

Offer summary



offer for **National Westminster Bank Plc**
creating a new force in banking

Not for distribution in or into the United States, Canada, Australia or Japan

THE INFORMATION IN THIS DOCUMENT HAS BEEN EXTRACTED FROM, AND MUST BE READ IN CONJUNCTION WITH, THE DOCUMENT DATED 16 DECEMBER 1999 WHICH SETS OUT THE ROYAL BANK OF SCOTLAND GROUP PLC'S OFFER FOR NATIONAL WESTMINSTER BANK PLC (THE "OFFER DOCUMENT").

Save as defined above, words and expressions defined in the Offer Document have the same meanings when used in this document.

The contents of this document, which have been prepared by and are the sole responsibility of the directors of RBS, have been approved by Merrill Lynch International and Goldman Sachs International solely for the purpose of section 57 of the Financial Services Act 1986.

Merrill Lynch International and Goldman Sachs International, each of which is regulated in the United Kingdom by The Securities and Futures Authority Limited, are acting for The Royal Bank of Scotland Group plc and no-one else in connection with the Offer and will not be responsible to anyone other than The Royal Bank of Scotland Group plc for providing the protections afforded to the customers of Merrill Lynch International and Goldman Sachs International, nor for giving advice in relation to the Offer.

The directors of RBS, whose names are set out in paragraph 2 of Appendix VIII to the Offer Document, accept responsibility for the information contained in this document save that the only responsibility accepted by the directors of RBS in respect of such information relating to NatWest (which has been compiled from published sources), is to ensure that such information has been correctly and fairly reproduced and presented. Subject to the preceding sentence, to the best of the knowledge, information and belief of the directors of RBS (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they are responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Offer is not being made in or into and is not capable of acceptance in or from, Canada, Australia or Japan. Nor is it currently intended that the Offer will be made or otherwise be available for acceptance in the United States, unless and until an appropriate US registration statement has been declared effective and any necessary filings have been made. In such circumstances, a prospectus meeting the requirements of the US securities laws and other appropriate documentation for use in the United States will be available from The Royal Bank of Scotland Group plc.

Details of shareholder helplines and internet address:

If you have any questions about RBS's Offer for NatWest you should direct them to the helplines set out below:

Technical questions about how to complete the Forms of Acceptance, or about the Loan Notes, the Mix and Match Election or closing date(s) for the Offer:

- **Computershare Services PLC:** **0870 702 0167**

If you have lost your NatWest share certificates or other documents of title:

- **Computershare Services PLC:** **0870 702 0000**

General questions about the Offer and any questions about how to withdraw your acceptance of the Bank of Scotland offer for NatWest:

- **Shareholders Helpline:**
UK: **0800 169 1967**
International: **+44 181 253 8153**

You may also wish to refer to our website where we post key public announcements concerning our offer:

- **Website:** **www.rbs.co.uk**

Offer by

Goldman Sachs International
and
Merrill Lynch International

on behalf of

The Royal Bank of Scotland Group plc
for
National Westminster Bank Plc

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⁽¹⁾ The statements of estimated cost savings and revenue benefits (and resulting profit enhancement) should be read in conjunction with Appendices VI and VII (including the notes thereto) to the Offer Document. For the reasons set out in such Appendices, the actual cost savings and revenue benefits (and resulting profit enhancement) may be materially greater or less than estimated in such Appendices. No part of such statements should be interpreted to mean that earnings per share of the Enlarged RBS Group for the current or future financial years will necessarily match or exceed the historical published earnings per share of RBS.

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16 December 1999

To NatWest Ordinary Shareholders and, for information only, to holders of NatWest Preference Shares and participants in NatWest Share Schemes

Dear Shareholders

On 29 November 1999, the Board of The Royal Bank of Scotland Group plc announced an offer for each NatWest Ordinary Share of 0.968 New RBS Ordinary Shares plus 305 pence nominal amount of Loan Notes. On completion of the Offer, NatWest Ordinary Shareholders will hold approximately 61.7 per cent. of the issued ordinary share capital of the Enlarged RBS Group.

Our proposed combination of NatWest with RBS is a unique opportunity to create a new force in banking. The combination of RBS's growth philosophy, innovation and restructuring experience with NatWest's scale and presence is highly compelling. This, together with substantial cost savings and revenue opportunities, will benefit the customers, employees and shareholders of the Enlarged RBS Group. The Enlarged RBS Group will also have the skills, resources and cost efficiency to become a significant force, throughout the UK and internationally, across a broad range of products.

RBS has held discussions with your board and management with a view to them recommending an offer by RBS for NatWest. Whilst your board has not recommended the Offer, I would emphasise that RBS does not consider the Offer to be hostile to the board, management, staff or shareholders of NatWest.

The Board of RBS believes that this Offer will deliver greater benefits to NatWest shareholders and customers than NatWest could otherwise achieve.

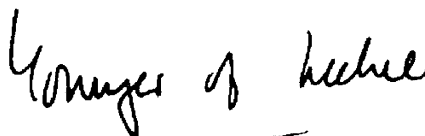
The rationale for our Offer is set out in this document, and also on pages 6 to 24 of the Offer Document, and may be summarised as follows:

- The combination of RBS and NatWest will create a bank with a very strong position in the UK, international presence and options, and excellent prospects for future growth;
- The Enlarged RBS Group will, we believe, create substantial value for shareholders through a combination of cost savings and revenue benefits;
- RBS has a detailed implementation plan to deliver this value. This plan is low risk: it envisages minimal disruption to customers and conversion to a single, stable, existing technology platform;
- RBS has a strong management team with experience in transforming and merging banking operations; and
- RBS has an excellent record of delivering benefits for its customers and staff, as well as for its shareholders.

The Board of RBS believes that this Offer is the best way forward for the shareholders, customers and staff of NatWest. On behalf of the Board of RBS, I encourage all NatWest Ordinary Shareholders to accept the Offer.

To accept the Offer, you should complete, sign and return the accompanying Form of Acceptance without delay, and, in any case, so as to be received by the Receiving Agent no later than 3.00 p.m. on 13 January 2000.

Yours sincerely



Viscount Younger
Chairman

Creating a new force in banking

1. **RBS seeks to capture the potential benefits of consolidation**

The Board of RBS has for some time recognised the opportunity to create value through consolidation in financial services. At the time of the RBS Group's interim results presentation in May 1999, the Group Chief Executive of RBS, Sir George Mathewson, expressed his views on the potential benefits of consolidation. These are set out below:

Cost savings, including the elimination of duplicated support activities

Substantial cost savings can be achieved through the elimination of duplication in back office technology and processing activities, with little impact on customer-facing activities, including the branch networks. In the case of a combination of two commercial banks, these de-duplication cost savings can be substantial. In addition, the catalytic effect of the transaction, and the increased focus on costs, can lead to further substantial savings.

Revenue benefits from the combination of brands, customers, products and skills

De-duplication and other cost savings can be substantial, but are essentially a one-off opportunity to create value. More importantly for long term value creation, the combination of brands, customer bases, products and skills, the selection of the best people and the exchange of best practice can create opportunities for higher revenue growth.

Greater scale and ability to create value through opportunities in the UK and Europe

In addition, the greater scale of the combined entity can enhance its ability to take advantage of opportunities which arise to create additional value. Examples could include further acquisitions, investing in new technologies such as the internet and participating in the broader market in continental Europe.

Creating a new force in banking

2. The RBS Offer for NatWest and other initiatives

The Board of RBS believes that a combination of RBS and NatWest, managed correctly, can deliver these consolidation benefits, and that RBS's management team has the vision, ambition, commitment and experience to convert the potential benefits of the transaction into reality. Accordingly, the Board of RBS announced on 29 November 1999 the terms of the Offer for NatWest.

The Board of RBS believes that this Offer will deliver greater benefits for the shareholders and customers of NatWest than NatWest could otherwise achieve.

RBS has held discussions with the board and management of NatWest with a view to them recommending an offer by RBS for NatWest. Whilst the board of NatWest has not recommended the Offer, it should be emphasised that RBS does not consider the Offer to be hostile to the board, management, staff or shareholders of NatWest.

0.968 New RBS Ordinary Shares plus 305 pence nominal amount of Loan Notes per NatWest Ordinary Share

RBS is offering 0.968 New RBS Ordinary Shares plus 305 pence nominal amount of Loan Notes per NatWest Ordinary Share. Each New RBS Ordinary Share will carry an entitlement to a dividend of 20.3 pence payable at the same time as the Offer consideration, being equivalent to the amount of the proposed final dividend on each RBS Ordinary Share announced on 29 November 1999. The Offer will be for all the NatWest Ordinary Shares and is being made by Merrill Lynch and Goldman Sachs on behalf of RBS.

Following completion of the Offer, RBS Ordinary Shareholders (including BSCH) will hold approximately 38.3 per cent. of the issued ordinary share capital of the Enlarged RBS Group, while NatWest Ordinary Shareholders will hold approximately 61.7 per cent. and approximately £5.1 billion nominal amount in Loan Notes. This takes into account the new RBS Ordinary Shares to be issued pursuant to the BSCH Share Issue and assumes no exercise of options under the NatWest Share Schemes or the RBS share option schemes.

Further information regarding the Offer, including the conditions and further terms of the Offer, is set out in Appendix I and Appendix II to the Offer Document and the Form of Acceptance.

Creating a new force in banking

BSCH to subscribe for £1.2 billion new RBS Ordinary Shares at market

RBS has had a strategic alliance with BSCH since 1988. BSCH has a market capitalisation of approximately £26 billion, is the largest bank in Spain and the seventh largest bank in Europe (based on market capitalisations as at 10 December 1999). BSCH owns a 9.6 per cent. stake in RBS.

BSCH is fully supportive of the Offer. It believes that the transaction will create significant value for shareholders of the Enlarged RBS Group and that the Enlarged RBS Group will be well positioned to take advantage of the future consolidation that BSCH believes will occur in the European banking market. BSCH's holding of RBS Ordinary Shares will be voted in favour of the resolution to approve the Offer.

In order to assist in financing the Enlarged RBS Group, RBS and BSCH have entered into conditional arrangements under which RBS will issue at completion of the Offer to BSCH new RBS Ordinary Shares with a value of £1.2 billion. In return, BSCH will issue new BSCH shares with a value of £1.2 billion. The price of the new RBS Ordinary Shares and the new BSCH shares to be issued will be determined at market on completion of the Offer. BSCH has agreed to effect a placing, on behalf of RBS, with strategic European banking partners of BSCH, of the new BSCH shares to which RBS is entitled, to ensure that RBS receives £1.2 billion in cash.

CGU to become RBS's bancassurance partner and intends to increase its stake in RBS

RBS and CGU have entered into a memorandum of understanding for the provision of life, pensions and investment products to the RBS Group. The Board of RBS believes that this joint venture will create additional value for the shareholders of the Enlarged RBS Group.

Initially, CGU has agreed, in principle, to acquire a 50 per cent. interest in RBS's life insurance subsidiary, Royal Scottish Assurance, for a consideration of approximately £150 million. At 30 September 1998, the embedded value of Royal Scottish Assurance was £128 million. CGU will replace Scottish Widows in this venture. On successful completion of the Offer, CGU has agreed in principle to acquire 50 per cent. of NatWest Life. At 31 December 1998, the embedded value of NatWest Life was £389 million.

To cement this relationship, CGU intends to increase its shareholding in RBS through the purchase of RBS Ordinary Shares with a value of up to £300 million in the market during the course of the six months following the announcement of this Offer.⁽¹⁾

⁽¹⁾ There are no agreements or arrangements, formal or informal, in relation to acceptance or non-acceptance of any offer by any party for NatWest in respect of any of CGU's holdings in NatWest, whether held on behalf of external clients, internal funds, shareholders or otherwise.

Creating a new force in banking

3. The combination will create a new force in banking

The combination of RBS and NatWest will create a new force in banking, combining NatWest's scale and presence with RBS's innovation and growth culture. The Enlarged RBS Group will have a very strong position and excellent prospects for future growth. In the UK, the Enlarged RBS Group will have leading positions in a number of banking markets, a range of strong brands and a leading distribution capability. Outside the UK, the Enlarged RBS Group will have strong businesses and clear opportunities for future development. The Enlarged RBS Group will be the sixth largest bank in Europe, by market capitalisation.

Very strong position in the UK

Leading UK Positions

	Ranking in the UK
Corporate Banking	1
Retail Banking	2
Private Banking	1
Offshore Banking	1
Private Motor Insurance	1

Source: Brokers' Reports, Company Accounts

Corporate Banking: The complementary strengths of RBS and NatWest will immediately create the leading corporate bank in the UK. In addition to its strong position in the core relationship products of lending and payments, the Enlarged RBS Group will be ranked first across a range of specialist corporate businesses, and will have the leading customer-facing Treasury in the UK.

Retail Banking: The Enlarged RBS Group will have a unique range of strong brands, including RBS and NatWest, which will be managed independently. The Enlarged RBS Group will have a large customer base, a truly national branch presence, a leading position in alternative distribution channels, and leading positions in retail products, particularly the key relationship products of current accounts and credit cards.

Leading Positions in Retail Products

UK Market Position	RBS + NatWest	Lloyds TSB	Barclays	Halifax	Abbey National
Current accounts	2	1	3	5	6
Savings accounts	5	4	6	1	2
Mortgages	6	3	8	1	2
Credit cards	2	3	1	7=	11
Personal loans	2	1	3	5=	5=
Motor insurance	1	—	—	—	—
Home insurance	8	—	—	—	—
Life & pensions	14	11	31	16	13

Source: Brokers' Reports, Company Accounts, Tillinghast (Latest New Business Data 1997)

Creating a new force in banking

Private Banking: The combination of Coutts with RBS's private banking activities will create the leading provider of private banking services in the UK.

Offshore Banking: Both RBS and NatWest have strong positions in UK offshore banking. The combination will be the clear leader in this area.

Private Motor Insurance: Direct Line is the market leader in private motor insurance.

International presence and options

The Enlarged RBS Group will have an international presence and options for future development. Citizens is now the second largest bank in New England, and has excellent prospects for growth following the recent acquisition of the commercial banking business of State Street Corporation and the acquisition of UST Corp. to be completed early next year. Ulster Bank, which RBS expects to retain, has a strong franchise in both Northern Ireland and the Republic of Ireland. The Enlarged RBS Group will have a significantly enhanced range of options to participate in Europe in co-operation with BSCH.

Clear strategies for future growth

The Enlarged RBS Group will focus on income growth as well as cost reduction. A principal objective will be to expand the Enlarged RBS Group's core businesses in UK retail and corporate banking. In retail banking, the Enlarged RBS Group will build on RBS's successful multi-brand, multiple channel strategy: this will enable it to expand its retail business by appealing to different customer groups and by responding flexibly to changing customer requirements. In corporate banking, the Enlarged RBS Group will build on RBS's successful relationship management strategy and its clear strengths in core products, specialist products and Treasury.

Creating a new force in banking

4. The transaction will enable RBS to create substantial value

The Board of RBS believes that the combination of RBS and NatWest will create substantial value through both revenue benefits and cost reduction and that it will be accretive to earnings in the first full year after completion (before goodwill and restructuring charges).⁽¹⁾

The high level of NatWest's cost:income ratio (68 per cent. in 1998, on ongoing businesses), relative to other UK banks, demonstrates inefficiency. NatWest has already made some commitments to staff reductions and cost savings. The Board of RBS believes that it can deliver much larger cost savings (amounting to £1,180 million per annum, in 1999 terms, within three years of completion of the Offer) through a combination of de-duplication cost savings and efficiency cost savings.

As is normal in the consolidation of two functionally similar banking groups, the largest opportunity for cost savings will arise in centralised technology and processing activities. Maximisation of economies of scale in these areas requires functionally common products, common processes, common policies and the establishment of a common technology platform. RBS has produced detailed plans to achieve this, while still allowing the customer-facing businesses flexibility in product features and pricing policies.

The immediate opportunity for substantial cost savings should not mask the longer term opportunity to create substantial additional shareholder value by improving the rate of growth in NatWest Group's income. The NatWest Group's average rate of growth in income between 1993 and 1998 was 4 per cent. per annum, against 16 per cent. per annum for the RBS Group. At a product level, NatWest Group's relative market share in many sectors has been reducing while that of the RBS Group has been increasing:

Market Share Opportunities				
1998 Market Share %	RBS		NatWest	
	Market share	Share of market growth	Market share	Share of market growth
Mortgage lending	2	4	4	3
Credit card lending	8	13	10	4
Other personal lending	3	5	5	4
Personal deposits	2	6	5	5
Total assets	7	11	15	1

Source: Datamonitor

⁽¹⁾ The statements of estimated cost savings and revenue benefits (and resulting profit enhancement) should be read in conjunction with Appendices VI and VII (including the notes thereto) to the Offer Document. For the reasons set out in such Appendices, the actual cost savings and revenue benefits (and resulting profit enhancement) may be materially greater or less than estimated in such Appendices. No part of such statements or the statement relating to earnings accretion should be interpreted to mean that the earnings per share of the Enlarged RBS Group for the current or future financial years will necessarily match or exceed the historical published earnings per share of RBS.

Creating a new force in banking

De-duplication cost savings £600 million, efficiency cost savings £580 million

The combination of RBS and NatWest will enable substantial cost savings to be achieved through the elimination of duplication across a wide range of areas including technology and back office processing, central functions and Treasury. These de-duplication cost savings arise solely from the transaction, would not be available to NatWest shareholders except through the transaction, and are incremental to any cost savings which NatWest could achieve on its own. The Board of RBS believes that it can deliver de-duplication cost savings amounting to £600 million per annum, in 1999 terms, within three years of completion of the Offer.

In addition, the Board of RBS believes that it can achieve efficiency cost savings amounting to £580 million per annum, in 1999 terms, within three years of completion of the Offer, by addressing current inefficiencies in the NatWest Group and by applying best practice across the Enlarged RBS Group. These efficiency cost savings include amounts already promised by NatWest.

Total cost savings £1,180 million

The Board of RBS believes that it can achieve total cost savings of £1,180 million per annum, in 1999 terms, within three years of completion of the Offer, as a result of 111 specific cost-saving initiatives already identified. The breakdown of the total cost savings is shown in the table below:

Opportunities to Reduce Cost Base				
	De-duplication cost savings £m	Efficiency cost savings £m	Total cost savings £m	Number of initiatives identified
Customer-facing units	80	70	150	12
Manufacturing				
– Technology	180	170	350	10
Manufacturing				
– Other	290	290	580	77
Group functions	50	50	100	12
Total	600	580	1,180	111

Basis: Cost savings to be achieved within 3 years of completion of the Offer
Source: RBS estimates

RBS anticipates that these cost savings will lead to a reduction in overall staff numbers across the two organisations of up to 18,000. It is planned to keep compulsory redundancies in the Enlarged RBS Group to a minimum through natural wastage (which the Board of RBS estimates to be about 7,000 per annum in aggregate in both organisations), voluntary redundancies and severance packages, although some compulsory redundancies will, inevitably, be necessary.

Creating a new force in banking

The estimated cost savings are based on a detailed analysis of RBS's costs and the construction of a bottom-up estimate of NatWest's cost structure, and reflect specific cost saving initiatives prepared by RBS's management team and reviewed by Deloitte & Touche. As part of the same exercise, the cost of achieving these cost savings was estimated and this is expected to be approximately equivalent to the overall amount of the annualised cost savings.

Appendix VI to the Offer Document sets out the Directors' estimated cost savings statement (and the basis and assumptions on which it is made) and supporting letters from Deloitte & Touche and Merrill Lynch and Goldman Sachs.

The estimated cost savings make no allowance for cost savings which might be possible through rationalisation of the branch networks. No branch closures are planned as a result of the transaction. The RBS and NatWest retail business units will individually continue to be responsible for the organic development of their branch networks. In determining the future of their branch networks, and other distribution channels, the key objective for both RBS and NatWest will be to meet the requirements of their customers. Cost savings through branch closures and mergers are small relative to the opportunities in central manufacturing, and the costs of achieving such cost savings in the branch network can be high. To focus on cost savings in this area might distract from larger opportunities elsewhere, would cause customer disruption and would put at risk revenue and future growth in revenue.

RBS understands that NatWest intends to close 200 further branches, but has not specified the cost savings associated with these closures. Cost savings arising from this exercise are not reflected in RBS's estimated cost savings.

Profit enhancement of £240 million from initial revenue benefits

The Board of RBS believes that the combination of RBS and NatWest will enable the Enlarged RBS Group to generate additional revenue. Preliminary analysis has already identified 43 specific initiatives which it estimates will generate revenue of £390 million per annum within three years of completion of the Offer by providing to NatWest's customers an enhanced product range and by applying RBS's successful distribution strategies to NatWest. After costs, bad debts and insurance claims, the Board estimates that this will result in an additional contribution to profit before tax of £240 million per annum within three years of completion of the Offer.

Creating a new force in banking

Opportunities to Increase Revenue			
	Additional revenue £m	Additional profit £m	Number of initiatives identified
Core retail products	115	100	24
Direct Line			
– Personal insurance products	125	20	6
Corporate products	150	120	13
Total	390	240	43

Basis: Revenue benefits to be achieved within 3 years of completion of the Offer
Source: RBS estimates

Appendix VII to the Offer Document sets out the Directors' statement of estimated revenue benefits and resulting profit enhancement (and the basis and assumptions on which it is made), together with supporting letters from Deloitte & Touche and Merrill Lynch and Goldman Sachs.

Additionally, the Board of RBS believes that, when it obtains full information, it will be able to identify additional opportunities to expand NatWest's income.

Achievement of the expected cost savings and revenue benefits would reduce the Enlarged RBS Group's cost:income ratio, based on the RBS Group's 1999 income and costs and on the NatWest Group's 1998 income and costs (both for ongoing businesses) from 61 per cent. to 49 per cent.

Creating a new force in banking

5. RBS has a clear and detailed implementation plan

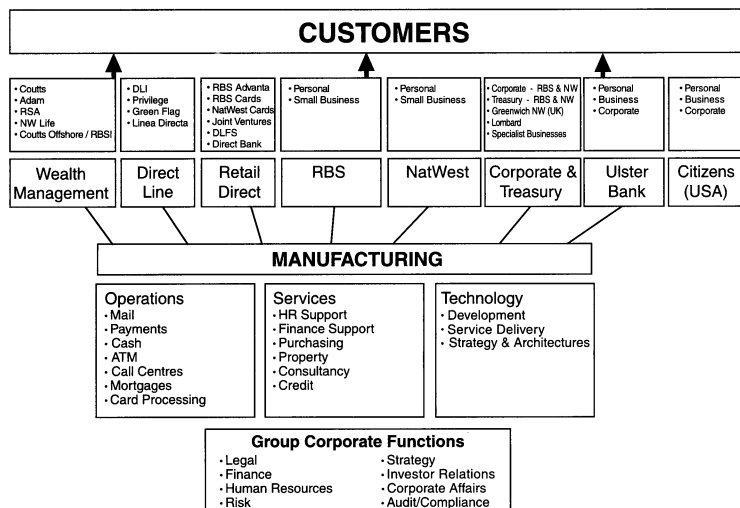
RBS has prepared a clear and detailed implementation plan. Key aspects of this plan include the formation of a new business architecture, the establishment of a central manufacturing capability and the transfer of technology to a single, stable, existing platform. Each of these is discussed below.

An implementation team has already been established with clear objectives, deadlines and responsibilities. This team is led by Fred Goodwin and supported by a small group of relevant business heads. The team will be augmented by relevant personnel from NatWest.

Cluster customer-facing businesses in divisions

Within the new architecture of the Enlarged RBS Group, existing customer-facing businesses will be largely unchanged but will be clustered in divisions. This will minimise customer disruption and will encourage the exchange of best practice. The retail banking activities of RBS and NatWest will operate under their own brands and management teams, and will compete with each other. Corporate banking activities, while operating under two brands, will be combined in a single division, to enhance both customer relationships and risk management. A Wealth Management division will contain the Enlarged RBS Group's various activities in private banking, life assurance, investments and offshore banking. Another division will be responsible for the Enlarged RBS Group's combined credit card business, and various new retail businesses and joint ventures. Direct Line, Ulster Bank and Citizens will continue to operate largely as autonomous units.

Business Architecture



Creating a new force in banking

Establish a central manufacturing capability

A centralised manufacturing capability will be established. This will support the Enlarged RBS Group's commitment to achieve substantial cost savings in the technology and back office processing areas supporting its UK banking and certain other activities.

An important objective is that the products of RBS and NatWest should be functionally aligned. This will not require RBS and NatWest customers to change their existing products, but it will facilitate economies of scale in manufacturing. RBS has carried out detailed mapping of the RBS and NatWest product ranges: this shows a strong correlation of manufacturing functionality between the two product ranges. The centralised unit will achieve further harmonisation of product functionality, while allowing the various customer-facing businesses to set their own product features and prices.

Common Products - Functional Match

	<u>Personal</u>	% match	<u>Business</u>	% match
Assets	■ Loans	95%	■ Loans	95%
	■ Mortgages	100%	■ Overdrafts	100%
Liabilities	■ Current Accounts	100%	■ Business Current Accounts	100%
	■ Packaged Current Accounts	100%	■ Deposit Current Accounts	95%
	■ Graduate/Student Accounts	100%		
	■ Deposits	100%		
Services	■ Electronic Banking	100%	■ Electronic Banking	95%
	■ Telephone Banking	100%	■ Telephone Banking	100%

Source: RBS analysis

Convert to a single, stable, existing technology platform

Within the centralised manufacturing unit, customer accounts will be migrated to a single, stable, existing platform. RBS already has an established and stable platform.

RBS has, during 1999, conducted a detailed evaluation of the recognised approaches to IT systems integration. The approach that has been chosen involves adopting the better of the technology platforms currently in use in the two banks, and adapting the functionality of the products of the Enlarged RBS Group to enable both sets of products to be supported. This chosen approach has been reviewed by PricewaterhouseCoopers.

One of the key assumptions on which this approach relies is that the existing technology platform that is selected can be scaled up to manage the additional volumes following the combination. In this regard, IBM has reviewed the plan for scalability of the RBS platform in relation to an increase in volume of four times, which the Board of RBS believes would be sufficient to cope with a combination with NatWest.

Creating a new force in banking

6. RBS's approach is low risk

The Board of RBS believes that its implementation plan is a low risk approach. It envisages minimum disruption to customer activities and conversion to a stable technology platform. The RBS management team has extensive experience in business integrations and technology conversions.

Minimal disruption to customer-facing activities

RBS plans to minimise the disruption to customer-facing activities. This should minimise the risk of revenue loss.

For the reasons stated in sections 4 and 5 of this document, no branch closures, re-locations or mergers are planned as a result of the combination of RBS and NatWest. The retail banking operations of RBS and NatWest will continue as separate businesses and will develop their own branch networks to meet the needs of their customers. In corporate banking, although activities will be combined, efforts will be made to minimise changes to relationship managers. These arrangements will assist the Enlarged RBS Group in its objective of increasing its income, while reducing costs.

Can use existing technology platform

RBS's approach is to reduce risk by selecting a single platform, rather than trying to combine parts of the existing RBS and NatWest platforms, and by using an existing stable platform rather than building a new platform. PricewaterhouseCoopers' review of RBS's proposed approach to IT integration confirms the Board's view that the approach is both logical and realistic. IBM's review of RBS's scalability analysis supports the Board's view that the existing RBS platform is capable of supporting the Enlarged RBS Group.

Management team has experience of integrations and technology conversions

RBS's management team has extensive experience of integrating banks in the UK and in the US. In the UK, RBS integrated the Scottish and English operations of RBS and Williams & Glyn's. RBS's US subsidiary Citizens has a successful track record of bank integrations and technology conversions. Whilst working for National Australia Group, Fred Goodwin was, as Chief Executive of the respective banks, responsible for the integration of activities supporting Clydesdale Bank and Yorkshire Bank. During his tenure the cost:income ratio of Clydesdale Bank was reduced from 60 per cent. to just under 50 per cent.

Creating a new force in banking

7. RBS will review certain businesses

When RBS obtains full information, it will carry out a detailed review as to whether shareholders would benefit from the retention or disposal of certain businesses. A key aspect of this review will be a comparison between the expected return on each business, adjusted for its risk, with the expected long term cost of capital of the Enlarged RBS Group.

Expects to dispose of Gartmore and US Greenwich NatWest

On the basis of published information, RBS expects to dispose of Gartmore and the US operations of Greenwich NatWest. This is consistent with RBS's view that commercial banks are not the best owners of investment banking and fund management activities.

Expects to retain Ulster Bank and UK Greenwich NatWest

On the basis of published information, RBS believes that the shareholders of the Enlarged RBS Group would benefit from the retention of Ulster Bank. The market's perceived valuation does not seem to the Board of RBS to be adequate to justify the disposal of a business of this quality.

The UK operations of Greenwich NatWest will fit well with the Enlarged RBS Group's combined Treasury operations.

RBS will review NatWest Equity Partners: this review might lead either to retention or disposal of this business.

Will continue to focus on efficient capital management

The capital of the Enlarged RBS Group will be managed to optimise the efficiency of the Enlarged RBS Group's balance sheet. If surplus capital cannot be re-invested at a rate higher than the Enlarged RBS Group's long term cost of capital, it is currently intended that it will be returned to shareholders.

Creating a new force in banking

8. RBS has relevant experience and a strong track record

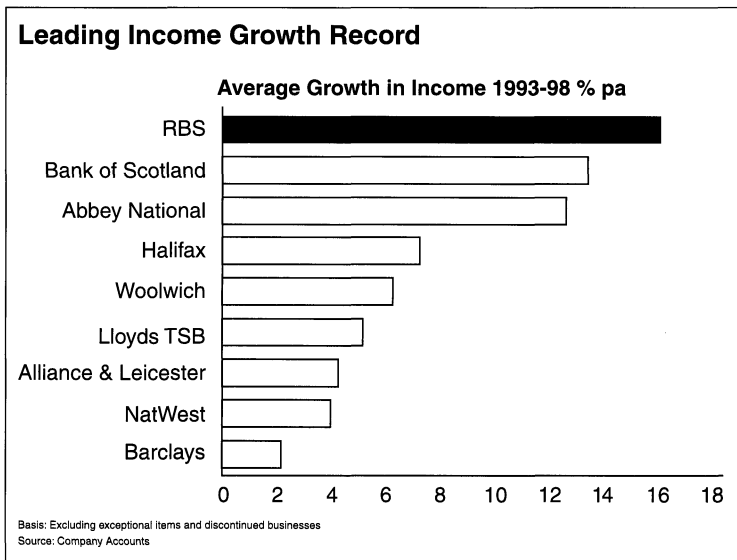
RBS's track record shows that it has the relevant skills and experience to deliver the potential of this combination by growing businesses, through innovation, by transforming core activities in UK banking and improving their efficiency, through corporate transactions, and by developing new businesses.

RBS's management team is the one which delivered RBS's successful track record over recent years, augmented by high calibre recent recruits. RBS's management team:

- has strength in depth;
- has a comprehensive understanding of how to deliver value from the businesses in which both organisations are active, from complex treasury products to branch banking in England; and
- includes a number of highly qualified people, recruited in mid-career, after demonstrating their capabilities in other financial services companies.

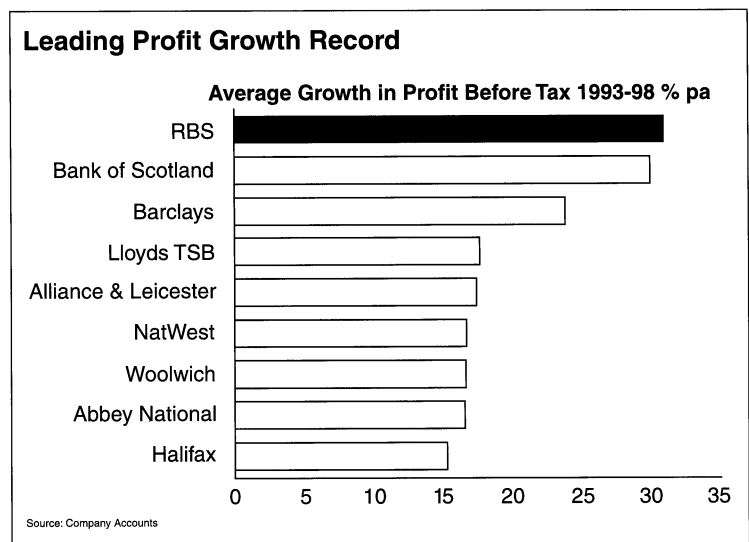
Growth and innovation

RBS's strategy has been directed towards aggressive competition and profitable growth. Between 1993 and 1998 (the last full year for which complete information on comparator banks is available), the income of the RBS Group grew at an average rate of 16 per cent. per annum – more than any other UK bank. Over this period, the RBS Group grew its profit before tax by 31 per cent. per annum and its profit before bad debts by 17 per cent. per annum – again more than any other UK bank.



Between 1994 and 1999, following the transformation of its core businesses in UK banking, RBS has grown its UK Bank income at an average rate of 10 per cent. per annum. Over the same period, Citizens' income has grown by 18 per cent. per annum.

Creating a new force in banking

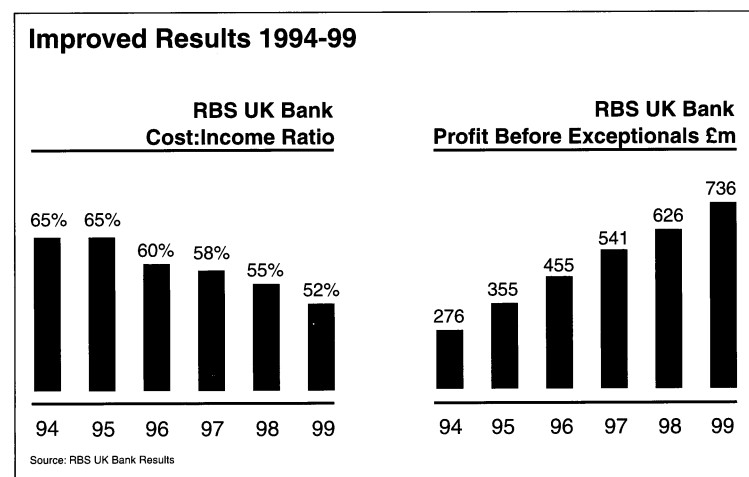


RBS's growth has been augmented by innovative and successful new businesses, including RBS Advanta in credit cards and Tesco Personal Finance in supermarket banking. RBS has a long record of product innovation: a recent example is the "One" account launched in a joint venture with Virgin Direct.

Transformation of core businesses in UK banking

Between 1992 and 1996, RBS transformed almost every part of its core business in UK retail banking. This transformation was achieved through a substantial business re-engineering programme which:

- reduced branch staff by 27 per cent.;
- removed the majority of branch-based processing; and
- achieved a separation between retail and corporate activities and created specialist sales forces for personal, small business and corporate customers.



Creating a new force in banking

The transformation of RBS's retail banking activities, and a simultaneous transformation of its corporate banking activities, have enabled RBS to achieve significant improvements in the financial performance of its core UK banking business. Over the five years from 1994 to 1999, RBS has reduced its UK Bank cost:income ratio from 65 per cent. to 52 per cent., and has achieved 22 per cent. compound annual growth in its UK Bank profit before exceptional items.

Improving Cost:Income Ratio				
%	1993	1998	Change	1999
RBS Group	56	52	-4	49.5
RBS UK Bank	64	55	-9	51.9
Lloyds TSB	61	46	-15	
Barclays	65	65	0	
NatWest	66	68	+2	
Halifax	40	43	+3	
Abbey National	44	43	-1	
Bank of Scotland	48	48	0	
Woolwich	48	44	-4	
Alliance & Leicester	63	58	-5	
Clydesdale	61	50	-11	

Basis: Excluding exceptional items and discontinued businesses
Source: Company Accounts

Acquisitions, disposals and the development of new businesses

RBS has a successful record of corporate transactions. Its acquisitions include Citizens, Angel Trains and Green Flag. Its disposals include Charterhouse and its Registrars and Global Custody businesses, each of which was sold for a good price to a "better" owner. The Registrars and Global Custody businesses both had good customer lists, but generated low profits and carried substantial degrees of operational risk. In each case, RBS combined its business with another business, and through these combinations and subsequent disposals created value in aggregate in excess of £200 million for its shareholders.

Over the past eight years, RBS has expanded Citizens through seventeen acquisitions. Citizens' acquisitions have been successfully delivered by applying a consistent methodology to cost savings, income growth and systems integration.

RBS's new businesses have added new customers and have contributed additional profits. Direct Line, RBS Advanta and Tesco Personal Finance have together added 4.6 million personal customers. New businesses in Treasury and across a wide range of specialist areas in corporate banking contributed approximately £100 million to the RBS Group's profit for the year ended 30 September 1999.

Creating a new force in banking

9. RBS has delivered benefits for its customers and staff

In addition to creating substantial value for its shareholders, RBS has delivered benefits for its customers and staff.

Delivered benefits for its customers

Through innovation and competitive product offerings, RBS has made a major contribution to the transformation of the UK financial services industry. Its customer service has been recognised in many surveys and by many awards.

In personal financial services, Direct Line has introduced new standards of value, convenience and service. Also, Direct Line has been a leader in re-mortgages by telephone. In credit cards and other areas, RBS has offered competitively priced products to its customers. Having established a leading position in the telephone delivery of financial products, RBS has been at the forefront of developments in supermarket banking and internet banking. RBS has introduced a Key Account for socially excluded groups.

RBS is committed to the small business community and has improved its service to these customers through relationship managers who are expected to remain in their position for at least four years. Over the last two years, RBS has received a number of awards for small business banking.

In Corporate Banking, RBS has emphasised a relationship management approach, and has shown innovation and flexibility in working with customers to develop financing structures which meet their specific requirements.

Established a positive corporate culture

RBS does not attempt to impose any single culture across the entire organisation. RBS's view is that what is appropriate for branch network activities is quite different from that for Treasury or Technology. Also, RBS believes that businesses like Direct Line and Private Banking should have their own distinct cultures. But there are some common themes which RBS expects across all areas of the RBS Group:

- RBS expects all its staff to focus on the customers of the RBS Group, one of the key measures of success being customer satisfaction. RBS expects all its managers to focus on income growth as well as cost containment;
- RBS encourages its staff to be willing to accept responsibility, to compete aggressively for business and to accept internal competition;

Creating a new force in banking

- RBS encourages an open and flexible culture, including a willingness to accept change. RBS expects its staff to be innovative and entrepreneurial. RBS insists on a team approach; and
- In the Enlarged RBS Group, RBS expects the major contribution to the revival of NatWest to be achieved by the staff of NatWest, reinvigorated by the RBS management framework and culture.

Achieved excellent staff relations

RBS has introduced reward packages tailored to the specific needs of individual business areas. Also, while emphasising a team approach, RBS has been willing to reward individuals who make exceptional contributions.

RBS has invested in staff communication, particularly through Royal Bank TV, which enables it to communicate directly with most of its staff. It has also invested in training and education, through new intranet technology which enables staff members to access training courses by desktop computer.

The results of this year's independently-run opinion survey of RBS staff shows that RBS has achieved excellent relations with its staff:

- *"The pattern of survey results across a broad range of issues would be the envy of most other financial services companies."*
- *"The Royal Bank of Scotland ... is making fast progress in becoming an employer of choice: a company that is clearly set apart from other UK Banks."*

The survey was undertaken by International Survey Research. ISR's weighted average of survey results includes a number of major UK financial institutions.



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Creating a new force in banking

10. Senior management team

On completion of the Offer, Viscount Younger will become Non-executive Chairman of the Board of the Enlarged RBS Group. Sir George Mathewson will become Executive Deputy Chairman, and will succeed Viscount Younger as Chairman in January 2001. Fred Goodwin will become Group Chief Executive and will, among other responsibilities, assume primary responsibility for the integration of the RBS and NatWest businesses.

The quality of the senior management team of the Enlarged RBS Group will be pivotal to its ability to achieve the Board's objectives and ambitions. RBS's track record of achievements is testimony both to the quality of the existing RBS senior management team and its policy of appointments being based exclusively upon merit. On that basis the Board has decided to appoint Iain Robertson as Chief Executive of the Corporate Banking Division of the Enlarged RBS Group. Iain joined RBS in 1992 and led the transformation of RBS's corporate bank. He is widely recognised as one of the leading corporate bankers in the United Kingdom, and his achievements and capabilities make him both the ideal and the automatic choice to head the Corporate Banking Division. All other members of the senior management team will similarly be appointed on merit. As a result, the Board is not able to determine definitively at this point who will fill each post, but it is confident that its executive team has the breadth and depth of skills and experience to make a substantial contribution to the running of the Enlarged RBS Group.

11. RBS has reported excellent group results for 1999

On 29 November 1999, the RBS Group published its preliminary results for the year ended 30 September 1999, key highlights of which are set out below. The audited results are set out in the Listing Particulars.

Preliminary Results

	<u>1999</u>	<u>1998</u>	<u>Increase</u>
Profit before taxation and exceptional items	£1,211m	£1,007m	20%
Profit before taxation	£1,211m	£1,001m	21%
Earnings per ordinary share	87.8p	73.4p	20%
Dividends per ordinary share	28.5p	24.6p	16%
RBS Group cost:income ratio	49.5%	52.0%	
UK Bank cost:income ratio	51.9%	55.3%	

Source: Preliminary results announcement, 29 November 1999