



The Royal Bank of Scotland Group

**delivering on
our promises**

strength

diversity

flexibility

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2004 Interim Results

3 August 2004



Sir George Mathewson
Chairman

2004 Interim Results

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i>
Total income	10,940	9,080	+20%
Profit before tax, goodwill amortisation and integration costs (Group operating profit)	3,851	3,451	+12%
Profit before tax	3,381	2,896	+17%

2004 Interim Results

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>pence</i>	<i>pence</i>	
Basic earnings per ordinary share	69.9	60.0	+17%
Adjusted earnings per ordinary share	84.4	76.5	+10%
Interim dividend per ordinary share	16.8	14.6	+15%

2004 Interim Results

Agenda

- Group and Divisional Results
- Review and Outlook



Fred Watt
Group Finance Director



Group and Divisional Results

2004 Interim Results

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i>
Group operating profit	3,851	3,451	+12%
Goodwill amortisation	413	373	
Integration costs	57	182	
Profit before tax	3,381	2,896	+17%

Group Operating Profit

	<i>2004</i>	<i>2003</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	10,940	9,080	1,860	+20%
Operating expenses	4,615	4,051	564	+14%
Income less expenses	6,325	5,029	1,296	+26%
Net insurance claims	1,723	836	887	+106%
Total provisions	751	742	9	+1%
Group operating profit	3,851	3,451	400	+12%

Income

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	3,682	3,294	388	+12%
Retail Banking	2,331	2,168	163	+8%
Retail Direct	997	868	129	+15%
Manufacturing	—	—	—	—
Wealth Management	453	397	56	+14%
RBS Insurance	2,419	1,281	1,138	+89%
Ulster Bank	351	281	70	+25%
Citizens	889	909	(20)	-2%
Central items	(182)	(118)	(64)	-54%
Total income	10,940	9,080	1,860	+20%

Income Growth

	<i>Change £m</i>	<i>Change</i>
Total income	1,860	+20%
Currency impact	216	+3%
Total income adjusted for currency impact	2,076	+23%
Acquisitions	1,054	+12%
Organic growth	1,022	+11%

Net Interest Margin

	<i>2004</i> %	<i>2003</i> %
Group	2.92	2.96
Excluding First Active	2.94	2.96

Expenses

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Corporate Banking and Financial Markets	1,326	1,151	175	+15%
Retail Banking	503	479	24	+5%
Retail Direct	345	310	35	+11%
Manufacturing	1,122	962	160	+17%
Wealth Management	220	196	24	+12%
RBS Insurance	301	190	111	+58%
Ulster Bank	163	132	31	+23%
Citizens	426	440	(14)	-3%
Central items	209	191	18	+9%
Operating expenses	4,615	4,051	564	+14%

Cost:Income Ratio

	<i>2004</i> %	<i>2003</i> %
Group	40.5	43.0
Group, excluding acquisitions	42.5	43.0

Calculated after netting operating lease depreciation against rental income

Provisions

<i>Half Year Ending</i>	<i>Jun 2004 £m</i>	<i>Dec 2003 £m</i>	<i>Jun 2003 £m</i>
Net new provisions and amounts written off fixed asset investments	795	790	776
Recoveries of amounts previously written off	44	38	34
Total provisions charge	751	752	742
Annualised total charge as percentage of gross loans and advances to customers	0.51%	0.59%	0.59%

Asset Quality

<i>£m</i>	<i>Jun 2004</i>	<i>Dec 2003</i>	<i>Jun 2003</i>
Total provisions	4,032	3,922	3,964
Risk elements in lending and potential problem loans	5,651	5,748	6,058
Risk elements in lending and potential problem loans as a percentage of gross loans and advances to customers	1.92%	2.24%	2.40%
Provisions as a percentage of:			
Risk elements in lending and potential problem loans	71%	68%	65%

Total provisions exclude provisions to Banks (£6 million at June 2004, £7 million in all other time periods)

Group Operating Profit

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i> <i>£m</i>	<i>Change</i>
Total income	10,940	9,080	1,860	+20%
Operating expenses	4,615	4,051	564	+14%
Net insurance claims	1,723	836	887	+106%
Operating profit before provisions	4,602	4,193	409	+10%
Total provisions	751	742	9	+1%
Group operating profit	3,851	3,451	400	+12%

Corporate Banking and Financial Markets

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i>
Net interest income	1,228	1,146	+7%
Non-interest income	2,454	2,148	+14%
Total income	3,682	3,294	+12%
Direct expenses	1,326	1,151	+15%
Contribution before provisions	2,356	2,143	+10%
Provisions	315	404	-22%
Contribution	2,041	1,739	+17%

Retail Banking

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	1,514	1,437	+5%
Non-interest income	817	731	+12%
Total income	2,331	2,168	+8%
Direct expenses	503	479	+5%
Contribution before provisions	1,828	1,689	+8%
Provisions	186	135	+38%
Contribution	1,642	1,554	+6%

2003 restated following transfer of certain activities from Wealth Management

Retail Direct

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	453	400	+13%
Non-interest income	544	468	+16%
Total income	997	868	+15%
Direct expenses	345	310	+11%
Contribution before provisions	652	558	+17%
Provisions	172	147	+17%
Contribution	480	411	+17%

2003 restated following transfer of certain activities to Manufacturing

Manufacturing

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Group Technology	391	319	+23%
Group Purchasing and Property Operations	403	352	+14%
Customer Support and other operations	328	291	+13%
Total Manufacturing costs	1,122	962	+17%

2003 restated following transfer of certain activities from other divisions

Manufacturing

	<i>2004 £m</i>	<i>Change</i>
Total costs increase	160	+17%
Less acquisitions	50	
Costs increase excluding acquisitions	110	+11%
Incremental efficiency initiatives	40	
Supporting UK income growth	70	+7%

Wealth Management

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	243	221	+10%
Non-interest income	210	176	+19%
Total income	453	397	+14%
Expenses	220	196	+12%
Contribution before provisions	233	201	+16%
Net charge (release) of provisions	2	(3)	
Contribution	231	204	+13%

2003 restated following transfer of certain activities to Retail Banking and Manufacturing

RBS Insurance

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Insurance premium income	2,416	1,177	+105%
Net fees and commissions	(210)	(7)	
Other income	213	111	+92%
Total income	2,419	1,281	+89%
Expenses	301	190	+58%
Net claims	1,723	836	+106%
Contribution	395	255	+55%

2003 restated following transfer of certain activities to Manufacturing

RBS Insurance

<i>Excluding Churchill</i>	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Insurance premium income	1,387	1,177	+18%
Net fees and commissions	(30)	(7)	
Other income	141	111	+27%
Total income	1,498	1,281	+17%
Expenses	198	190	+4%
Net claims	1,012	836	+21%
Contribution	288	255	+13%

2003 restated following transfer of certain activities to Manufacturing

Ulster Bank

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	256	190	+35%
Non-interest income	95	91	+4%
Total income	351	281	+25%
Expenses	163	132	+23%
Contribution before provisions	188	149	+26%
Provisions	18	18	–
Contribution	170	131	+30%

Ulster Bank

<i>Excluding First Active Acquisition and NCB Stockbrokers Disposal</i>	<i>2004 £m</i>	<i>2003 £m</i>	<i>Change</i>
Net interest income	207	190	+9%
Non-interest income	89	82	+9%
Total income	296	272	+9%
Expenses	135	124	+9%
Contribution before provisions	161	148	+9%
Provisions	15	18	-17%
Contribution	146	130	+12%

Citizens

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	
Net interest income	645	638	+1%
Non-interest income	244	271	-10%
Total income	889	909	-2%
Expenses	426	440	-3%
Contribution before provisions	463	469	-1%
Provisions	40	44	-9%
Contribution	423	425	—

Citizens

	<i>2004</i>	<i>2003</i>	<i>Change</i>
	<i>\$m</i>	<i>\$m</i>	
Net interest income	1,176	1,029	+14%
Non-interest income	444	436	+2%
Total income	1,620	1,465	+11%
Expenses	776	709	+9%
Contribution before provisions	844	756	+12%
Provisions	73	71	+3%
Contribution	771	685	+13%

Group Operating Profit

	<i>2004</i>	<i>2003</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Corporate Banking and Financial Markets	2,041	1,739	302	+17%
Retail Banking	1,642	1,554	88	+6%
Retail Direct	480	411	69	+17%
Manufacturing	(1,122)	(962)	(160)	-17%
Wealth Management	231	204	27	+13%
RBS Insurance	395	255	140	+55%
Ulster Bank	170	131	39	+30%
Citizens	423	425	(2)	–
Central items	(409)	(306)	(103)	-34%
Group operating profit	3,851	3,451	400	+12%

Group Operating Profit

	<i>Change £m</i>	<i>Change</i>
Reported growth	400	+12%
Currency impact	120	+3%
Adjusted for currency impact	520	+15%
Acquisitions	87	+3%
Organic growth	433	+12%

Earnings Per Share

	<i>First Half 2004 pence</i>	<i>First Half 2003 pence</i>	<i>Change</i>	<i>Full Year 2003 pence</i>
Basic earnings per share	69.9	60.0	+17%	79.0
Adjusted earnings per share	84.4	76.5	+10%	159.3
Dividend per share	16.8	14.6	+15%	50.3
Dividend cover	4.8x	5.2x		3.1x

Dividend cover before goodwill amortisation, integration costs and AVS dividend

Capital Ratios

	<i>Jun 2004</i>	<i>Dec 2003</i>	<i>Jun 2003</i>
Tier 1 capital	8.1%	7.4%	7.6%
Total capital	12.5%	11.8%	12.3%



Sir Fred Goodwin
Group Chief Executive



Review and Outlook

Income Growth

Income Growth

	<i>2004</i>	<i>2003</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	10,940	9,080	1,860	+20%

Income Growth by Region

	<i>2004</i> <i>£m</i>	<i>2003</i> <i>£m</i>	<i>Change</i>
UK	8,544	6,969	+23%
Ireland	325	249	+31%
Continental Europe	412	286	+44%
United States	1,598	1,508	+6%
Rest of World	61	68	-10%
Total income	10,940	9,080	+20%

Income Growth by Region

<i>Local Currency</i>	<i>2004</i>	<i>2003</i>	<i>Change</i>
UK (£m)	8,544	6,969	+23%
Ireland (€m)	483	364	+33%
Continental Europe (€m)	612	418	+46%
United States (\$m)	2,912	2,429	+20%
Rest of World (\$m)	111	110	+1%
Total income adjusted for currency impact			+23%

Income Growth by Region

<i>Local Currency Excluding Acquisitions</i>	<i>2004</i>	<i>2003</i>	<i>Change</i>
UK (£m)	7,653	6,969	+10%
Ireland (€m)	411	364	+13%
Continental Europe (€m)	511	418	+22%
United States (\$m)	2,822	2,429	+16%
Rest of World (\$m)	111	110	+1%
Total income adjusted for currency impact			+11%

Customers

1H04 v 1H03 Net Increase

Retail Banking

– Personal current accounts	428,000	+4%
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Retail Direct

– Credit cards accounts	2,415,000	+25%
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RBS Insurance

– UK motor insurance policies	3,248,000	+67%
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Ulster Bank

– Personal customers	417,000	+49%
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Citizens

– Personal customers	262,000	+12%
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Customers

<i>Excluding Acquisitions</i>	<i>1H04 v 1H03 Net Increase</i>	
Retail Banking		
– Personal current accounts	428,000	+4%
Retail Direct		
– Credit cards accounts	481,000	+5%
RBS Insurance		
– UK motor insurance policies	252,000	+5%
Ulster Bank		
– Personal customers	43,000	+5%
Citizens		
– Personal customers	219,000	+10%

Assets and Liabilities

	<i>1H04 v 1H03 Change</i>	
	<i>£bn</i>	<i>%</i>
Group loans and advances	30.4	+15%
– Corporate lending	9.5	+8%
– Mortgages	14.6	+28%
– Personal loans	4.4	+18%
– Credit cards	1.9	+22%
Group customer deposits	14.9	+8%

Average balances for half years

Assets and Liabilities

<i>Excluding Acquisitions</i>	<i>1H04 v 1H03 Change</i>	
	<i>£bn</i>	<i>%</i>
Group loans and advances	22.7	+11%
– Corporate lending	8.3	+7%
– Mortgages	10.1	+20%
– Personal loans	3.3	+14%
– Credit cards	1.0	+12%
Group customer deposits	11.1	+6%

Average balances for half years

Net Interest Margin








	<i>2004</i> %	<i>2003</i> %
Group	2.92	2.96
Excluding First Active	2.94	2.96

Net Interest Margin

1H03	2.96%
Funding rental assets	-0.02%
Organic mortgage growth	-0.04%
MINT cards 0% intro rates	-0.01%
Corporate banking mix	+0.03%
Higher interest rates	+0.02%
Excluding First Active	2.94%
First Active	-0.02%
1H04	2.92%

Net Interest Margin

Directional Impact on Net Interest Margin Outlook

- Economic background
 - Higher interest rates 
- Business mix
 - Funding rental assets 
 - Mortgages v other consumer loans 
 - MINT cards 
 - Mid-corporates v large corporates 
- Acquisitions
 - Charter One 
- Outlook (net impact) 

Diversity of Income

*% of Total Income
1H04*

Non-interest income

60%

Net interest income

40%

Diversity of Non-Interest Income

	<i>% of Total Income</i>
	<i>1H04</i>
Net fees and commissions	20%
– Money transmission and lending	11%
– Cards related	4%
– Other	5%
General insurance premium income	22%
Dealing profits (before associated costs)	10%
Other operating income	8%
Non-interest income to total income	60%

Dealing Profits

- Dealing profits (income) reflect customer-driven activities

% of Total Income
1H04

Foreign exchange, securities
and interest rate products

6%

RBS Greenwich Capital

4%

Dealing profits (before associated costs)

10%

Dealing Profits

Dealing Profits % Total Income

	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>1H04</i>
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RBS	9.3%	9.2%	9.8%	8.7%	9.3%	9.6%
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- Dealing profits reflect customer-facing activities
- Stable proportion of total income
- Average VaR low, down on year

Diversity of Net Interest Income

	<i>% of Total Income 1H04</i>
Personal deposits	11%
Personal lending	11%
Business deposits	8%
Business lending	10%
Net interest income to total income	40%

Diversity of Income

- Not too dependent on personal lending

	<i>% of Total Income 1H04</i>		
	<i>Net Interest</i>	<i>Non-Interest</i>	<i>Total</i>
Consumer lending	8%	2%	10%
Mortgages	3%	–	3%
Personal lending	11%	2%	13%

Income Growth

Outlook

- Organic income growth momentum across Group
- Diversified income streams
- Significant revenue (and cost) benefits from 2003/04 acquisitions still to flow through



Review and Outlook

Improving Efficiency

Improving Efficiency





<i>Cost:Income Ratio</i>	<i>2004</i> %	<i>2003</i> %
Group	40.5	43.0
Group, excluding acquisitions	42.5	43.0

Cost:income ratio calculated after netting operating lease depreciation against rental income

Improving Efficiency

Directional Impact on Cost:Income Ratio

1H04

- Organic growth
 - Income growth higher than expenses growth 
- Investments
 - Initiatives to support future income growth 
 - Initiatives to improve efficiency in future 
- Acquisitions
 - Churchill Insurance 

Improving Efficiency

Group Efficiency Programme

2003 Break-even

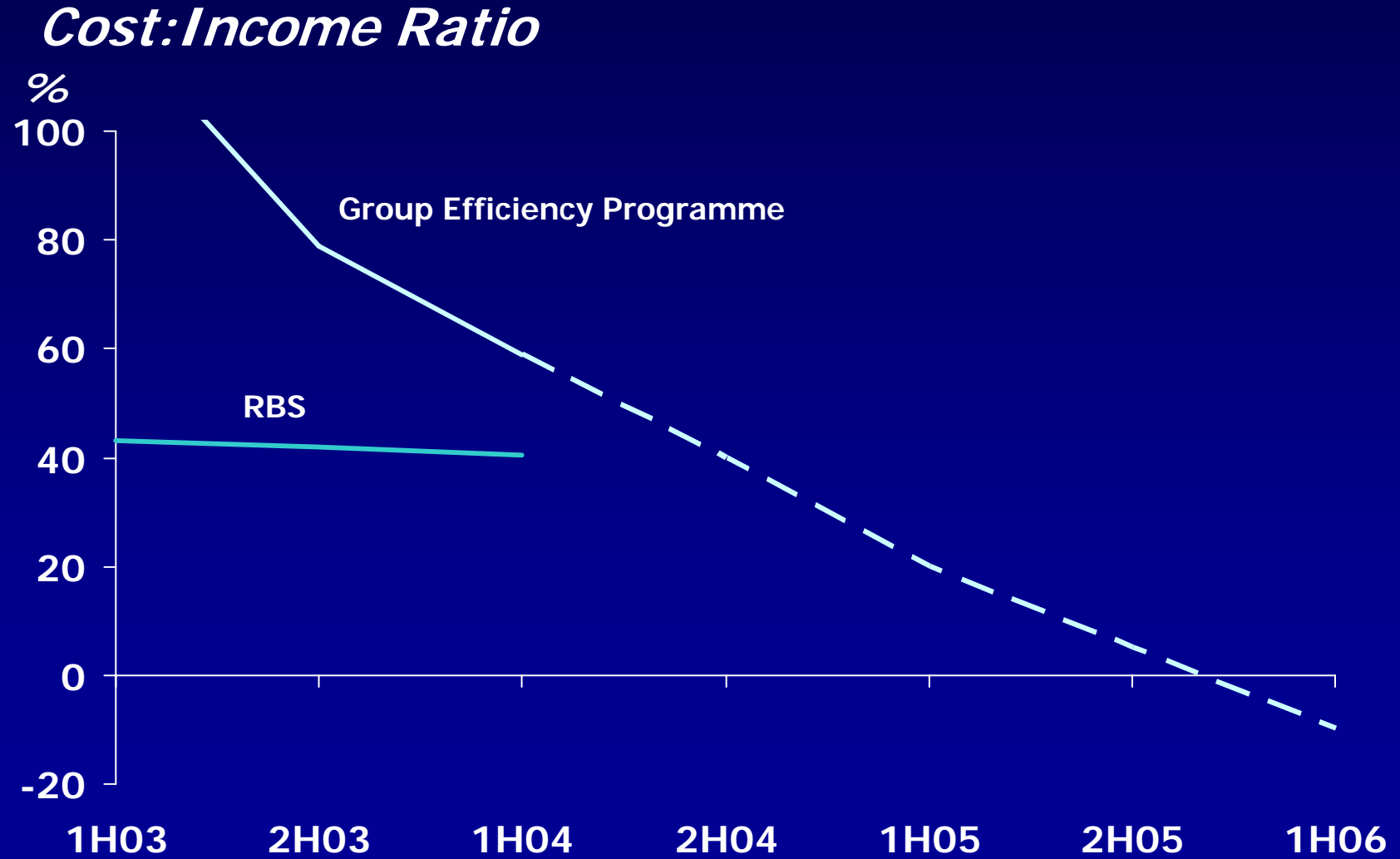
2004 Spend accelerates, but good payback

2005 Completion achieved, benefits in full flow

2006 Full annualised benefits delivered

- No 'below the line' costs
- On current business mix, planned initiatives would take cost:income ratio below 40%

Improving Efficiency



Group Efficiency Programme

Examples 1H04

- Introduced sales prompt system
 - NatWest branches
 - RBS and NatWest telephony
 - Positive customer response
- Introduced enhanced fraud prevention
 - Cheque profiling
 - Point-of-sale profiling
- Converted branch reports from paper to screen, saving 18 miles of paper every night

Group Efficiency Programme

Examples 2H04

- Roll out image and workflow capability to service centres
 - Integrated with back office systems
 - Image signature verification
 - Process automation
- Introduce customer query management system
 - Customer requests for information and concerns
 - Moves messages around Group electronically, saving 8 million internal faxes per annum
 - Accessible by branch/telephony employees, relationship managers, Head Office functions

Improving Efficiency

Integrations to be Completed

- Churchill
- First Active
- Various smaller acquisitions
- Charter One
(subject to shareholder and regulatory approval)

Improving Efficiency

Outlook

- Acquisition of Charter One will initially lead to small increase in Group cost:income ratio
- Group Efficiency Programme will begin to have a positive impact on the Group cost:income ratio in 2005
- Completion of various integrations will contribute expected improvements in efficiency



Review and Outlook

Strategic Options

Options for Growth

United Kingdom + Ireland

■ Organic growth

- Retail Banking ✓ ✓
- Corporate Banking and Financial Markets ✓ ✓
- Retail Direct ✓ ✓
- Wealth Management ✓
- RBS Insurance ✓ ✓
- Ulster Bank ✓

■ Acquisitions

- Tactical *First Active* → ✓
- Strategic ✓

Options for Growth Continental Europe

- Organic growth
 - Retail Banking X
 - Corporate Banking and Financial Markets ✓ ✓
 - Retail Direct ✓ ✓
 - Wealth Management –
 - RBS Insurance ✓
- Joint ventures *Tchibo* → ✓
- Acquisitions of businesses *Bibit* → ✓ ✓
- Acquisitions of universal banks ⊙ ?
- Merger of equals X

Options for Growth United States

■ Organic growth

- Citizens ✓ ✓
- Corporate Banking and Financial Markets ✓

Kroger

■ Acquisitions of businesses

*People's Bank
(credit cards)* → ✓

■ Acquisitions of banks

- In-market *Roxborough Manayunk* → ✓ ✓
- Market extension *Charter One* → ⊖
- Out of market X

Options for Growth Asia

- Organic growth

- Corporate Banking and Financial Markets
- Wealth Management



- Joint ventures



Strategic Initiatives

Corporate Banking and Financial Markets

- Transfer Financial Markets derivatives activities in United States from RBS New York to RBS Greenwich Capital
- Establish debt capital markets capability in United States, leveraging RBS Greenwich Capital customer base and trading floor

Retail Banking

- Announce recruitment of 1,000 customer-facing staff for branches
- Expand direct sales by telephone and internet

Strategic Initiatives

Retail Direct

- Launch MINT credit card
- Complete acquisition of credit card business of People's Bank in United States
- Complete acquisition of Bibit, leading European internet payment specialist
- Agree to distribute credit cards to customers of Kroger, one of the largest supermarket groups in United States
- Agree to distribute consumer loan products to customers of Tchibo, a leading retailer in Germany
- Agree acquisition of Lynk Systems, merchant acquisition business in United States

Strategic Initiatives

Wealth Management

- Complete IT conversion and integration of Bank von Ernst
- Add Coutts private bankers across regional network
- Revitalise Coutts commercial banking, focusing on owner-managed businesses

RBS Insurance

- Complete IT conversion and integration of Churchill
- Re-launch Privilege Insurance, focusing on drivers with 4 years no claims discount

Strategic Initiatives

Ulster Bank

- Launch First Active mortgages in UK
- Implement IT conversion of First Active and Ulster Bank to RBS main platform
- Expand First Active's product range:
direct loans in August, credit cards in November

Citizens

- Complete acquisition of Charter One
(expected to be by fourth quarter 2004)
- Implement IT conversion and integration of Charter One

Charter One

	<i>1H04</i> <i>\$m</i>	<i>1H03</i> <i>\$m</i>	<i>Change</i>
Total income	890	749	+19%
Expenses	444	378	+17%
Provisions	26	97	-73%
Operating profit	420	274	+53%
Net securities gains	59	185	
Penalty from debt pre-payment	(164)	–	
Profit before tax	315	459	

Charter One

1H04 Results

- 1H04 Results
 - Strong growth in customers, income, operating profit
 - Improved credit outlook
 - Balance sheet risk reduced
- Mortgage-backed securities available for sale
 - \$14.3 billion at 30 June 2003
 - \$10.2 billion at 31 December 2003
 - \$5.8 billion at 30 June 2004

Capital

- Capital generation remains strong
- Within target range post Charter One
- Previous guidance unchanged

Summary

- Income momentum continuing
- Improving efficiency
- Significant strategic enhancement outside UK
- Many benefits still to flow through
- Will benefit from rising rates
- Well positioned for the future



The Royal Bank of Scotland Group

**delivering on
our promises**

strength

diversity

flexibility