



The Royal Bank of Scotland Group plc



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Slide 2

Agenda

- Acquisition of Mellon Regional Franchise
 - Review of Citizens
 - Strategic Rationale
 - Suitability of Mellon
 - Clear Business Plan
 - Transaction Financials
 - Due Diligence
- Funding
- Profit Estimate



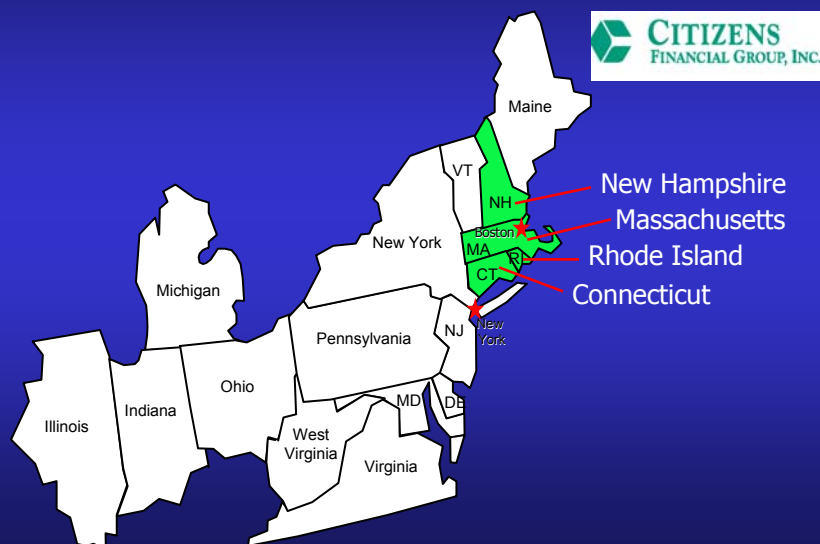
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Acquisition of Mellon Regional Franchise

Review of Citizens

Slide 4

Second Largest Bank in New England



- New Hampshire
- Massachusetts
- Rhode Island
- Connecticut

Strong Presence in Areas of Activity

	<i>Ranking</i>	<i>Market Share</i>
■ Rhode Island	#1	40%
■ New Hampshire	#3	23%
■ Massachusetts	#2	9%
■ Connecticut	#6	3%

*Rankings and market shares by share of deposits
Source: SNL DataSource (30 June 2000)*

Citizens Distribution

Customers	
– Number of households	1,278,000
– Business customers	120,800
Branches	
– Traditional	280
– Supermarkets	147
Employees	7,264

Statistics at 30 June 2001

Citizens Balance Sheet

Assets (\$bn)

Loans and advances to customers	17.6
Cash and securities	8.5
Other assets	4.2
Total assets	30.3

Liabilities (\$bn)

Customer deposits	25.0
Other liabilities	2.8
Shareholders' equity	2.5
Total liabilities	30.3

Balance Sheet at 31 December 2000 (UK GAAP)

Citizens Profit & Loss Account

Pro forma 2000

Total income	\$1,393m
Costs	\$765m
Provisions for bad debts	\$61m
Profit before tax	\$567m
Earnings	\$369m
Cost:income ratio	54.9%

Citizens financial statements, year to 31 December 2000, adjusted for one-off costs (\$32m) (UK GAAP)

Citizens Activities

- Deposits ✓
- Current accounts ✓
- Personal loans ✓
- Mortgages ✓
- Credit cards X
- Internet banking ✓
- Small business banking ✓
- Mid-market corporates ✓

Citizens Acquisitions

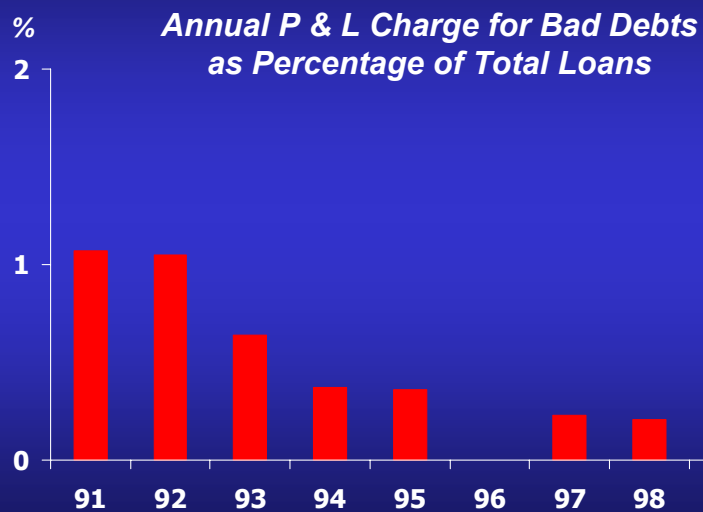
<i>Acquisition</i>	<i>Year</i>
1. Old Colony	1991
2. Marquette Credit Union	1992
3. Plymouth Five Cents Savings	1992
4. New England Savings	1993
5. Boston Five Cents Savings	1993
6. Newworld Bank	1994
7. Old Stone Bank	1994
8. Coastal Savings	1994
9. Quincy Savings	1995
10. First New Hampshire Bank	1996
11. Farmers & Mechanics Bank	1996
12. Grove Bank	1997
13. Bank of New Haven	1997
14. Woburn National Bank	1998
15. Branford Savings	1999
16. State Street Commercial Banking Division	1999
17. US Trust	2000

Citizens Track Record



Citizens financial statements, year to 30 September 1991 to 1998, year to 31 December 1999 and 2000. 2000 profit adjusted for one-off costs (\$32m) (UK GAAP)

Citizens Lending Record



Citizens financial statements, year to 30 September 1991 to 1995, year to 31 December 1996 to 2000 (UK GAAP)

**Acquisition of
Mellon Regional Franchise**

Strategic Rationale

Slide 14

United States

Options for Additional Growth

- Organic growth
 - Citizens ✓
 - Corporate Banking and Financial Markets ✓
- Acquisitions of businesses ✓
- Acquisitions of banks
 - In-market ✓
 - Market extension ✓✓
 - Out of market -

Reasons for Market Extension

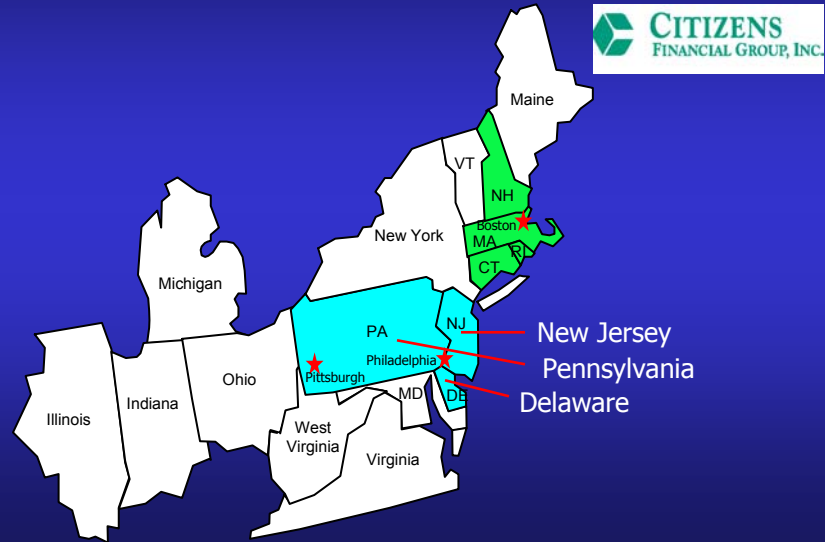
- Banking is a high fixed cost business
- Infrastructure can be leveraged efficiently, particularly IT
- Citizens has a strong track record of successful integrations and income growth
- Limited acquisition opportunities left in region
- Extension opportunity nearby, opening further options for consolidation

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**Acquisition of
Mellon Regional Franchise**

Suitability of Mellon

Logical Geographic Extension



Opportunities for Organic Growth

	<i>Households</i>	<i>Small Businesses</i>
Pennsylvania	4,618,000	445,000
New Jersey	3,007,000	331,000
Delaware	293,000	28,000
Massachusetts	2,383,000	247,000
New Hampshire	463,000	55,000
Rhode Island	380,000	37,000
Connecticut	1,251,000	149,000

Source: SNL DataSource, American Business Information

Opportunities for Organic Growth

	<i>Total Deposits</i>	<i>Average Household Income</i>	<i>Projected Average H'hold Income Growth 2000 - 2005</i>
Pennsylvania	\$190.9bn	\$56,000	20%
New Jersey	\$161.9bn	\$76,000	19%
Delaware	\$62.4bn	\$63,000	19%
Massachusetts	\$146.0bn	\$67,000	18%
New Hampshire	\$27.0bn	\$61,000	17%
Rhode Island	\$16.3bn	\$56,000	16%
Connecticut	\$62.5bn	\$83,000	21%

Source: SNL DataSource

Strong Presence in Areas of Activity

	<i>Ranking</i>	<i>Market Share</i>
Greater Philadelphia	#3	9%
Greater Pittsburgh	#3	10%

Rankings and market shares by share of deposits
Source: SNL DataSource (30 June 2000)

Leading Competitors

	<i>Ranking</i>	<i>Market Share</i>
<i>Greater Philadelphia</i>		
First Union	#1	25%
PNC	#2	14%
Mellon Regional Franchise	#3	9%
<i>Greater Pittsburgh</i>		
PNC	#1	32%
National City	#2	21%
Mellon Regional Franchise	#3	10%

*Rankings and market shares by share of deposits
Source: SNL DataSource (30 June 2000)*

Franchise Comparison

	<i>Mellon</i>	<i>Citizens</i>
Customers		
– Number of households	650,000	1,278,000
– Business customers	58,000	120,800
Branches		
– Traditional	257	280
– Supermarkets	72	147
– Drive-ins	16	-
Employees	4,135	7,264

Statistics at 30 June 2001

Mellon Balance Sheet is Low Risk

	<i>Mellon</i>	<i>Citizens</i>
Assets (\$bn)		
Loans and advances to customers	6.1	17.6
Cash and securities	7.1	8.5
Other assets	0.2	4.2
Total assets	13.4	30.3
Liabilities (\$bn)		
Customer deposits	13.4	25.0
Other liabilities	0.0	2.8
Shareholders' equity	0.0	2.5
Total liabilities	13.4	30.3

Mellon Regional Franchise pro forma balance sheet at 31 May 2001 (UK GAAP)
Citizens balance sheet at 31 December 2000 (UK GAAP)

Mellon has Significant Upside Potential

	<i>Mellon Pro forma</i>	<i>Citizens Pro forma</i>
Total income	\$719m *	\$1,393m
Costs	\$453m	\$765m
Provisions for bad debts	\$25m	\$61m
Profit before tax	\$241m	\$567m
Earnings	\$161m	\$369m
Cost:income ratio	63.0%	54.9%

** Including interest on equity at 5% of tangible assets*
Mellon Regional Franchise pro forma profit & loss account estimated by RBSG (UK GAAP)
Citizens financial statements, year to 31 December 2000, adjusted for one-off costs (\$32m) (UK GAAP)

Mellon has Similar Activities

	<i>Mellon</i>	<i>Citizens</i>
■ Deposits	✓	✓
■ Current accounts	✓	✓
■ Personal loans	✓	✓
■ Mortgages	x	✓
■ Credit cards	x	x
■ Internet banking	✓	✓
■ Small business banking	✓	✓
■ Mid-market corporates	✓	✓

Mellon provides mortgages through a joint venture company which will not be acquired by Citizens

Difference is more Income than Costs

	<i>Mellon Pro forma</i>	<i>Citizens Pro forma</i>
Cost:income ratio	63.0%	54.9%
Costs per employee	\$110,000	\$105,000
Income per employee	\$174,000	\$192,000
Income per branch	\$2.1m	\$3.3m
– Deposits per branch	\$39m	\$59m
– Consumer loan origination per branch	\$1m	\$10m

*Mellon Regional Franchise pro forma profit & loss account estimated by RBSG (UK GAAP)
Citizens financial statements, year to 31 December 2000, adjusted for one-off costs (\$32m) (UK GAAP)*

Acquisition of Mellon Regional Franchise

Clear Business Plan

Slide 28

Clear Business Plan

Objective

- Focus on growth, improved efficiency and increased profit

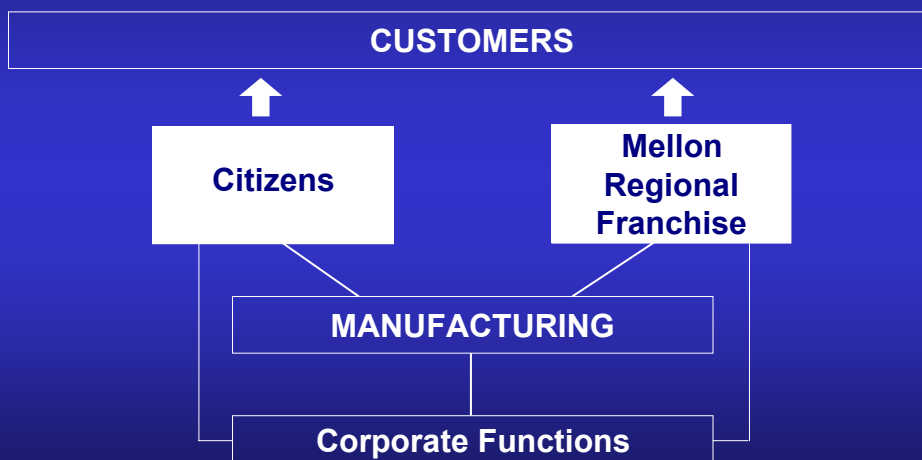
Strategies

- Improve customer proposition
- Apply proven Citizens products and sales processes
- Minimise changes to customer relationships
- Invest in customer-facing staff
- No branch closures as a result of the transaction

Clear Business Plan

- Establish single “manufacturing” capability in the US
- Convert to Citizens’ existing technology platform (Alltel)
- Effect brand migration
- Clear reporting lines and responsibilities established at outset
- Detailed plans drawn up in advance
- Rapid transition process
- Clear management targets and incentives

Business Architecture



Increase Income

	<i>Annualised Income 2004 (\$m)</i>	<i>Contribution to Profit* 2004 (\$m)</i>	<i>Number of Initiatives</i>
Personal banking	136	54	5
Business banking	32	20	3
Mid-market banking	74	30	3
Total	242	104	11

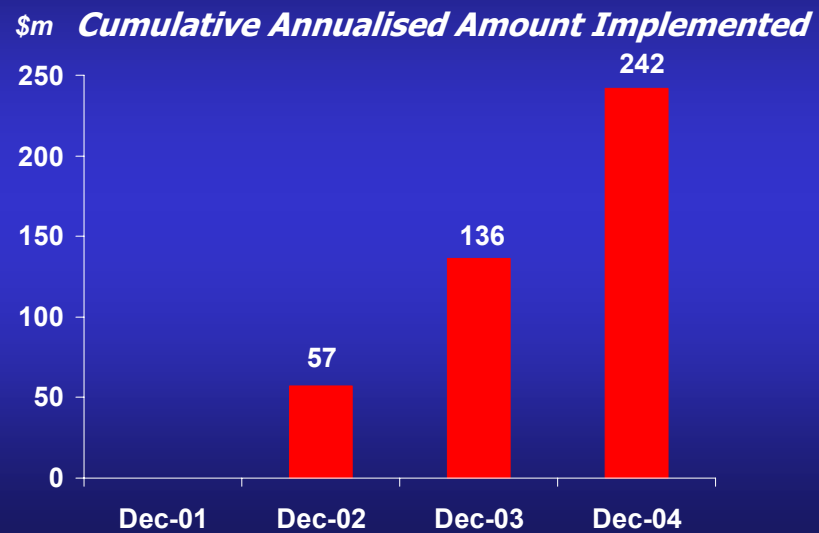
** \$192m income less additional costs (\$73m) and bad debts (\$15m)*

Increase Income

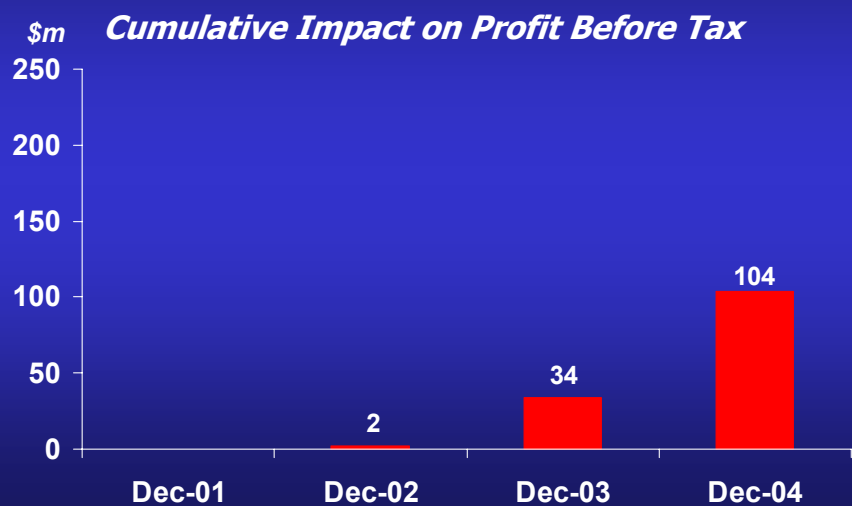
Is \$242m additional income achievable?

- Additional income of \$242m would represent 8% per annum income growth, above base case
- Mellon Regional Franchise income starts from low base
- Detailed bottom-up analysis
- Reported on to RBSG by Deloitte & Touche

Revenue Benefits



Revenue Benefits



Reduce Costs

	<i>Annualised Cost Savings 2004 (\$m)</i>	<i>Contribution to Profit 2004 (\$m)</i>	<i>Number of Initiatives</i>
Manufacturing	62	59	11
Central	39	39	3
Total	101	98	14

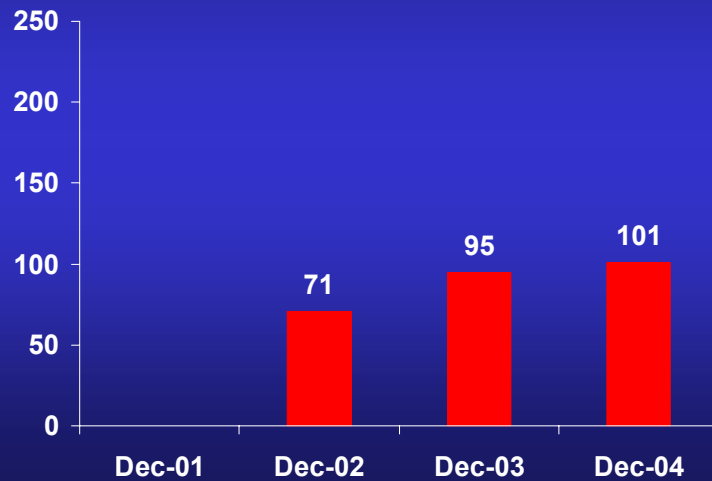
Reduce Costs

Is \$101m reduction in costs achievable?

- Cost savings of \$101m would represent:
 - 22% of Mellon Regional Franchise's pro forma costs
 - 8% of combined pro forma costs
- These figures seem reasonable, for market extension
- Based on detailed bottom-up analysis
- Reported on to RBSG by Deloitte & Touche

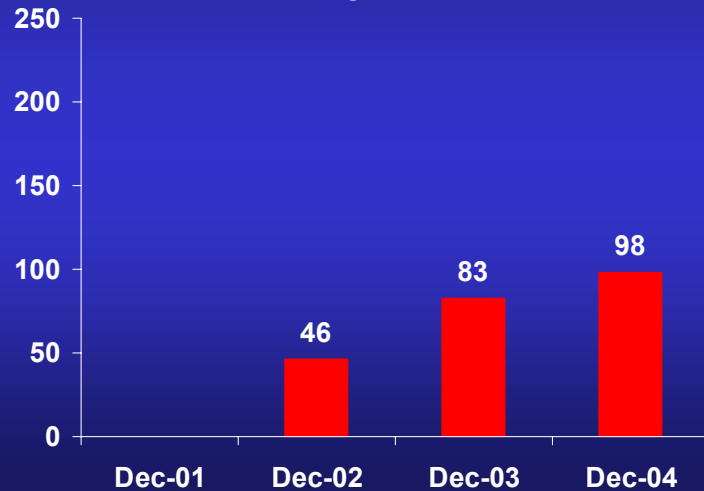
Cost Savings

\$m *Cumulative Annualised Amount Implemented*

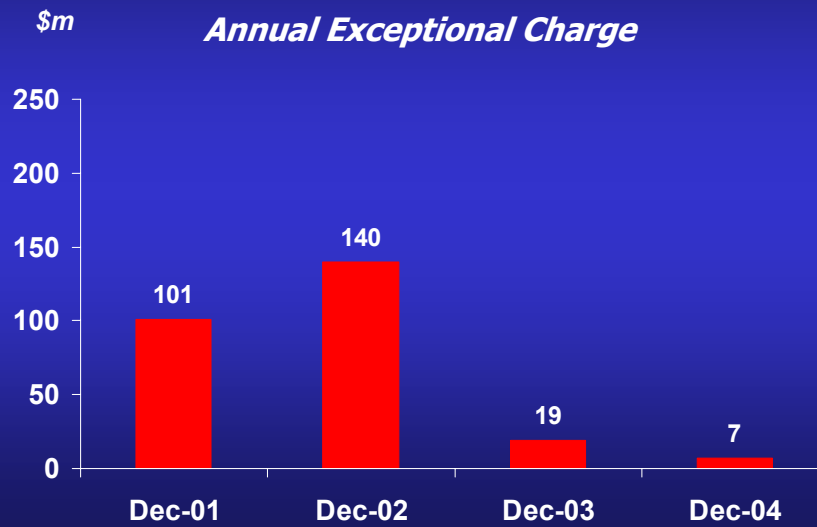


Cost Savings

\$m *Cumulative Impact on Profit Before Tax*



Integration Costs



Cost:Income Ratios

	<i>Mellon Pro forma</i>	<i>Citizens Pro forma</i>	<i>Combined Pro forma</i>	<i>2004 Synergies</i>	<i>Combined + 2004 Synergies</i>
Income (\$m)	719	1,393	2,112	192	2,304
Costs (\$m)	453	765	1,218	73* - 98	1,193**
Cost:income ratio	63.0%	54.9%	57.7%		51.8%

* Cost of income benefits

** Cost savings

Mellon Regional Franchise pro forma profit & loss account estimated by RBSG (UK GAAP)

Citizens financial statements, year to 31 December 2000, adjusted for one-off costs (\$32m) (UK GAAP)



Acquisition of Mellon Regional Franchise

Transaction Financials

Slide 42

Premium to Deposits

Premium paid to Mellon	\$2.1bn*
Premium to deposits	16%
Deposits being bought	\$13.4bn

* Variable, based on deposits at completion up to maximum \$15 billion deposits

Premium to Deposits

<i>Announced</i>		<i>Premium to Deposits</i>
Jun 2001	Washington Mutual/ Dime Bancorp	26.0%
Feb 2001	Citigroup/ EAB	16.0%
Oct 2000	FleetBoston/ Summit	18.9%

Source: Goldman Sachs

Transaction Financials

- Premium to deposits 16%
- Amortisation of purchased goodwill can be set against taxable income, for US tax purposes:
 - Annual amortisation \$140m, annual tax benefit \$49m, for 15 years
- Return comfortably exceeds Group hurdle rate of 12% post-tax
- Broadly neutral impact on RBSG earnings in 2002, accretive thereafter

Completion Timetable

- No shareholder approval required
- Regulatory approval required
- Completion expected by December 2001

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**Acquisition of
Mellon Regional Franchise**

Due Diligence

Due Diligence

- Separate teams for each of:
 - Branches
 - Retail Products
 - Business Banking
 - Human Resources
 - Technology
 - Credit
 - Financials
- Majority of members of each team had experience of due diligence in Citizens' previous acquisitions
- Total work on due diligence amounted to 4,000 man-days

Mellon Loans are Good Quality

	<i>Assets (\$bn)</i>	<i>Percentage Examined in Due Diligence</i>
Personal loans		
- Consumer loans	0.6	Statistical analysis
- US Government secured loans	1.8	
Business loans	2.0	77%
Mid-market loans	1.7	95%
Total loans	6.1	

Mellon Regional Franchise pro forma balance sheet at 31 May 2001 (UK GAAP)

Strong Provision Coverage

	<i>Mellon</i>	<i>Citizens</i>
Loans and advances to customers	\$4.3bn*	\$17.6bn
Non-performing loans	\$24m	\$118m
Provisions for bad debts	\$75m	\$296m
Provisions/loans	1.76%	1.68%
Provisions/non-performing loans	312%	251%

** Excluding \$1.8bn US Government secured loans
Mellon Regional Franchise pro forma balance sheet at 31 May 2001 (UK GAAP)
Citizens balance sheet at 31 December 2000 (UK GAAP)*

Representations and Warranties

- Extensive representations and warranties
- Comprehensive access to Mellon's personnel and operations, between signing and completion, to ensure smooth transition
- Two year indemnification providing substantial protection in the event that Mellon breaches any of its representations, warranties, covenants or agreements
- Comprehensive servicing agreement with Mellon enabling Citizens to continue to provide high quality services between completion and conversion

Funding

Slide 52

Funding

- Equity required £2.5bn
- Proposed equity issue £2.0bn
- Funded internally £0.5bn
- Expected to reduce RBSG Tier 1 ratio by 0.1% - 0.2%

Profit Estimate

Slide 54

RBSG Profit Estimate

Six Months to 30 June 2001

- All businesses performing well
- Integration of NatWest fully on track
- Income up 14%
- Costs down 1%
- Provisions up 19%
- Profit up 37% to £2,751m
- Cost:income ratio 48.1% (55.7% to 30 June 2000)
- Credit quality strong

Summary

- Logical market extension
- Good financial transaction
- Strategic options for the future
- Placing to maintain capital ratios
- Strong growth in Group income and profit
- Outlook still positive



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