



Managing Complexity

Sir Fred Goodwin
Group Chief Executive

Managing Complexity

1 Step Process

- Reduce complexity

Managing Complexity

Reduce Complexity

Step 1.i Limit business activity to contiguous/complementary areas

- We haven't diversified into
 - Equity trading and sales
 - Mergers and acquisitions advisory services
 - Institutional fund management
 - Life assurance manufacturing

Managing Complexity

Reduce Complexity

Step 1.i Limit business activity to contiguous/complementary areas

- We have diversified
 - geographically:
Mellon, Charter One, other Citizens acquisitions, Bank von Ernst, First Active, People's Bank, BIBIT, Lynk Systems
 - Green Flag, Dixon Motors

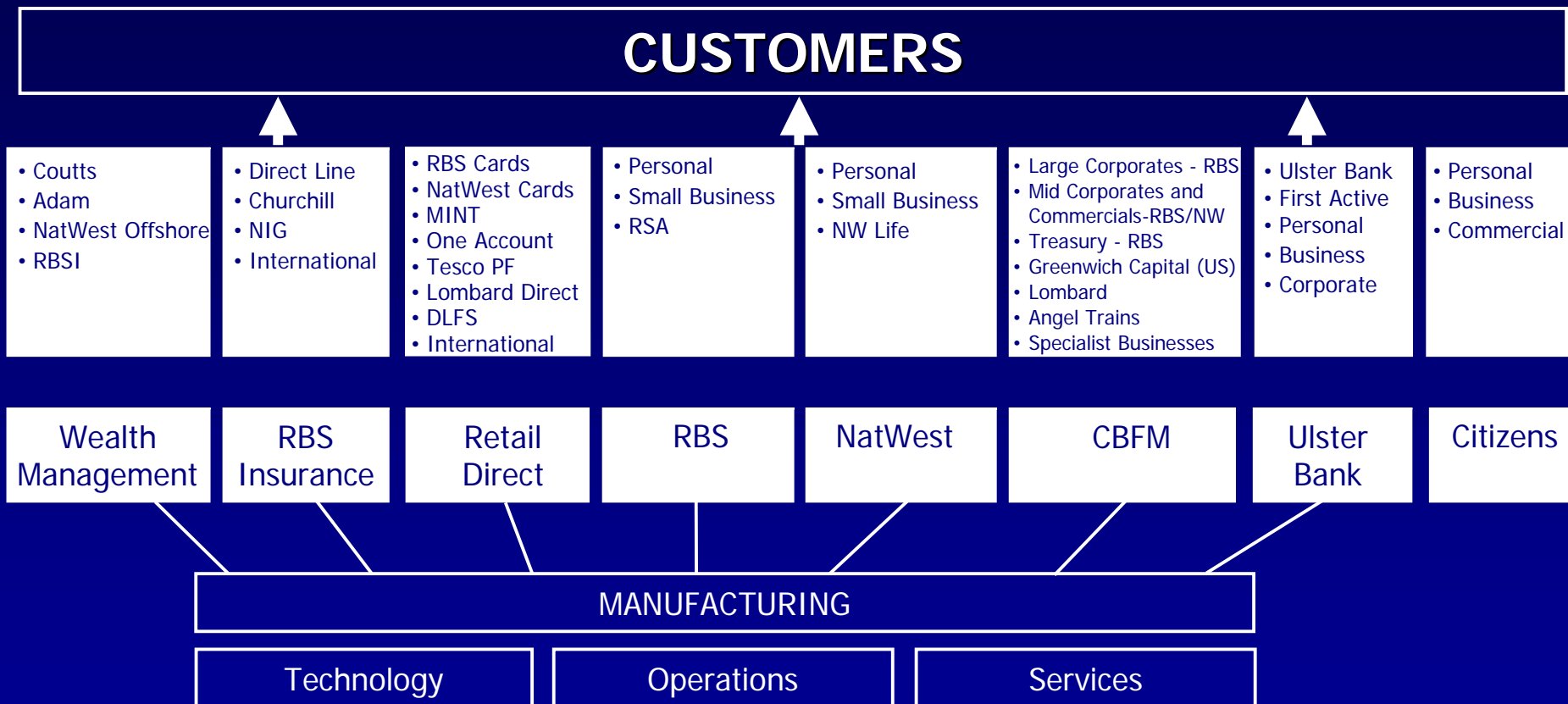
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Reduce Complexity

Step 1.ii Establish appropriate organisation structure

- Group similar activities together, creating
 - Centres of excellence
 - Specialisation
 - Economies of scale
- Maintain consistency

Group Structure



Managing Complexity

Reduce Complexity

Step 1.iii Create appropriate operating model

- Featuring
 - Clear delegation of responsibility
 - Clear reporting requirements
 - Clear performance management regime
 - Effective communication (bi-directional)
 - Appropriate 'clock speed'

- Must maintain consistency

Managing Complexity

Reduce Complexity

Step 1.iv Create clarity of objectives

- What are we trying to do?
Objectives should be
 - Group wide
 - Aspirational
 - Achievable
 - Not too detailed
- High level objective
“We aim to deliver superior sustainable value for our shareholders, customers and staff”

Managing Complexity

Reduce Complexity

Step 1.iv Create clarity of objectives

- More specific objectives
 - Achieve superior income growth
 - Improve cost:income ratio
 - Maintain/improve credit quality
 - Increase customer numbers and satisfaction
 - Improve employee opinion survey scores

- Must maintain consistency

Managing Complexity

Reduce Complexity

Step 1.v Create clarity of required outcome

- Disciplined approach to
 - Budgets
 - Action plans
 - Cost recharging (not favoured)
 - Project/transaction investment hurdles
 - Incentives and rewards
- Must maintain consistency

Managing Complexity

We have maintained consistency of our model since 1999

- But has it enabled us to cope with increasing complexity?

The Royal Bank of Scotland Group

<i>Complexity Context</i>	<i>1999</i> <i>(pre-NatWest)</i>	<i>2003</i>	<i>2004</i>
Employees	32,670	120,900	133,500
Income (£m)	4,138	19,229	
US income (£m)	549	2,792	
Operating profit (£m)	1,211	7,151	

- Transformation of scope and scale of Group, through combination of
 - Acquisitions
 - Organic growth
 - New businesses

Acquisitions 1999 – 2004

<i>Date</i>	<i>Acquisition</i>	<i>Division</i>	<i>Consideration (m)</i>
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
Sep	Euro Sales Finance	CBFM	£70
Sep	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
Sep	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
May	Bibit	Retail Direct	€93
Sep	Charter One	Citizens	\$10,500
Sep	Lynk Systems Inc	Retail Direct	\$525

Income Growth 2000 – 2003

	<i>Pro forma</i>		<i>Change over 4 Yrs</i>	
	<i>1999</i>	<i>2003</i>	<i>Change over 4 Yrs</i>	<i>%</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%

UK Financial Services New Entrants

	<i>Commenced</i>	<i>Profit/(Loss) 2003</i>
Scottish Widows Bank	1995	£17m
Goldfish	1996	(£30m)
The One account	1997	£27m
Sainsbury's Bank	1997	£22m
Tesco Personal Finance	1997	£160m
Egg	1998	(£34m)
Standard Life Bank	1998	£5m
Direct Line Rescue	1998	£31m
Marbles	1999	not reported
Smile	1999	not reported
Cahoot	2000	(£15m)
Intelligent Finance	2000	(£53m)
Zurich Bank	2001-03	closed Mar 03

Profit/(loss) before exceptional items

Managing Complexity

Model has had to cope with increasing complexity

- But has it delivered results in line with our objectives?

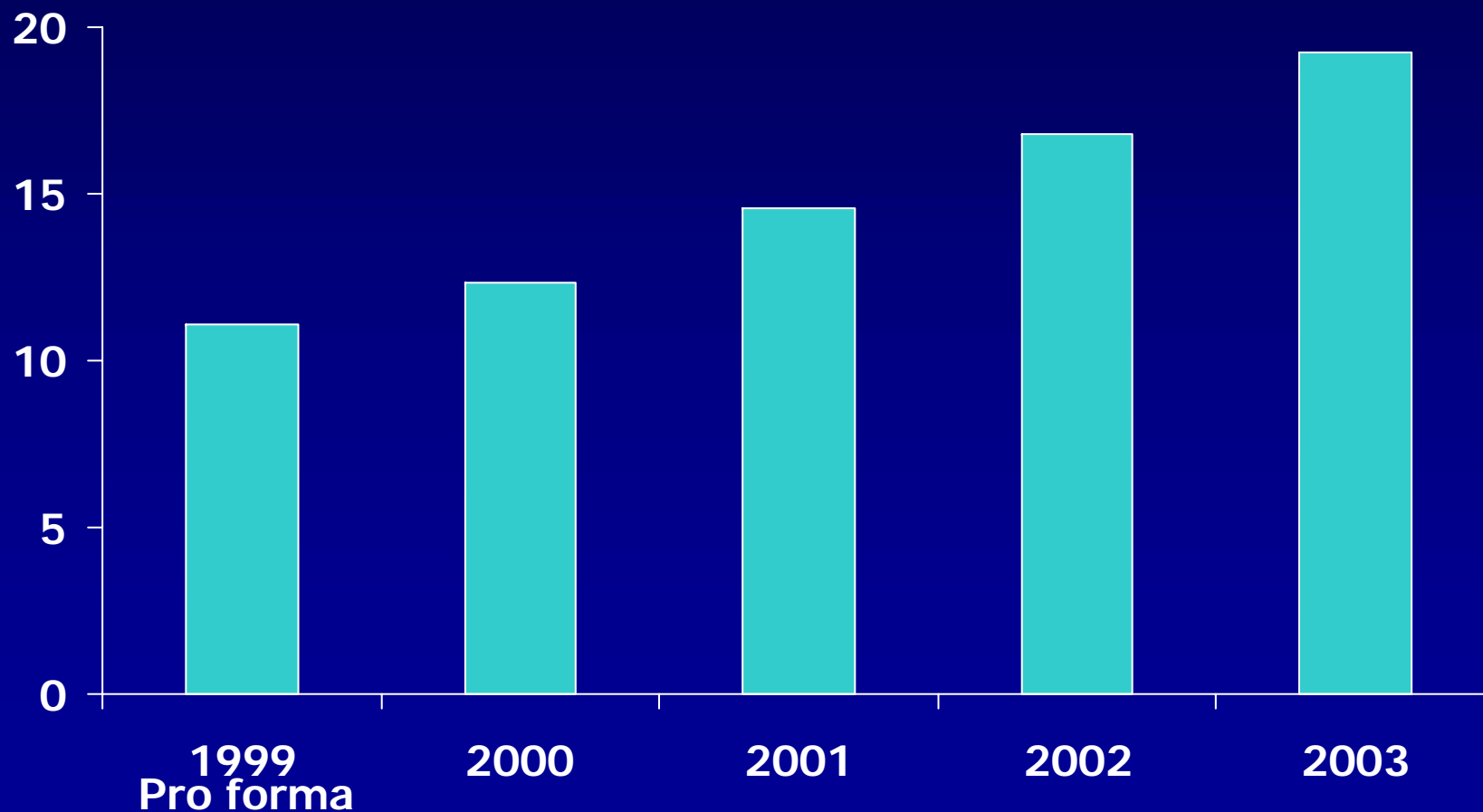
Creating Value for Shareholders

- Grow income
- Improve efficiency
- Maintain credit quality

Grow Income

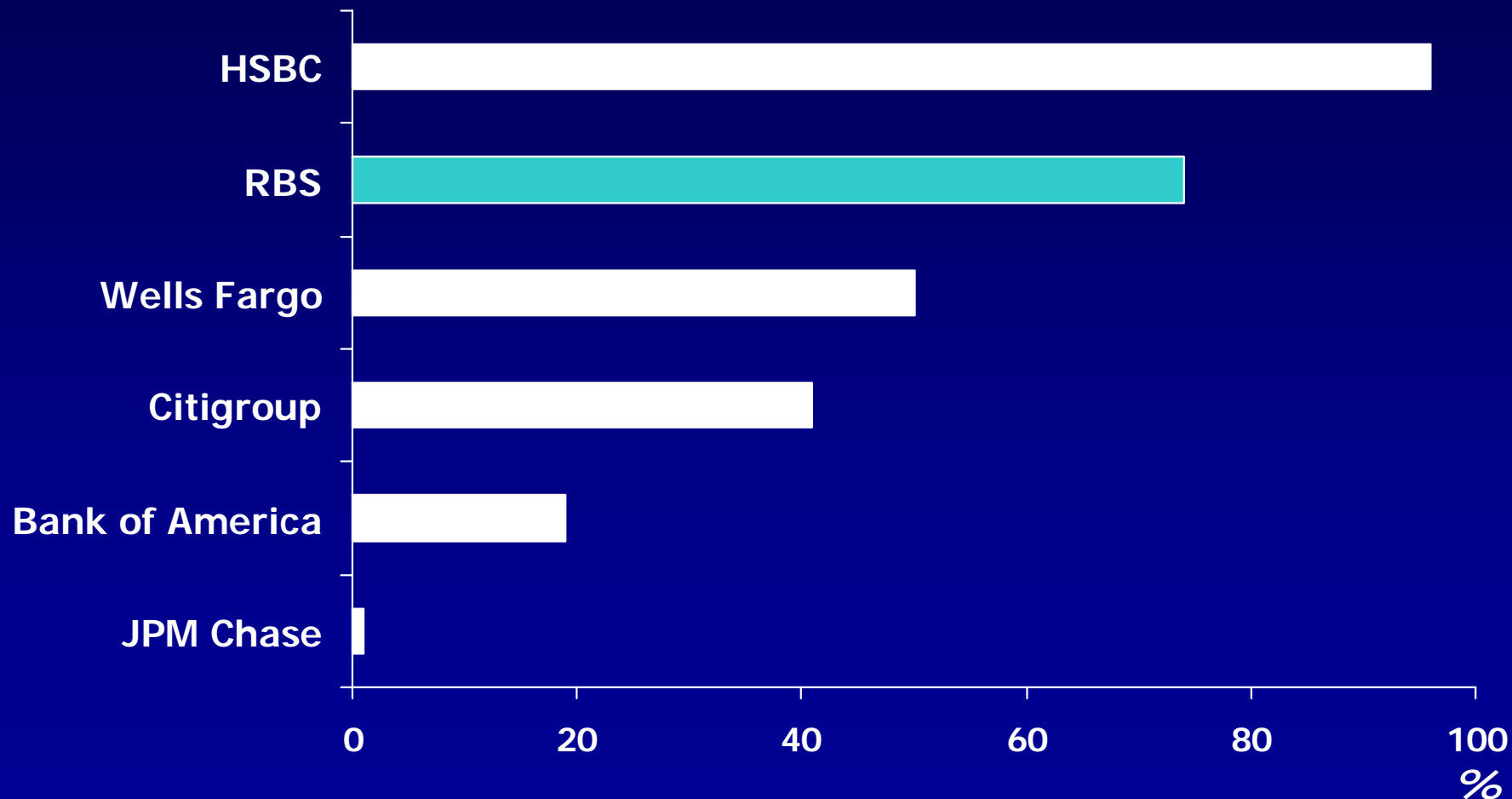
RBS Income 1999 – 2003

£bn



Grow Income

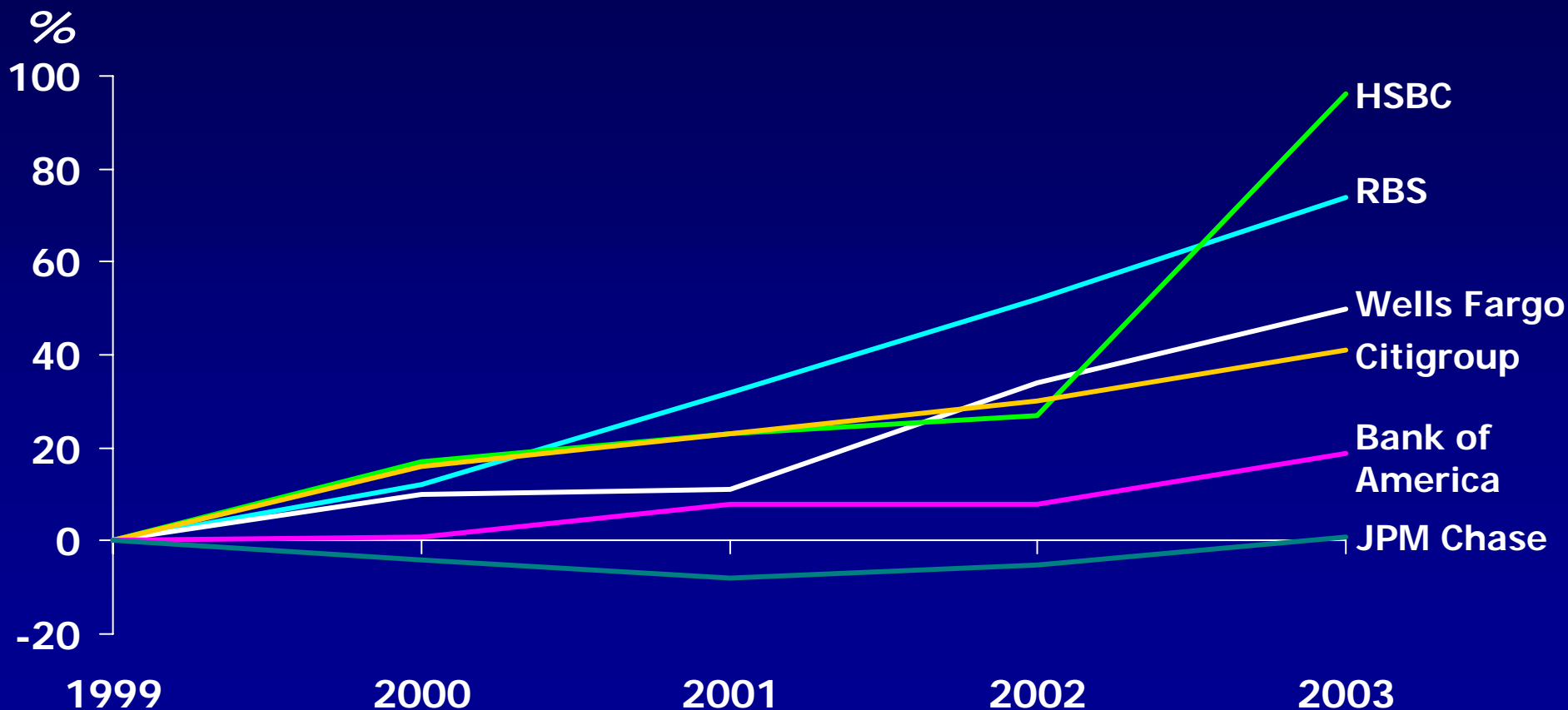
Income Growth 1999 – 2003



Income as reported in US\$, except RBS which reports in sterling

Grow Income

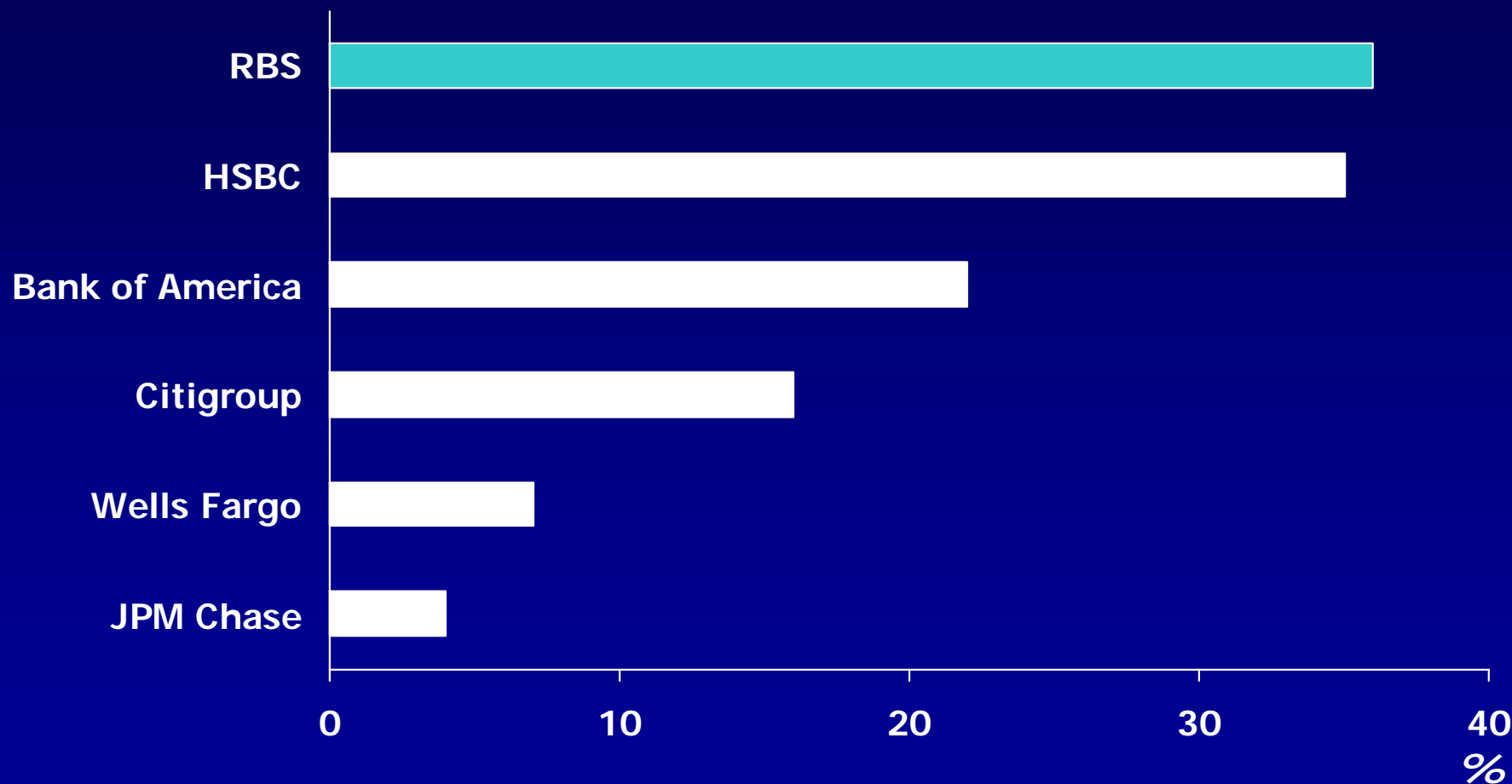
Percentage Growth in Income 1999 – 2003



Income as reported in US\$, except RBS which reports in sterling

Grow Income

Income Growth 1H03 - 1H04 in US Dollars



Half year income as reported in US\$, except RBS whose sterling income has been converted into US\$

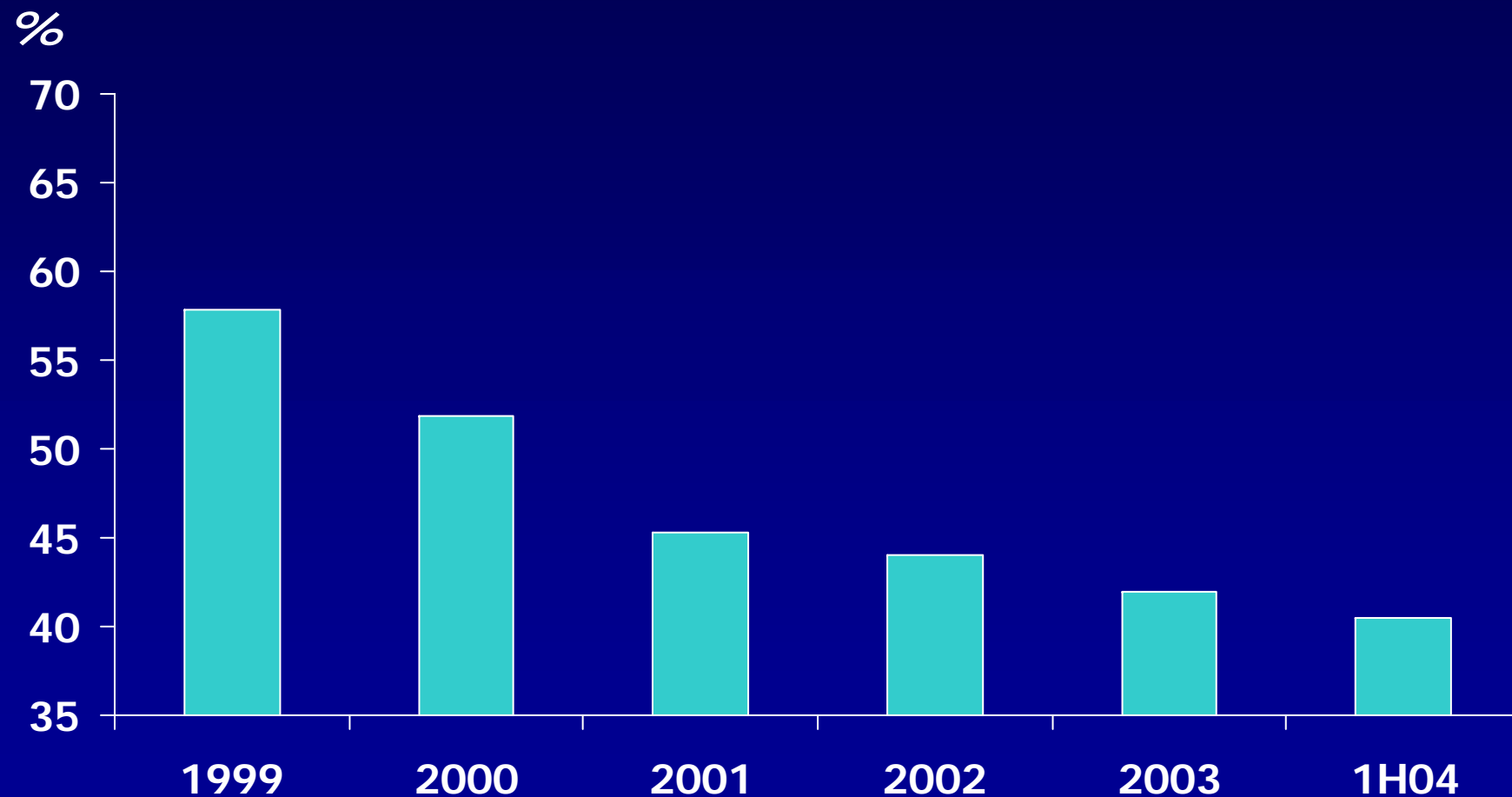
Grow Income

<i>Income in US Dollars</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>1H04</i>
RBS	+5%	+12%	+21%	+24%	+36%
HSBC	+17%	+5%	+3%	+54%	+35%
Bank of America	+1%	+7%	0%	+11%	+22%
Citigroup	+16%	+6%	+6%	+9%	+16%
Wells Fargo	+10%	+1%	+20%	+12%	+7%
JPM Chase	-4%	-4%	+3%	+7%	+4%

Income as reported in US\$, except RBS whose sterling income has been converted into US\$

Improve Efficiency

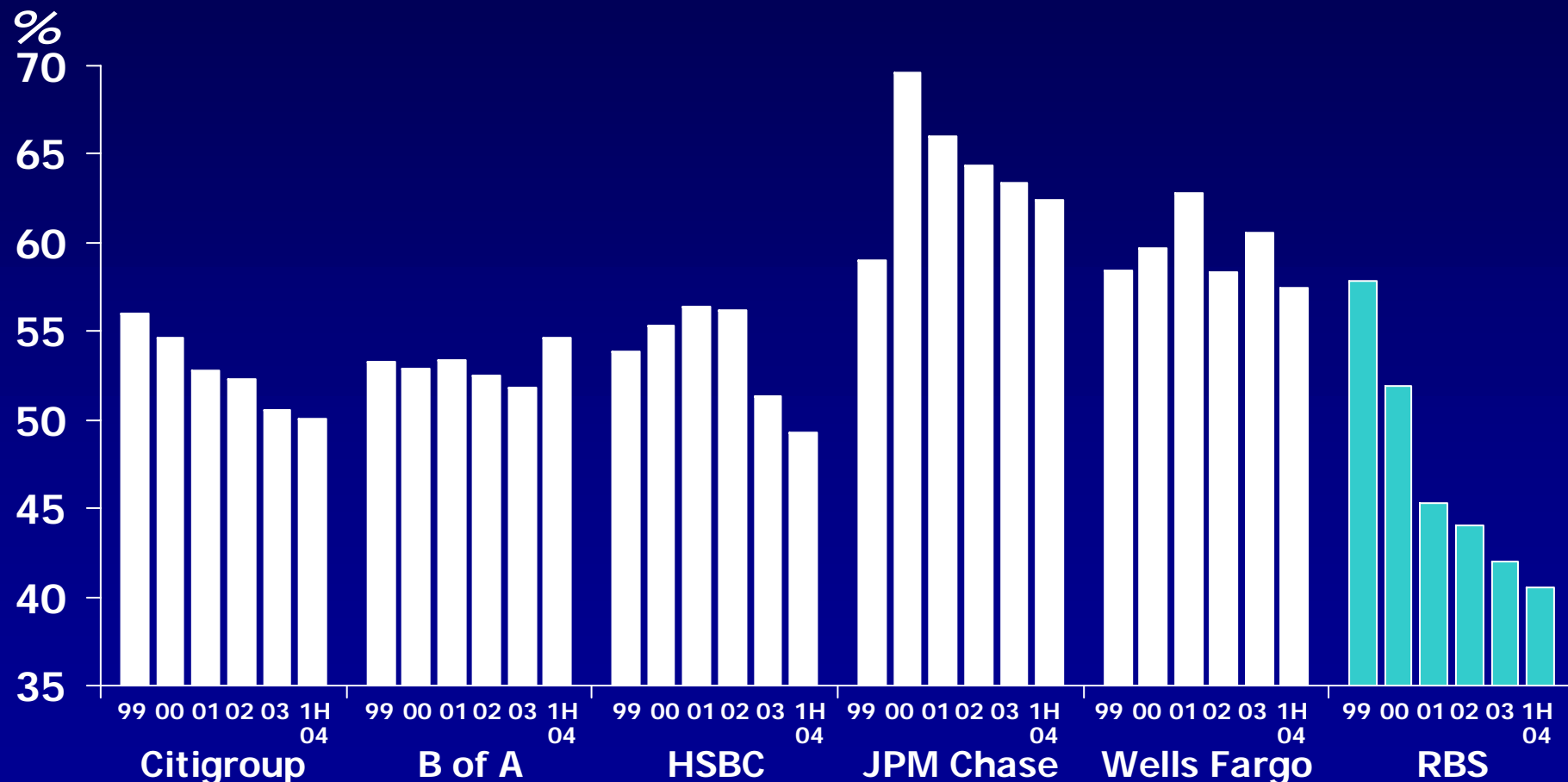
RBS Cost:Income Ratio 1999 – 1H04



RBS: netting operating lease depreciation against rental income

Improve Efficiency

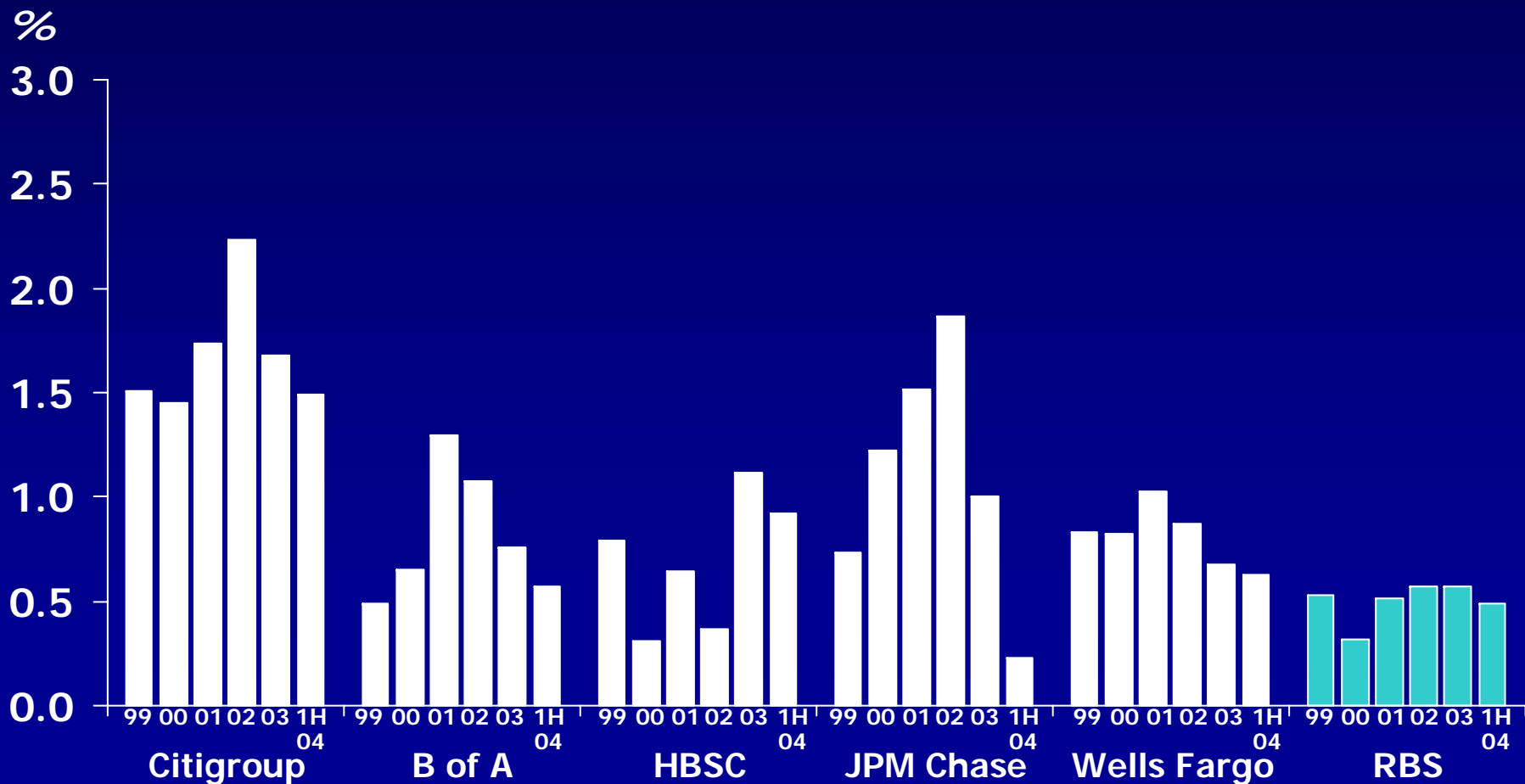
Cost:Income Ratios 1999 – 1H04



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

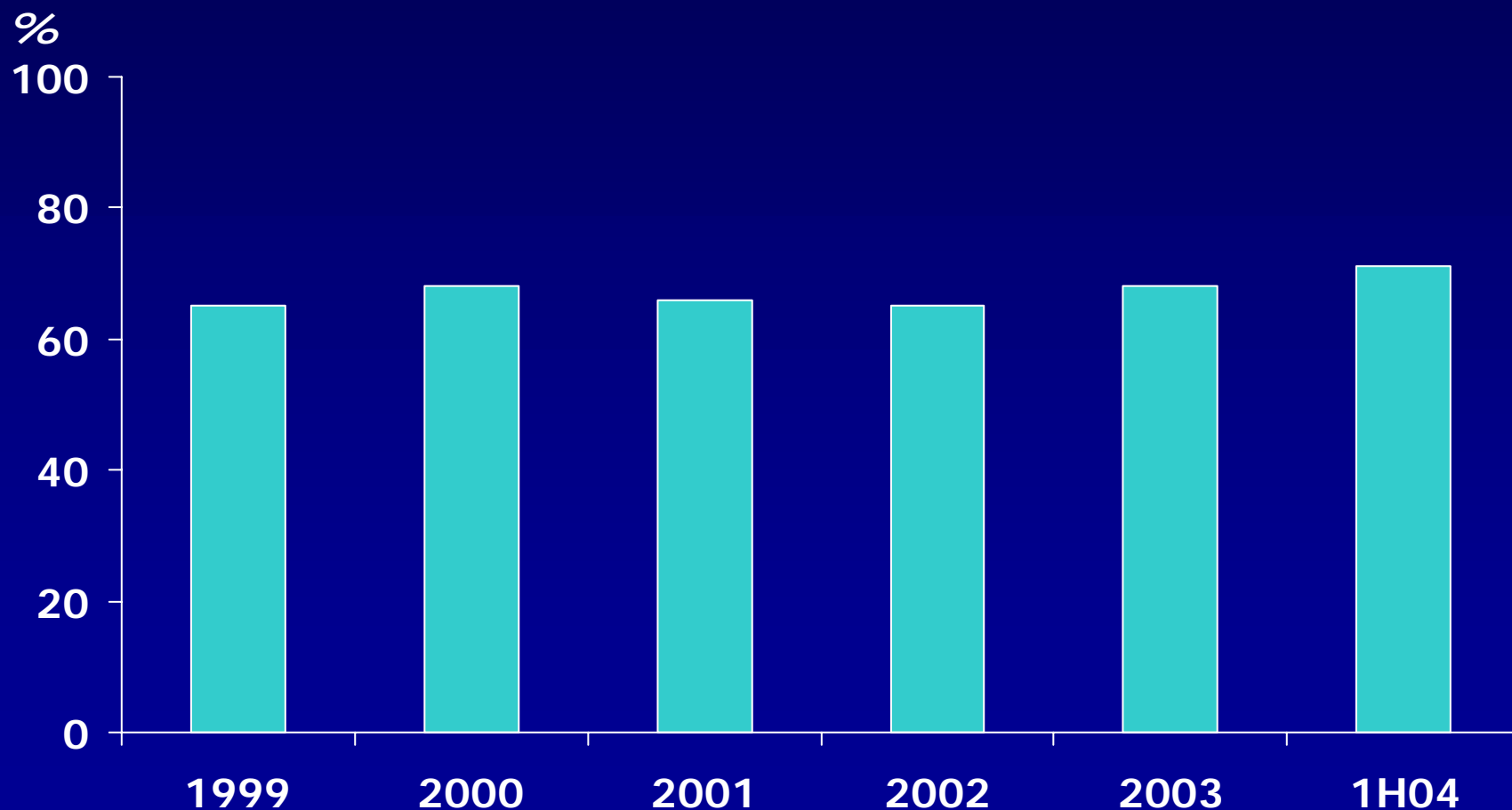
Maintain Credit Quality

P&L Account Provisions: Customer Loans + Advances



Maintain Credit Quality

RBS Balance Sheet Provisions as a Percentage of Risk Elements in Lending and Potential Problem Loans



Creating Value for Shareholders

- Grow income ✓
- Improve efficiency ✓
- Maintain credit quality ✓

Strategy

What is our goal?

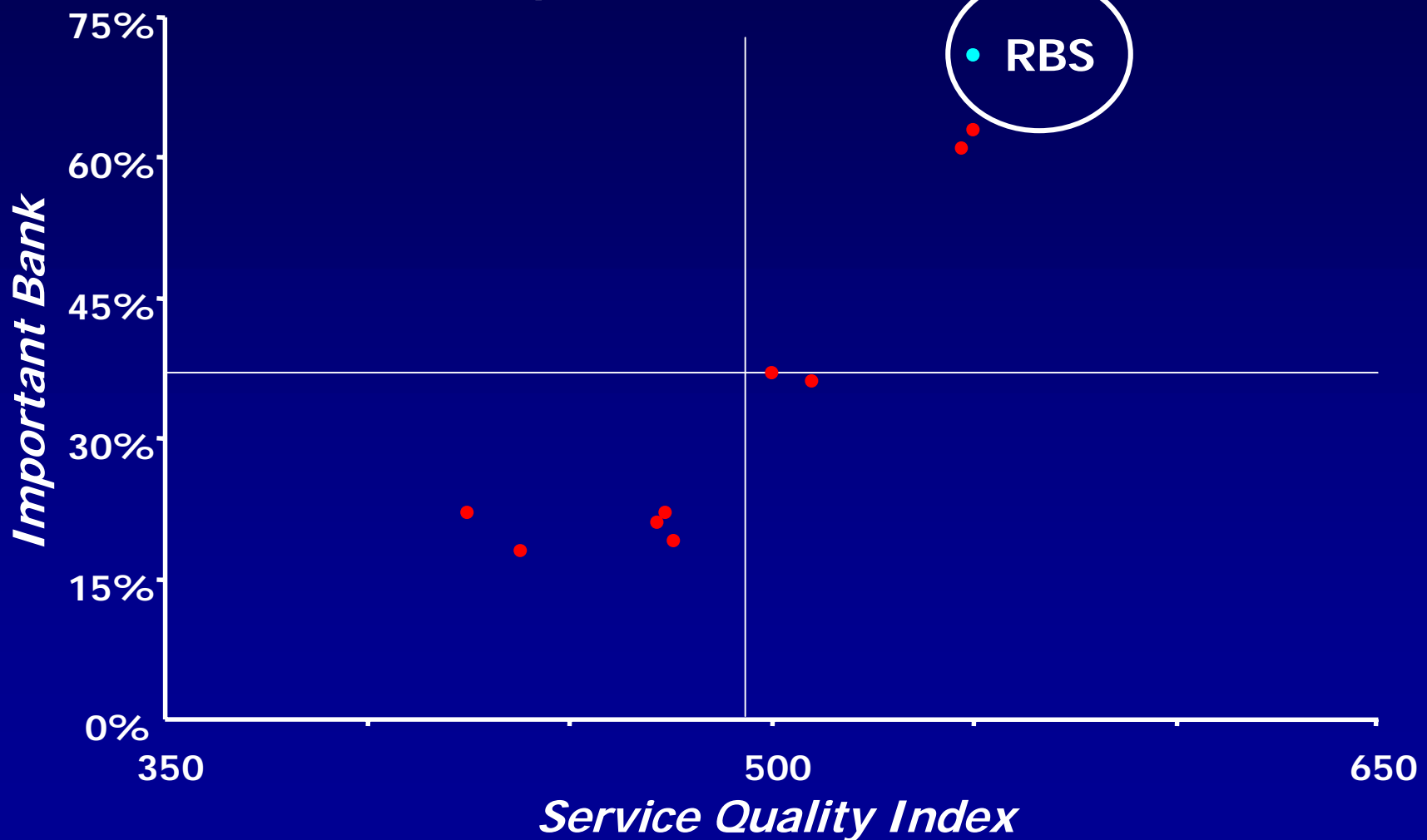
- Generating superior sustainable value for our shareholders
- To achieve this we need to add value for
 - Our customers
 - Our people

Our Customers

<i>1999 – 2003</i>	<i>Increase 000s</i>	<i>Increase %</i>
Retail Banking		
Personal customers	1,900	+16%
Retail Direct		
UK credit card accounts	3,600	+55%
RBS Insurance		
UK motor in-force policies	5,400	+203%
Ulster Bank		
Personal customers	500	+68%
Citizens		
Personal customers	1,400	+136%

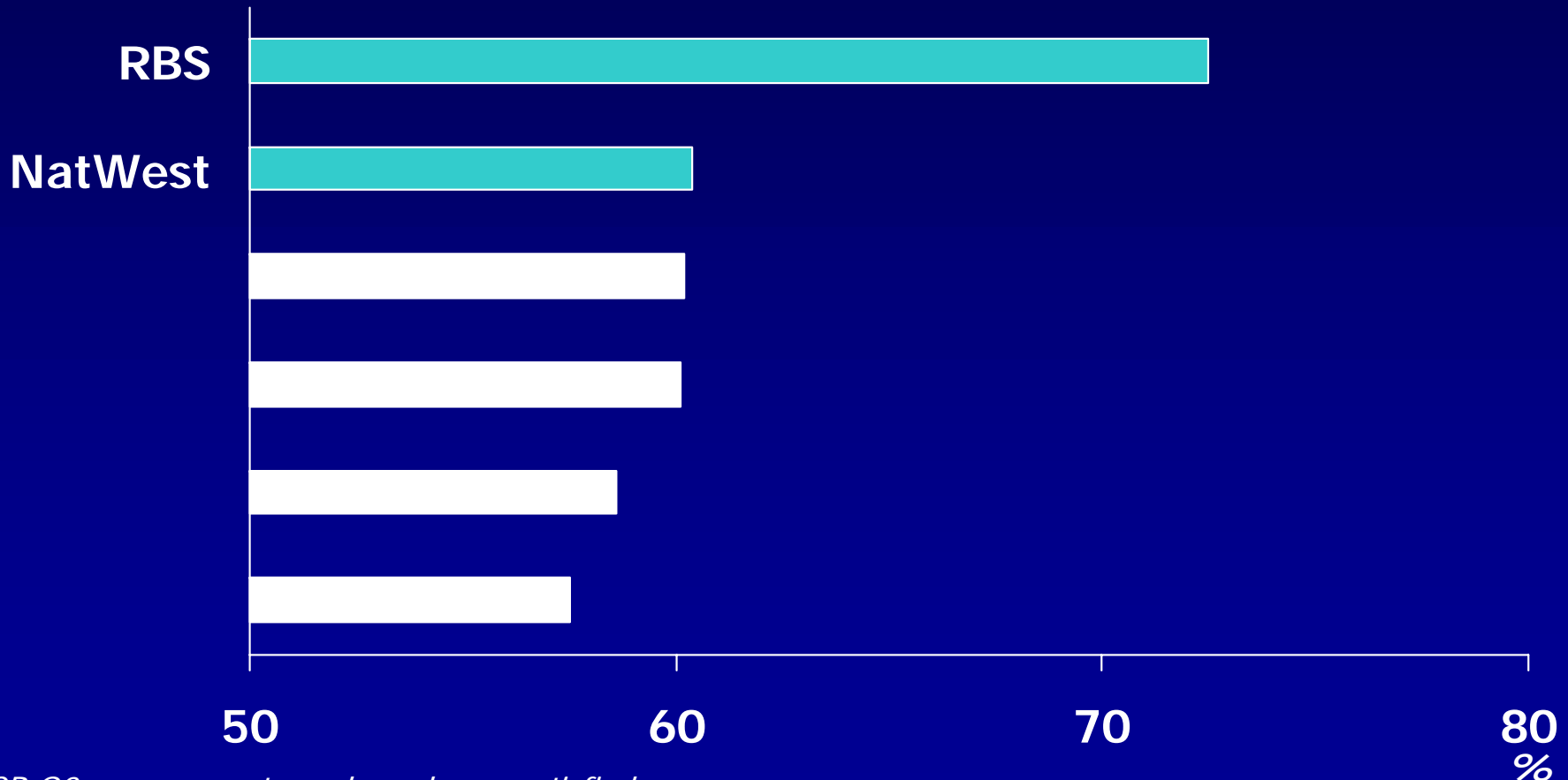
Customer Satisfaction

Overall Relationship Performance



Retail Banking Customer Satisfaction

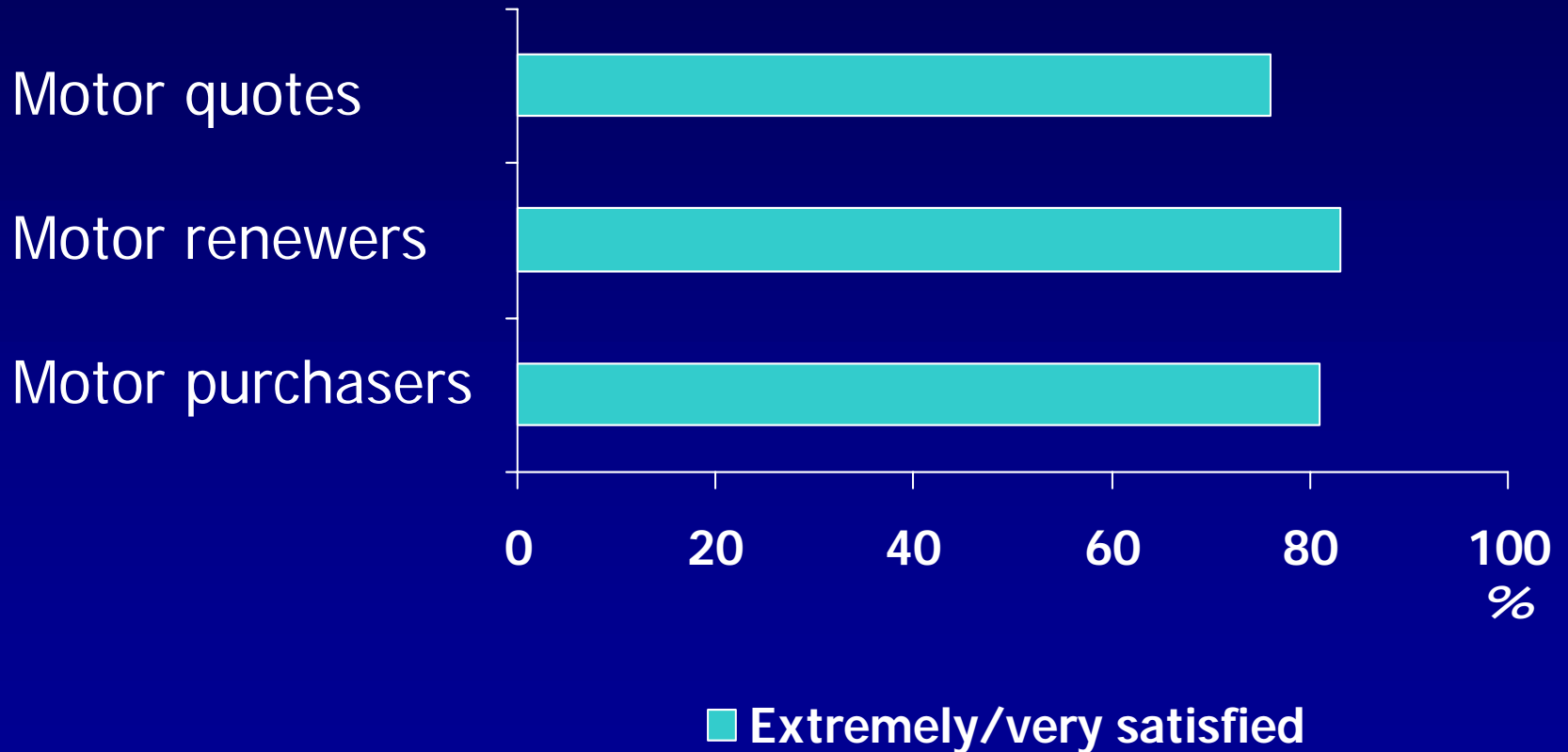
Telephony Satisfaction



GB Q2 average, extremely and very satisfied
Source: NOP FRS, quarterly rolling

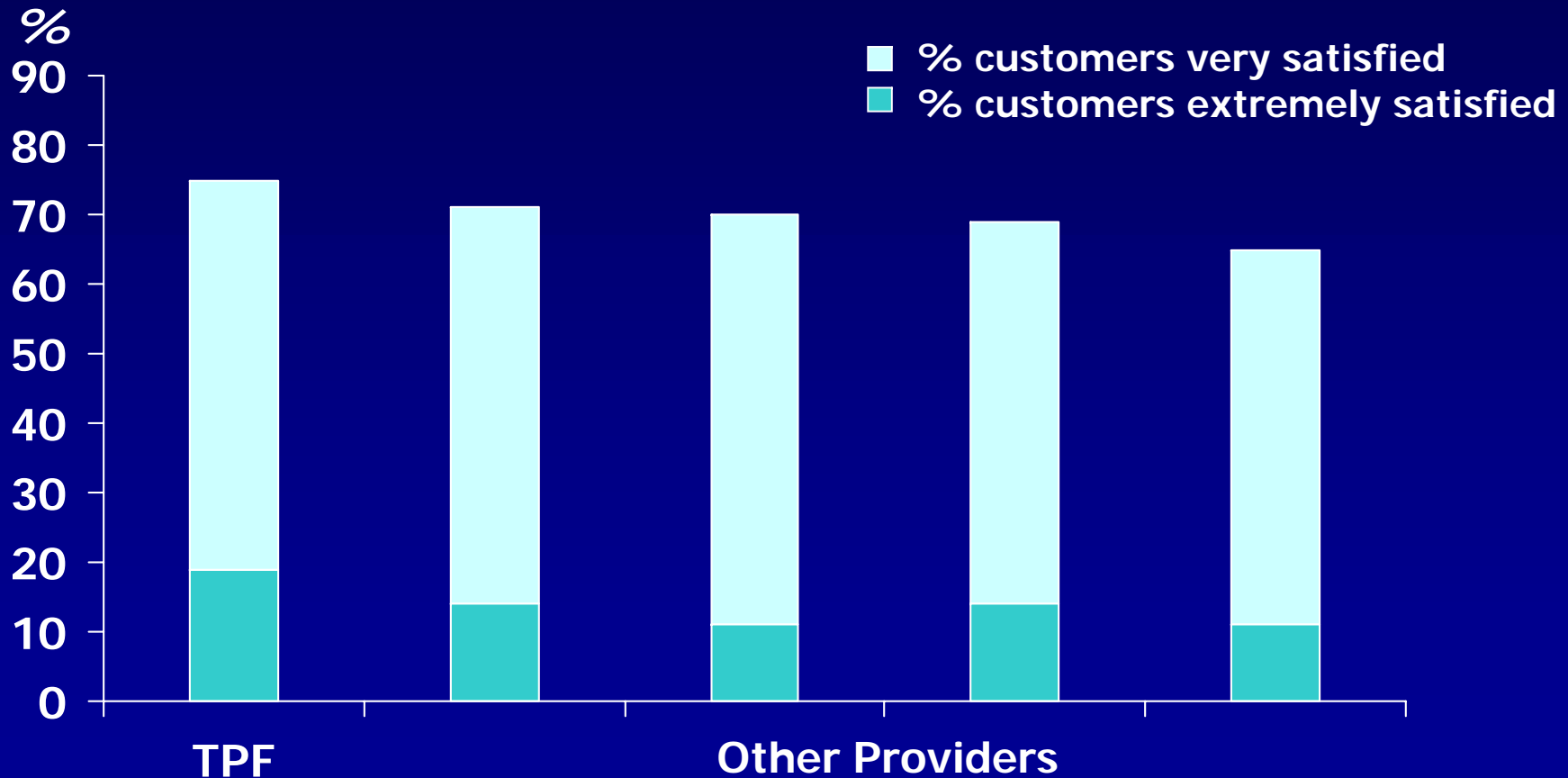
RBS Insurance Customer Satisfaction

Direct Line Motor



Tesco Personal Finance Customer Satisfaction

Customer Satisfaction – Motor Insurance

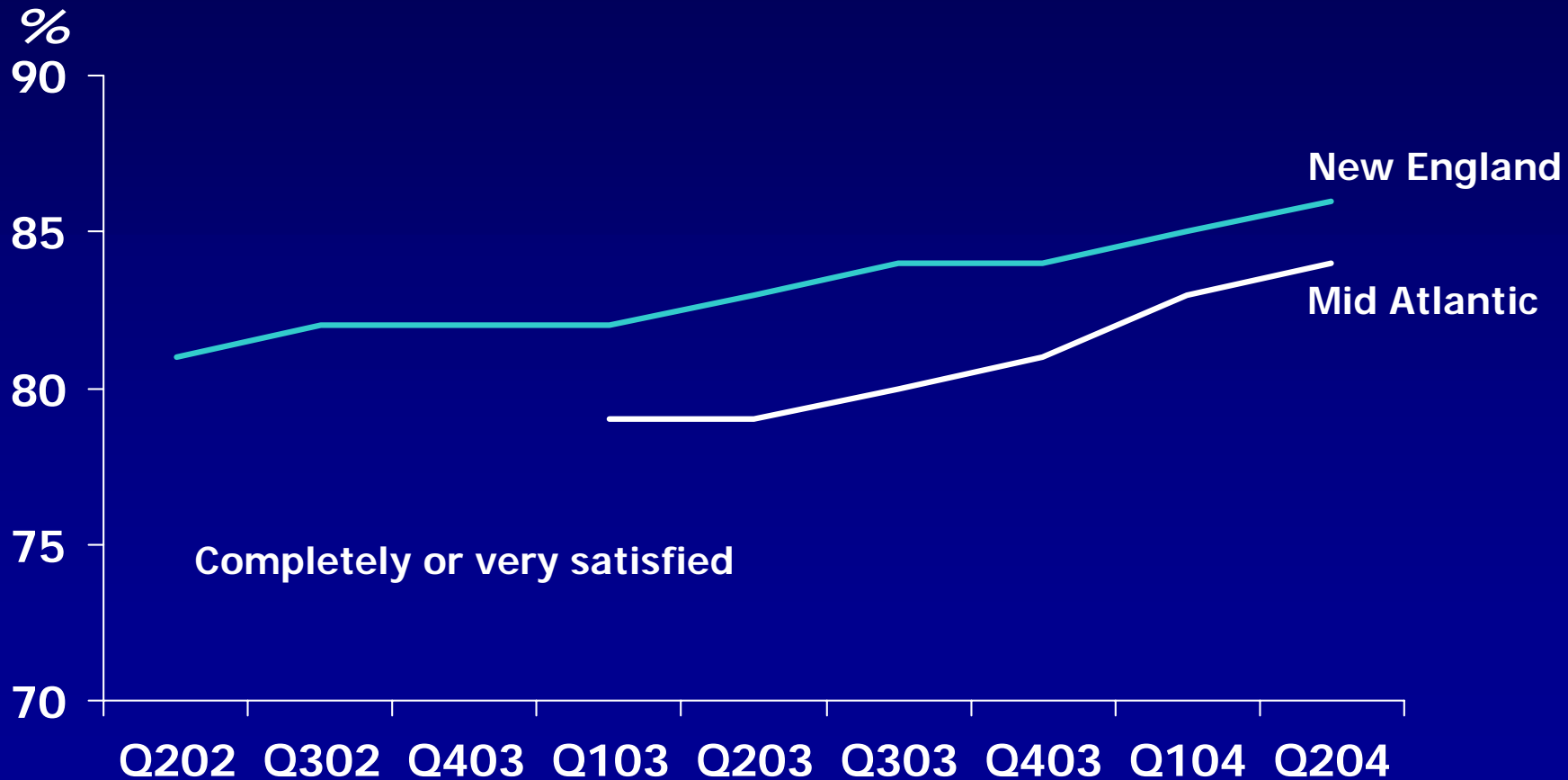


Source: NOP FRS

Base: 6 months to end of June 2004

Citizens Customer Satisfaction

Customer Satisfaction Ratings



Our People

*RBS 2003 v UK Financial Services norm**



* Percent difference between scores

Survey by International Survey Research, 1st quarter of 2003

Our People

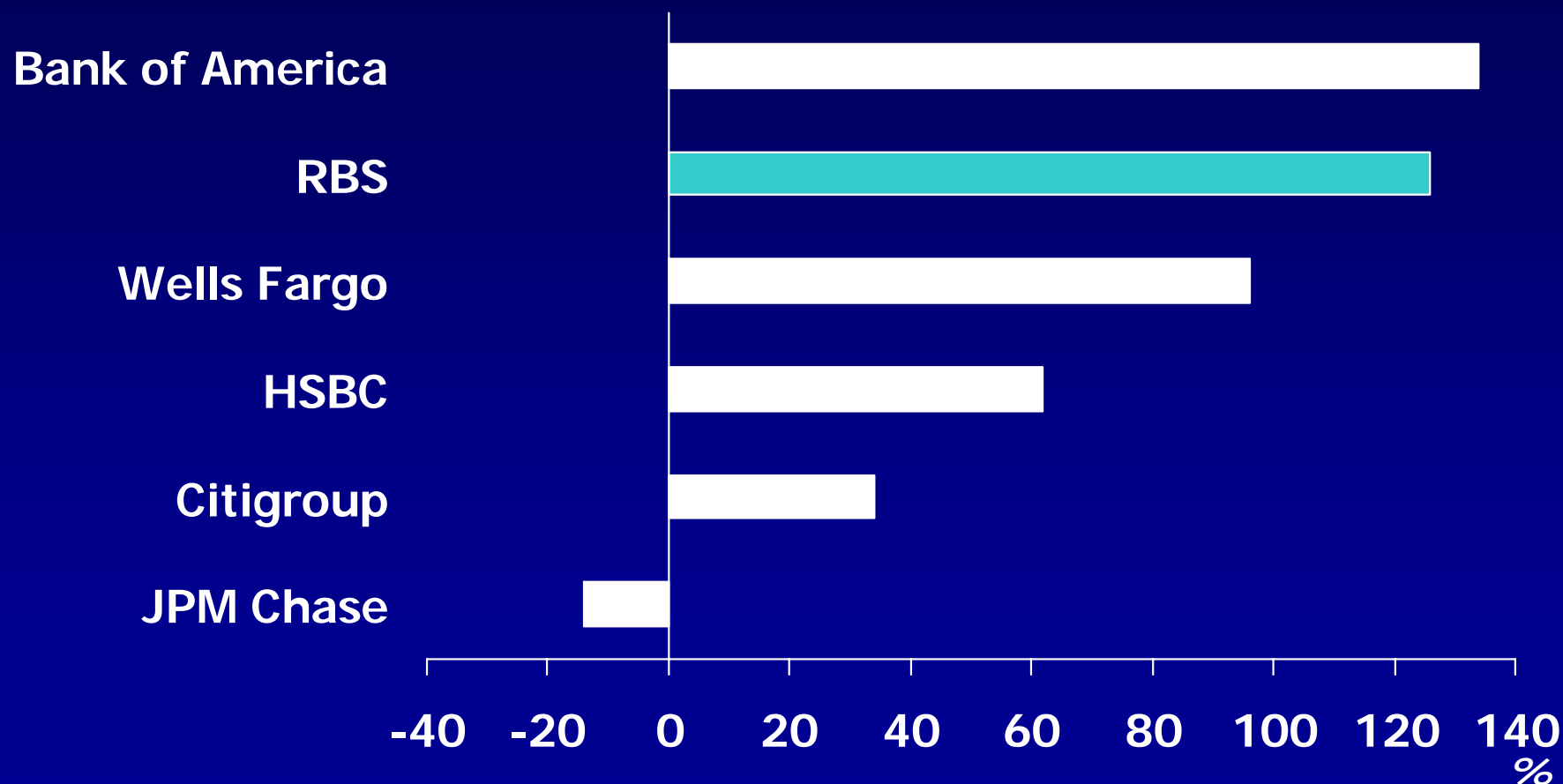
2003 Employee Opinion Survey

*I have a clear understanding of the goals
and objectives of our business*

86%

Our Shareholders

Total Shareholder Return 6 Mar 2000 – 1 Oct 2004



Strategy

What is our goal?

- Generating superior sustainable value for our shareholders ✓
- To achieve this we need to add value for:
 - Our customers ✓
 - Our people ✓

Managing Complexity

Conclusion

- RBS model works
- Has helped to reduce complexity
- Remains relevant and viable

Charter One Update

- Transaction completed 1 September 2004, ahead of schedule
- Management transition completed
- Balance sheet positioning implemented
- Integration underway
- So far, so good

Other Recent Acquisitions

- Churchill integration fully on track
- First Active integration fully on track
- IT migration completed for
 - People's Bank credit card business
 - Bank von Ernst



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Sir Fred Goodwin
Group Chief Executive