Re-building and Recovery: Making Progress

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Key messages

- RBS tracking well against its recovery plan
- H1 2010 results led by recovery in NIM, R&C businesses
- GBM performing in line with market
- Non-Core de-leveraging and EU disposals on track
- Capital, funding and liquidity progress continues
- Insurance and Ulster Bank action plans underway

Who are we?

Universal bank anchored in the UK and in retail & commercial, balanced by geography, business mix and risk profile

RBS Group

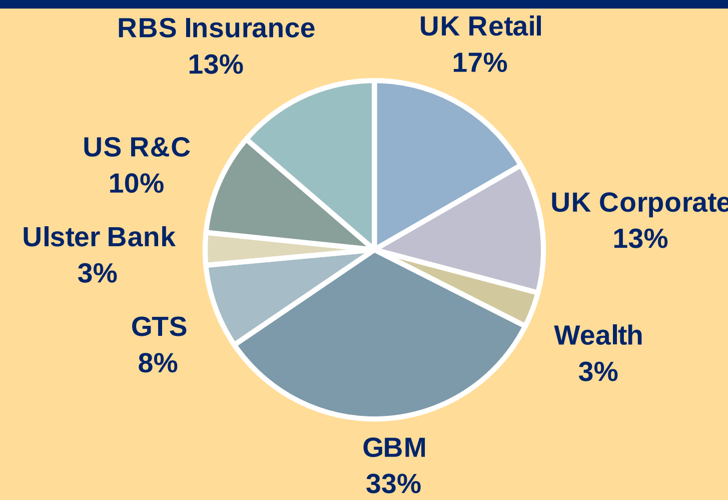
Core RBS

- Retail & Commercial
  - UK Retail
  - UK C&C
  - Wealth
  - US R&C
  - Ulster Bank
  - GTS
- Global Banking & Markets

EU Disposals[1]/Non-Core

- Insurance
- Non-Core

H1 10 Core Revenues by Division



- R & C Businesses = 67%
- Loan-to-deposit ratio 102%
- Return on equity 15%

Business mix

- Business mix: Targeting 2/3 Retail & Commercial, 1/3 GBM
- Coverage: Global presence in over 40 countries
- Geographic split[2]: UK 55%, US 25%, EU 12% RoW 8%

[1] RBS Insurance, identified for disposal to satisfy European Commission rules on State Aid. Disposal targeted for H2 2012. [2] Indicative steady state

What is our vision?

RBS's 2013 vision

- To be one of the world's most admired, valuable and stable **universal banks**
- To return to **>15% sustainable RoEs**, powered by market-leading businesses in **large customer-driven markets**
- To deliver its strategy from a **stable AA category** risk profile and balance sheet
- The business mix to produce an attractive blend of **profitability, stability** and **sustainable growth** – **anchored in the UK and in retail and commercial banking** together with customer driven wholesale banking, and with credible **growth prospects geographically and by business line**
- Management hallmarks to include an open, **investor-friendly approach, discipline** and proven execution effectiveness, **strong risk management** and a central **focus on the customer**

Strategic Plan – defined aspirations

RBS is driving through the key elements of its Strategic Plan

Core Bank
The focus for sustainable value creation

- Built around customer-driven franchises
- Comprehensive business restructuring
- Substantial efficiency and resource changes
- Adapting to future banking climate (regulation, liquidity etc)

Non-Core
The primary driver of risk reduction

- Businesses that do not meet our Strategic Tests, including both stressed and non-stressed assets
- Radical financial restructuring
- Route to balance sheet and funding strength
- Reduction of management stretch

Cross-cutting Initiatives

- **Strategic change** from "pursuit of growth", to "sustainability, stability and customer focus"
- **Culture and management change**
- **Fundamental risk "revolution"** (macro, concentrations, management, governance)
- **Asset Protection Scheme** (2012 target for exit)

Strategic Plan - timeline

RBS

2010/11 – executing the plan

Core profits build, Non-Core losses fall → **Target >15% RoE**

2009

- Formation of the Strategic Plan
- Creation of Non-Core
- £2.5bn cost saving programme announced
- Business restructuring and reinvestment
- New Management and Board
- APS entered into and Recapitalisation completed
- 'Tools for the job' in place

2010/2011

- Execution and implementation phase of the plan
- Investment in Core franchises
- 'Roll up our sleeves'
- Economic recovery takes hold
- Improvement in underlying Core performance

2012 onwards

- Ongoing revenue and cost initiatives
- Completion of Non-Core run-down
- 2013 targets achieved
  - Returns
  - Risk
  - Franchise

Strategic Plan - tracking our progress

Current position versus 2013 targets – making good progress

Key performance indicator	Worst point	FY 09 Actual	Q2 10 Actual	2013 Target
Core Tier 1 Capital	4%(1)	11.0%	10.5%	>8%
Loan : deposit ratio (net of provisions)	154%(2)	135%	128%	c100%
Wholesale funding reliance(3)	£343bn(4)	£250bn	£198bn	<£150bn
Liquidity reserves(5)	£90bn(4)	£171bn	£137bn	c£150bn
Leverage ratio(6)	28.7x(7)	17.0x	17.2x	<20x
Return on Equity (RoE)	(31%)(8)	Core 13%(9)	Core 15%(9)	Core >15%
Adjusted cost : income ratio(10)	97%(11)	Core 53%	Core 52%	Core <50%

[1] As at 1 January 2008. [2] As at October 2008 [3] Amount of unsecured wholesale funding under 1 year. H110 includes £92bn of bank deposits and £106bn 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). [10] Adjusted cost:income ratio net of insurance claims. [11] 2008

Key H1 2010 financial highlights

H1 results led by recovery in NIM, R&C businesses

Core Business:

Operating profit	£4.5bn, (£4bn underlying[1])	Driven by strong Retail & Commercial performance
Return on Equity	15%, (11% underlying[1])	Full Retail & Commercial recovery delivers target
R&C NIM	3.04%, +23bps y-o-y	Driven by ongoing asset re-pricing
C:I Ratio	53% (adjusted[2])	Good cost management, trend favourable
Impairments	£2.1bn	Generally stable/improving
Loan to deposit ratio	102%	Close to long-run target of 100%[3]

Group Balance Sheet Progress:

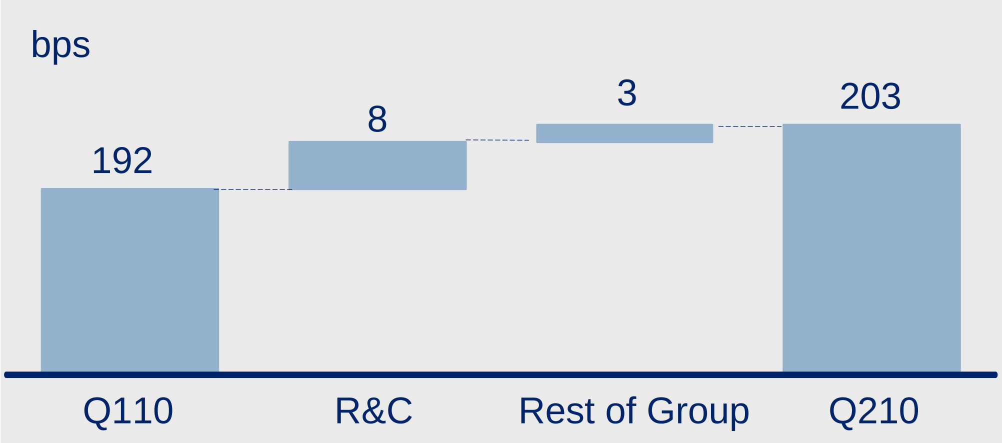
Funded assets[4]	-2% (£26bn) vs FY09	Demonstrating Non-Core reduction and subdued loan demand
Non-Core run-off	£27bn reduction in TPAs[5]	Tracking slightly ahead of plan, possible acceleration in H210
Capital strength	Core Tier 1 of 10.5%	RBS is a well capitalised bank

[1] Excluding Fair Value of Own Debt
[2] Adjusted cost:income ratio is calculated based on income after the cost of insurance claims. Cost:income ratio before insurance claims is 46%.
[3] Group target
[4] Funded assets as at 30 June 2010 £1,058bn
[5] Third party assets excluding derivatives

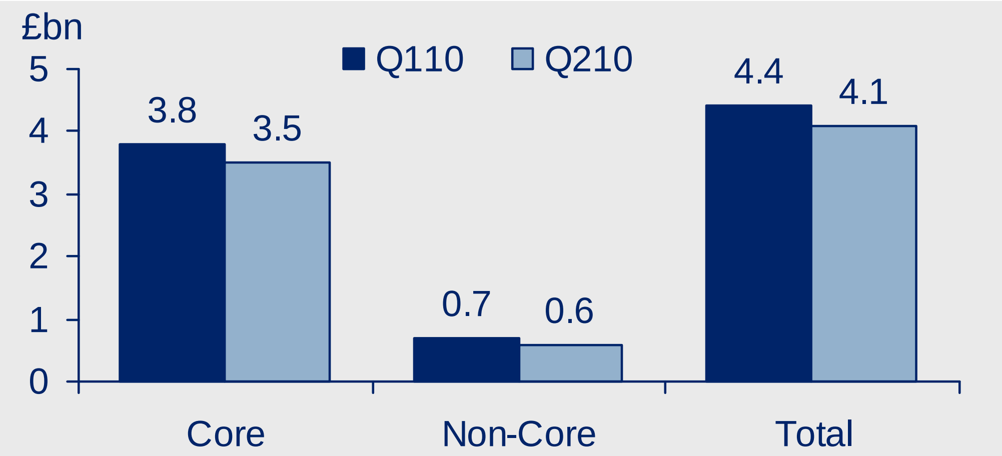
Net Interest Margin & Operating Expenses

R&C driving a recovery in NIM; tight cost control across the board

Group NIM – Q210 vs Q110



Operating expenses

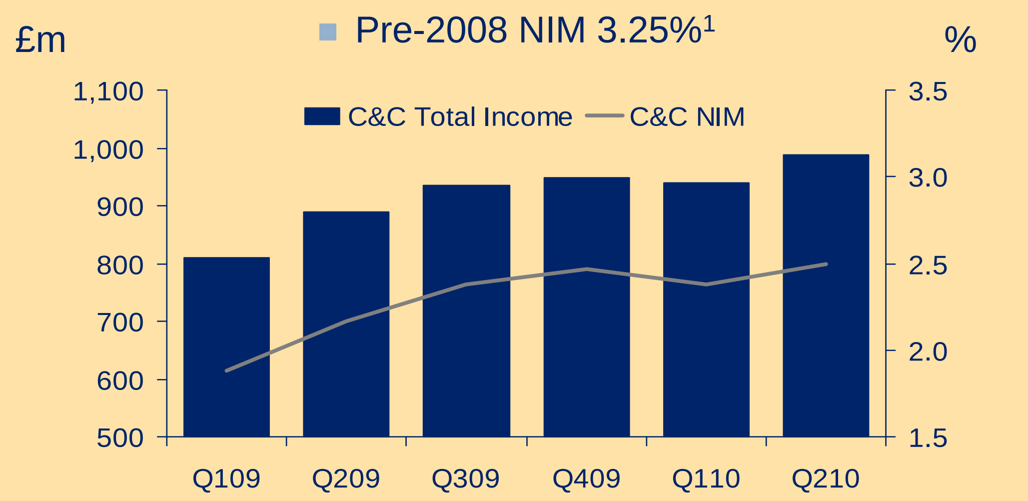


- Group NIM up 11bps to 2.03% driven by Retail & Commercial margins, up 14bps
- Benefit from higher earnings on capital in Q2 of 3bps, no further impact anticipated
- Expectation of modest underlying growth per quarter retained for the remainder of 2010, absent any GBM and Non-Core volatility

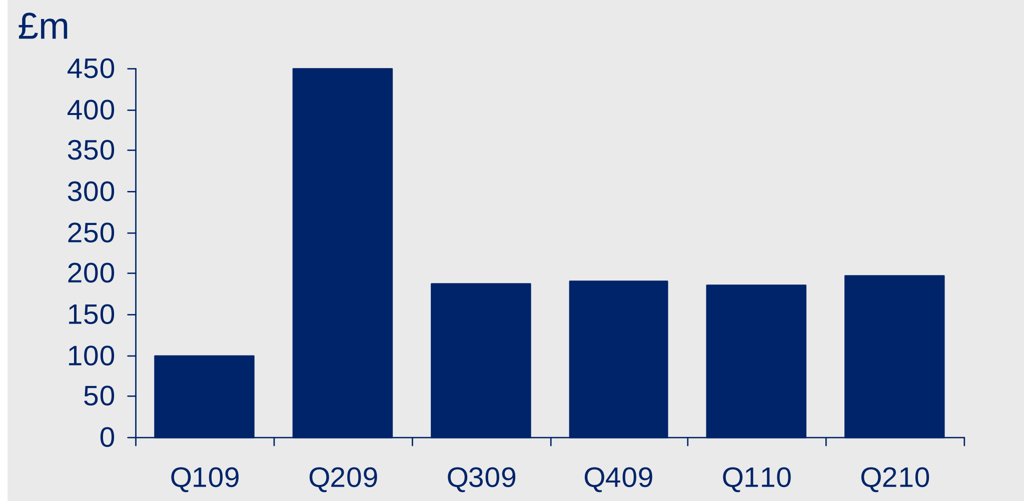
- 7% q-o-q reduction driven by lower staff costs, primarily reflecting lower GBM revenues
- GBM compensation ratio stable at c33%
- Adjusted cost:income ratio improved 200bps to 52% in Core, Group also improved 200bps to 55%
- Non-Core costs declined by 10% q-o-q benefitting from disposal related headcount reductions

R&C franchise gaining momentum – UK C&C good revenue growth, stable impairments

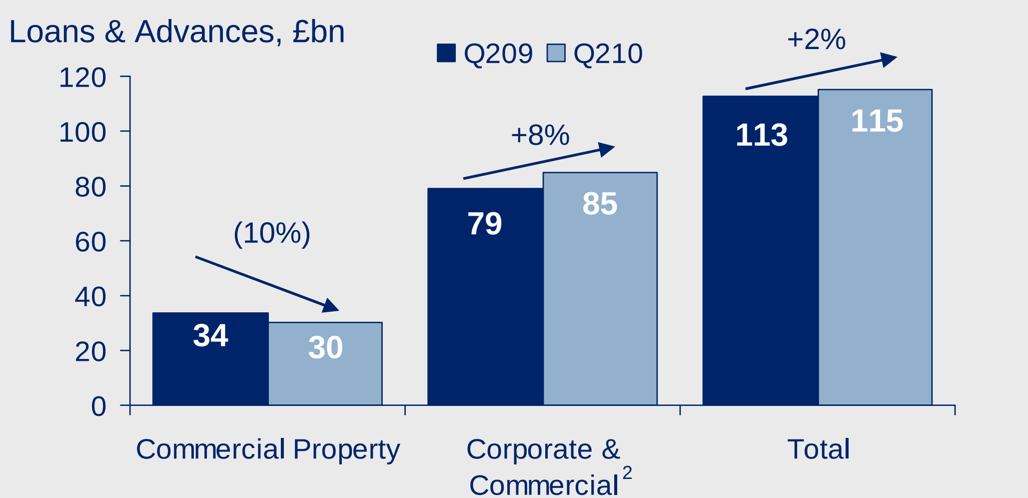
Re-establishing profitability – rebuilding margins



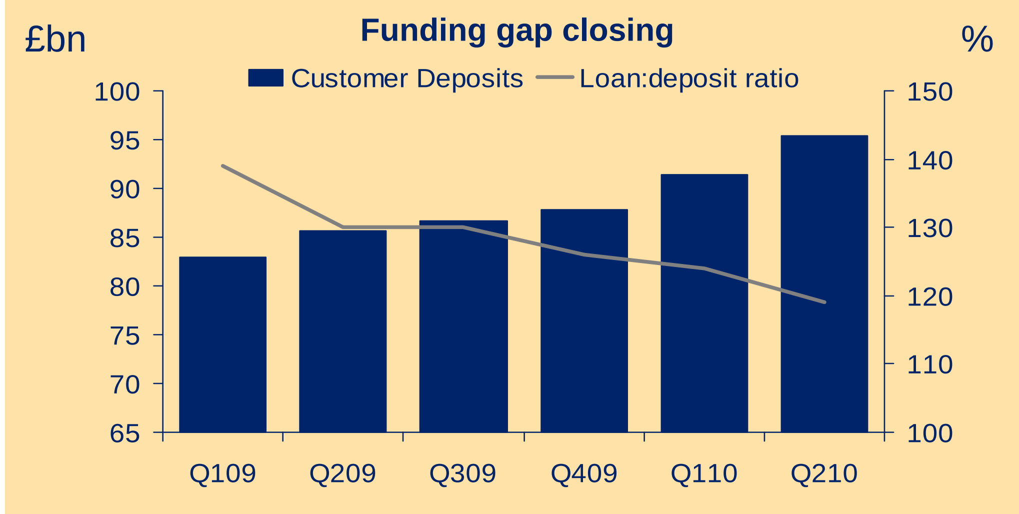
Impairment trends - stabilising



Supporting customers while reducing property concentration



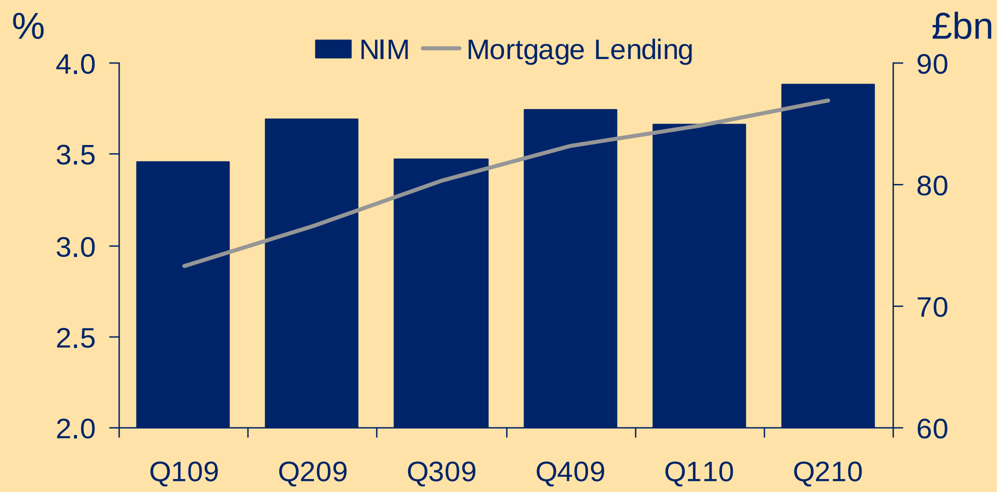
Closing funding gap – balancing loans with deposit growth



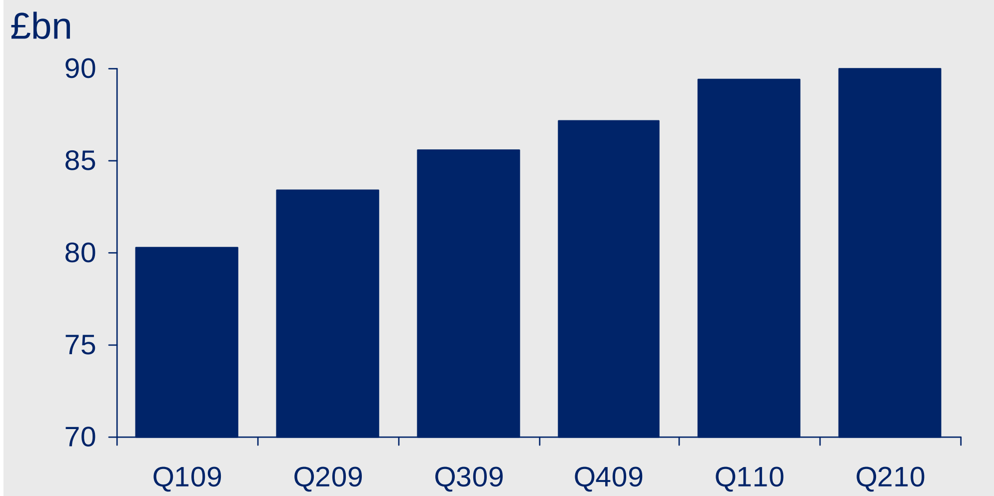
[1] Peak NIM for Mid Corporate and Commercial Banking, 2005. [2] Corporate & Commercial ex Property.

R&C franchise gaining momentum – UK Retail sustaining NIM development

Robust mortgage lending & sustainably improved margins



Strong growth in deposits



Restoring profitability – Improving operating leverage

	Q-o-Q[1]	Y-o-Y[2]
Income growth	**6%**	**5%**
Cost growth	**3%**	**(3%)**
Pre impairment profit	**9%**	**18%**

- Margin rebuild driving higher divisional revenues
- Cost initiatives gaining traction

Growing customer numbers

	Y-o-Y[2]
Current accounts growth	**+2%**
Saving accounts growth	**+5%**
Mortgage account growth	**+8%**

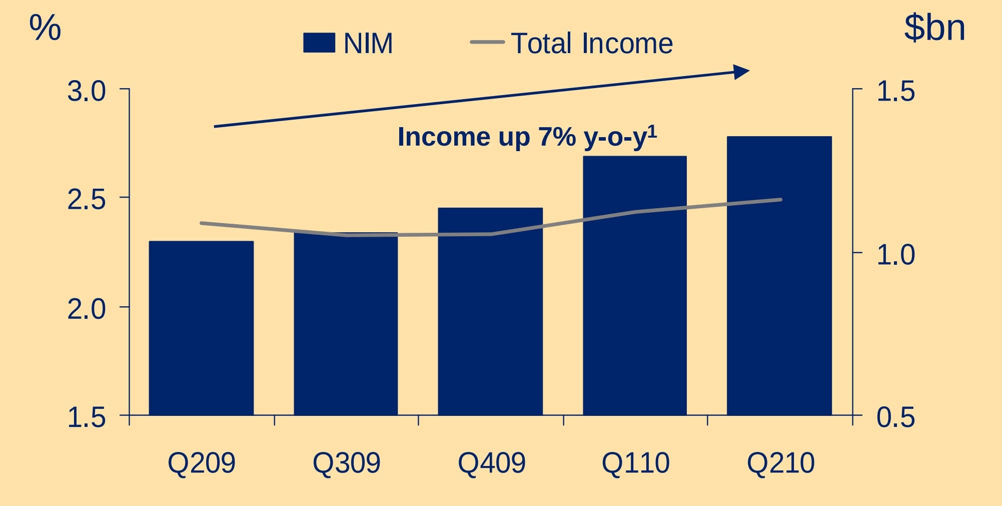
- Retail franchise gains are increasing customer numbers
- Competitive products continue to grow RBS market share in focused areas

[1] Q210 versus Q110
[2] Q210 versus Q209

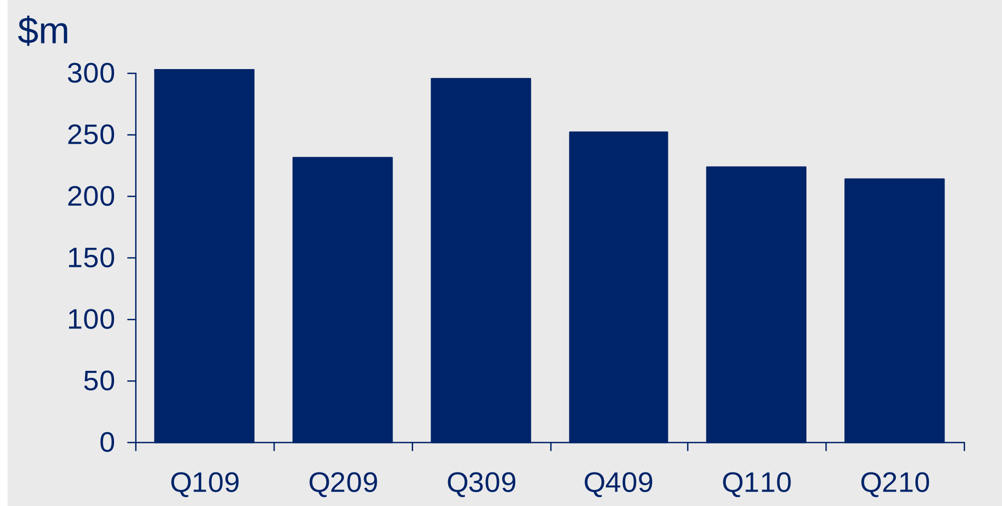
R&C franchise gaining momentum – US R&C building margins, lower impairments

RBS

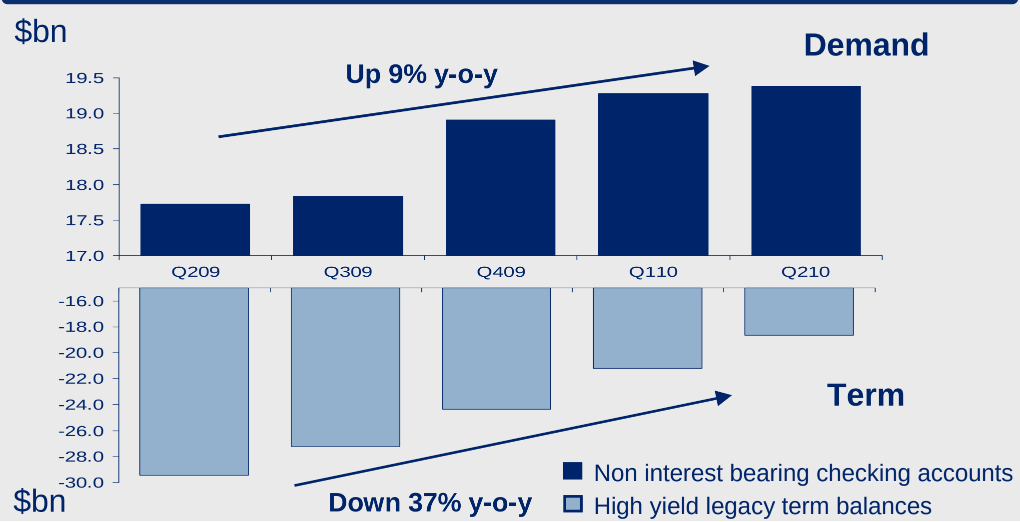
Re-establishing profitability – Rebuilding margins



Impairment losses – encouraging trends



Reshaping the business - Focus on improving deposit mix



Enhancing performance – Improving market share

- The business plan has delivered customer metrics to-date ahead of the original strategic plan

US Retail & Commercial Market shares

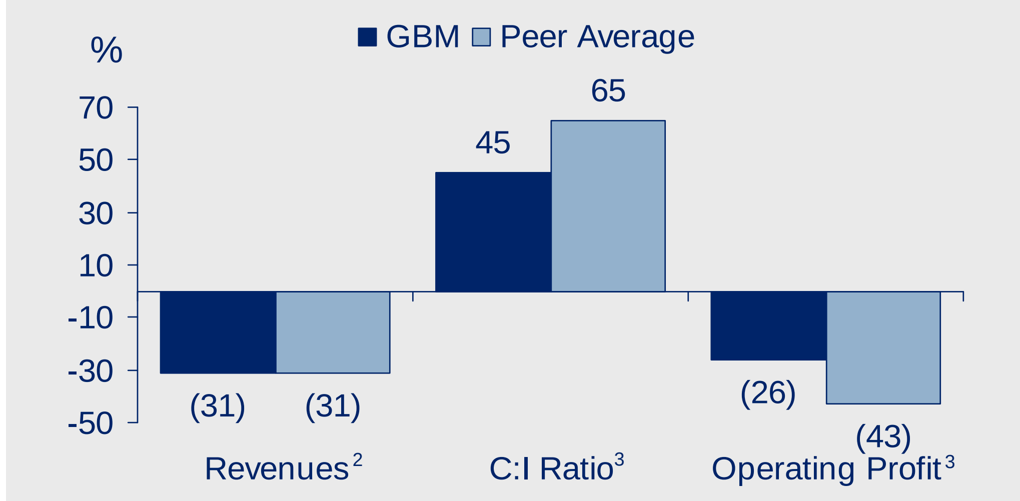
[1] Q210 versus Q209
[2] Q110

GBM – credible performance, in line with peers

Underlying performance in line with peers, better cost discipline

Underlying quarterly income (ex FVooD), £bn

Benchmarking GBM's quarterly performance[1]



- Division benefitting from greater focus:
  - Better balance sheet profile
  - Higher quality revenue streams
- Intense focus on:
  - Strengthening Core customer relationships
  - Sustaining strong Group customer synergies

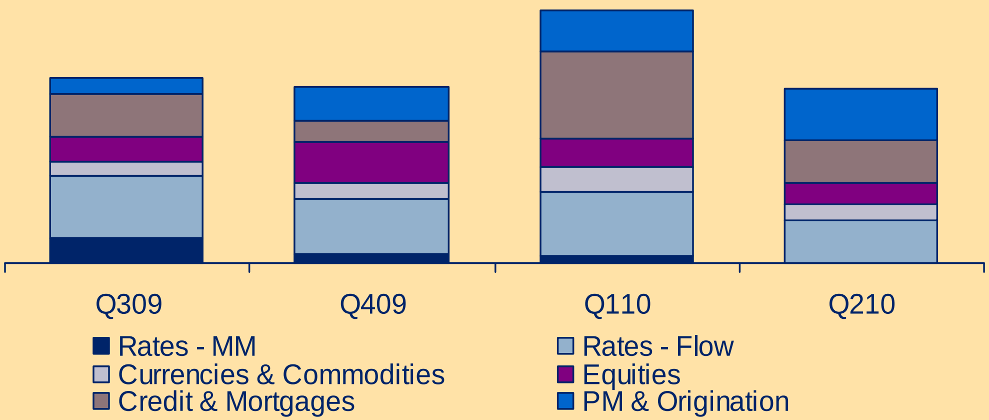
- Enduring franchise - Business remains resilient, focused on its 5 year strategy
- Continued Investment - Halfway through a two year £550m+ investment programme
- Tight risk management - Upgrading risk management framework; Changed risk culture
- Continued performance - Maintained a leading position in core franchise areas

[1] Q210 vs Q110
[2] Ex fair value of own debt
[3] Excluding UK Bonus Tax charge

GBM – strong franchise, balances the group portfolio

RBS

Quarterly Revenues by product (underlying)[1], £bn



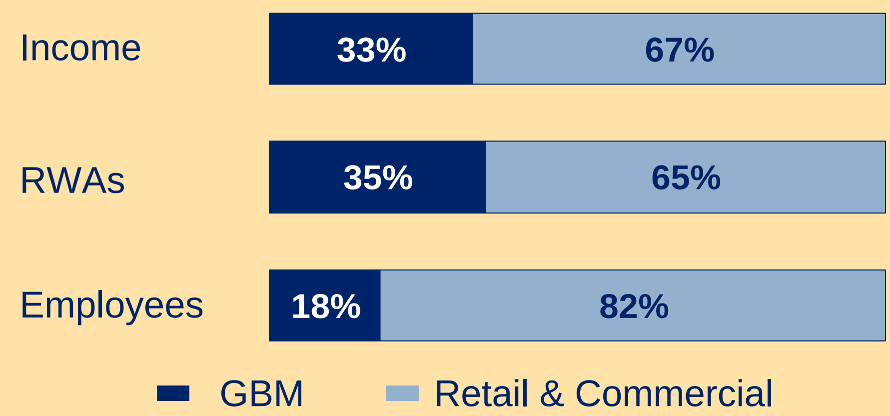
GBM Summary – FY07 vs FY09

	FY07		
	"Old" GBM	Core GBM	FY09
Income, £bn	9.1[2]	6.7	11.0
Costs, £bn	(5.8)[3]	(5.1)	(4.7)
Profit, £bn	3.2[2]	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[4]

Business Performance – Revenues & Rankings

	09 Est. Ranking	09 Revenues £bn	Gwth vs 08 %
Rates – MM	Top 5[5]	1.7	4%
Rates – flow		3.1	127%
Currencies	Top 5[5,6]	1.3	(17%)
Equities	Top 8[5]	1.5	300%
Credit markets	Top 5[7]	2.3	n.m.
PM & Origination	#7[8]	1.2	39%

Balanced portfolio - % of Core Group H110



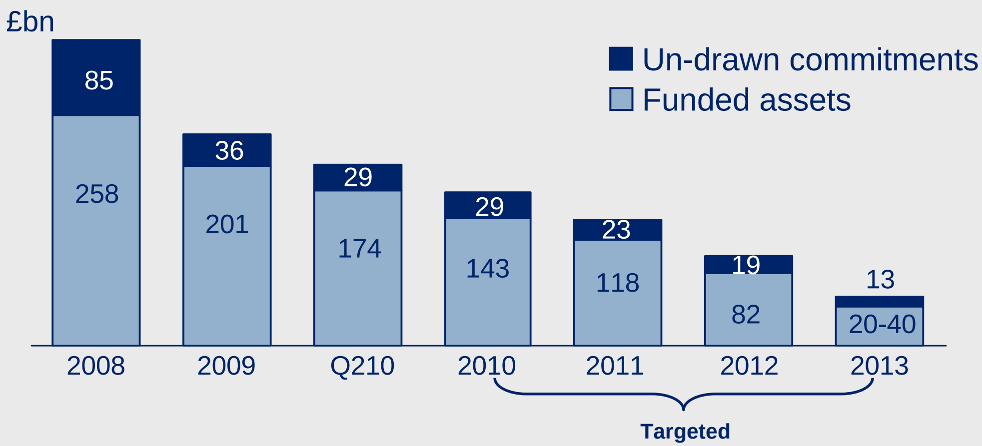
[1] Excluding Sempra, write-downs & FVooD. [2] Includes credit market write-downs & one off items of £1,776m. [3] Includes £448m of allocated manufacturing costs. [4] Excludes integration staff. [5] Coalition (Equities ranking based RBS regional product offerings, including ECM. [6] EuroMoney. [7] RBS Estimate. [8] Dealogic (Global all debt).

Non-Core run-down & EU Disposals on track

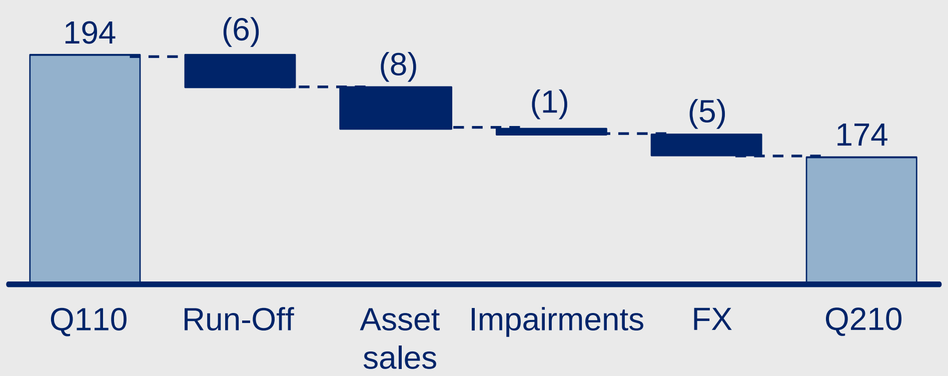
Non-Core run-down and EU disposals progressing well, lowers execution risk

Non-Core

- TPAs decreased by £84bn to date, reduction on plan



- £20bn reduction achieved in Q210



Asset disposals

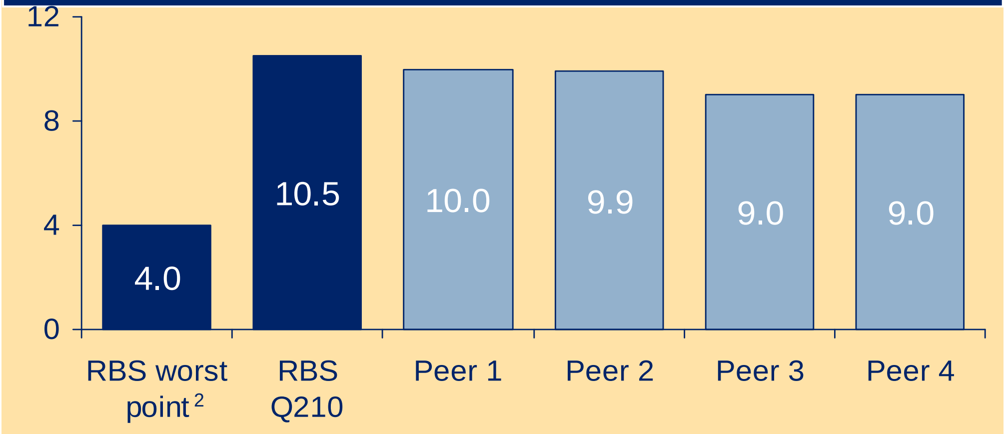
- Non-Core asset portfolio run-off/sales on target
  - Ongoing risk reduction – possible H2 acceleration
- 3 of the 4 EU mandatory disposals announced:
  - UK SME/Branches: sale process to Santander announced (c£1.65bn), completion by end 2011[1]
  - Global Merchant Services: sale process to Advent International & Bain Capital announced, completion by end 2010
  - RBS Sempra: completed partial sale to JP Morgan[2], balance substantially progressed
- RBS Insurance disposal: H2 2012 current target for IPO; may dual track IPO/trade sale

[1] Agreed sale for a premium of £350m to net assets at time of closing. Implied equity is £1.3bn applying an 8.5% Core Tier 1 ratio to RWAs of £15.2bn as at 31 December 2009
[2] Sale of Metals, Oil and European Energy business lines agreed on 16th February 2010 and completed 1st July 2010

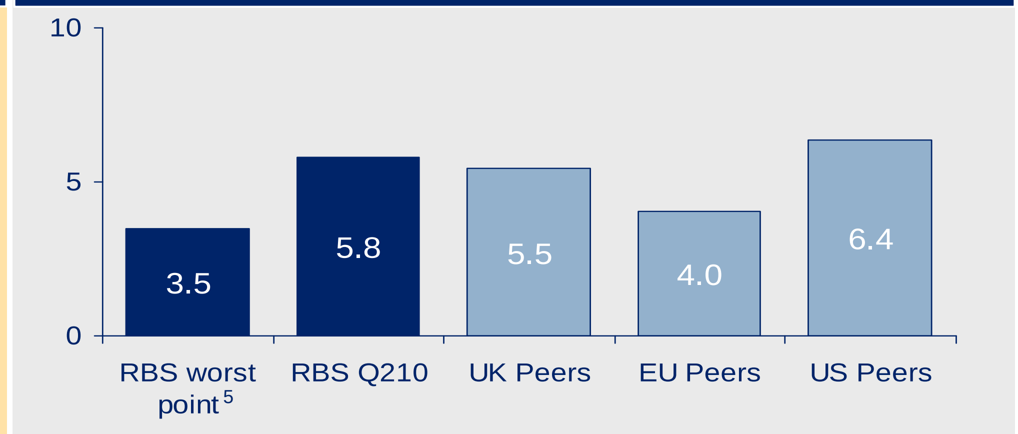
Balance sheet strengthening on track

Now well capitalised, making strong progress on funding

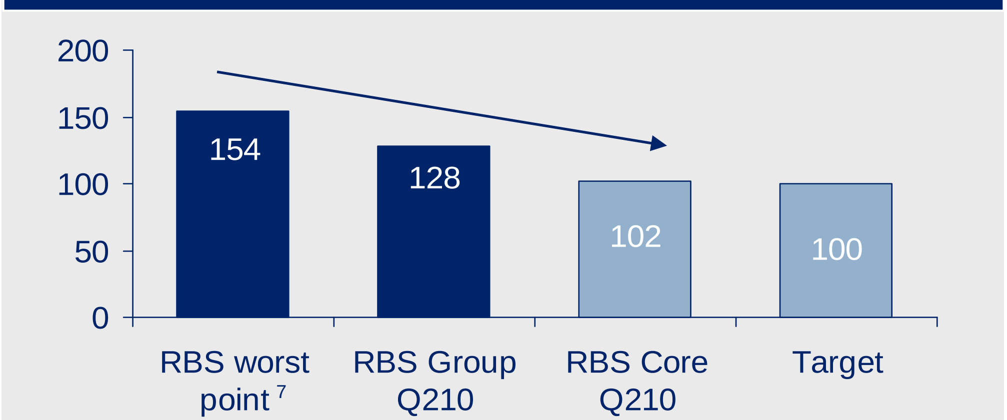
Core Tier One Ratio vs UK Peers[1], %



Tier 1 Leverage Ratio[3] vs Peer averages[1,4], %



Loan to deposit ratio[6], %



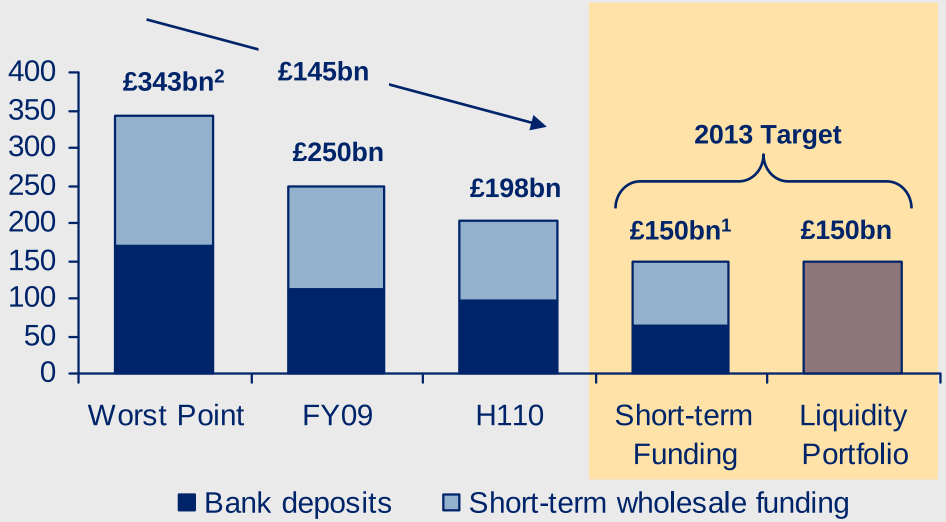
Key highlights

- Funded balance sheet of £1,058bn, -£26bn vs FY09
- Significantly strengthened capital position
- Current long-run CT1 target of 8%+, subject to increased regulatory requirements
- 1st quartile in CEBS stress test exercise
- Significantly reduced leverage
- Group funding gap reduced by £24bn H110 to £118bn

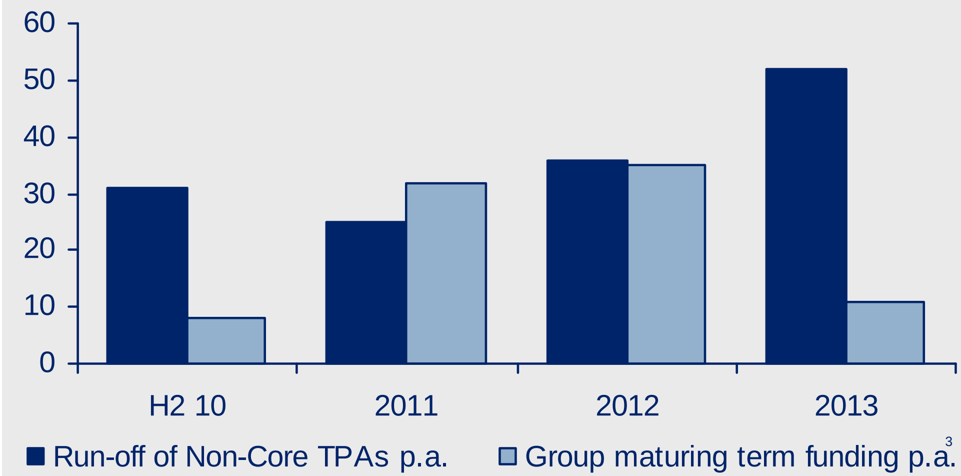
[1] UK Peers consist of Barclays, HSBC, LBG and Standard Chartered. [2] As at 1 January 2008. [3] Tier 1 leverage ratio is Tier 1 Capital divided by funded tangible assets.
[4] EU Peers consist of Credit Suisse, Deutsche Bank, Santander and UBS. US Peers consist of Bank of America, Citigroup, JP Morgan and Wells Fargo. [5] As at June 2008. [6] Net of provisions.
[7] As at October 2008.

Funding & liquidity – good progress towards targets

Consistent reduction in short term funding needs[1]



Refinancing requirement outweighed by target reduction in Non-Core third party assets (£bn)



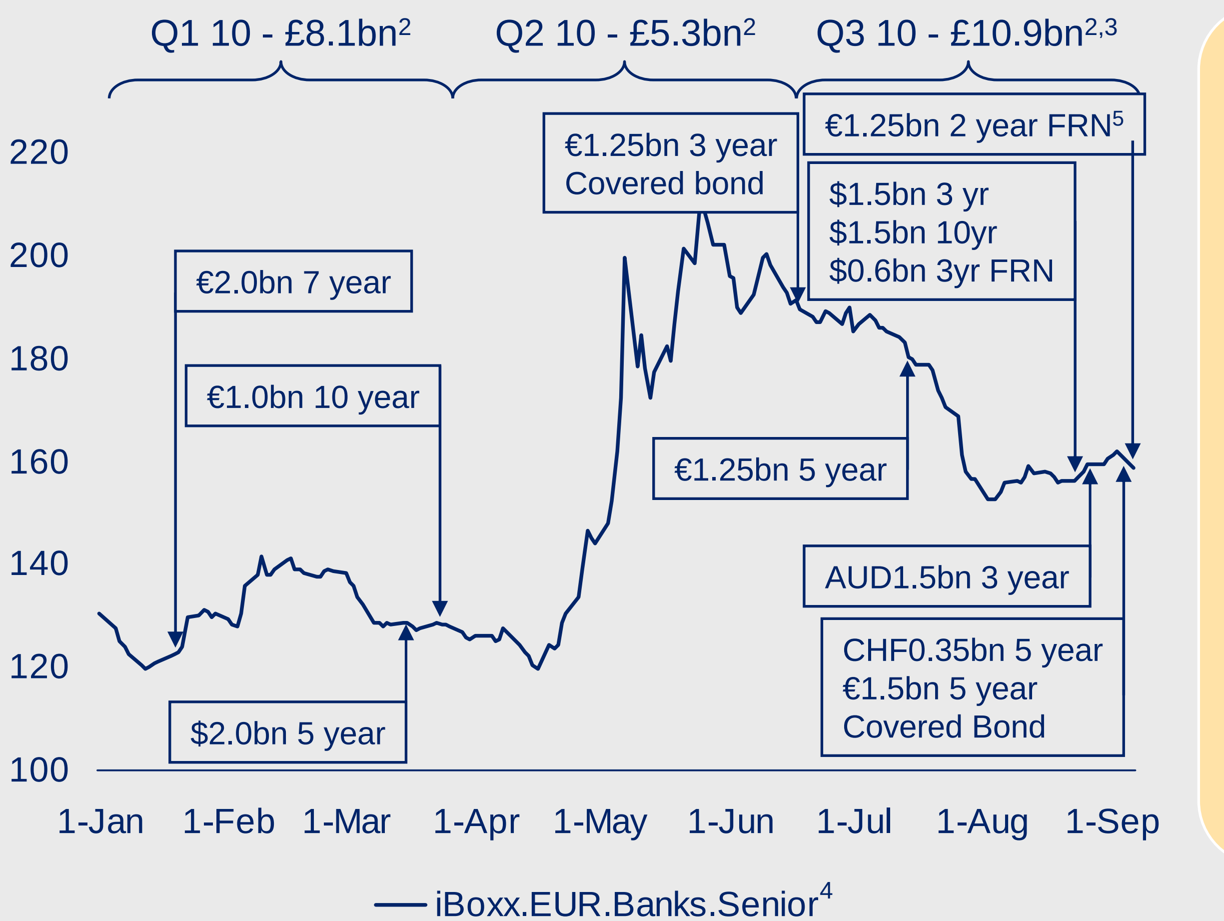
- Positive momentum has commenced in RBS's underlying credit ratings with all three major rating agencies
- Business natural deposit franchises in good health
- Long-term wholesale funding >1yr now 57% of total (50% FY09, 45% FY08)
- £137bn of liquidity reserves as at 30 June 2010, target remains £150bn by end 2013

[1] Amount of unsecured wholesale funding under 1 year including bank deposits [2] As at October 2008 [3] Maturing term funding includes government guaranteed MTNs, unguaranteed MTNs and subordinated debt, excluding c£28bn of GBM, Citizens and Ulster Bank own issued structured MTNs with a maturity profile of c£2-4bn per annum.

Funding - Consistent access to wholesale markets

RBS has issued over £24bn of term funding in 2010 YTD

RBS term funding issuance during 2010[1]



- £24.3bn 2010 term funding achieved YTD vs target of £25bn
- Term funding issuance split between public issues (£12.5bn)[6] and private placements (£11.8bn)
- Strong private placement capabilities linked to structured and equity linked businesses within GBM
- All settled public benchmark deals completed in 2010 have minimum tenor of 3 years
- Regular term issuance throughout 2010 in a variety of currencies
- €15bn Covered Bond programme registered with the FSA on 1 April 2010, €2.75bn issued to date

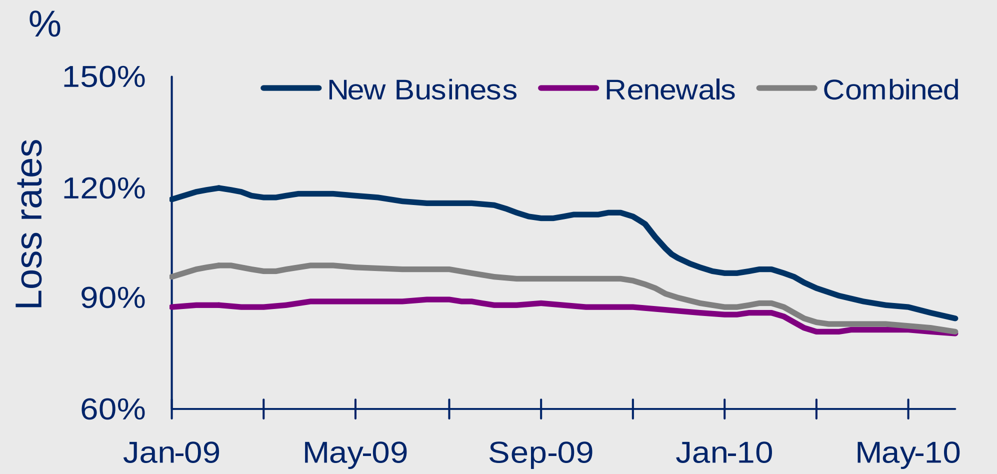
1. Benchmark public deals highlighted in graph only 2. Total private and public term funding issuance 3. Total issuance completed in Q3 10 so far. 4. iBoxx European Senior bank debt index 5. Trade issued early September and will settle later in September 6. c£2bn of senior debt issued as part of Exchange Offer conducted in Q2 2010 included within public issuance

Action plans for lagging units - Insurance

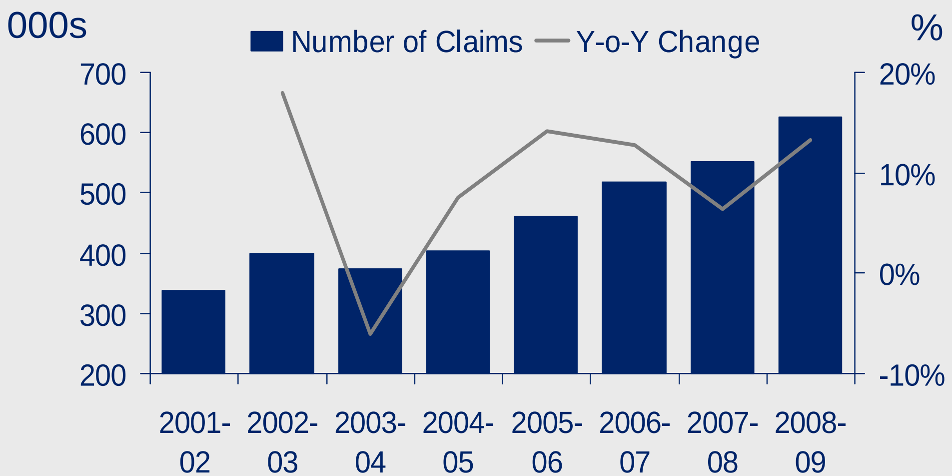
Key highlights

- Q2 10 performance significantly impacted by bodily injury reserving relating to prior period policies
- Improved under-writing policies reducing risk and loss rates
- Above market premium increases since Jan 09
- The combination of higher premiums and refined risk mix are improving the loss ratio of the business
- Focus on cost reduction and improving jaws

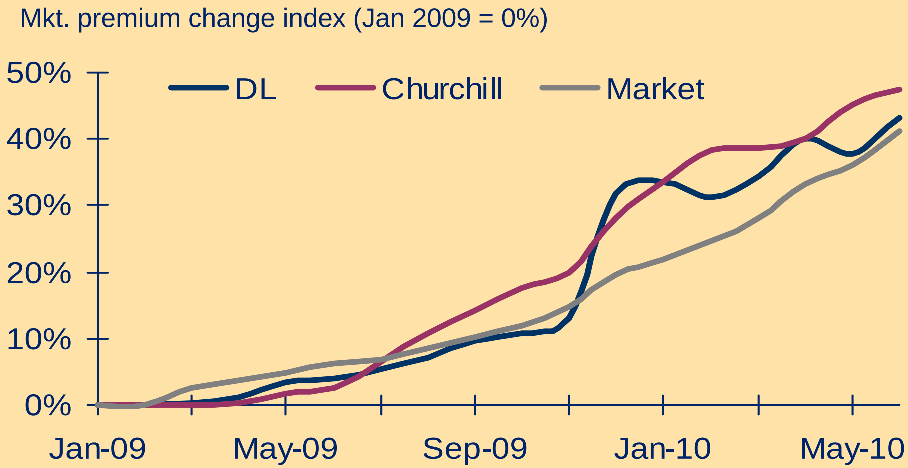
Improved underwriting reducing loss rates[1]



Industry-wide personal injury claims trends[2]



Positive pricing actions[3] starting to feed through



[1] Modelled loss rates based on Direct Line scored written loss rates. [2] Source: DWP CRU Database, Morgan Stanley Research

[3] *Source: Consumer Intelligence, DfT, NOP, Strategy team research & analysis*

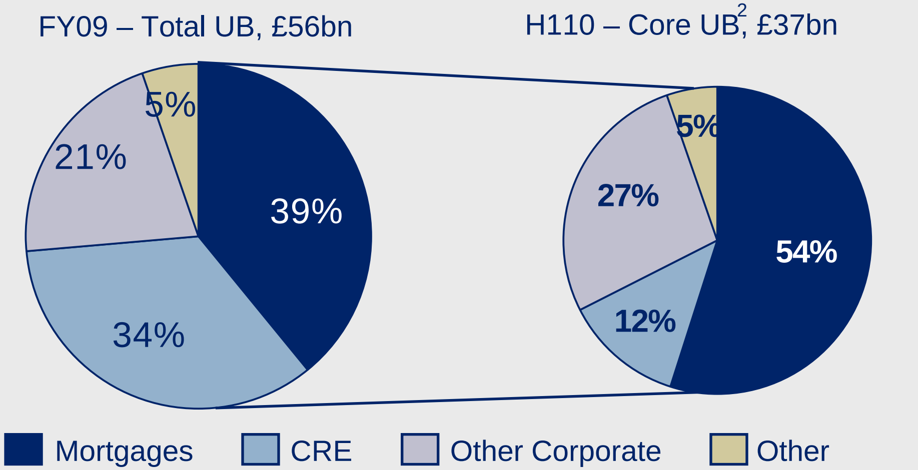
Action plans for lagging units - Ulster Bank

Initiatives

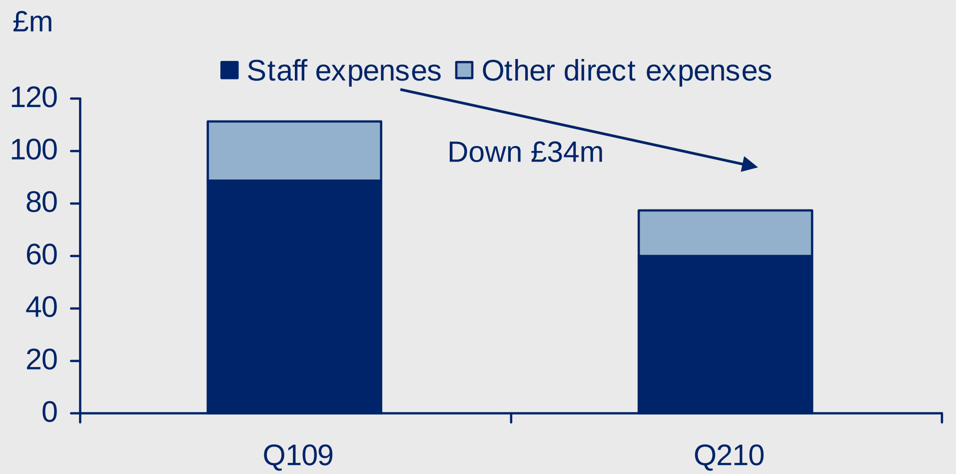
- Direct expense reduction of 31% Q109 to Q210
- Asset margins driving NIM improvements – 1.74% trough in Q309 returned to 1.92% Q210
- Increasing market shares[1]:

	Stock	Flow
Personal Current A/C	15%	20%
Business Main A/C	19%	23%

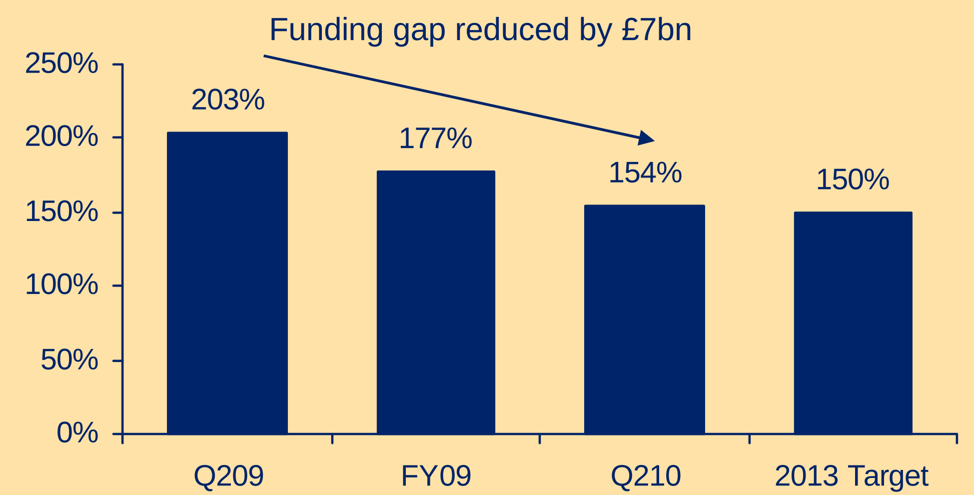
Balance sheet reshaped



Tight cost management – reduced direct expenses



Closing the funding gap – improving loan-to-deposit ratio



[1] As at December 2009, market shares relate to combined Northern Ireland and Republic of Ireland.
[2] Post transfer of commercial property portfolio into Non-Core and Ulster Bank mortgages out of Non-Core

Summary – RBS in 2013

What RBS will be in 2013

Top tier market franchises	Leading positions in all our customer businesses
	Strong, predictable and resilient business performance
Balanced portfolio	Complementary portfolio with clear cohesion logic and synergies
	Balanced by geography, business mix and risk profile
Solid profitability and attractive return potential	Commitment to RoE >15% on an expanded equity base
	Attractive and sustainable income characteristics
Low volatility underpinned by strong balance sheet	Clean balance sheet with a CT1 target 8%+
	Criteria for standalone AA category rating met
Standalone strength and solid foundations	Proven management track record, universal disciplines in place
	Roadmap to orderly UK Government stake sell down
Investor friendly	Transparent and responsive communication with few negative surprises
	Clearly articulated strategy with evidence of it working

RBS The Royal Bank of Scotland

Delivering the plan creates an attractive investment case

Questions?