RBS

The Royal Bank of Scotland Group

Living in a 1% World

Fred Goodwin
Group Chief Executive

Living in a 1% World

1% World

- Stakeholder pensions
- Sandler regulated products

Living in a 1% World

Implications for RBS

- Lower margins on long term savings

  Less than 1% of RBS income from long term savings

- Higher volumes of distribution of long term savings

  Simpler products, processes better for bank distribution

Living in a 1% World

What are the required characteristics for growth?

Required Characteristics for Growth

- Organic growth
  - Large distribution capacity
  - Multiple brands
  - Low market shares
  - Effective sales processes
  - Able to grow new businesses
  - Diversity of income
- Acquisitions
  - Able to make good acquisitions
  - Good at integration of acquisitions
- Efficiency
  - Able to improve efficiency

Large Distribution Capacity

Distribution Channels	***UK Ranking***
Branches	#1
Supermarkets	#1
Telephone	#1 =
Internet	#? (large)
ATMs	#1
Relationship Managers	#1

Source: Company Accounts, CACI and Link

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Multiple Brands

Multi-Brand, Multiple Channel Strategy

TESCO
Personal Finance

Coutts

Green Flag
motoring assistance

DIRECT LINE

Lombard

RBS ADVANTA

The Royal Bank of Scotland

NatWest

Ulster Bank

CITIZENS
FINANCIAL GROUP, INC.

NIG

The one account

Multiple Brands

Multi-Brand, Multiple Channel Strategy

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

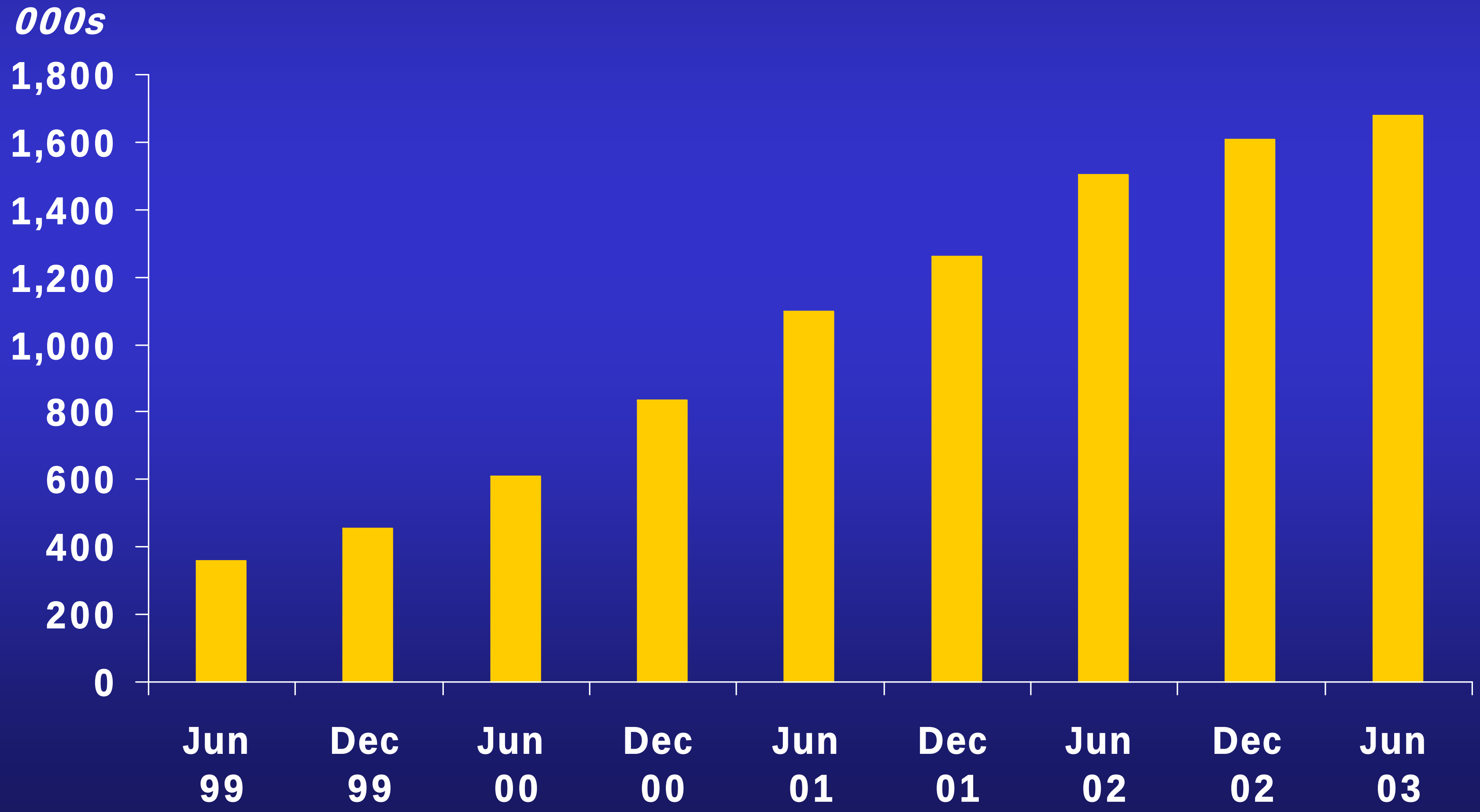
Low Market Shares

UK Market Shares	*Total RBS*
Current accounts	21%
Savings accounts	8%
Personal loans	10%
Mortgages	5%
Credit cards	17%
Life insurance	2%
Motor insurance	16%*
Home insurance	13%*
Small business relationships	30%
Corporate lead relationships	33%

Source: NOP 2002, NFO 2002, RBS estimates
** Including Churchill*

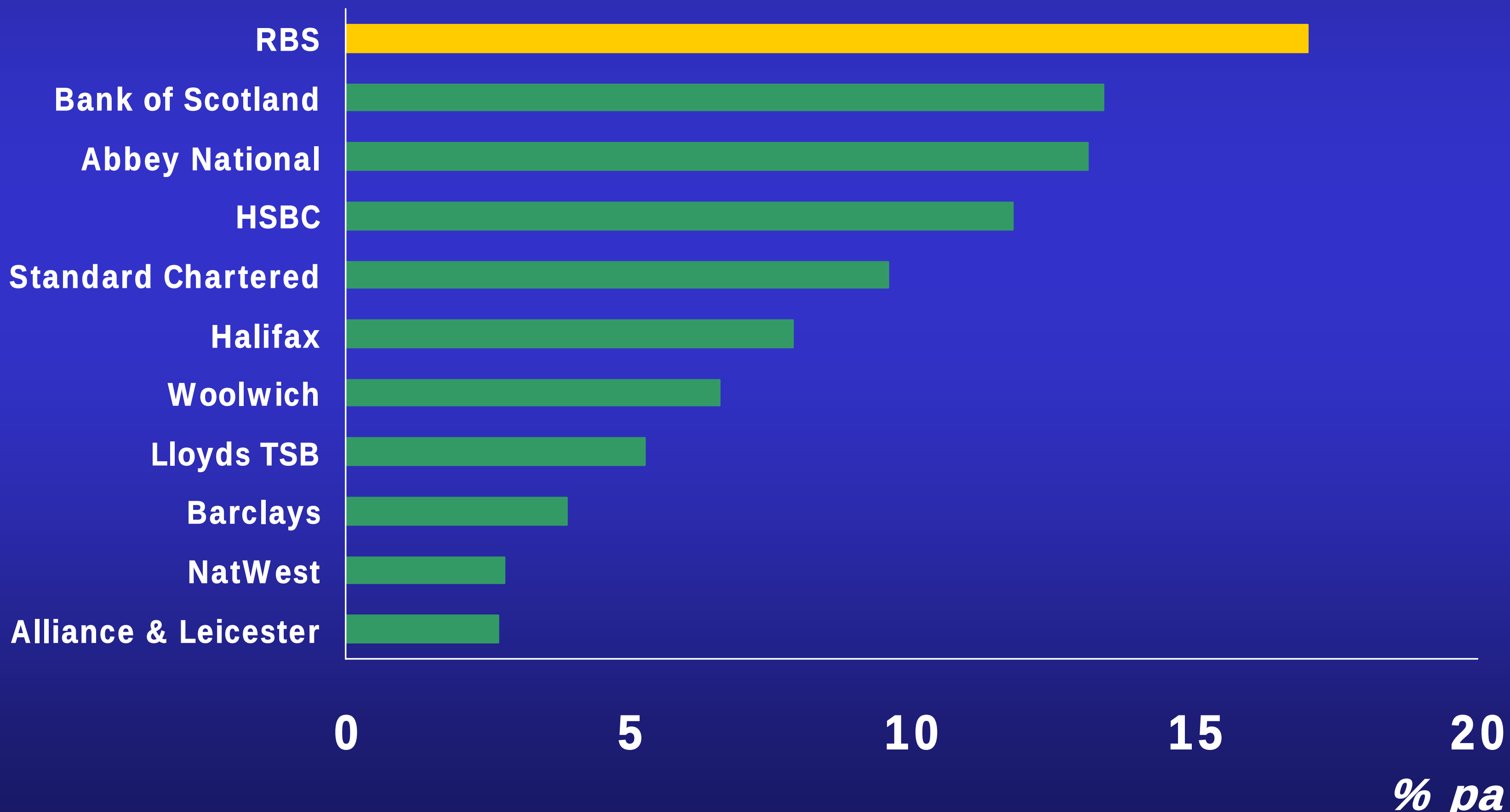
Effective Sales Processes

NatWest Packaged Accounts



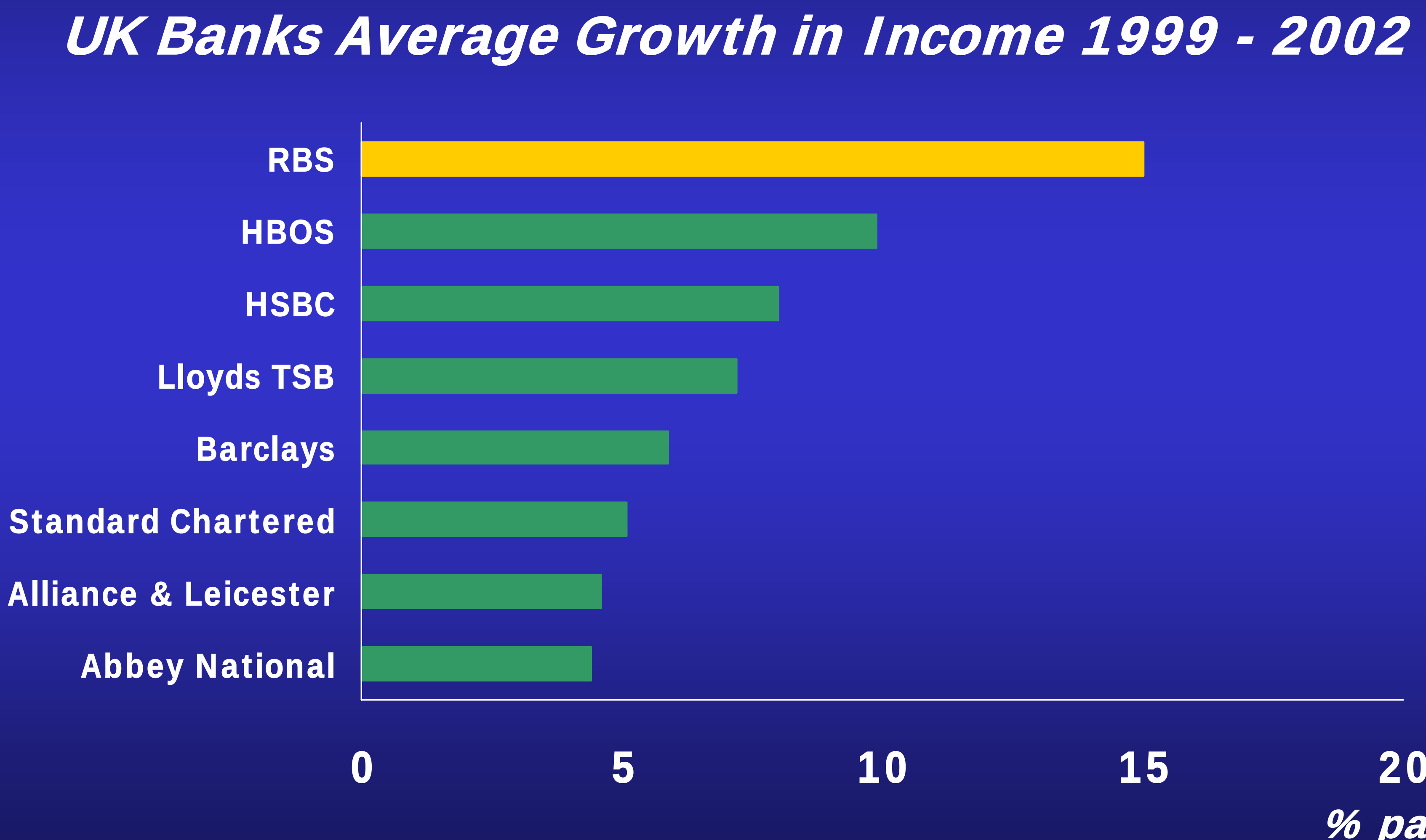
Effective Sales Processes

UK Banks Average Growth in Income 1992 - 1999



Income excluding exceptional items

Effective Sales Processes



Income excluding exceptional items

Able to Grow New Businesses

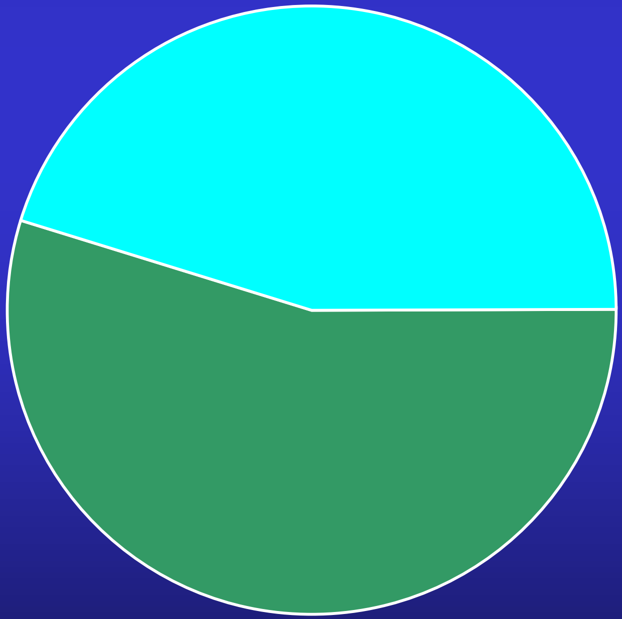
Examples of UK Financial Services New Entrants	*Commenced*	*Profit/(Loss) 2002*
Scottish Widows Bank	1995	£8m
Goldfish	1996	(£40m)
The One Account	**1997**	**£20m**
Sainsbury's Bank	1997	£22m
Tesco Personal Finance (RBS JV)	**1997**	**£96m**
Egg	1998	(£17m)
Standard Life Bank	1998	(£10m)
Direct Line Rescue	**1998**	**£19m**
Marbles	1999	not reported
Smile	1999	not reported
Cahoot	2000	(£25m)
Intelligent Finance	2000	(£147m)
Zurich Bank	2001-03	(£108m)

Profit/(loss) before exceptional items

Diversity of Income

RBS Income Mix 1H03

Net Interest Income 44%



Non-Interest Income 56%

Diversity of Income
Non-Interest Income

	Non-Interest Income to Total Income 1H03
RBS	**56%**
Lloyds TSB	48%
Barclays	46%
HSBC	39%
HBOS	38%
Standard Chartered	38%
Abbey National*	35%

As reported
** Personal Financial Services Trading*

Diversity of Income
Non-Interest Income

Non-Interest Income	*% of Total Income 1H03*
Net fees and commissions	24%
General insurance premium income	13%
Dealing profits (before associated costs)	11%
Other operating income	8%
Non-interest income to total income	56%

Diversity of Income
Non-Interest Income

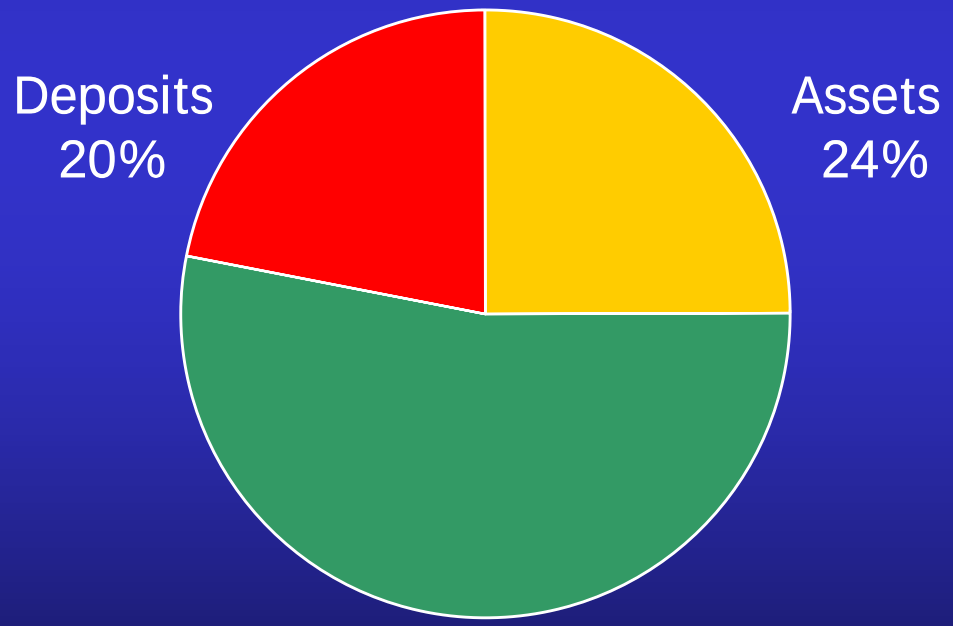
Dealing Profits Reflect Customer-driven Activities

	1H03
Foreign exchange & interest rate products	7%
RBS Greenwich Capital	
– Mortgage-backed securities	2%
– Other products	2%
Dealing profits (before associated costs)	11%

Diversity of Income

RBS Income Mix 1H03

Net Interest Income 44%



Non-Interest Income 56%

Diversity of Income
Net Interest Income

Net Interest Income	*% of Total Income 1H03*
Personal deposits	12%
Personal lending	12%
Business deposits	8%
Business lending	12%
Net interest income to total income	44%

Diversity of Income
Net Interest Income

Not Too Dependent on Personal Lending

Consumer finance	10%
Mortgages	2%
Personal lending	12%

Able to Make Good Acquisitions

- Expect to generate surplus capital
- Can add to operations in
  - UK + Ireland
  - Continental Europe
  - United States
- Track record of good acquisitions

Able to Make Good Acquisitions

Date	*Acquisition*	*Division*	*Consideration (m)*
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**
Jul	**Port Financial Corporation**	**Citizens**	**$285**
Jun	**Nordisk Renting**	**CBFM**	**€104**
Jul	**Santander Direkt Bank** (credit cards, personal loans)	**Retail Direct**	**€486**
Sept	**Churchill Insurance Group**	**Direct Line**	**£1,100**
Jul*	**Community Bancorp**	**Citizens**	**$116**
Sept*	**Roxborough Manayunk Bank**	**Citizens**	**$136**
Oct*	**First Active**	**Ulster Bank**	**€887**

Announced not completed

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

Able to Improve Efficiency

UK Banks

	Cost:Income Ratio 1H03
HBOS	42.1%
RBS	**43.0%**
Lloyds TSB	48.6%
HSBC	51.3%
Barclays	52.8%
Standard Chartered	53.4%
Abbey National*	53.7%

As reported
** Personal Financial Services Trading*

Able to Improve Efficiency

The Royal Bank of Scotland Group

Advantages of Manufacturing Division

- Single platform supporting multiple brands and channels
- Economies of scale, benefits of specialisation
- Able to implement new technologies across Group
- Able to deliver cost savings associated with acquisitions

Able to Improve Efficiency

Outlook

- Further progress expected
- Continue to centralise Manufacturing e.g. RBS Insurance
- Simplify processes e.g. image and workflow
- Projects under way
  - Specific objectives with income/cost benefits
  - Self-financing programme

Required Characteristics for Growth

- Organic growth
  - Large distribution capacity ✓
  - Multiple brands ✓
  - Low market shares ✓
  - Effective sales processes ✓
  - Able to grow new businesses ✓
  - Diversity of income ✓
- Acquisitions
  - Able to make good acquisitions ✓
  - Good at integration of acquisitions ✓
- Efficiency
  - Able to improve efficiency ✓

Living in a 1% World

Summary

- Well placed to continue growth, whatever the external environment
- Strategy diversity, flexibility
- Range of strategic options

First Active

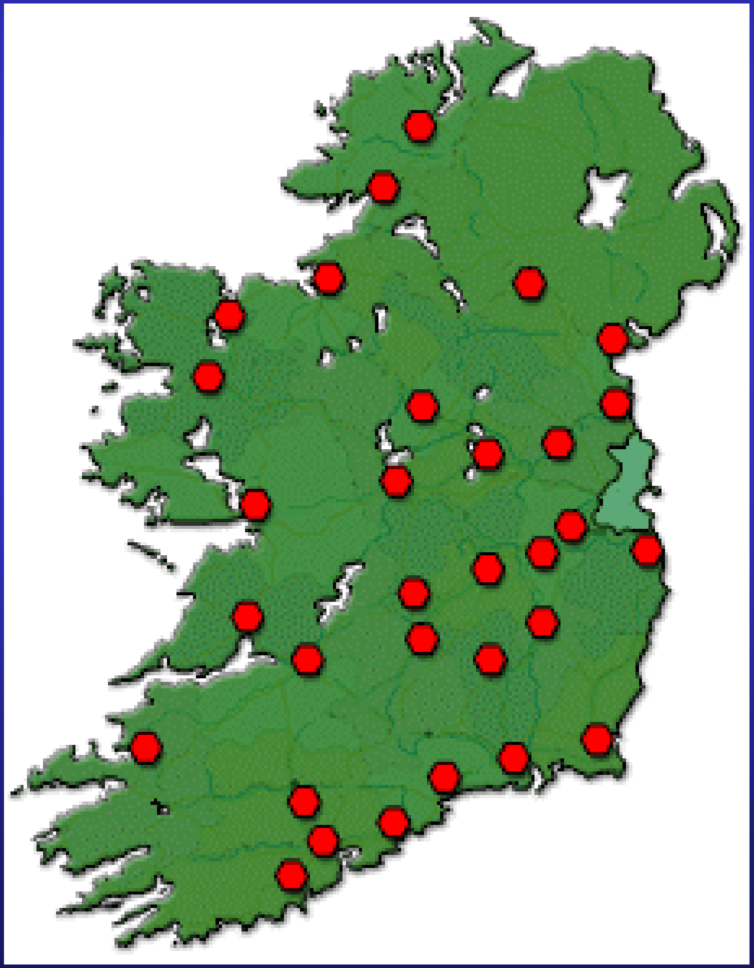
First Active

Offer

- Cash offer of €6.20 per share
- Values First Active at €887 million
- Recommended by First Active Board
- Accretive to RBS earnings

First Active

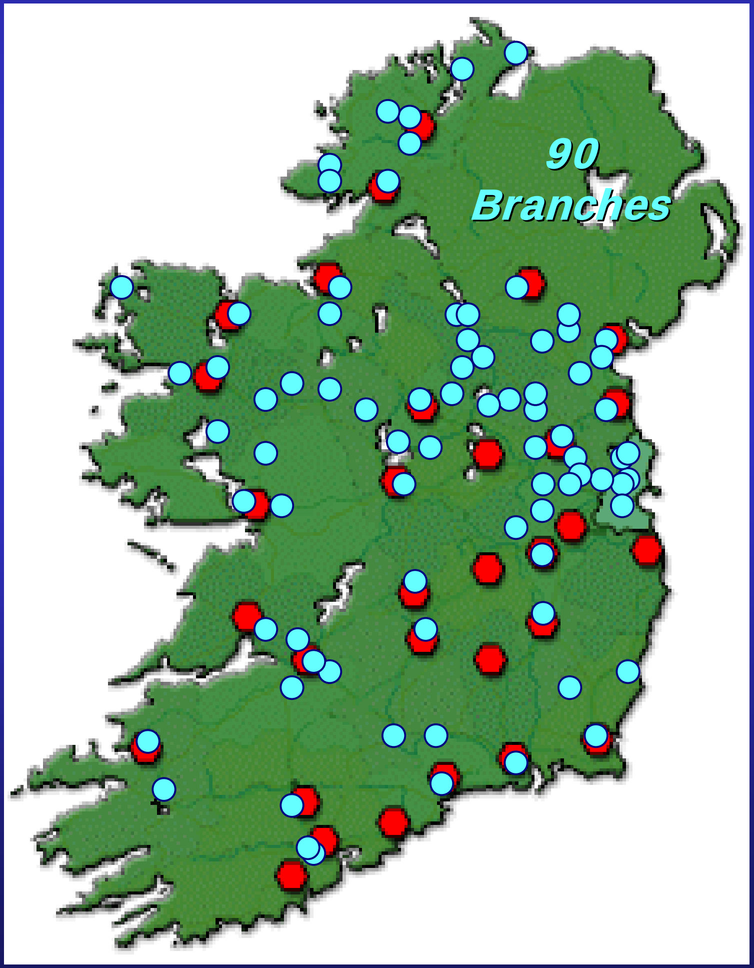
Branch Network



● First Active

First Active

Branch Networks



- First Active
- Ulster Bank

First Active

	First Active
Branches	51
Customers	335,000
Market shares	
– Mortgages	12%
– Savings accounts	3%
– Personal loans	1%

First Active

	Ulster Bank Republic of Ireland	First Active
Branches	122	51
Customers	506,000	335,000
Market shares		
– Mortgages	3%	12%
– Savings accounts	4%	3%
– Personal loans	3%	1%
– Personal current accounts	9%	–
– Credit cards	7%	–
– SME accounts	14%	–

First Active

	Ulster Bank + First Active Republic of Ireland
Branches	173
Customers	approx 800,000
Market shares	
– Mortgages	15%
– Savings accounts	7%
– Personal loans	4%
– Personal current accounts	9%
– Credit cards	7%
– SME accounts	14%

First Active

Mortgages	*Market Ranking*
Irish Life & Permanent	#1
Ulster Bank + First Active	**#2**
Bank of Ireland	#3=
AIB	#3=

First Active

Savings Accounts	*Market Ranking*
AIB	#1
Bank of Ireland	#2
Irish Life & Permanent	#3=
Ulster Bank + First Active	**#3=**

First Active

	Ulster Bank 1H03	First Active 1H03
Profit before tax	€191m	€34m
Loans to customers	€14.9bn	€7.6bn*
Customer deposits	€12.9bn	€3.9bn

** Gross of securitisation of €2.7bn*

First Active

Strategy

- Retain First Active and Ulster Bank brands and branch networks

Cost Savings

- Combine technology, processing activities, central functions
- Leverage Group functions
- Lower funding costs

Revenue Benefits

- Strengthen Ulster Bank’s mortgage offering
- Broaden First Active’s product range

RBS

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Fred Goodwin
Group Chief Executive