



The Royal Bank of Scotland Group

Is Big Better?

Sir Fred Goodwin
Group Chief Executive



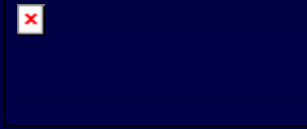
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Is Big Better?



RBS

*World Banks
2005*

Total income

#5

Operating profit

#5

Market capitalisation

#8

Is Big Better?



Potential Disadvantages

- Complexity/inflexibility
- Big becomes an objective
- Diversification – negative

Is Big Better?



Advantages

- Diversification – positive
- Scale
- Options

Is Big Better?



Advantages

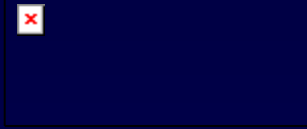
- **Diversification**
- Scale
- Options



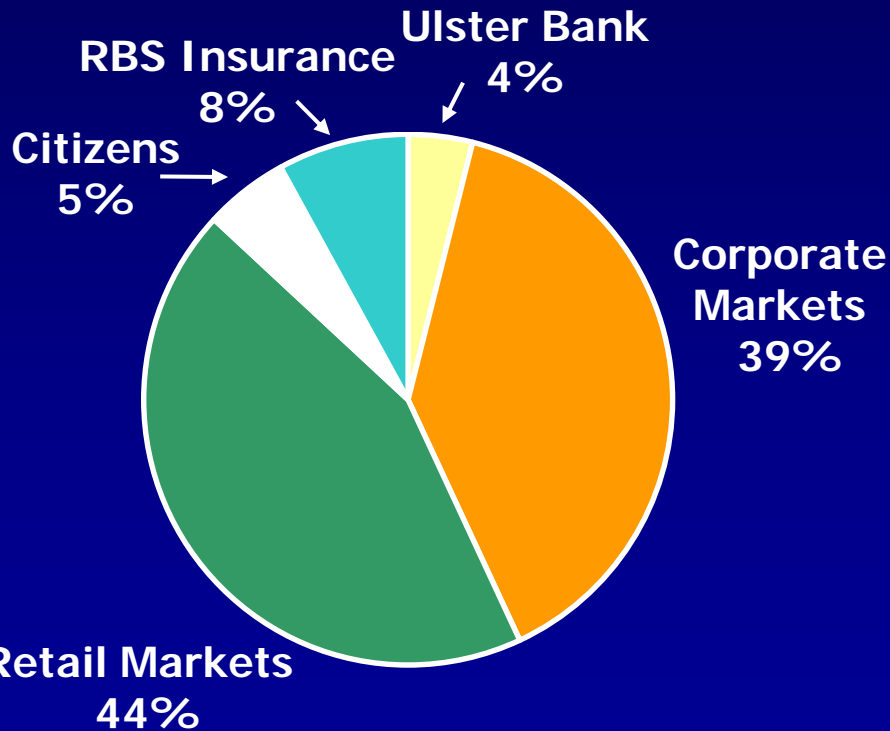
Diversification

- Larger bank can be active in multiple business segments and geographic areas
- Reduces dependency on any one activity or geography
- Supports more consistent growth in income and profit

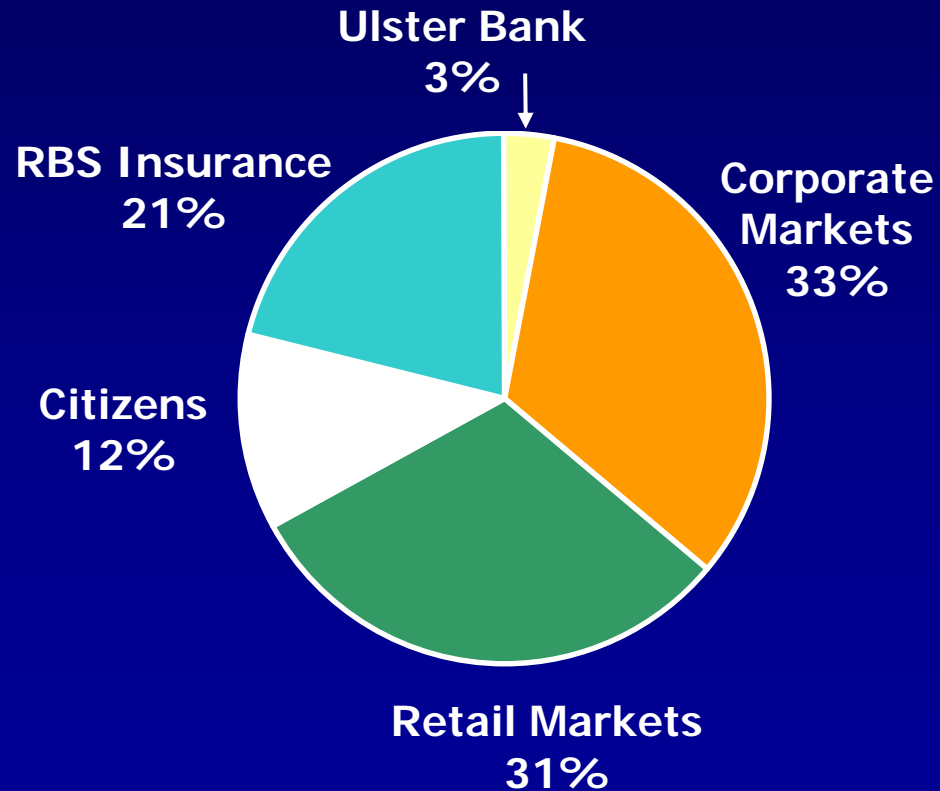
Diversified by Business



*1999 Income
Pro forma*

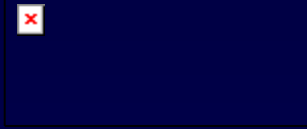


2005 Income



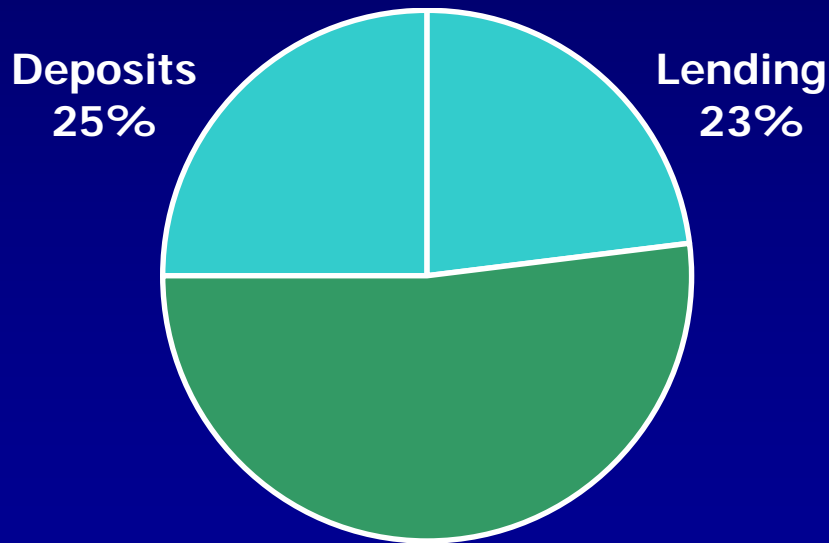
*1999 income is pro forma as if the acquisition of NatWest had taken place on 1 January 1999
Calculated excluding central items*

Diversified by Type of Income



1999 Income Pro forma

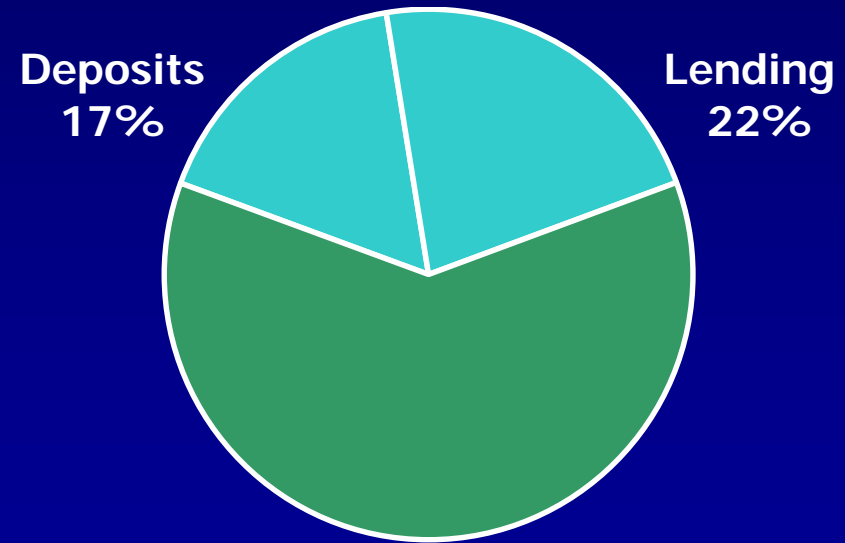
Net Interest Income 48%



Non-Interest Income 52%

2005 Income

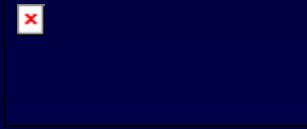
Net Interest Income 39%



Non-Interest Income 61%

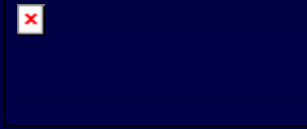
1999 income is pro forma as if the acquisition of NatWest had taken place on 1 January 1999

Diversified by Type of Income



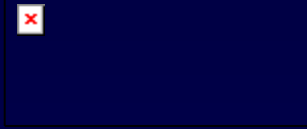
<i>Non-Interest Income</i>	<i>% of Total Income 2005</i>
Net fees and commissions	19%
– Money transmission and lending	10%
– Cards related	4%
– Other	5%
General insurance premium income	23%
Income from trading activities	9%
Other operating income	10%
Non-interest income % total income	61%

Diversified by Type of Income



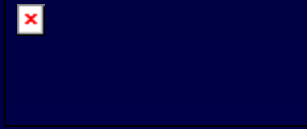
<i>Net Interest Income</i>	<i>% of Total Income 2005</i>
Personal deposits	10%
Personal lending	13%
Business deposits	7%
Business lending	9%
Net interest income % total income	39%

Diversified by Type of Income

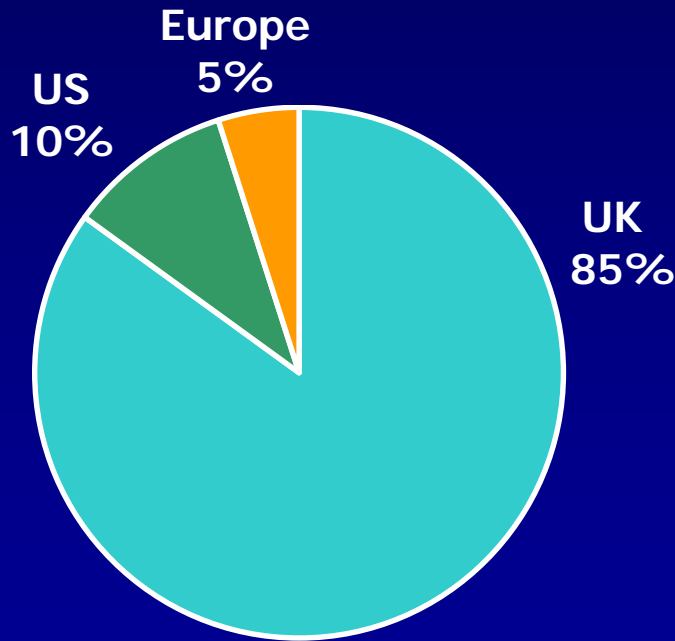


<i>UK Personal Lending</i>	<i>% of Total Income 2005</i>		
	<i>Net Interest</i>	<i>Non-Interest</i>	<i>Total</i>
Credit cards + personal loans	5%	2%	7%
Mortgages	2%	–	2%
Personal lending	7%	2%	9%

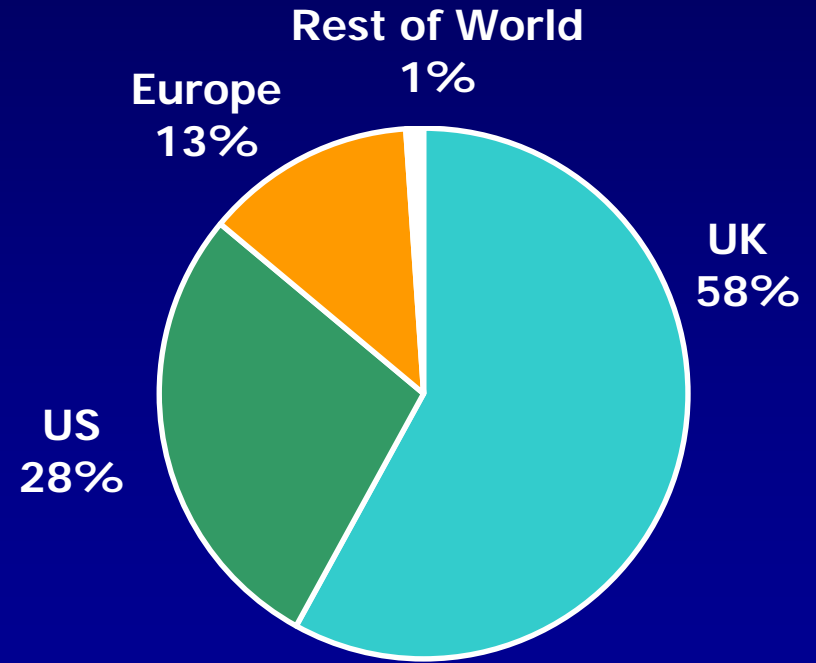
Diversified by Geography



*1999 Operating Profit
Pro forma*



2005 Operating Profit



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

Is Big Better?



Advantages

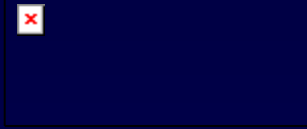
- Diversification
- **Scale**
- Options



Scale

- Overall size less important than scale in chosen businesses and geographies
- Scale arises from leveraging existing platform:
 - Add customers in existing products and markets
 - Add new products in existing markets
 - Add new markets for existing products
- Organically and by acquisition

Increase Scale by Organic Growth



Example: Corporate Markets

- Added corporate customers, improved relationships
- Leveraged areas of existing scale
eg acquisition finance, project finance, securitisation
- Increased scale in Financial Markets products
eg foreign exchange, interest rates, debt capital markets
- Established strong platform in Europe and in US

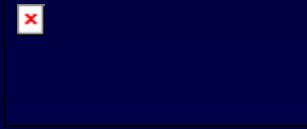
	<i>2000</i>	<i>2005</i>	<i>Growth % pa</i>
Total income	£4,649m	£8,815m	+14%

Increase Scale by Acquisitions



<i>Year</i>	<i>Acquisition</i>	<i>Increase Scale</i>	<i>Establish Platform</i>
2000	NatWest	✓	
2001	Allstate Corporation (motor insurance, Germany/Italy)		✓
	Mellon Regional Franchise	✓	
2002	Royal Insurance (motor insurance, Italy)	✓	
	Medford Bancorp	✓	
2003	Commonwealth Bancorp	✓	
	Port Financial Corporation	✓	
	Santander Direkt Bank (credit cards, personal loans)		✓
	Churchill Insurance Group	✓	
	Community Bancorp	✓	
	Bank von Ernst	✓	
2004	Roxborough Manayunk Bank	✓	
	First Active	✓	
	People's Bank (credit cards)		✓
	Bibit	✓	
	Charter One	✓	
	Lynk Systems Inc		✓

Increase Scale by Acquisitions



Example: Churchill Insurance

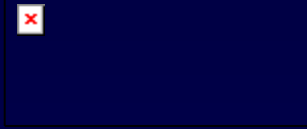
- RBS strong in UK general insurance (Direct Line)
- Acquired Churchill Insurance in 2003
- Churchill profit in 2002 £86 million
- Kept brand, converted to RBS platform
 - Access to Direct Line pricing engine
 - Cost savings: IT, claims, Head Office functions
- Churchill profit in 2005 £215 million

Increase Scale by Acquisitions

<i>United States</i>	<i>2000 Citizens</i>	<i>2005 Citizens</i>	<i>RBS</i>
Deposits	#24	#8	#6
Assets	#32	#8	#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	5,940	8,260

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

US Cost:Income Ratios



<i>Citizens + Selected Mid-West Competitors</i>		<i>Cost:Income Ratio 2005</i>
	Citizens	47.7%
Large cap	JPMorgan Chase	60.1%
	US Bancorp	44.3%
	National City	59.4%
	Fifth Third	53.2%
	KeyCorp	63.2%
Mid cap	Huntington	60.0%
	Sky Financial Group	53.1%
Small cap	Wintrust Financial	62.5%
	MB Financial	59.2%

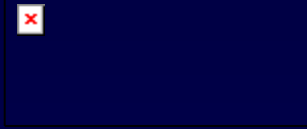
Source: SNL Financial, Company Accounts

Leverage Scale



Manufacturing		
Technology	Operations	Services
IT Operations IT Development	Account Management Telephony Lending Payments	Group Purchasing Group Property

Leverage Scale



Group Purchasing

Prices Paid v Industry Average

Paper supplies

-20%

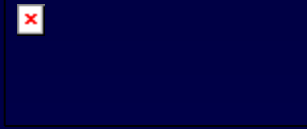
Media spend

-10%

PCs

-20%

Lower Cost of Funds



Credit Ratings

US Banks

S&P

Moody's

Large cap	A-	→	AA-	A3	→	Aaa
Mid cap	BBB-	→	A-	Baa3	→	A1
Small cap	B+	→	BBB+	Baa1	→	Baa3



Credit Ratings

	<i>S&P</i>	<i>Moody's</i>
RBS	AA	Aa1
Citigroup	AA-	Aa1
Bank of America	AA-	Aa2
HSBC	AA-	Aa2
JPMorgan Chase	A+	Aa3
UBS	AA+	Aa2
Wells Fargo	AA	Aaa
SCH	AA-	Aa3
Wachovia	A+	Aa3
Barclays	AA	Aa1

Highest rated operating entity used for each banking group

Is Big Better?



Advantages

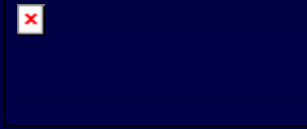
- Diversification
- Scale
- **Options**

Options



- Range of activities by business and geography
- Skills and resources to establish additional options to support future growth
- Some options are developed, others arise

Existing Options Being Developed



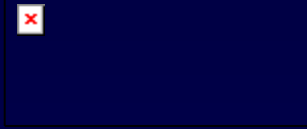
Example: Leverage Platform Established in US

- Citizens
- Card issuing
(People's Bank card portfolio acquired March 2004)
- Merchant acquiring
(Lynk Systems acquired September 2004)

Now developing significant option:

- Citizens + Corporate Markets,
including RBS Greenwich Capital

Opportunistic Options Arise



Example: RBS/Bank of China Partnership

- RBS led an investment of 10% in Bank of China, RBS itself bought 5% for £0.9 billion
- Developing business co-operation: credit cards, corporate banking, wealth management
- Developing infrastructure co-operation: risk, finance, human resources
- Bank of China IPO planned for 2006

Is Big Better?



Is Getting Bigger Making us Better?

Growth



Income Growth 1999 – 2005

	<i>Pro forma 1999</i>	<i>2005</i>	<i>Change</i>	<i>Change</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	
Total income	11,065	25,569	14,504	+131%

Components of Income Growth

	<i>£m</i>	<i>% Total</i>
NatWest transaction benefits	890	6%
Acquisitions	4,843	33%
Organic growth	8,771	61%
Total	14,504	100%

Growth



<i>% Growth</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Total income	+18%	+16%	+14%	+18%	+14%
Operating profit	+32%	+12%	+11%	+15%	+16%

Excluding acquisitions and at constant exchange rates

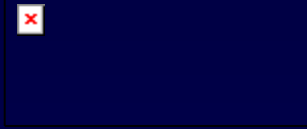
Total income	+17%	+12%	+10%	+11%	+10%
Operating profit	+30%	+9%	+10%	+14%	+12%

2005 Results



	<i>£m</i>	<i>%</i>
Total income	25,569	+14%
Group operating profit	8,251	+16%
Attributable profit	5,392	+17%
Basic earnings per share	169.4p	+13%
Adjusted earnings per share	175.9p	+8%
Tier 1 capital	7.6%	
Return on equity	18.2%	

United States



<i>Total Income</i>	<i>2004</i> <i>\$m</i>	<i>2005</i> <i>\$m</i>	<i>Change</i> <i>%</i>
Citizens	4,174	5,940	+42%
Corporate Markets	1,946	2,335	+20%
Central items	6	-15	
Total	6,126	8,260	+35%

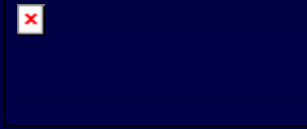
Europe



<i>Total Income</i>	<i>2004</i>	<i>2005</i>	<i>Change</i>
	<i>€m</i>	<i>€m</i>	<i>%</i>
Corporate Markets	668	1,091	+63%
Ulster Bank ROI	755	832	+10%
RBS Insurance	419	494	+18%
Retail Markets	460	472	+3%
Central items	41	17	
Total	2,343	2,906	+24%

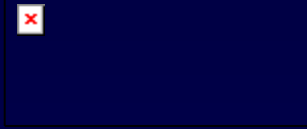
Geographic analysis of income determined by location of customers

Asia-Pacific

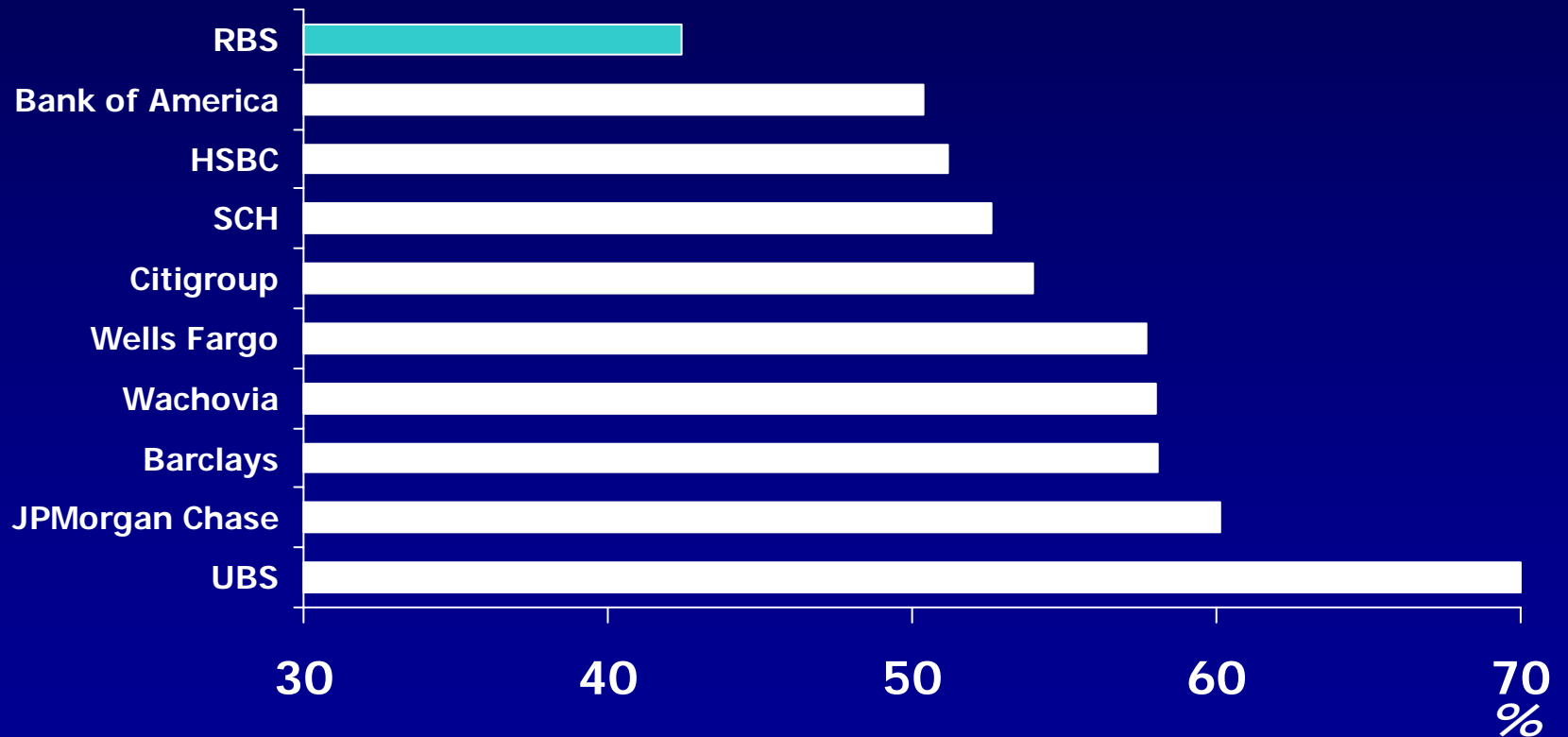


<i>Total Income</i>	<i>2004</i> <i>\$m</i>	<i>2005</i> <i>\$m</i>	<i>Change</i> <i>%</i>
Corporate Markets	211	266	+26%
Retail Markets	119	140	+18%
Central items	0	11	
Total	330	417	+26%

Efficiency

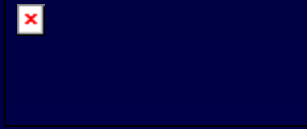


Cost:Income Ratio 2005

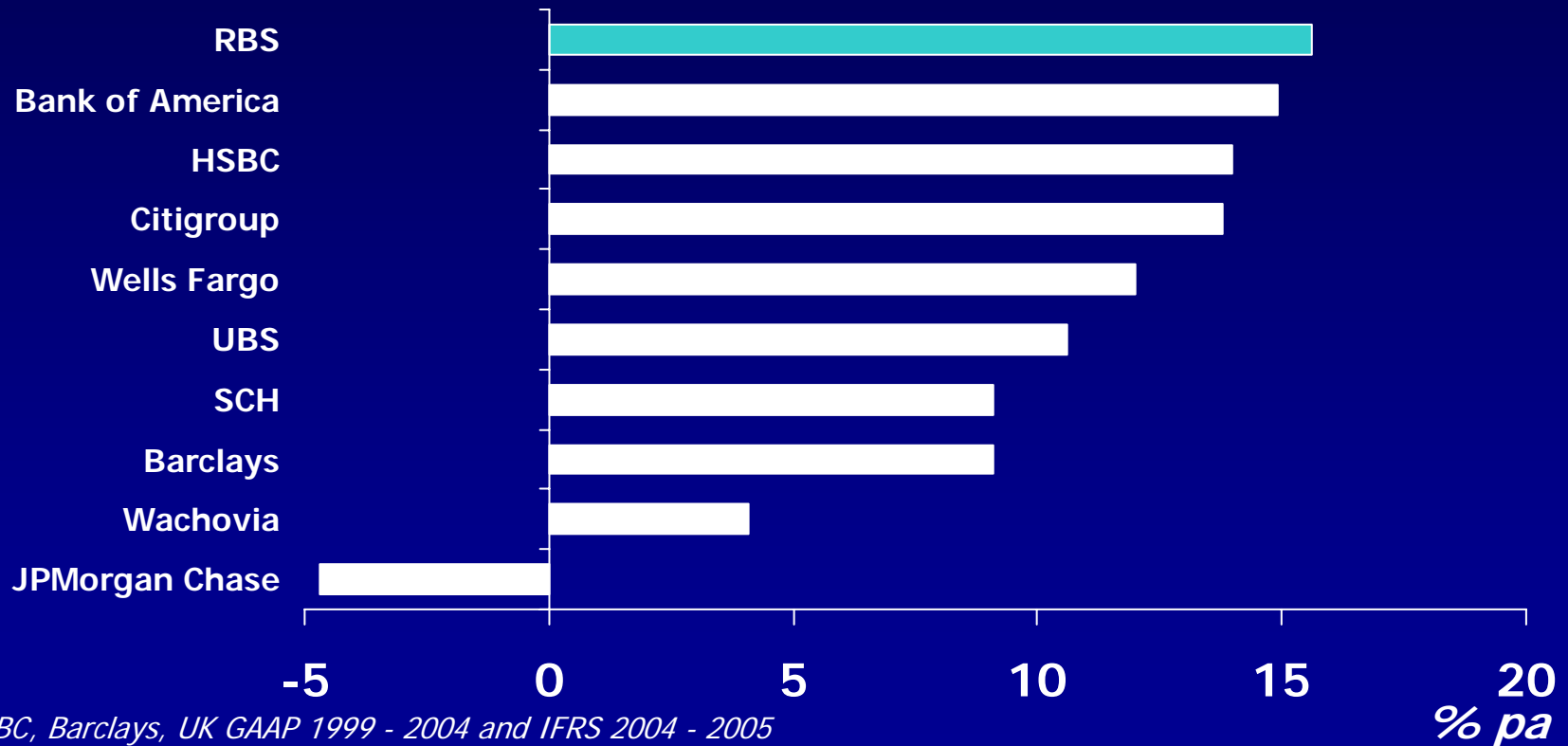


*Cost:income ratios as reported by banks, or based on income and costs reported by banks
RBS: netting operating lease depreciation against rental income*

Growth



Growth in Earnings Per Share 1999 – 2005



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

RBS excluding goodwill amortisation and integration costs, as reported

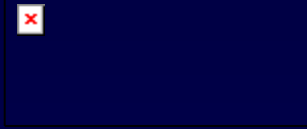
Bank of America as reported for 2001 - 2005 only. HSBC excluding goodwill amortisation, as reported

Citigroup and Wells Fargo, as reported. UBS continuing operations excluding goodwill amortisation, as reported.

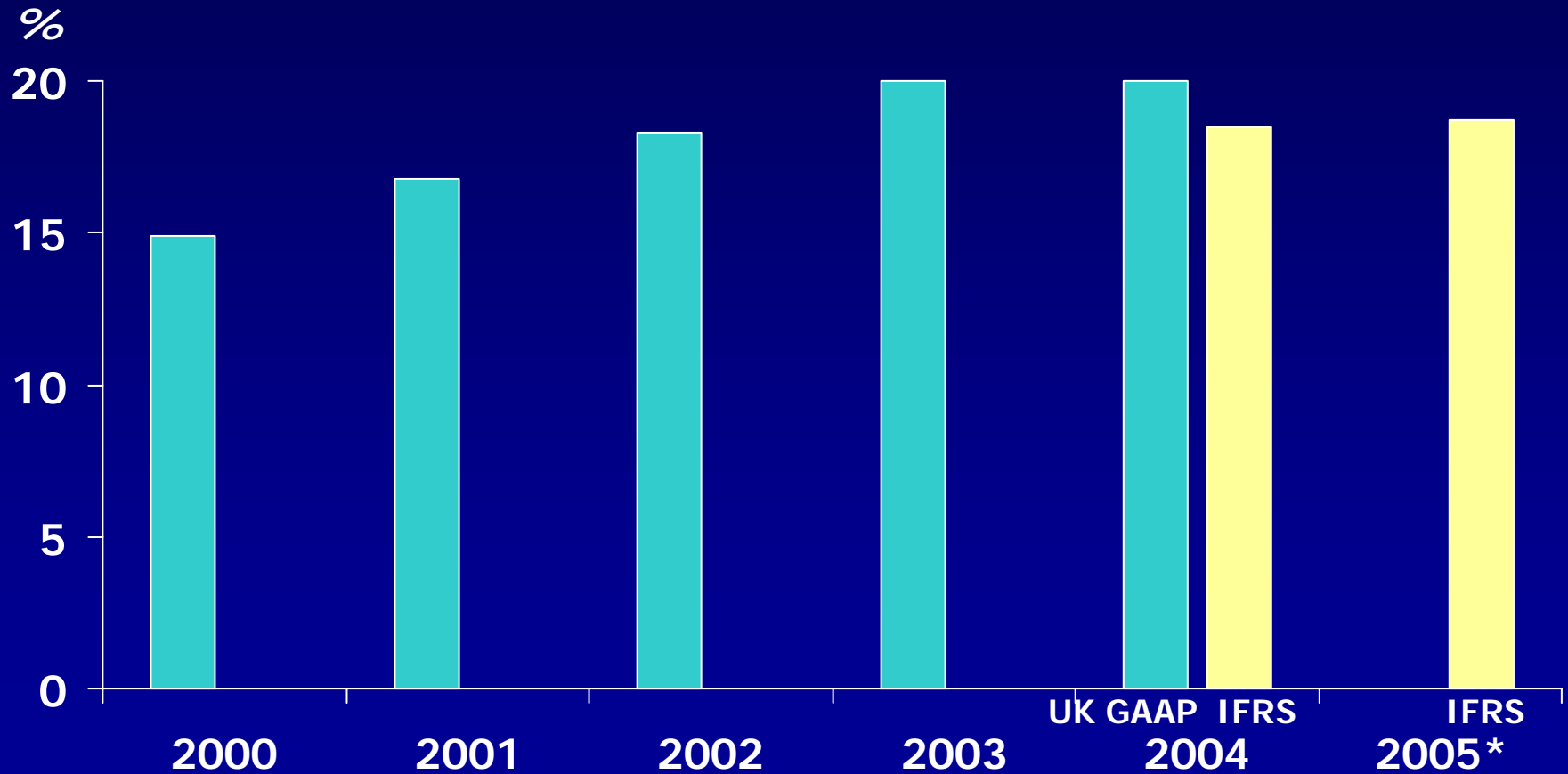
SCH excluding extraordinary items, as reported. Barclays excluding goodwill amortisation and exceptional items, 2000 - 2005 only

Wachovia as reported. JPMorgan Chase excluding exceptional items

Return



Return on Equity



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

Capital Generation



<i>£bn</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>IFRS</i> <i>2004</i>	<i>IFRS</i> <i>2005</i>
Gross capital generated	3.5	4.2	4.7	5.0	5.6
Capital to support growth in RWAs at 5.0%	(1.7)	(1.2)	(1.5)	(3.0)	(2.3)
Ordinary dividends	(1.1)	(1.3)	(1.5)	(1.6)	(1.9)
Capital available for other purposes	0.7	1.7	1.7	0.4	1.4
AVSs	✓	✓	✓	—	—
Acquisitions	✓	✓	✓	✓	—

Is Big Better?



Conclusion

- Size doesn't matter
- Diversification matters
- Scale matters
- Options matter

Is Big Better?



Conclusion

- RBS is diversified
- RBS has scale
- RBS has options



The Royal Bank of Scotland Group

Is Big Better?

Sir Fred Goodwin
Group Chief Executive