



Re-building & Recovery

Morgan Stanley European Financials Conference

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Strategic targets affirmed, foundations laid in 2009

A Group increasingly positioned for medium-term recovery

Robust customer franchises

GBM – a more focused business, holding up well

Retail & Commercial businesses beginning to turn the corner

Market environment for NIM starting to improve

Impairment trends are moderating - still early days though

Expense programmes on track; sizeable business investment

Balance sheet stronger in all respects (Capital, liquidity, funding);
size reducing appropriately - vulnerability decreasing over time

Delineation of Core/Non-Core and impact of future valuation will become clearer
over 2010/11

Economic and regulatory threats remain elevated

2010 - a year of execution

A reshaped business

- Focus on UK and US franchises, and move balance of Group towards UK Retail and Commercial businesses
- Resize and refocus GBM on corporate and financial institutions franchises and core locations
- Reposition other overseas businesses to align with Group competencies and reduce risk
- Use smaller balance sheet with much less wholesale funding reliance
- Understand and manage down our Non-Core bank effectively



New management disciplines

- A cost base that is reduced, controlled and transparent
- Returns and balance sheet use targeted and measured
- A strong risk management organisation and processes
- A management framework and incentives to reward longer-term performance
- Management and accounting mechanisms for Non-Core assets

Affirmed and updated targets



Key performance indicator	Worst point	2009 Actual	Why?	2013 Target
Core Tier 1 Capital	4% ⁽¹⁾	11.0%	Higher capital ratios to meet society's expectations of a safer banking system	>8%
Loan : deposit ratio (net of provisions)	154% ⁽²⁾	135%	To put our balance sheet on a more secure footing	c100%
Wholesale funding reliance ⁽³⁾	£343bn ⁽⁴⁾	£250bn	To reduce vulnerability so wholesale funding is predominantly used for non-loan assets	<£150bn
Liquidity reserves ⁽⁵⁾	£90bn ⁽⁴⁾	£171bn	To guard against unexpected funding difficulties	c£150bn
Leverage ratio ⁽⁶⁾	28.7x ⁽⁷⁾	17.0x	A conservative leverage ratio, at a level consistent with other leading banks	<20x
Return on Equity (RoE)	(31%) ⁽⁸⁾	Core 13% ⁽⁹⁾	To cover our cost of capital in the long-run, and justify shareholders' support	Core >15% ⁽⁹⁾
Cost : income ratio net of claims	97% ⁽¹⁰⁾	Core 53%	We cannot achieve a 15% RoE without cost control and asset margin re-pricing	Core <50%

¹ As at 1 January 2008. ² As at October 2008 ³ Amount of unsecured wholesale funding under 1 year. 2009 includes £109bn of bank deposits and £141bn of other wholesale funding. 2013 target is for <£65bn of bank deposits, <£85bn of other wholesale funding. ⁴ As at December 2008 ⁵ Eligible assets held for contingent liquidity purposes including cash, government issued securities and other securities eligible with central banks. ⁶ Funded tangible assets divided by Tier 1 Capital. ⁷ As at June 2008 ⁸ Group return on tangible equity for 2008 ⁹ Indicative Core attributable profit taxed at 28% on attributable core spot tangible equity (c70% of Group tangible equity based on RWAs). Please see slide 34. ¹⁰ 2008

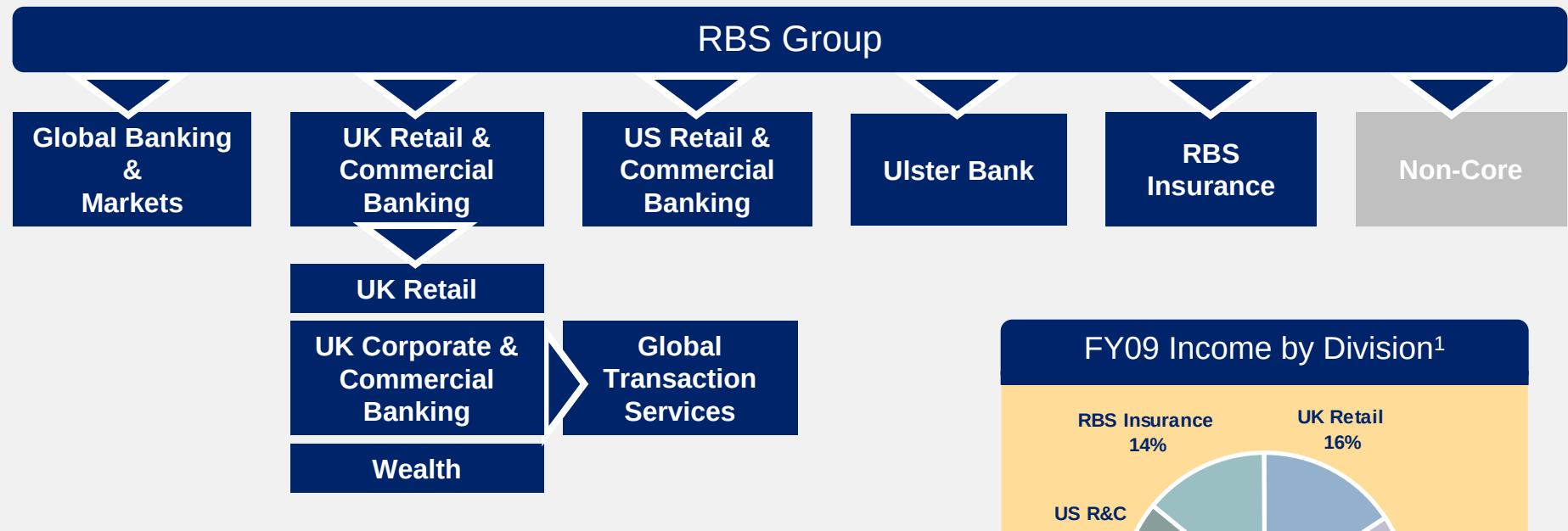


A business positioned for recovery in performance

Who are we?



RBS Group operates in the United Kingdom, Europe, the Americas and Asia, serving more than 30 million customers. The Group provides a wide range of products and services to personal, commercial and large corporate and institutional customers through its two principal subsidiaries, The Royal Bank of Scotland and NatWest. In addition it operates through a number of other well known brands including Citizens, Ulster Bank, Coutts, Direct Line and Churchill

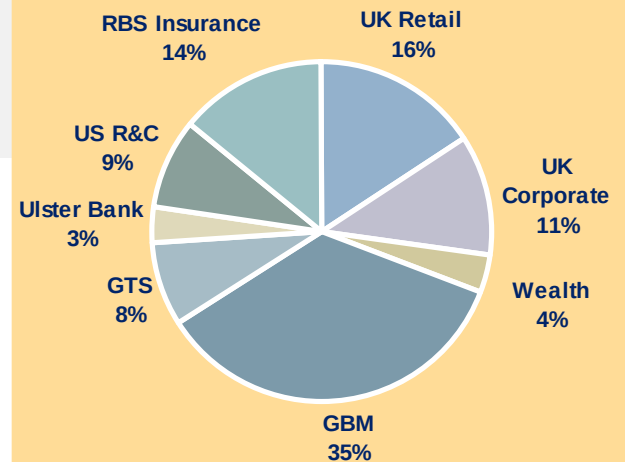


RBS Group Key Facts

- UK banking presence since 1727 and a targeted global presence in 39 countries
- Leading Retail banking franchises in UK and Ireland
- Top tier Global Corporate & Investment Bank

Total Employees	161,000	Total Loans	£596bn
UK Employees	96,500	Total Deposits	£483bn
Total Income ¹	£32bn	Total Funded Assets	£1,084bn

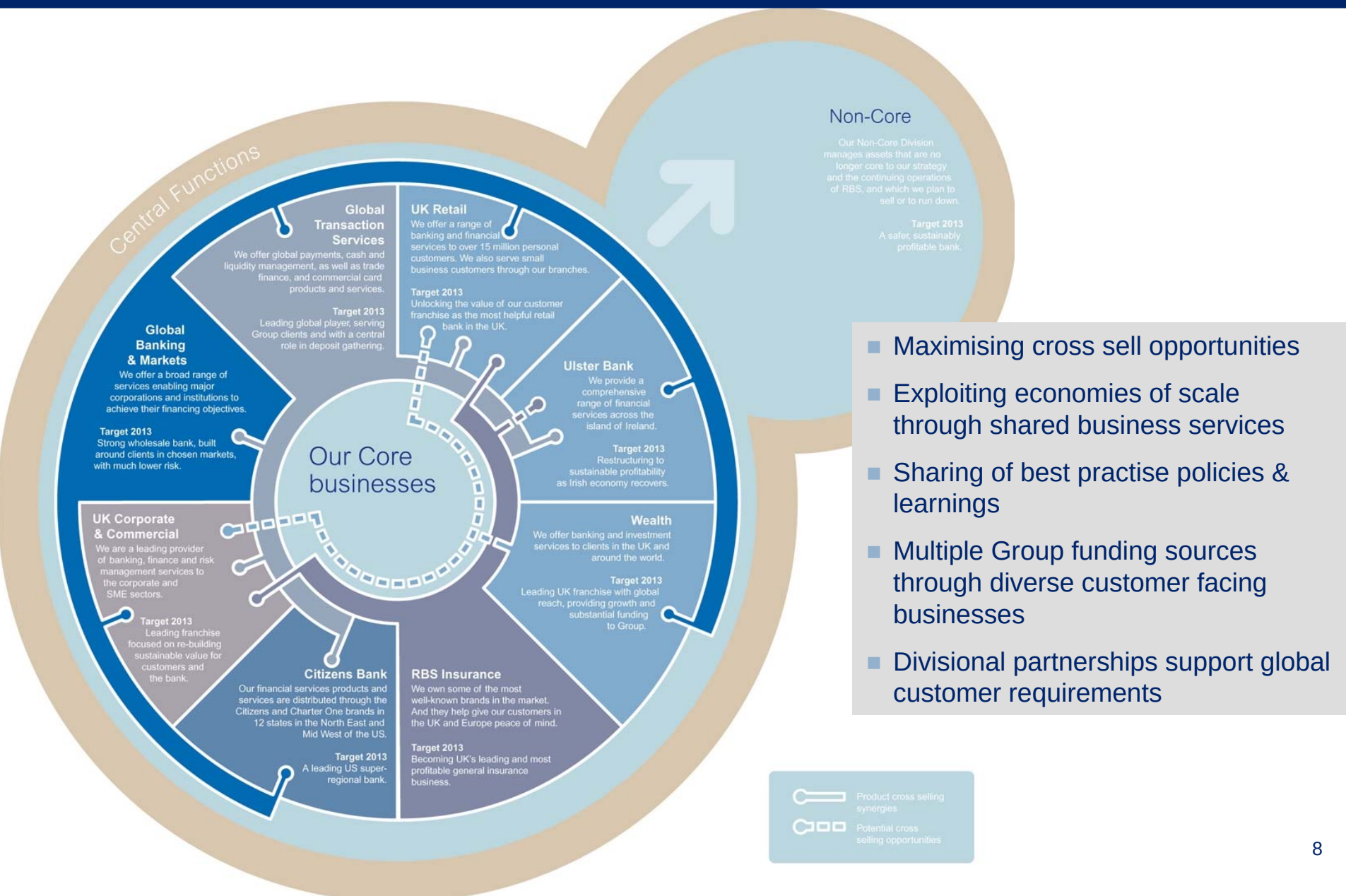
FY09 Income by Division¹



■ R & C Businesses = 65% of Group

¹ Based on Core Group

Group connectivity, cross-sell and complementarity



- Maximising cross sell opportunities
- Exploiting economies of scale through shared business services
- Sharing of best practise policies & learnings
- Multiple Group funding sources through diverse customer facing businesses
- Divisional partnerships support global customer requirements

Current market position of selected franchises

UK/Ireland	GBM/GTS Global Rankings	US R&C
#1 Small business banking	Top 5 Rates	Top 5 player in 8 of top 10 markets in which we operate
#1 Corporate and commercial	Top 5 Currencies	#2 by deposits (New England)
#1 Cash management	Top 5 Credit Markets	#3 by deposits (Pennsylvania)
#1 Private banking	Top 8 Equities	#1 by branches (New Hampshire)
#2 Personal current accounts	#4 Merchant acquirer	#1 by branches (Rhode Island)
#1 Motor insurance	#5 Trade finance	#2 by branches (Pennsylvania)
#2 Household insurance	#5 International cash management	
#1 Bank in Northern Ireland		
#3 Bank in island of Ireland		

A strong customer base with growth potential



UK Retail

- 12.8m current accounts (+3%)¹, 9.9m savings accounts (+12%)¹ and 8.5m mortgage accounts (+10%)¹ demonstrating robust growth & strength of franchise
- Number of active online banking customers increased by almost one quarter¹

UK Corporate

- Customer base maintained throughout financial crisis
- 1.1m Business Banking, 85,000 Commercial and 12,000 Corporate

Wealth

- Customer base increased across the Wealth portfolio to c290,000
- 1%¹ growth despite shrinkage in the population of high net worth individuals

GBM²

Customer Relationship Banking	UK	Europe	USA	APAC
■ Total Relationships	#1	#3	#6	#7
■ Important Relationships	#1	#3	#5	=7
■ Lead Relationships	#1	#4	#6	=7

Ulster

- Customer accounts increased 3%¹ across the Ulster Bank brand to 1.9m
- Growth fuelled by strong current account activity and new-to-bank savings customers

US R&C

- 4%¹ deposit growth achieved despite a very competitive US deposit market
- Over 58,000 consumer checking accounts & 13,000 small business checking accounts added¹

Insurance

- Own-brand motor policy numbers increased 8%¹ to 4.9m
- Own-brand home insurance policies increased 13%¹
- Total own-brand non-motor policies increased 13%¹ to 6.3m

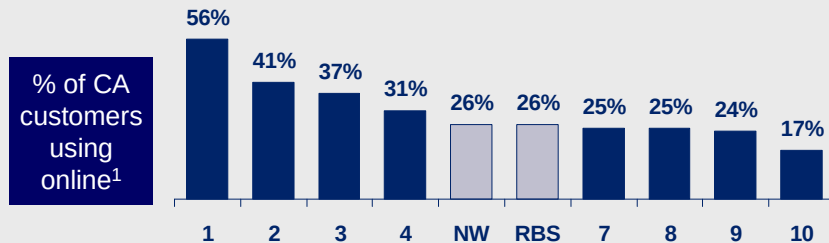
Our Core businesses have sustained their market positions, with customer numbers steady or growing

Refocused service proposition



Increasing customer accessibility – e.g. UK Retail

Significant opportunity to build remote channel access



- Build new channel platforms and capabilities
- Migrate customers to remote channels & improve productivity
- Reconfigure branch footprint and format

Refining the business proposition – e.g. US R&C

In footprint:

12 State footprint
Exiting out of footprint lending
Increasing density & coverage in major markets
National bank expertise, local bank approach

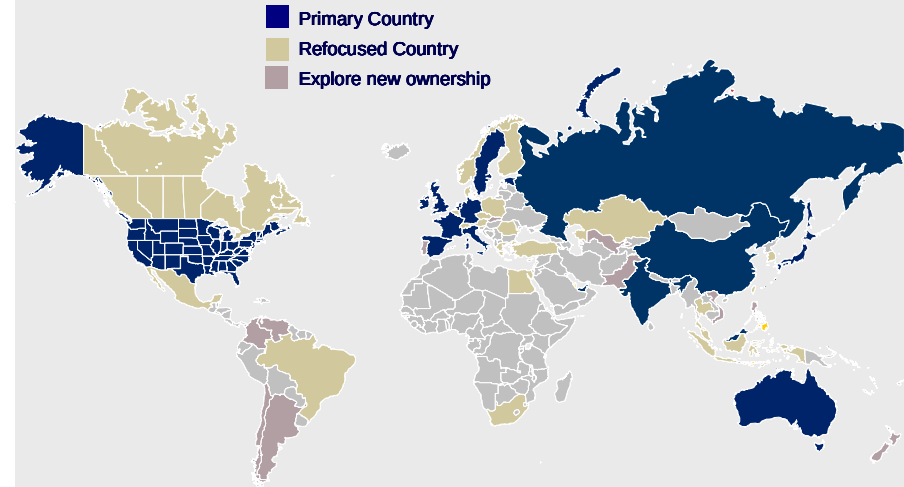
Align Retail & Consumer:

Two key segments; Consumer & Commercial
Leverage branch infrastructure & service channels for cross-sell opportunities
Enhance mass affluent offering

Cross-sell:

Capitalise consumer, SME & Commercial opportunities
Share skills, efficiencies & best practise of the Group
Leverage RBS's worldwide capabilities in GTS/GBM

Re-focusing the footprint – e.g. GTS Network



Deepening customer relationships – e.g. GBM

Focus on priority clients...

Client wallet and return

Strength of RBS Relationship

...with comprehensive product suite

Debt, Equity, Risk Management

Cross sales, tailored client solutions

...and fully aligned resources

Aligned sales, research, coverage

Careful capital deployment

¹ Source: e-benchmarkers

GBM – a more focused business



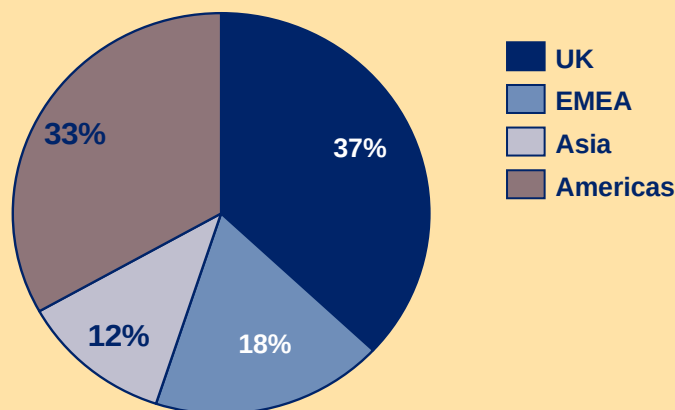
GBM Summary – FY07 vs FY09

	FY07		FY09 GBM
	“Old” GBM	Core GBM	
Income, £bn	9.1 ¹	6.7	11.0
Costs, £bn	(5.8) ²	(5.1)	(4.7)
Profit, £bn	3.2 ¹	1.5	5.7
ROE, %	10.8%	10.4%	30.7%
Balance Sheet, £bn	873.8	617.3	412.2
People	24,100	20,900	16,800 ³

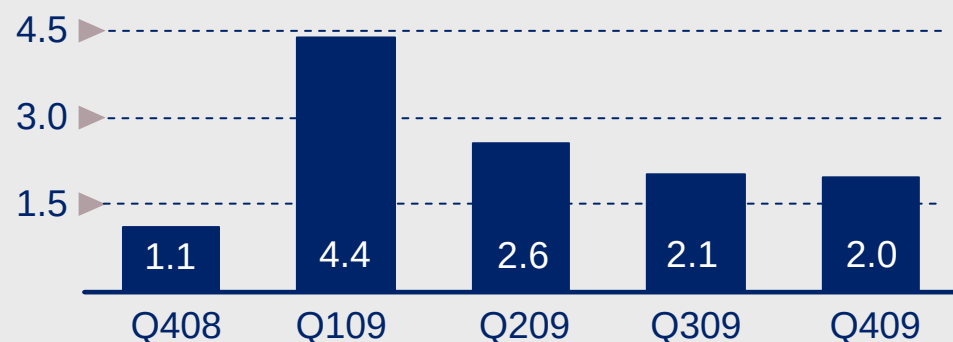
Business Performance – Revenues & Growth

	09 Revenues £bn	Gwth vs 08 %
Rates – MM	1.7	4%
Rates – flow	3.1	127%
Currencies	1.3	(17%)
Equities	1.5	300%
Credit markets	2.3	n.m.
PM & Origination	1.2	39%

GBM revenues 2009 - Geographic breakdown



Quarterly Revenues (underlying)⁴, £bn

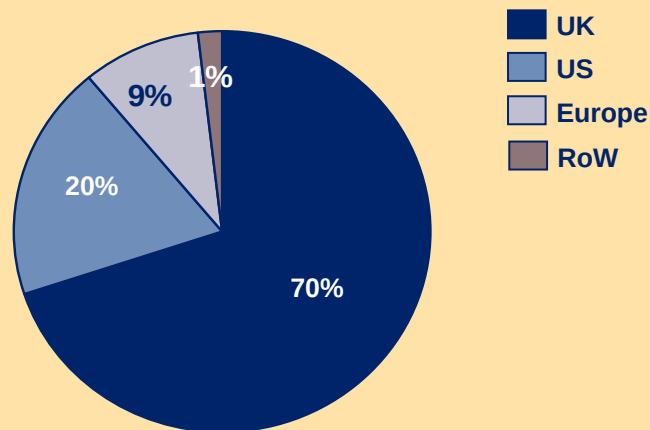


¹ Includes credit market write-downs & one off items of £1,776m. ² Includes £448m of allocated manufacturing costs. ³ Excludes integration staff. ⁴ Excluding Semptra, write-downs & FVooD

Retail & Commercial¹ - upturn ahead



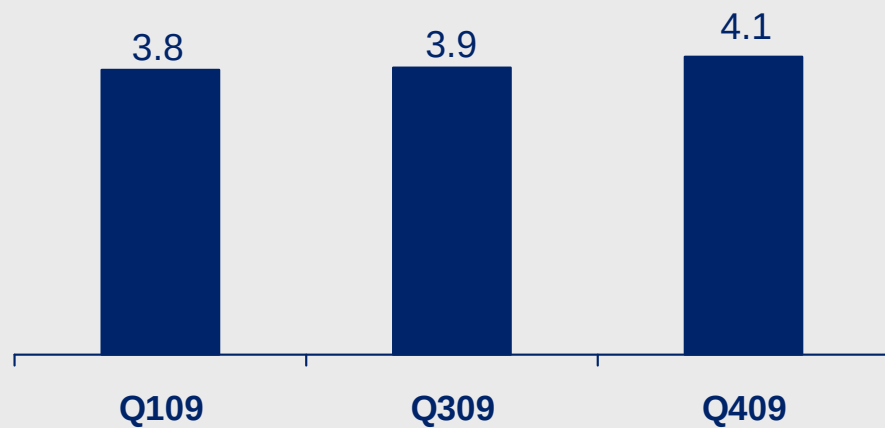
Revenues by geography, £bn



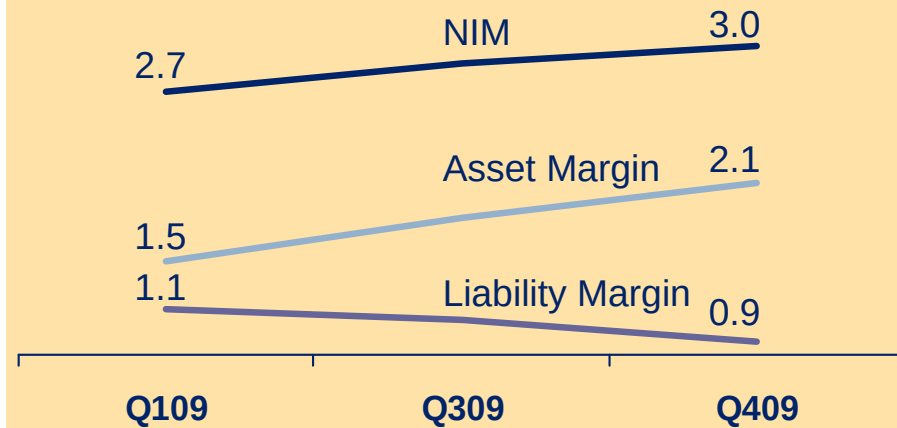
Business reach

- UK Retail
 - Over 15m personal customers
 - Full range of banking products
- UK Corporate
 - Serves 1/4 of the SME market
 - Tailored products & services
 - Branch based business advisers
- Wealth
 - Serves global wealth customers
- Ulster
 - Full service bank in Ireland
 - #3 Bank in Ireland
- GTS
 - Global payments, cash & liquidity management & trade finance

Revenues Q109, Q309 & Q409, £bn



NIM Q109, Q309 & Q409, %

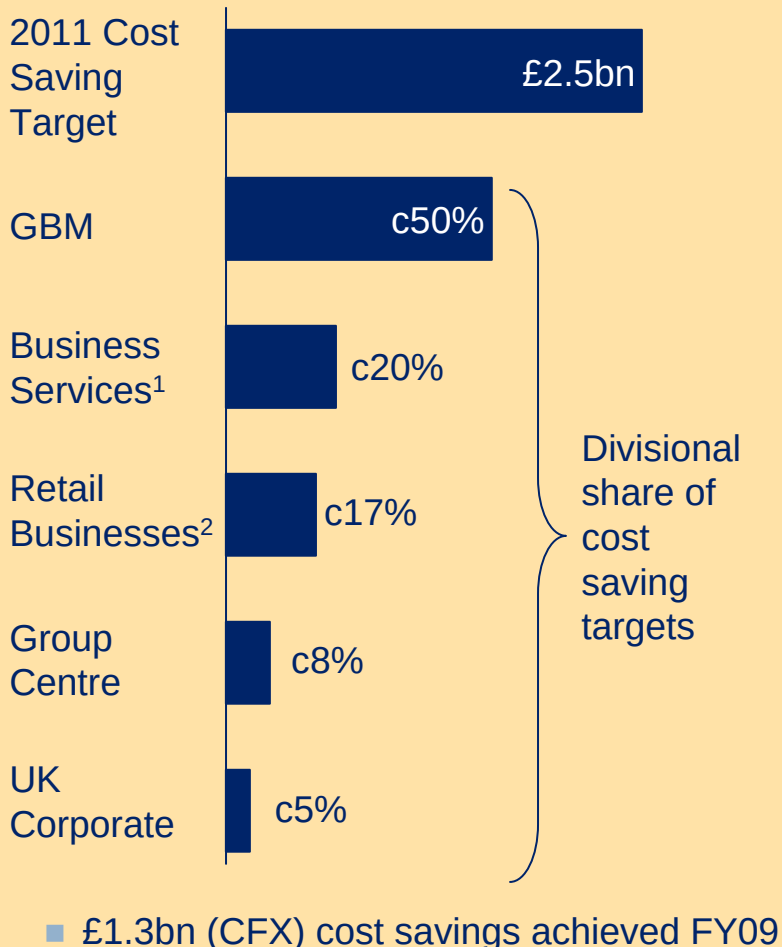


¹ UK Retail, Wealth, Ulster, UK Corporate, US Retail & Commercial and GTS

Managing costs & business investment



£2.5bn cost saving programme



Major investment programmes underway

5 year spend > £6bn to foster growth & efficiency

Example projects:

Implementation Cost³:

Improve & integrate infrastructure

- GBM – data centres consolidation & IT improvements
- Claims system replacement in insurance

c10%

Improve MI systems

- Group Functions asset protection scheme
- Rating & pricing system for RBS Insurance

c4%

Reduce cost to serve customers & increase efficiency

- Cost reduction programme in Business Services
- GBM Cost & Control initiative

c55%

Channel development & optimisation

- Implement multi-channel shift and customer decisions for UK Retail

c12%

Other

- IT cost of Non-Core divestment, and discretionary spend

c19%

¹ Formerly known as Group Manufacturing

² Includes UK Retail, Ulster Bank, Wealth, US R&C and Insurance

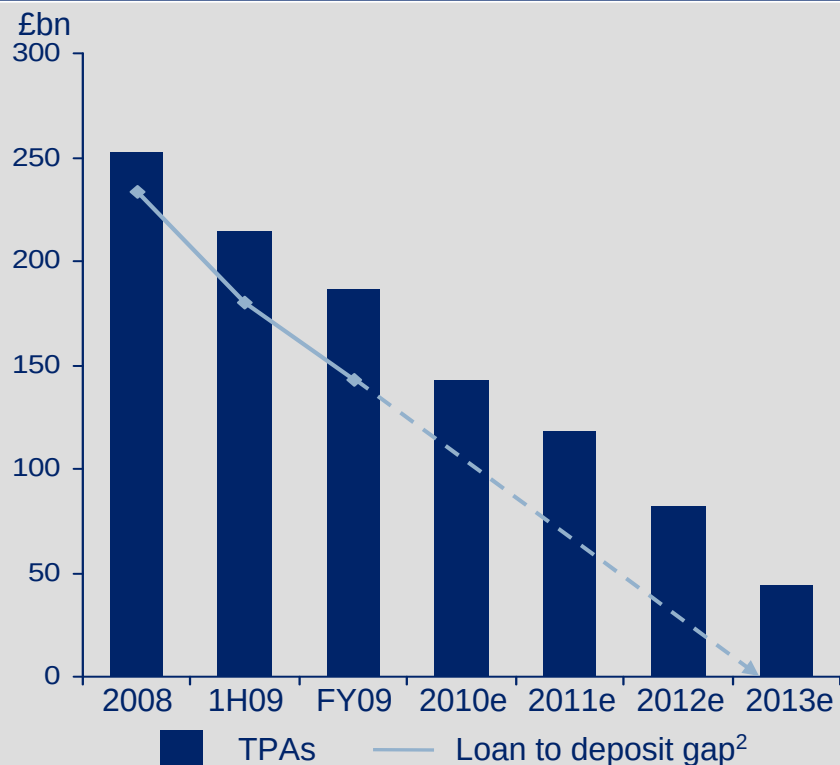
³ Percentage of planned spend



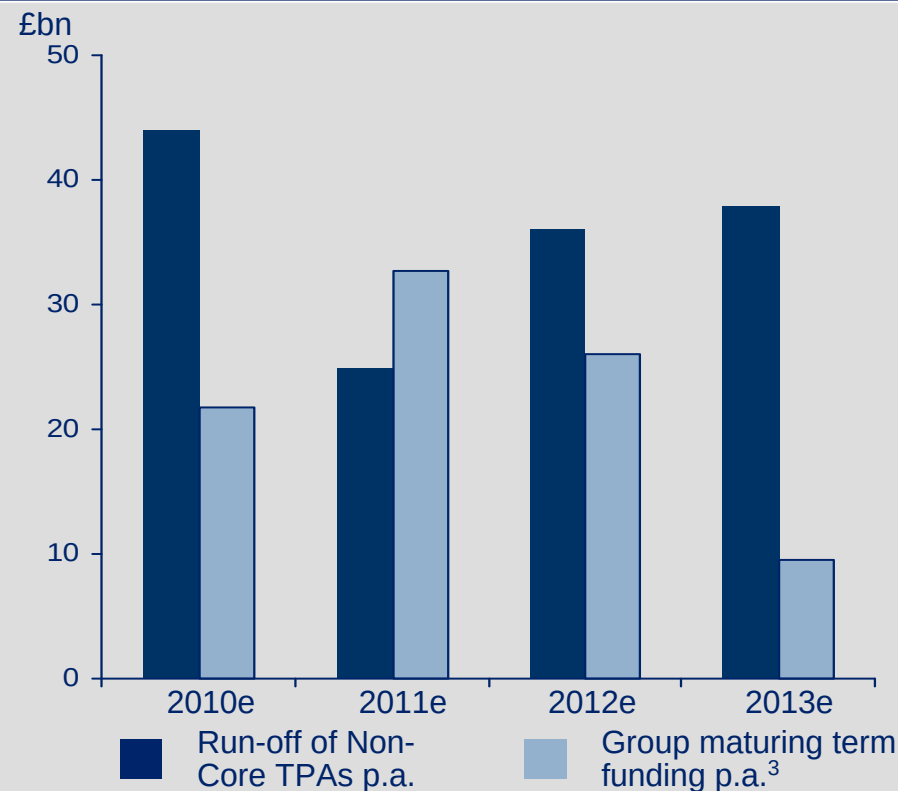
Strengthening funding, liquidity & capital

Improving funding and liquidity

Non-Core third party assets (TPAs excl MTMs) run-off targets¹ trend with the Group Loan:Deposit gap



Refinancing requirement outweighed by run-off in Non-Core third party assets²



- The reduction in the loan:deposit gap is expected to continue trending closely with the run-off of Non-Core third party assets
- The future refinancing requirement of wholesale funding is significantly outweighed by the level of run-off from Non-Core TPAs

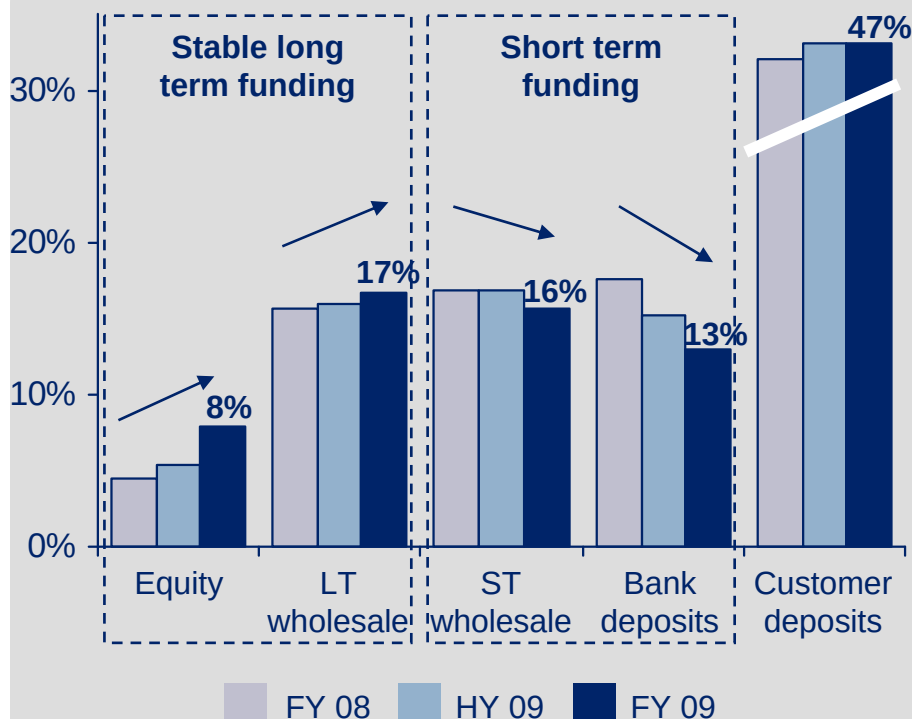
¹ Run-off at constant year-end 2008 FX rates

² Net customer loans less customer deposits excluding repos

³ Maturing term funding includes government guaranteed MTNs, unguaranteed MTNs and subordinated debt. Figures exclude RBS NV (£15bn total) which has yet to complete Legal Separation

Improving funding and liquidity

Evolution of Group funding mix towards more stable long-term funding sources¹



Key Funding Metrics

	FY08	H109	FY09
Loan:deposit ratio (Group) ²	151%	143%	135%
Core	118%	110%	104%
Loan:deposit gap (Group) ³	£233bn	£180bn	£142bn
Core	£80bn	£41bn	£16bn
Liquidity reserves	£90bn	£121bn	£171bn
Of which central govt bond portfolio:	£1bn	£7bn	£20bn
Net Stable Funding Ratio ⁴	79%	83%	90%
Wholesale funding > 1 year ⁵	45%	47%	50%

- Continued progress on reducing reliance on short term wholesale funding markets – c. £21bn of unguaranteed issuance in 2009 (GBP equivalent)
- Strengthened liquidity reserves with significant increase in government bonds
- Improved net stable funding ratio from 79% to 90%

¹ Excludes repos, derivatives and other assets

² Net of provisions

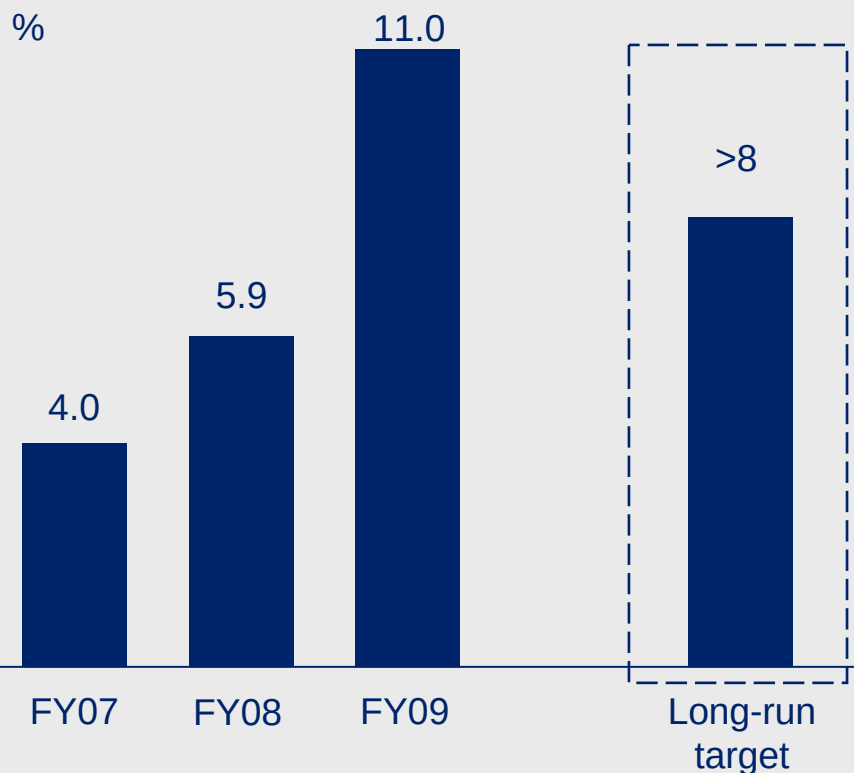
³ Net loans & advances to customers less customer deposits (excluding repos)

⁴ Net Stable Funding Ratio measures the level of net stable funding divided by long-term assets

⁵ Excluding bank deposits

Core Tier 1 – an increased buffer

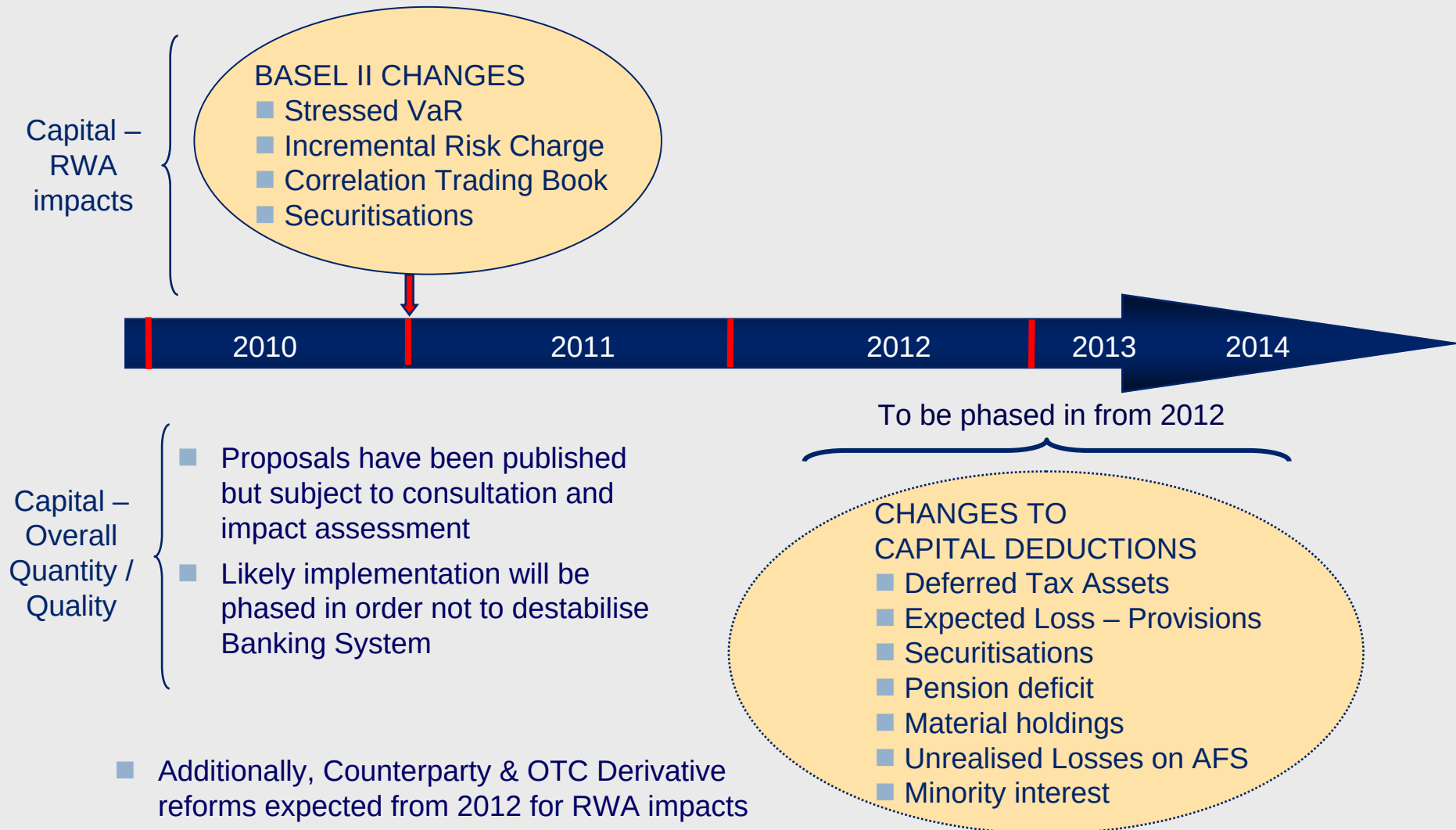
Core Tier 1 Capital progression, FY07 – FY09 & long-run target



- Significant progress in strengthening CT1
- 11% at FY09, driven by B Share issuance, APS overlay and Asset & Liability Management gain
- Provides buffer for potential future losses and Non-Core run-down, as well as regulatory changes

Regulatory uncertainties remain

Significant proportion of potential impact will be on Non-Core portfolios

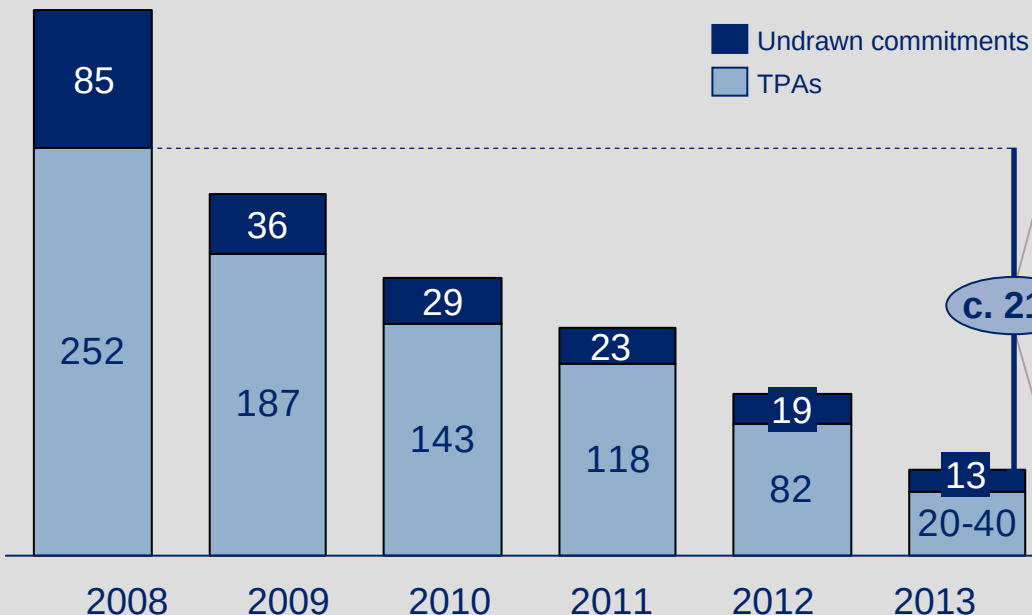




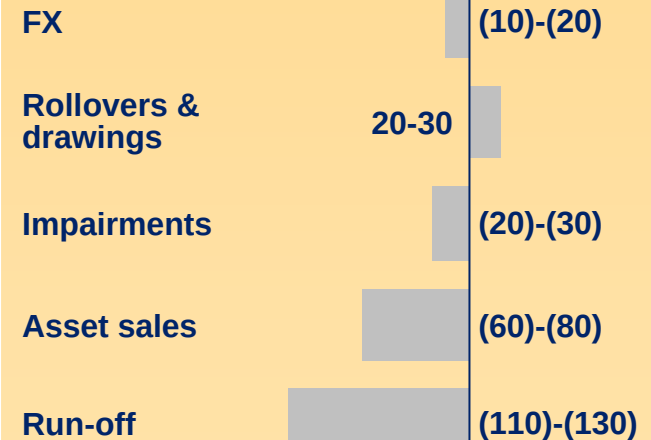
Reducing business risk

Managing future run-off

Non Core third party assets (TPAs excluding derivatives & Sempra) run-off targets, £bn



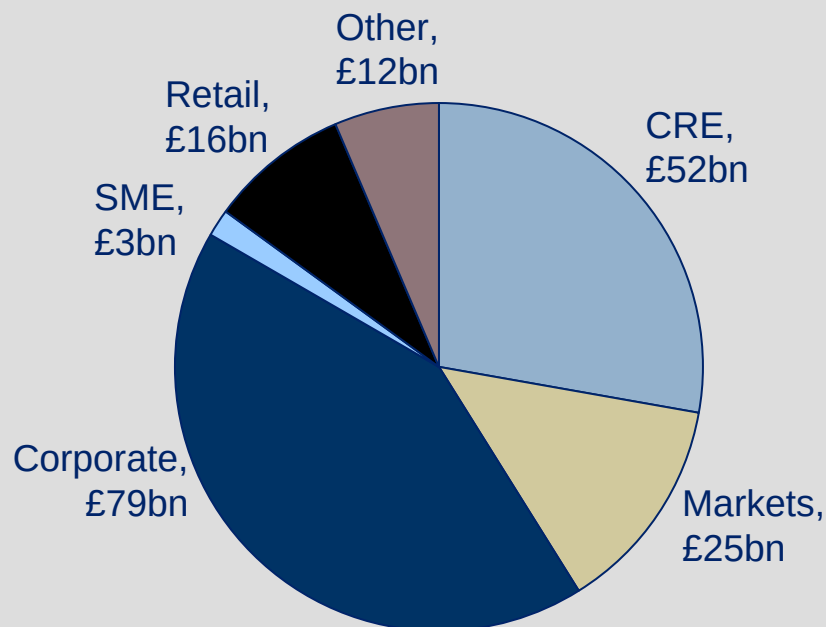
Breakdown of changes in TPAs 2009-2013



- Plan revised to reflect removal of c. £30 billion APS securitisation, which is no longer viable under final terms of APS
- FY 2013 targets revised to £20-40 billion, reflecting removal of securitisation that is partially offset by additional sales
- Sales selected for pricing and capital preservation

Non-Core composition

2009 Y/E TPAs¹ by asset class



Total assets £187bn

Non-Core Run-Off

- Most challenging areas of run-off:
 - CRE
 - Project & Asset Finance
 - Corporate Loans & Securitisations
- Likely to lead to roll-overs in these asset classes
- Year end 2013 target – c£20-40bn TPAs:
 - Asset Finance & Project Finance c£12-18bn
 - CRE c£5-8bn
 - Warehouse loans c£5-8bn
- Expenses outlook (FY09 £2.4bn):
 - Reduction in line with asset run-down
 - Most progress in 2011 and outer years
 - Forecast 2013 cost base c£300m-400m

Non-Core risk mitigation



Trading positions

- Ongoing reduction in trading positions
- Trading asset write-downs significantly reduced in 2009
- Reversal of banking book hedges in 2009

£9.4bn¹

FY08

£3.5bn¹

FY09

Monolines / CDPCs

- Monoline net exposures significantly reduced in 2009
- Certain exposures restructured
- Improvements in underlying asset values
- CDPC exposures reduced driven by tighter credit spreads

£8.3bn

FY08

CDPCs
Monolines

£2.6bn

FY09

Country Disposals

- First six transferred to ANZ – two closed
- Colombia sold to Scotia Bank
- Seven other country disposals in progress across Asia and LatAm
- Challenging process but achieving acceptable results – small losses but CT1 neutral/positive through RWA reduction



Business Exits

- Bank of China and Linea Directa sold H1 2009
- Investment Strategies sold to Aberdeen Asset Management in January 2010
- Considering alternatives for aircraft leasing business



linea directa

¹Excludes banking book hedges

Disposals:

- ▶ - **Sempre** (£14.2bn assets, £10.2bn RWAs, £52m RBS 2009 operating profit) – announced partial sale¹, working on remainder alternatives
- ▶ - **UK SME / Branches** (£23.6bn assets, £18.2bn RWAs, operating loss of £146m, 2009)
Sale process progressing, working through separation issues. Target agreement 2010, completion 2011
- ▶ - **Merchant Acquiring** (£527m income, £249m operating profit 2009)
Sale process progressing. Target agreement and close H2 2010
- ▶ - **Insurance** (£4,460m income, £58m operating profit 2009)
Set timing to maximise value. H2 2012 current target for IPO. May dual track IPO / trade sale

¹ Sale of Metals, Oil and European Energy business lines agreed on 16th February 2010; operating profit stated post MI



Outlook

NIM & future outlook



Margin progression FY08 to FY09

	FY09	FY08	Q4 09	Q3 09
Group NIM	1.76	2.08	1.83	1.75
R&C NIM	2.89	3.00	3.04	2.91
R&C Asset margins	1.75	1.38	2.05	1.79
R&C Liability margins	1.11	1.60	0.90	1.05
GBM	1.38	1.34	0.89	1.08

- Asset margins continue to widen in Retail & Commercial business, driving overall Group NIM
- Deposit margin pressures, while abating, and structural uplift in funding & liquidity costs constrain full benefit of asset margin widening

	2009 -11	2011 -13	
Group NIM	→	→	Stabilising NIM
R&C Asset margins	↗	→	
R&C Liability margins	↘	→	
R&C NIM:			
- UK Retail	→	→	
- UK C&C	→	→	Assumptions
- Wealth	↘	→	
- GTS	→	→	
- Ulster	→	→	
- US R&C	→	→	
GBM	↘	→	Assumptions
Non-Core	↗	↘	
Impact of funding & liquidity	↘	→	

■ Underlying NIM trending upwards following downward pressure earlier in 2009

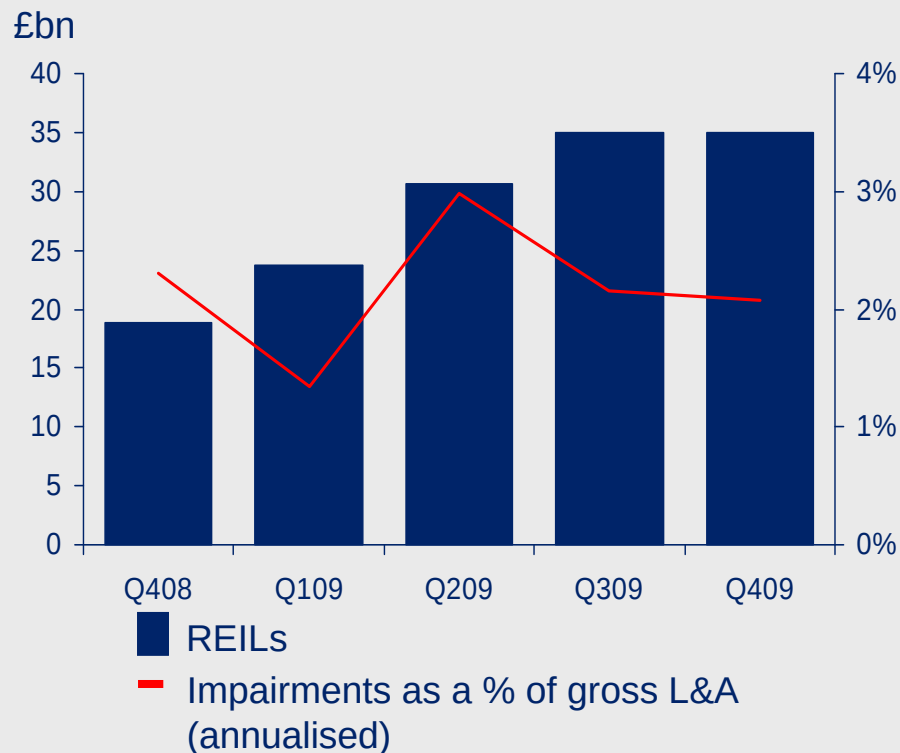
- Interest rates forecast to rise from 2011
- Competition will remain intense for deposits

¹ R&C incorporates divisions noted on right hand table

Impairment outlook

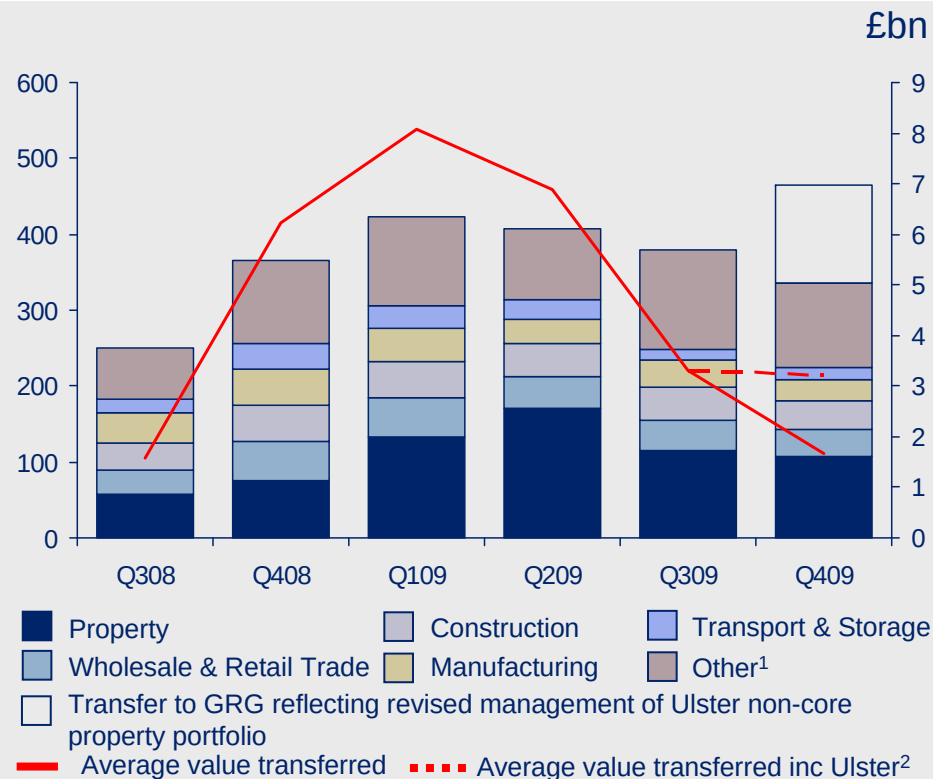


Group credit trends, Q408 - Q409



- Impairments elevated but likely to have peaked in Q2
- REILs still high but were flat Q4/Q3

No. & value of wholesale cases transferred to Recoveries
Units globally, Q308-Q409 (monthly average)



- Property and construction still the most prominent sectors
- Underlying trends demonstrate reduction in volume and value of transfer cases

¹ Other is spread across a large number of sectors and includes TMT, Tourism & Leisure and Business Services

Foundations for recovery are in place

Robust customer franchises

Market environment for NIM starting to improve

Impairment trends are moderating - still early days though

Focus on business investment

Balance sheet de-risking well underway

Business valuation will become clearer over 2010/11

Economic and regulatory threats remain elevated

2010 - a year of execution



Questions?



Appendix

Core Bank – affirmed divisional targets



UK Retail

Unlocking the value of our customer franchise as the most helpful retail bank in the UK

	RoE, %	C:I, %	LDR, %
2011	>1	<60	<120
2013	>15	c.50	<105

- Customer support and lending commitments
- Reduce cost to serve by >£350m
- Transformation investment of c. £800m
 - Product enhancements and affluent proposition
 - New internet and telephony platforms
 - Reconfigured branch footprints and formats

UK Corporate

Leading franchise focused on re-building sustainable value for customers and the bank

	RoE, %	C:I, %	LDR, %
2011	>5	<45	<135
2013	>15	<35	<130

- Customer support and lending commitments
- Investment in service effectiveness, credit processes and portfolio management
- Deposit gathering capability enhancement
- Re-balance away from property concentrations

GBM

Strong wholesale bank, built around clients in chosen markets, with much lower risk

	RoE, %	C:I, %
2011	c.15	<65
2013	15-20	c.55

- Focus on core customers and “flow” markets
- Leader in chosen markets
- Huge risk, product and geographic restructuring
- Investment in reducing costs and improving controls

GTS

Leading global player, serving Group clients and with a central role in deposit gathering

	RoE, %	C:I, %	LDR, %
2011	n.m.	<60	<25
2013	n.m.	<50	<20

- Technology investment to stay ahead
- Improved international cash management capability to support deposit growth
- Restructure and profitably promote trade finance platform

Core Bank – affirmed divisional targets



Wealth

Leading UK franchise with global reach, providing growth and substantial funding to Group

	RoE, %	C:I, %	LDR, %
2011	n.m.	<60	<35
2013	n.m.	<50	<30

- Strategic coverage growth
- Streamlining “cost to serve” and productivity
- Investment and product platforms enhanced

Ulster Bank

Restructuring to sustainable profitability as Irish economy recovers

	RoE, %	C:I, %	LDR, %
2011	>0	<75	<175
2013	>15	c.50	<150

- Major portfolio restructuring, especially real estate
- Achieve >20% reduction in cost base and brand consolidation
- Close funding gap and re-build margins
- Lead on customer service and support

Citizens

A leading US “super-regional” bank

	RoE, %	C:I, %	LDR, %
2011	c.10	<70	<90
2013	>15	<55	<90

- Restructure to focus on customer leadership in core footprint states
- Investment in platform efficiency, customer service and marketing
- Sustain conservative risk profile
- Close income and margin “gaps” vs. peers

Insurance

Becoming UK’s leading and most profitable general insurance business

	RoE, %	C:I, % (net of claims)
2011	>15	<70
2013	>20	<60

- Investment in claims transformation
- Continued cost restructuring
- Customer growth through leverage of cost, brand and RBS distribution advantages

Non-Core make up by division



2008 Y/E TPAs¹ by asset class

Other

RBS Insurance £2.0bn
Retail & Commercial Countries £6.7bn
Bank of China / Linea Directa £4.5bn
Other Whole businesses £4.2bn
ABN AMRO Shared Assets £1.5bn
Asset Management £1.9bn

Retail

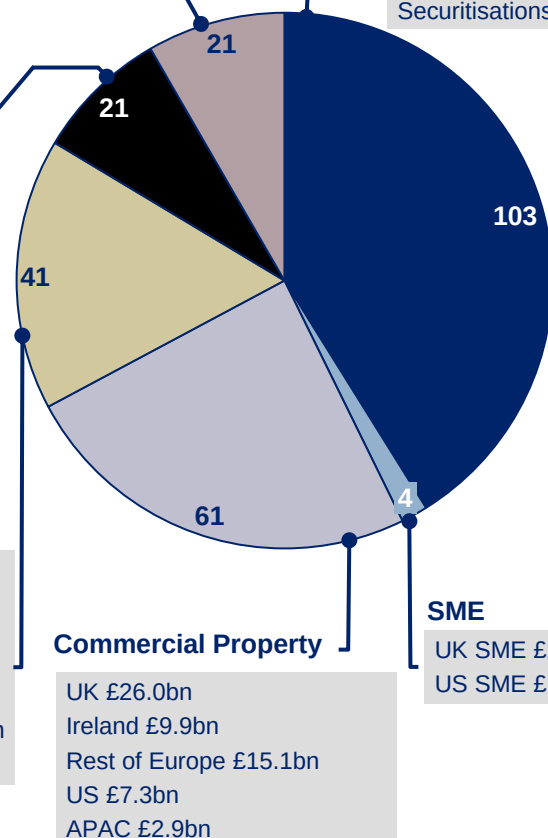
UK Mortgages & Personal Lending £3.2bn
US Mortgages & Personal Lending £11.0bn
Ireland Mortgages £6.5bn

Markets

Structured Credit Portfolio £20.1bn
Equities £5.0bn
Credit Collateral Financing £8.6bn
Exotic Credit Trading £1.4bn
Other £6.2bn

Corporate

Project & Export Finance £21.3bn
Asset Finance £24.2bn
Leveraged Finance £15.9bn
Corporate Loans & Securitisations £41.6bn



Total Assets = £252bn

2009 Y/E TPAs¹ by asset class

Other

RBS Insurance £1.5bn
Retail & Commercial Countries £4.3bn
Other Whole Businesses £3.3bn
ABN AMRO Shared Assets £1.3bn
Asset Management £1.6bn

Corporate

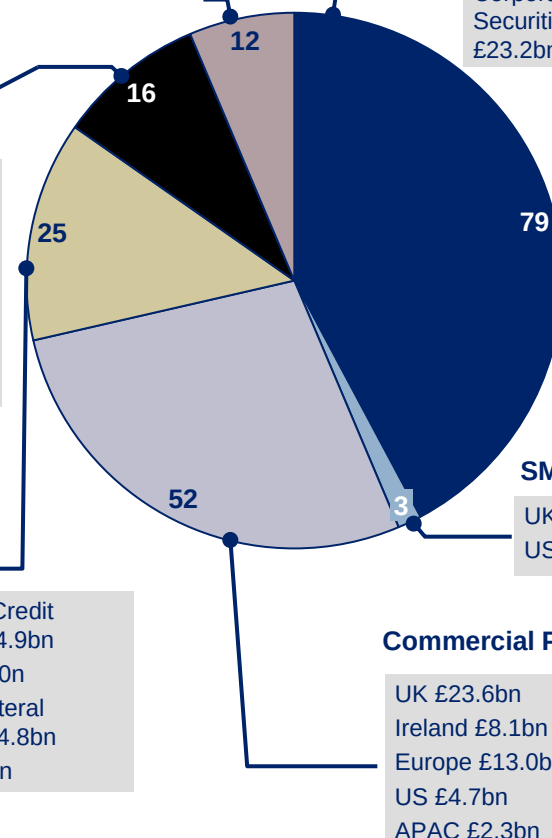
Project & Export Finance £20.6bn
Asset Finance £22.2bn
Leveraged Finance £13.1bn
Corporate Loans & Securitisations £23.2bn

Retail

UK Mortgages & Personal Lending £2.4bn
US Mortgages & Personal Lending £7.8bn
Ireland Mortgages £6.1bn

Markets

Structured Credit Portfolio £14.9bn
Equities £2.0bn
Credit Collateral Financing £4.8bn
Other £2.9bn



Total Assets = £187bn

¹ Excluding MTM derivatives and Sempra

Core RoE calculation - 2009



		FY09A
Core operating profit		8,325
Tax on operating profit @ 28%		(2,331)
Preference dividends as disclosed	(935)	
Adjustments re preference accruals	109	(826)
Core MI		(49)
Return on B-Shares (70% * £25.5bn at 0.5% return and 28% tax)		64
Restated adjustable profit		5,183
Equity:		
Group equity attributable to Ordinary & B-Share holders		69,890
Less: intangible assets		(14,786)
Tangible equity		55,104
Core Group tangible equity (based on RWA mix)		38,573
Core ROTE		13.4%

- Percentage of Group RWAs attributable to Core will increase by 2013 as Non-Core runs down

Equity split:

Core RWAs	394.5	70%
Non Core RWAs	171.3	30%
Group RWAs	565.8	100%

Notes:

Return represents adjusted Core attributable profit. This is arrived at by taxing Core operating profit at 28% and deducting preference dividends and minority interests attributable to the Core business.

Equity represents spot tangible ordinary and B Shareholders equity for the Core business. The Core businesses proportion is derived based on Core RWAs as a proportion of total RWAs, 70% in 2009.