RBS

The Royal Bank of Scotland Group

Sir Fred Goodwin
Group Chief Executive

RBS Group Structure

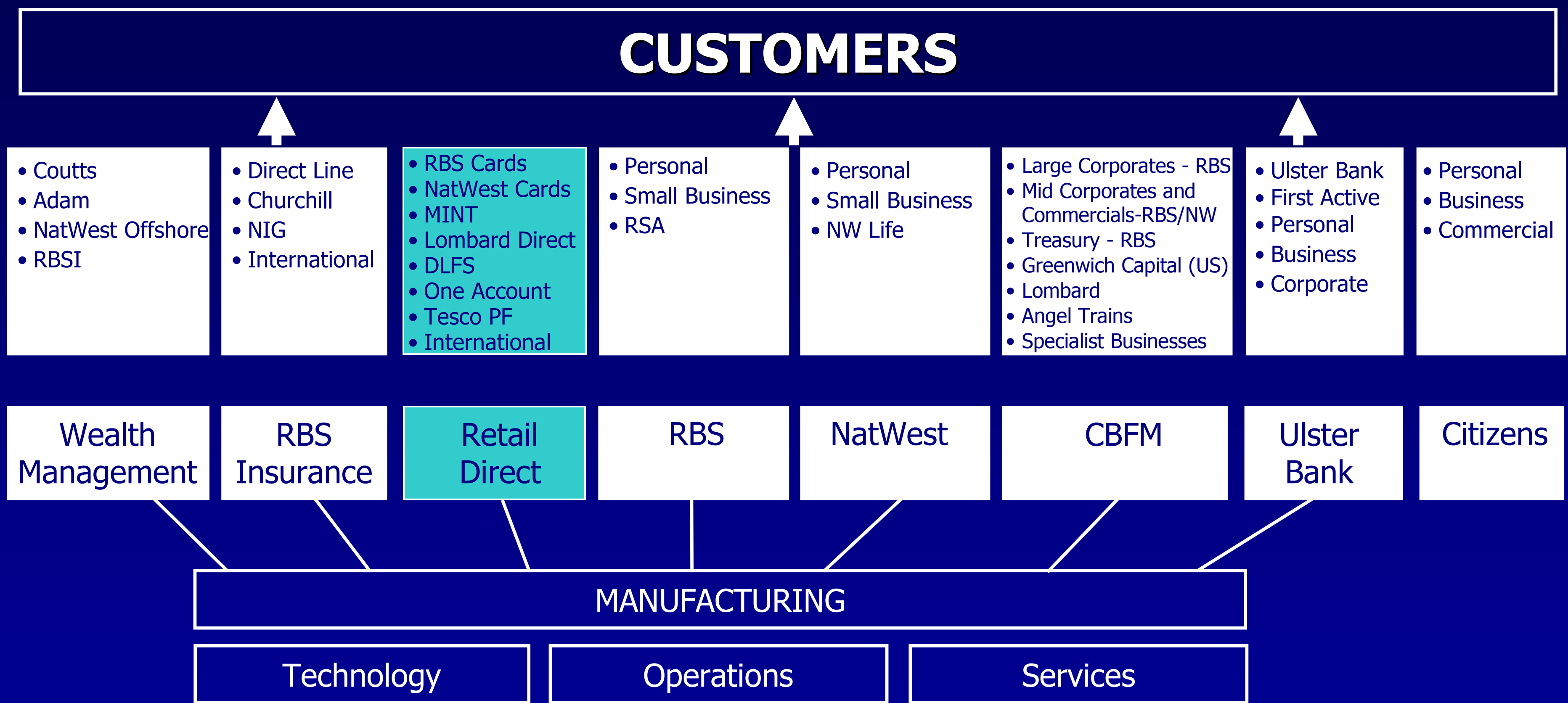
CUSTOMERS

Wealth Management	RBS Insurance	Retail Direct	RBS	NatWest	CBFM	Ulster Bank	Citizens
• Coutts • Adam • NatWest Offshore • RBSI	• Direct Line • Churchill • NIG • International	• RBS Cards • NatWest Cards • MINT • Lombard Direct • DLFS • One Account • Tesco PF • International	• Personal • Small Business • RSA	• Personal • Small Business • NW Life	• Large Corporates - RBS • Mid Corporates and Commercials-RBS/NW • Treasury - RBS • Greenwich Capital (US) • Lombard • Angel Trains • Specialist Businesses	• Ulster Bank • First Active • Personal • Business • Corporate	• Personal • Business • Commercial

MANUFACTURING

Technology	Operations	Services

RBS Group Structure



Group Operating Profit

	2003 £m	*2002 £m*	*Change £m*	*Change*
Corporate Banking and Financial Markets	3,620	3,261	359	+11%
Retail Banking	3,126	3,019	107	+4%
Retail Direct	**873**	**701**	**172**	**+25%**
Manufacturing	(1,875)	(1,762)	(113)	-6%
Wealth Management	438	454	(16)	-4%
RBS Insurance	468	355	113	+32%
Ulster Bank	273	244	29	+12%
Citizens	857	766	91	+12%
Central items	(629)	(587)	(42)	-7%
Group operating profit	**7,151**	**6,451**	**700**	**+11%**

As reported

Retail Direct

Agenda

10.35	Introduction and Overview	Chris Sullivan
11.00	Card Issuing	Iain Clink
11.25	Merchant Acquiring	Tony Surridge
11.40	*Coffee Break*	
12.10	The One Account	Jayne-Anne Gadhia
12.20	Tesco Personal Finance	Jim Macdonald
12.30	International and Conclusion	Chris Sullivan
13.00	*Questions & Answers*	
13.30	*Lunch*	

The Royal Bank of Scotland Group

Retail Direct
Introduction and Overview

Chris Sullivan
Chief Executive, Retail Direct

Retail Direct

	June 2004
Total customers (million)	18.6
Total assets (£bn)	25.9
Total employees	8,900

Operations in UK, Europe and US

Retail Direct

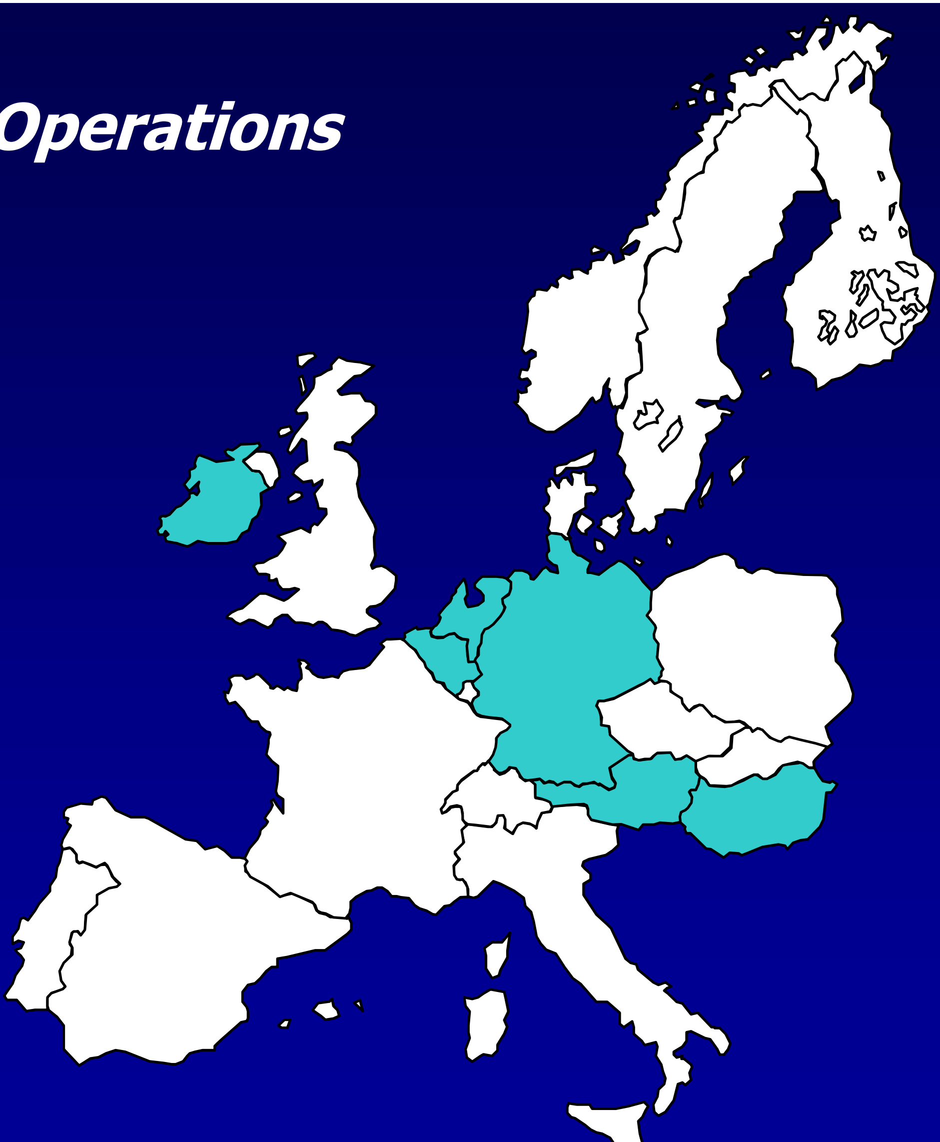
Principal UK Operations

- Edinburgh
- Glasgow
- London
- Southend
- Manchester
- Norwich
- Harrogate
- 7,200 employees

Retail Direct

Continental European Operations

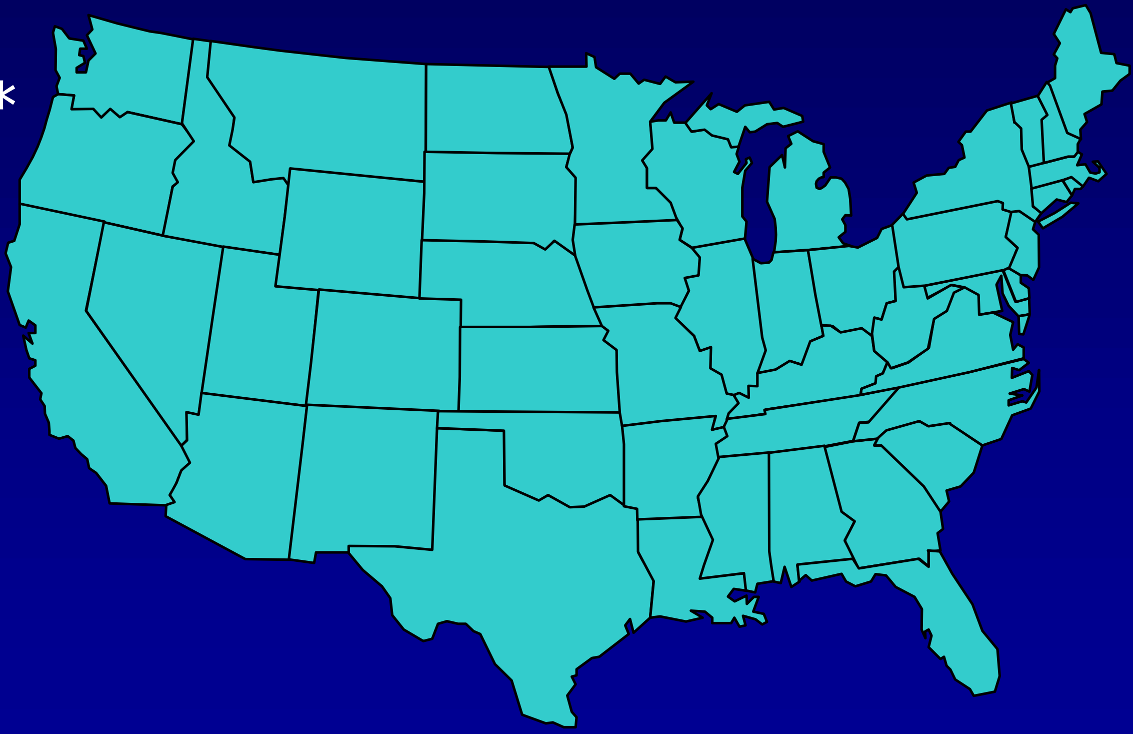
- Germany
- Netherlands
- Belgium
- Austria
- Ireland
- Hungary
- 800 employees



Retail Direct

United States Operations

- People's Bank credit card businesses*
- Kroger partnership**
- Lynk Systems*
- 900 employees



* *Nationwide*

** *Kroger present in 32 states*

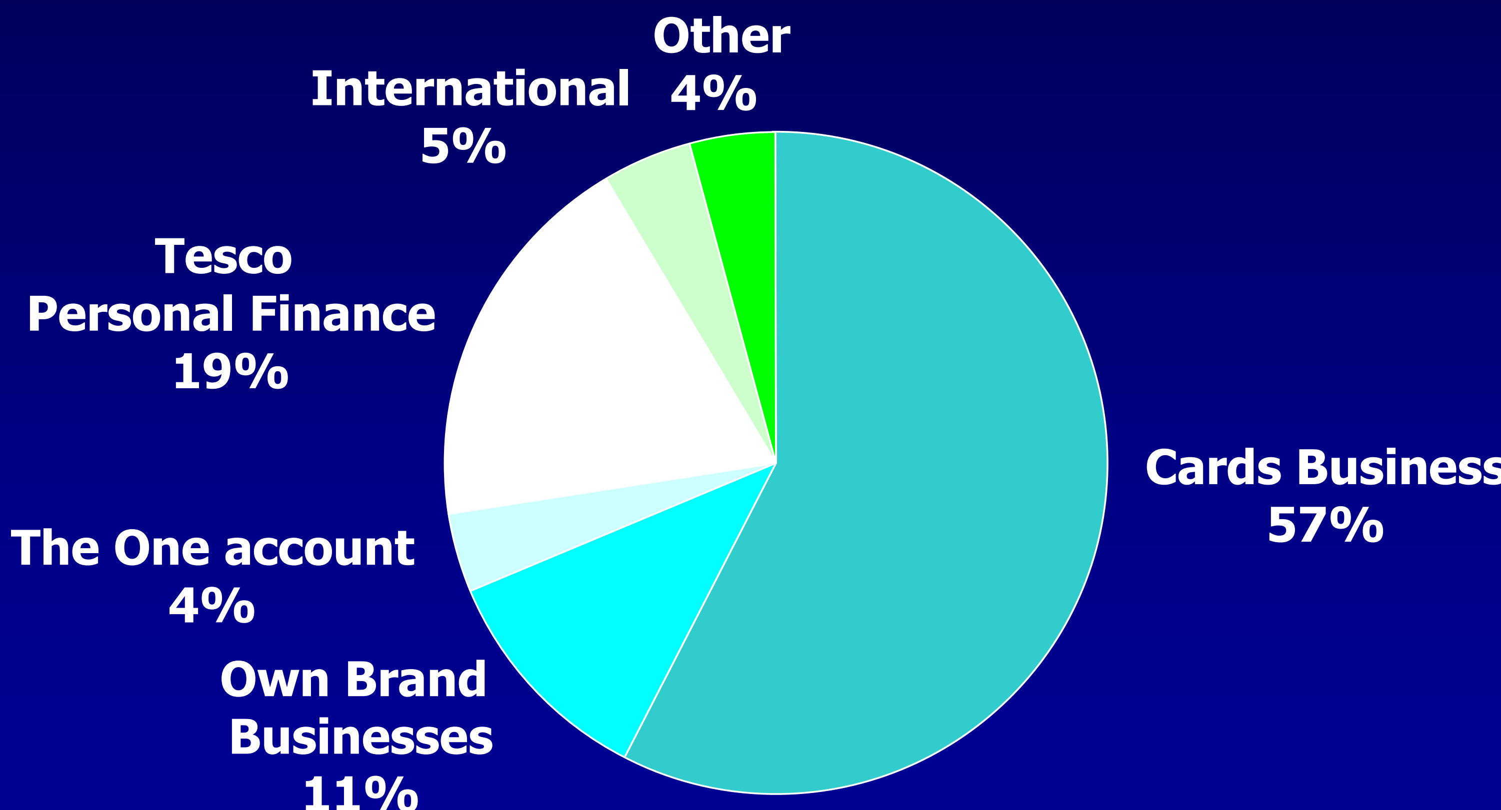
Retail Direct

2003 Results	*2003 £m*	*2002 £m*	*Change*
Net interest income	849	749	+13%
Non-interest income	986	841	+17%
Total income	1,835	1,590	+15%
Direct expenses	657	601	+9%
Contribution before provisions	1,178	989	+19%
Provisions	297	281	+6%
Contribution	**881**	**708**	**+25%**

2003 and 2002 restated following transfer of certain activities to Manufacturing

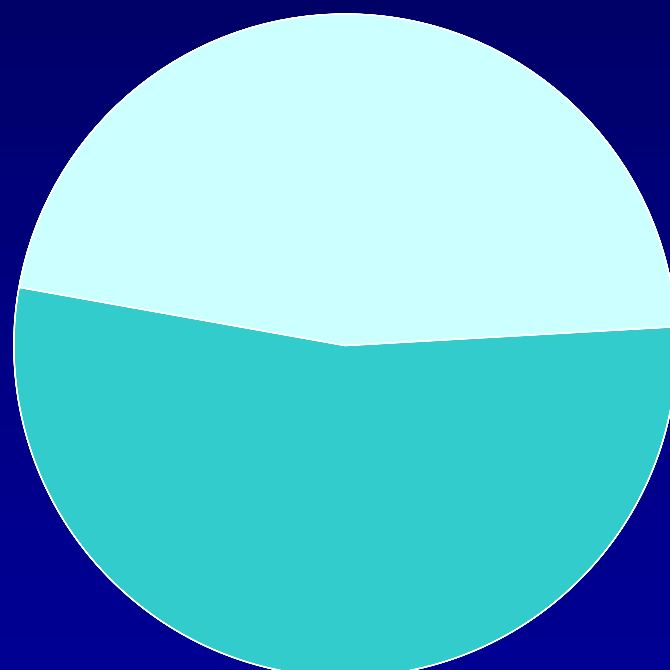
Retail Direct

2003 Income £1,835m



Retail Direct

2003 Income £1,835m

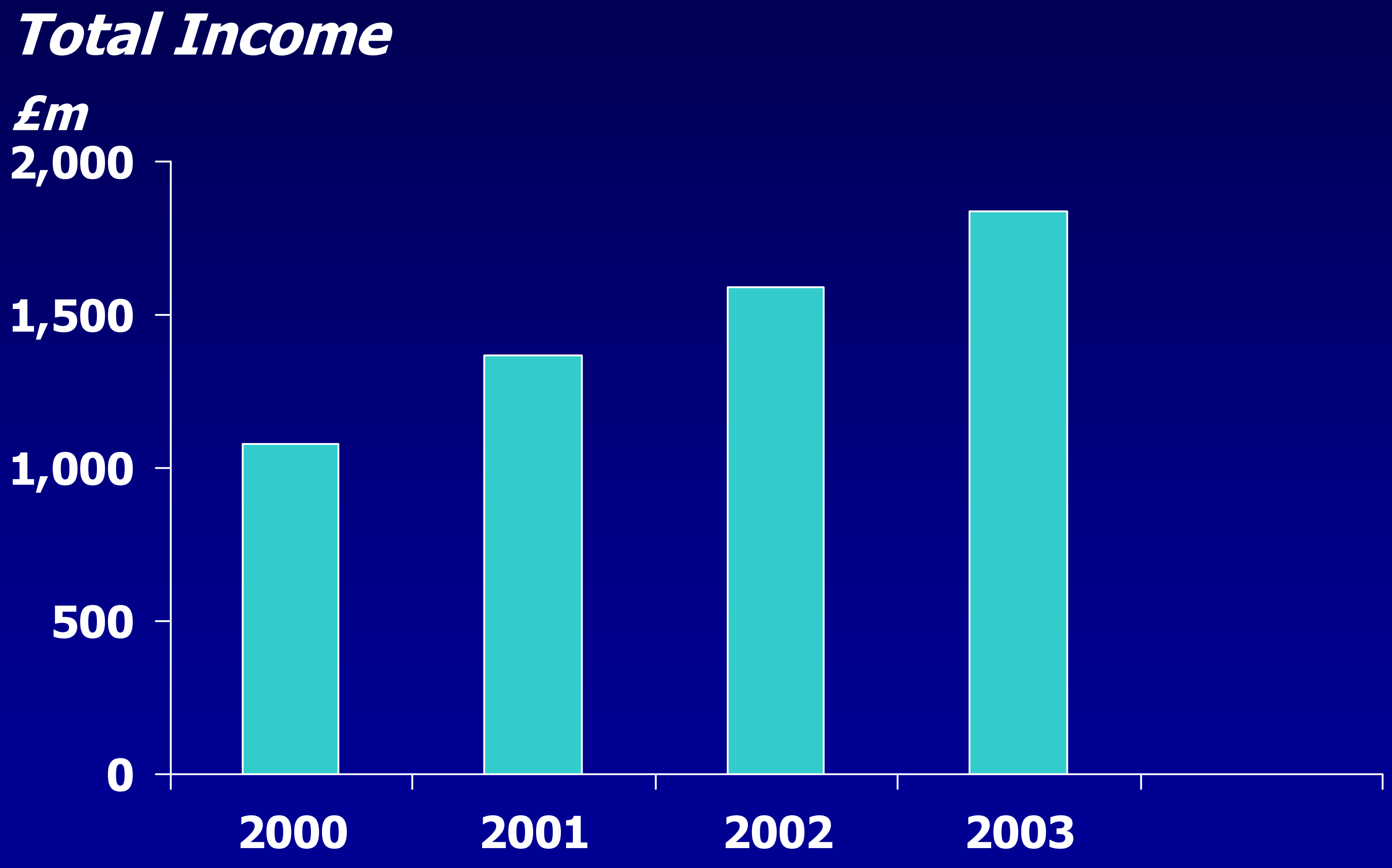


Retail Direct

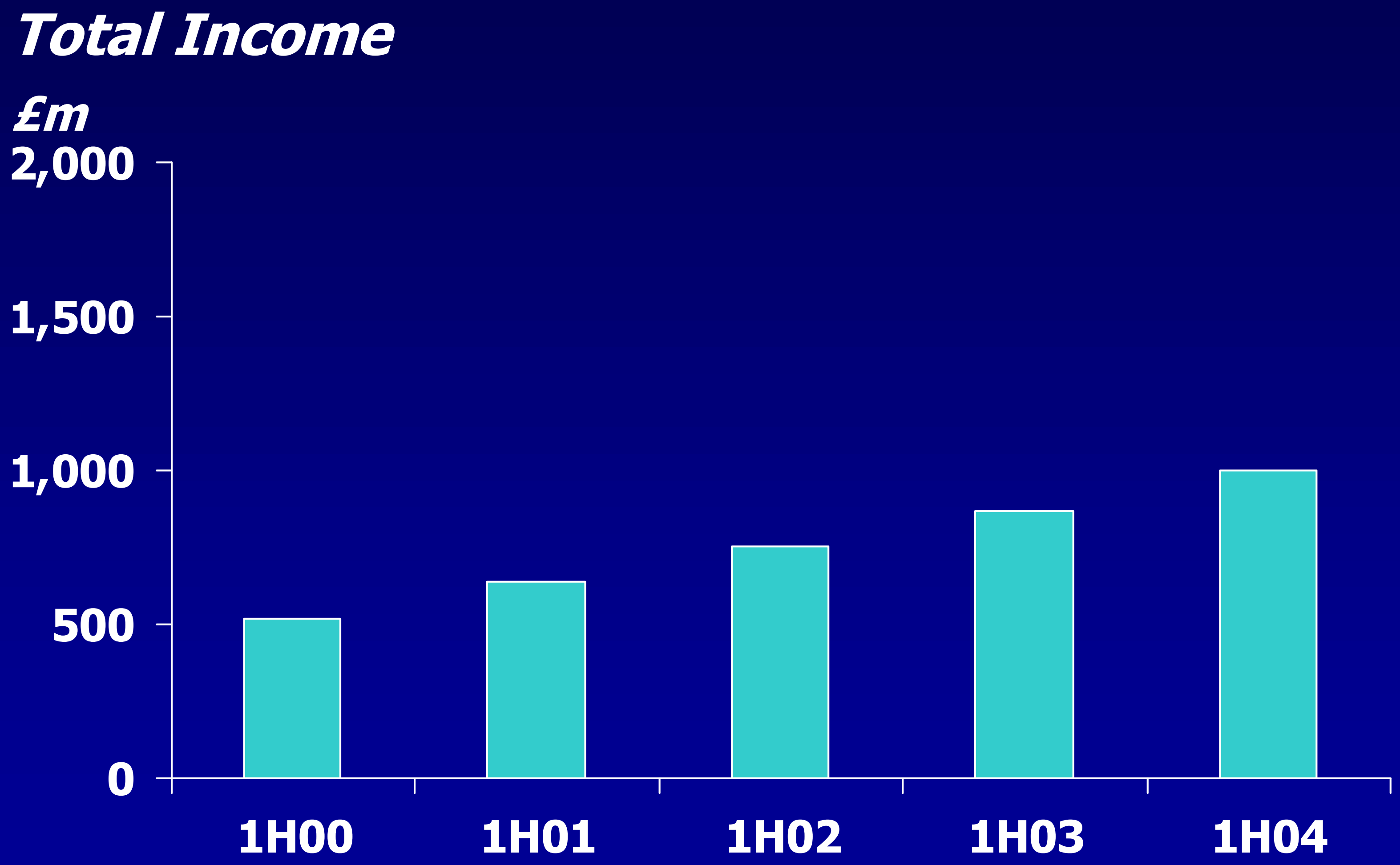
1H04 Results	*2004 £m*	*2003 £m*	*Change*
Net interest income	453	400	+13%
Non-interest income	544	468	+16%
Total income	997	868	+15%
Direct expenses	345	310	+11%
Contribution before provisions	652	558	+17%
Provisions	172	147	+17%
Contribution	**480**	**411**	**+17%**

2003 restated following transfer of certain activities to Manufacturing

Grow Income

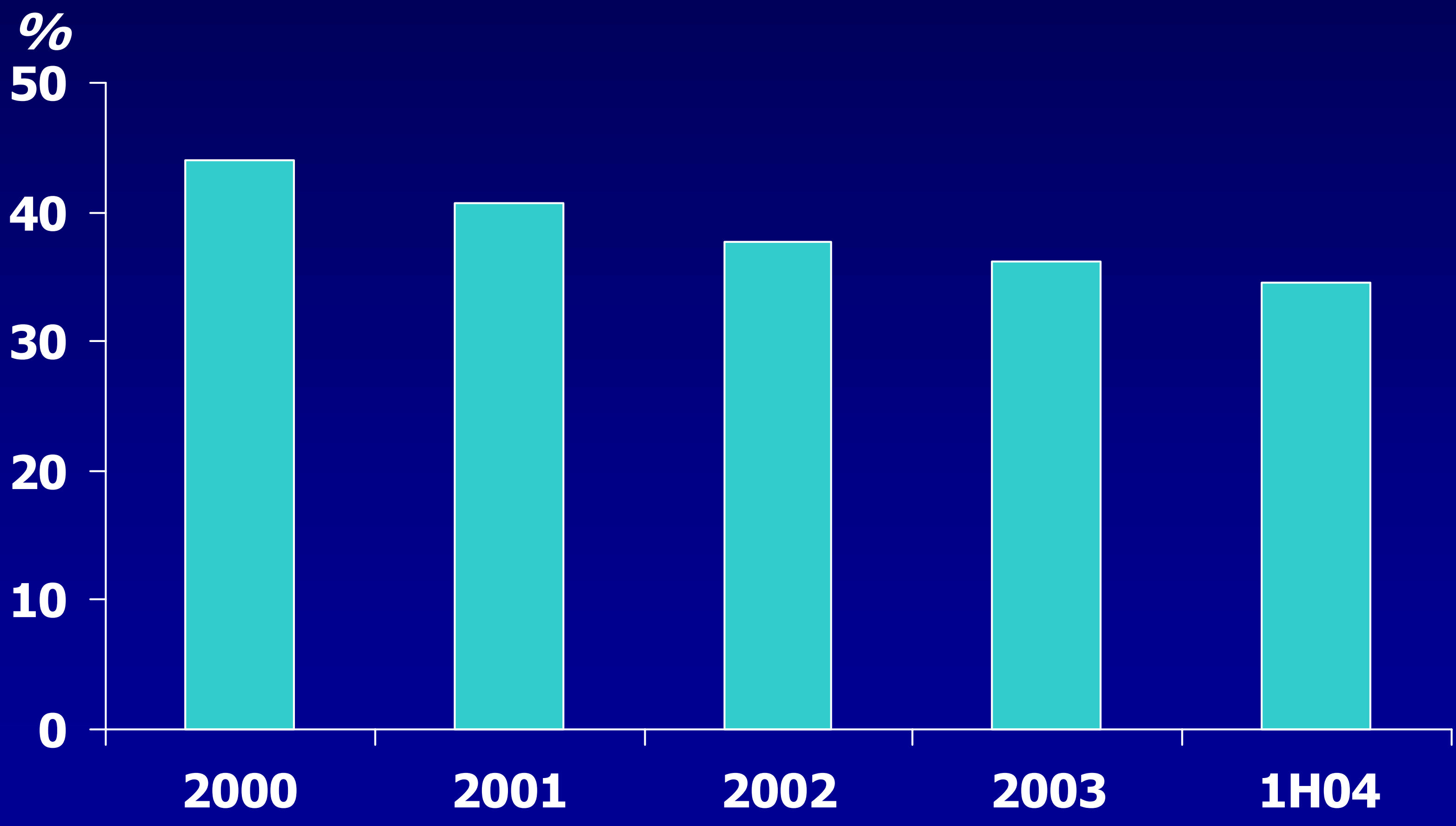


Grow Income



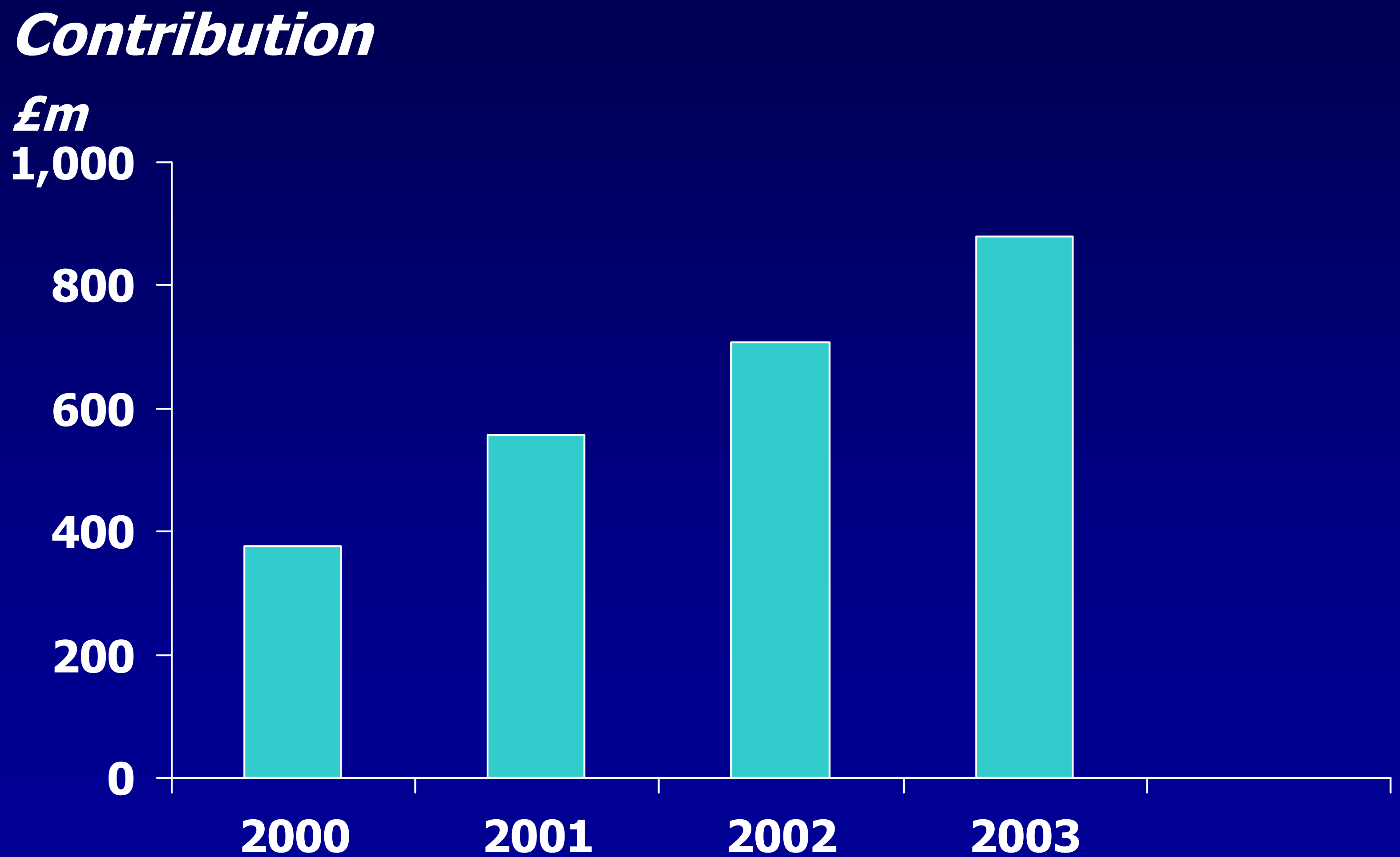
Improve Efficiency

Direct Cost:Income Ratio



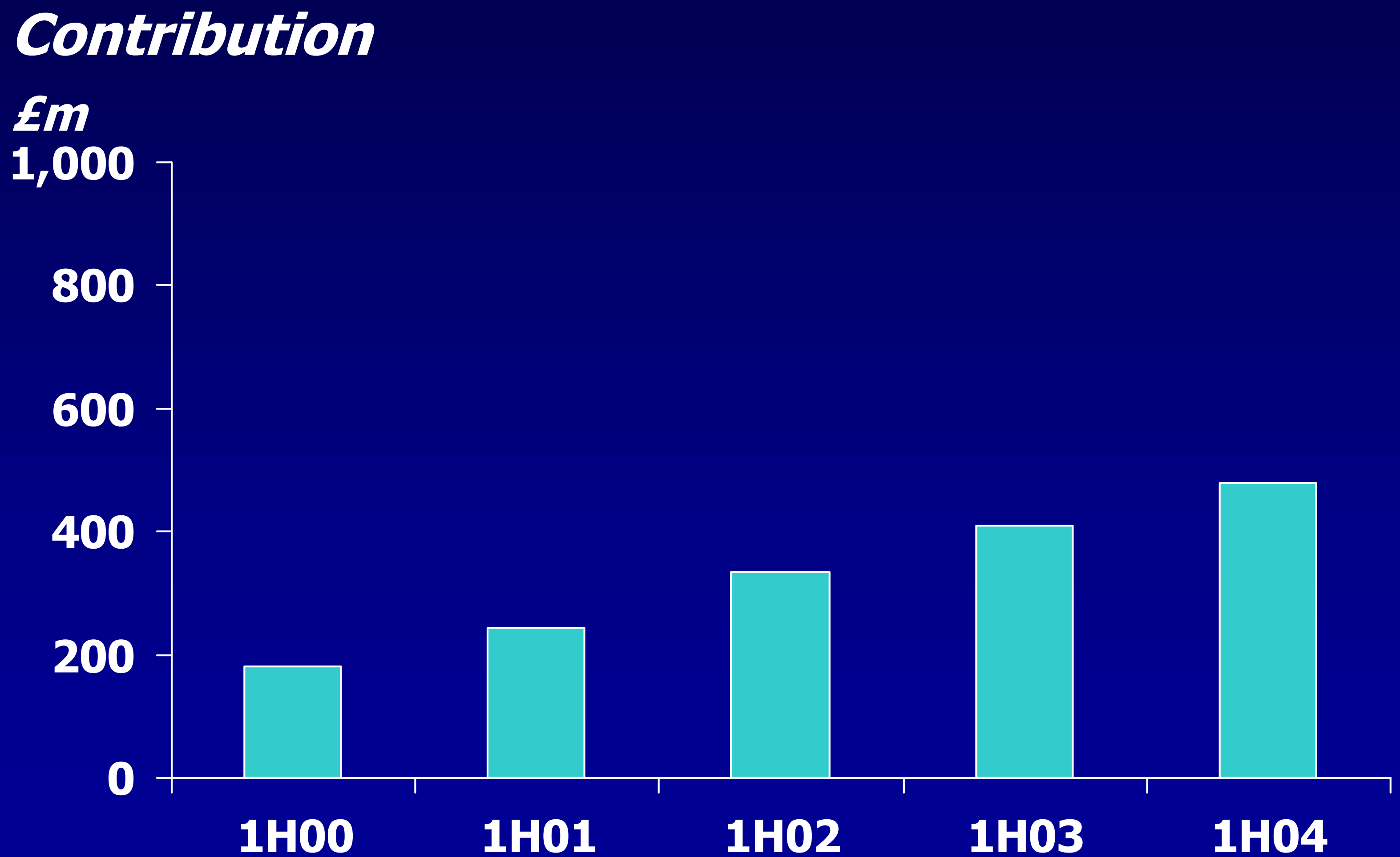
2003 and earlier years restated following transfer of certain activities to Manufacturing

Contribution to Group Profit



2003 and earlier years restated following transfer of certain activities to Manufacturing

Contribution to Group Profit



2003 and earlier years restated following transfer of certain activities to Manufacturing

Retail Direct

CUSTOMERS

Cards Business

The Royal Bank of Scotland
streamline
NatWest
lynk
WorldPay
Internet Payment Solutions
MINT
BIBIT
streamline international

Own Brand Businesses

Lombard Direct
DIRECT LINE

The One account

the one account

Tesco Personal Finance

TESCO
Personal Finance

International

KROGER
Personal FINANCE

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Retail Direct

CUSTOMERS

Cards Business	Own Brand Businesses	The One account	Tesco Personal Finance	International

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Customers

June 2004	*million*
United Kingdom	14.8
Continental Europe	2.3
United States	1.5
Total customers	**18.6**

Retail Direct

CUSTOMERS

Cards Business

The Royal Bank of Scotland
streamline
NatWest
lynk
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streamline international

Own Brand Businesses

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The One account

the one account

Tesco Personal Finance

TESCO
Personal Finance

International

KROGER Personal FINANCE

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Cards Business
Card Issuing

The Royal Bank of Scotland
NatWest
MINT
TESCO Personal Finance
Coutts
DIRECT LINE
Ulster Bank

- 10.9 million customer accounts in UK
- Products
  – Personal credit cards (Visa and MasterCard)
  – Commercial cards, for business customers
- Distribution by direct mail, phone, internet, branches and through partners

Cards Business
Merchant Acquiring

- 0.3 million merchant customers in UK
- Enables merchant customers to accept payments by cards in store, by phone and internet
- Distribution through RBS/NatWest relationships with merchants, by direct sales force and via intermediaries

Own Brand Businesses

DIRECT LINE

Lombard Direct

- 0.5 million customer accounts in UK
- Products include personal loans and mortgages
- Distribution by direct mail, phone and internet and via intermediaries

The One Account

the one account

- 160,000 customer accounts in UK
- Current account mortgage combines mortgage, personal loan, savings account and credit card with a current account
- Distribution by phone and internet and through intermediaries

Tesco Personal Finance

- 4.6 million customer accounts in UK
- Products include credit cards, motor insurance, personal loans, savings
- Leaflets in store, execution by phone, post and internet

International

Europe

- Comfort Card – retailer cards
- Santander Direkt credit cards and loans business
- Direct loans
- Tchibo – retailer partnership, loans
- BIBIT – merchant acquiring

International

KROGER Personal FINANCE™ CITIZENS BANK CHARTER ONE BANK Lynk

United States

- People's Bank credit card businesses
- Kroger – retailer partnership, credit cards
- Citizens/Charter One – credit cards
- Lynk Systems – merchant acquiring

Retail Direct

CUSTOMERS

Cards Business

The Royal Bank of Scotland
streamline
NatWest
lynk
WorldPay
MINT
BIBIT
streamline international

Own Brand Businesses

Lombard Direct
DIRECT LINE

The One account

the one account

Tesco Personal Finance

TESCO Personal Finance

International

KROGER Personal FINANCE

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Products

	Cards Business	***Own Brand Businesses***	***The One account***	***Tesco Personal Finance***
Credit cards	✓	✓	*	✓
Retailer cards	✓			
Creditor insurance	✓	✓		✓
Personal loans	✓	✓	*	✓
Savings		✓	*	✓
Mortgages		✓	✓	
Merchant acquiring	✓			
Motor/home insurance				✓
Others			*	✓

* *Products included in current account mortgage*

Products

June 2004	*million*
Personal Customers	
Credit cards	12.1
Retailer cards	2.6
Motor/home insurance	2.2
Personal loans	0.6
Savings	0.5
Mortgages	0.2
Others	0.1
Total	**18.3**
Commercial Customers	
Merchant acquiring	0.3

Balances

June 2004	*£bn*
Credit cards	10.7
Retailer cards	0.9
Personal loans	4.8
Mortgages	8.8
	25.2
Savings	4.4

Retail Direct

CUSTOMERS

Cards Business
The Royal Bank of Scotland, streamline, NatWest, lynk, WorldPay, MINT, BIBIT, streamline international

Own Brand Businesses
Lombard Direct, DIRECT LINE

The One account
the one account

Tesco Personal Finance
TESCO Personal Finance

International
KROGER Personal FINANCE

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Channels

	Cards Business	*Own Brand Businesses*	*The One account*	*Tesco Personal Finance*
Phone	✓	✓	✓	✓
Internet	✓	✓	✓	✓
Post	✓	✓		✓
RBS/NatWest	✓		✓	
Partners	✓			
Intermediaries		✓	✓	

Retail Direct

CUSTOMERS

Cards Business

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NatWest
lynk
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Own Brand Businesses

Lombard Direct
DIRECT LINE

The One account

the one account

Tesco Personal Finance

TESCO Personal Finance

International

KROGER Personal FINANCE

Card Issuing	Merchant Acquiring	Insurance	Personal Loans	Savings	Mortgages	Retailer Cards

Phone	Internet	Post	RBS/NW	Partners	Intermediaries

Group Operating Platform

Credit Card Centre – Southend

Comfort Card – Dusseldorf

Lynk Systems – Atlanta

Employee Opinion Survey

*Retail Direct 2003 v UK Financial Services norm**

** Percent difference between scores*
Survey by International Survey Research, 1st quarter of 2003

Group Operating Platform

Retail Direct Supported by Group Operating Platform

- IT systems
  - Cards issuing and acquiring
  - Current account mortgages
  - Loans, insurance
- Operations
  - Telephony/internet
  - Account management, payments and insurance underwriting
- Support
  - Purchasing
  - Property

Market Position in UK

#1 in card issuing

#1 in merchant acquisition

#1 in supermarket banking

#1 in current account mortgages

Retail Direct

What are the required characteristics for growth?

Retail Direct

Required Characteristics

- Large customer base
- Strong brands
- Low cost acquisition channels
- Diversity of income
- Low operating costs
- Good credit skills
- Able to make partnerships work
- Able to grow new businesses
- Able to make good acquisitions

The Royal Bank of Scotland Group

Retail Direct
Introduction and Overview

Chris Sullivan
Chief Executive, Retail Direct

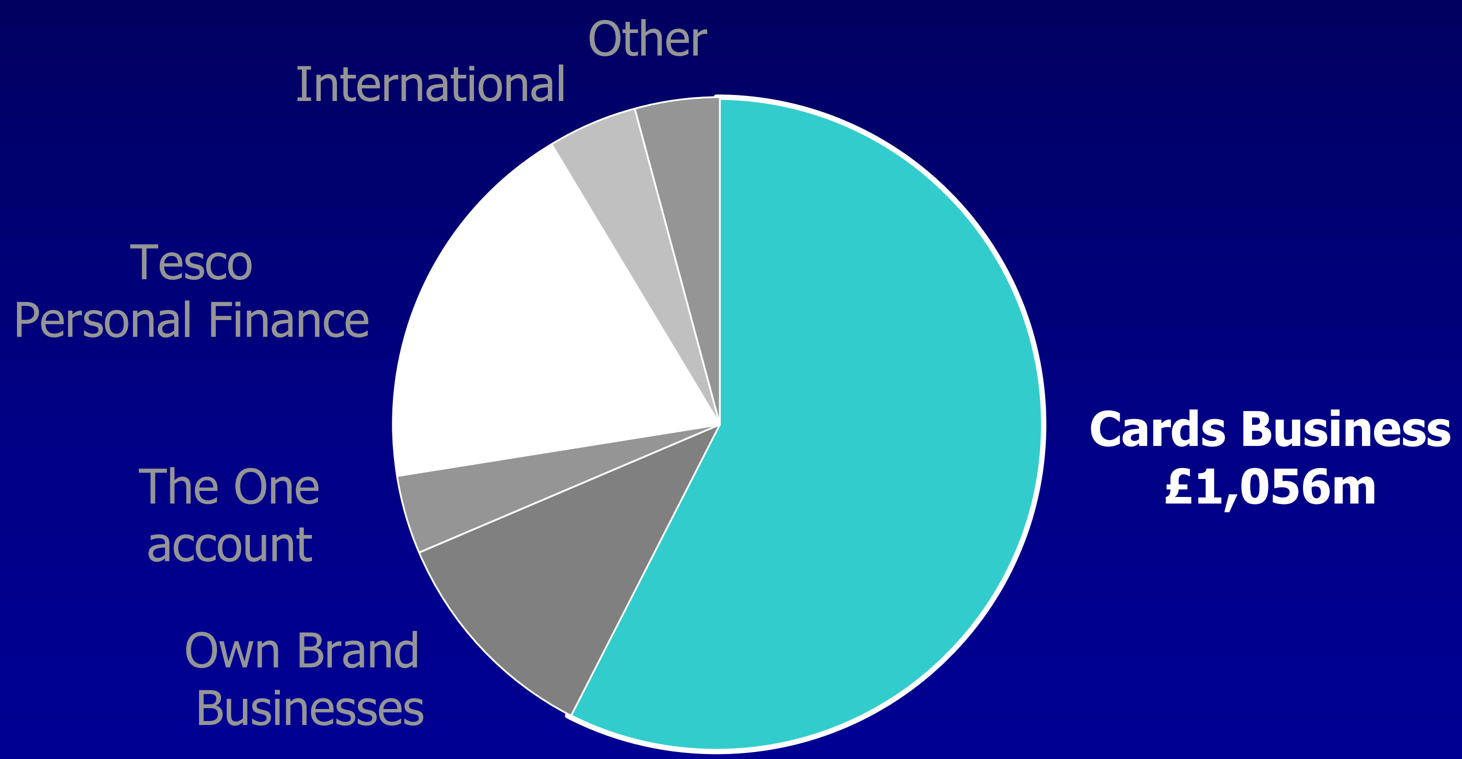
RBS
The Royal Bank of Scotland Group

Card Issuing

Iain Clink
Managing Director, Cards Business

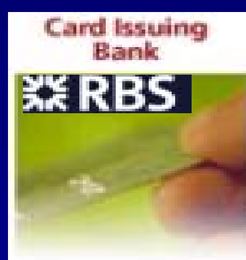
Retail Direct

2003 Income £1,835m



Credit Cards Business

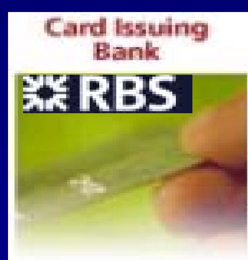
Issuing bank issues card to cardholder



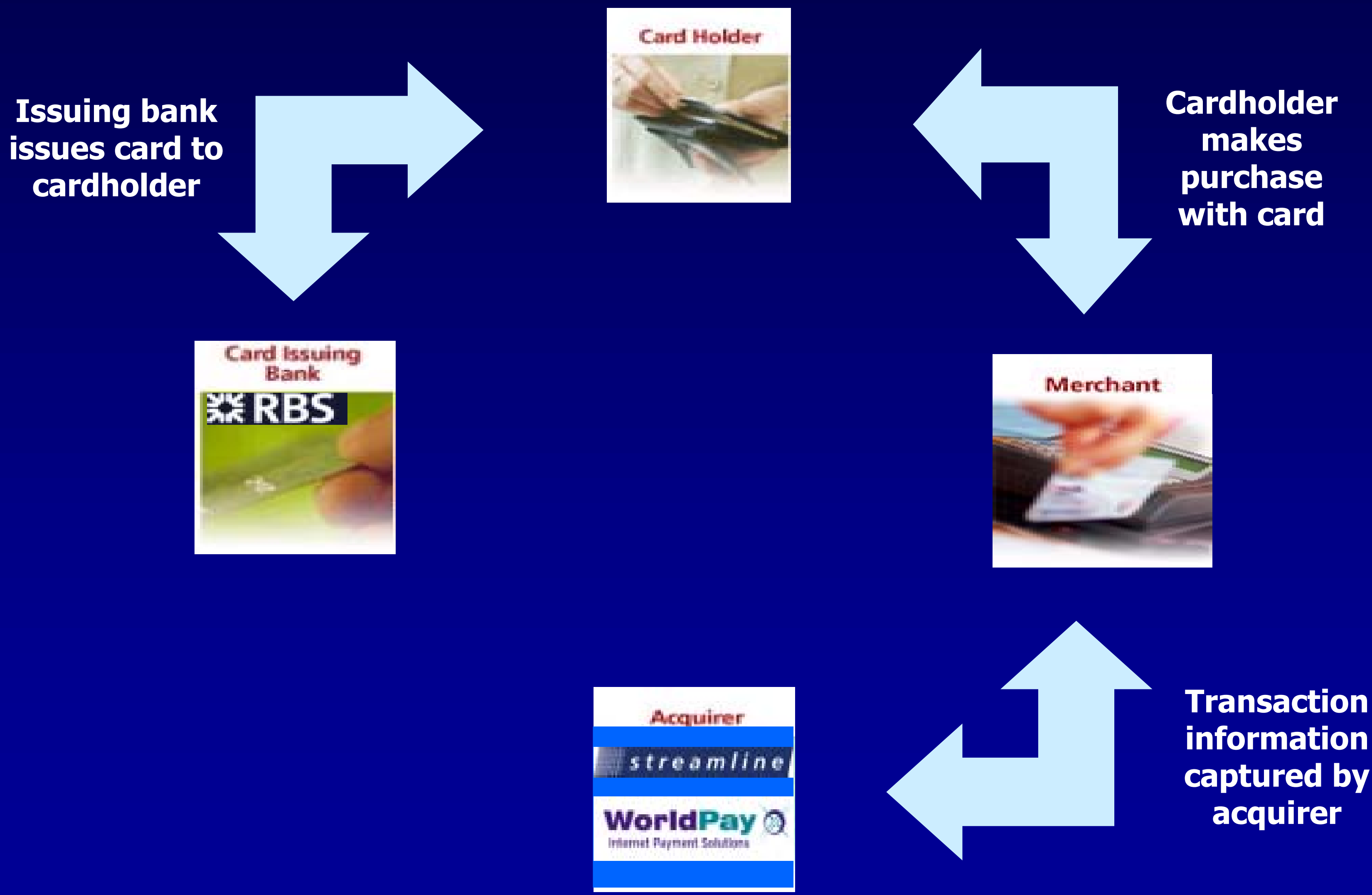
Credit Cards Business

Issuing bank issues card to cardholder

Cardholder makes purchase with card



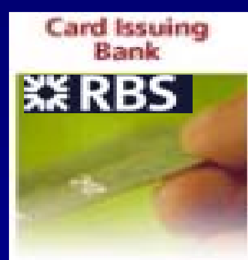
Credit Cards Business



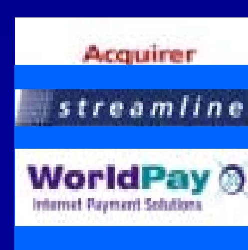
Credit Cards Business

Statement to cardholder

Cardholder makes purchase with card



Settlement with issuing bank



Transaction information captured by acquirer

Card Issuing

Card Issuing

Sources of Income

- Interest income on borrowing on cards
- Interchange from spending on cards
- Fee income from insurance, forex, cash and others

Costs

- Funding balances, including interest free period
- Operations, including staff
- Marketing and loyalty schemes
- Bad debt provisions and fraud

Merchant Acquiring

Merchant Acquiring

Sources of Income

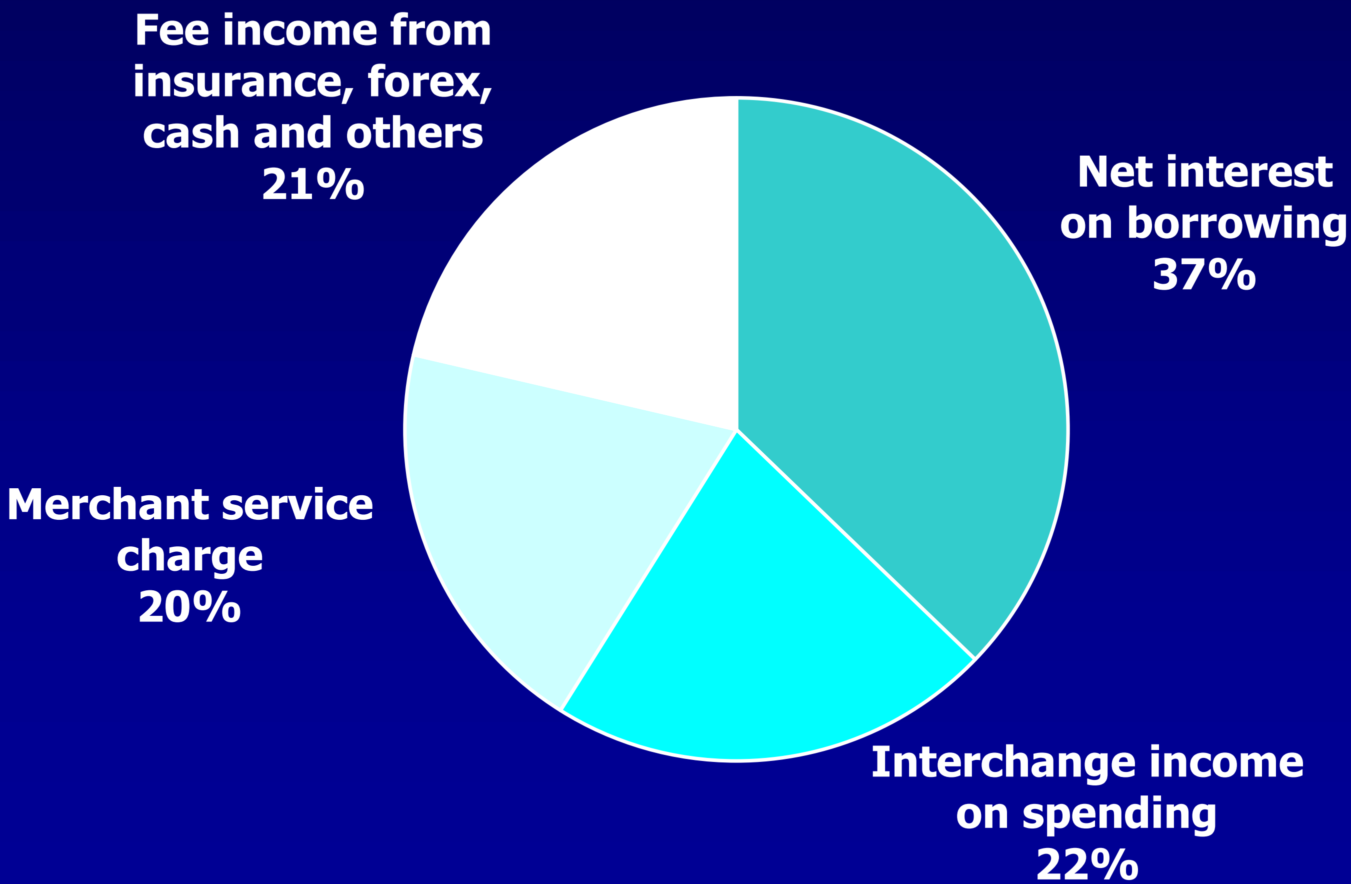
- Merchant service charge on spending on cards
- Rental from terminals provided to merchants

Costs

- Operations and sales, including staff
- Terminal depreciation and maintenance
- Telecommunications

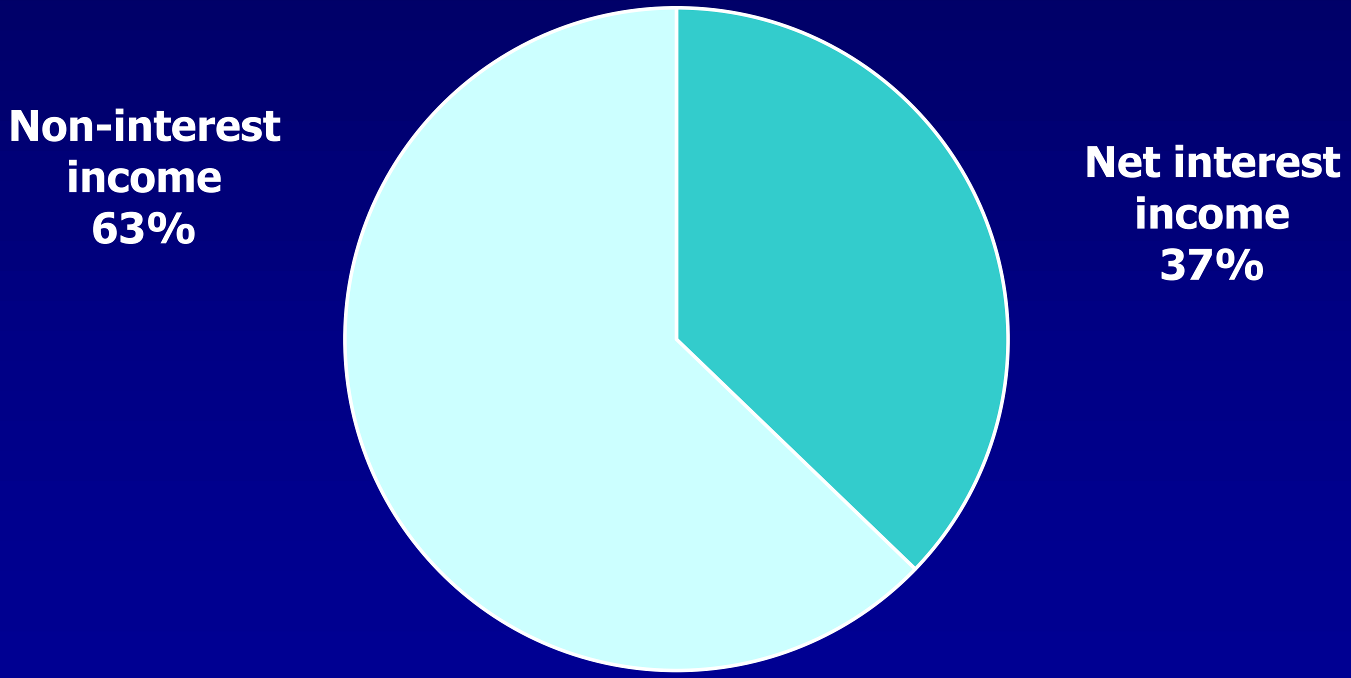
Cards Business

2003 Income £1,056m



Cards Business

2003 Income £1,056m



Credit Cards Business

Issuing bank issues card to cardholder

Card Issuing

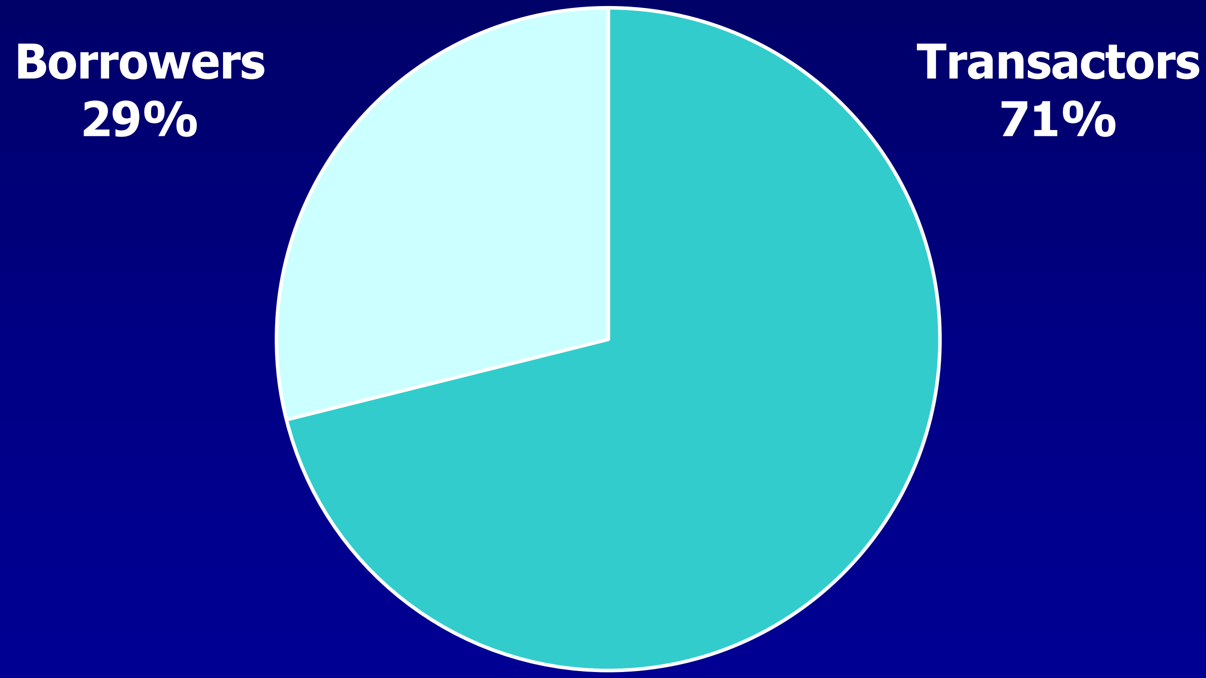
Personal Credit Cards

Customers

- Transactor
  – Card is convenient way of spending
  – Pays off full amount each month
  – No interest charge
- Borrower
  – Card allows flexible financing of spending
  – Must pay off at least minimum amount each month
  – Monthly interest charge

RBS Personal Credit Cards

Split by Number of Accounts



RBS Personal Credit Cards

Customer Propositions

- Transactor
  - RBS and NatWest brands
  - Air Miles loyalty scheme rewards spending on card
  - Competitive interest rate for occasional borrowing
- Borrower
  - MINT brand
  - Low interest rate, aimed at quality borrowers
  - Easy balance transfers

Multi-Brand Strategy

Recruiting New Customers

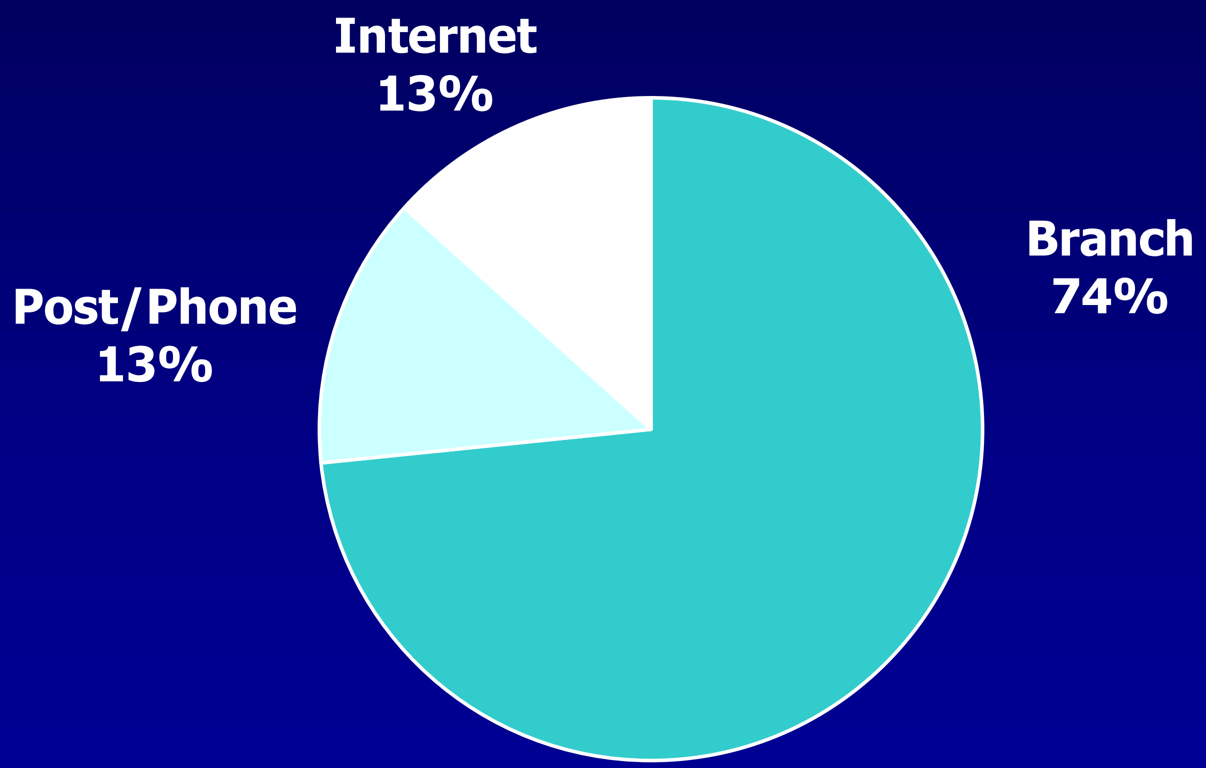
Recruiting New Customers

RBS and NatWest Credit Cards

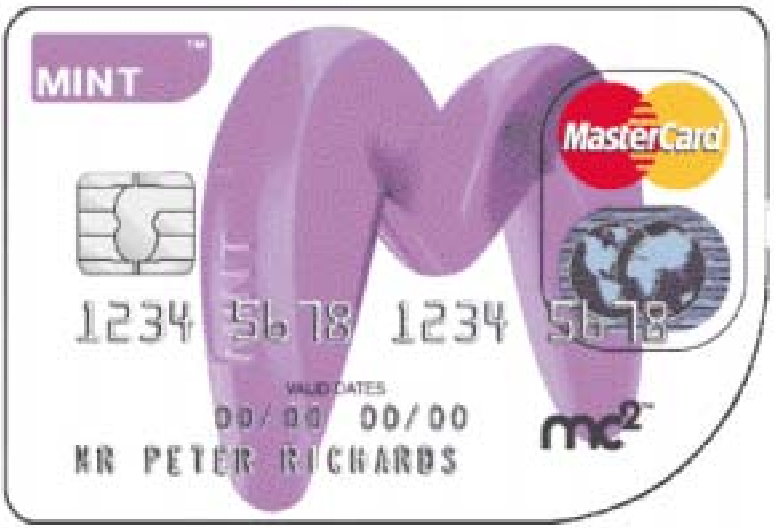
- Distribution mainly through RBS/NatWest branches
  - Automated sales prompts
    e.g. current account opening, customer service reviews
  - Branch staff incentivised by Retail Direct to sell credit cards
  - Cards income and direct costs in Retail Direct
- Customers can also apply for cards by post, phone and internet

Recruiting New Customers

RBS and NatWest Credit Cards



Recruiting New Customers

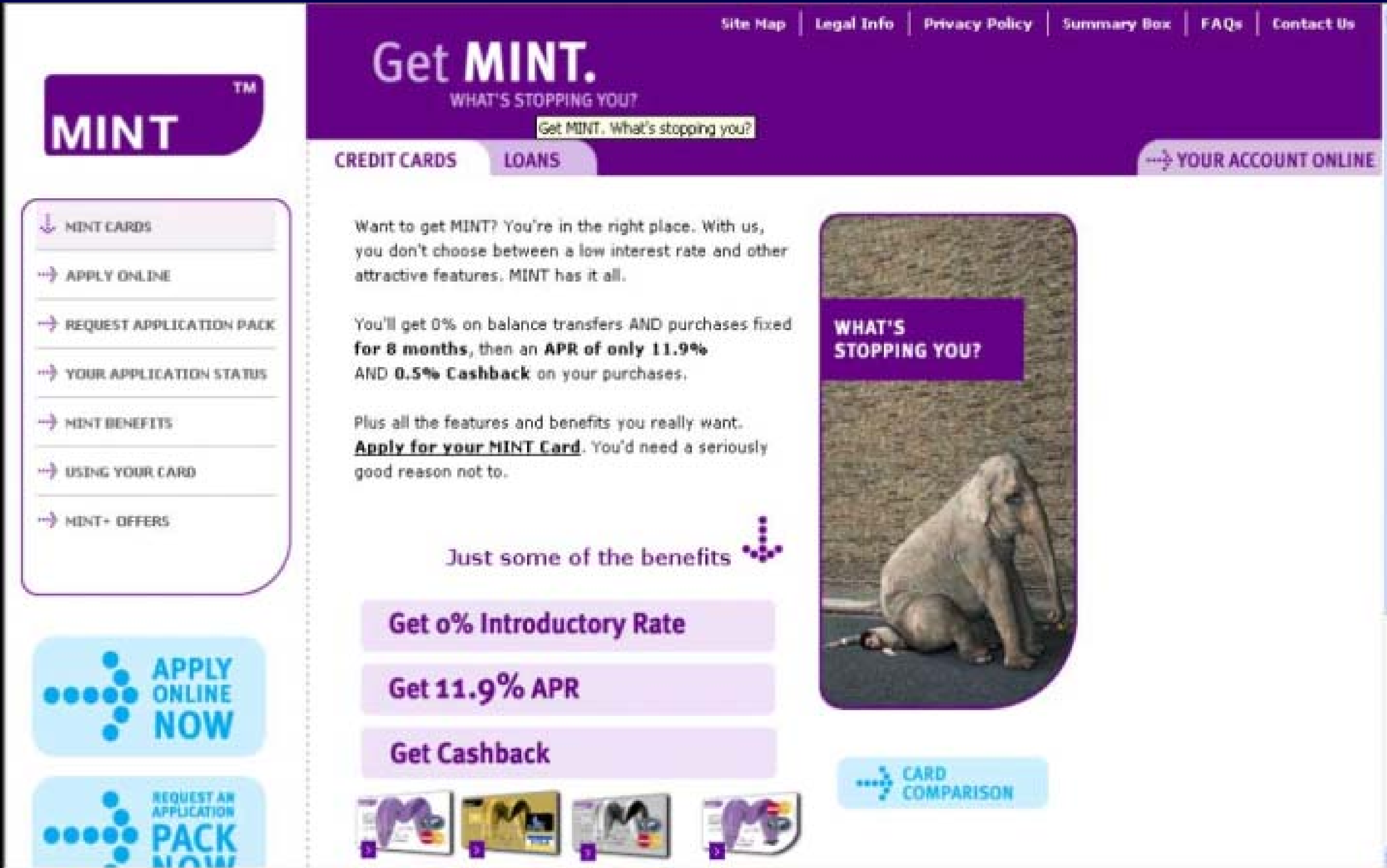


Recruiting New Customers

MINT Credit Cards

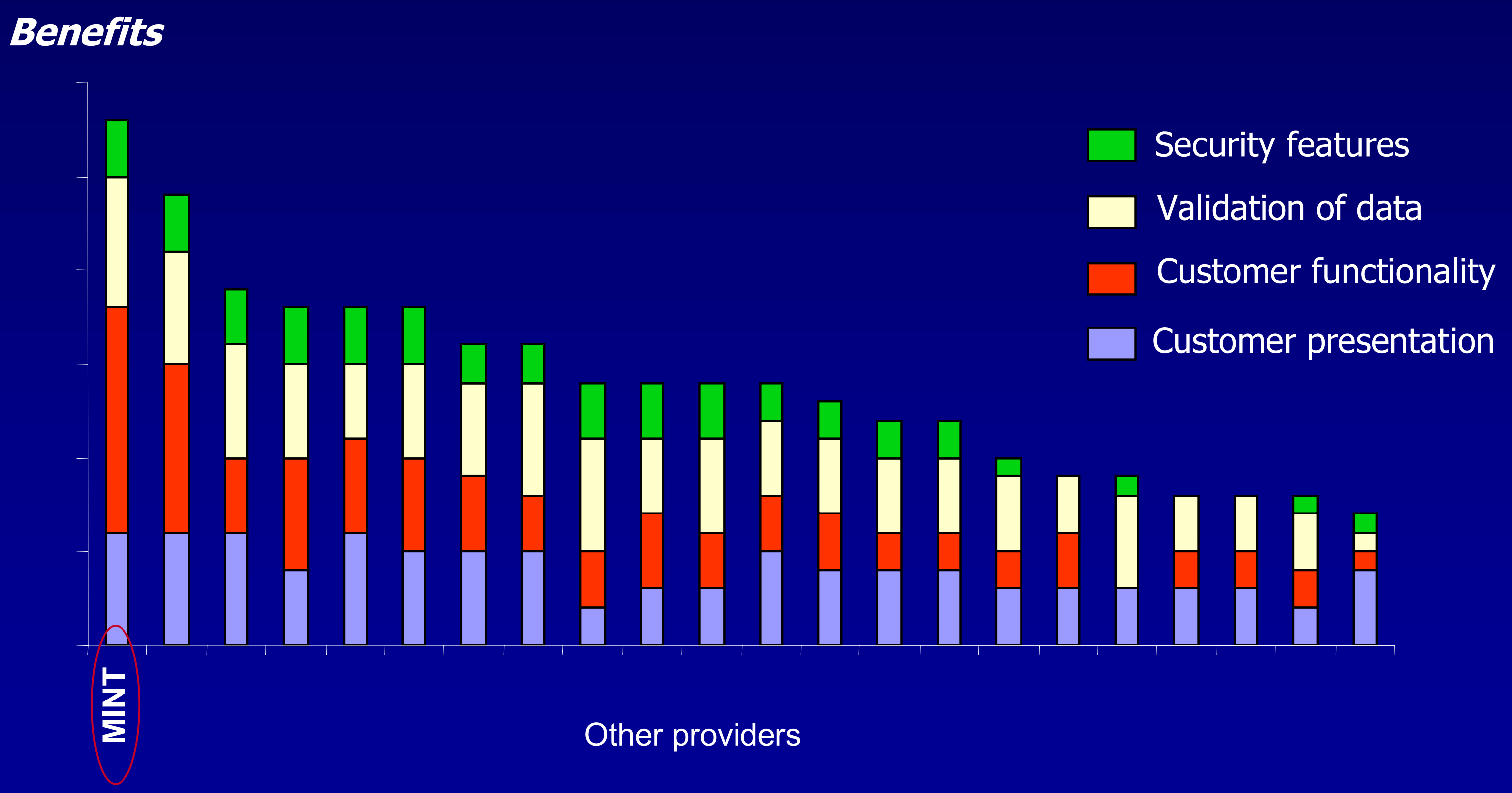
- Distribution via direct marketing:
  - Customer can apply by internet, phone, post
- Direct mail skills developed in RBS Advanta (established as JV in 1995)
  - Acquisition of quality customer lists
  - Pre-screening of target customers for risk
  - Development of test and learn approach, analysing response to price, benefits, creative

Recruiting New Customers



Recruiting New Customers

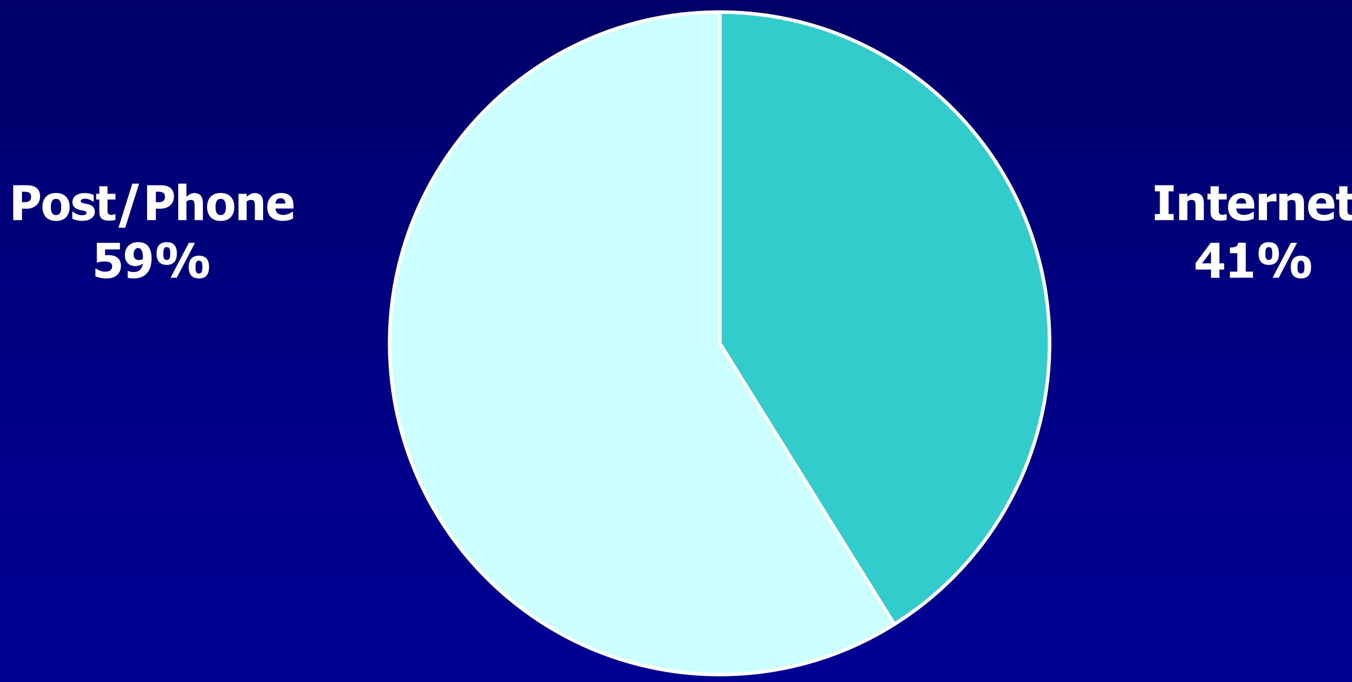
Internet Application - Site Comparison



Source: Intelligent Environments Group plc, May 2004

Recruiting New Customers

MINT Credit Cards



Profile of Credit Card Brands

Market Shares	*RBS*	*NatWest*	*MINT*
Share of accounts	3%	7%	3%
Share of turnover	2%	10%	1%
Share of balances	3%	6%	5%
Credit quality	prime	prime	prime

Source: APACS, 12 months to June 2004, does not include other RBS brands, commercial cards and retailer cards

Managing Credit Risk

RBS Application Credit Scoring

- Credit scoring is used to predict an applicant's probability of default
- RBS uses various sources of information to score credit risk and set credit limit, including:
  - – Application form
  - – Credit bureaux

Managing Credit Risk

Credit Bureaux

- There are two major credit bureaux in the UK:
  - – Experian
  - – Equifax
- Credit card issuers can use credit bureau information for:
  - – Credit scoring
  - – Identity checks
  - – Address verification
- Issuers cannot use credit bureau information for marketing

Managing Credit Risk

Credit Bureaux

- Bureaux collect data on consumer attributes/behaviours
- Bureaux do not hold identical data
- Credit information supplied by lenders
  - Number of credit applications
  - Credit defaults in the last six years
  - Repayment history
  - Balance outstanding and credit limit
- Public information
  - Electoral roll
  - County Court judgements/bankruptcies

Managing Credit Risk

RBS Application Credit Scoring

- Based on various attributes and behaviours including:
  - Home ownership
  - Time with existing bank
  - Existing borrowing
  - Credit bureaux information

RBS Credit Limits

- Based on:
  - Credit scoring
  - Income

Managing Credit Risk

Credit Scorecards

- Bureaux can provide their own generic scorecards
- RBS scorecards are:
  - Specific to different brands: RBS/NatWest, MINT
  - Built using data from both bureaux
- RBS uses own experience to continually update scorecards
- RBS benefits from large data base and experience v "off the shelf" scorecards from bureaux

Managing Credit Risk

Setting Cut-Offs

- Set minimum credit score for each scorecard
- Trade-off between pass rate and loss rate
- Vary cut-off score in light of experience
- RBS focuses on cards with lower risk/lower income

Managing Credit Risk

Sub Prime | **Near Prime** | **Prime**

Higher ← Risk, Income, Provisions, Volatility → **Lower**

Managing Credit Risk

RBS Behavioural Credit Scoring

- Ongoing credit scoring of active accounts:
  - Based on account behaviour
  - Calculated monthly for all active accounts
- Based on factors such as:
  - Credit limit utilisation
  - Type of spending – retail v cash
  - Pattern of repayments

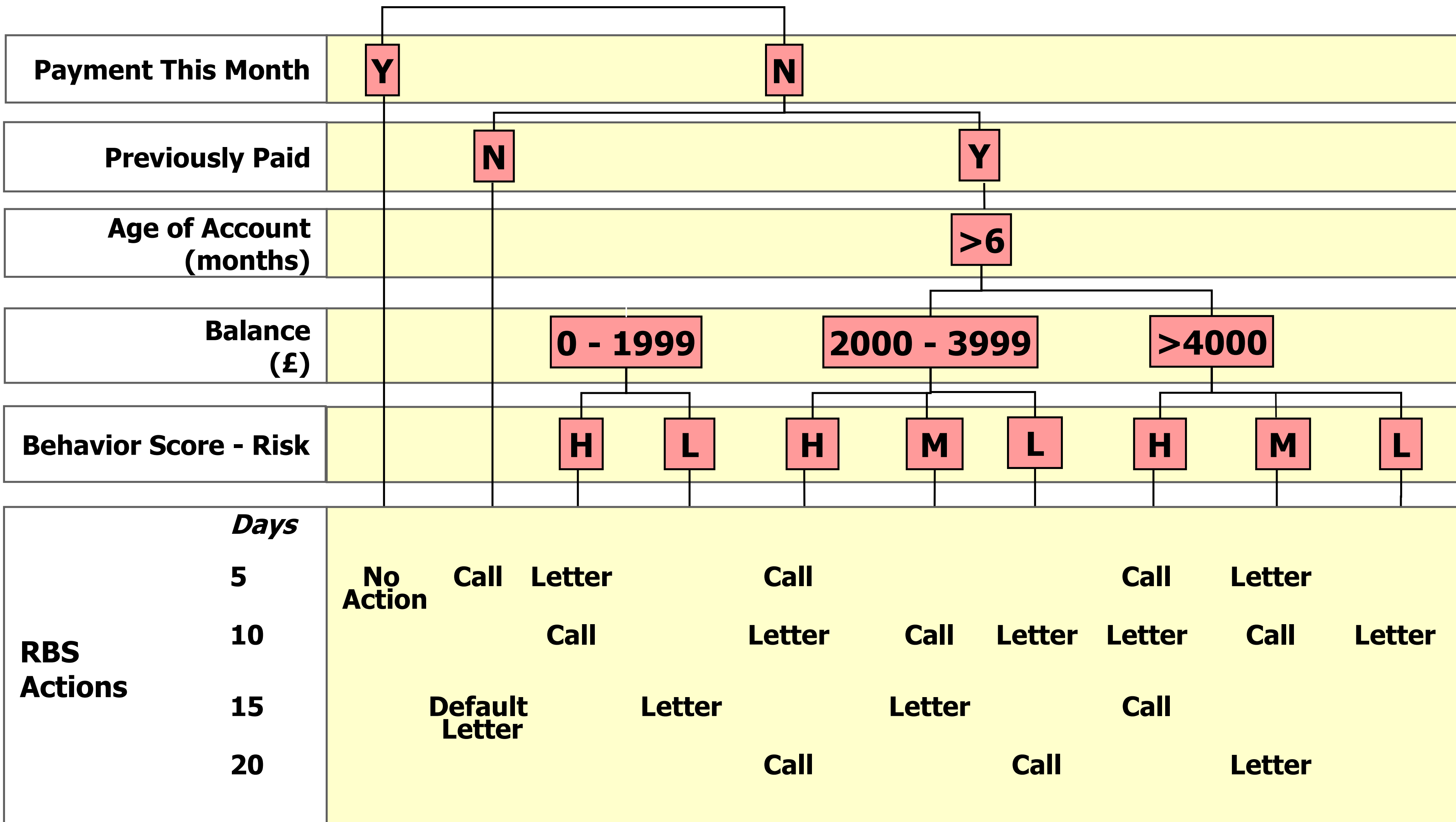
Managing Credit Risk

Problem Account Management

- Early stage
  - First missed payment triggers process
  - Focus on restoring relationship to normal behaviour
  - Highest risk accounts prioritised automatically
    - eg amount at risk, behavioural score
  - Early contact made through outbound power dialling at times when customer is likely to be home
- Late stage
  - Third consecutive missed payment triggers process
  - Focus on recovering debt
  - Account passed to debt collection agency
    - First in house, then external agency
  - Account is closed, continued action to recover debt

Managing Credit Risk

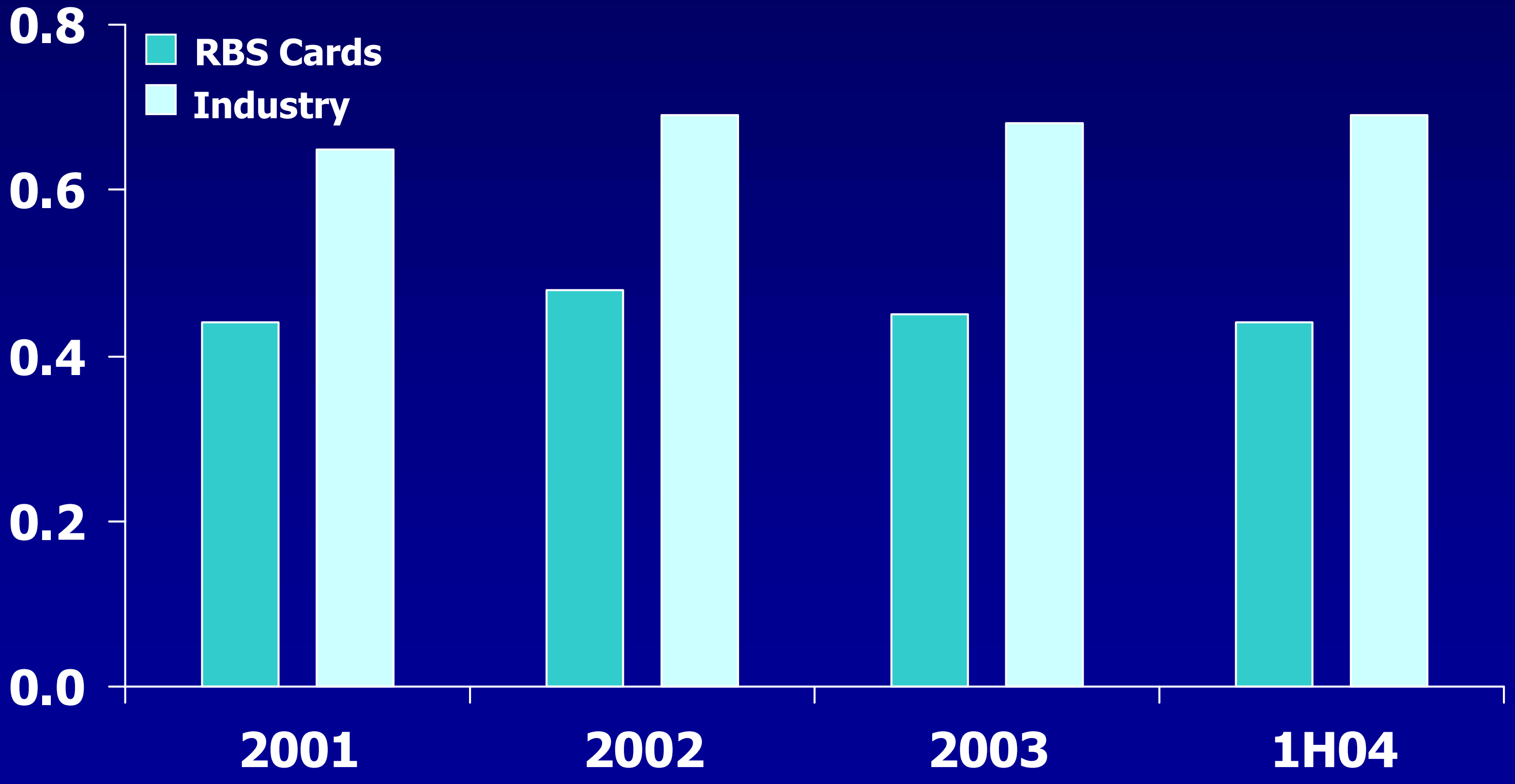
Illustration: Collections Strategy



Managing Credit Risk

RBS delinquency experience is better than the industry

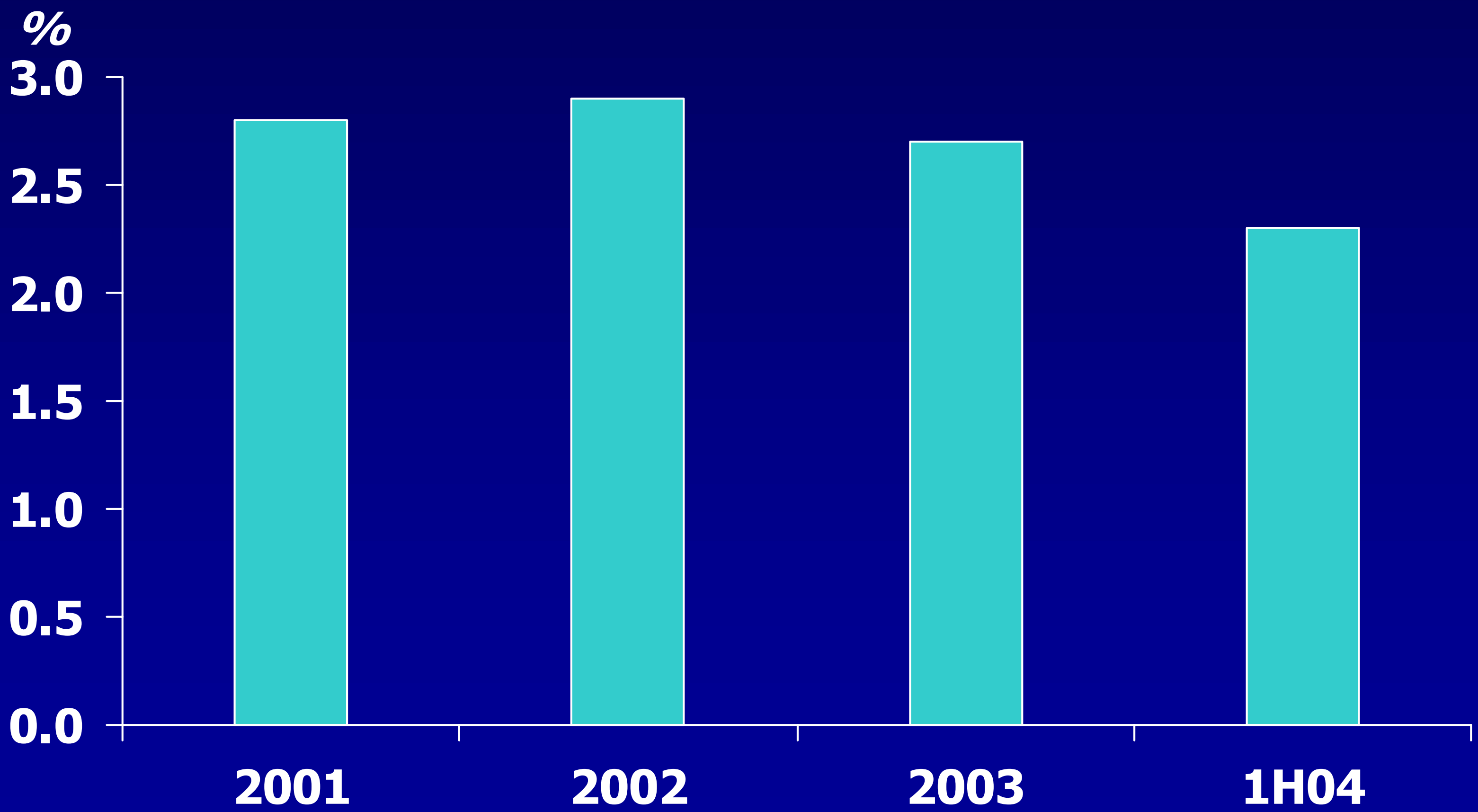
% of Total Portfolio Balances – 3 Payments Delinquent



Source: APACS; June 2004

Managing Credit Risk

Percentage of Total Portfolio Balances Greater Than 3 Payments Delinquent



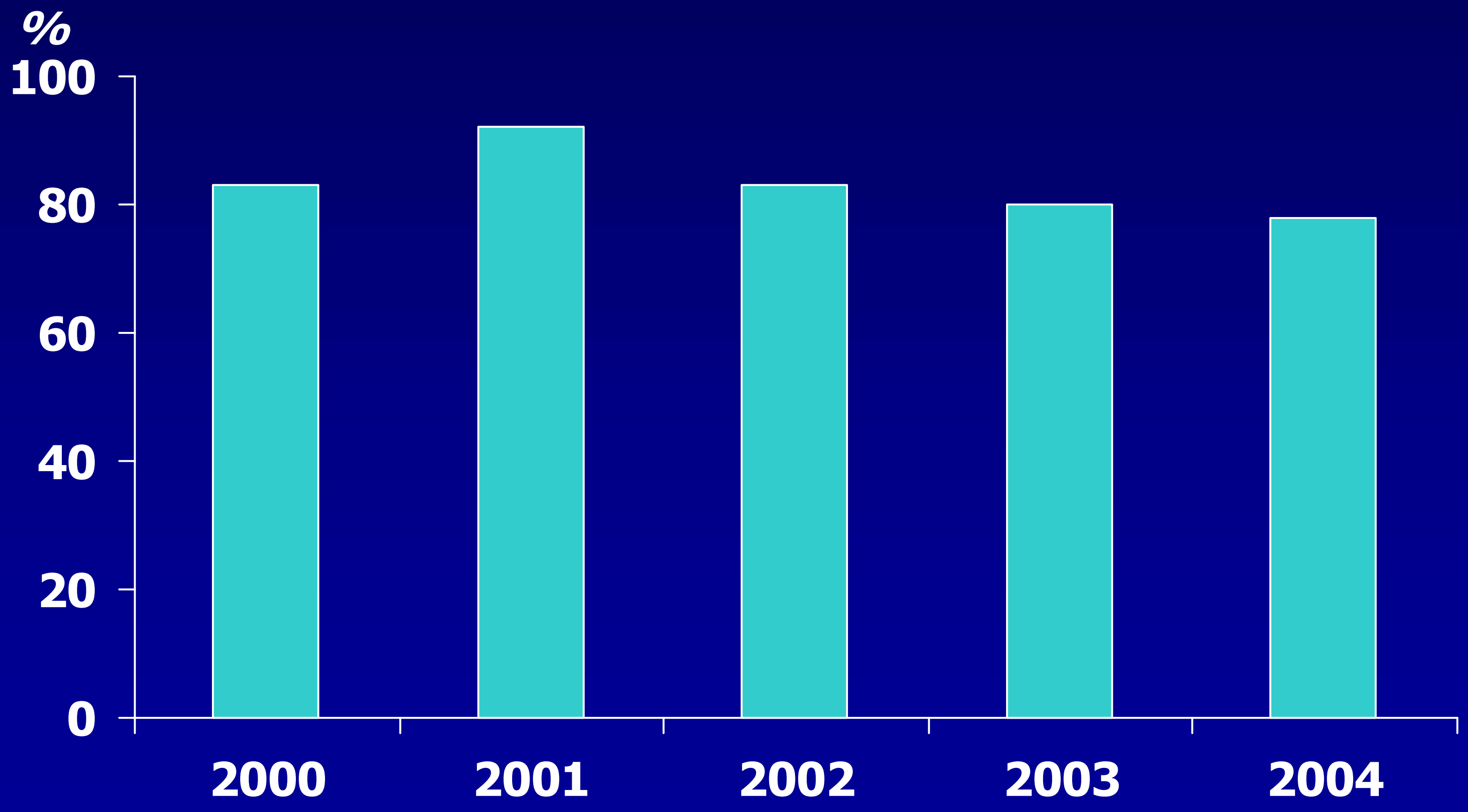
Managing Credit Risk

Provisions

- Provisions automated, based on:
  – Amount of delinquent balances
  – Expected loss rate, according to number of missed payments
- Expected loss rates relatively stable over time
- Provide for expected loss at all stages of delinquency
- Trends fed back into future scorecards
- Trends fed back into expected loss rates for future provisioning

Managing Credit Risk

Balance Sheet Provisions as a Percentage of Delinquent Balances Greater Than 90 Days



Managing Fraud Risk

Fraud is an Industry Problem

- Traditionally fraudsters:
  - – Stole credit cards
  - – Applied fraudulently for credit cards
- Recent fraud more organised and sophisticated:
  - – Information taken from magnetic stripe
  - – Stealing people's identity

Managing Fraud Risk

- Use of counterfeit/lost and stolen cards
  - Automated system for real time profiling of account behaviour, using neural network
  - All transactions are monitored
  - Exceptional transactions are identified
    eg mobile phone top-ups, unusual international payments
  - Customer at retailer required to verify identity
  - Need to manage balance between fraud protection and customer convenience

Managing Fraud Risk

- Card not present
  - – Remote transactions when card is used to make purchases by post, phone, internet
  - – Fraud charged back to retailers
- Card not received
  - – Secure mail used
  - – Card has to be activated (by phone)
- Identity theft
  - – Use other person's details to apply for or take over an account
  - – Credit bureaux information used to verify personal details

Managing Fraud Risk

Chip & PIN

- Industry initiative to reduce fraud losses:
  - Counterfeit card, lost and stolen, card not received
- RBS is industry leader
- By December 2004 RBS will have:
  - 85% bank-owned terminals Chip & PIN enabled
  - 7.1m Chip & PIN cards issued
- Major retailers already live include Tesco, Asda, Post Office and Marks & Spencer
- Major customer education programme underway

RBS

The Royal Bank of Scotland Group

Card Issuing

Iain Clink

Managing Director, Cards Business

Merchant Acquiring

Tony Surridge
Managing Director, Acquiring

Credit Cards Business

Merchant Acquiring

Large Market

- Transaction value £230 billion in 2003
- Transaction volume 5 billion in 2003

Growing Market

- Growth in value of retail sales
- Plastic substituting cash and cheques
- Additional acceptors of cards e.g. McDonalds

Economies of Scale

- Leverage Group IT platform

Merchant Acquiring

RBS Market Position

#1 in UK

#1 in Europe

#4 globally

#1 in UK by internet
- – WorldPay

#1 in Europe by internet

#1 in international multi-currency e.g. airlines
- – Streamline International

Merchant Acquiring

Customers

- Large/national retailers
  – e.g. supermarkets, petrol stations, high street chains
  – Retailer POS system linked to bank payments system
- Small retailers
  – e.g. corner shops, pharmacists, local professionals
  – Stand-alone terminal, BT line to bank

RBS Customers

Focus on Large Retailers

Tesco
M&S
Safeway
Boots
Next
Dixons
Signet
Matalan
HMV
WHSmith
Carpetright
Somerfield
Halfords

Do Merchant Acquiring for Other Banks

Abbey
National Australia Group

RBS Customers

JOHN LEWIS PARTNERSHIP

TOTAL

TESCO

BRITISH AIRWAYS

HMV GROUP PLC

MARKS & SPENCER

WH S

DEBENHAMS
BRITAIN'S FAVOURITE DEPARTMENT STORE

Boots

ASDA

CD WOW!

Hertz

POST OFFICE

Recruiting New Customers

Large/National Retailers

- Proposal prepared by specialist sales team in Merchant Acquiring, working with CBFM RM
- Key issues are technical competence (reliability), price
- Renewal process, normally every two or three years

Small Retailers

- Mainly sold through branch network
  - – Immediate sale by small business RM
  - – Telephone sale by Merchant Acquiring sales team
- Also direct sales, and via intermediaries

Internet

WorldPay

- 6% of retail sales, growing very rapidly
- WorldPay is Payment Service Provider
  - Focuses on small retailers – #1 in UK
  - Builds payments page for retailer website
  - Passes payments to RBS Merchant Acquiring
  - Generates additional source of revenue
- Strong internet capability enables RBS to provide full service across cash, cheques, cards, internet

International Multi-Currency

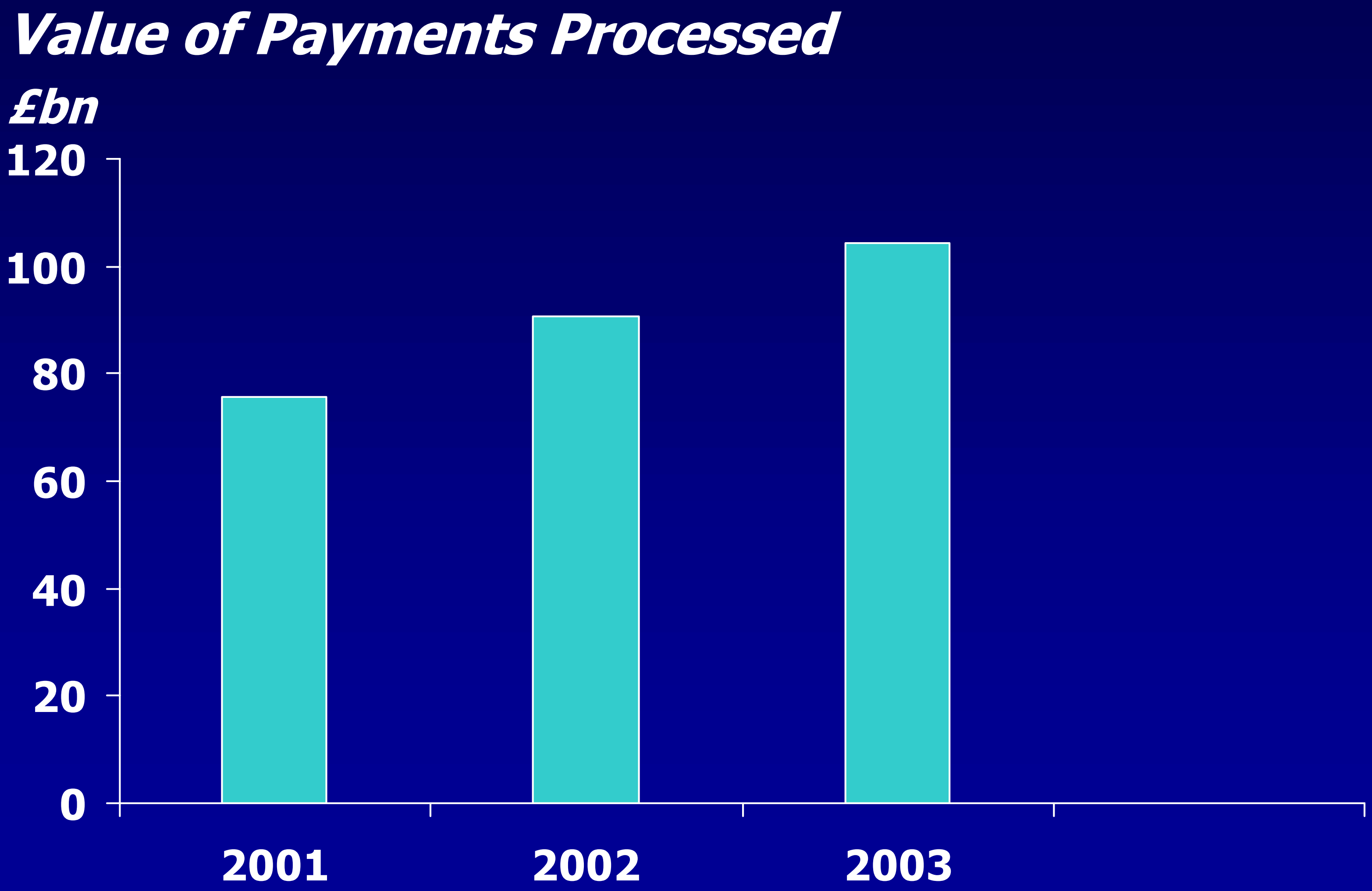
Streamline International

- Specialist capability established for British Airways in 1992
  - Allows customers to buy tickets in over 200 countries in 127 currencies
  - Able to settle for the retailer in any of 14 currencies
  - First acquirer in the world to build capability and get scheme permission
  - Received 2003 Queen's Award in international trade category
- Over last decade has expanded into broader travel and entertainment market e.g. car hire, hotels

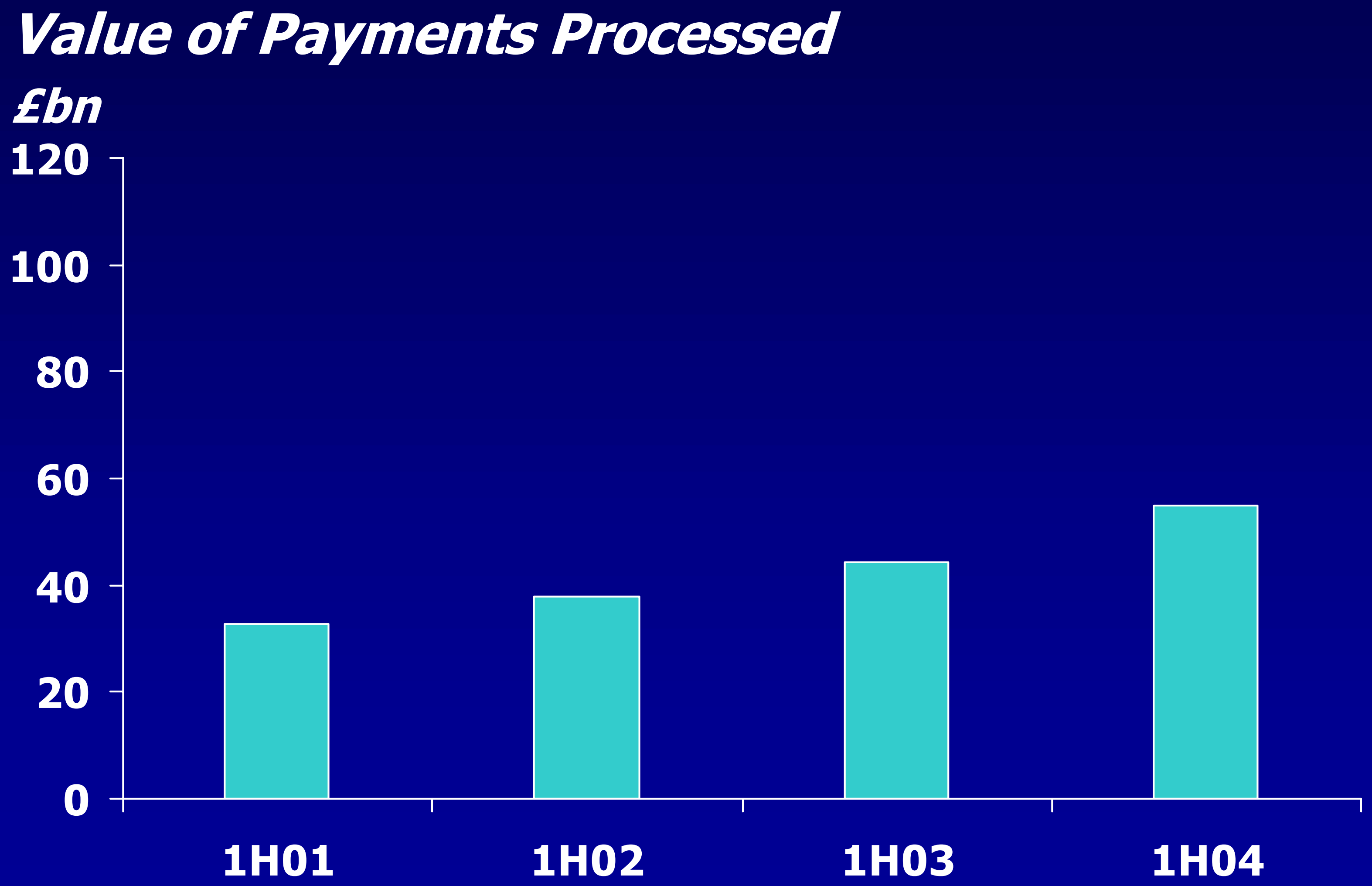
Risk

- Risk that retailer may default between payment for goods and delivery of goods e.g. furniture, carpets
- Merchant acquiring tender is treated like lending, with normal processes for credit approval, due diligence etc
- Patterns of spending are monitored, to give early warning of any potential problem
- Each customer is subject to normal credit review every 12 months – or more frequently, if appropriate

RBS Transaction Value



RBS Transaction Value



Merchant Acquiring

Since you arrived

Streamline has processed …

over 400,000 transactions

Merchant Acquiring

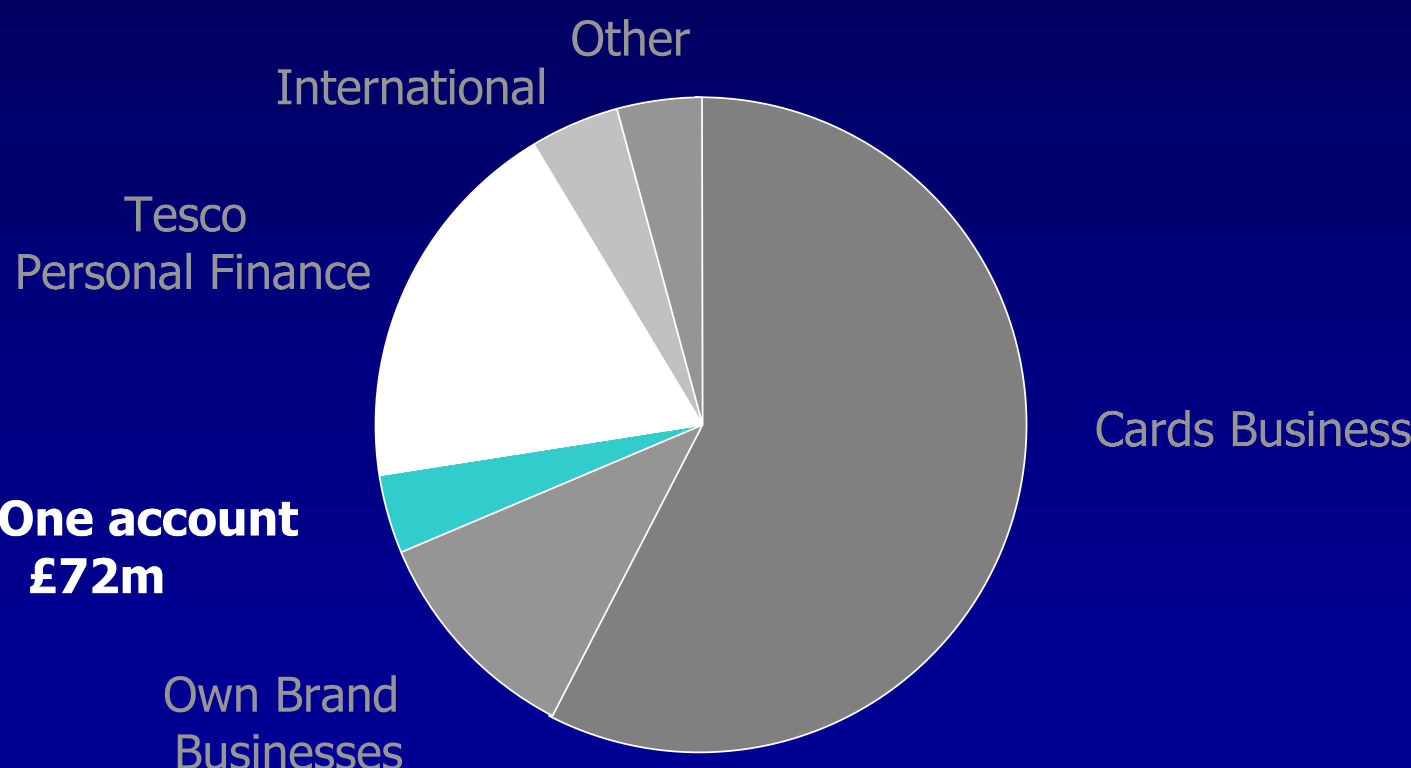
Tony Surridge
Managing Director, Acquiring

The One Account

Jayne-Anne Gadhia,
Managing Director, The One Account

Retail Direct

2003 Income £1,835m



The One Account

- Introduced current account mortgages (CAM) to the UK
- Launched in 1997, joint venture with Virgin Direct
- RBS acquired 100% of the business in 2001
- Successfully rebranded as 'The One account' in 2003

The One Account

the one account

Current account	Mortgage	Savings account	Loan	Card

One Account v Offset

Benefits of The One account

- No need to sweep money between accounts
- No need to apply for overdrafts, loans or credit cards
- No multiple statements to reconcile
- No multiple interest rates

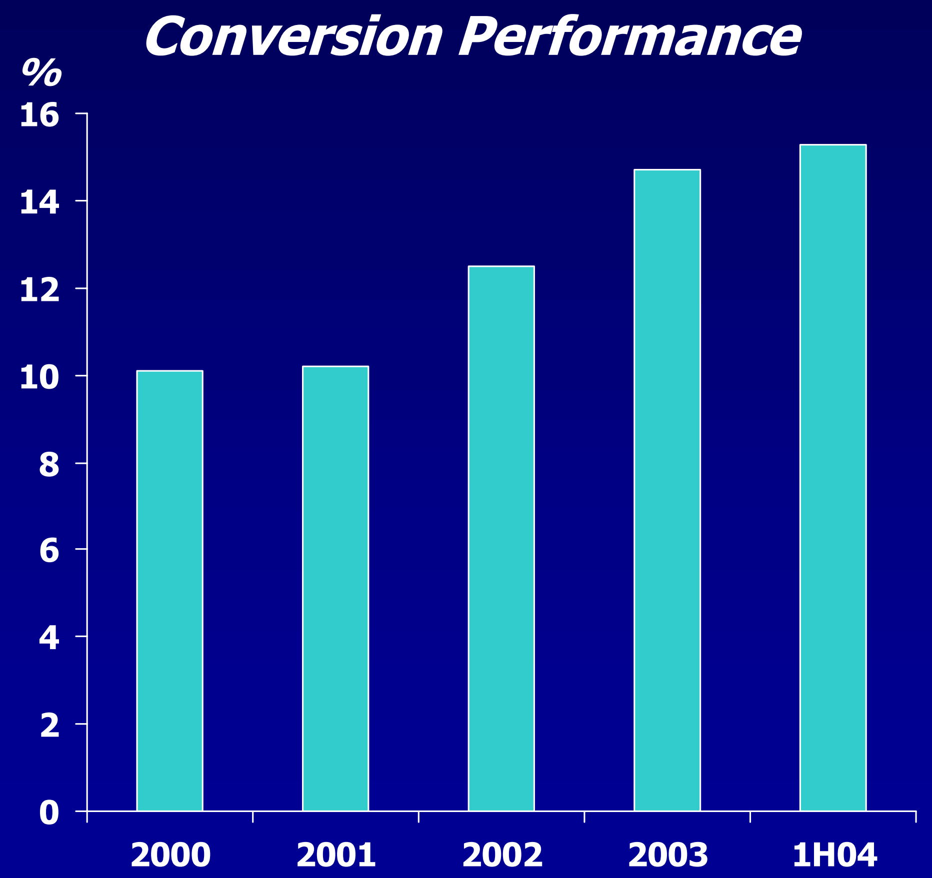
The One Account

Make one day today

Make One Day Today

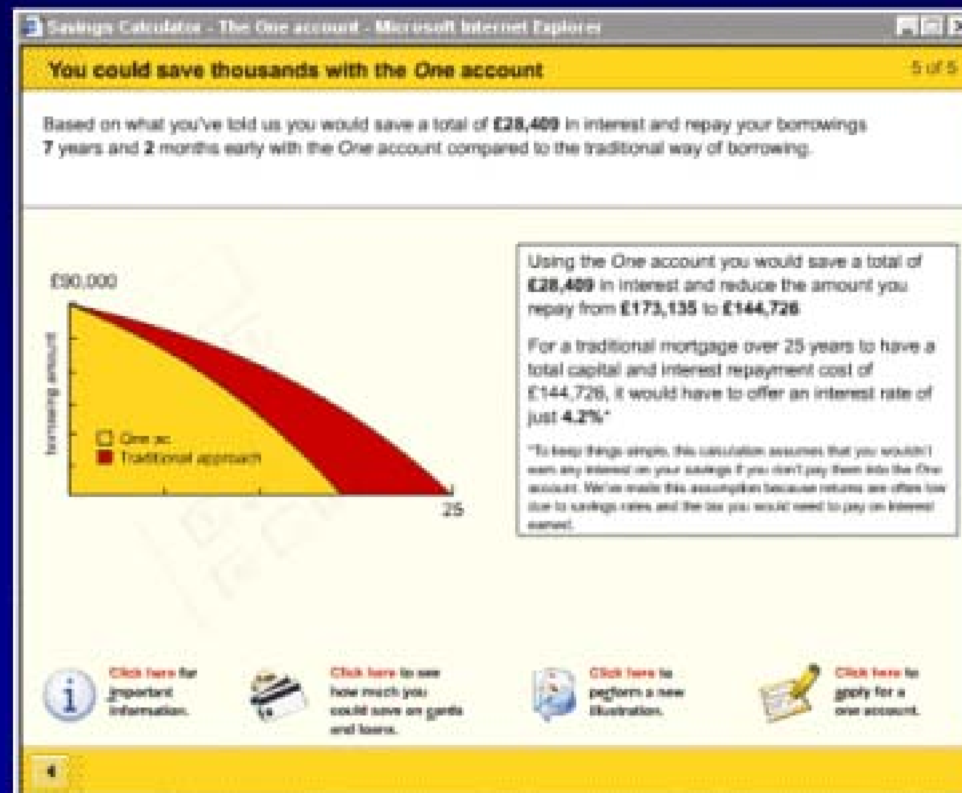
Selling by Phone

- 600 inbound calls per day
- Call follows customer not script
- Application completed over the phone
- Immediate credit approval-in-principle given for 25% of customers
- Property valuation can be instructed immediately
- 15% of callers become customers (2001: 10%)



Selling by Internet

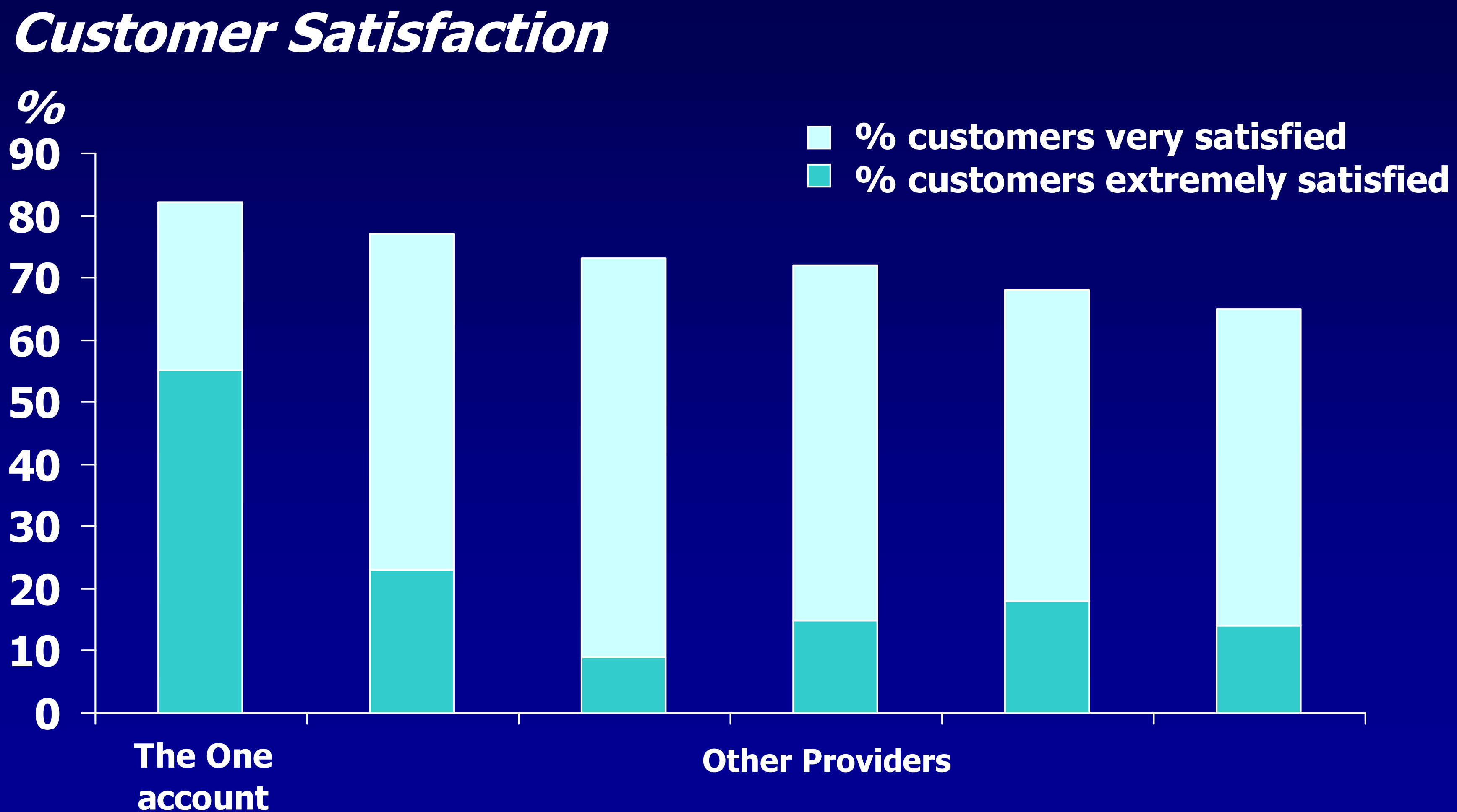
- Step-by-step personalised illustration of account benefits
- Paperless application process
- 30% of internet contacts become customers (2001: 17%)



Selling Through Intermediaries

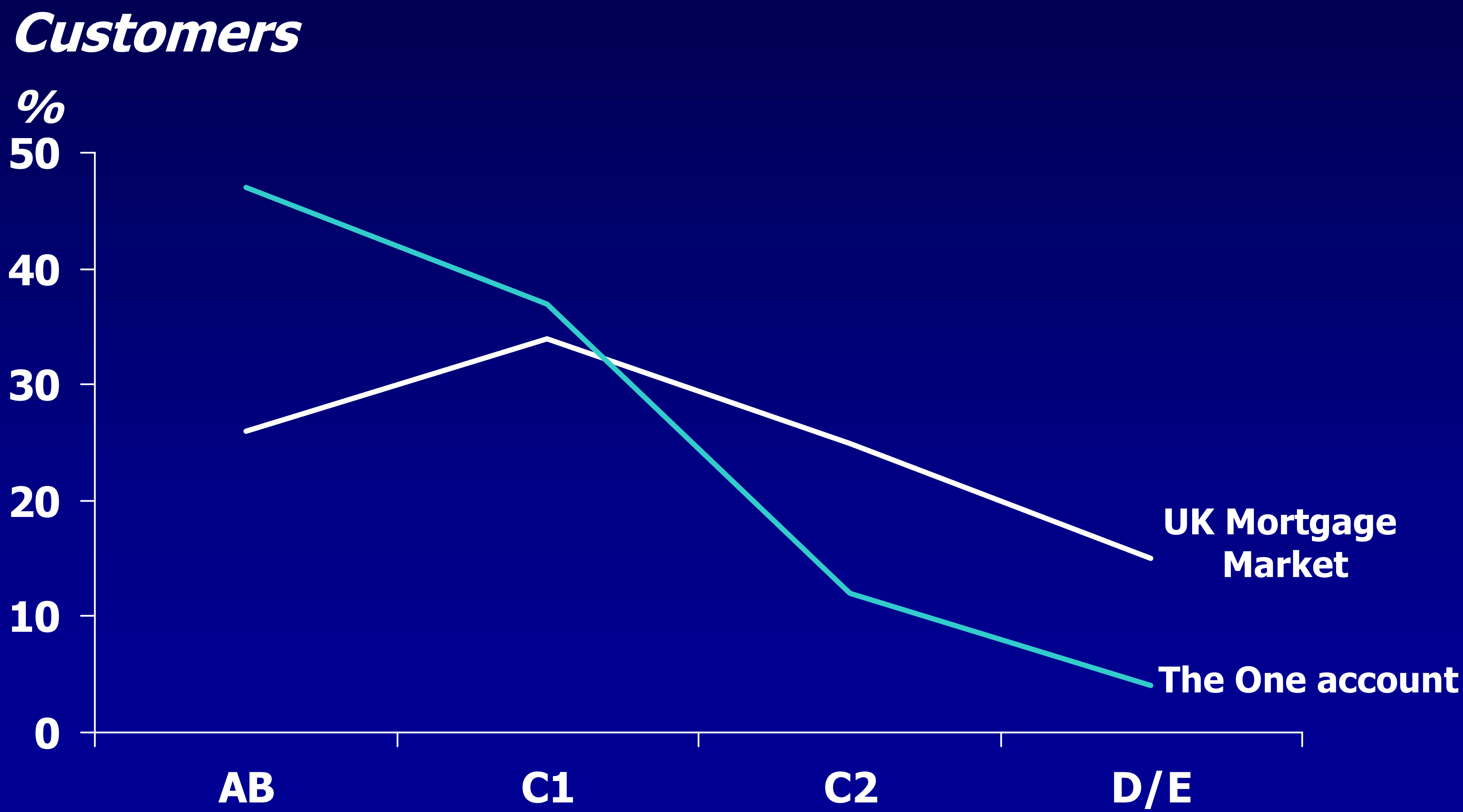
- Relationships with major national IFAs and mortgage brokers
- Individual broker relationships managed over phone with limited face-to-face support
- Broker can place business over the phone, fax or online

The One Account



Source: NOP FRS
Base: 6 months to end of June 2004

The One Account



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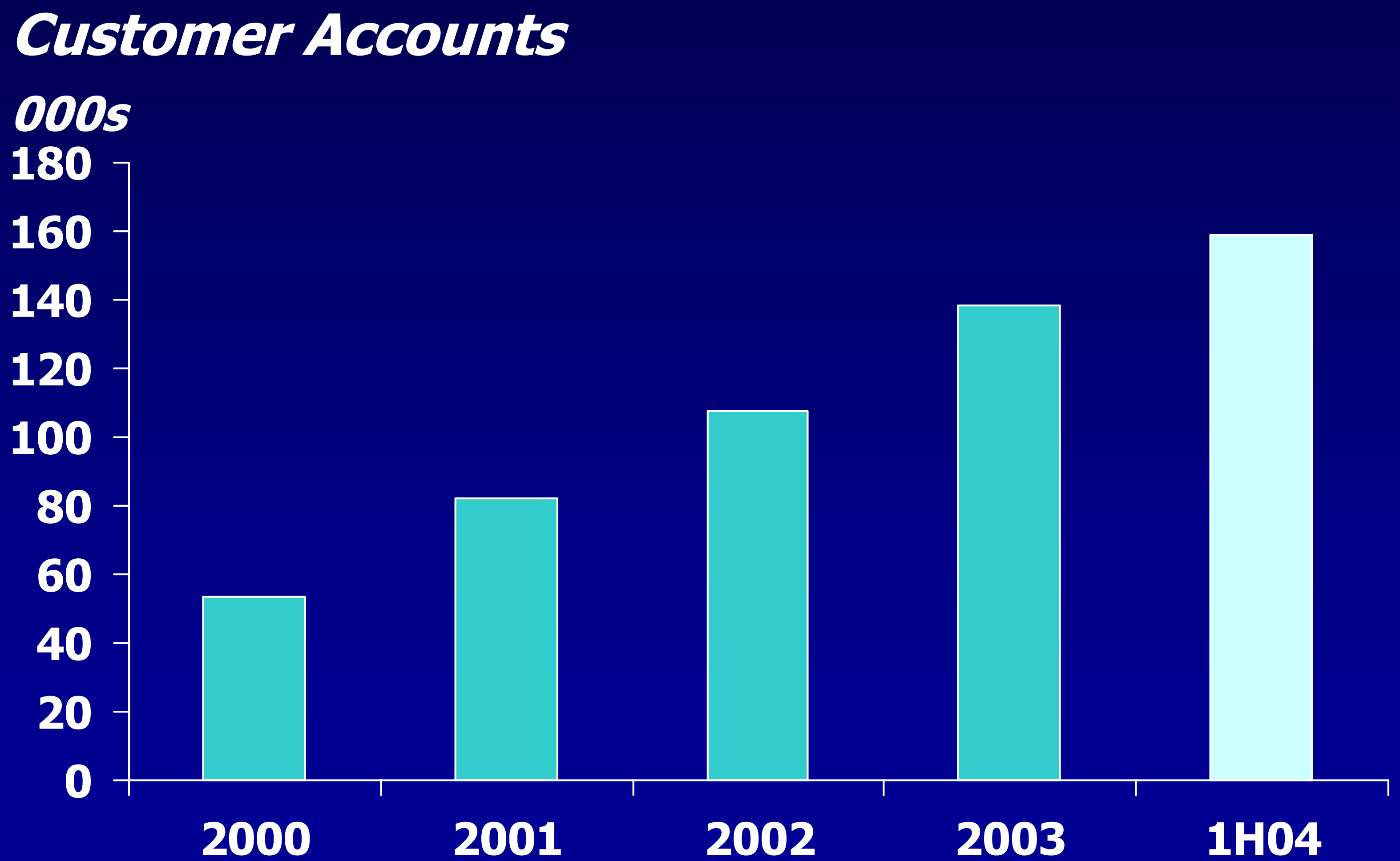

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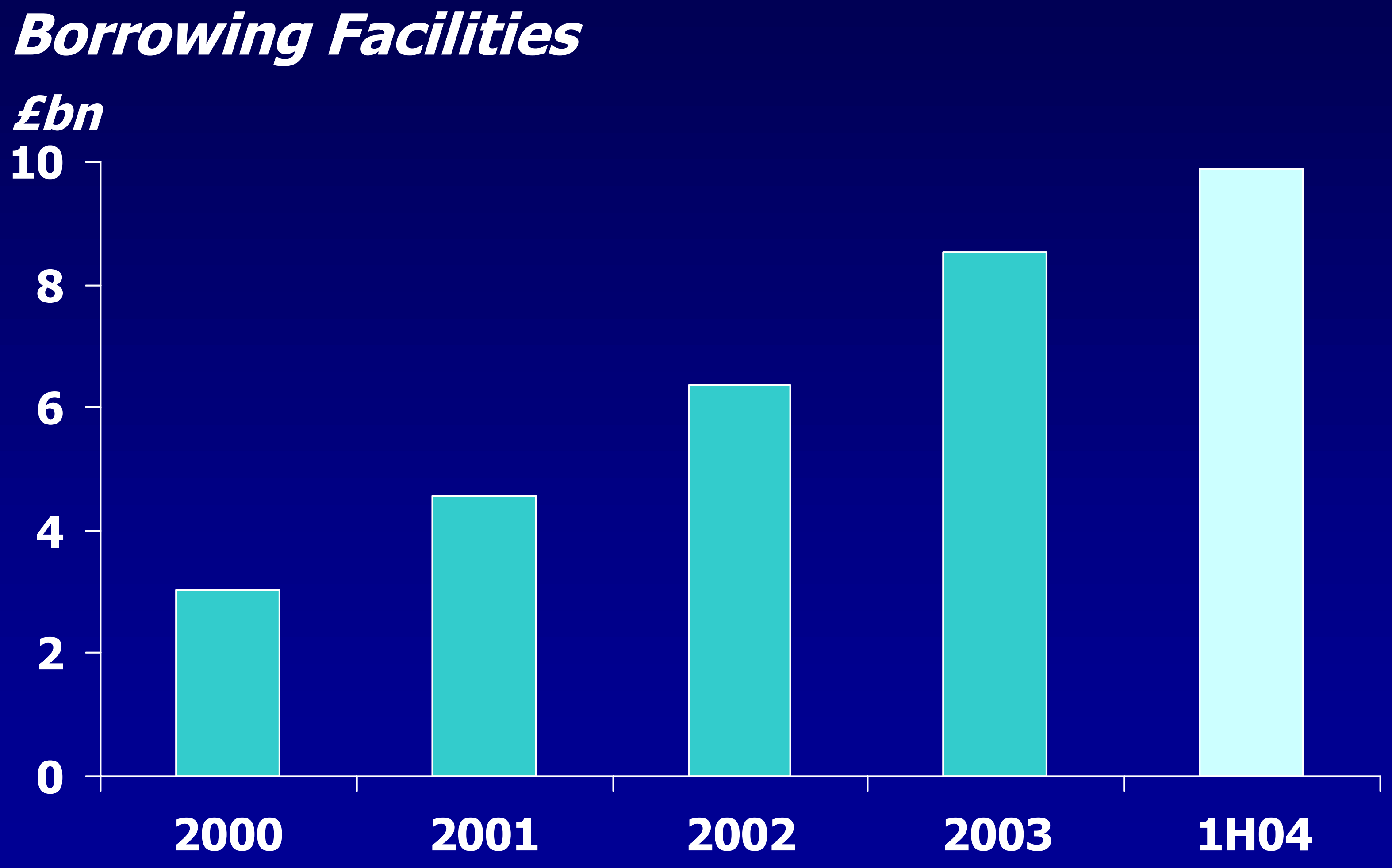


UK Financial Services New Entrants

	Commenced	*Profit/(Loss) 2003*
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
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

The Royal Bank of Scotland Group

- Launched NatWest One account in 2001
- RBS One account in plan
- Expertise utilised in launch of NatWest and RBS Offset
- Launched First Active brand in the UK in 2004

These are not reflected in Retail Direct results

The Royal Bank of Scotland Group

The One Account

Jayne-Anne Gadhia,
Managing Director, The One Account

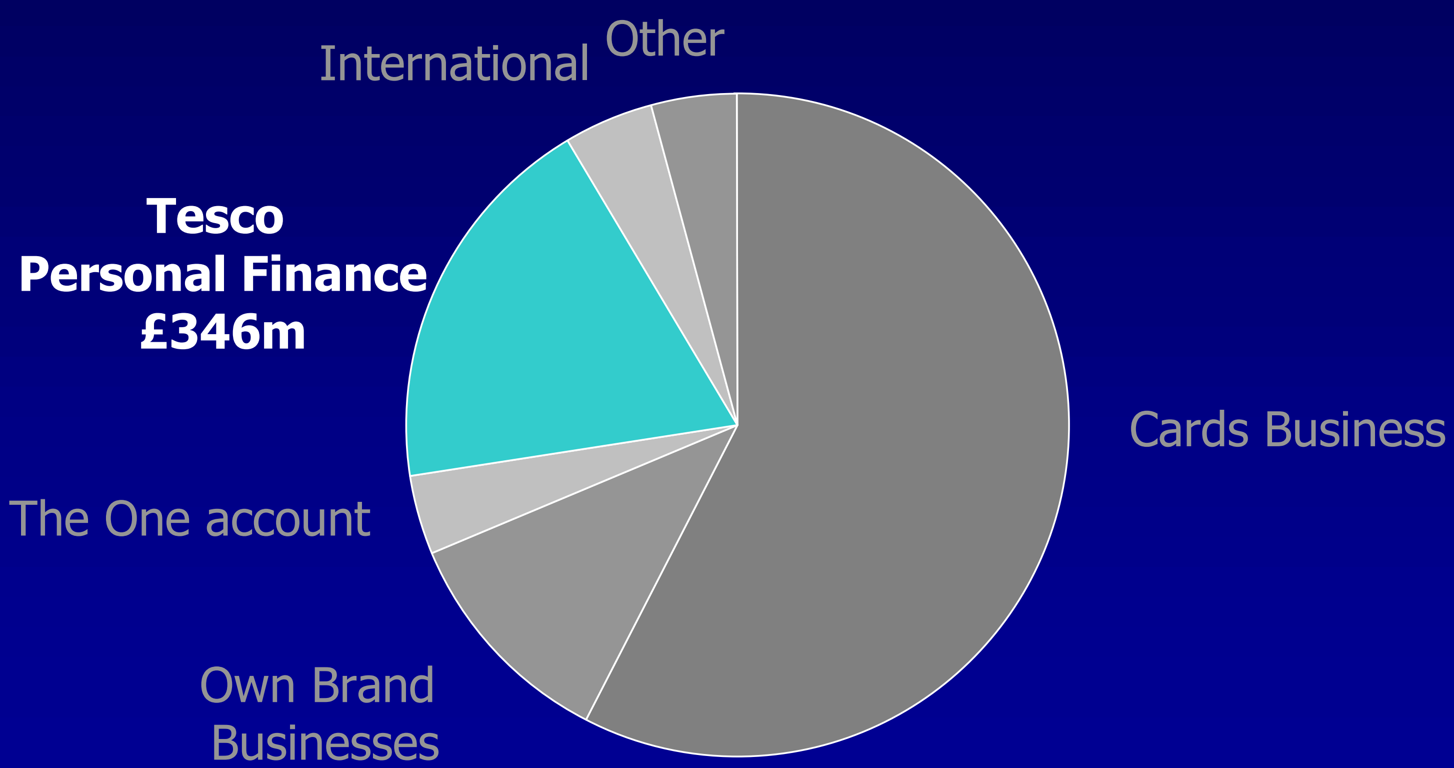
The Royal Bank of Scotland Group

Tesco Personal Finance

Jim Macdonald
Chief Executive, Tesco Personal Finance

Retail Direct

2003 Income £1,835m



Tesco Personal Finance

Business Model

- 50:50 joint venture, established in 1997
  – Not supplier relationship
- Financial products branded Tesco
  – Not RBS branded products for Tesco customers
- Broad range of personal financial products
  – Not just banking

Tesco Personal Finance

Creating Value Through Partnership

Distribution

- Leaflets in store, execution by phone and internet
- Tesco.com leading internet site in UK

➡ Low cost distribution

Manufacturing

- RBS broad range of personal banking/insurance products
- RBS efficient manufacturing platform

➡ Low cost manufacturing

Tesco Personal Finance

Leaflets at Checkout

Tesco Personal Finance

Leaflets with Relevant Products

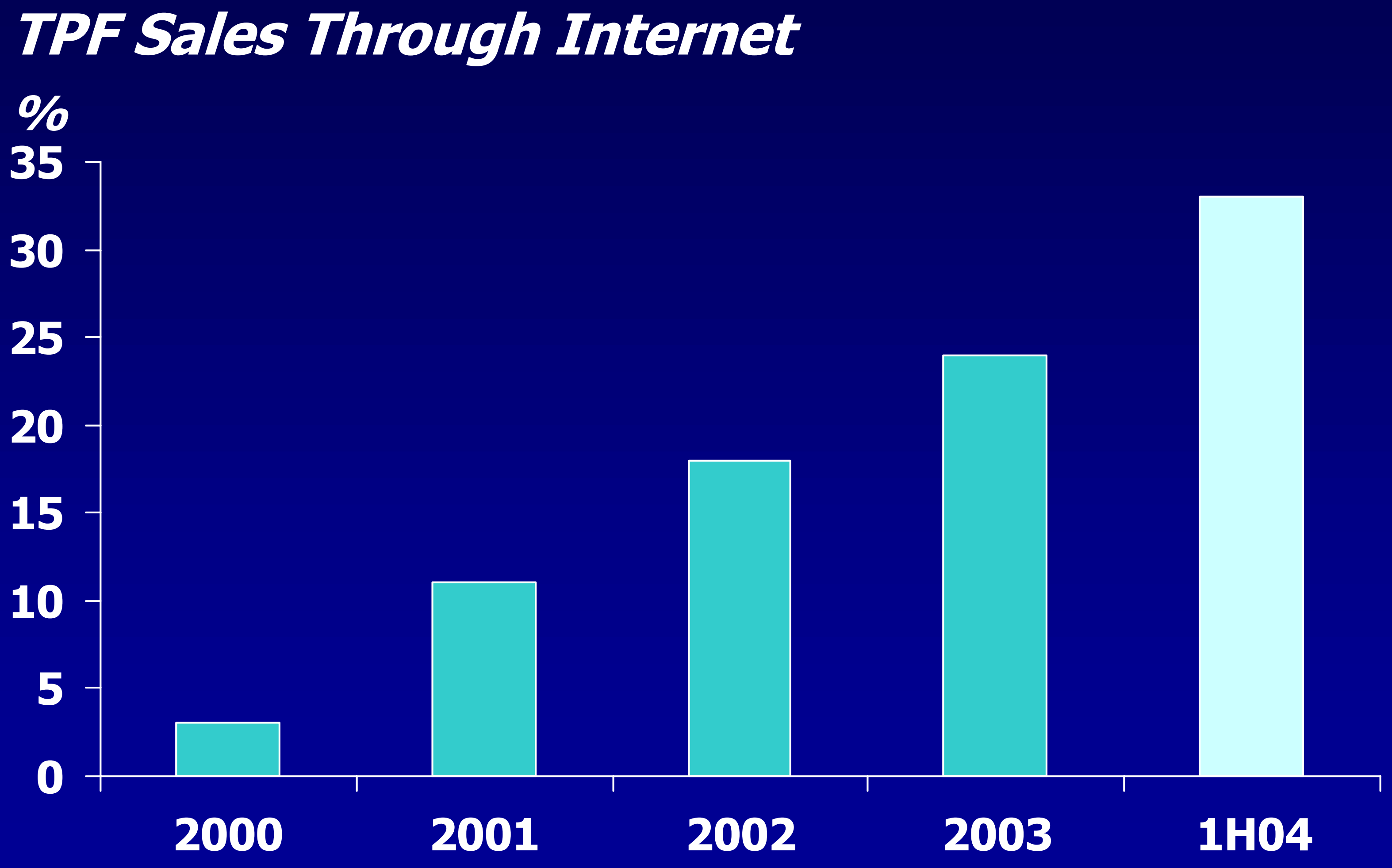
Tesco Personal Finance

Motor and Breakdown Insurance

Tesco Personal Finance

Some Products "Off the Shelf"

Tesco Personal Finance



Tesco Personal Finance

Products

1997	ATMs, credit card, instant access savings, loans
1998	Home, travel insurance
1999	Motor, pet insurance
2000	Life insurance
2001	Instant travel insurance, travel money
2002	Car breakdown cover
2003	Instant car breakdown cover, mortgage life insurance
2004	FTSE tracker bond, flexible mortgages, over 60's life ins

Tesco Personal Finance

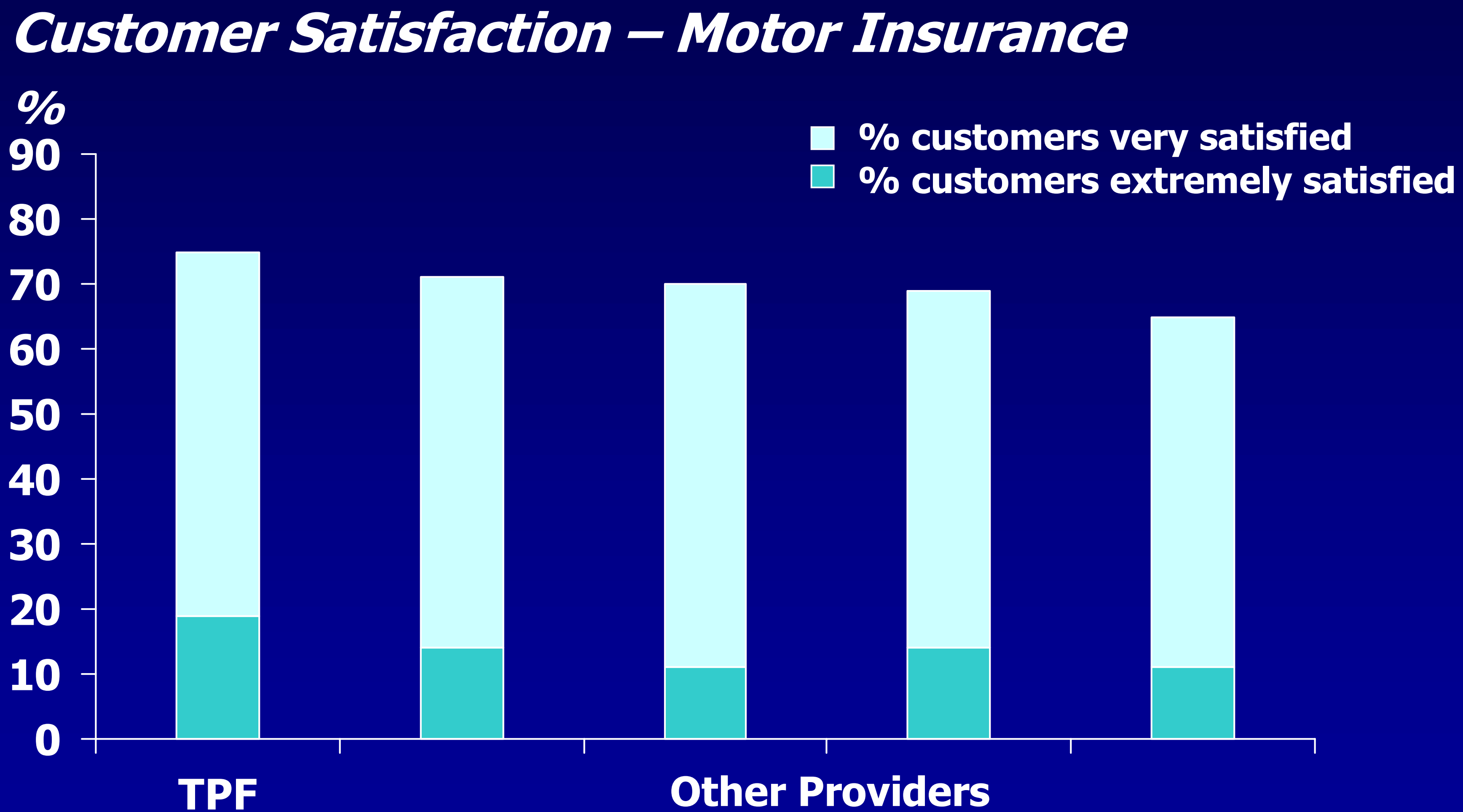
- 10 million active Clubcard holders
- Financial products offer Clubcard loyalty points
- Clubcard points can be converted into Tesco vouchers which can be used for shopping or other offers e.g. Deals

Tesco Personal Finance

RBS Manufacturing

- RBS provides operational support to TPF through:
  - 13 call centres
  - 6 service centres
  - 3,300 fully trained staff
- TPF supported by Group IT platform
- RBS also provides risk management and fraud prevention expertise

Tesco Personal Finance



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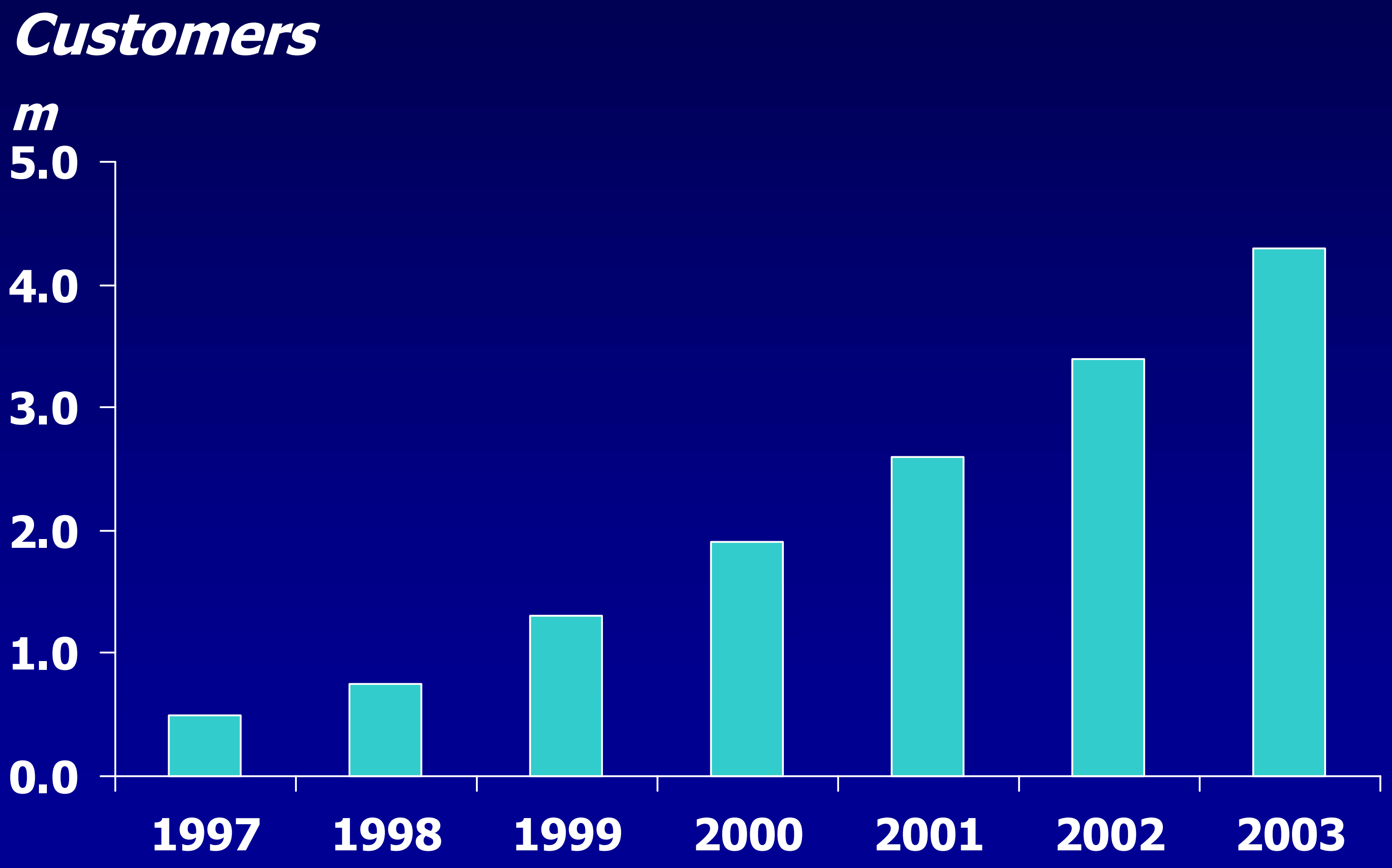
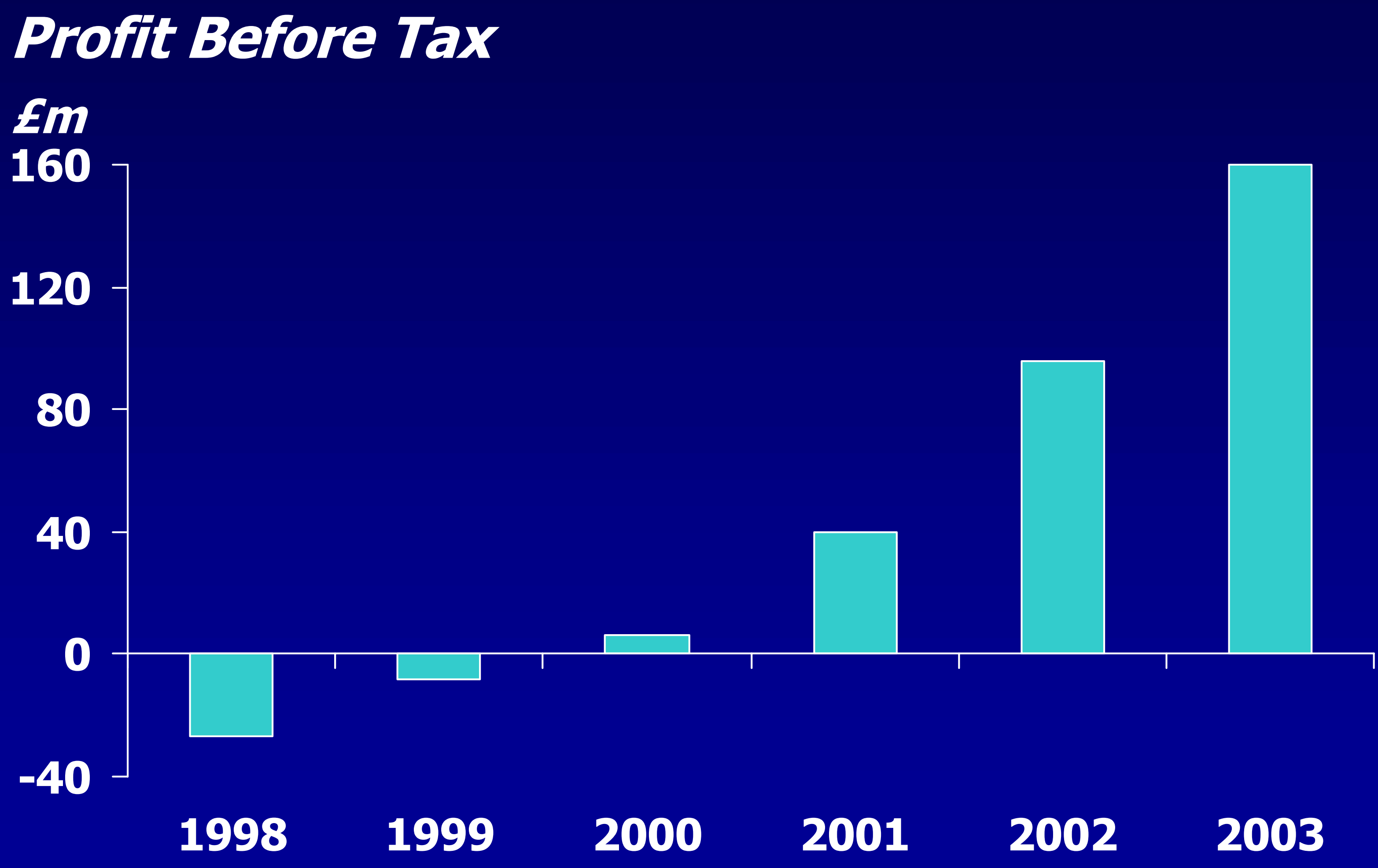
Base: 6 months to end of June 2004

Tesco Personal Finance



Tesco Personal Finance



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Profit/(loss) before exceptional items

Europe – Partnership TPF International

Tesco in Europe

- **Ireland**
  - **85 stores, #1 supermarket**
- **Hungary**
  - **62 stores, #1 supermarket**

Jointly prioritised:
- **Size**
- **Consumer finance attractiveness**

- Poland
  - 70 stores, #1 supermarket
- Czech Republic
  - 22 stores, #3 supermarket
- Slovakia
  - 26 stores, #1 supermarket

Under evaluation

Europe – Partnership TPF International

Ireland

- Launched TPF in 2001
- Products
  - – Credit cards
  - – Personal loans
  - – Life insurance
- Distribution
  - – In-store presence to raise awareness, as in UK
  - – Application through direct mail, telephone, internet

Europe – Partnership TPF International

Hungary

- Launched TPF in 2003
- Products
  - – Instalment finance card
  - – Personal loans
  - – Credit cards
- Distribution
  - – In-store presence
  - – Sales desks in 36 stores
  - – Applications in-store

The Royal Bank of Scotland Group

Tesco Personal Finance

Jim Macdonald
Chief Executive, Tesco Personal Finance

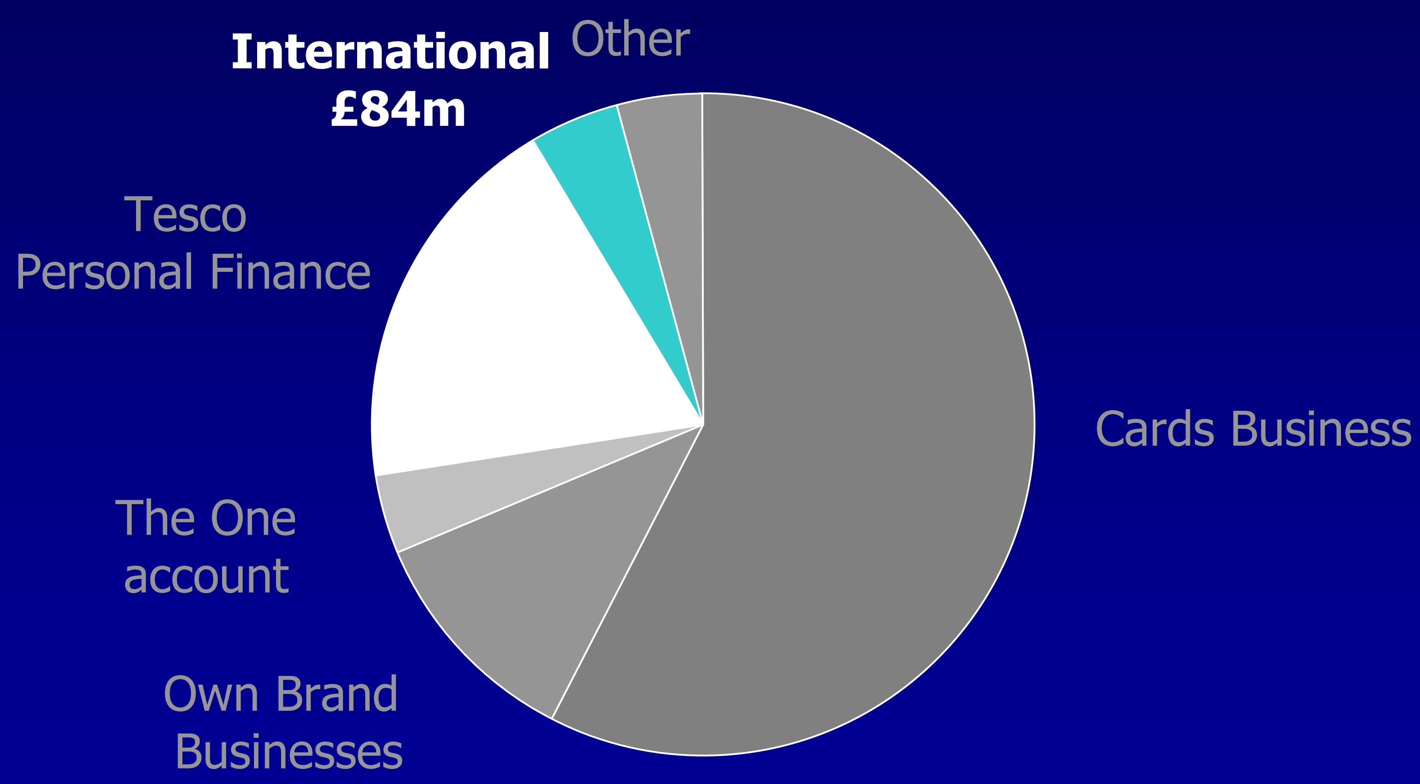
The Royal Bank of Scotland Group

International
Establishing Strategic Options

Chris Sullivan
Chief Executive, Retail Direct

Retail Direct

2003 Income £1,835m



Retail Direct 2000

	UK	*Europe*	*US*
Consumer finance	✓	✓	✓*
Credit card issuing	✓		
Merchant acquiring	✓		

** RBS is active in US consumer finance via Citizens*

Retail Direct 2000

Europe – Comfort Card

- Point of sale finance: retailer-branded store cards
- Present in four European countries:
  - Germany, Netherlands, Belgium and Austria
- 1.6m customer accounts
- €750m balances

International Markets

2003	*UK*	*Europe*	*US*
Consumer finance*	£122bn	£529bn	£715bn
Credit card borrowing	£54bn	£17bn	£412bn
Card transactions**	£230bn	£802bn	£1,258bn

*   *Excluding credit cards*
*** Debit and credit card transactions*
Sources: Bank of England, Federal Reserve, European Central Bank

Approach to Internationalisation

- Large attractive markets
  - Europe: Consumer finance
  - US: Credit cards
- Low risk entry strategy
  - Establish capabilities
- Export Retail Direct capabilities
  - Direct distribution
  - Partnerships
- Leverage Group capabilities
  - Acquisition and integration skills
  - RBS customers

Europe

Organic

- Build Comfort Card
- Launch direct loans

Partnership

- Tchibo

Acquisition

- Santander Direkt credit card and loan portfolios
- BIBIT internet merchant acquiring business

Europe – Organic
Build Comfort Card

- Enhanced retailer recruitment
  - Telesales
  - Field force
- Introduced retailer staff training and incentivisation
- Broadened product range
  - Loan top-ups
  - Freestanding loans
- Improved product functionality: ATM access
- Balance growth 21% pa 2000 – 2003

Europe – Organic
Launch Direct Loans

- Launch direct personal loans
  – Germany in 2003, Netherlands 2004, Belgium 2005
- Direct advertising by press and TV to generate customer applications
- Telephone and internet applications
- Instant decisioning
- €36m balances in first 12 months

Europe – Partnership Tchibo

- Distinctive German retailer
  - Coffee
  - Non-food
- Over 900 stores nationwide
- 99% brand awareness in Germany
- 54% of customers visit shops at least once a week
- #3 German internet retailer
- Presence in other European markets
  - Austria, Hungary, Czech Republic, Slovakia, Poland, Russia, Switzerland

Europe – Partnership Tchibo

- Exclusive partnership, formed 2004
- Products
  - Fixed-term personal loan
  - Hybrid credit card/overdraft product, tailored for German market
- Distribution
  - In-store presence - leaflets, posters
  - Direct mail
  - Weekly magazine (1m circulation), mail order inserts
- Successful pilot in 42 stores
- Rollout of 263 stores starting 4 October, remainder starting Q1 2005

Europe – Acquisition Santander Direkt

- Acquired July 2003
- Based in Frankfurt
- 0.5m prime personal and commercial card accounts
- #8 Visa/MasterCard issuer in Germany
- #3 commercial credit card issuer in Germany
- €171m personal loan balances

Europe – Acquisition
Santander Direkt

Delivery of Transaction Benefits

- Personal loans business integrated into Comfort Card
- Credit card integration underway
  - Conversion to Group IT platform
  - Integration of operations with Comfort Card
- Cross-sales
  - Credit cards to existing Comfort Card customers
  - Commercial credit cards to Comfort Card retailers

Europe – Acquisition BIBIT

- Acquired May 2004
- Allows internet merchants to accept a wide range of debit payment methods in fragmented EU markets
- 75 payment types accepted
  - e.g. Carte Bleu (France), ELV (Germany)
- Service provided in 25 countries
- Customers are large international corporate merchants

Europe – Acquisition BIBIT

Delivery of Transaction Benefits

- Integration with WorldPay and Streamline International
  - Three IT systems into single Group platform
- Offer full pan-European internet merchant acquiring proposition
  - Credit and debit
  - SME and large corporates
- Cross-selling internet payment acquiring to
  - Streamline merchants
  - CBFM customers

United States

Acquisition

- People's Bank credit card business
- Lynk Systems

Partnership

- Kroger

Organic

- Citizens/Charter One customers

United States – Acquisition People's Bank Credit Card Business

- Acquired March 2004
- Headquarters in Bridgeport, Connecticut
- #20 US credit card issuer
- Prime portfolio
  - 1.5m accounts
  - $2.3bn balances
- Nationwide distribution by direct mail
- Distribution through partner brands

United States – Acquisition People's Bank Credit Card Business

Delivery of Transaction Benefits

- Business migrating to newly established RBS National Bank
- New call centre in Bridgeport
- Conversion to Group IT platform completed in 6 months
- First direct mailing under RBS brand in July 2004
  – 50,000 new accounts recruited
- Realise Group funding and purchasing benefits

United States – Acquisition Lynk Systems

- Acquired September 2004
- Full service merchant acquirer, similar to Streamline in UK
  - Headquarters in Atlanta, Georgia
  - 9th largest US merchant acquirer
  - 74,000 merchants
  - Nationwide presence

United States – Acquisition
Lynk Systems

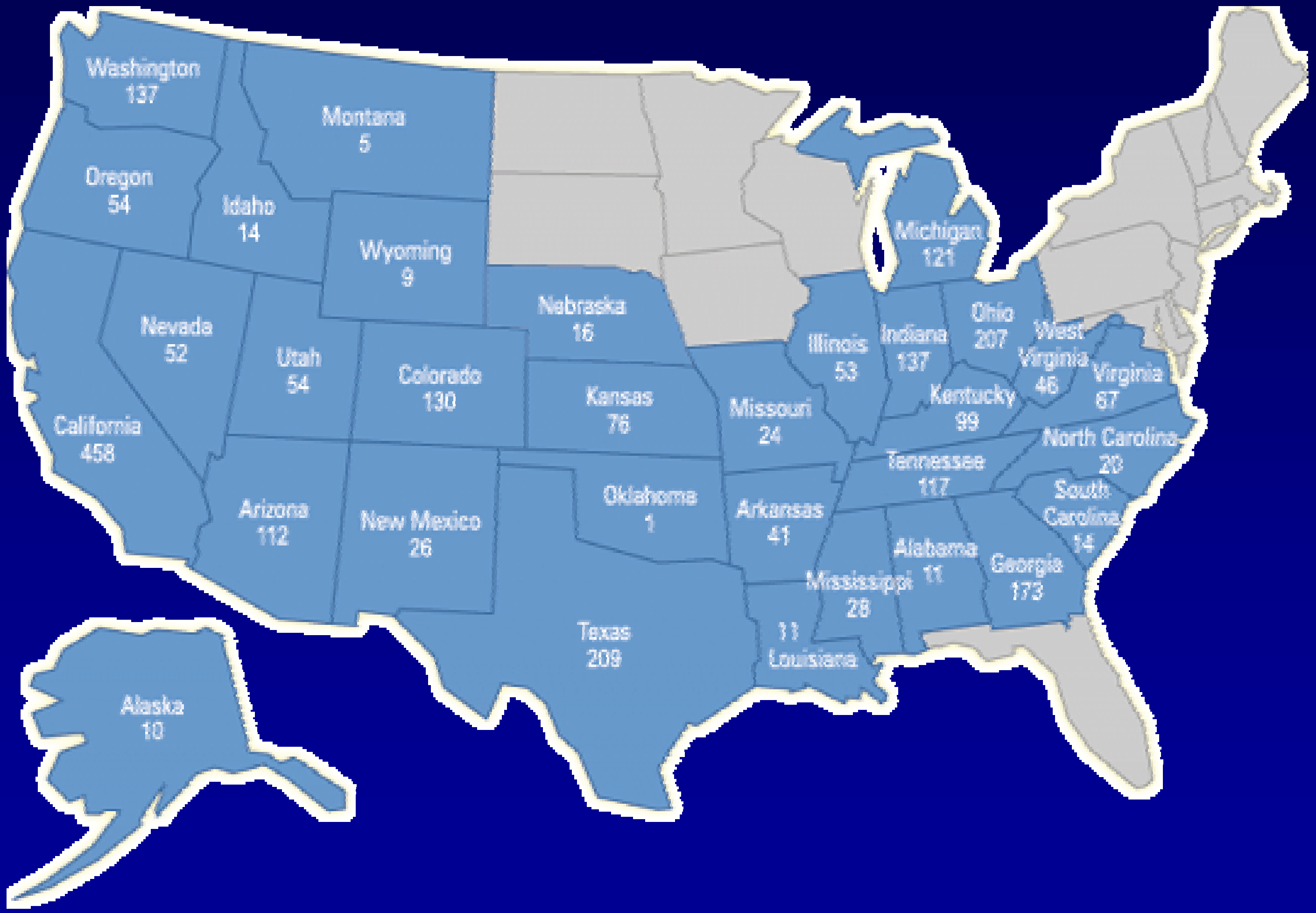
Delivery of Transaction Benefits

- Exploit RBS distribution
  - – Citizens: 240,000 business customers
  - – Charter One: 98,000 business customers
- Extend to medium and large corporate merchants
- Implement Streamline sales approach and processes
- Cost synergies with Citizens and Manufacturing

United States – Partnership Kroger

- Exclusive partnership formed July 2004
- Second largest US supermarket retailer
- 3,774 stores
- Present in 32 states across US
- Large customer base
- Established loyalty programme
- Multiple brands

United States – Partnership Kroger



United States – Partnership Kroger

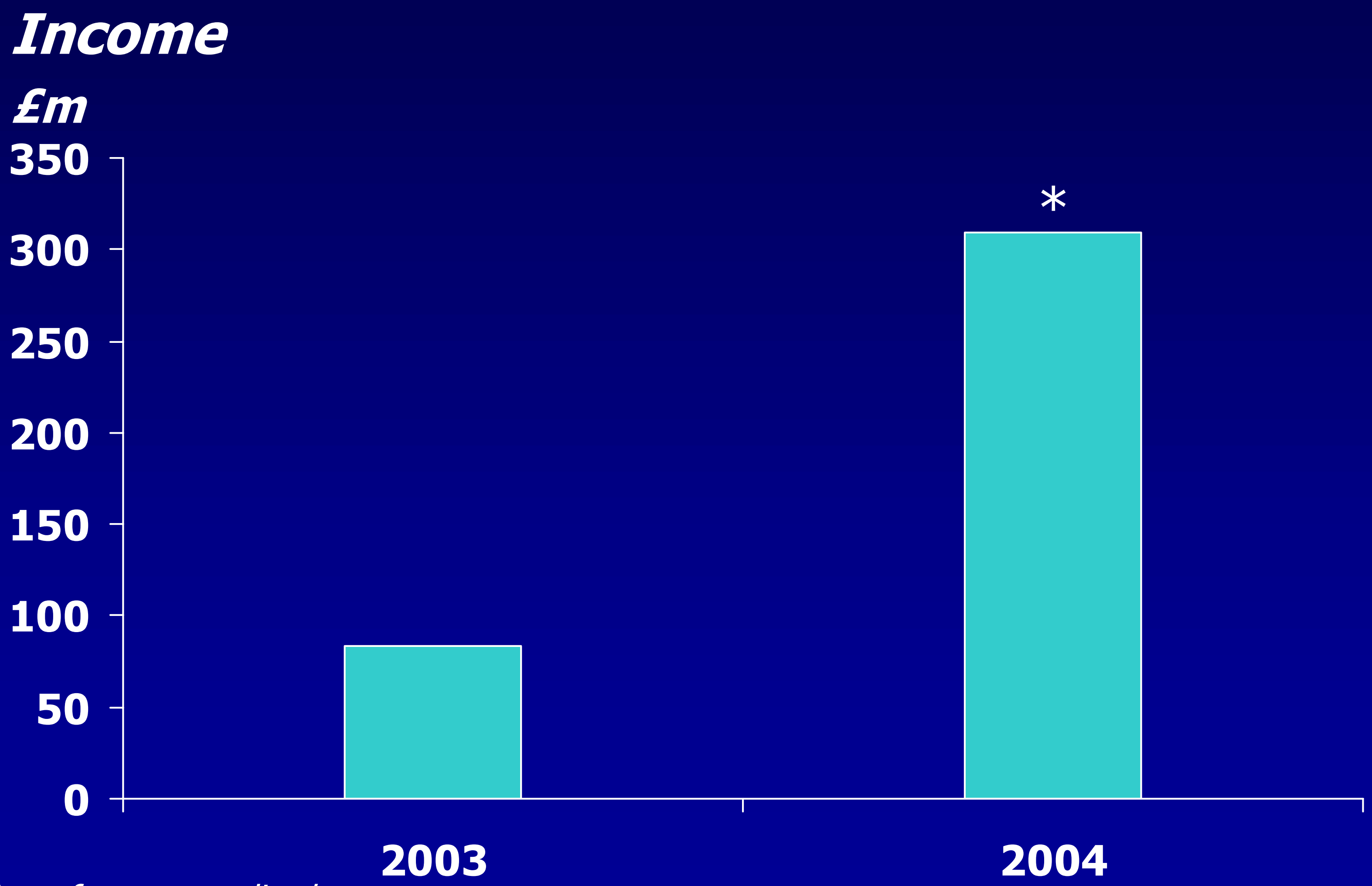
- Launched Kroger credit card integrated with loyalty programme
- First mailing to existing Kroger credit cardholders in July 2004
- First mailing to Kroger loyalty cardholders in October 2004
- Store rollout commencing October 2004
  - – 103 stores initially
- Phased rollout nationally commencing 2005

United States – Partnership Kroger

United States – Organic Citizens/Charter One

- Distribute credit cards to Citizens and Charter One customers
  – Citizens 2.5m personal customers
  – Charter One 1.7m personal customers
- Marketing through branches and direct mail
- Customer applications through branch, phone, post and online

Retail Direct International



*1H04 pro forma annualised

Retail Direct 2004

	UK	*Europe*	*US*
Consumer finance	✓	✓	✓ *
Credit card issuing	✓	✓	✓
Merchant acquiring	✓	✓	✓

** RBS is active in US consumer finance via Citizens*

Conclusion

Chris Sullivan
Chief Executive, Retail Direct

Retail Direct Characteristics

- Large customer base ✓
- Strong brands ✓
- Low cost operation ✓
- Diversity of income ✓
- Good credit skills ✓
- Able to make partnerships work ✓

Retail Direct

Summary

- Not only credit cards
- Not only lending
- Not only UK

Retail Direct

Summary

- Range of different businesses
  – Brands, channels, products
- Vibrant businesses
  – Exciting prospects for future growth
- Have made important strategic moves
  – External capabilities outside the UK

RBS

The Royal Bank of Scotland Group

Retail Direct

Questions & Answers