Re-building & Recovery

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In particular, this document includes forward-looking statements relating, but not limited, to: the Group’s restructuring plans, capitalisation, portfolios, capital ratios, liquidity, risk weighted assets, return on equity, cost-to-income ratios, leverage and loan-to-deposit ratios, funding and risk profile; the Group’s future financial performance; the level and extent of future impairments and write-downs; the protection provided by the APS; and the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

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Key messages

Strategic targets affirmed, foundations laid in 2009

Robust customer franchises; a Group increasingly positioned for medium-term recovery

Retail & Commercial businesses beginning to turn the corner

GBM – a more focused business, holding up well

Run-off of Non-Core proceeding to plan; drives the reduction in wholesale funding reliance

Balance sheet stronger in all respects - Capital, liquidity and funding strengthened

Progress reflected by recent S&P upgrade of underlying long-term credit rating

But economic and regulatory threats remain elevated

2010 - a year of execution

2013 Strategic Plan – defined aspirations

RBS's Strategic Plan

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

Progress to date

RBS

2010 - a year of execution

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

- Execution and implementation phase of the plan
- ‘Roll up our sleeves’
- Economic recovery takes hold
- Retail & Commercial starts to rebound

2011

- Return to Group profitability
- Initial cost reduction programmes completed
- Interest rates start to rise

2011 onwards

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

Progress to date

Current position versus 2013 targets

Key performance indicator	Worst point	FY 09 Actual	Q1 10 Actual	2013 Target
Core Tier 1 Capital	4%[1]	11.0%	10.6%	>8%
Loan : deposit ratio (net of provisions)	154%[2]	135%	131%	c100%
Wholesale funding reliance[3]	£343bn[4]	£250bn	£222bn	<£150bn
Liquidity reserves[5]	£90bn[4]	£171bn	£165bn	c£150bn
Leverage ratio[6]	28.7x[7]	17.0x	17.6x	<20x
Return on Equity (RoE)	(31%)[8]	Core 13%[9]	Core 15%[9]	>15%
Cost : income ratio net of claims	97%[10]	Core 53%	Core 54%	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). [10] 2008

A business positioned for recovery in performance

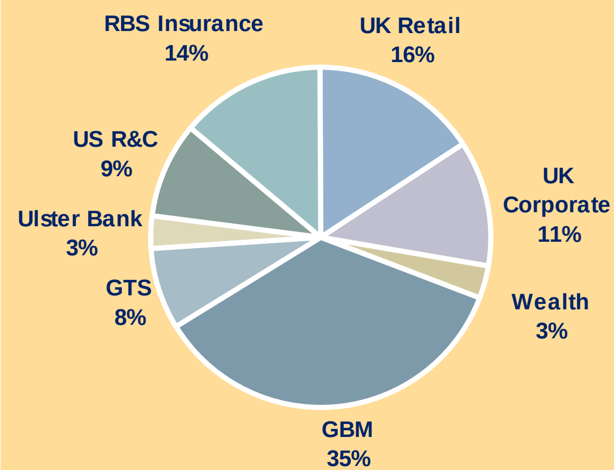
Who are we?

Balanced by geography, growth, risk profile and business cycle

RBS Group

- Global Banking & Markets
- UK Retail & Commercial Banking
  - UK Retail
  - UK Corporate & Commercial Banking → Global Transaction Services
  - Wealth
- US Retail & Commercial Banking
- Ulster Bank
- RBS Insurance
- Non-Core

Q1 10 Income by Division[3]



- R & C Businesses = 65% of Group

RBS Group Key Facts

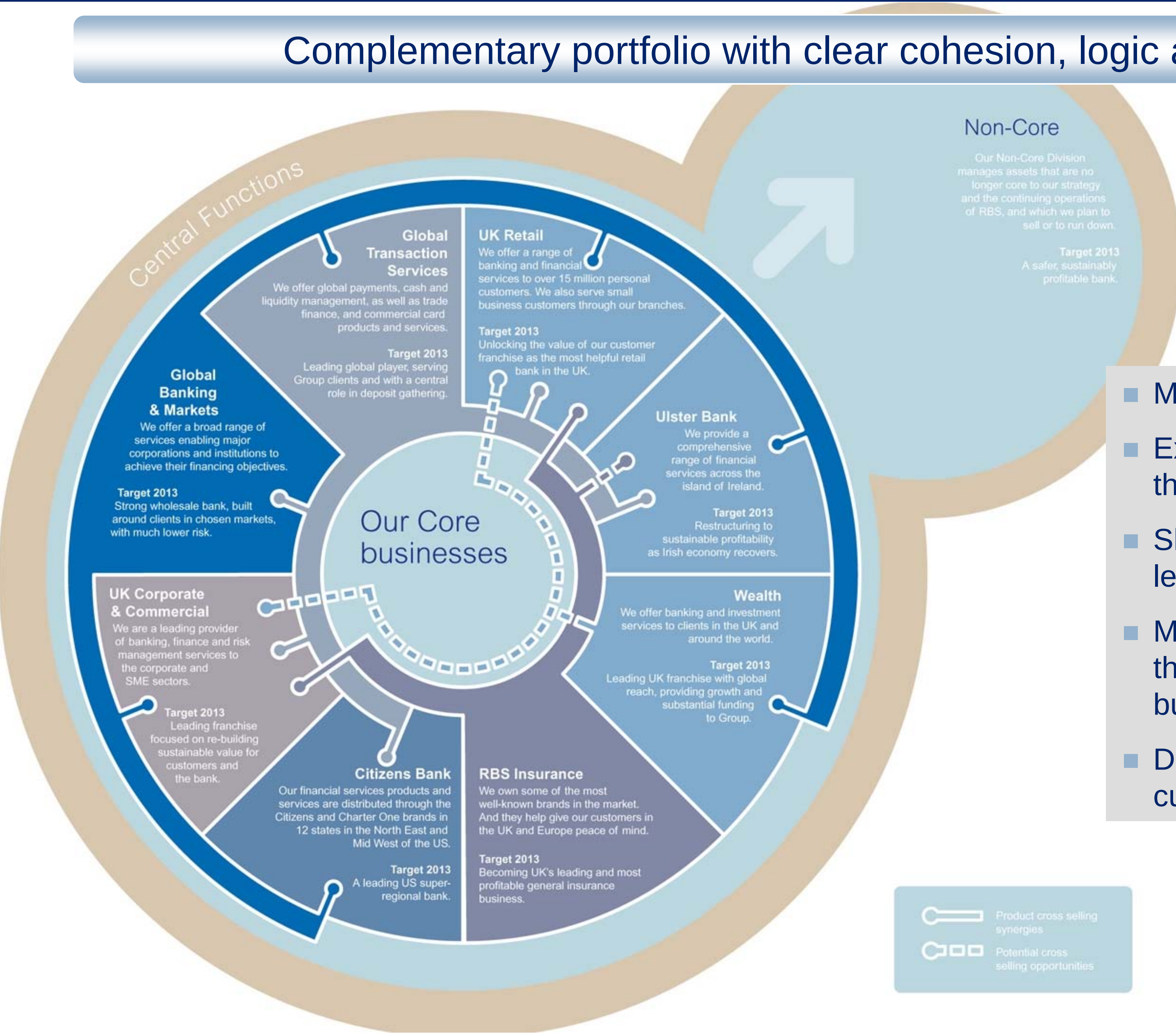
- UK banking presence since 1727 and a targeted global presence in 39 countries
- Leading Retail banking franchises in UK and Ireland
- Top tier Global Corporate & Investment Bank

Total Employees[1]	161,000	Loans	£554bn
UK Employees[1]	96,500	Deposits	£506bn
Total Income[2]	£32bn	Funded Assets	£1,121bn

[1] FY09
[2] Core Group FY09
[3] Core Group only

Group connectivity, cross-sell and complementarity

Complementary portfolio with clear cohesion, logic and synergies



- 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

Strong customer franchises with market leading positions

We have strong franchises in large customer-driven markets

	Q1 Customer Numbers	Market Positions	Income FY09	Deposits Q110
UK Retail	>12.8m current accounts 10m savings accounts	#2 Current Accounts	£4.9bn	£89.4bn
UK Corporate	1.2m Business, Commercial & Corporate customers	#1 SME #1 Corporate & Commercial	£3.6bn	£91.4bn
Wealth	258,000 UK Wealth customers	#1 Private Banking in the UK	£1.1bn	£36.4bn
GBM	#1 UK, #3 Europe, #6 USA, #7 APAC[1]	Top tier in key product areas	£11.0bn	£47.0bn
GTS	>1.2m customers	#5 Trade Finance #4 Merchant Acquirer	£2.5bn	£64.6bn
Ulster	1.9m customer accounts	#1 in Northern Ireland #3 in island of Ireland	£1.0bn	£23.7bn
US R&C	3.9m Retail 0.5m SME & Corporate	Top 5 in 8 of top 10 markets in which we operate	£2.7bn	£62.5bn
Insurance	11.1m own brand policies 6.6m other policies[2]	#1 Motor insurance	£4.5bn	n.a.

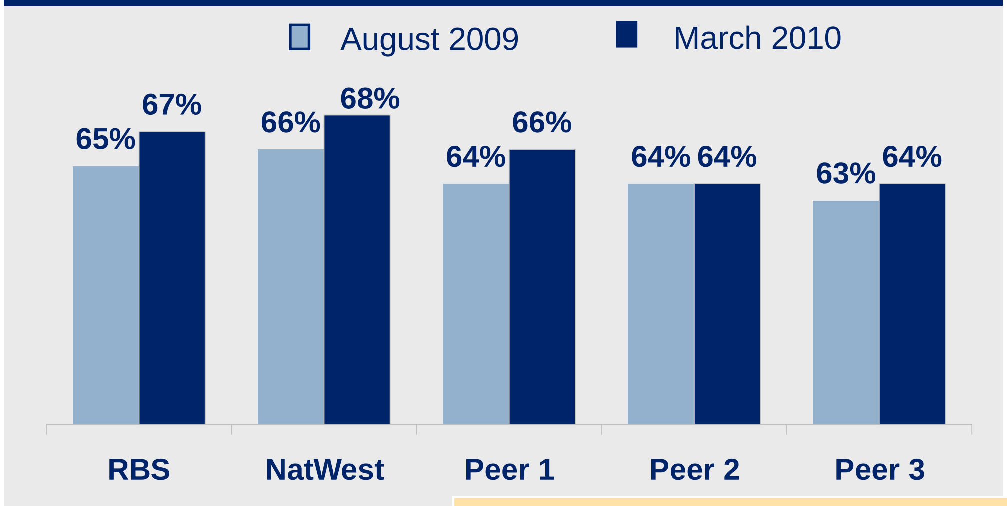
Our franchises have sustained market positions, with customer numbers steady or growing

[1] 2010 Greenwich Associates H209 data (Large Corporate Banking study), rankings relate to Total Relationships. [2] Partnership, broker and other policies

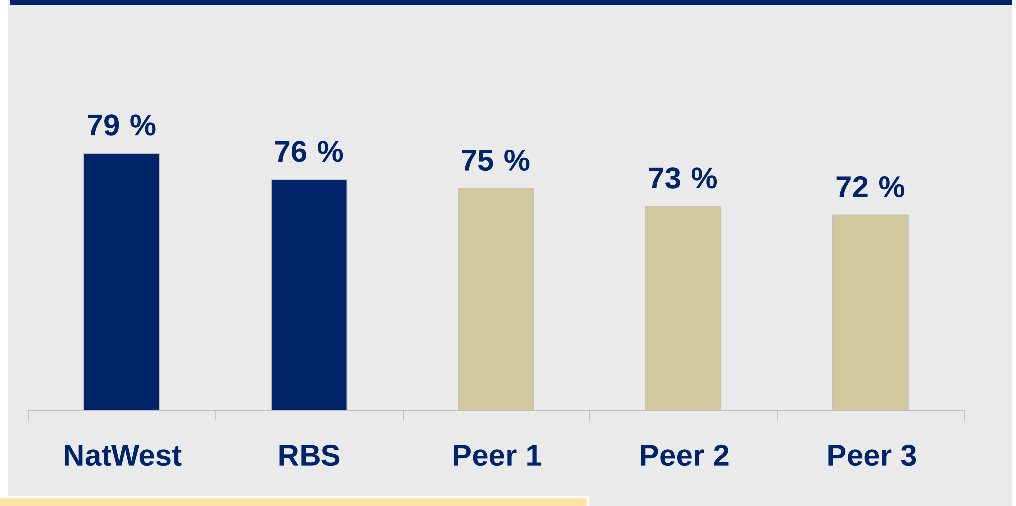
And improved customer satisfaction

Sustained and improving customer satisfaction levels

UK Retail[1]



UK Commercial[2]



- Robust franchises remain intact
- Customer satisfaction strong (relative)
- Much more can / will be done

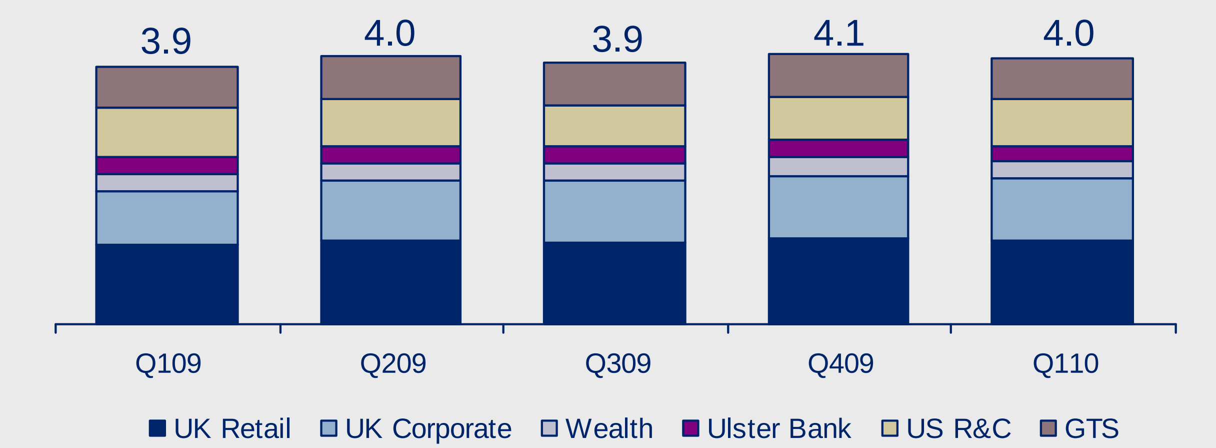
[1] % of current account customers in GB responding “extremely satisfied/very satisfied”, Source: GFK Financial Research Survey March 2010
[2] Mean score: Excellent (100), Very good (90), good (67), Fair (50), Poor (0)’ Source: TNS Business Banking Survey YEQ4 2009, businesses with turnover £1 - £25bn, GB respondents

Retail & Commercial[1] performance

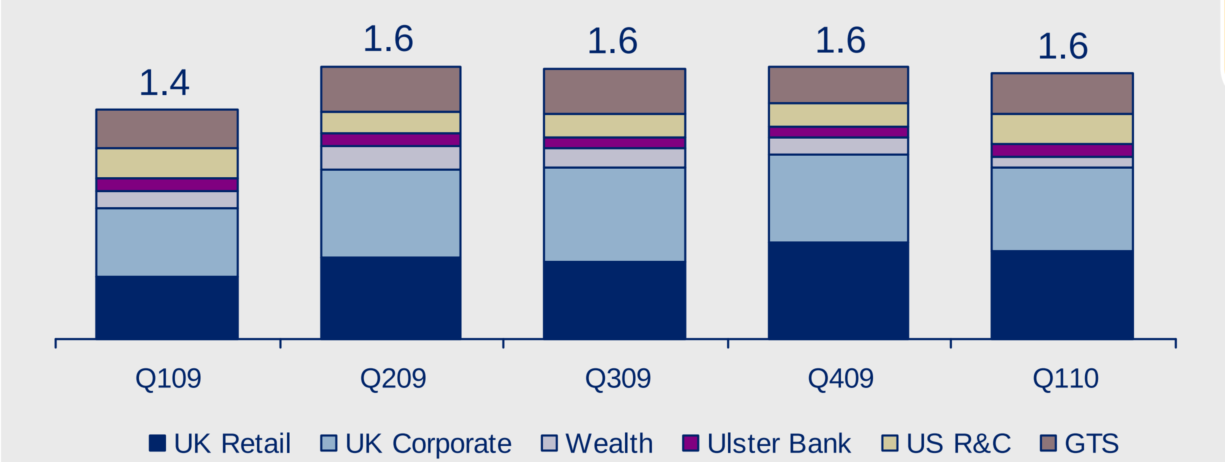
RBS

Retail & Commercial businesses beginning to turn the corner

Quarterly income by division, £bn



Quarterly operating profit before impairment losses by division, £bn



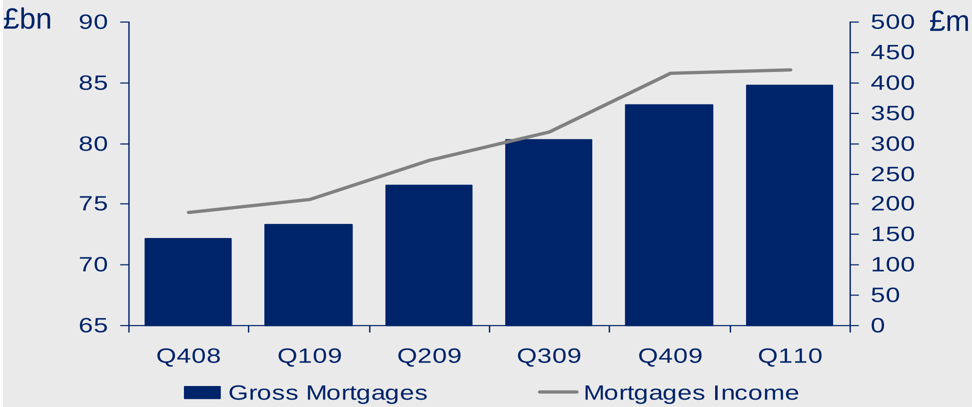
- R&C accounted for 50% of Core income Q110
- Robust, stable customer franchises and business performance
- Catalysts for growth include recovering economies and return on investment spend

[1] Includes UK Retail, UK Corporate, Wealth, Ulster Bank, US Retail & Commercial and GTS

Retail and Commercial franchises

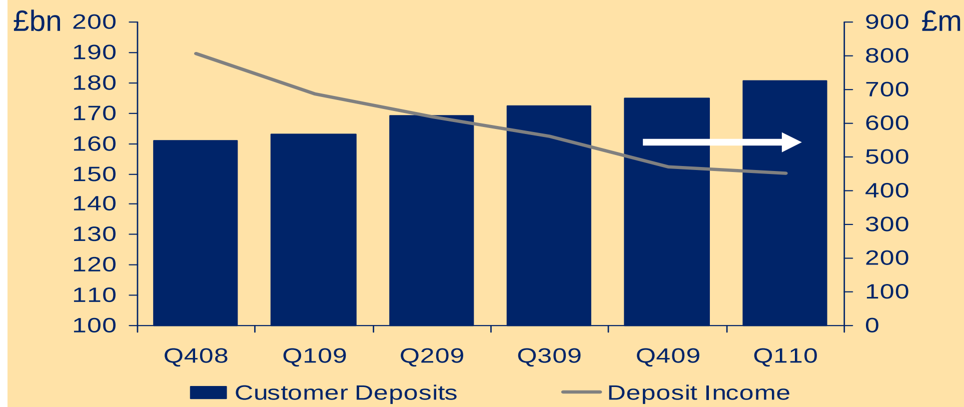
Retail & Commercial businesses beginning to turn the corner

UK Retail Mortgages & Income



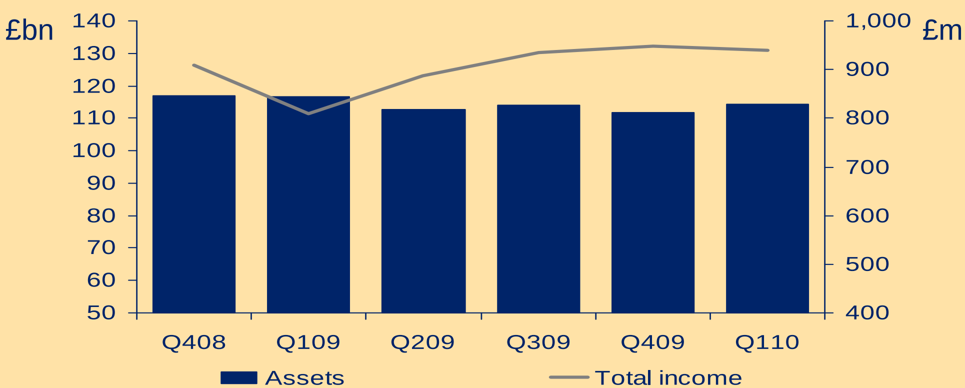
- **Strong growth in balances and associated income**

UK Retail & UK Corporate Deposits & Income



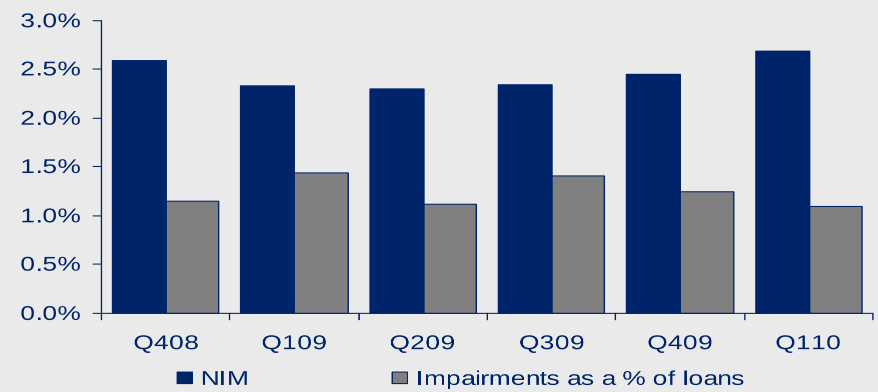
- **Underlying balance growth offset by liability margin contraction**

UK Corporate Assets & Income



- **Improved income reflecting higher asset pricing, constrained by liability margin compression**

US R&C NIM and Impairments

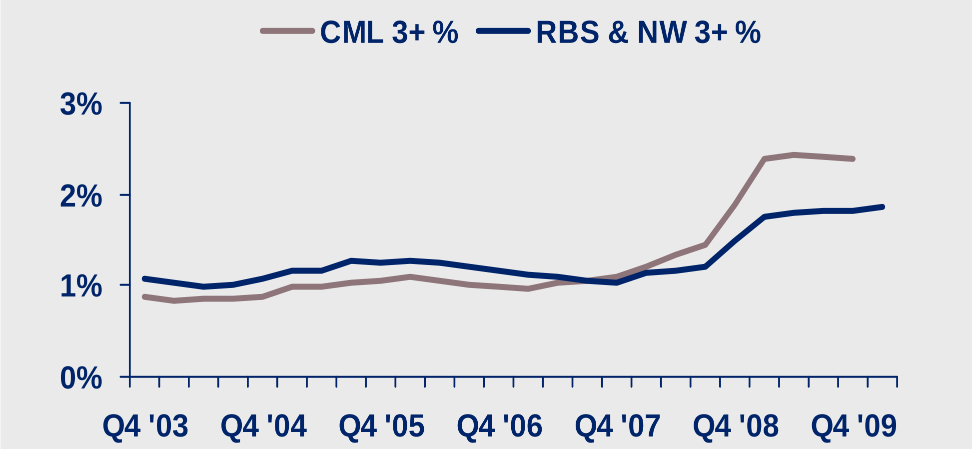


- **Strengthening NIM and lower impairments as a percentage of the book**

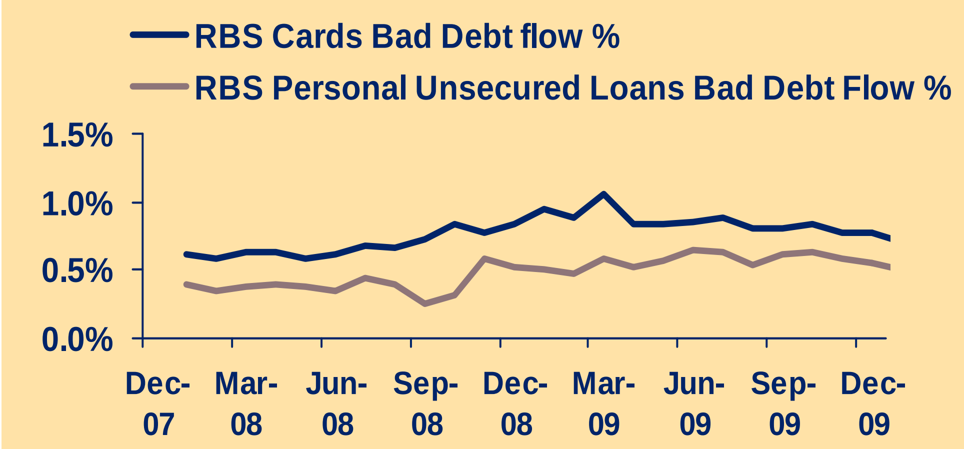
UK Retail & Business Banking

Signs of improving credit quality

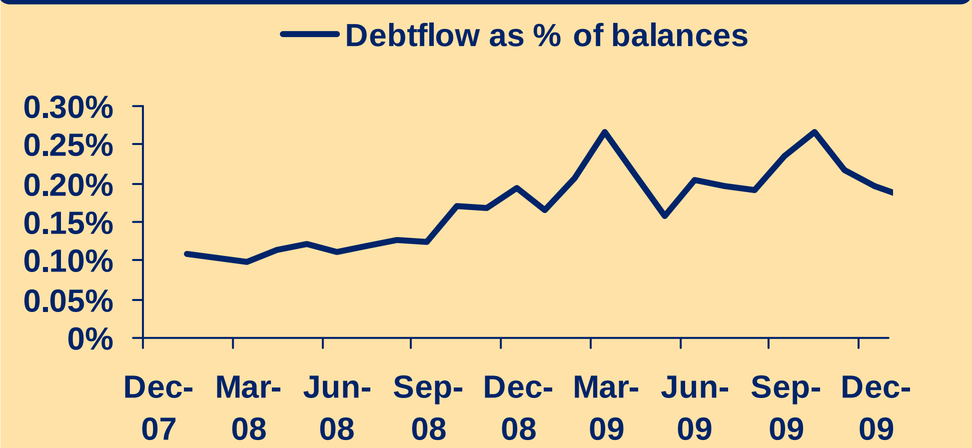
Mortgages – Arrears vs. CML[1]



Personal & Cards – Bad debt flows[2]



Business Banking – Debtflows[2]



- Overall, showing stability in the portfolios
- Low interest rates are assisting credit performance
- However, recovery is somewhat fragile and improvement will be gradual

[1] Council of Mortgage Lenders

[2] Debt flow rate is calculated by looking at the monthly default balances (also known as transfer into recoveries or debt flow) as a % of total Loans & Receivables in that month

GBM franchise

RBS

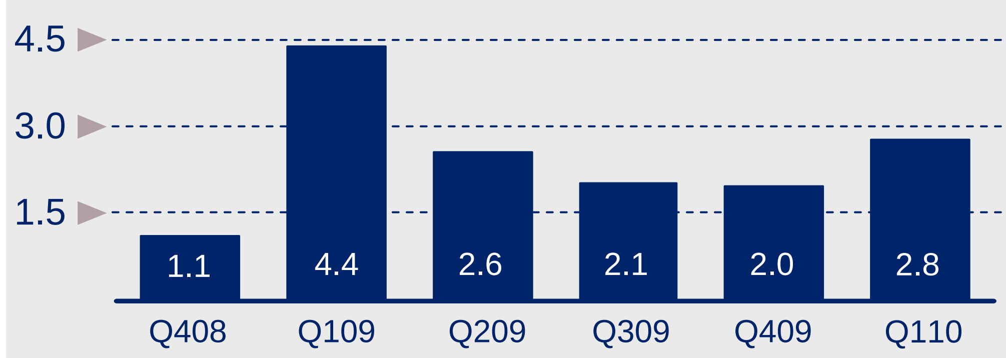
A re-focused business – financing & risk management-led

- **Top 5 wholesale bank in chosen markets**
  - Fewer, deeper client relationships
  - Clear product choices
  - Global, focused on major hubs
- **Financing and risk management-led**
  - "Flow monster"
  - Leadership in fixed income
  - Enhanced equity and advisory
- **Tight risk, capital and funding control**
- **Sustainable efficient platform**
- **New management team**

GBM Summary – FY07 vs FY09 & Q110

	FY07			
	"Old" GBM	Core GBM	FY09	Q110
Income, £bn	9.1[1]	6.7	11.0	2.8
Costs, £bn	(5.8)[2]	(5.1)	(4.7)	(1.3)
Profit, £bn	3.2[1]	1.5	5.7	1.5
ROE, %	10.8%	10.4%	30.7%	28.4%
Balance Sheet, £bn	873.8	617.3	412.2	443.7
People	24,100	20,900	16,800[3]	-
Clients	26,000+		~5,800	

Underlying quarterly income, £bn

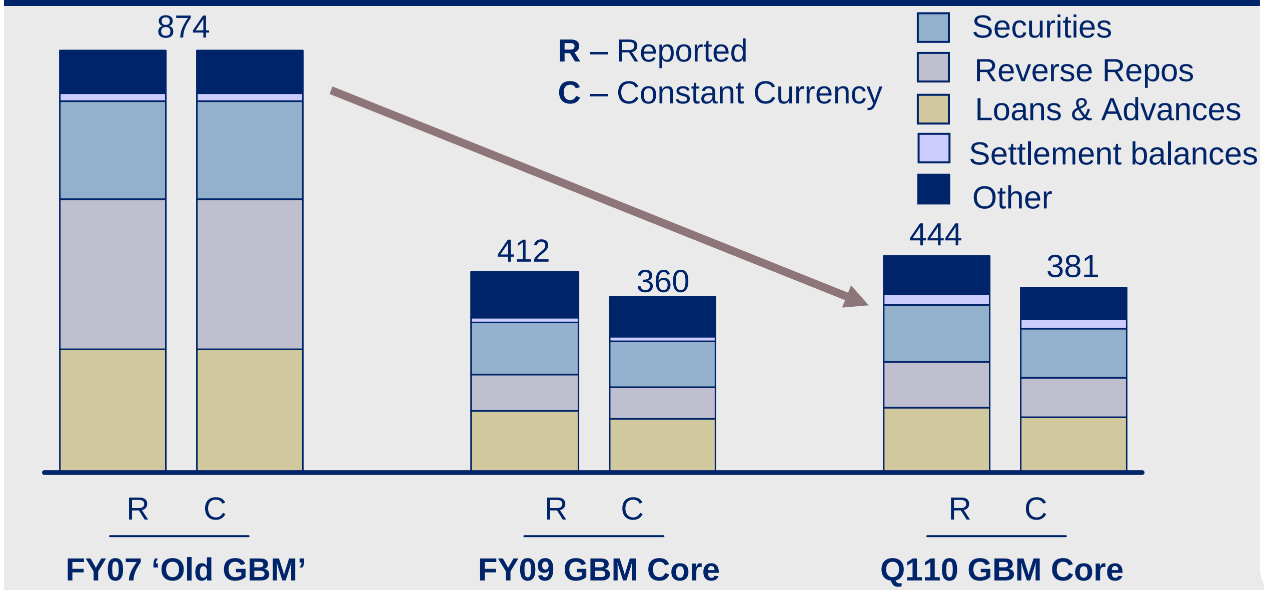


[1] Core + Non Core
[2] Source: GBM Finance (Core only, excluding Sempra)
[3] Source: Published FY09 financials (Core only, excluding Sempra)

GBM franchise

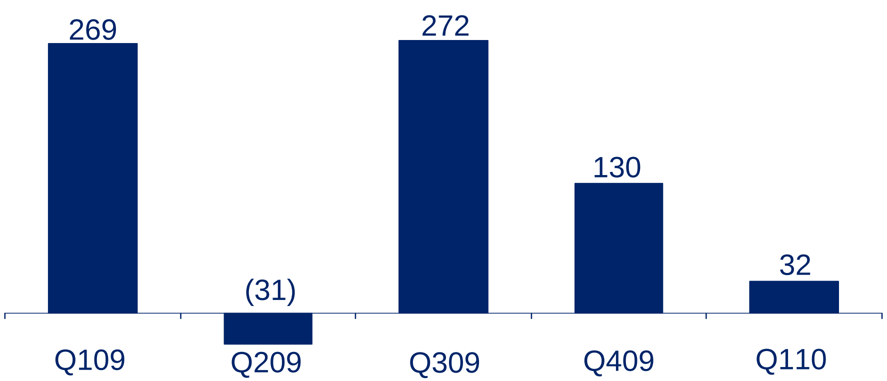
Appropriately de-leveraged and de-risked

GBM balance sheet, £bn



- Continued focus on de-leveraging
- 56% reduction from FY07 CFX
- Remaining within target range of c£400-450bn
- FX driving £11bn (33%) of Q110 growth
- Settlement Balances driving £12bn (37%) of Q110 growth
- Excluding FX and Settlement Balances, total assets declined 1% Q-o-Q

Loan Impairments by quarter (£m)



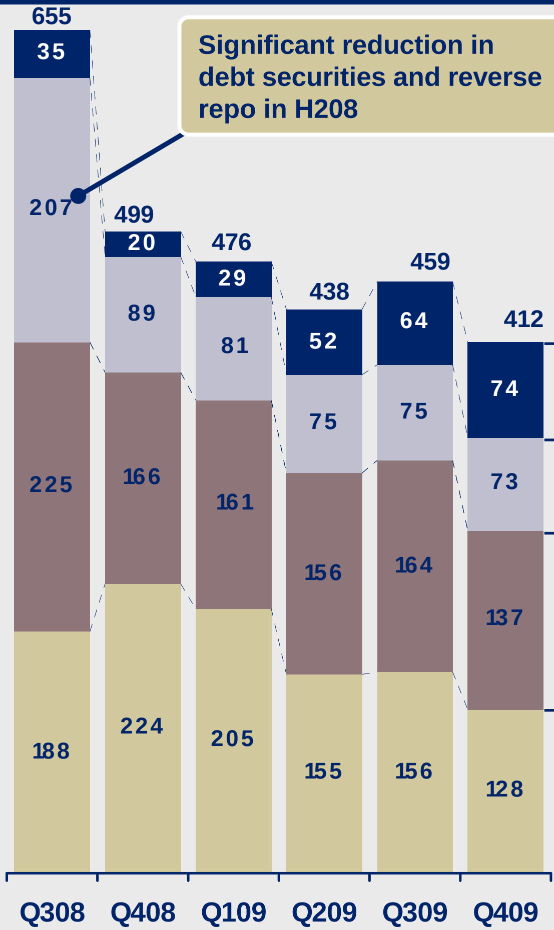
- Recent impairments lower than Q109 & Q309 peaks,
- Future quarterly trend likely to be 'lumpy' given nature of counterparties

GBM franchise

80% of GBM Core Assets are liquid[1]

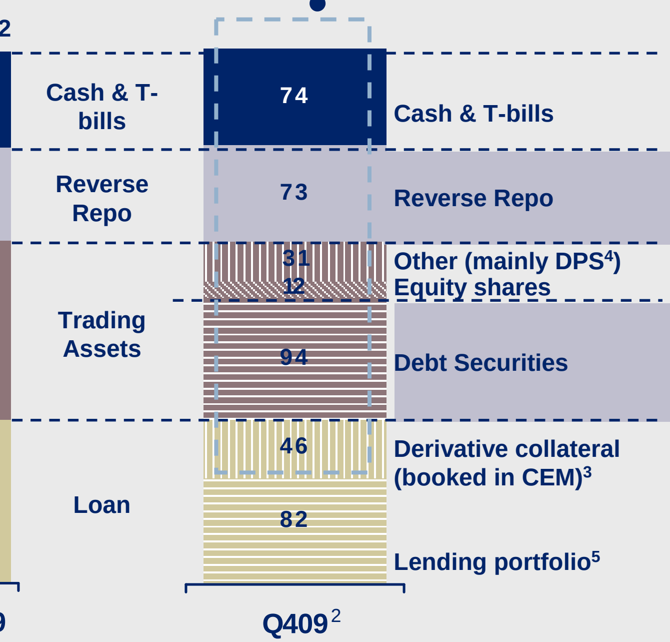
GBM Core Assets

Significant reduction in debt securities and reverse repo in H208



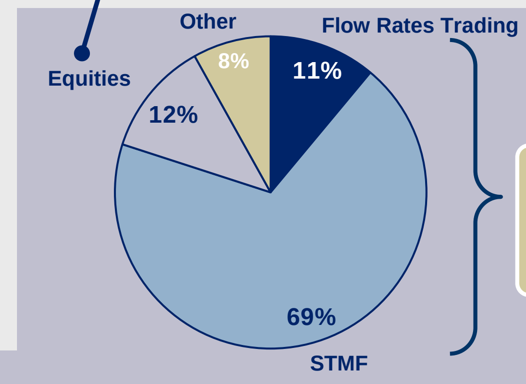
Proportion of liquidity in GBM Core Assets

80% of GBM Core Assets in Q409 are liquid assets



Debt Securities & Reverse Repo held by businesses

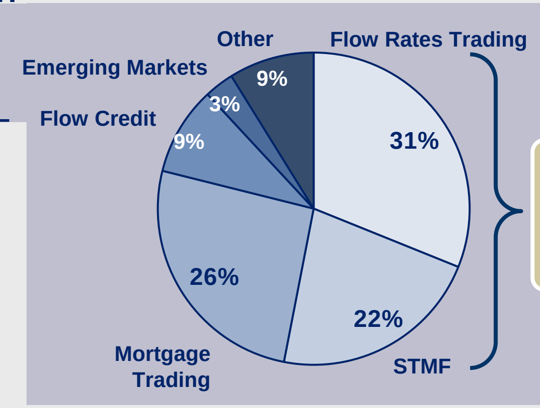
Also highly liquid



STMF[2] + Flow Rates Trading = 80%

These are high grade, very short term assets

Note: Reverse repo in Flow Rates Trading is managed by STMF



STMF + Flow Rates Trading = 53%

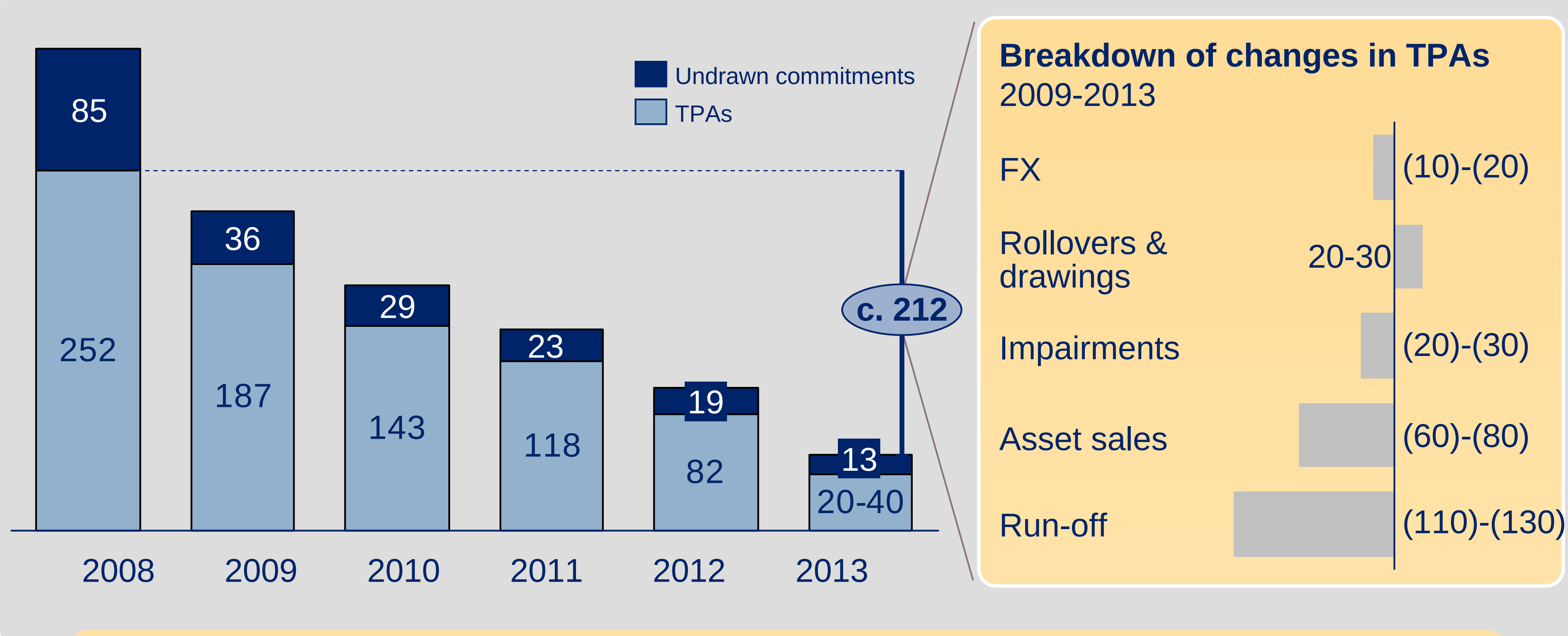
These are high grade debt securities

[1] Q409. [2] Short Term Markets and Financing ("STMF") includes repo financing and Money Markets. [3] Cash collateral posted in relation to derivative liabilities across GBM. [4] Deals pending settlement
[5] Lending portfolio also includes a proportion of assets that could be liquidated swiftly, prices depend on market conditions.

Non-Core division

Non-Core run-off drives the decline in funded assets and risk concentrations

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

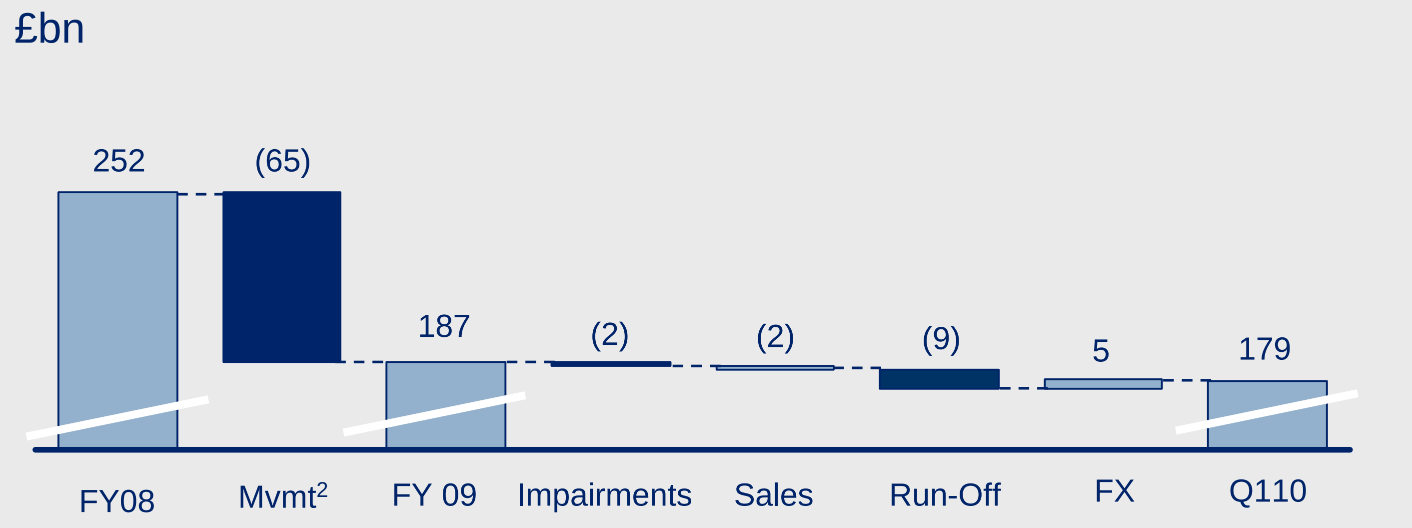


- Plan revised to reflect removal of c. £30 billion APS securitisation, which is no longer viable under final terms of APS
- FY 2013 targets revised to £20-40 billion, reflecting removal of securitisation that is partially offset by additional sales
- Sales selected for pricing and capital preservation

Non-Core division

Significant progress achieved in run-down

Third party assets (TPAs excluding derivatives & Sempra) run-off[1] £bn

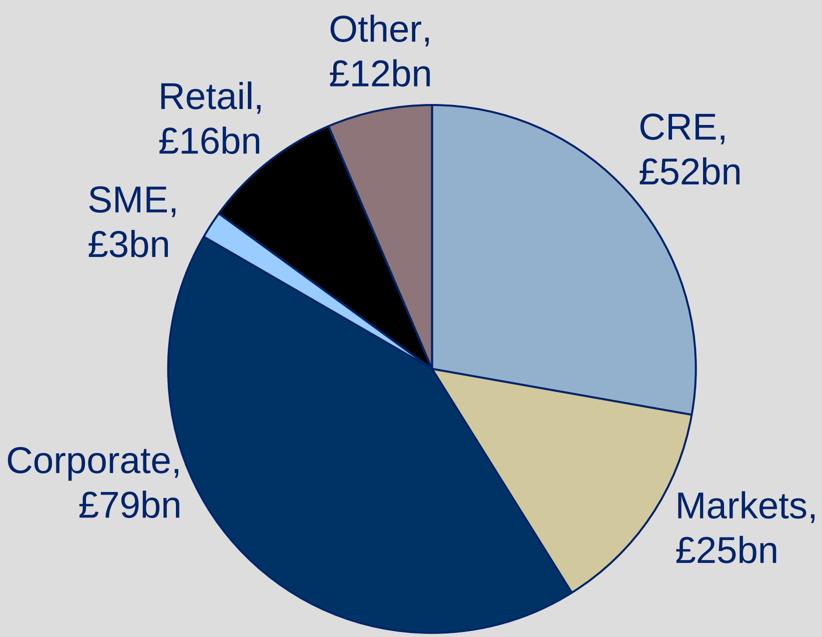


- Non-Core assets reduced 4% (£8bn) during Q1 2010 on a reported basis
- Excluding negative FX moves (£5bn), TPAs reduced 7% (£13bn)
- Run-off driven by CRE, Corporate and Markets
- Asset sales primarily Corporate
- C. £40bn targeted reduction pa. Excluding the FX movement Q110 is on track for FY2010

[1] Third party assets excluding Sempra, excluding mark to market derivatives
[2] Run-off, MTM, disposals, impairments and FX

Non-Core composition

2009 Y/E TPAs[1] 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

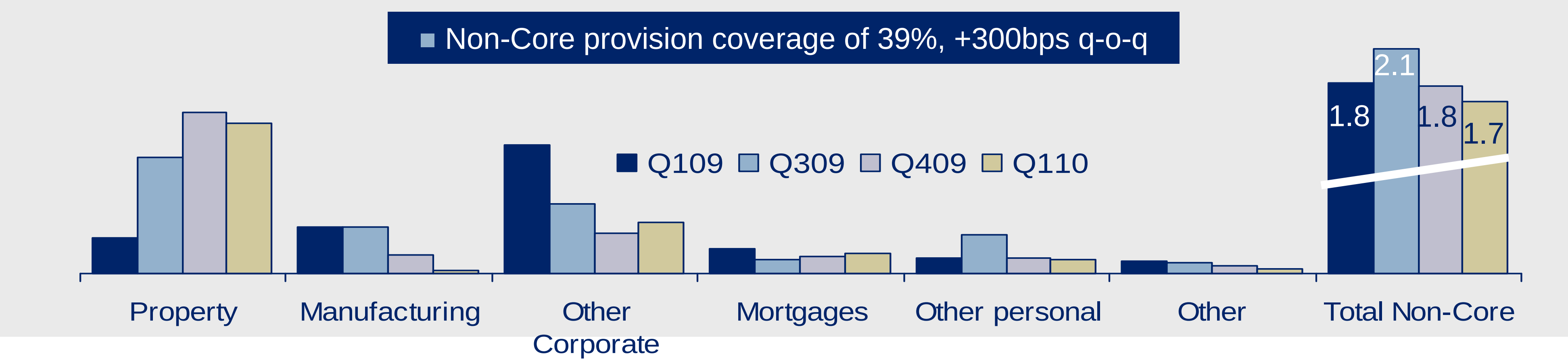
[1] Excluding MTM derivatives and Sempra

Non-Core impairments stabilised in Q1

Impairment trends improving; absence of large single names

	Q110 £m	Q110 % L&A[1]	Q409 % L&A[1]	FY09 % L&A[1]	Q1 10 Key Sector Impairments:
UK Retail	**5**	**0.8**	1.1	2.1	Mortgage & Personal lending
UK Corporate	**155**	**1.9**	3.9	4.8	Property & construction 34% of total
Ulster Bank[2]	**552**	**13.0**	7.0	8.3	Property £461m, 84% of total
US R&C	**208**	**7.4**	7.6	9.7	SBO/Home Equity £102m, and CRE £63m - 80% of total
GBM	**753**	**3.6**	4.1	4.9	Property £472m, 62% of total
Other	**31**	**3.7**	6.5	9.3	Mainly Wealth
Total	**1,704**	**4.6**	**4.6**	**5.7**	**Absence of large individual cases; Ulster Bank charges elevated**

Non-Core impairments by asset type Q109, Q409 & Q110[2], £bn



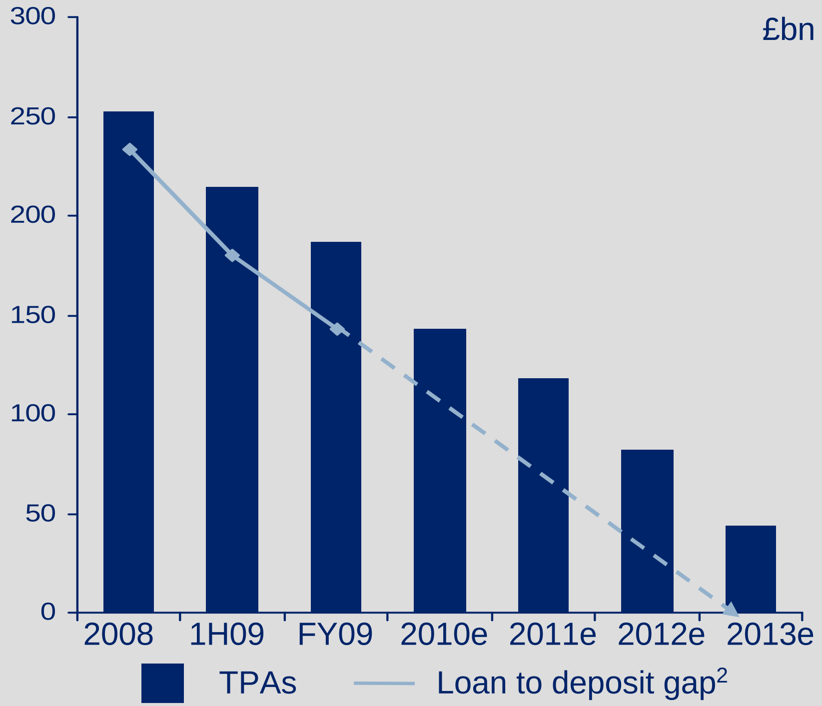
[1] Excludes Available for sale impairments. [2] Includes EMEA.

Strengthening funding, liquidity & capital

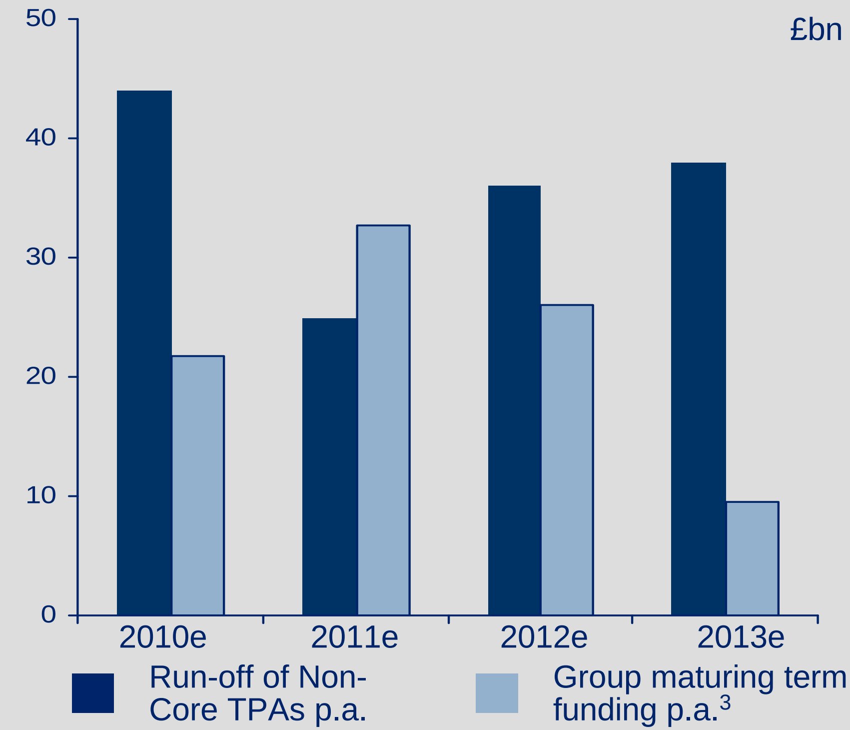
Improving funding and liquidity

Non-Core run-off drives the reduction in wholesale funding reliance

Non-Core third party assets (TPAs excl MTMs) run-off targets[1] trend with the Group Loan:Deposit gap



Refinancing requirement outweighed by run-off in Non-Core third party assets[2]



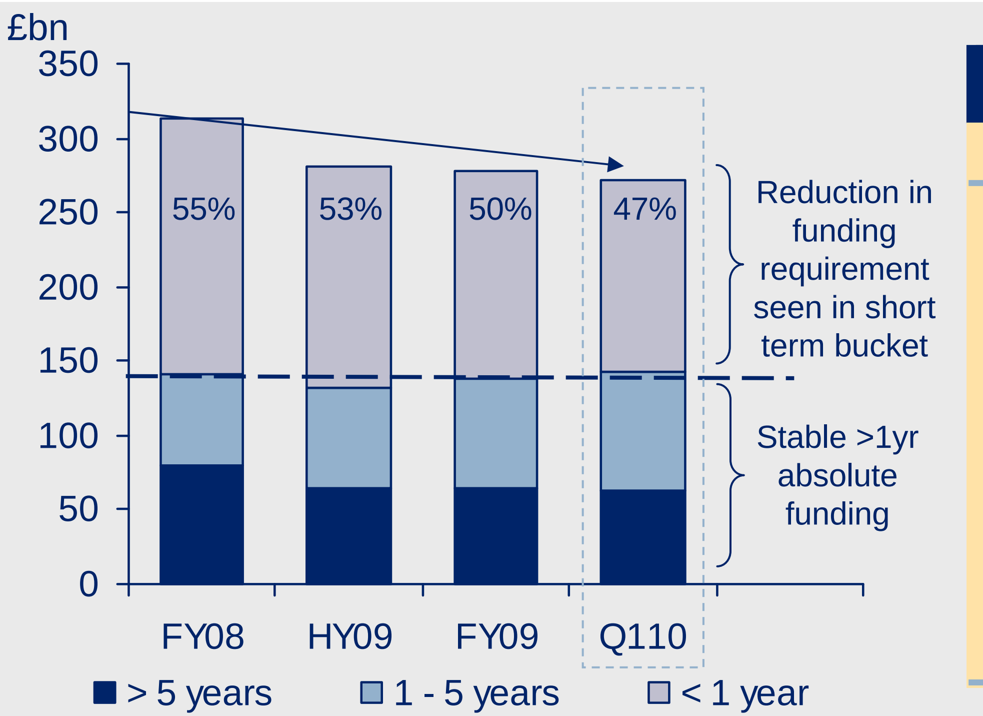
- Reduction in loan:deposit gap, expected to trend closely with the run-off of Non-Core
- Future wholesale refinancing requirement is outweighed by the level of run-off from Non-Core

[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)

Improving funding and liquidity

Developing wholesale funding mix

Wholesale funding maturity



Key Funding Metrics

	H109	FY09	Q110
Loan:deposit ratio (Group)[1]	143%	135%	131%
Core	110%	104%	102%
Loan:deposit gap (Group)[2]	£180bn	£142bn	£131bn
Core	£41bn	£16bn	£10bn
Liquidity reserves	£121bn	£171bn	£165bn
Of which central govt bond portfolio:	£7bn	£20bn	£25bn
Net Stable Funding Ratio[3]	83%	90%	90%
Wholesale funding > 1 year[4]	47%	50%	53%

- Reduction of £42bn in overall wholesale funding requirements between FY08 and Q110
- Absolute wholesale funding greater than 1 year remains stable despite total wholesale funding requirement declining. Mix of wholesale funding greater than 1 year increases to 53%, +3% from FY09
- Strong term issuance programme with over £8bn of public and private unguaranteed issuance in Q110
- €15bn covered bond programme registered with the FSA

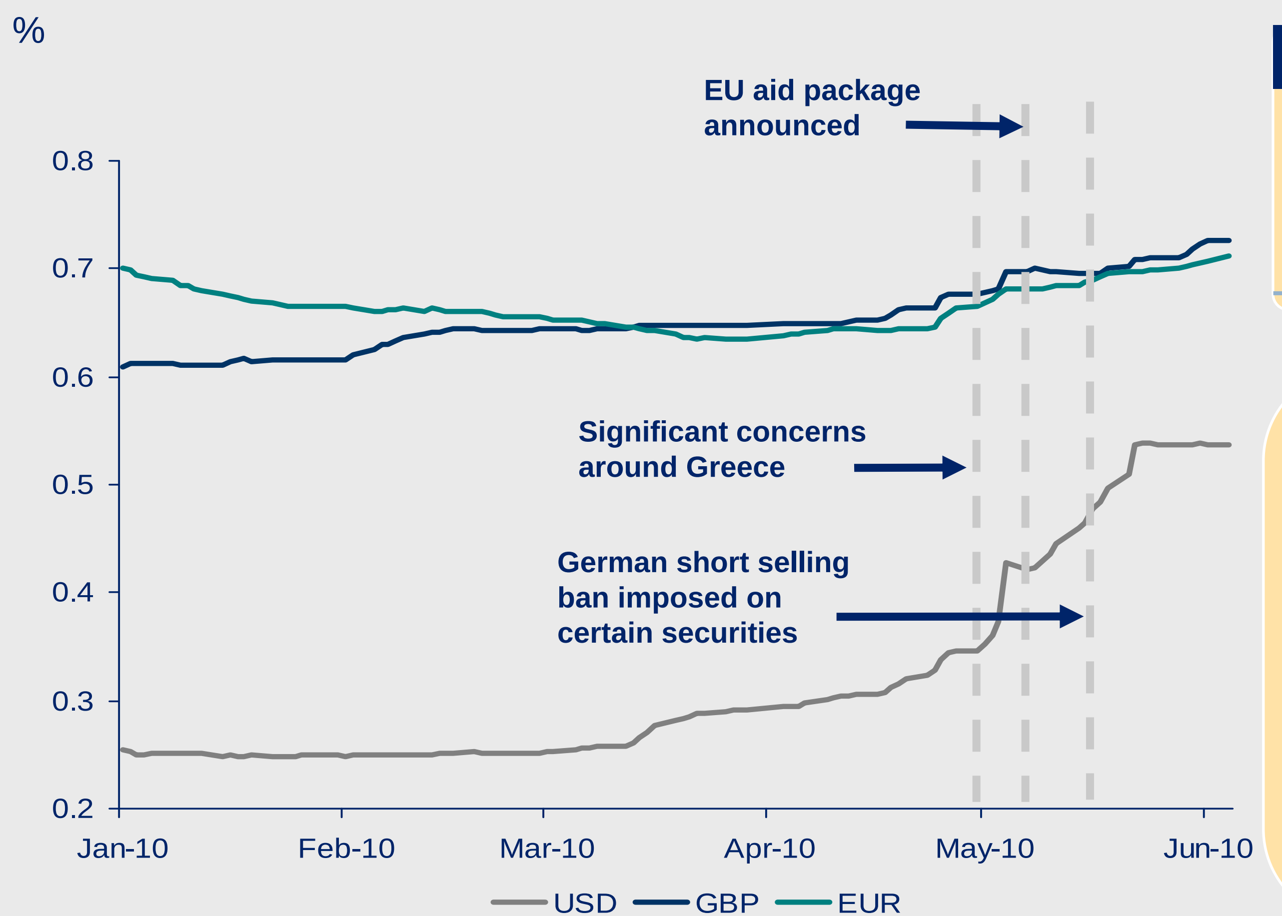
[1] Net of provisions
[2] Net loans & advances to customers less customer deposits (excluding repos)
[3] Net Stable Funding Ratio measures the level of net stable funding divided by long-term assets
[4] Excluding bank deposits

Current funding conditions

RBS

On-going market access

Recent 3 month LIBOR trend[1]



LIBOR-OIS[1,2]	Worst Point[3]	Jun-10[4]
USD	3.64%	0.32%
EUR	2.05%	0.24%
GBP	2.99%	0.21%

- LIBOR-OIS spreads remain tighter than historic periods of stress, recent USD widening in part a function of technical drivers
- Recent trends have seen cost of rolling paper increased; no major impact on NIM
- Group has ongoing access to the wholesale funding markets

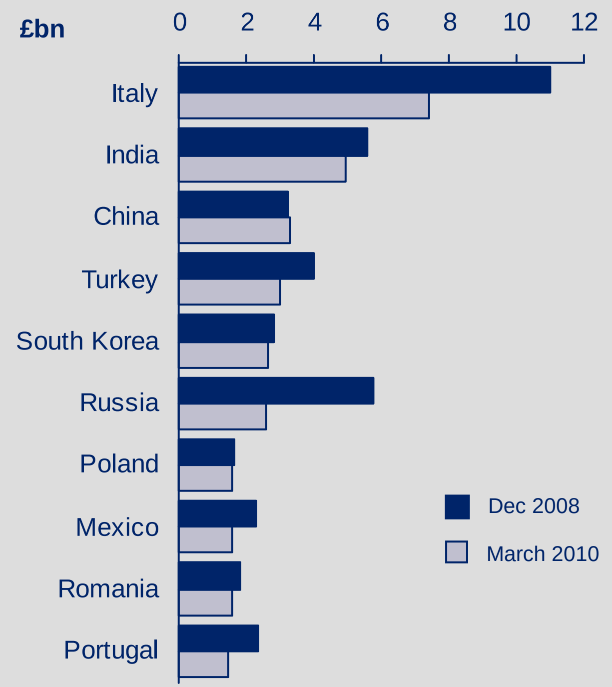
[1] Source Bloomberg. [2] 3-month LIBOR-OIS spreads [3] Worst point for USD and EUR 13/10/08, GBP 07/11/08. [4] Figures as at 01/06/10

Reducing risk concentrations

Portfolio concentrations continue to decrease

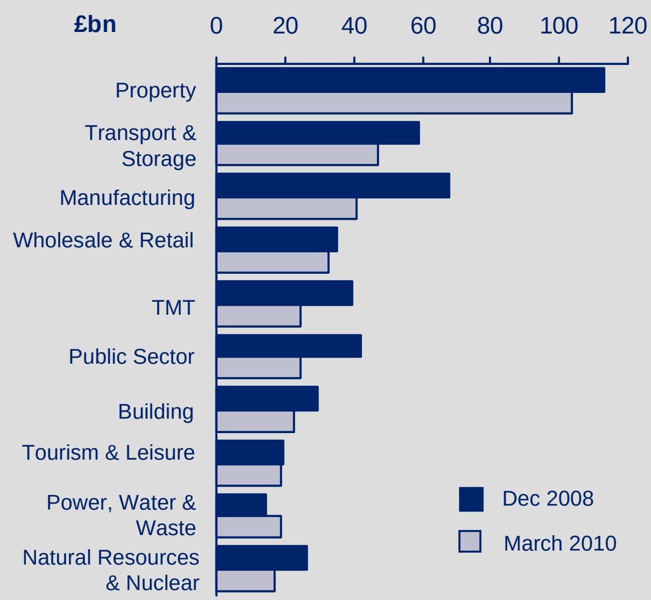
Country[1]

Top 10 A+ and lower countries by credit risk assets



Sector[1]

Top 10 Corporate industry sectors by credit risk assets



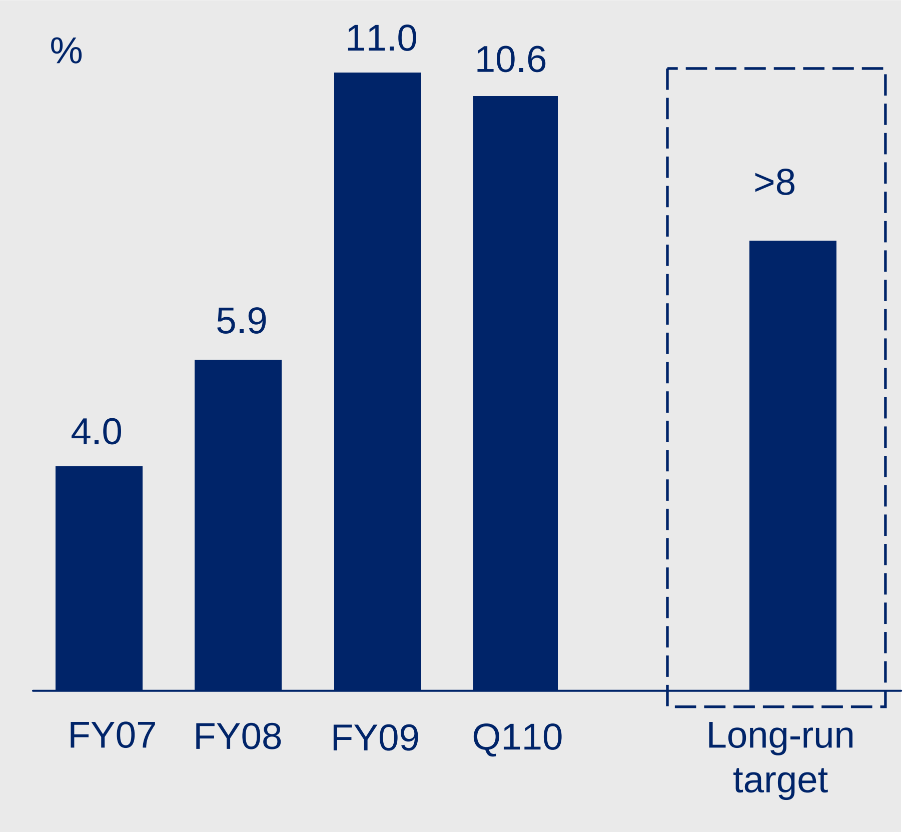
- New frameworks, polices and limits in place
- Good progress on de-risking, with proactive management of both Core and Non-Core exposures
- Reduced concentrations overall but more remains to be done
- Exposure to higher risk economies reduced
- Greek exposure is small, with <£1bn of credit risk assets and c. £1.5bn of Greek government debt securities (as at 31/3/10)

[1] Country and Sector charts are based on Credit Risk Assets – see Report and Accounts for further details. Country chart shows ten largest countries rated A+ or below by domicile of borrower.
[2] Cross border exposure

Core Tier 1 – an increased buffer

Significantly strengthened capital position

Core Tier 1 Capital progression, FY07 – Q110 & long-run target



- Significant progress in strengthening CT1
- 11% at FY09, driven by B Share issuance, APS overlay and Asset & Liability Management gain
- 10.6% at Q110 reflecting RWA increases driven by the roll-off of capital relief trades
- Recently completed liability management exercise to increase CT1 by c30bps
- Provides buffer for potential future losses and Non-Core run-down, as well as regulatory changes

Regulatory uncertainties remain

Path of regulatory change will be phased and sensible

Capital – RWA impacts

BASEL II CHANGES e.g.:
- Stressed VaR
- Correlation Trading Book

Liquidity

LIQUIDITY REQUIREMENTS:
- Increased liquidity reserves
- Costs of holding

To be phased in from 2012

CHANGES TO CAPITAL DEDUCTIONS e.g.:
- Deferred Tax Assets
- Material holdings
- Pension deficit

2010 | 2011 | 2012 | 2013 | 2014

Observations:
- Proposals published, but subject to consultation and impact assessment
- Implementation likely phased so as not to destabilise Banking System

Risks:
- More penal at implementation
- Shortened timeline for introduction
- Failure to gain global agreement, UK or EU 'goes it alone'

Counterparty & OTC Derivative reforms expected to impact RWAs from 2012

Outlook

NIM outlook

RBS

Liability margins to improve – asset margins to hold

Current Position

Margin	Q110	Q409
Group NIM	1.92%	1.83%
R&C NIM[1]	3.01%	3.01%
GBM	1.11%	0.89%
Non-Core	1.25%	1.17%

Outlook

	2011-13
Overall margin	
Asset margins	
Liability margins	
R&C margin	
GBM margin	
Non-Core margin	
Impact of funding & liquidity	
Overall deposit margin	

To achieve the plan:

- Current new business asset margins hold steady
- Interest rates rise towards end of plan period

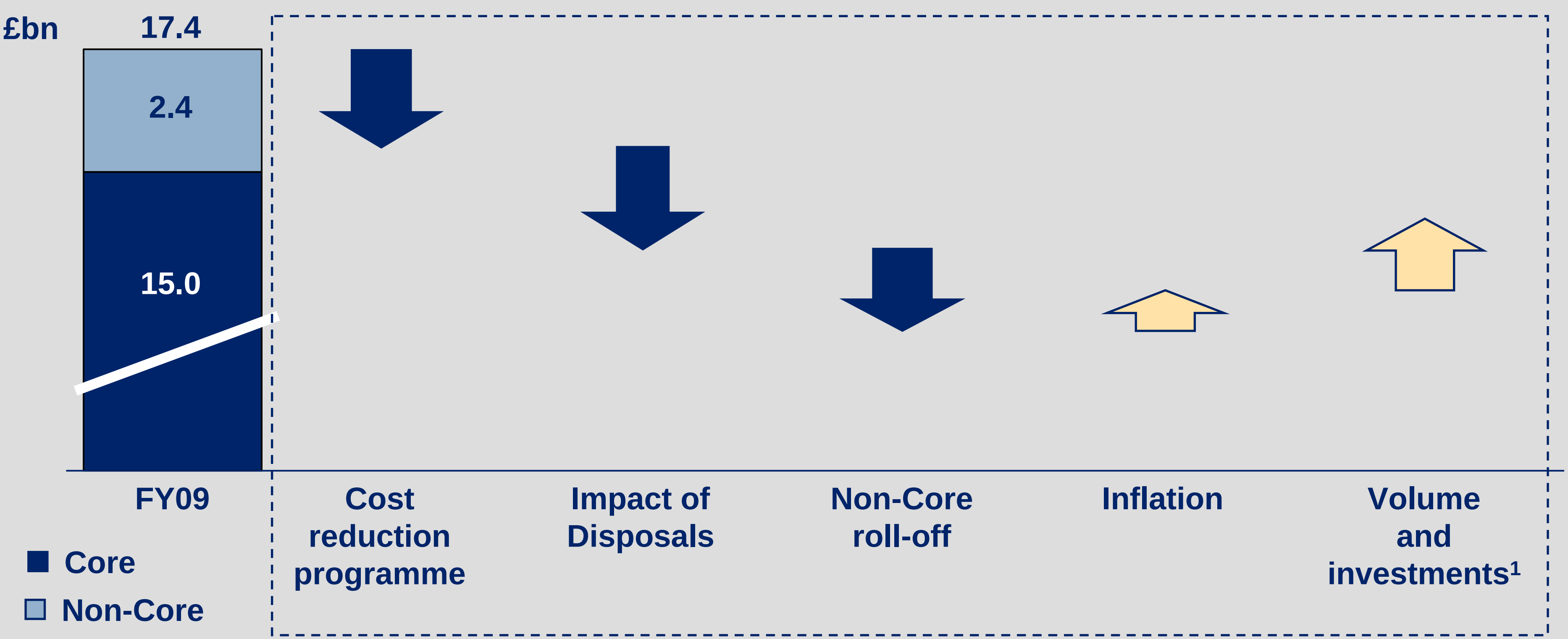
Possible risks:

- Irrational competition
- Interest rates remain near zero for extended period

[1] Underlying, adjusted for days in month; 2.97% (Q110) and 3.04% (Q409) on a reported basis

Driving cost efficiencies

We can deliver good cost efficiency



- Core costs broadly flat over the planning horizon
- Impact of inflation & volume growth in Core offset by business re-investment & cost reduction
- Rump of Non-Core costs of c£300-400m expected in 2013, falling away rapidly thereafter
- Target cost:income ratio of less than 50%

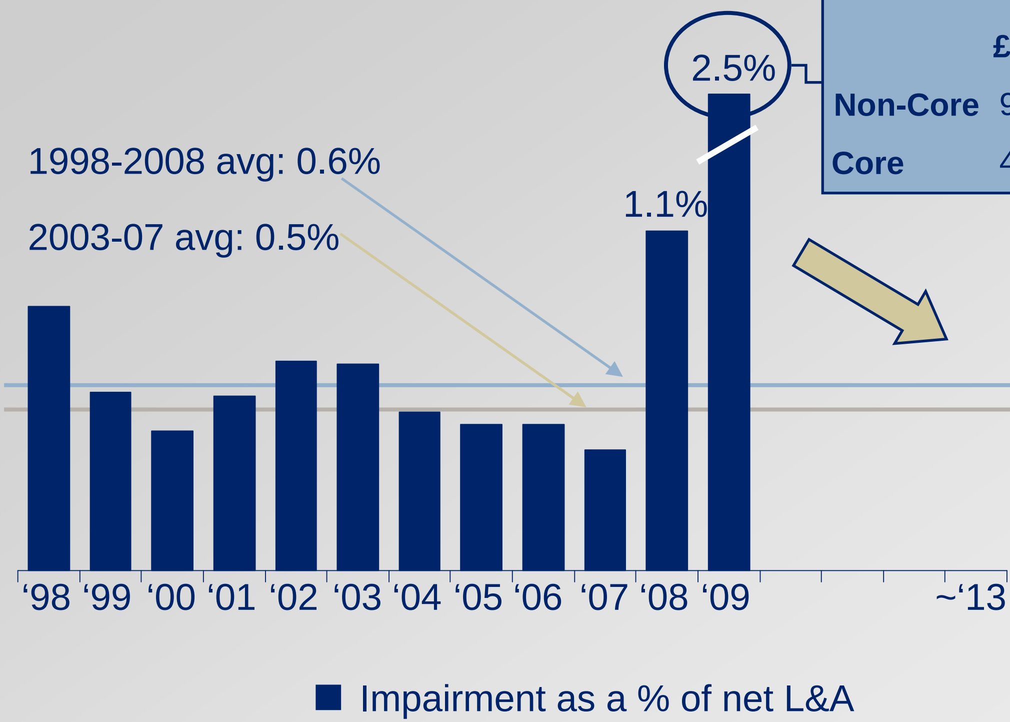
[1] Includes FX impact

Impairments outlook

RBS

Impairments trend to “normalised” levels

Impairments – returning to normalised levels



	£bn	% of Total	% of L&A
Non-Core	9.2	66%	5.7%
Core	4.7	34%	1.1%

Outlook

- Trend back towards historic levels
- Historic levels flattered by high loan growth in 2003-07 period
- Large Non-Core impairment reduction as portfolio runs off – small impairment charges remain in 2013-14

Possible Risks

- Recovery path not sustained
- Event risk – individual significant shocks

Concluding comments

Foundations for recovery are in place

Robust customer franchises

Balance sheet de-risking well underway

Business valuation will become clearer over 2010/11

Market environment for NIM starting to improve

Impairment trends are moderating - still early days though

Focus on business investment

Funding, Capital & Liquidity strengthened

Economic and regulatory threats remain elevated

2010 - a year of execution

Questions?