Re-building and Recovery

KBW UK & European Financials Conference

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Strategic Plan Update & Business Review

Richard O’Connor, Head of Investor Relations

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

Who are we?

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

RBS Group

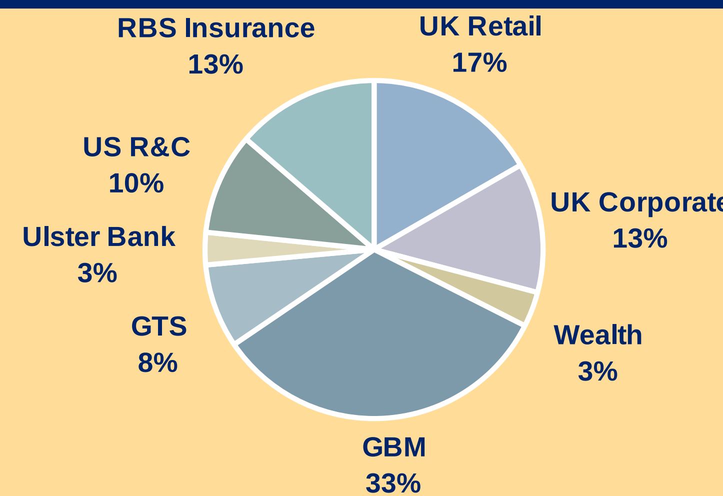
Core RBS

- 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

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

RBS

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

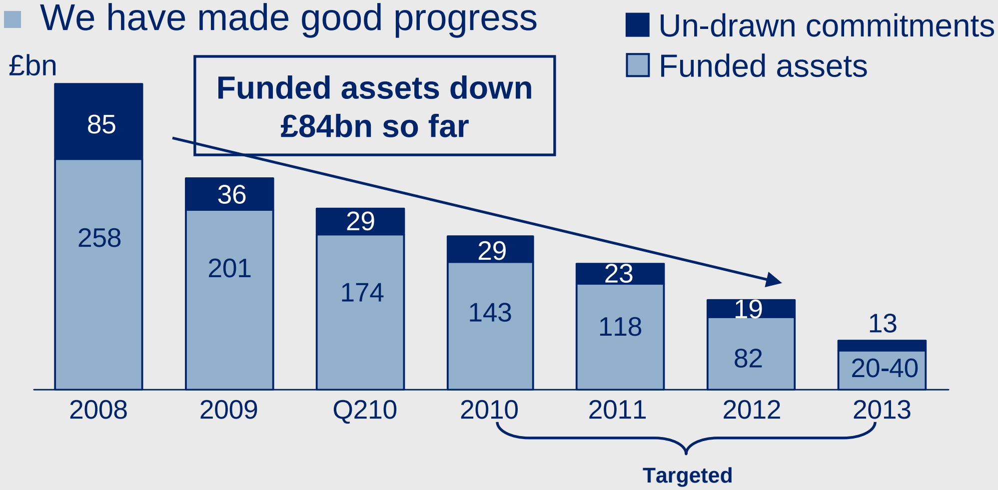
[1] Excluding Fair Value of Own Debt
[2] Adjusted cost:income ratio is calculated based on income after the cost of insurance claims. Cost:income ratio before insurance claims is 46%.
[3] Group target
[4] Funded assets as at 30 June 2010 £1,058bn
[5] Third party assets excluding derivatives

Non-Core run-down & EU disposals

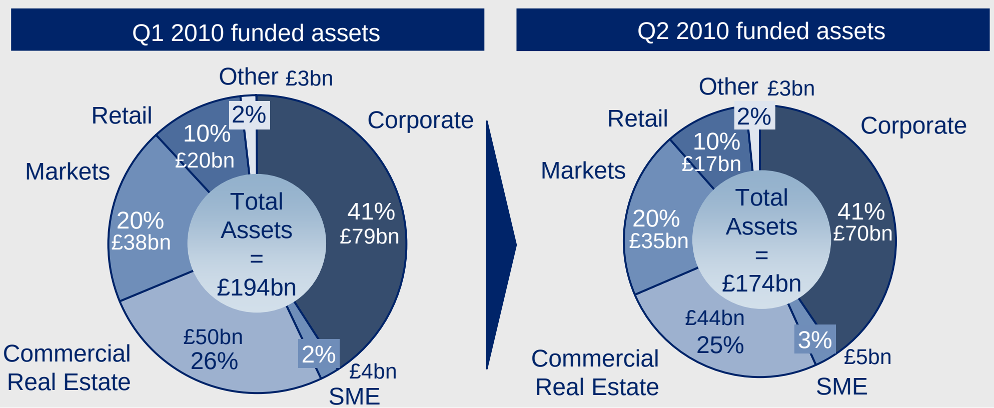
Non-Core run-down and EU disposals progressing well, lowers execution risk

Non-Core

- We have made good progress



- Reduction continues across all portfolios



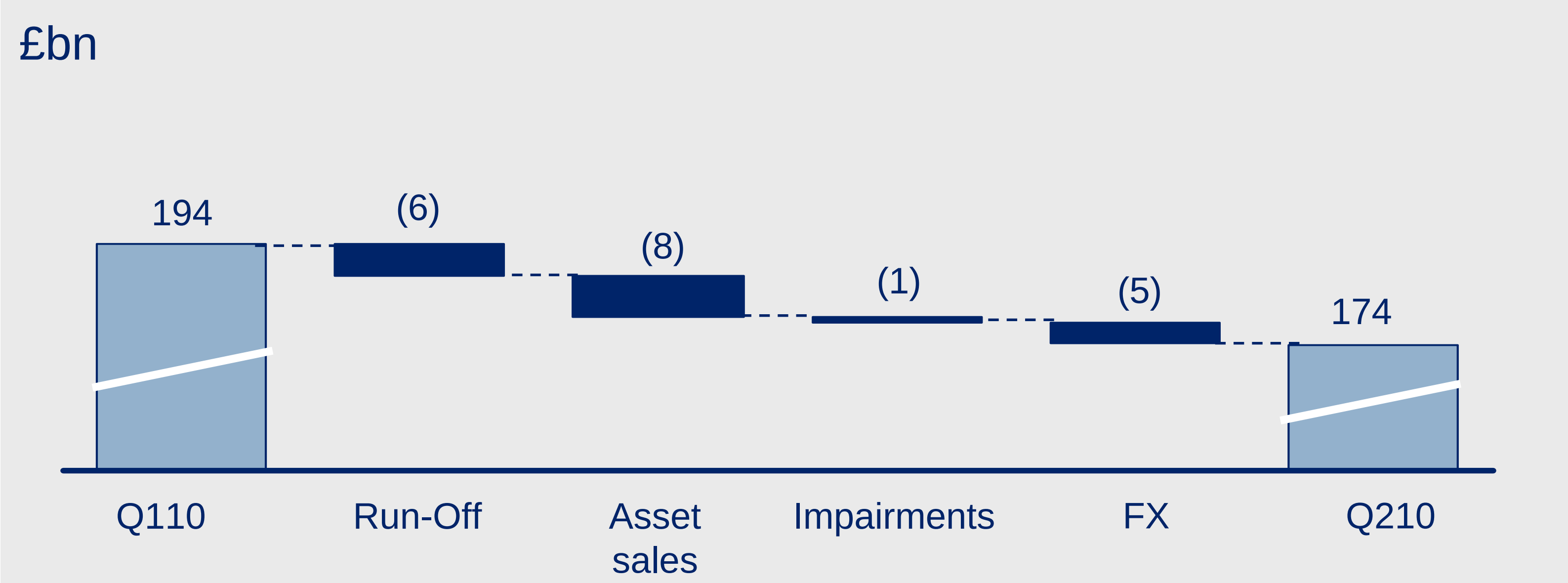
Asset disposals

- Non-Core asset portfolio run-off/sales on target
  - Ongoing risk reduction – possible H2 acceleration
  - Maximising exit prices to preserve capital
- 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 16^{th} February 2010 and completed 1^{st} July 2010

Non-Core run-off[1] – run-down on track

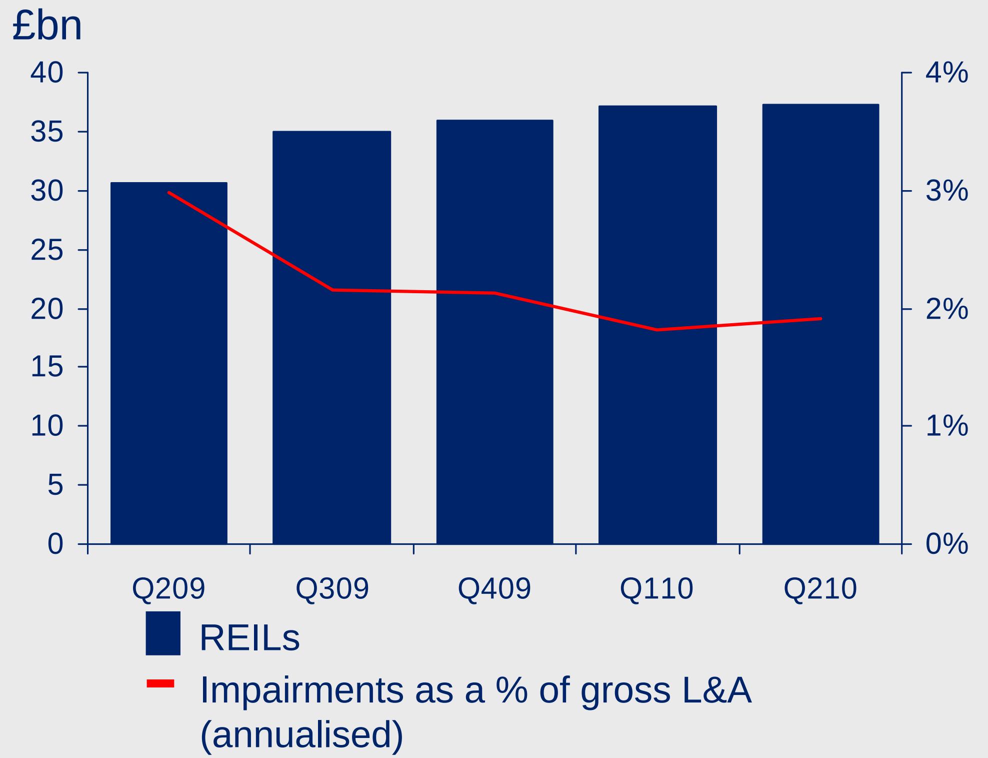


- Non-Core assets decreased 10% (£20bn) during Q2
- Run-off driven by CRE, Corporate, and FV movements in trading assets
- Asset sales primarily Corporate
- Second half sales pipeline appears healthy (may accelerate some disposal losses)

[1] Third party assets excluding mark to market derivatives

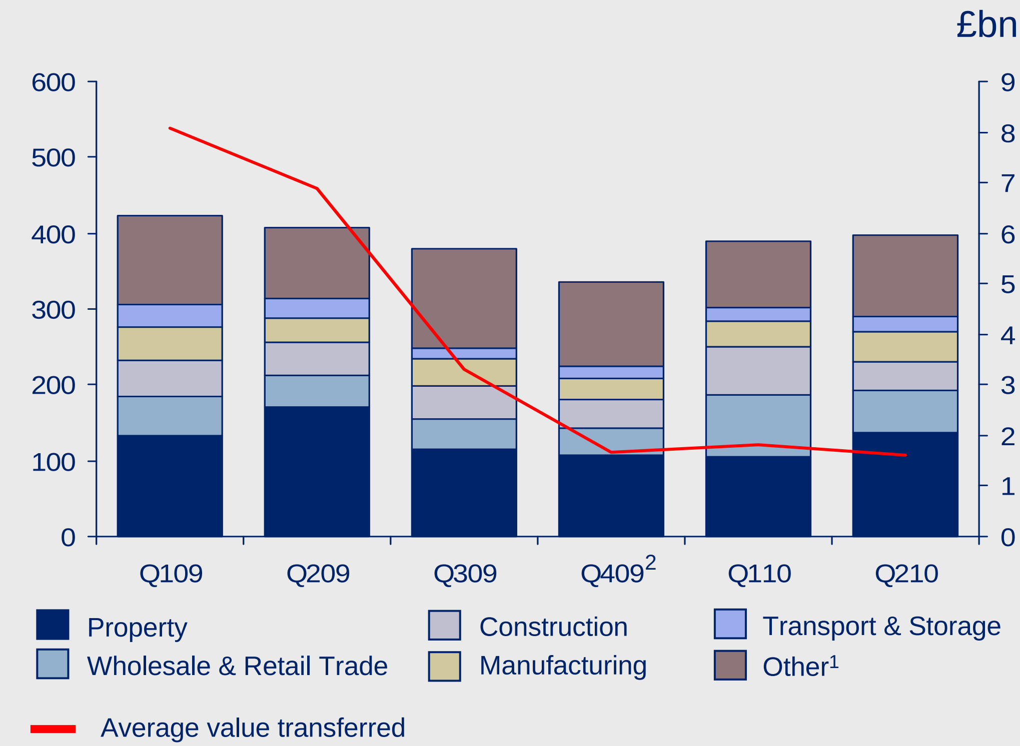
Impairments trends – signs of stabilisation

Group credit trends, Q209 – Q210



- REILs broadly stable q-o-q
- Group impairment charge stable q-o-q as a % of loans

No. & value of wholesale cases transferred to Recoveries Units globally, Q109-Q210 (monthly average)



- Q2 continues previous trends seen in 2009 and Q1
- Number of cases broadly flat, value of cases showing small decline
- Property remains the dominant sector

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

[2] Q409 excludes transfer to GRG reflecting revised management of Ulster Non-Core property portfolio

Funding, Capital & Liquidity

John Cummins, Group Treasurer

Addressing past issues

Strategic Plan established to address past business issues

Capital	Funding
Leverage	ABN AMRO acquisition
Strategy	Risk controls
Profit focus	Management & processes

Significant progress made

Execution of Core and Non-Core strategies are fundamental to achieving an equivalent 'AA' category rating

Non-Core created as key driver in achieving Strategic Plan targets

Our Strategic Risk Objectives	Non-Core	Core
Maintain capital adequacy	▪ Restructuring and resizing of the balance sheet ▪ Significant country and business exits ▪ Execution of asset disposal and rundown reduces capital requirement	▪ Higher quality balance sheet ▪ Less concentration risk ▪ Improved portfolio mix ▪ Focus on appropriate balance of risk vs. return in Core businesses going forward
Maintain market confidence	▪ Restructuring plan addresses every area of "failure" and reverses the historic vulnerabilities of the Group	▪ Execution against strategic plan regains market confidence ▪ Emphasis on strong risk management and control culture ▪ No surprises
Deliver stable earnings growth	▪ Restructuring and resizing of the balance sheet combined with decoupling of high earnings volatility businesses	▪ By 2013 profits will achieve ROE >15% ▪ RWA and balance sheet efficiency improved significantly with new risk disciplines in place ▪ An improved business mix combined with appropriate balance of risk vs. earnings
Stable/efficient access to funding & liquidity	▪ Restructuring and resizing of the balance sheet ▪ Reduction of funding requirements as a result of smaller balance sheet ▪ Reduces requirement for longer term funding	▪ Higher % of Government holdings (£50bn) improves liquidity ▪ Short-term wholesale funding <1 year to be c£150bn by 2013 ▪ Loan to Deposit ratio improves from over 140% (2009) to circa 100% (2013)

Management disciplines and culture necessary to achieve an equivalent ‘AA’ category rating

RBS

Strict financial and risk management disciplines have been instilled across the business

Financial discipline

- Improved controls and cost / capital fully allocated to Divisions
- Focus on funding balance
- Disciplined RWA usage in the Core (value not volume)
- Focus on returns (and setting of return targets) not just profits
- Total balance sheet size controlled and liquidity surprises avoided

Risk management disciplines

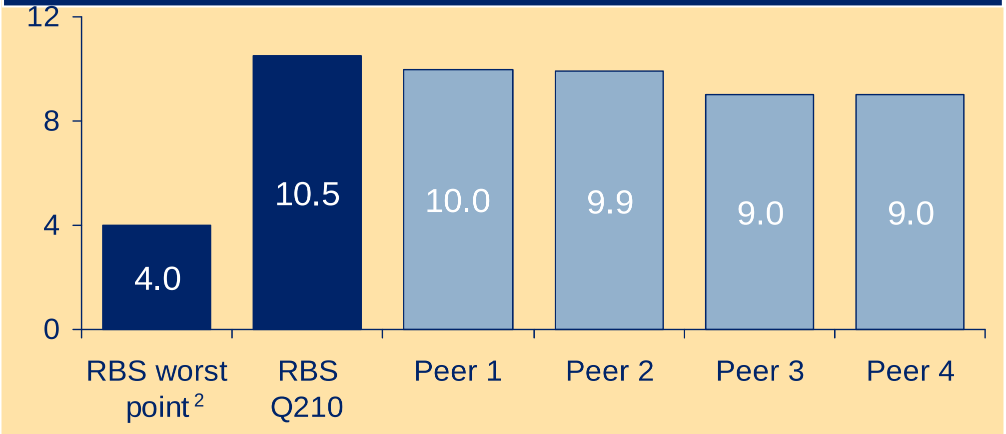
- Reduced single name, sector and country concentration limits
- Earnings volatility / impairments managed down
- Strengthened risk function role
- Drive business performance through focus on returns and strategy
- New reporting systems increase transparency

Underpinned by new management process and incentives

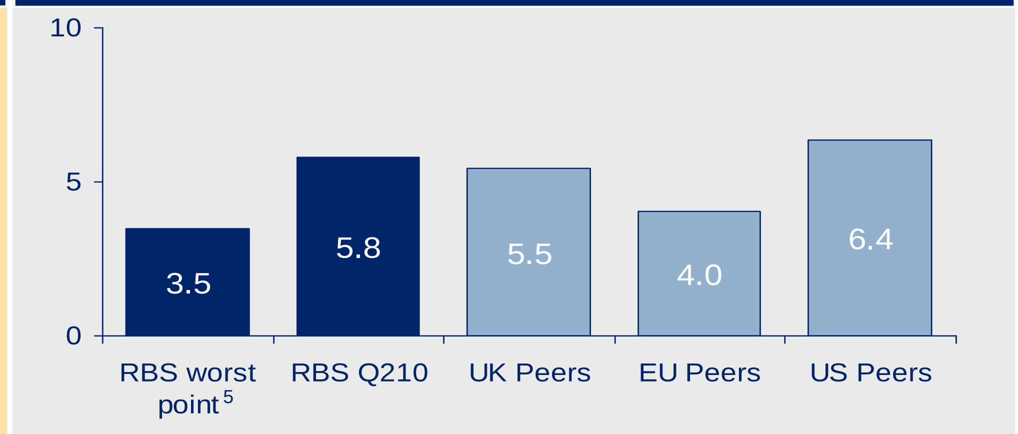
Balance sheet strengthening on track

Now well capitalised, making strong progress on funding

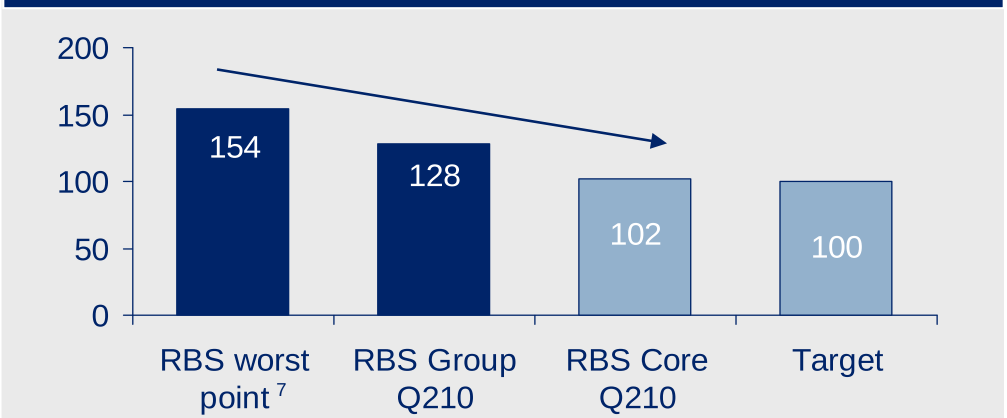
Core Tier One Ratio vs UK Peers[1], %



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



Loan to deposit ratio[6], %



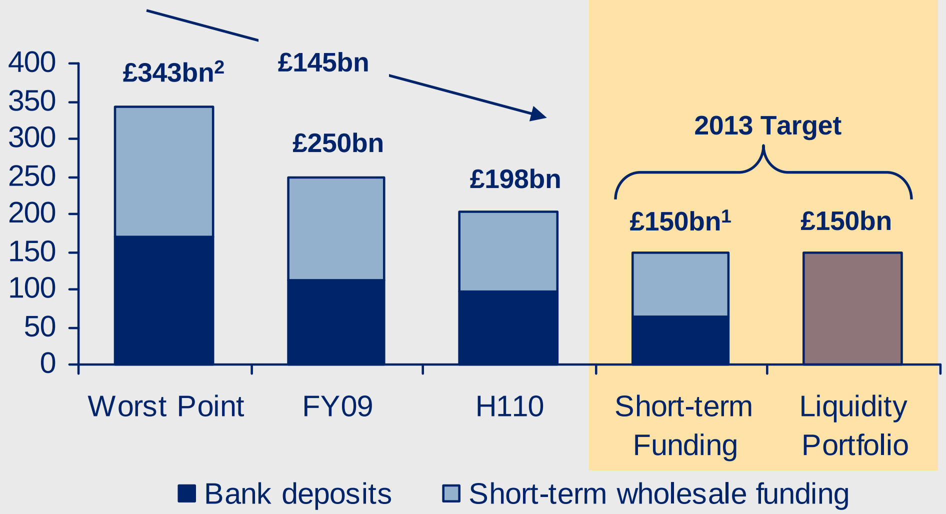
Key highlights

- 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

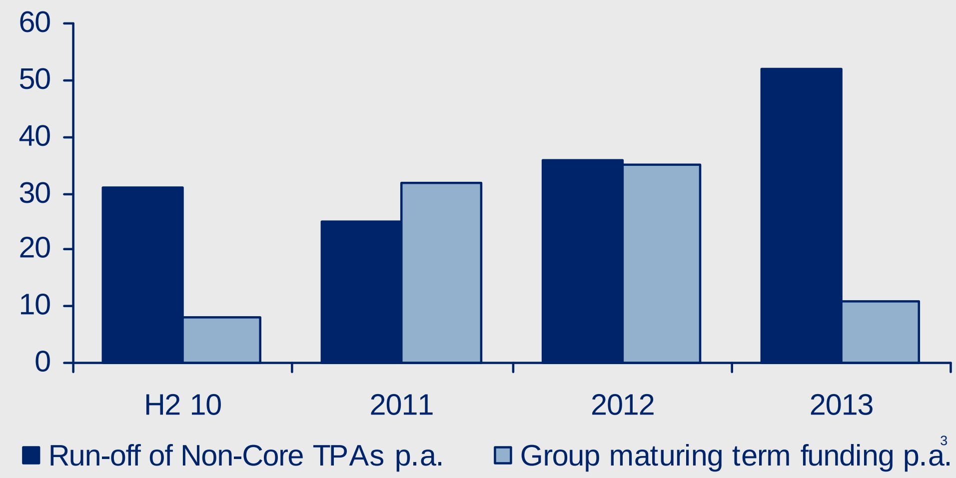
[1] UK Peers consist of Barclays, HSBC, LBG and Standard Chartered. [2] As at 1 January 2008. [3] Tier 1 leverage ratio is Tier 1 Capital divided by funded tangible assets.
[4] EU Peers consist of Credit Suisse, Deutsche Bank, Santander and UBS. US Peers consist of Bank of America, Citigroup, JP Morgan 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 & liquidity – good progress towards targets

RBS

Evolution of Group funding mix towards more stable long-term funding sources[1]

	FY09		Q110		Q210	
	£bn	%	£bn	%	£bn	%
Deposits by banks	115.6	14	100.2	13	96.6	13
Wholesale <1 year	*139.0*	*50*	*127.9*	*47*	*106.1*	*43*
Wholesale >1year	*138.8*	*50*	*143.2*	*53*	*138.8*	*57*
Total wholesale	277.9	34	271.1	34	244.8	32
Customer deposits	414.3	51	425.1	53	420.9	55
Total	**807.8**	**100**	**796.4**	**100**	**762.3**	**100**

Key Funding Metrics

	FY09	Q110	Q210
Loan:deposit ratio (Group)[2]	135%	131%	128%
Core	104%	102%	102%
Loan:deposit gap (Group)[3]	£142bn	£131bn	£118bn
Core	£16bn	£10bn	£8bn
Liquidity reserves	£171bn	£165bn	£137bn
Of which central govt bond portfolio:	£20bn	£25bn	£25bn
Net Stable Funding Ratio[4]	90%	90%	92%
Wholesale funding > 1 year[5]	50%	53%	57%

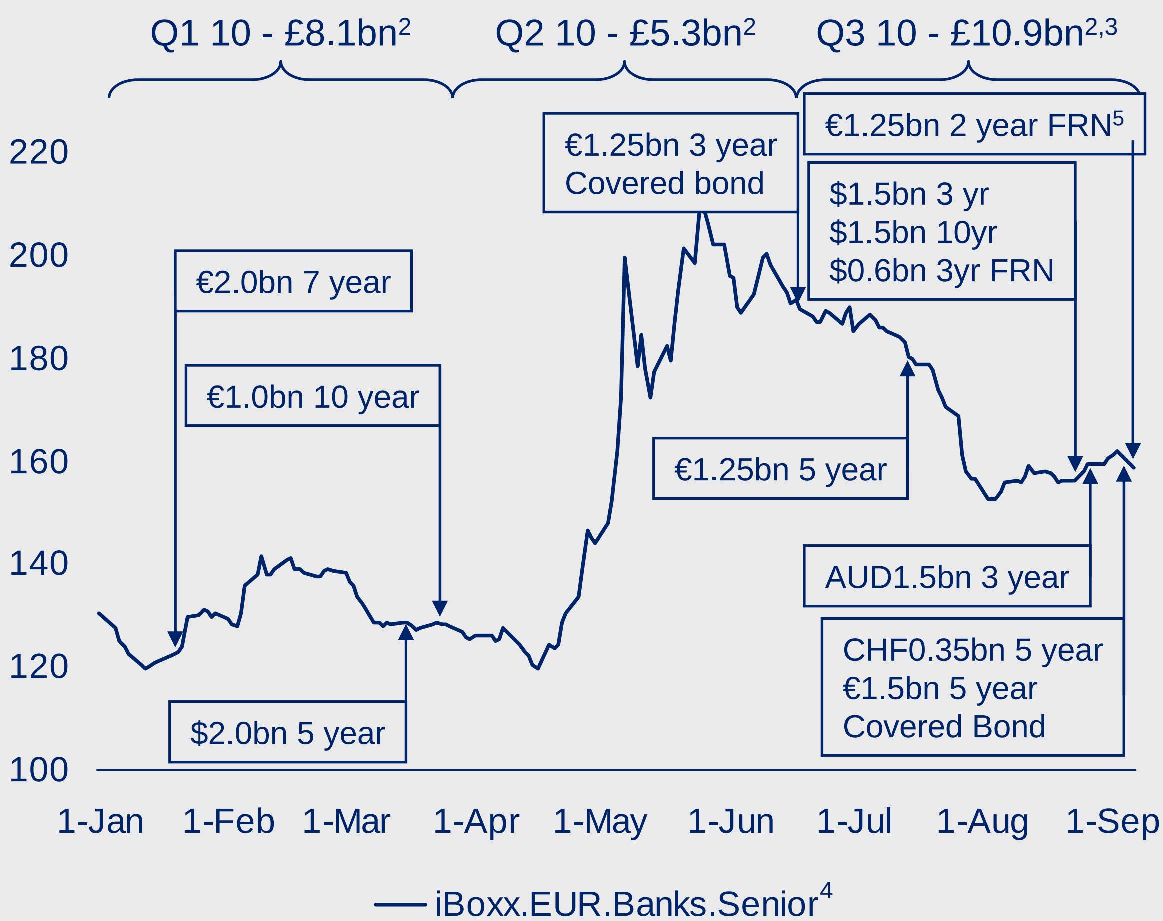
- Reduction of £68bn in wholesale funding[5] between FY08 and Q210
- Mix of wholesale funding greater than 1 year increases to 57%, +7% from FY09
- Strong term issuance programme with over £24.3bn of public and private unguaranteed issuance ytd
- €15bn covered bond programme registered with the FSA on 1 April 2010, c€2.75bn issued to date

[1] Funding profile excluding derivatives, repos and other liabilities [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

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

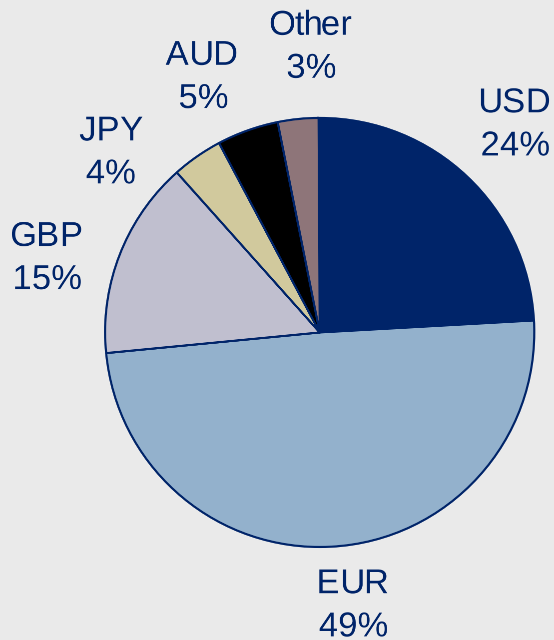
1. Benchmark public deals highlighted in graph only 2. Total private and public term funding issuance 3. Total issuance completed in Q3 10 so far. 4. iBoxx European Senior bank debt index 5. Trade issued early September and will settle later in September 6. c£2bn of senior debt issued as part of Exchange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

Term issuance across multiple currencies and tenors

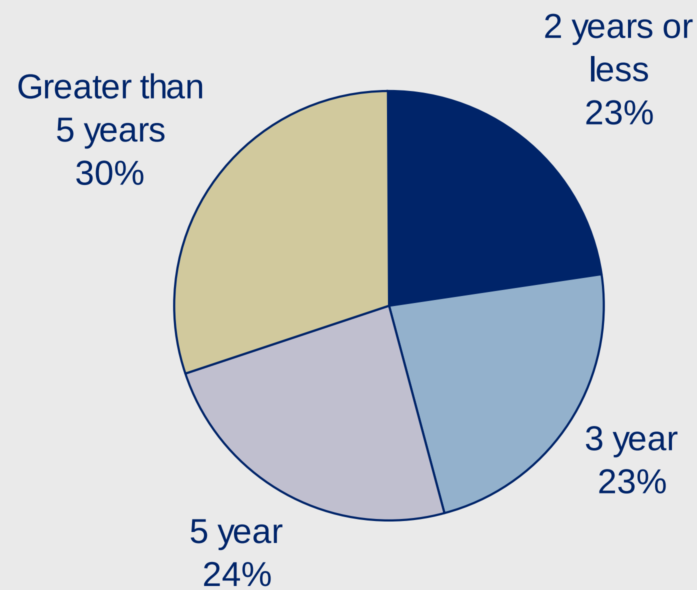
RBS

Significant diversification of term funding by currency, maturity and product

Term issuance by currency (YTD 2010)[1]



Term issuance by maturity (YTD 2010)[2]



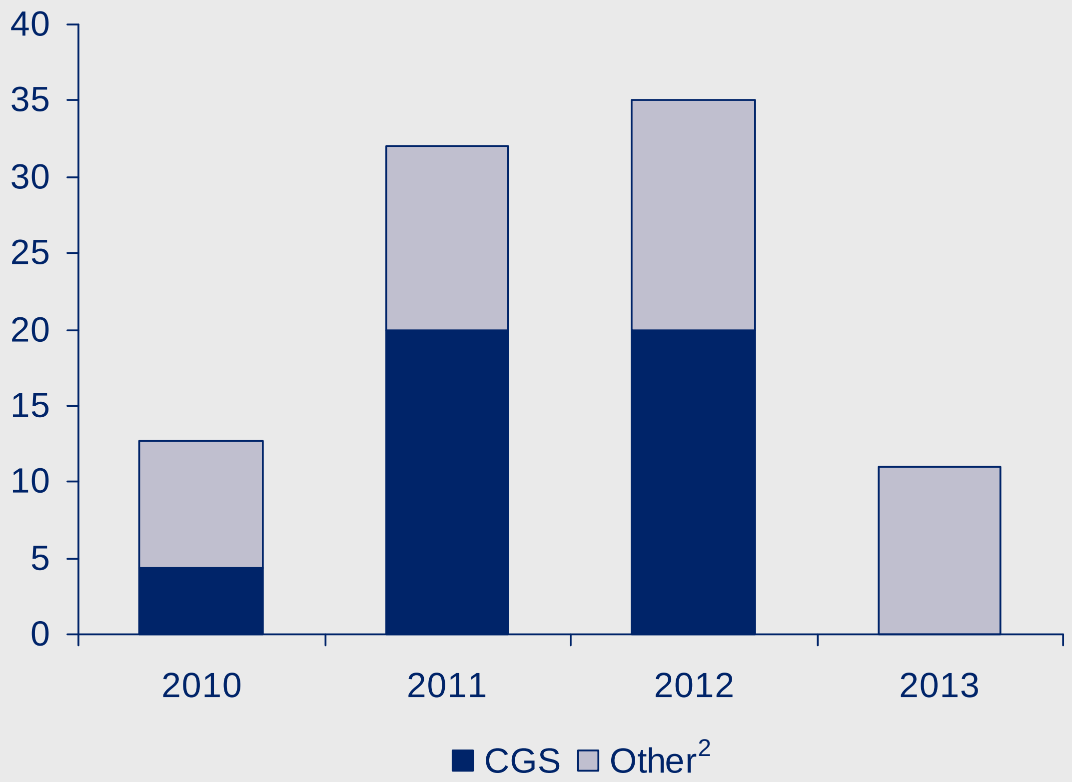
- Term funding sourced across all the major currencies with diversification across other currencies including AUD, CAD, JPY and CHF
- Significant progress achieved in lengthening maturity profile of wholesale funding with 54%[2] of term funding issuance 5 years or more to maturity[2]
- Development of different funding products including a regulated covered bond programme with €2.75bn issued in 2010 YTD

1. Based on Group Treasury issuance of £17.6bn YTD 2010. 2. Length to maturity on day of issue. Based on Group Treasury issuance of £17.6bn

Government guaranteed schemes

Reduced dependence on Government funding and liquidity schemes

Maturing profile of for RBS term funding including CGS[1]



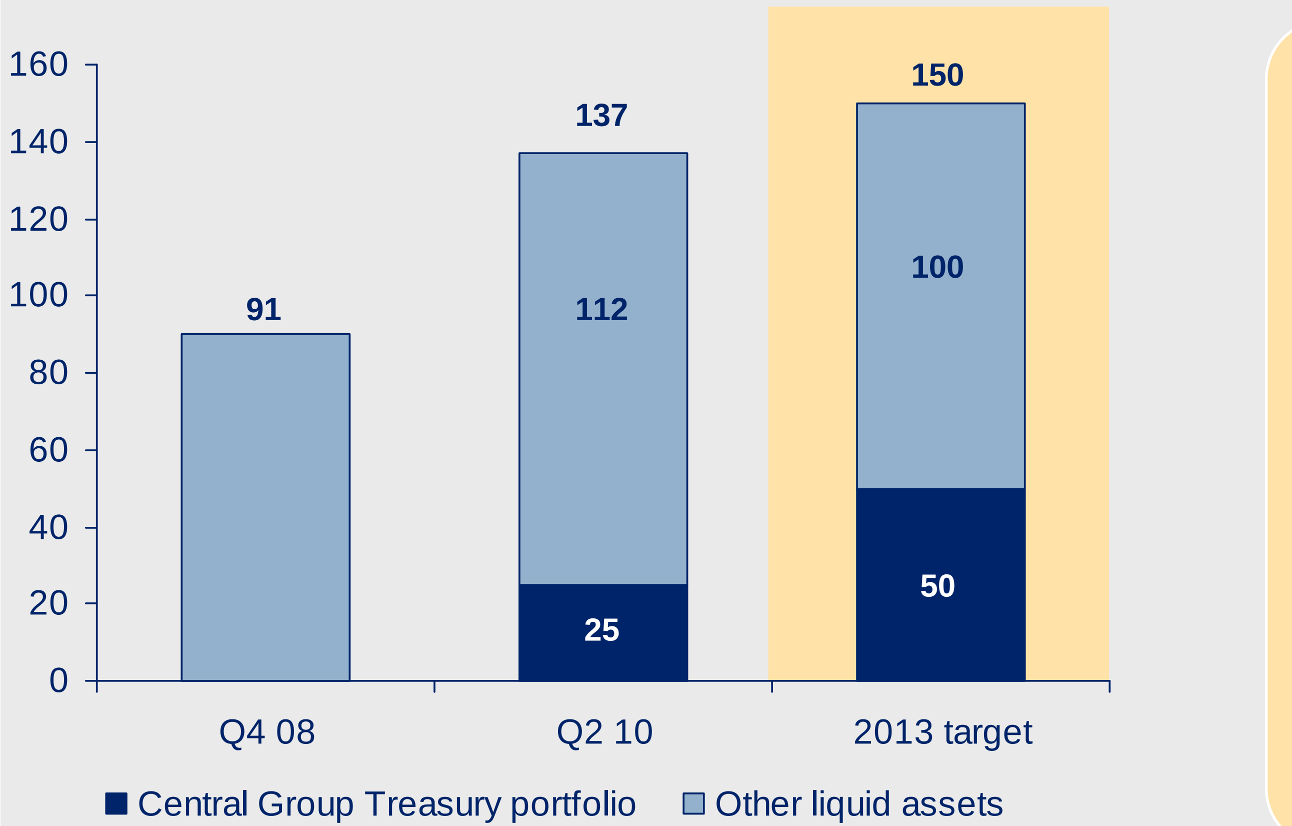
- Reduced usage of central bank liquidity schemes by over 80% since peak
- c.£21bn of Bank of England liquidity facilities[3] not used for funding purposes; only supports elements of liquidity reserve
- Impact on RBS of using SLS limited to fee paid to BoE with no resultant funding benefit – maturing SLS will lead to P&L benefit
- CGS funding to mature during 2011 and 2012 – no rollover of CGS funding expected
- CGS funding cost comparable to similar dated senior unsecured funding

1. All RBS maturing term funding including Credit Guarantee Scheme (CGS) funding 2. Other term funding includes unguaranteed MTNs and subordinated debt excluding £28bn of GBM, Citizens and Ulster Bank issuance with a maturity profile of c. £2-4bn per annum 3. At 31 December 2009.

Liquidity reserves

Robust liquidity position with large and growing FSA eligible government bond portfolio

Build-up of liquidity reserves (£bn)



- Target liquidity reserve split into two constituent parts:
  - c. £50bn target Group Treasury portfolio contains only FSA eligible bonds
  - c. £100bn target portfolio which contains other liquid assets across the Group[1]
- Liquidity reserves managed to meet internal tests and external / FSA set liquidity thresholds (2 week test, 3 month test)
- Liquidity reserves will fluctuate in a range around targets dependent on market conditions and underlying business activities

1. Other liquid assets includes balances held at central banks, unencumbered collateral and other liquid assets eligible for inclusion in central bank liquidity schemes

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

The Royal Bank of Scotland

Delivering the plan creates an attractive investment case

Questions?