



The Royal Bank of Scotland Group

Risk, Return and Growth Getting the Balance Right

Sir Fred Goodwin
Group Chief Executive

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Merrill Lynch Conference

Year Title

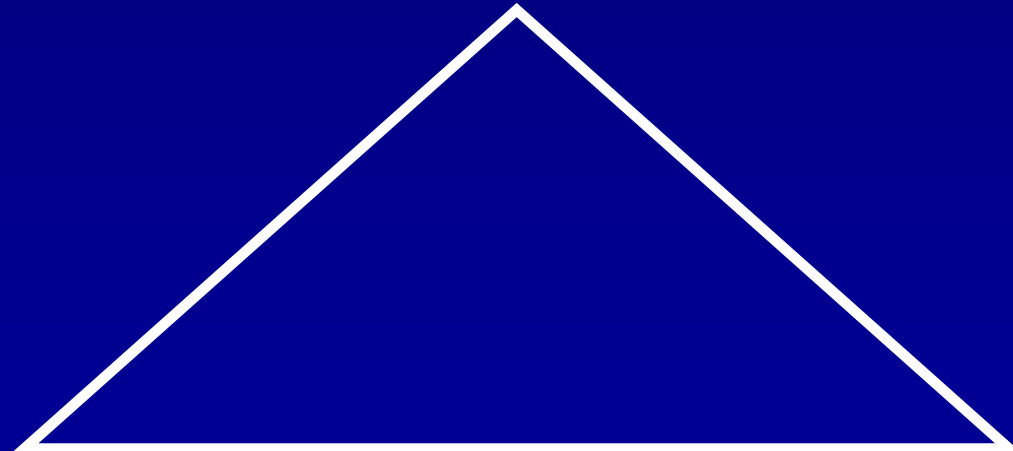
- 2000 Bringing down the barriers
- 2001 Building competitive advantage in a volatile world
- 2002 Higher growth vs lower risk: the challenge ahead
- 2003 Living in a 1% world
- 2004 Managing complexity
- 2005 Strategy 2010
- 2006 Risk, return and growth
Getting the balance right**

Risk, Return and Growth

Getting the Balance Right

High Return
High Risk
High Growth

Low Return
Low Risk
Low Growth



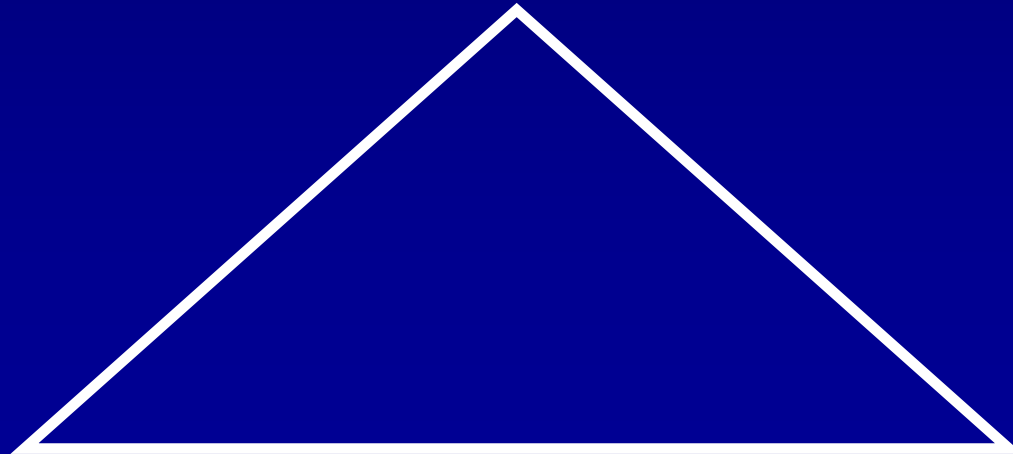
Risk, Return and Growth Getting the Balance Right

RBS

High Return
High Risk
High Growth

Good Return
Acceptable Risk
Sustainable Growth

Low Return
Low Risk
Low Growth



Risk, Return and Growth

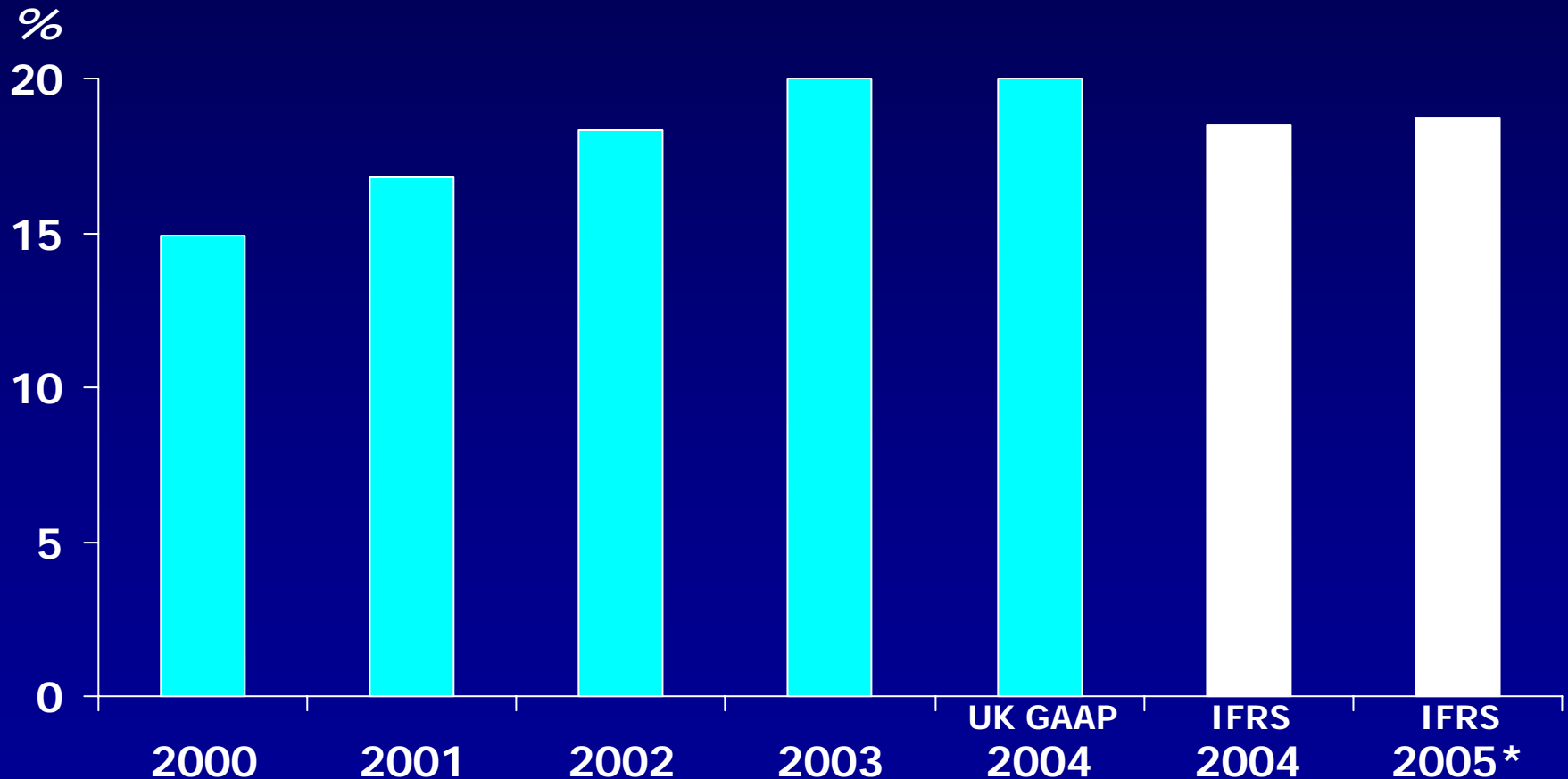
Getting the Balance Right

Objectives

- Generate return on equity
- Grow earnings per share
- Deliver sustainable growth

Generate Return on Equity

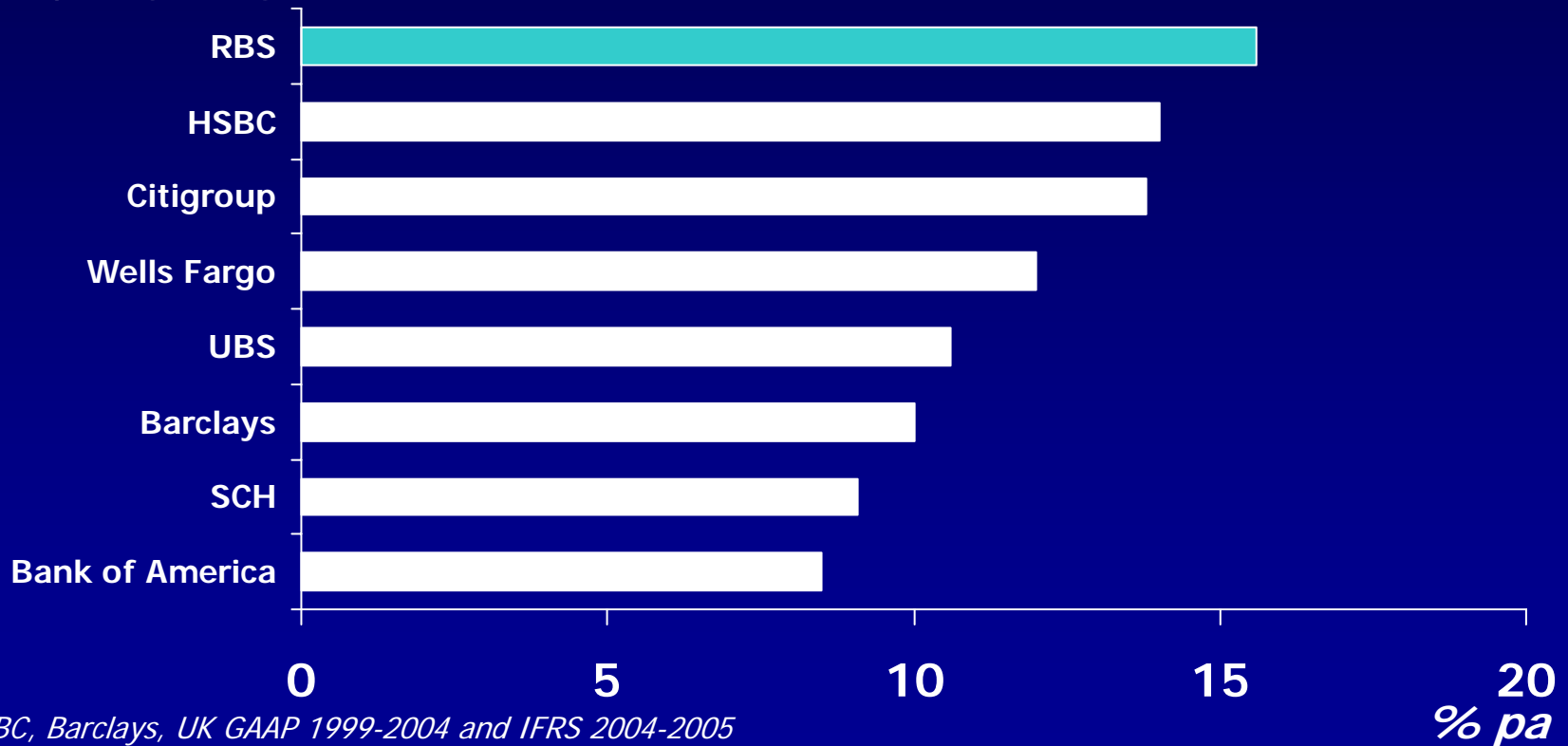
Return on Equity



*After-tax return on ordinary equity excluding goodwill amortisation, intangibles amortisation, integration costs and exceptional items. * Allowing for constant capital*

Grow Earnings Per Share

Growth in Earnings Per Share 1999 – 2005 World Banks



RBS, HSBC, Barclays, UK GAAP 1999-2004 and IFRS 2004-2005

RBS excluding goodwill amortisation and integration costs, as reported

HSBC excluding goodwill amortisation, as reported. Citigroup and Wells Fargo, as reported

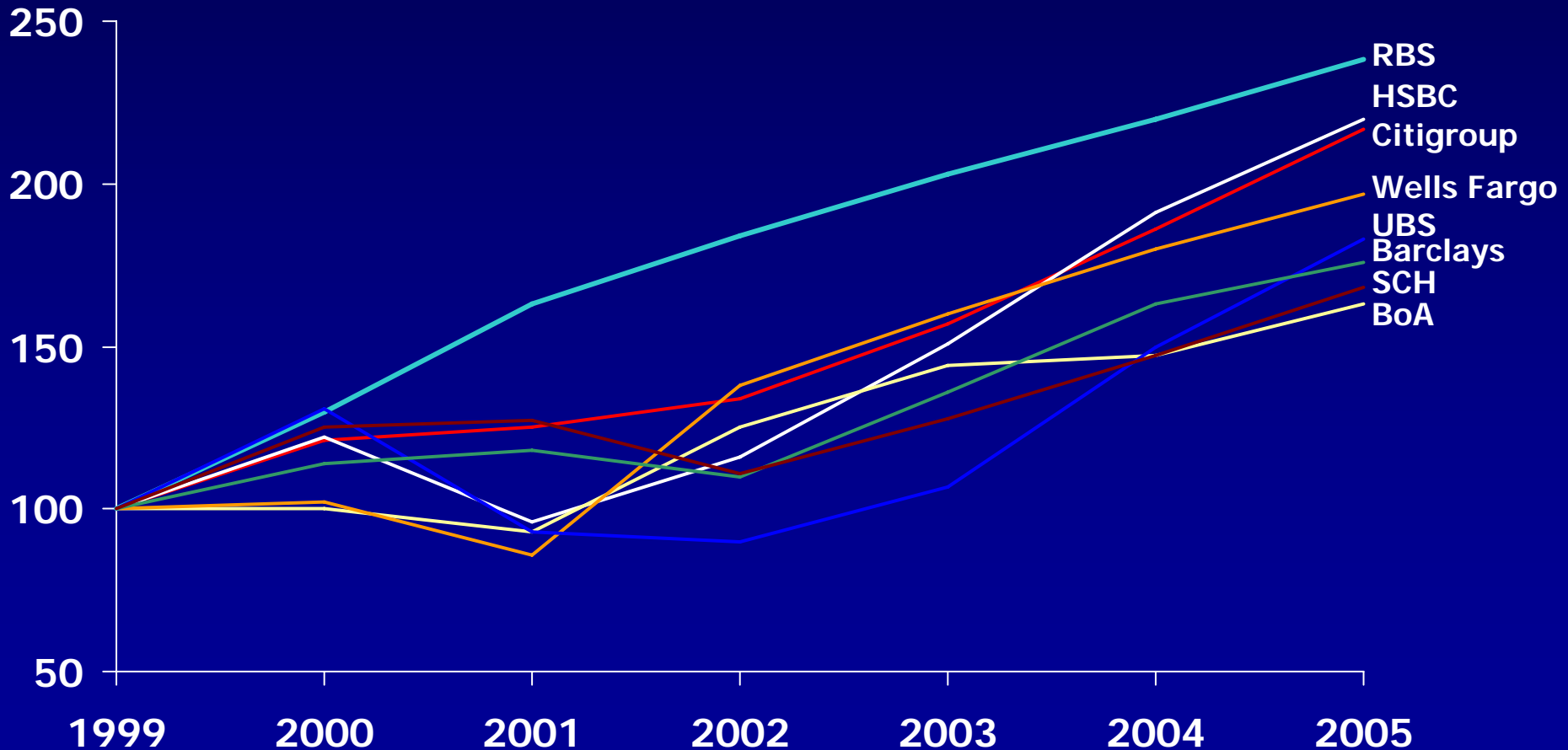
UBS continuing operations excluding goodwill amortisation, as reported. SCH excluding extraordinary items, as reported

Bank of America as reported for 1999-2001 and as restated for 2001-2005

Barclays excluding goodwill amortisation and exceptional items

Deliver Sustainable Growth

Cumulative Growth in Earnings Per Share World Banks



Risk, Return and Growth

Getting the Balance Right

Sustainable Delivery Requires

- Businesses which can grow their income and profit at acceptable risk
 - ... ie operational effectiveness
- Sufficient range of businesses to enable market and economic upturns to be exploited and downturns to be mitigated
 - ... ie diversification

Risk, Return and Growth

Getting the Balance Right

Sustainable Delivery Requires

- **Businesses which can grow their income and profit at acceptable risk**
 - ... ie operational effectiveness
- Sufficient range of businesses to enable market and economic upturns to be exploited and downturns to be mitigated
 - ... ie diversification

Operational Effectiveness

	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>1H06</i>
Total income	+16%	+14%	+18%	+14%	+10%
Total income excluding acquisitions	+12%	+10%	+11%	+10%	+10%

Operational Effectiveness

<i>Income Growth Excl Acquisitions</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>1H06</i>
Corporate Markets	+10%	+10%	+12%	+17%	+16%
Retail Markets	+8%	+6%	+7%	+7%	+6%
Ulster Bank	+8%	+12%	+7%	+15%	+15%
Citizens (\$)	+19%	+11%	+8%	+6%	+4%
RBS Insurance	+34%	+25%	+17%	+8%	+3%
Group	+12%	+10%	+11%	+10%	+10%

Excludes acquisitions in year of acquisition and following year only

Operational Effectiveness

	<i>2002</i>	<i>2003</i>	<i>2004</i> <i>IFRS</i>	<i>2005</i> <i>IFRS</i>	<i>1H06</i> <i>IFRS</i>
Total income	+16%	+14%	+18%	+14%	+10%
Total income excluding acquisitions	+12%	+10%	+11%	+10%	+10%
Cost:income ratio	44.2%	42.6%	42.0%	42.4%	41.9%
P&L provisions as a % of customers loans and advances	0.57%	0.57%	0.45%	0.41%	0.41%
VaR (£m)	8.4	7.4	10.9	12.8	14.5

Period end VaR at 95%

Risk, Return and Growth

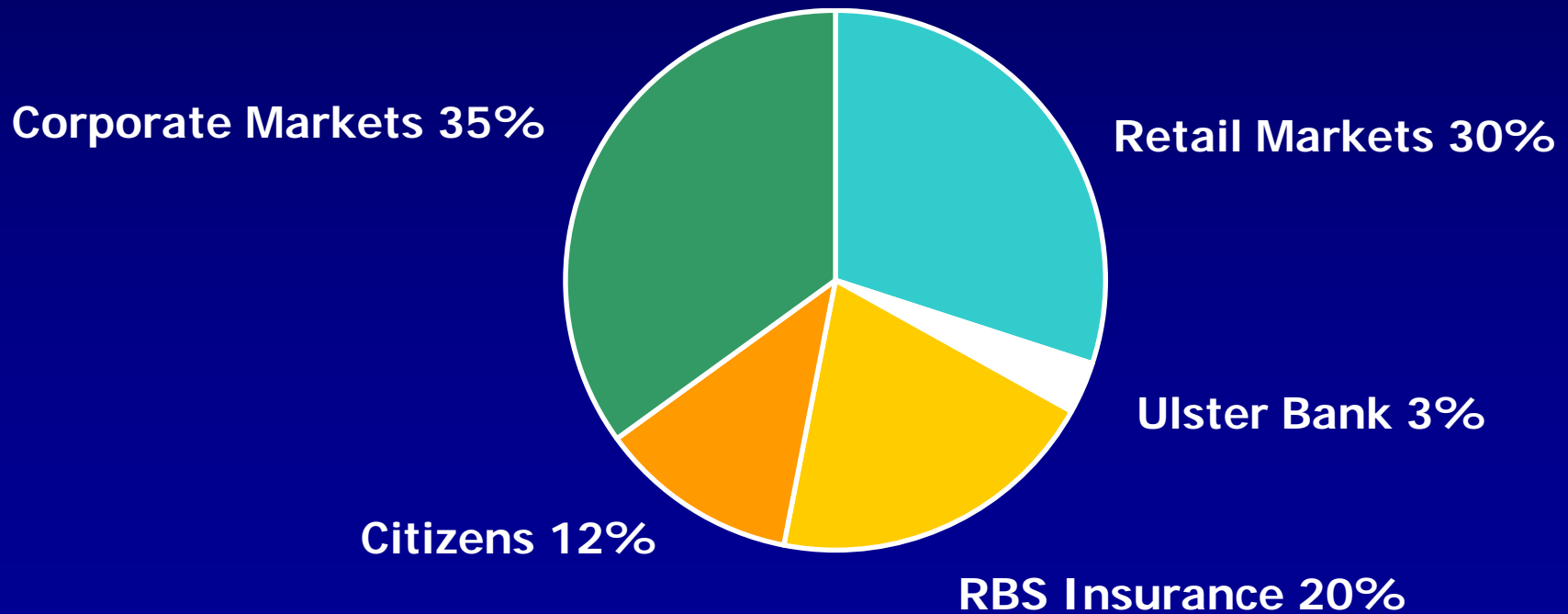
Getting the Balance Right

Sustainable Delivery Requires

- Businesses which can grow their income and profit at acceptable risk
... ie operational effectiveness
- **Sufficient range of businesses to enable market and economic upturns to be exploited and downturns to be mitigated**
... ie diversification

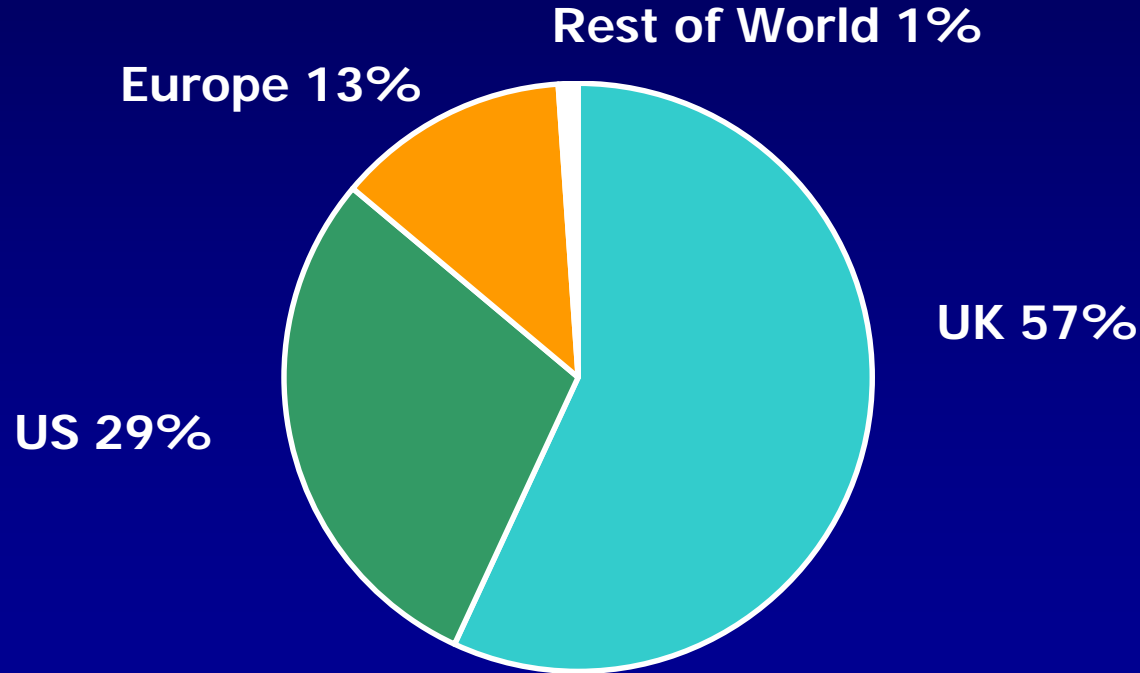
Diversified by Business

1H06 Income



Diversified by Geography

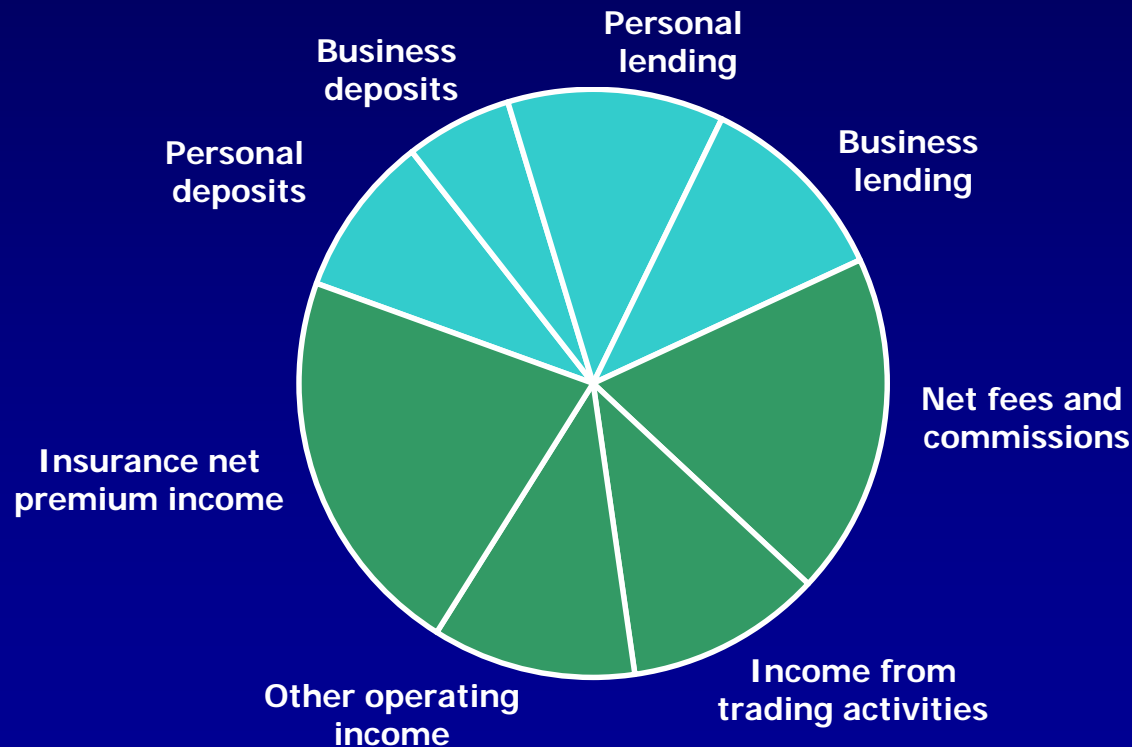
1H06 Operating Profit



Diversified by Type

1H06 Income

Net Interest Income 38%

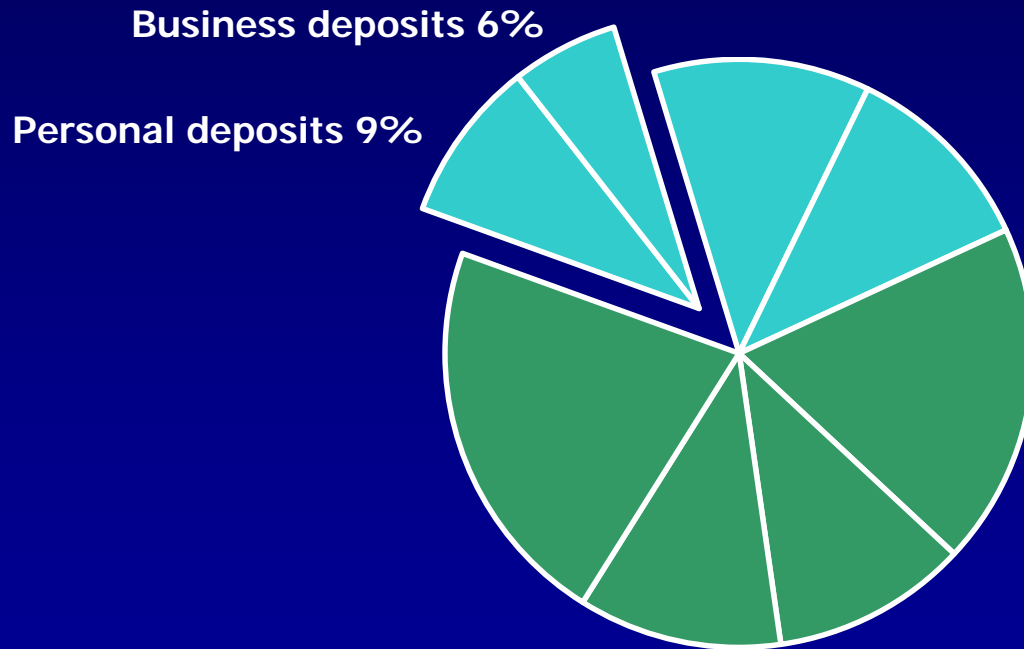


Non-Interest Income 62%

Diversified by Type

1H06 Income

Net Interest Income 38%



Non-Interest Income 62%

Deposits

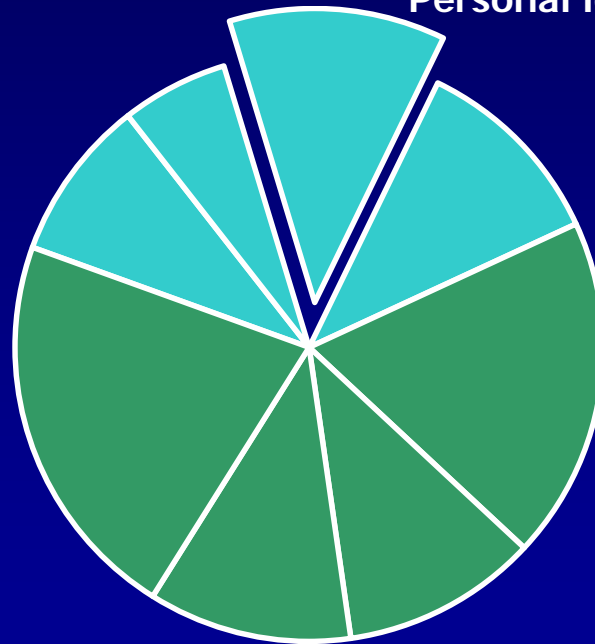
<i>% Group 1H06 Total Income</i>	<i>1H06 Net Interest Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Personal	5.9%	3.1%	0.2%	✓	9.2%
Business	4.4%	1.3%	0.2%	✓	5.9%
Total	10.3%	4.4%	0.4%	✓	15.1%

Diversified by Type

1H06 Income

Net Interest Income 38%

Personal lending 12%



Non-Interest Income 62%

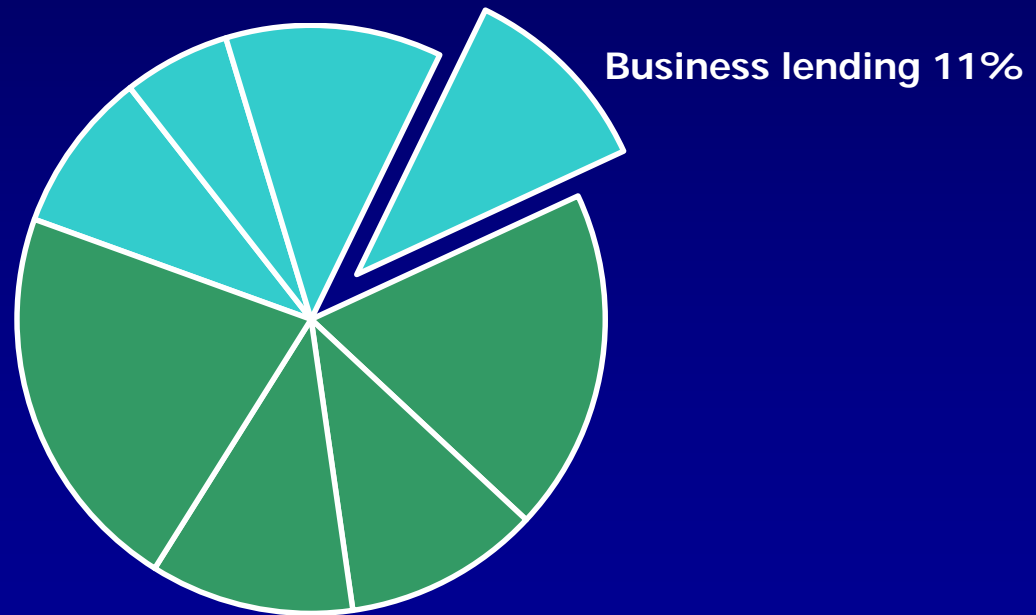
Personal Lending

<i>% Group 1H06 Total Income</i>	<i>1H06 Net Interest Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Overdrafts	0.6%	✓	✓	✓	0.6%
Personal loans					
– Secured	–	0.7%	–	–	0.7%
– Unsecured	3.6%	–	0.1%	✓	3.7%
Credit cards	2.3%	0.1%	0.3%	✓	2.7%
Mortgages	2.1%	0.3%	0.4%	✓	2.8%
Home equity loans	–	1.1%	–	–	1.1%
Total	8.6%	2.2%	0.8%	✓	11.6%

Diversified by Type

1H06 Income

Net Interest Income 38%



Non-Interest Income 62%

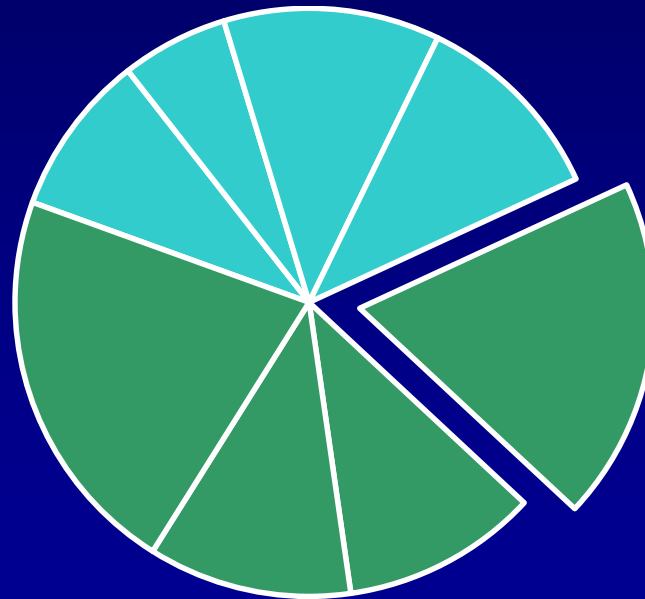
Business Lending

<i>% Group 1H06 Total Income</i>	<i>1H06 Net Interest Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Small business	1.6%	1.3%	0.4%	–	3.3%
Mid-corp + commercial	3.8%	✓	0.1%	–	3.9%
Large corporate	0.9%	0.1%	0.2%	✓	1.2%
Specialist lending					
– Asset finance	0.3%	0.1%	✓	✓	0.4%
– Property finance	0.4%	✓	0.3%	✓	0.7%
– Proj + infrastr finance	0.3%	0.1%	✓	✓	0.4%
– Leveraged finance	0.5%	0.1%	0.3%	✓	0.9%
Other	0.6%	–	–	–	0.6%
Total	8.4%	1.7%	1.3%	✓	11.4%

Diversified by Type

1H06 Income

Net Interest Income 38%



**Net fees and
commissions 19%**

Non-Interest Income 62%

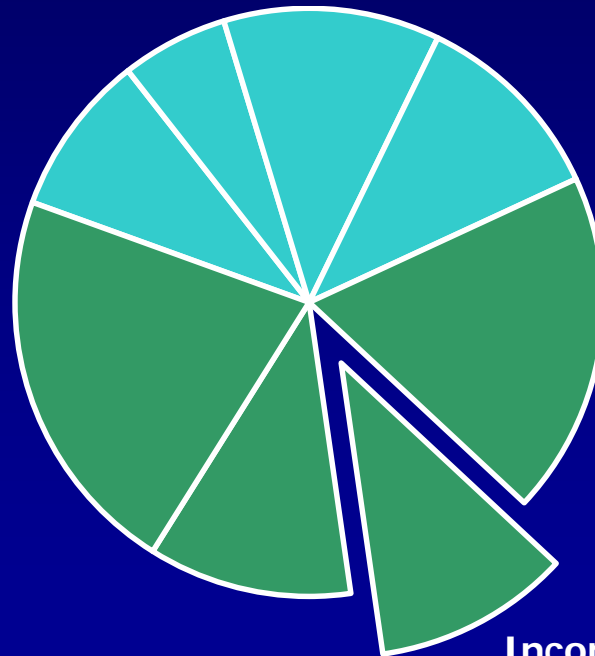
Net Fees and Commissions

<i>% Group 1H06 Total Income</i>	<i>Non-Interest Income</i>
Money transmission	6.8%
Lending fees	3.4%
Card related services	4.3%
– Cards	2.2%
– Merchant acquisition	1.3%
– Interchange	0.8%
Other	4.3%
Total	18.8%

Diversified by Type

1H06 Income

Net Interest Income 38%



Income from Trading Activities 11%

Non-Interest Income 62%

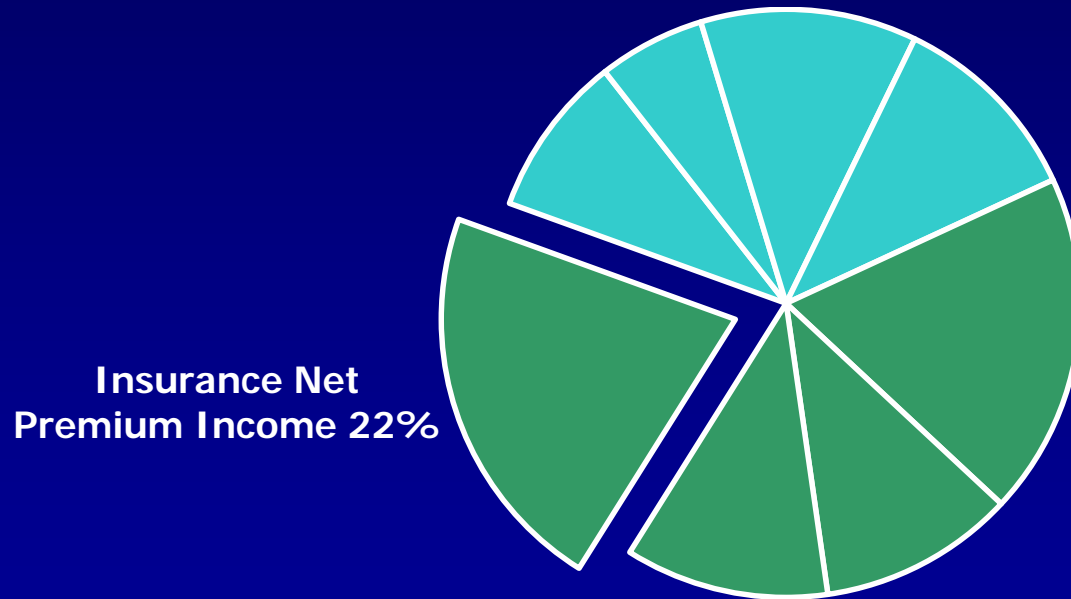
Income from Trading Activities

<i>% Group 1H06 Total Income</i>	<i>Non-Interest Income</i>
Foreign exchange	2.1%
RBS Greenwich Capital asset-backed securities	2.3%
Other securities	2.7%
Interest rate derivatives	3.6%
Total	10.7%

Diversified by Type

1H06 Income

Net Interest Income 38%



Non-Interest Income 62%

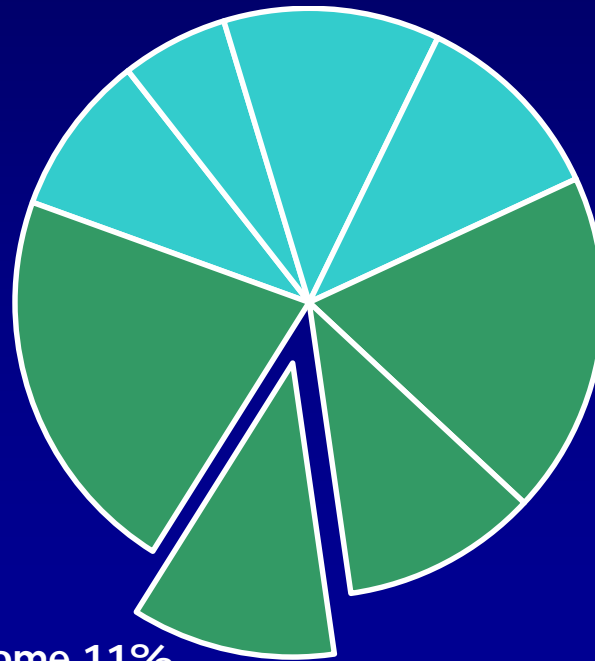
Insurance Net Premium Income

<i>% Group 1H06 Total Income</i>	<i>Non-Interest Income</i>
Motor insurance	13.1%
Home insurance	3.5%
Other insurance	3.4%
Bancassurance	1.8%
Total	21.8%

Diversified by Type

1H06 Income

Net Interest Income 38%



Other operating income 11%

Non-Interest Income 62%

Other Operating Income

<i>% Group 1H06 Total Income</i>	<i>Non-Interest Income</i>
Operating lease rental income	6.5%
Net gains on available-for-sale securities	1.1%
Dividend income	0.3%
Other income	2.8%
Total	10.7%

Total Income

- Net interest income is diversified
- Non-interest income is diversified
- Many businesses earn both net interest income and non-interest income

Personal Deposits + Lending Total Income

<i>% Group 1H06 Total Income</i>	<i>1H06 Total Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Deposits	6.7%	4.1%	0.2%	✓	11.0%
Overdrafts	2.5%	✓	✓	✓	2.5%
Personal loans					
– Secured	–	1.4%	–	–	1.4%
– Unsecured	4.5%	–	0.1%	✓	4.6%
Credit cards	3.4%	0.2%	0.5%	✓	4.1%
Mortgages	2.2%	0.6%	0.6%	✓	3.4%
Home equity loans	–	1.1%	–	–	1.1%
Lending	12.6%	3.3%	1.2%	✓	17.1%
Deposits + lending	19.3%	7.4%	1.4%	✓	28.1%

Business Deposits + Lending Total Income

<i>% Group 1H06 Total Income</i>	<i>1H06 Total Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Deposits	5.2%	1.6%	0.2%	✓	7.0%
Small business	2.2%	2.3%	0.5%	–	5.0%
Mid-corp + commercial	4.6%	✓	0.1%	–	4.7%
Large corporate	2.7%	0.3%	0.4%	✓	3.4%
Specialist lending					
– Asset finance	2.7%	0.1%	0.1%	✓	2.9%
– Property finance	1.9%	✓	0.5%	✓	2.4%
– Proj + infrastr finance	0.4%	0.1%	0.1%	✓	0.6%
– Leveraged finance	1.0%	0.2%	0.7%	✓	1.9%
Other	0.6%	–	–	–	0.6%
Lending	16.1%	3.0%	2.4%	✓	21.5%
Deposits + lending	21.3%	4.6%	2.6%	✓	28.5%

General Insurance Total Income

<i>% Group 1H06 Total Income</i>	<i>1H06 Total Income</i>				
	<i>UK</i>	<i>US</i>	<i>Europe</i>	<i>Asia- Pacific</i>	<i>Total</i>
Motor insurance	11.7%	–	1.4%	–	13.1%
Home insurance	3.5%	–	–	–	3.5%
Other insurance	3.4%	–	–	–	3.4%
Total	18.6%	–	1.4%	–	20.0%

Group Total Income

<i>% Group 1H06 Total Income</i>	<i>1H06 Total Income</i>
Personal	
– Deposits + lending	28.1%
– Other banking income	4.0%
– General insurance	20.0%
Total	52.1%
Business	
– Deposits + lending	28.5%
– Other banking income	16.7%
Total	45.2%
Other	2.7%
Total	100.0%

Diversification

- Benefits enhanced by scale
 - We hold market positions in the top 5 for many income streams, and top 10 for most products
- Benefits enhanced by relationships
 - The better the customer relationships, the greater the propensity to transact across multiple income streams
- Benefits enhanced by synergies
 - Most of our income streams share platform/infrastructure
- Benefits enhanced by managerial flexibility
 - Target setting at high level enables business management to alter focus quickly to respond to change

Risk, Return and Growth

Getting the Balance Right

Summary

- Balancing risk, return and growth will remain our key priority
- We have good operational effectiveness and diversification
- We are well placed to optimise the balance to produce sustainable growth now and in the future



The Royal Bank of Scotland Group

Risk, Return and Growth Getting the Balance Right

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Group Chief Executive