP Growth 2007</i>
China	13	1,314	11.5%
Taiwan	17	23	4.1%
Hong Kong	5	7	5.7%
India	28	1,130	8.9%
Pakistan	81	155	6.4%
Singapore	5	4	7.5%
Indonesia	20	225	6.2%
Malaysia	4	27	5.8%

- RBS Coutts offers wealth management across region, from Hong Kong and Singapore

# Asia Retail and Commercial Banking



	<i>Consumer Finance</i>	<i>Mass Affluent</i>	<i>Commercial</i>	<i>Private Banking</i>
China	✓	✓	✓	✓
Taiwan	✓	✓	✓	
Hong Kong	✓	✓	✓	✓
India	✓	✓	✓	✓
Pakistan	✓	✓	✓	
Singapore	✓	✓	✓	✓
Indonesia	✓	✓	✓	✓
Malaysia		✓	✓	

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# Summary



## *Ingredients*

- Existing organic momentum
- 'New' customers
- 'New' products
- 'New' markets
- Large revenue synergies
  
- Global manufacturing model
- Significant platform overlaps
- Large cost synergies

## *Themes for 2008*

**Revenue growth**

**Improving efficiency**

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## Conclusion

# Conclusion

- Our businesses are strong, with good organic momentum
- We have secured an additional range of attractive options
- They will serve us well in 2008 and beyond
- We are well positioned for a broad range of market scenarios

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# 2007 Results

28 February 2008