



The Royal Bank of Scotland Group

Strategy 2010

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Group Chief Executive



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Merrill Lynch Conference

<i>Year</i>	<i>Title</i>
2000	Bringing down the barriers
2001	Building competitive advantage in a volatile world
2002	Higher growth v lower risk the challenge ahead
2003	Living in a 1% world
2004	Managing complexity
2005	Strategy 2010

Strategy 2010

Is five years too far ahead to look?

- To produce budgets *yes*
- To predict markets *yes*
- To predict economic growth *yes*
- To produce business plans *yes*
- To consider strategic direction *no*

Strategy 2010

Strategic Direction

- Less precise than strategy
- Conditioned by both data and experience
- Conditioned by operating environment
- Conditioned by position and capabilities of the organisation



Strategy 2000 – 2005

Strategy 2000 – 2005

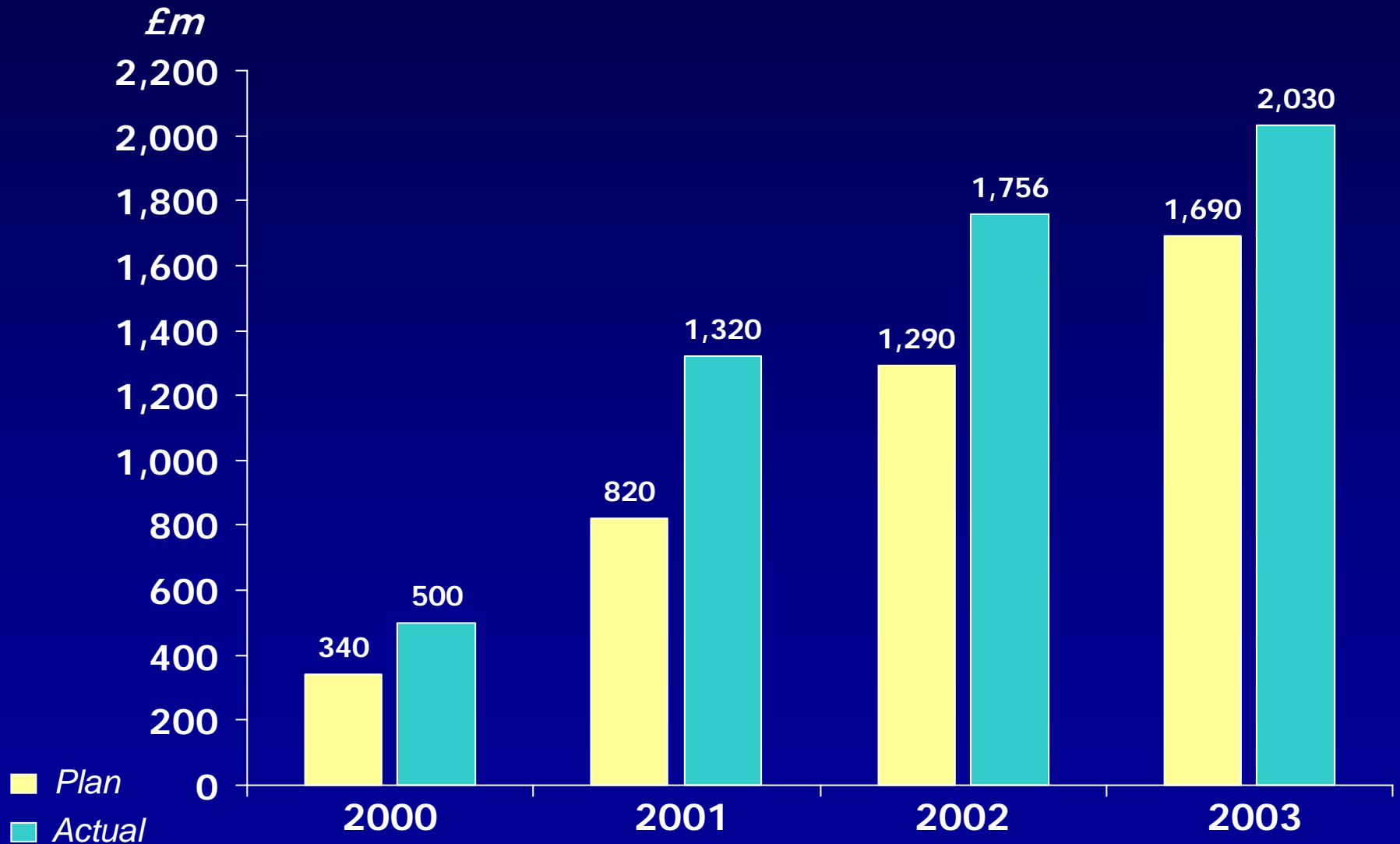
Position in 2000

- Acquired NatWest March 2000
- Many new opportunities and challenges

Immediate Priorities

- Deliver NatWest transaction benefits
- Achieve organic income growth
- Improve efficiency

Deliver NatWest Transaction Benefits



Achieve Organic 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%

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%

Improve Efficiency

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%
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

Strategy 2000 – 2005

Other Priorities in 2000

Geographic Mix

- UK 85% v rest of world 15%

Dependency on developments in UK economy

Income Mix

- Net interest income 48% v non-interest income 52%

Vulnerability to possible reduction in net interest margins

Strategy 2000 – 2005

Other Priorities in 2000

Corporate Banking & Financial Markets

- Strong in CB but not so strong in some areas of FM
- Strong in UK but little outside UK, except Greenwich

Direct Line

- Strong in motor but not so strong in home insurance

Ulster Bank

- Strong in Northern Ireland but not so strong in Republic

Strategy 2000 – 2005

Other Priorities in 2000

Wealth Management

- Strong in UK but not so strong outside UK

Retail Direct

- Credit cards and merchant acquiring strong in UK but no activities outside UK

Citizens

- Strong in New England but limited scale in consolidating US retail banking market

Strategy 2000 – 2005

Strategy as at 2000

Slide 25

United Kingdom + Ireland

Options for Additional Growth

- Organic growth
 - Retail Banking ✓✓✓
 - Corporate Banking and Financial Markets ✓✓
 - Retail Direct ✓✓
 - Wealth Management ✓
 - Direct Line ✓
 - Ulster Bank ✓
- Acquisitions
 - Tactical ✓
 - Strategic –

Slide 26

Continental Europe

Options for Additional Growth

- Organic growth
 - Retail Banking X
 - Corporate Banking and Financial Markets ✓✓
 - Retail Direct ✓✓
 - Wealth Management –
 - Direct Line ✓
- Joint ventures ✓✓
- Acquisitions of businesses ✓✓
- Acquisitions of universal banks X
- Merger of equals X

Slide 27

United States

Options for Additional Growth

- Organic growth
 - Citizens ✓
 - Corporate Banking and Financial Markets ✓
- Acquisitions of businesses ✓
- Acquisitions of banks
 - In-market ✓
 - Market extension ✓✓
 - Out of market –

Corporate Banking & Financial Markets

Strengthen Position in Financial Markets

Strengthen Position Outside UK

- Sequential development, by product and by geography
- Organic growth, building at each stage on existing platform and capabilities
- Stable cost:income ratio during period of expansion
- Stable risk appetite
- Transition to distribution-led international business
- Now top 10 globally in chosen markets

Corporate Banking & Financial Markets

Strengthen Position in Financial Markets

<i>Currencies</i>	<i>2001 Ranking</i>	<i>1H05 Ranking</i>
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Flow Products

Total spot FX globally	#11	#6
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Value Products

Vanilla FX options	#5	#5
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Exotic FX options	#5	#1
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Corporate Banking & Financial Markets

Strengthen Position in Financial Markets

<i>Interest Rates</i>	<i>2001</i>		<i>1H05</i>	
	<i>Market Share</i>	<i>Ranking</i>	<i>Market Share</i>	<i>Ranking</i>
<i>Flow Products</i>				
UK Gilts	6.7%	#5	11.9%	#2
US Treasuries	4.6%	#8	6.8%	#5
Interest rate swaps	5.9%	#7	7.5%	#5
<i>Value Products</i>				
Interest rate options	n/a	#9	n/a	#7
Inflation products	n/a	#5=	n/a	#3

Source: UK Debt Management Office, Federal Reserve Bank, ISDA, Risk Magazine, RBS estimates

Corporate Banking & Financial Markets

Strengthen Position in Financial Markets

Debt Capital Markets

	<i>Market Share</i>					
	<i>1H01</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>1H05</i>
Sterling	10.3%	10.1%	13.5%	15.9%	15.4%	16.3%
US\$	1.0%	1.0%	1.9%	1.9%	2.2%	3.1%
Euros	0.4%	0.5%	0.7%	1.8%	2.8%	3.8%
All currencies	1.3%	1.2%	2.0%	2.3%	2.8%	3.6%

Source: Bondware/Dealogic. All loans and bonds in each currency

All Currencies includes all international bonds, all syndicated loans and US domestic bonds and loans

Corporate Banking & Financial Markets

Strengthen Position Outside UK

<i>Total Income</i>	<i>1H01</i>	<i>1H05</i>	<i>Change % pa</i>
US (\$m)	490	1,302	+28%
Europe (€m)	113	447	+41%
Asia-Pacific (\$m)	47	147	+33%

Direct Line

Strengthen Position in Home Insurance

- 2003 Acquired Churchill Insurance

<i>RBS Insurance</i>	<i>2000</i>	<i>2005</i>
Motor insurance	#1	#1
Home insurance	#6	#2
General insurance	#3	#2
Total income (£m)	1,155	5,396

Ulster Bank

Strengthen Position in Republic of Ireland

- 2004 Acquired First Active

<i>Ulster Bank Republic of Ireland</i>	<i>2000</i>	<i>2005</i>
Current accounts	#4	#4
Mortgages	#6	#2
Savings	#5	#4
Total income (€m)	467	823

Wealth Management

Strengthen Position Outside UK

- 2003 Acquired Bank von Ernst in Switzerland
- Recruited additional private banking teams in Hong Kong and Singapore

<i>Coutts International</i>	<i>2000</i>	<i>2005</i>
Total income (£m)	138	223

Retail Direct

Establish Credit Card Issuing and Merchant Acquiring Capabilities in Europe and US

Europe

- 2003 Acquired Santander Direkt credit cards in Germany
- 2004 Established partnership with German retailer Tchibo
- 2004 Acquired Bibit internet payments acquiring business

US

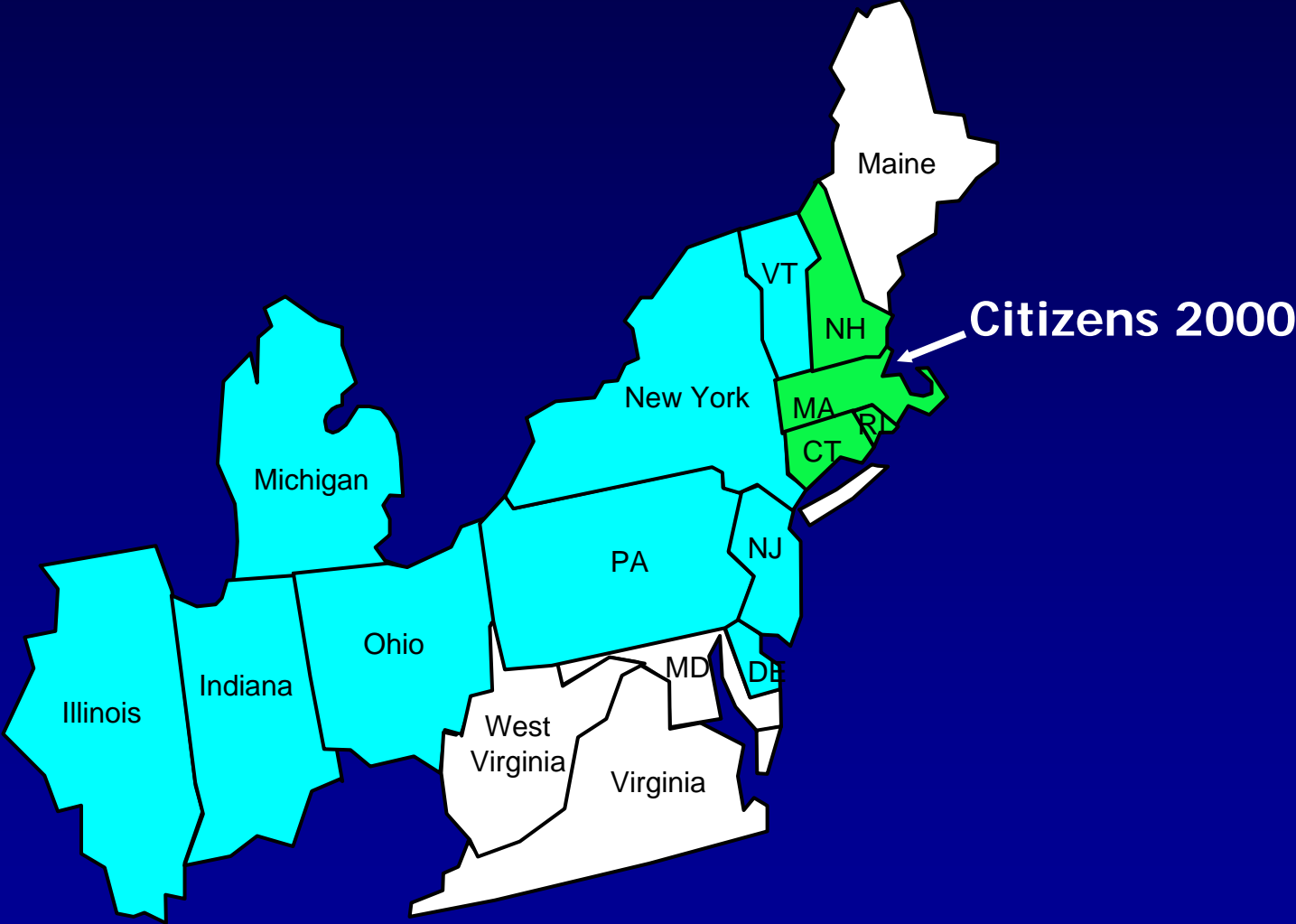
- 2004 Acquired People's Bank credit card businesses
- 2004 Established credit card JV with US retailer Kroger
- 2004 Acquired Lynk Systems payments acquiring business

Citizens

Achieve Scale in US Retail Banking

- 2001 Acquired Mellon Regional Franchise
- 2004 Acquired Charter One

Citizens



Citizens

<i>000s</i>	<i>Households</i>	<i>000s</i>	<i>Households</i>
<i>New England</i>		<i>Midwest</i>	
Rhode Island	424	Ohio	4,536
Massachusetts	2,506	Illinois	4,692
Connecticut	1,339	Michigan	3,886
New Hampshire	501	Indiana	2,399
<i>Mid Atlantic</i>		<i>North East</i>	
Pennsylvania	4,854	Upstate New York	1,658
		Vermont	248

Source: SNL Datasource as at 30 June 2003

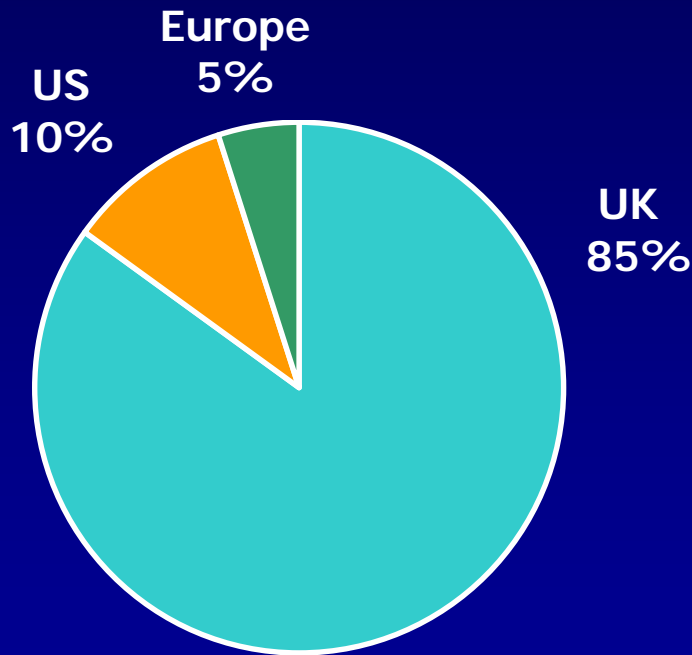
Citizens

<i>United States</i>	<i>2000 Citizens</i>	<i>2005 Citizens</i>	<i>RBS</i>
Deposits	#24	#8	#6
Assets	#32	#9	#6
Branches	#33	#7	#7
Supermarket branches	#23	#2	#2
ATMs	#40	#9	#9
Small business lending (SBA)	#9	#2	#2
Total income (\$m)	1,386	5,850	8,476

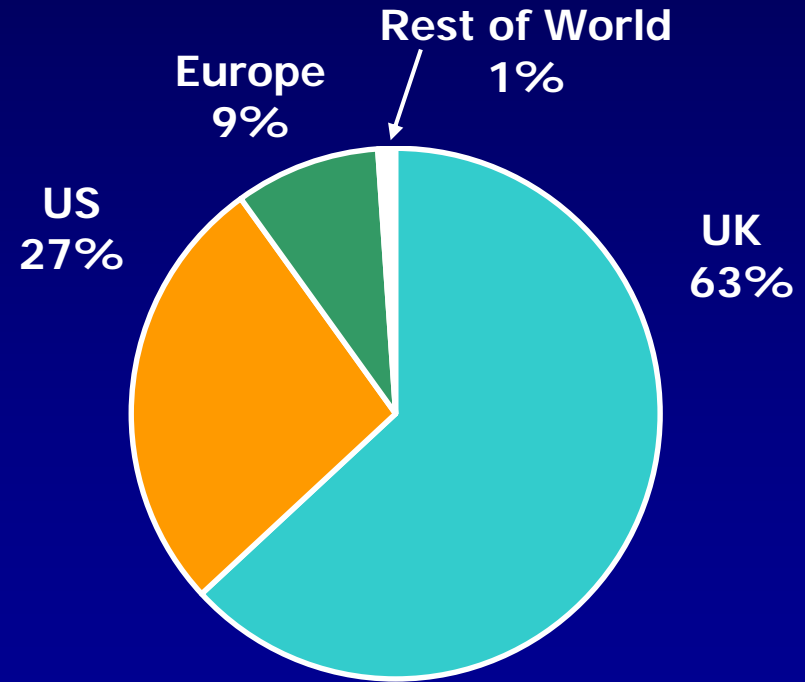
*Source: SNL/FFIEC, American Banker
2000 UK GAAP income, 2005 IFRS 1H05 income annualised*

Diversity – by Geographic Mix

*1999 Operating Profit
Pro forma*



1H05 Operating Profit

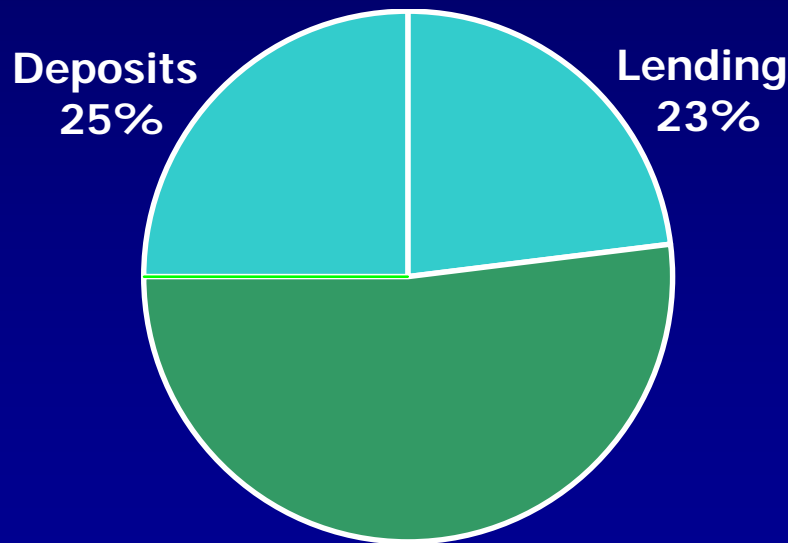


1999 operating profit is pro forma as if the acquisition of NatWest had taken place on 1 January 1999

Diversity – by Type of Income

1999 Income Pro forma

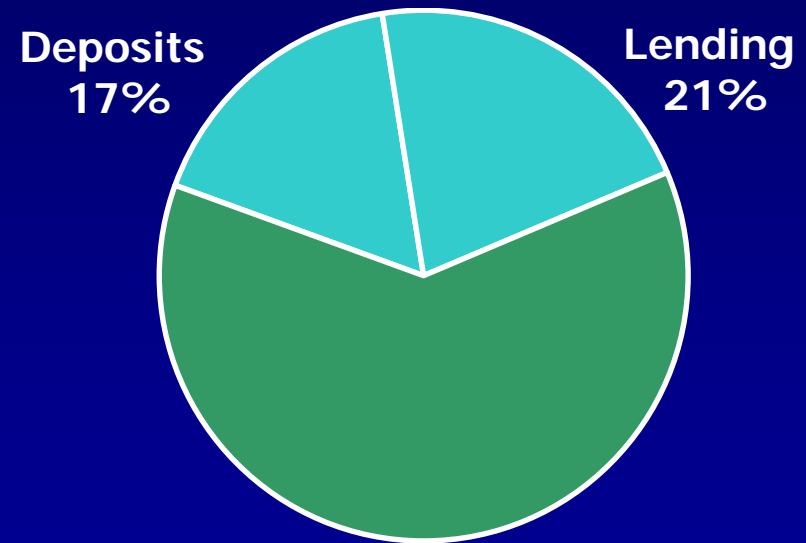
Net Interest Income 48%



Non-Interest Income 52%

1H05 Income

Net Interest Income 38%



Non-Interest Income 62%

1999 income is pro forma as if the acquisition of NatWest had taken place on 1 January 1999

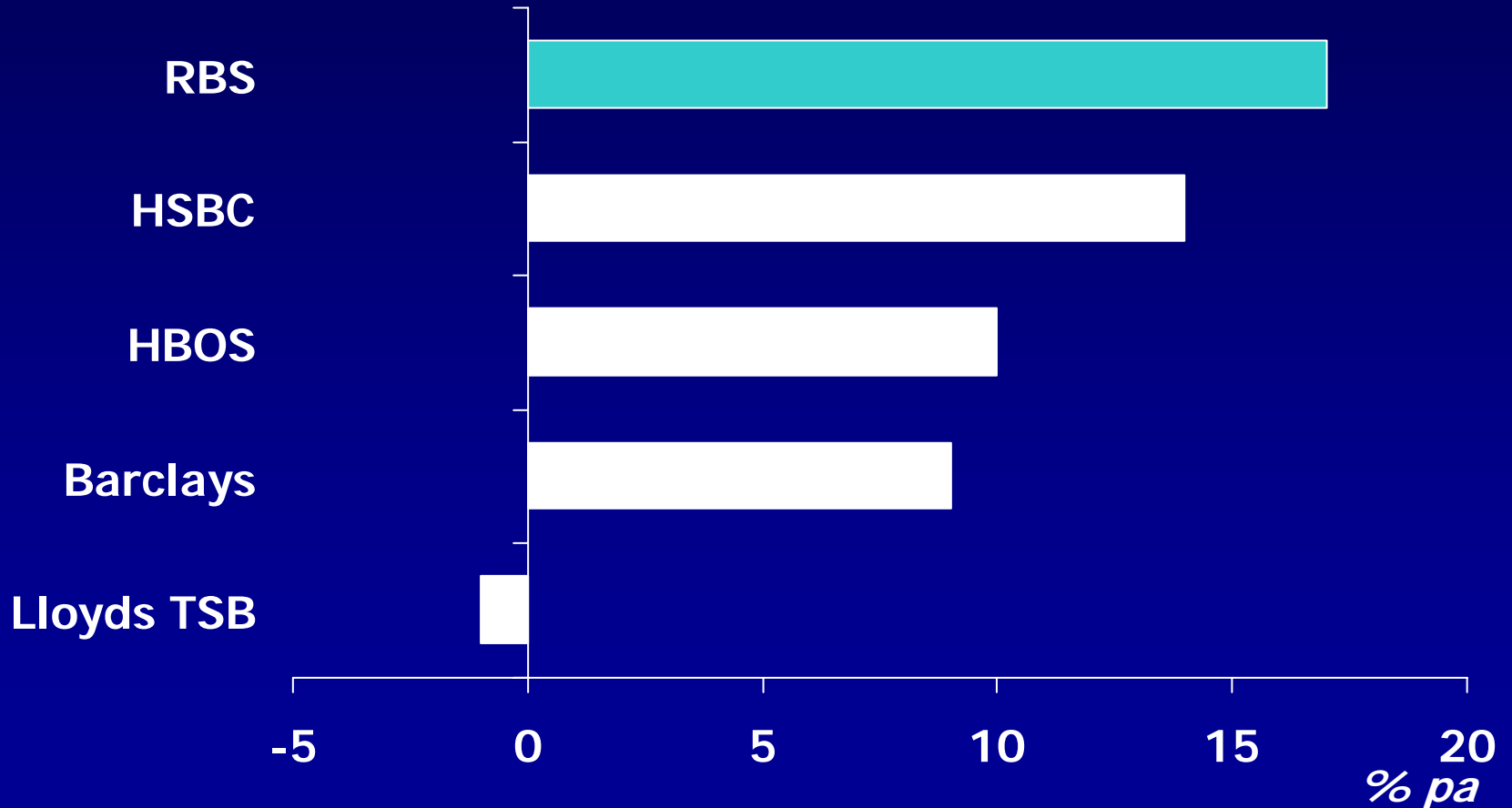
Strategy 2000 – 2005

Summary

- Delivered NatWest transaction benefits
- Achieved immediate priorities of organic income growth, improved efficiency and stable credit quality
- Addressed other priorities – strategic gaps

Strategy 2000 – 2005

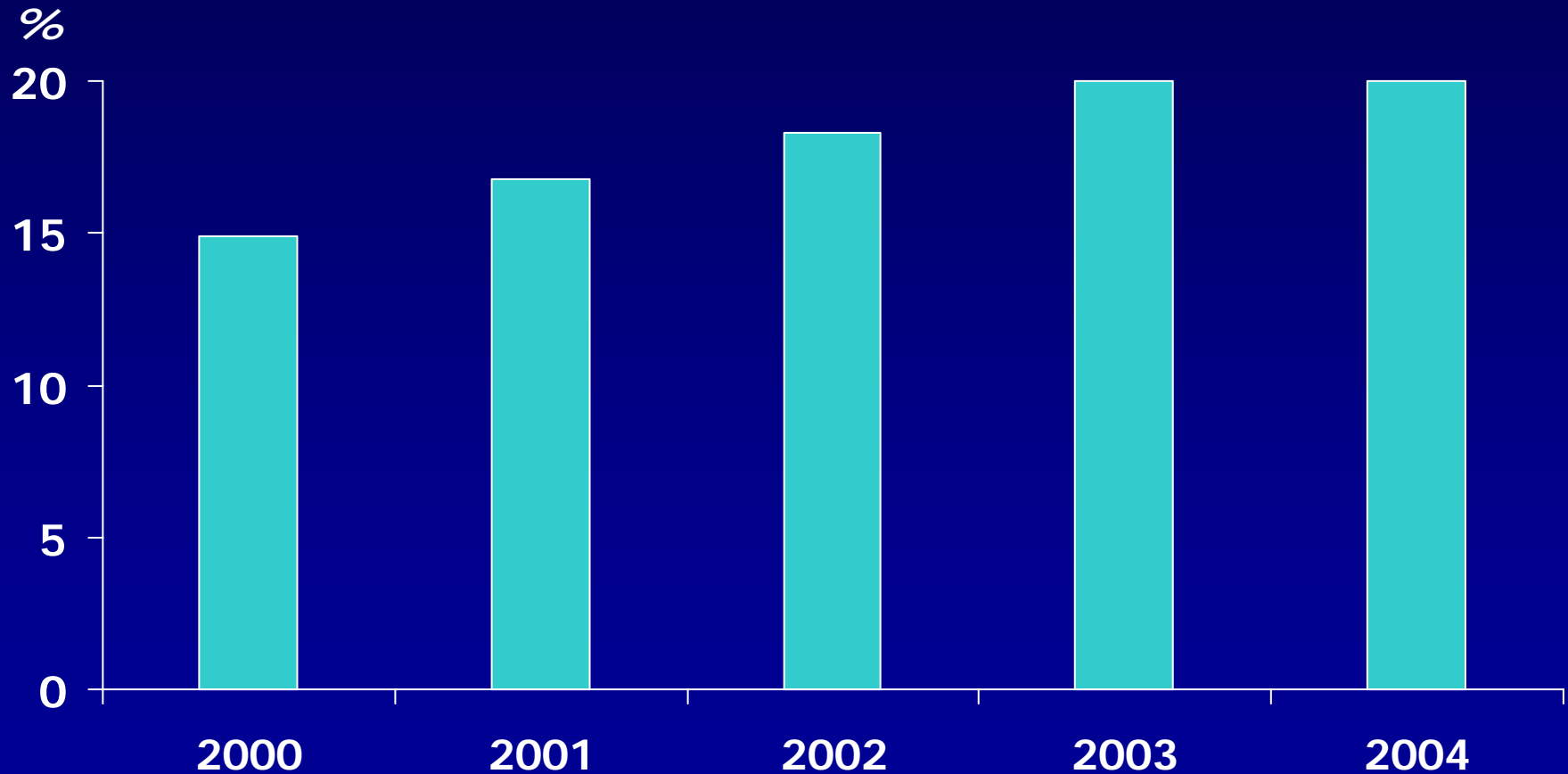
Growth in Earnings Per Share 1999 – 2004



UK GAAP Earnings per share excluding exceptional items and goodwill amortisation

Strategy 2000 – 2005

Return on Equity



After-tax return on ordinary equity excluding goodwill amortisation and integration costs

Strategy 2000 – 2005

Summary

- Delivered NatWest transaction benefits
- Achieved immediate priorities of organic income growth and improved efficiency
- Addressed other priorities – strategic gaps
- Delivered superior earnings growth
- Improved return on equity

Created platform for growth



Strategic Direction 2005 – 2010

Strategic Direction 2005 – 2010

Position in 2005

- No change in strategic direction
- Some evolution of strategic priorities
- Platform has been built
- Main priority is to leverage it

Strategic Direction 2005 – 2010

Position in 2005

- Strong position in UK
- Established platform in US
- Established platform in Europe
- Opportunities in Asia-Pacific
- No strategic need for acquisitions

Strategic Direction 2005 – 2010

Corporate Platforms Established

	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia-Pacific</i>
Financial institutions	✓	✓	✓	✓
Large corporates	✓	✓	✓	✓
Mid-corporates	✓	✓	X	X
Commercials	✓	✓	X	X
Small businesses	✓	✓	X	X

✓ *Platform established*

X *Not planned*

Strategic Direction 2005 – 2010

Retail Platforms Established

	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia-Pacific</i>
Branch banking	✓	✓	X	X
Consumer finance	✓	✓	✓	X
Wealth management	✓	X	✓	✓
Insurance	✓	X	✓	X

✓ *Platform established* X *Not planned*

United Kingdom

<i>UK Market Shares</i>	<i>Total RBS</i>
Current accounts	20%
Savings accounts	9%
Personal loans	11%
Mortgages	6%
Credit cards	14%
Life insurance	2%
Motor insurance	17%
Home insurance	11%
Small business relationships	28%

Source: NOP 2004, NFO 2004, RBS estimates

United States

	<i>1H04</i> \$m	<i>1H05</i> \$m	<i>Change</i> %
Citizens	1,687	2,901	+72%
Citizens (excluding Charter one)	1,687	1,890	+12%
Corporate Banking & Financial Markets	1,143	1,302	+14%

Europe

	<i>1H04</i> €m	<i>1H05</i> €m	<i>Change</i> %
Corporate Banking & Financial Markets	319	447	+40%
RBS Insurance	199	236	+19%
Retail Markets	214	236	+10%

Asia

	<i>1H04</i> \$m	<i>1H05</i> \$m	<i>Change</i> %
Corporate Banking & Financial Markets	111	147	+32%
Wealth Management	46	46	—

China

	<i>Population</i> <i>m</i>	<i>GDP</i> <i>2004</i> <i>\$bn</i>	<i>GDP</i> <i>95 – 04</i> <i>% pa</i>	<i>Inflation</i> <i>95 – 04</i> <i>% pa</i>
UK	60	2,141	2.9	1.6
EU	381	9,765	2.2	2.0
US	294	11,668	3.2	2.5
China	1,300	1,649	8.7	3.1

RBS/Bank of China Partnership

Investment in Bank of China

- RBS leading an investment of 10% in Bank of China for \$3.1 billion (£1.7 billion)
- RBS will itself invest \$1.6 billion (£0.9 billion)
- Appropriate warranties and protections
- Transaction subject to regulatory approvals
- Small increase in Tier 1 ratio, reflecting SCH shares sold
- Expect Tier 1 ratio to exceed 7% (IFRS basis) at end 2005

Bank of China

- Second largest bank in China, established 1912
- Traditionally focussed on trade-related activities
- 11,307 branches in Mainland China
- Market shares 12% of loans, 14% of deposits
- Most internationalised Bank in China
- Brand appeals to affluent personal customers and large corporate customers

RBS/Bank of China Partnership

Business Co-operation Possibilities

- Corporate banking
 - Shipping and aviation finance
 - Project and structured finance
 - Debt capital markets
- Retail banking
 - Joint credit card business
 - Onshore and offshore wealth management
- Insurance
 - Personal lines insurance

RBS/Bank of China Partnership

Infrastructure Co-operation Possibilities

- Corporate governance
- Risk management
- Financial management
- Human resources
- Information technology

Strategic Priorities

2000 – 2005

Grow income

Transform efficiency

Improve return on equity

Diversify

Create platform for growth

2005 – 2010

Grow income

Improve efficiency

Improve return on equity

Enhance

Leverage platform for growth



The Royal Bank of Scotland Group

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