



The Royal Bank of Scotland Group

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Navigating the Sea of Change

- The sea is constantly changing
- The environment has changed over the last five years

Navigating the Sea of Change

- How has the environment changed in the past five years?

Market / Economic Themes

- 1999/2000 Internet boom and bust
- 2001 Economic slowdown
 Falling interest rates
- 2002 Large corporate credit problems
- 2003 Strong consumer lending growth
- 2004 Broad based global economic growth
 Rising interest rates

Navigating the Sea of Change

- How has RBS fared in this environment?
 - Income growth
 - Efficiency
 - Credit quality
 - Earnings
 - Capital returned

Income Growth

Income Growth 2000 – 2004

	<i>Pro forma 1999</i>	<i>2004</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	22,754	11,689	+106%

Income Growth – World Banks

Income Growth 2000 – 2004

RBS	+106%
RBS (\$)	+133%
Citigroup	+55%
Bank of America	+57%
HSBC	+141%
JPMorgan Chase	+38%
Wells Fargo	+59%

Income as reported by banks in US dollars, except RBS which reports in sterling

Income Growth – World Banks

	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
RBS	+12%	+18%	+16%	+14%	+18%
RBS (\$)	+5%	+12%	+21%	+24%	+32%
Citigroup	+16%	+6%	+6%	+9%	+10%
Bank of America	+4%	-3%	-1%	+10%	+6%
HSBC	+17%	+5%	+3%	+54%	+23%
JPMorgan Chase	-4%	-4%	+3%	+7%	+4%
Wells Fargo	+10%	+1%	+20%	+12%	+6%

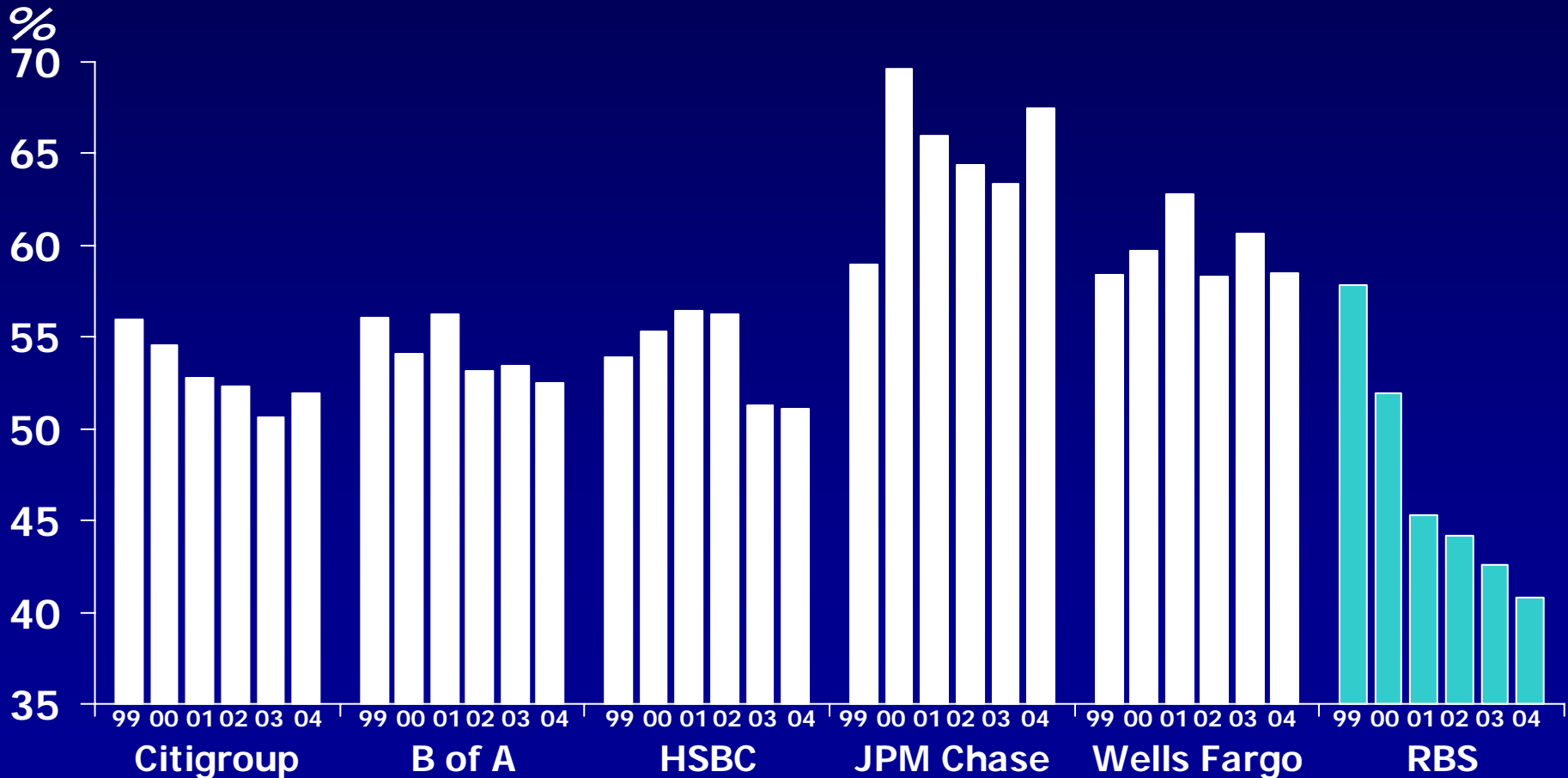
Efficiency

	<i>Pro forma 1999</i>	<i>2004</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	22,754	11,689	+106%
Operating expenses	6,563	9,662	3,099	+47%
Cost:income ratio	57.8%	40.8%		

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

Efficiency – World Banks

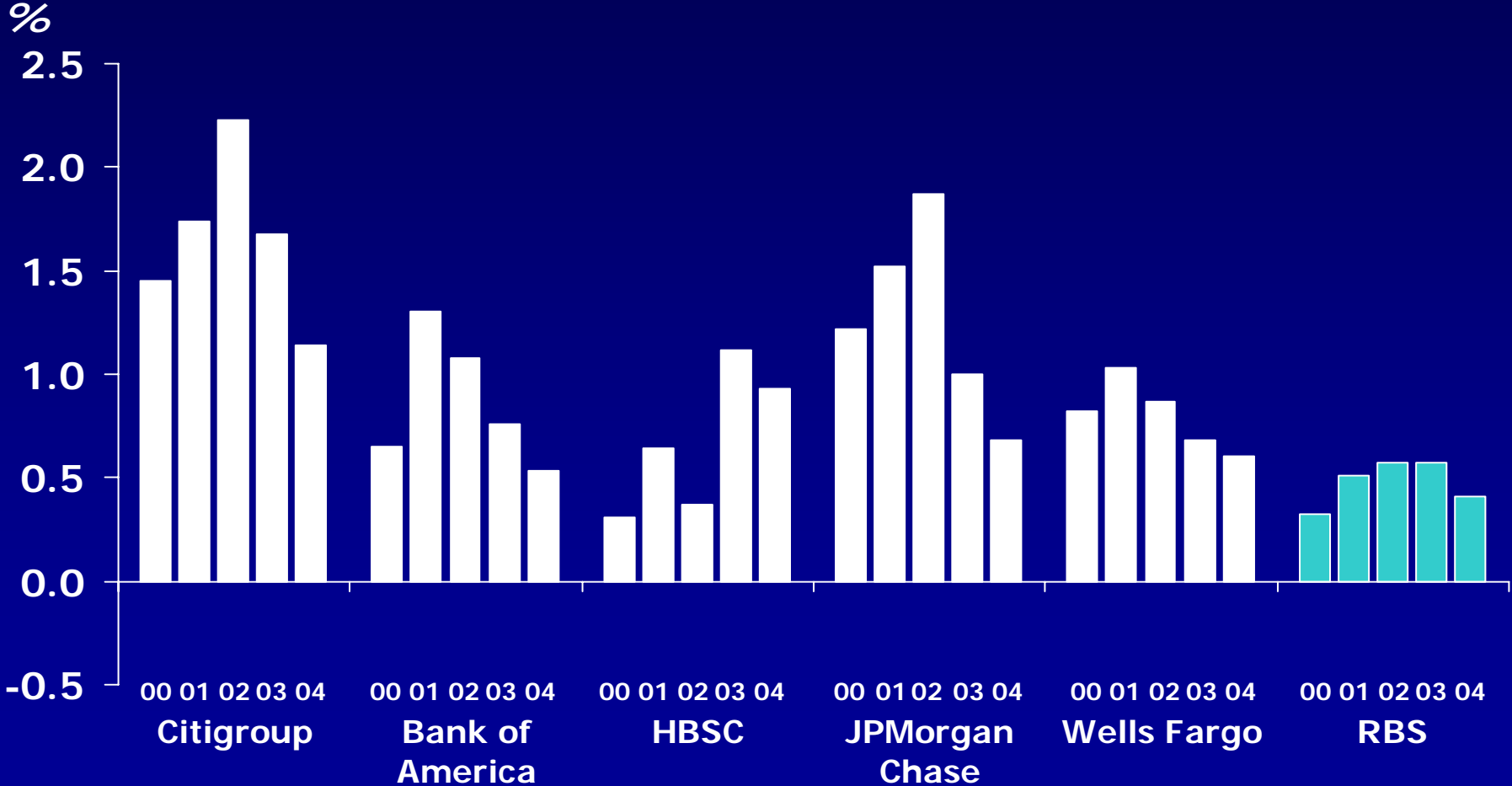
Cost:Income Ratio 1999 – 2004



*Cost:income ratios as reported by banks, or based on income and costs reported by banks
RBS: netting operating lease depreciation against rental income*

Credit Quality – World Banks

P&L Account Provisions / Customer Loans + Advances

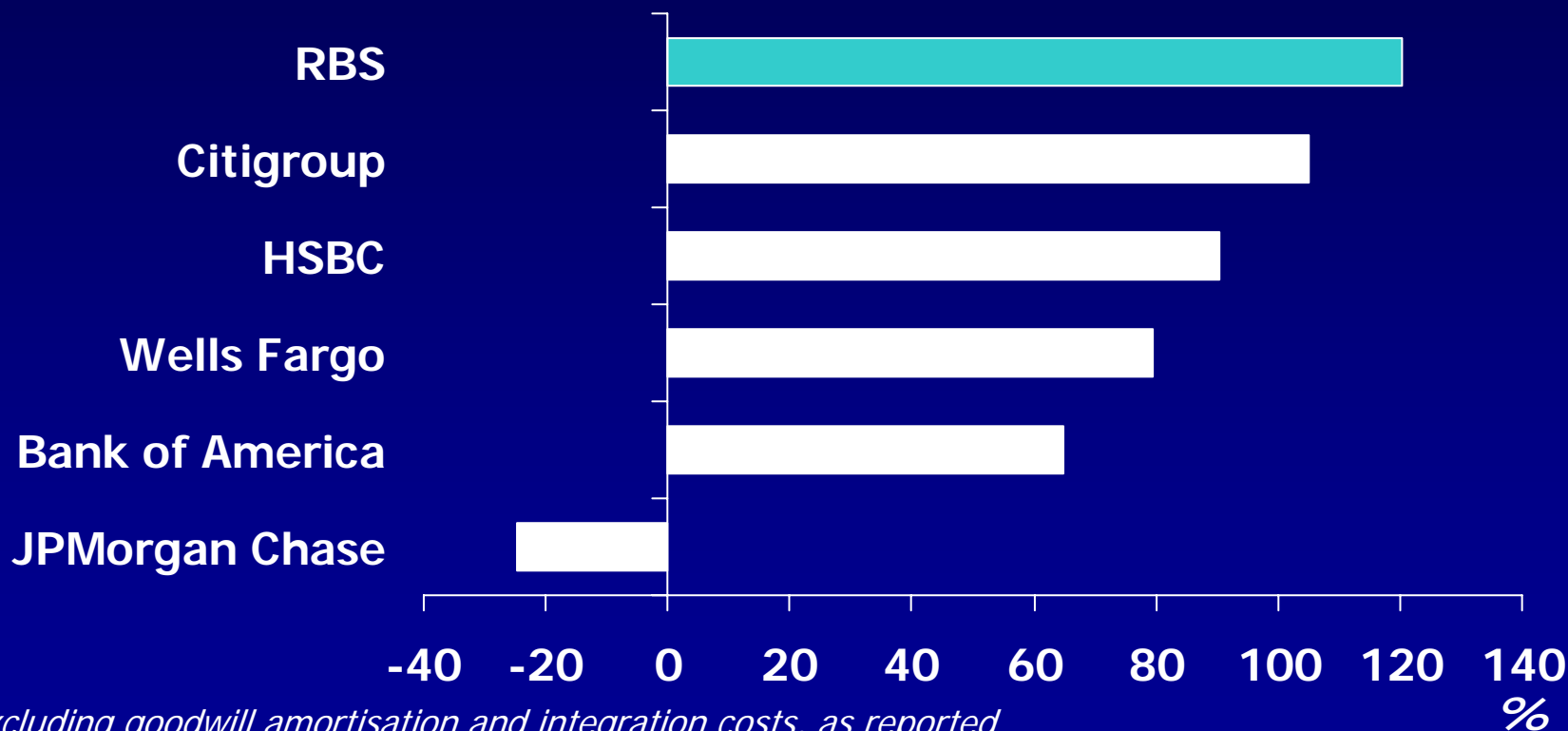


Earnings

	<i>Pro forma 1999</i>	<i>2004</i>	<i>Change</i>
Group operating profit	£3,359m	£8,101m	+141%
Earnings per share	78.3p	172.5p	+120%

Earnings – World Banks

Growth in Earnings Per Share 1999 – 2004



RBS excluding goodwill amortisation and integration costs, as reported

Citigroup excluding discontinued operations and exceptional items, as reported

HSBC excluding goodwill amortisation, as reported

Wells Fargo diluted earnings per share, as reported

Bank of America as reported and JPMorgan Chase operating earnings per share, as reported

Capital Returned to Shareholders

<i>Dividends</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Ordinary dividends	1,085	1,267	1,490	1,837	5,679
Dividends on Additional Value Shares	399	798	1,463	–	2,660

Navigating the Sea of Change

- Why has RBS prospered in this constantly changing environment?
 - Ability to grow income
 - Diversified income
 - Strong market positions

Ability to Grow Income

Income Growth 2000 – 2004

	<i>Pro forma 1999</i>	<i>2004</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	22,754	11,689	+106%

Components of Income Growth

	<i>£m</i>	<i>% Total</i>
NatWest transaction benefits	890	7%
Acquisitions	3,837	33%
Organic growth	6,962	60%
Total	11,689	100%

Diversified Income

- By brand/channel
- By type
- By geography
- By business

Diversified Income – by Brand/Channel

Multi-Brand, Multiple Channel Strategy



Diversified Income – By Type

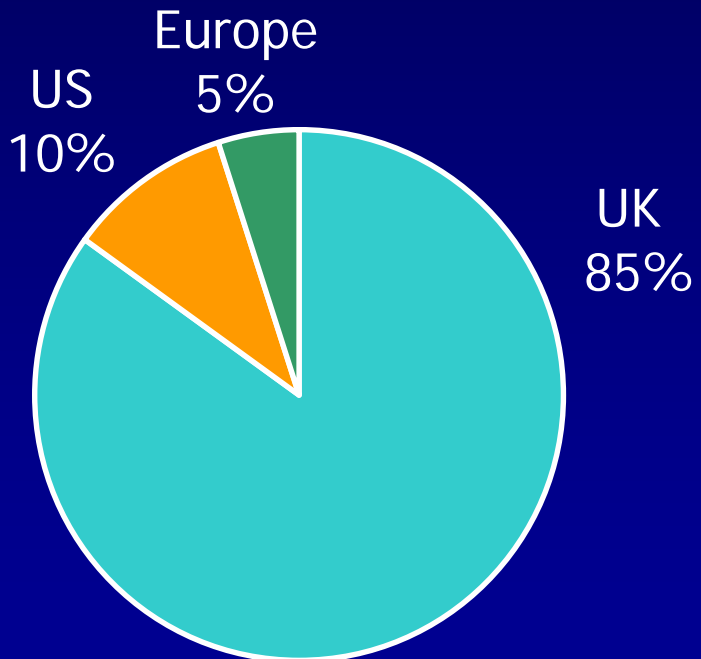
<i>Net Interest Income</i>	<i>% of Total Income</i>	
	<i>1999</i>	<i>2004</i>
Personal deposits	14%	10%
Personal lending	9%	12%
Business deposits	10%	7%
Business lending	15%	11%
Net interest income % total income	48%	40%

Diversified Income – By Type

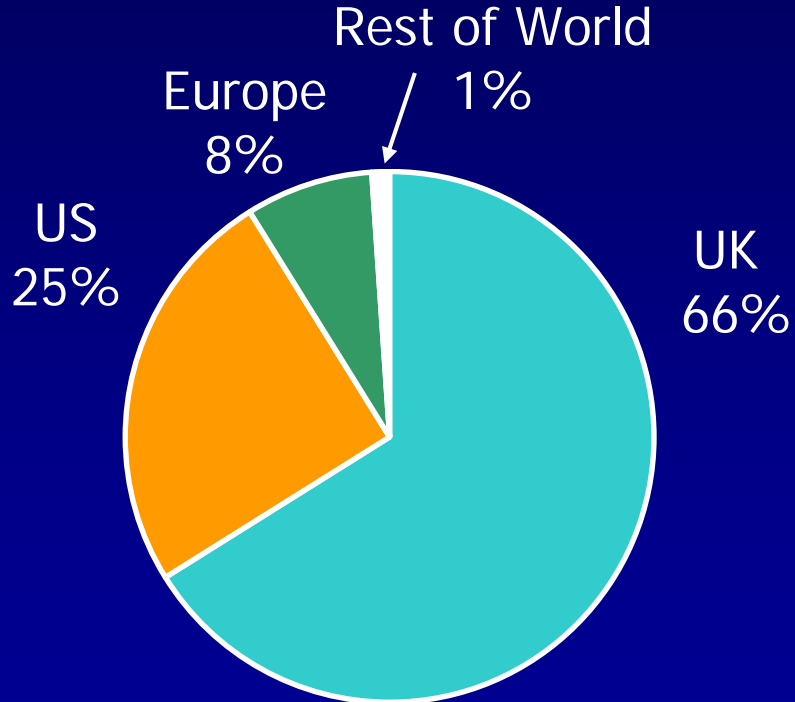
<i>Non-Interest Income</i>	<i>% of Total Income</i>	
	<i>1999</i>	<i>2004</i>
Net fees and commissions	26%	21%
– Money transmission and lending	12%	11%
– Cards related	5%	4%
– Other	9%	6%
General insurance premium income	7%	22%
Dealing profits (before associated costs)	9%	9%
Other operating income	10%	8%
Non-interest income % total income	52%	60%

Diversified Income – By Geography

*1999 Operating Profit
Pro forma*



*2004 Operating Profit
Charter One Pro forma*

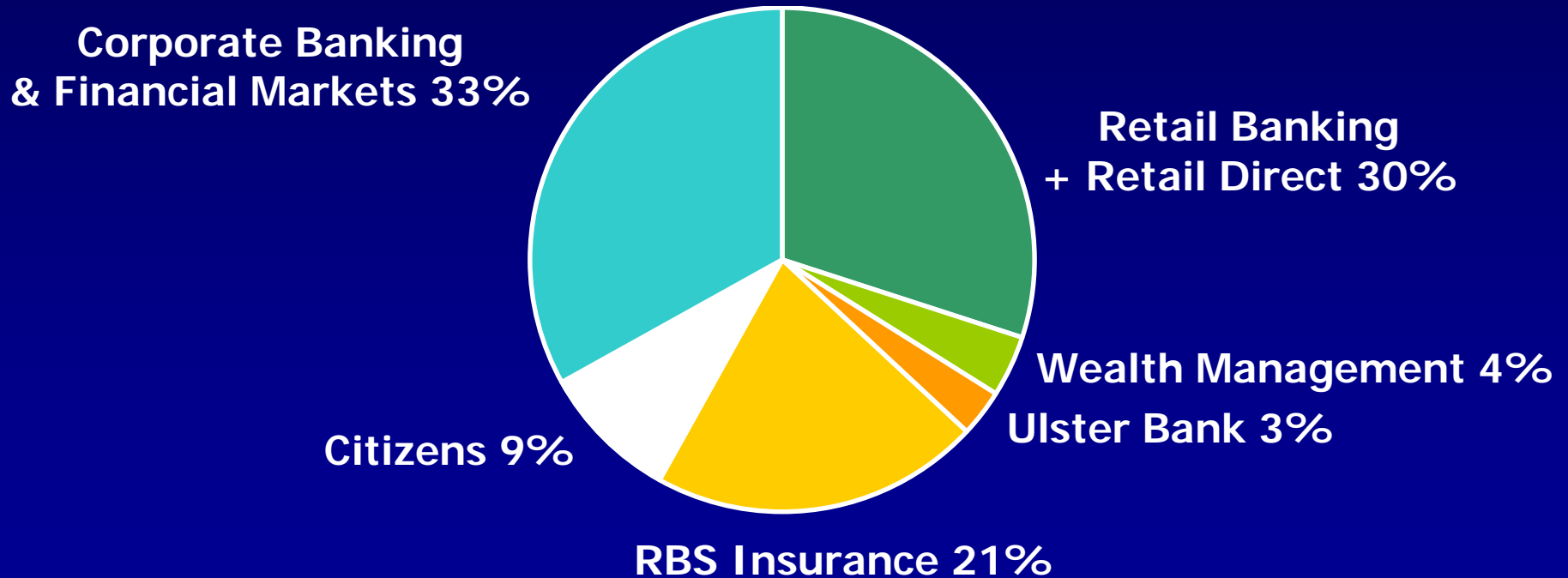


Diversified Income – By Geography

<i>Income Growth in Local Currency</i>	<i>2003</i>	<i>2004</i>	<i>Change</i>
UK (£m)	15,099	17,519	+16%
Ireland (€m)	749	1,040	+39%
Continental Europe (€m)	801	1,242	+55%
United States (\$m)	4,713	6,362	+35%
Rest of World (\$m)	373	392	+5%
Total income adjusted for currency impact			+20%

Diversified Income – by Business

2004 Income



Strong Market Position – UK

	<i>Ranking</i>
UK corporate banking	#1
UK retail banking	#2
UK general insurance	#2
UK private banking	#1
UK offshore banking	#1
UK supermarket banking	#1
UK motor insurance	#1
UK home insurance	#2

Strong Market Position – CBFM

	<i>Ranking</i>
Global US dollar private placements	#1
Global project finance	#1
Sterling interest rate derivatives	#1
European leveraged finance	#1
Sterling foreign exchange	#1
US Treasury Primary Dealership (sales and research rating)	#1
Sterling bonds	#2
Global foreign exchange	#5

Sources: Private Placement Monitor, World's Best Project Finance House - Euromoney & Best Global bank – Project Finance International, Risk Magazine, Thomson Financial, Collection of awards inc. No. 1 for Sterling Swaps for 12 consecutive years – Risk magazine, Orion Consulting, Dealogic, FX Week

Strong Market Position – Citizens

	<i>Ranking</i>
Deposits	#8
Assets	#10
Branches	#7
ATMs	#9
Supermarket branches	#2
Small business lending	#2

Navigating the Sea of Change

- How is the environment changing today?
 - Slower economic growth?
 - Consumer/corporate rebalancing?
 - For RBS
 - Charter One
 - Current trading
 - IFRS

Slower Economic Growth?

Forecasters predict positive economic growth

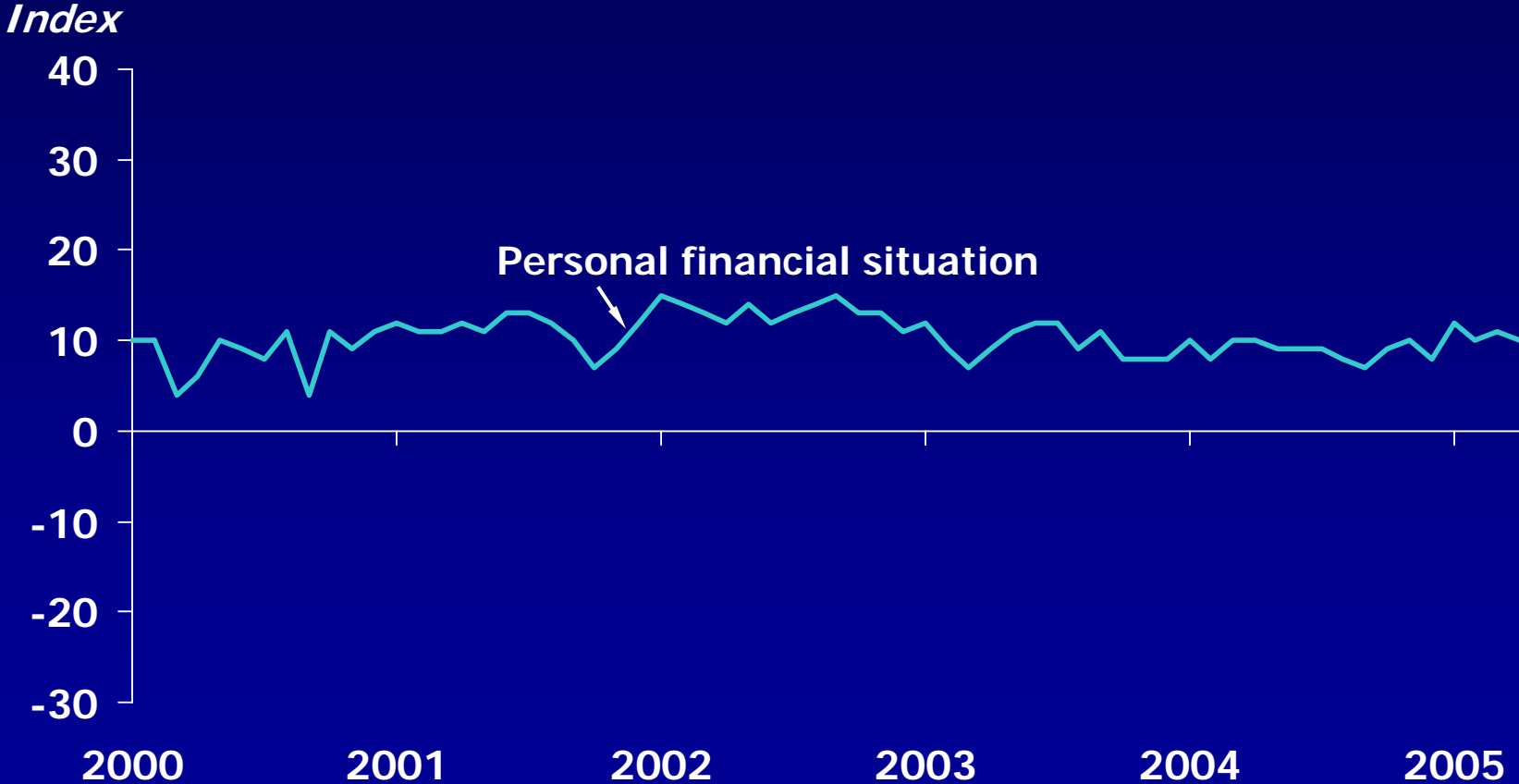
	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
UK	1.8%	2.2%	3.1%	2.5%	2.3%
US	1.9%	3.0%	4.4%	3.7%	3.4%
Germany	0.1%	0.1%	1.4%	0.9%	1.4%

Consumer/Corporate Rebalancing?

- Higher interest rates,
leading to changes in consumer behaviour
- Increased corporate activity

Changes in Consumer Behaviour

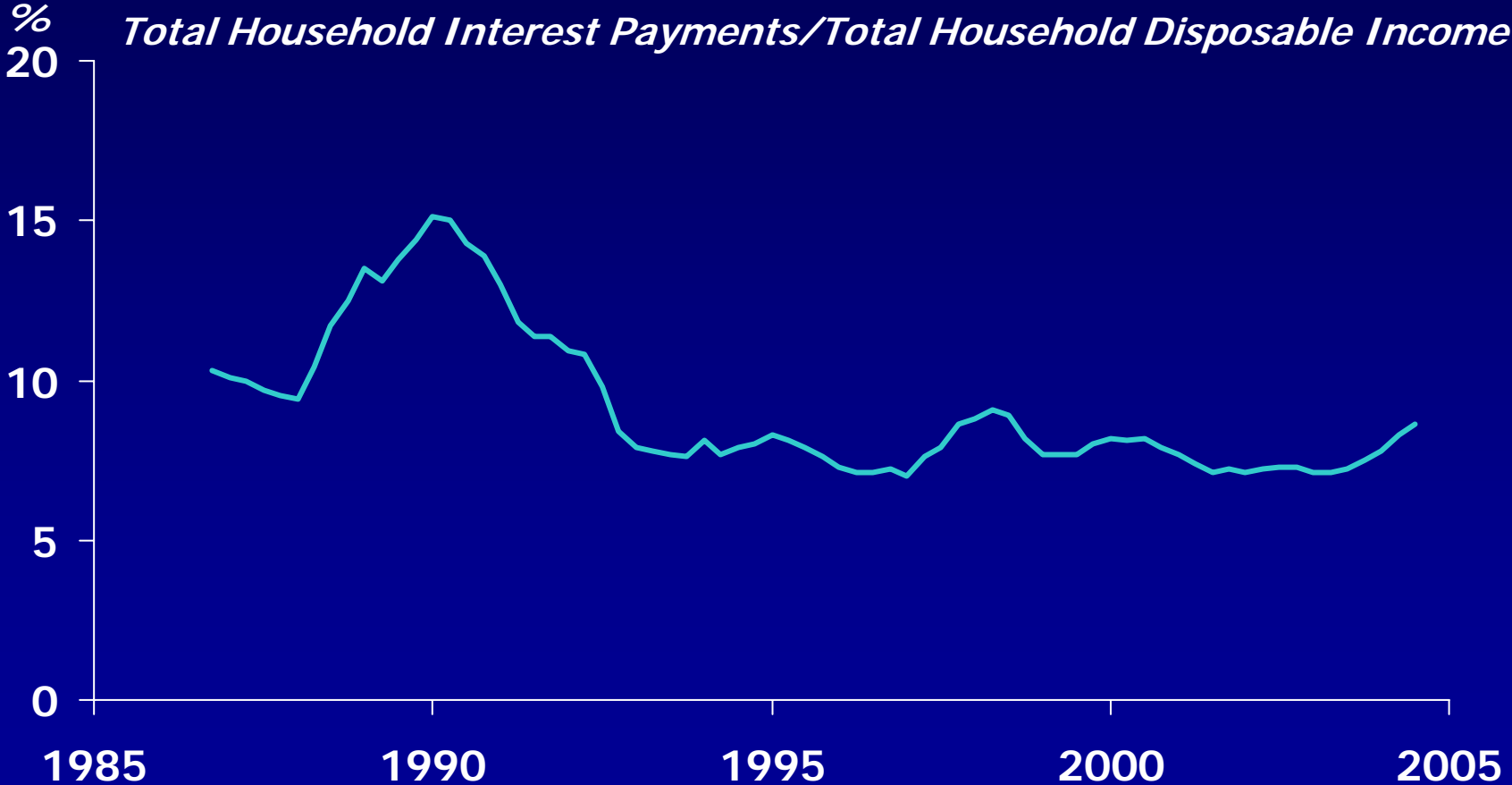
UK consumer confidence has remained stable



Source: GfK

Changes in Consumer Behaviour

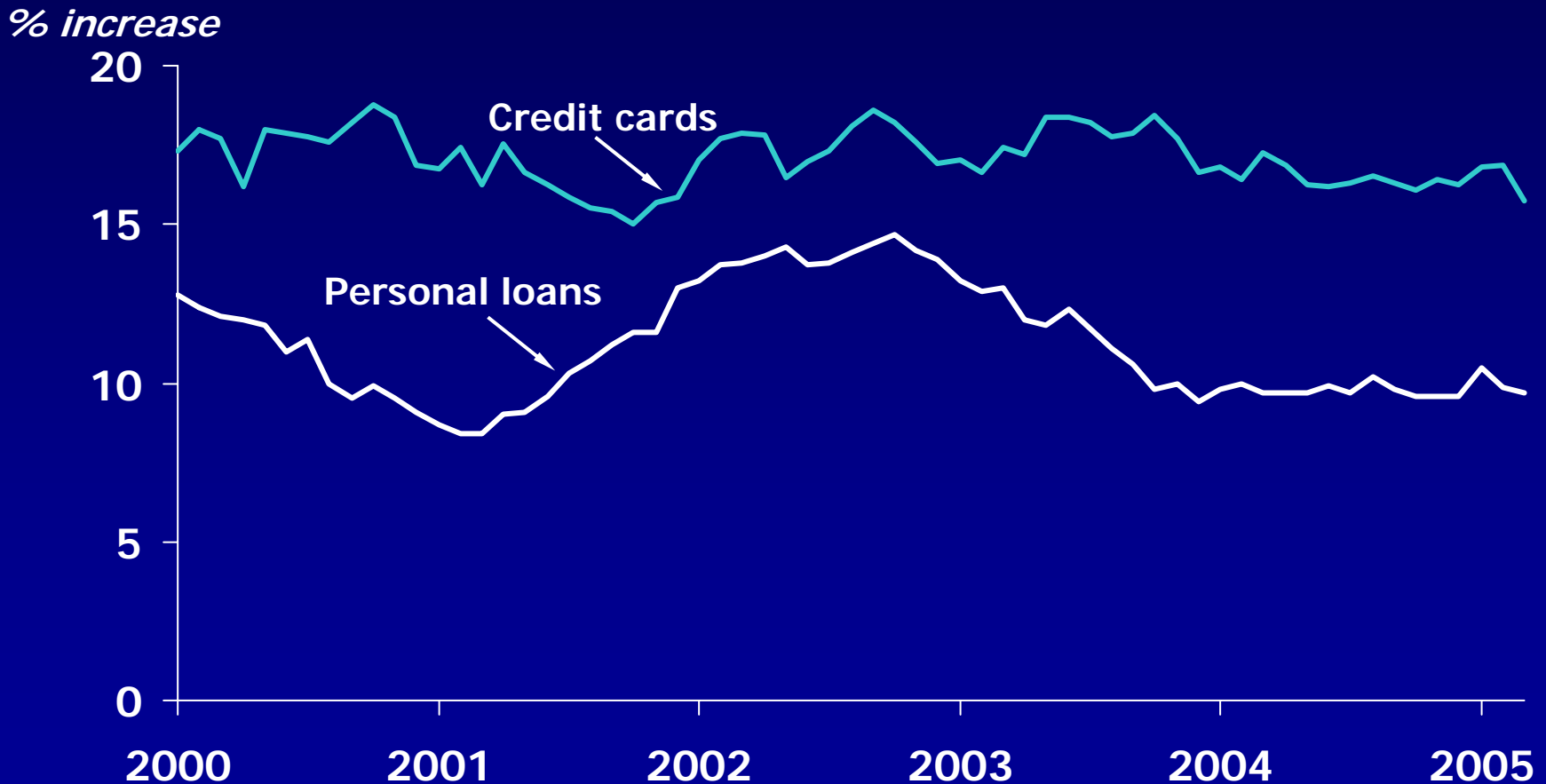
UK personal sector gearing remains low



Source: Bank of England (series commenced 1987)

Changes in Consumer Behaviour

But the rate of increase in personal loans has declined



Annual growth in unsecured balances
Source: Bank of England

Retail Banking and Retail Direct

% of Group Income 2004

Personal lending	8%
Personal deposits	6%
Non-interest income and small business banking	16%
Total	30%

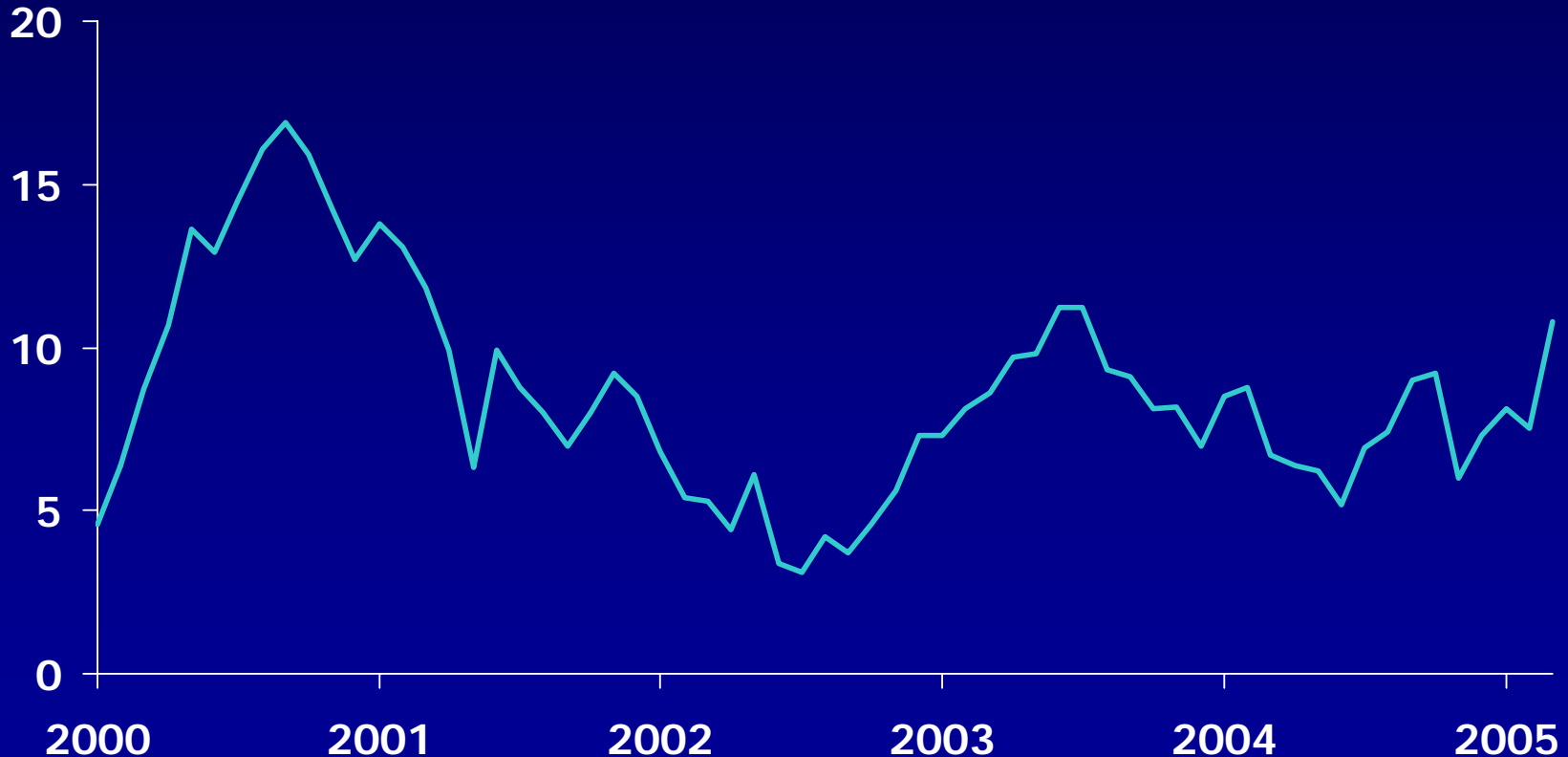
Retail Banking and Retail Direct

- Continuing income growth, although consumer in a period of transition
 - Reduced growth in income from unsecured lending
 - Increased volume of secured lending
- Continued growth in small business income and money transmission
- Some increase in arrears, but from historically low level

Increased Corporate Activity

UK Corporate sector lending is increasing

% increase



Month on prior year month growth in non-financial lending

Source: Bank of England, financial institution sterling net lending excl securitisations to PNFC, seasonally adjusted

Corporate Banking & Financial Markets

<i>Income</i>	<i>2004</i>	<i>2003</i>	<i>Change</i>
US (\$m)	1,996	1,541	+30%
Continental Europe (€m)	436	263	+66%

■ United States

- Established debt capital markets business, leveraging Greenwich Capital's customer relationships
- Increased distribution of CBFM products to Citizens' customers

■ Continental Europe

- Expanded activities in Germany, France, Italy, Spain and Scandinavia
- Increased focus on financial institutions and distribution of financial markets products

Corporate Banking & Financial Markets

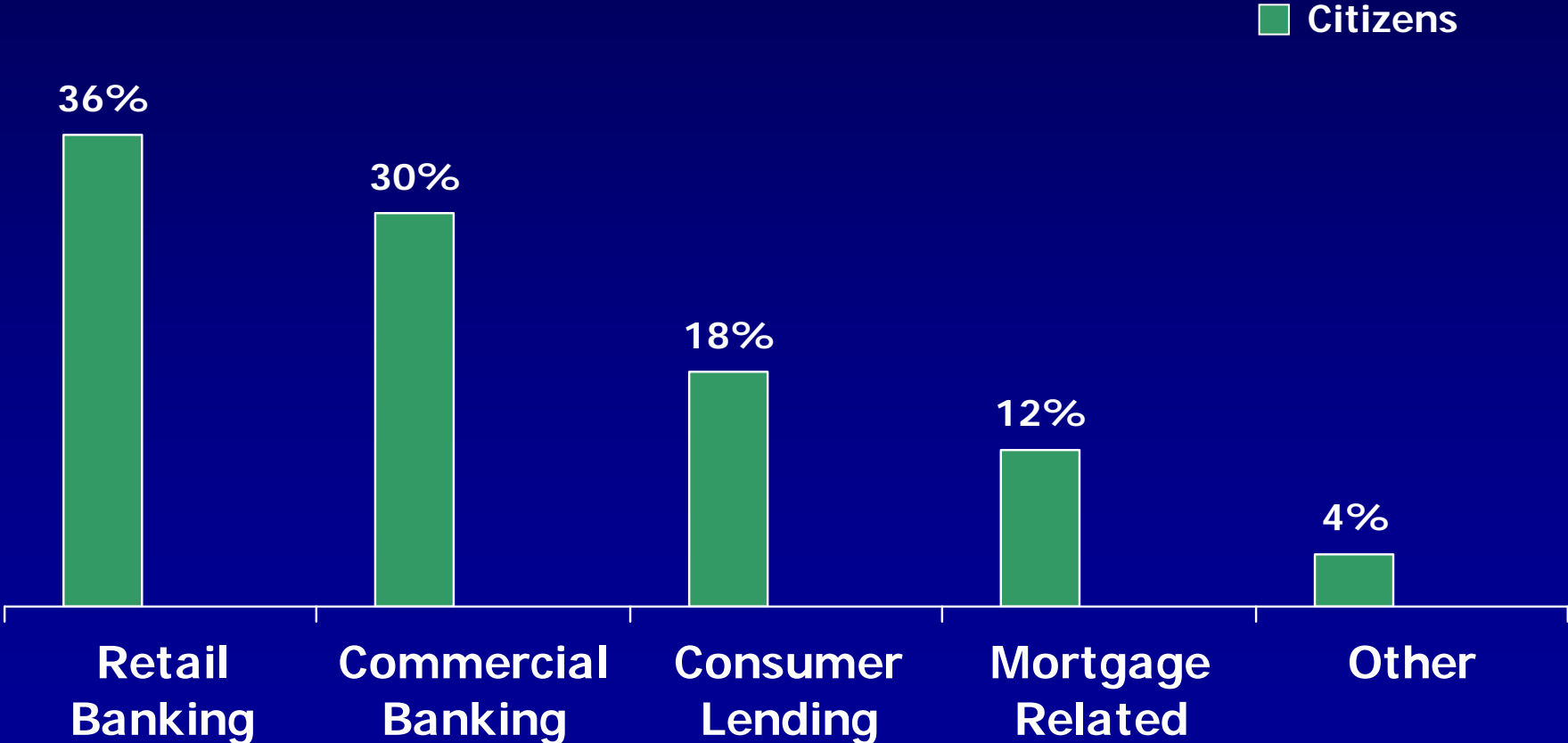
- UK activity levels good
- Strong momentum in Europe
- Good organic growth in US,
coupled with greater collaboration with Citizens
- Credit quality good

Charter One

- Acquired 1st September 2004
- Excellent fit with Citizens
- Substantial opportunities
 - Transaction benefits
 - Organic growth

Citizens

Distribution of 2004 Income by Activity

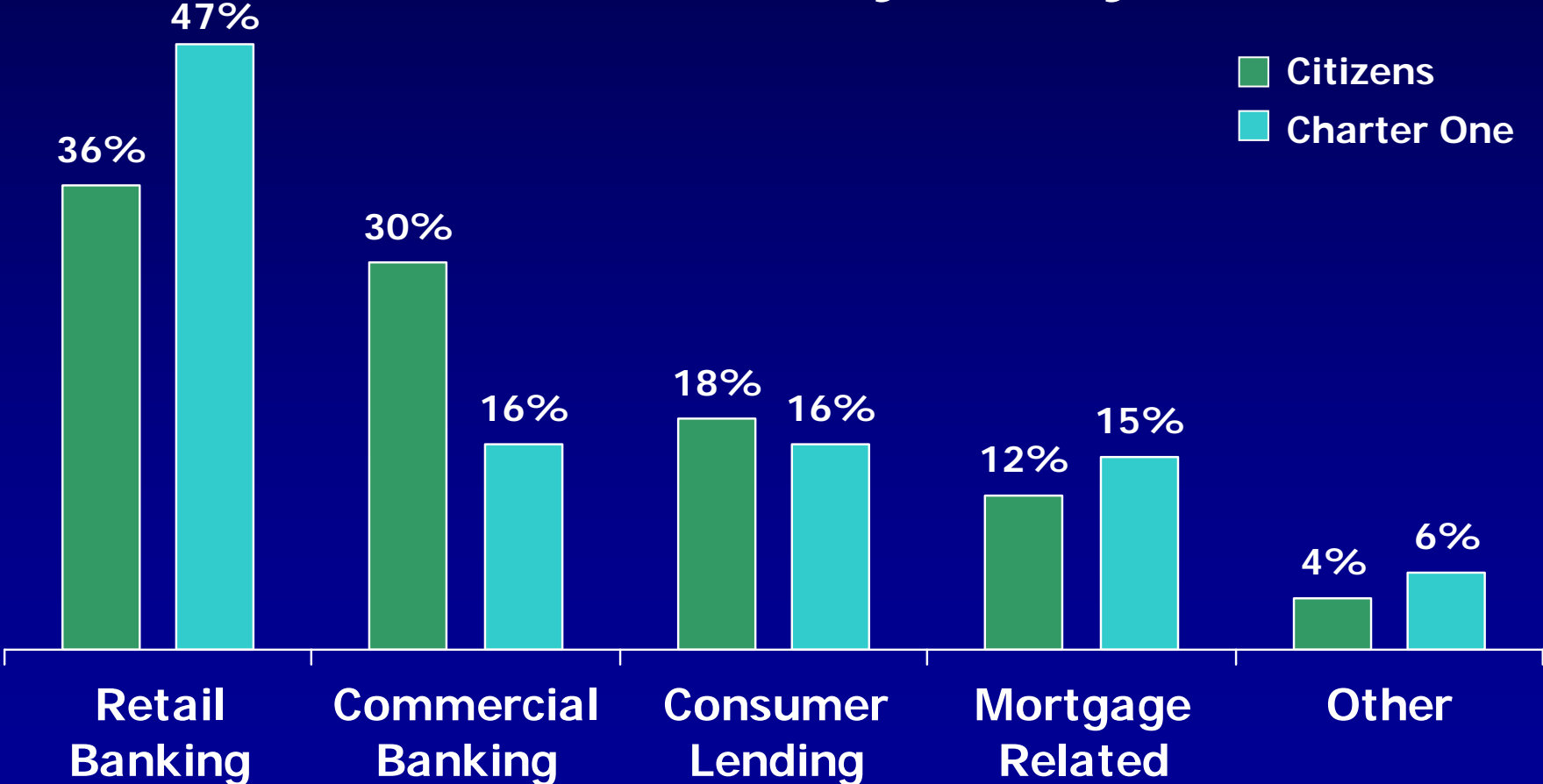


Citizens income 2004

Retail banking includes deposits and fees, commercial banking includes loans, deposits and fees

Citizens and Charter One

Distribution of 2004 Income by Activity



Citizens: 2004 income, Charter One: Sep-Dec 2004 income

Retail banking includes deposits and fees, commercial banking includes loans, deposits and fees

Transaction Benefits

*Contribution to
Profit Before Tax
in 2007
\$m*

Revenue benefits	222
Cost savings	185
Total	407

Opportunities for Organic Growth

	<i>Households 000s</i>
■ Citizens states	
– New England	4,767
– Mid-Atlantic	4,837
■ Charter One states	
– Midwest	15,490
– Northeast	3,416

Opportunities for Organic Growth

	<i>Population (m)</i>	<i>Total Deposits \$bn</i>	<i>Forecast H'hold Income Growth (04-09)</i>
<i>Midwest</i>			
Chicago, Illinois	9.4	220.5	13.2%
Detroit, Michigan	4.5	76.2	11.5%
Cleveland, Ohio	2.1	62.2	11.0%
Indianapolis, Indiana	1.6	23.7	13.4%

*Deposits exclude Credit Unions
Source: SNL Datasource*

Citizens

- Good underlying franchise growth
- Charter One
 - Initial performance good
 - Integration fully on track
 - Enhanced product range and new branches adding value
 - So far, so good
- Credit quality good

RBS Current Trading

Pre-close Trading Update

- Group continues to perform well in the first half of 2005
- Strong overall income growth
- Group's efficiency programme remains on plan to deliver previously stated benefits
- Credit quality good, credit metrics expected to remain stable overall
- Integrations of Churchill, First Active and Charter One remain fully on track
- Underlying profit growth remains broadly consistent with the comparable period

Impact of IFRS

IFRS Transition Report

- 2004 results restated for retrospective standards
- 2004 results proforma for all new standards
 - Profit before tax, a reduction of around 5%
 - Basic EPS an increase of around 10%
 - Adjusted EPS, a reduction of around 5%

Navigating the Sea of Change

Summary

- RBS has performed consistently well throughout periods of change
- Key strengths
 - Ability to grow income
 - Diversified income
 - Strong market positions
- Multiple growth opportunities



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