



# Managing For Growth

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Group Chief Executive

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# Managing For Growth

*What are the required characteristics for growth?*

# Characteristics for Growth

- Organic growth
  - Large distribution capacity
  - Multiple brands
  - Low market shares
  - Diversity of income
  - Income momentum
- Acquisitions
  - Able to make good acquisitions
  - Good at integration of acquisitions

# Large Distribution Capacity

<i>Distribution Channels</i>	<i>UK Ranking</i>
■ Branches	#1
■ Supermarkets	#1
■ Telephone	#1
■ Internet	#? (large)
■ ATMs	#1
■ Relationship Managers	#1

# Multiple Brands

## *Multi-Brand, Multiple Channel Strategy*



# Multiple Brands

## *Multi-Brand, Multiple Channel Strategy*

- Appeals to different customer groups
- Allows different product variants, pricing
- Gives flexibility for future
- Allows management autonomy

# Low Market Shares

## *UK Market Shares*

## *Total RBS*

Current accounts	20%
Savings accounts	8%
Personal loans	10%
Mortgages	5%
Credit cards	15%
Life insurance	2%
Motor insurance	16%
Home insurance	13%
Small business relationships	29%
Corporate lead relationships	32%

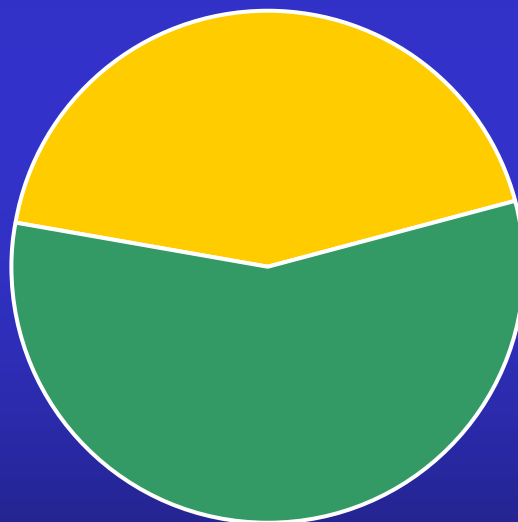
*Source: NOP 2003, NFO 2003, RBS estimates*



# Diversity of Income

## *RBS Income Mix 2003*

Net Interest Income 43%



Non-Interest Income 57%

# Diversity of Income

## *Non-Interest Income to Total Income 2003*

<b>RBS</b>	<b>57%</b>
Citigroup	49%
Bank of America	45%
Wells Fargo	44%
HSBC	38%

*HSBC including Household*

# Diversity of Income

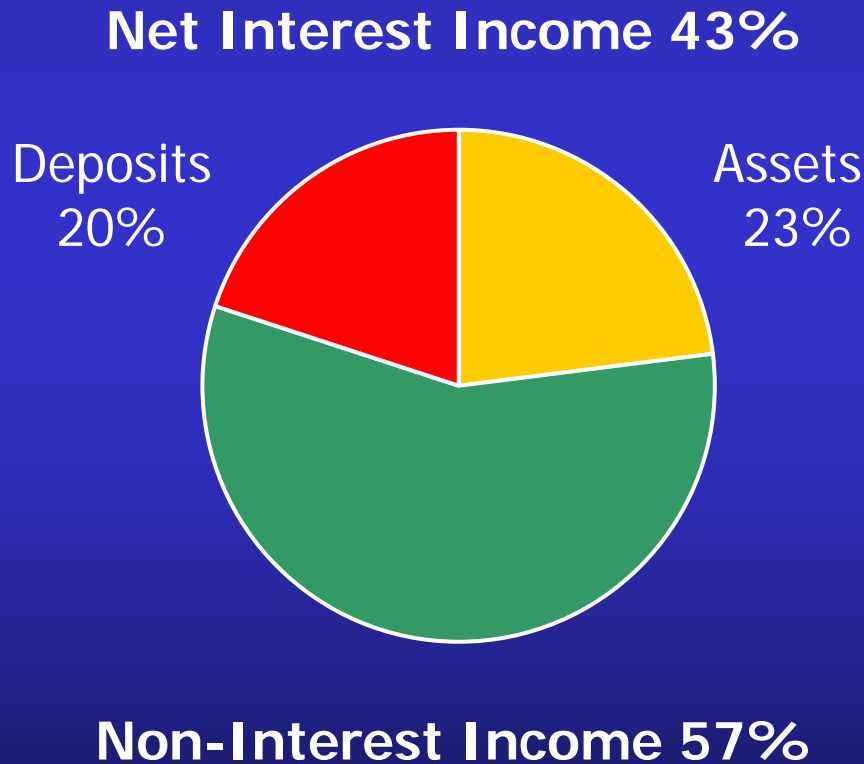
## *Non-Interest Income*

### *% of Total Income 2003*

Net fees and commissions	23%
– Money transmission and lending	12%
– Cards related	4%
– Other	7%
General insurance premium income	16%
Dealing profits (before associated costs)	9%
Other operating income	9%
<b>Non-interest income to total income</b>	<b>57%</b>

# Diversity of Income

## *RBS Income Mix 2003*



# Diversity of Income

## *Net Interest Income*

### *% of Total Income 2003*

Personal deposits	11%
Personal lending	12%
Business deposits	9%
Business lending	11%
<b>Net interest income to total income</b>	<b>43%</b>

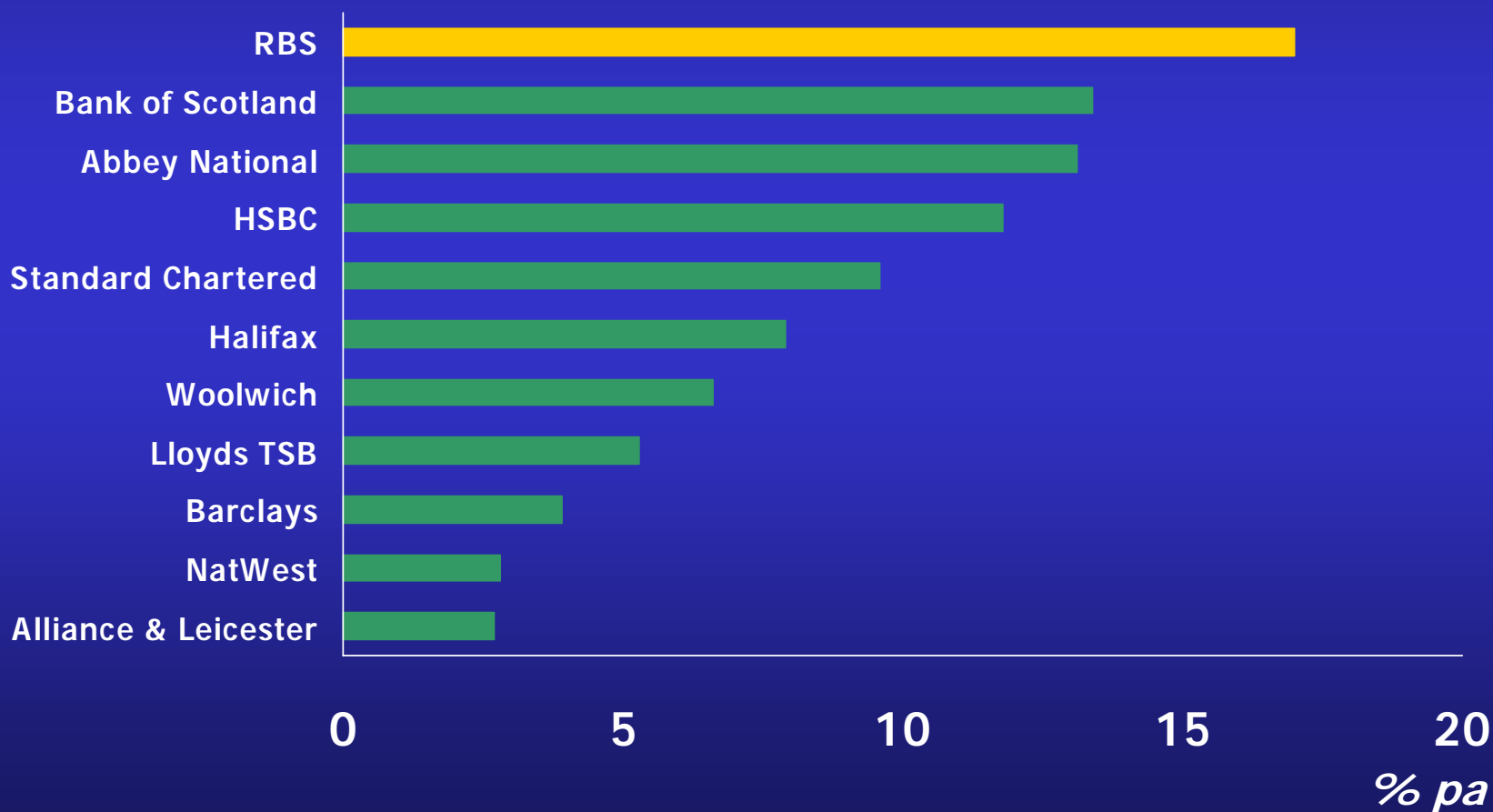
# Diversity of Income

- Not too dependent on personal lending

	<i>UK</i>	<i>Non-UK</i>	<i>% of Total Income 2003</i>
Consumer finance	7%	1%	8%
Mortgages	3%	1%	4%
<b>Personal lending</b>	<b>10%</b>	<b>2%</b>	<b>12%</b>

# Income Momentum

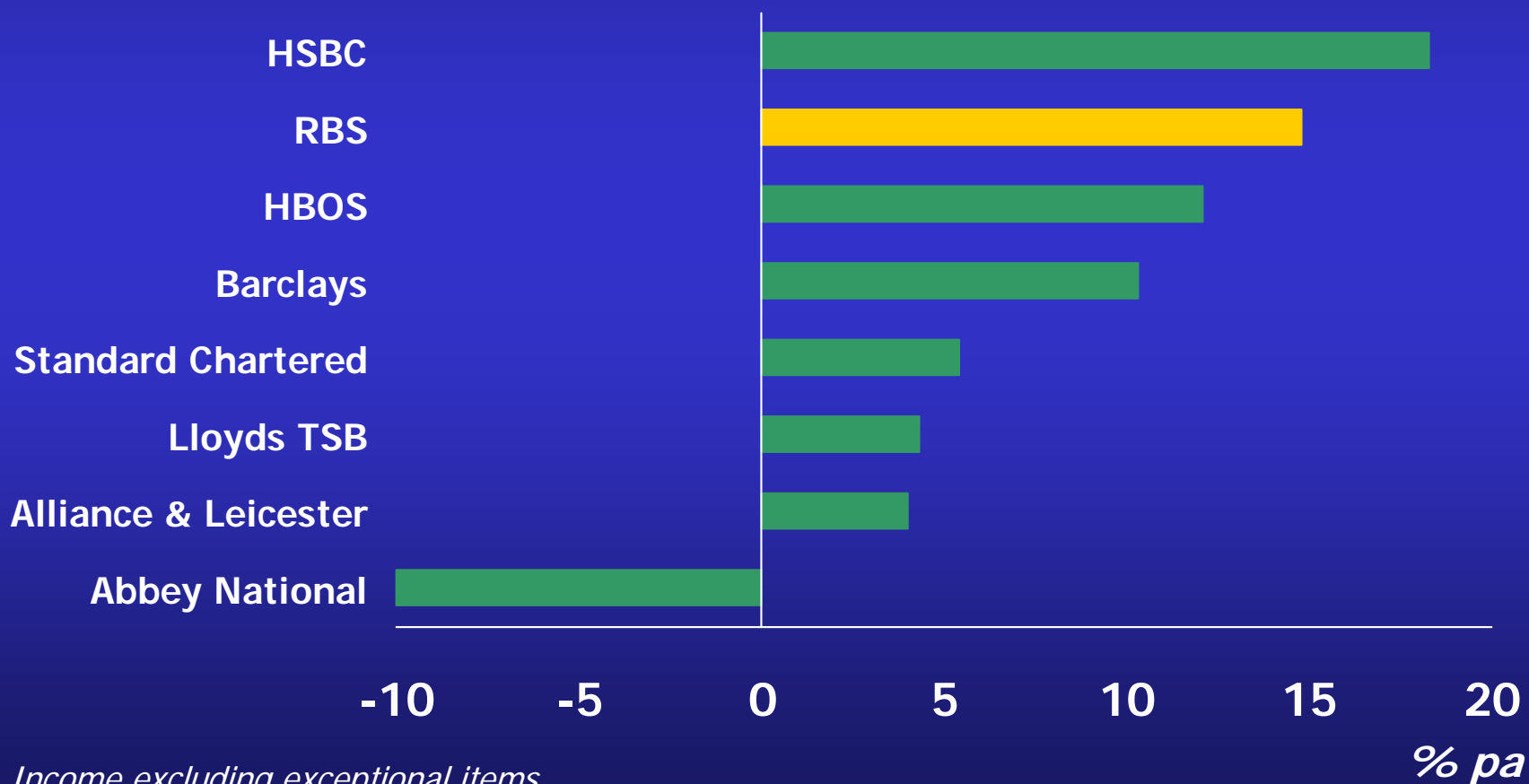
## *UK Banks Average Growth in Income 1992 – 1999*



*Income excluding exceptional items*

# Income Momentum

## *UK Banks Average Growth in Income 1999 – 2003*

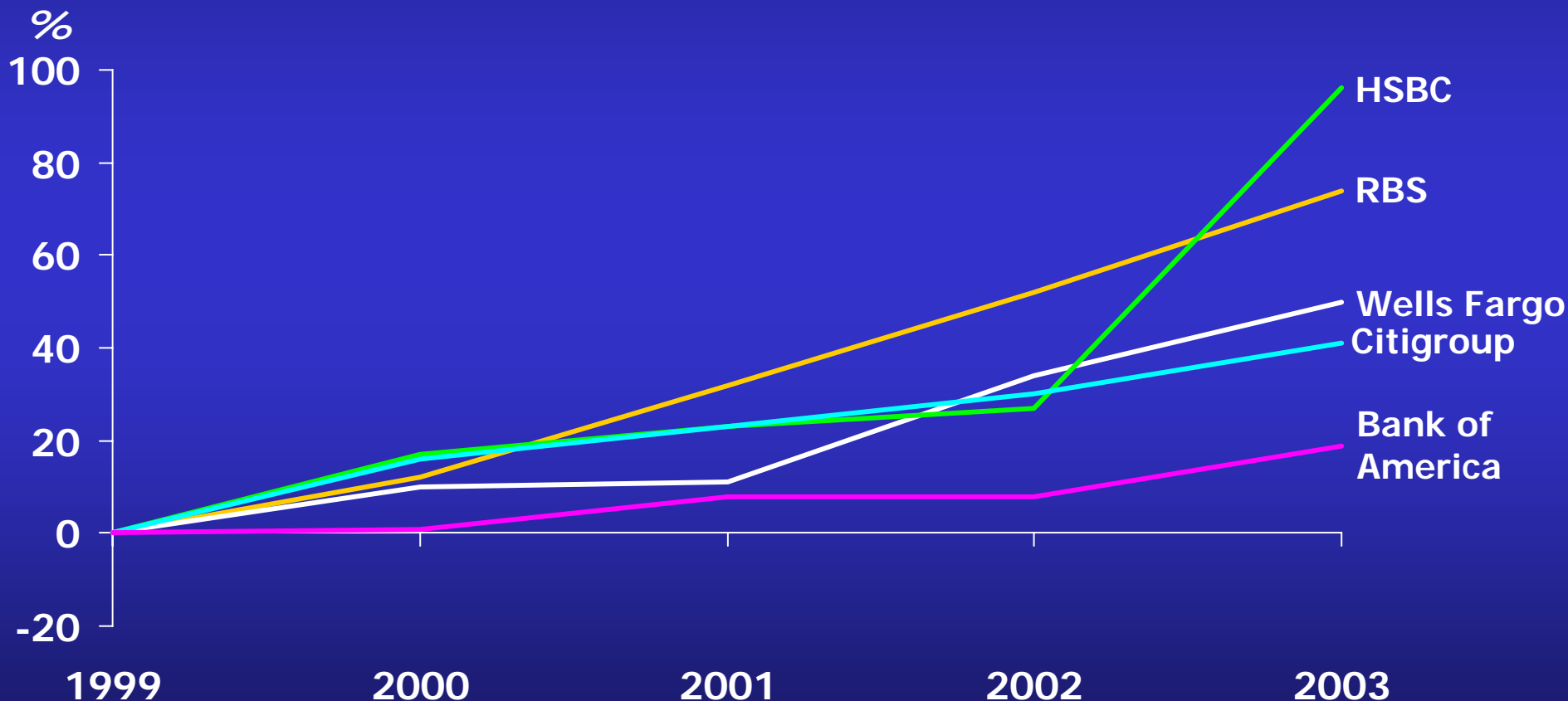


*Income excluding exceptional items  
HSBC including Household*



# Income Momentum

*World Banks Percentage Growth in Income from 1999*



*Income as reported by banks  
HSBC income including Household*

# Income Momentum

## *RBS Income Growth*

	<i>Pro forma 1999</i>	<i>2003</i>	<i>Change over 4 Yrs</i>	
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>%</i>
Total income	11,065	19,229	8,164	+74%

<i>Components of Income Growth</i>	<i>£m</i>	<i>% Total</i>
NatWest transaction benefits	872	11%
Other acquisitions	1,865	23%
Organic growth	5,427	66%
Total	8,164	100%

# Able to Make Good Acquisitions

- Expect to generate surplus capital
- Don't need to make acquisitions
- Can add to operations in
  - UK + Ireland
  - Continental Europe
  - United States
- Track record of good acquisitions

# Able to Make Good Acquisitions

<i>Date</i>	<i>Acquisition</i>	<i>Division</i>	<i>Consideration (m)</i>
1998 Sep	Balance of Citizens (23.5% from Bank of Ireland)	Citizens	\$750
1999 Oct	State Street (commercial banking)	Citizens	\$350
Nov	Green Flag	Direct Line	£223
2000 Jan	UST Corporation	Citizens	\$1,400
Mar	NatWest	RBS	£21,000
2001 Jul	Balance of Virgin One	Retail Direct	£100
Aug	International Aviation Management	CBFM	£16
Sept	Euro Sales Finance	CBFM	£70
Sept	Allstate Corporation (motor insurance, Germany/Italy)	Direct Line	\$20
Dec	Mellon Regional Franchise	Citizens	\$2,200
2002 Jan	Royal Insurance (motor insurance, Italy)	Direct Line	€20
May	Dixon Motors	CBFM	£118
Oct	Medford Bancorp	Citizens	\$273
2003 Jan	Commonwealth Bancorp	Citizens	\$450
Jun	Nordisk Renting	CBFM	€104
Jul	Port Financial Corporation	Citizens	\$285
Jul	Santander Direkt Bank (credit cards, personal loans)	Retail Direct	€486
Sept	Churchill Insurance Group	Direct Line	£1,100
Oct	Community Bancorp	Citizens	\$116
Nov	Bank von Ernst	Wealth Management	Swfr 500
2004 Jan	Roxborough Manayunk Bank	Citizens	\$136
Jan	First Active	Ulster Bank	€887
Mar	People's Bank (credit cards)	Retail Direct	\$360

# Good at Integration of Acquisitions

## *Approach*

- Minimal disruption to customer-facing activities
- Retain separate brands, if appropriate
- De-duplication of IT, processing and central functions
- Deliver promised revenue benefits and cost savings

# Good at Integration of Acquisitions

RBS + NatWest

Citizens + Mellon

- Large, complex integrations
- Substantial IT conversions
- Completed ahead of schedule
- Delivered cost savings and revenue benefits, ahead of expectations



# **Acquisition of Charter One**

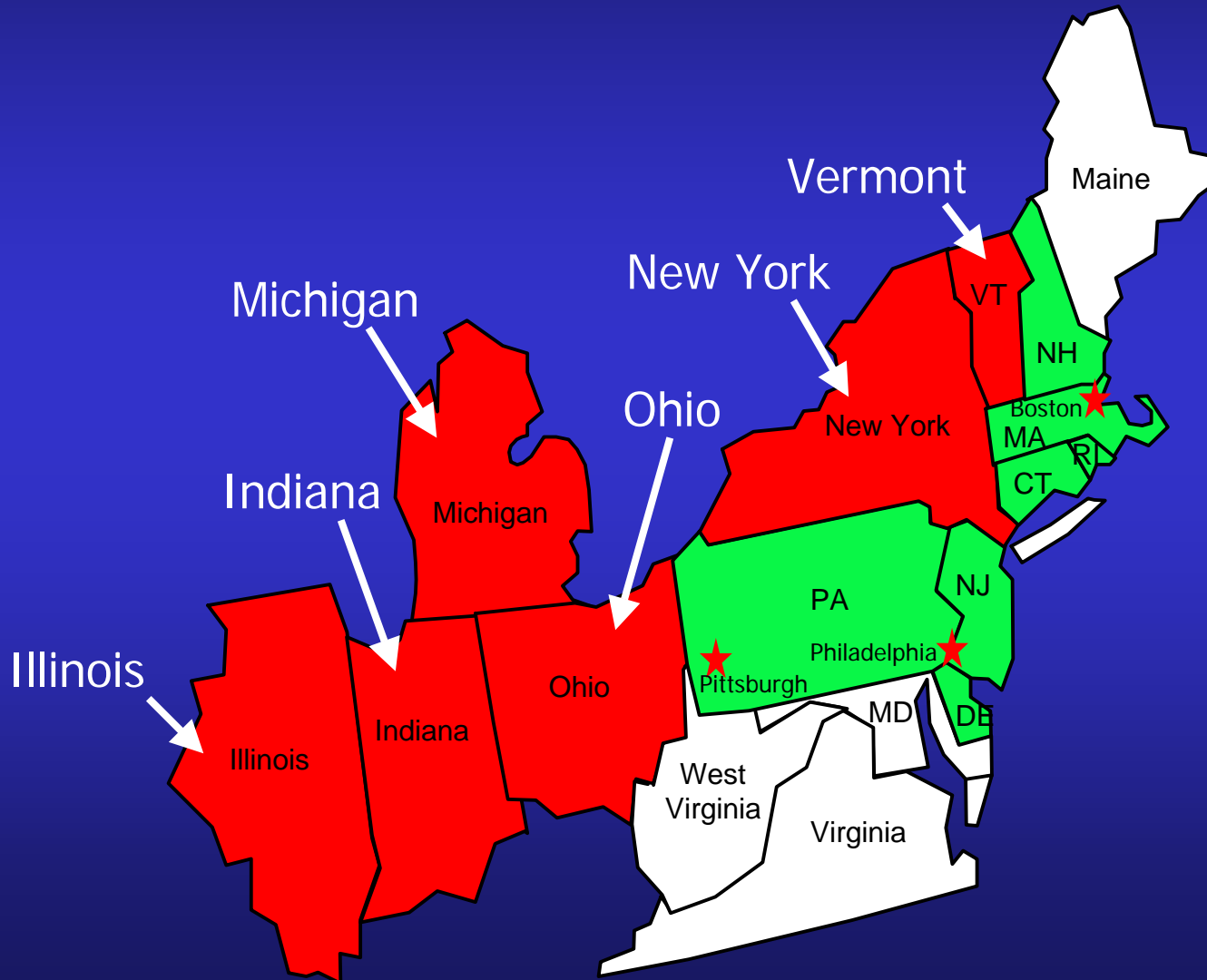


# Acquisition of Charter One

Strategic Rationale



# Logical Geographic Extension



# Opportunities for Organic Growth

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

Source: SNL Datasource as at 30 June 2003

# Opportunities for Organic Growth

<i>000s</i>	<i>Small Businesses</i>	<i>000s</i>	<i>Small Businesses</i>
<b><i>New England</i></b>		<b><i>Mid West</i></b>	
		Ohio	180
Rhode Island	21	Illinois	217
Massachusetts	128	Michigan	166
Connecticut	67	Indiana	98
New Hampshire	27	<b><i>North East</i></b>	
<b><i>Mid Atlantic</i></b>		Upstate New York	86
Pennsylvania	204	Vermont	16

Source: SNL Datasource as at 30 June 2003, US Small Business Association

# Options for Future Acquisitions

<i>State</i>	<i>Number of Banks/Thrifs</i>
<i>Mid West</i>	
Ohio	293
Illinois	671
Michigan	154
Indiana	191
<i>North East</i>	
Upstate New York	46
Vermont	24

# Significant Increase in Scale

	<i>Charter One</i>	<i>Citizens</i>	<i>Increase</i>
■ Customers (000s)			
– Personal	1,719	2,462	+70%
– Business	98	233	+42%
■ Branches			
– Traditional	456	615	+74%
– Supermarket	160	258	+62%
■ ATMs	988	1,661	+59%
■ Employees	7,843	15,779	+50%

# Significant Increase in Scale

<i>\$bn</i>	<i>Charter One</i>	<i>Citizens</i>	<i>Increase</i>
■ Customer deposits	27.2	62.8	+43%
■ Loans and advances	28.3	43.5	+65%
■ Total assets	42.6	76.8	+55%
■ Income (\$m 2003)	1,867	2,984	+63%
■ Expenses (\$m 2003)	791	1,438	+55%

*2003 Income and expenses: Citizens UK GAAP , Charter One US GAAP*

*End 2003 deposits, loans and advances and total assets: Citizens UK GAAP, Charter One US GAAP*

# Top 10 Bank in US

	<i>Deposits \$bn</i>
1. Bank of America	575
2. JP Morgan Chase + Bank One (pending)	503
3. Citigroup	499
4. Wells Fargo	248
5. Wachovia	232
6. US Bancorp	119
7. SunTrust Banks + National Commerce Financial (pending)	97
<b>8. Pro forma Citizens + Charter One</b>	<b>87</b>
8. HSBC North America	86
9. National City + Provident Financial (pending)	77
10. BB&T	64
<b>11. Citizens</b>	<b>60</b>
12. Fifth Third Bancorp	55
13. Regions Financial + Union Planters (pending)	54
14. ABN Amro North America	53
15. KeyCorp	50
16. PNC	48
17. Comerica	43
18. UnionBanCal	39
19. SouthTrust	36
20. M&T Bank	33

*US commercial banks, US GAAP deposits, 31 March 2004*

*Source: SNL DataSource*

# Top 10 Bank in US

	<i>Assets \$bn</i>
1. Citigroup	1,318
2. JP Morgan Chase + Bank One (pending)	1,121
3. Bank of America	1,016
4. Wachovia	411
5. Wells Fargo	397
6. US Bancorp	192
7. SunTrust Banks + National Commerce Financial (pending)	148
<b>8. Pro forma Citizens + Charter One</b>	<b>129</b>
8. National City + Provident Financial (pending)	128
9. ABN Amro North America*	127
10. HSBC North America*	126
11. BB&T	94
12. Fifth Third Bancorp	94
13. Bank of New York	93
14. KeyCorp	84
15. Regions Financial + Union Planters (pending)	81
<b>16. Citizens</b>	<b>80</b>
17. PNC	74
18. Comerica	55
19. SouthTrust	53
20. M&T Bank	51

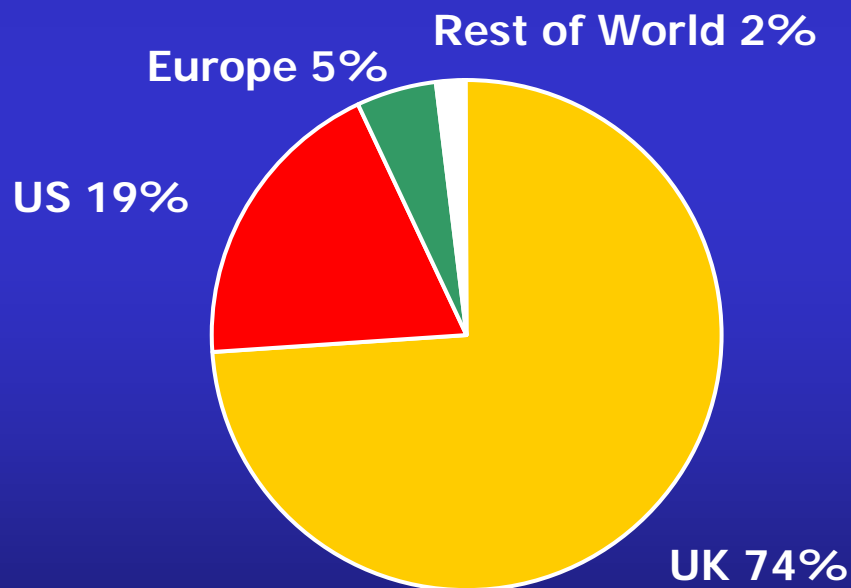
*US commercial banks, US GAAP, all figs as of 31 Mar 04 except \* which are as of 31 Dec 03*

*Source: SNL DataSource*

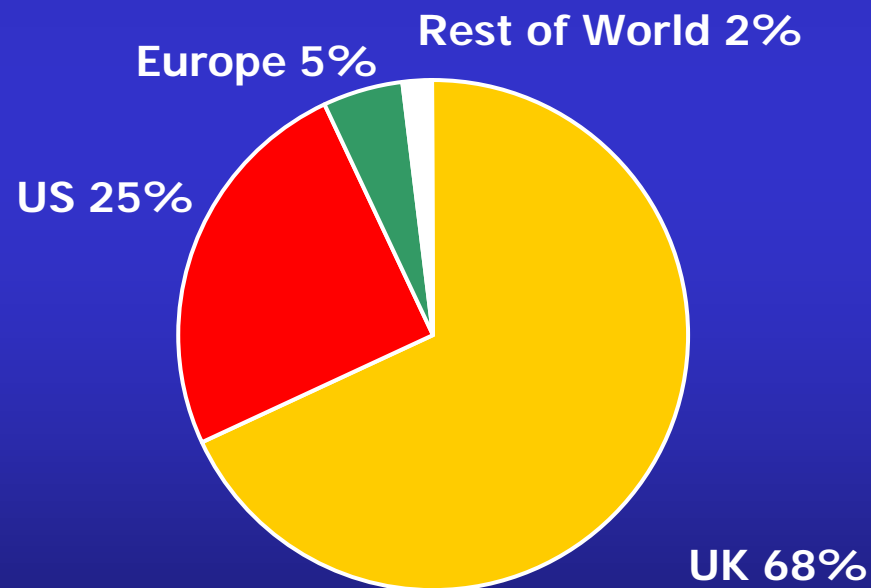


# Greater Contribution from US

*RBS Profit Before Tax  
Before Charter One*



*RBS Profit Before Tax  
After Charter One*





# Acquisition of Charter One

Transaction Benefits

# Transaction Benefits

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

Revenue benefits	222
Cost savings	185
<b>Total</b>	<b>407</b>

# Revenue Benefits

<i>Personal Banking Products</i>	<i>Charter One</i>	<i>Citizens</i>
■ Checking accounts		
– Free checking	✓✓✓	✓
– Relationship checking	–	✓✓✓
■ Savings accounts	✓	✓✓✓
■ Mortgages	✓✓✓	✓
■ Home equity	✓	✓✓✓
■ Investments	✓	✓
■ Credit cards	–	*

\* RBS announced purchase of People's Bank credit card business in February 2004

# Revenue Benefits

<i>Small Business Products</i>	<i>Charter One</i>	<i>Citizens</i>
■ Checking accounts	✓	✓✓✓
■ Business savings	–	✓✓✓
■ Loans	✓	✓✓✓
■ Business credit card	–	✓

# Revenue Benefits

<i>Mid-Corporate Products</i>	<i>Charter One</i>	<i>Citizens</i>
■ Cash management	–	✓✓✓
■ Loans	✓	✓✓✓
■ Sweep account (interest paying)	–	✓✓✓
■ Foreign exchange	–	✓✓
■ Derivatives	–	✓✓
■ Leasing	✓✓	✓✓

# Cost Savings

- Technology and Operations
  - Migrate technology to Citizens' systems
  - Consolidate operations
- Corporate overheads
  - Eliminate HQ costs
  - Combine central functions
- Business combinations
  - Combine auto finance businesses
  - Rationalise loan processing operations
  - Rationalise mortgage operations

# Transaction Benefits

<i><b>Mellon</b></i>	<i><b>\$m</b></i>	<i><b>Mellon</b></i>	<i><b>\$m</b></i>
Gross revenue benefits	242	Cost savings	101
Mellon income	719	Mellon costs	453
Benefits %		Savings %	
Mellon income	34%	Mellon costs	22%
<i><b>Charter One</b></i>	<i><b>\$m</b></i>	<i><b>Charter One</b></i>	<i><b>\$m</b></i>
Gross revenue benefits	378	Cost savings	185
Charter One income	1,867	Charter One costs	791
Benefits %		Savings %	
Charter One income	20%	Charter One costs	23%



# Low Risk Acquisition

- Charter One is similar to Citizens
  - Emphasis on retail banking
  - Focus on growth and efficiency
  - Strong credit quality
- No need for divestitures or disposals
- No branch closures
- Business is not 'broken'
- Citizens proven track record in acquisitions

# Transaction Financials

- Price per share \$44.50
- 15.1 times 2004 consensus earnings
- 13.9 times 2005 consensus earnings
- Exceeds Group hurdle rate (12% post tax)
- Earnings per share broadly neutral in first year, accretive thereafter
- Equity placing completed 5 May 2004
- Completion expected Q4 2004

# Acquisition of Charter One

## *Summary*

- Logical geographic extension
- Significant increase in scale
- Opportunities for organic growth
- Option for future acquisitions
- Significant transaction benefits
- Low risk acquisition
- Top 10 bank in US
- 25% of RBS profit before tax from US

# Managing For Growth

## ■ Organic growth

- Large distribution capacity
- Multiple brands
- Low market shares
- Diversity of income
- Income momentum



## ■ Acquisitions

- Able to make good acquisitions
- Good at integration of acquisitions





# Managing For Growth

Fred Goodwin  
Group Chief Executive