UBS Financial Services Conference

Stephen Hester, Chief Executive Officer

The Royal Bank of Scotland Group

11th May 2010

Important Information

Certain sections in this presentation contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believes’, ‘should’, ‘intend’, ‘plan’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘will’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

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.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; developments in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes, including changes in regulatory capital regulations; a change of UK Government or changes to UK Government policy; changes in the Group’s credit ratings; the Group’s participation in the APS and the effect of such scheme on the Group’s financial and capital position; the conversion of the B Shares in accordance with their terms; the ability to access the contingent capital arrangements with Her Majesty’s Treasury (“HM Treasury”); limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; changes in competition and pricing environments; the financial stability of other financial institutions, and the Group’s counterparties and borrowers; the value and effectiveness of any credit protection purchased by the Group; the extent of future write-downs and impairment charges caused by depressed asset valuations; the ability to achieve revenue benefits and cost savings from the integration of certain of the businesses and assets of RBS Holdings, N.V. (formerly ABN AMRO); natural and other disasters; the inability to hedge certain risks economically; the ability to access sufficient funding to meet liquidity needs; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the EC State aid approval; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this presentation speak only as of the date of this presentation, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Today's Agenda – The New RBS

- What did we set out to achieve in February 2009?
- Progress to date
- Building blocks of the RBS Recovery
  - Internal metrics
  - External factors

The New RBS – What we aspire to be

What did we set out to achieve in February 2009?

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**

How were we going to do it?

RBS's Strategic Plan

Core Bank
The primary focus for 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**

Progress to date

RBS

Strategic plan timeline

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

Progress to date

Key Business Highlights – Q1 10

Ongoing business performance improvements
- Group operating profit of £713m vs loss of £1.4bn Q409
- Net attributable loss of £248m vs loss of £765m Q409

Core Bank operating profit up 92% to £2.3bn vs Q409
- Driven by seasonally strong results in GBM and improving Retail & Commercial trends

Customer franchises remain strong
- UK Retail now serves >12.8m current account customers

Progress on Strategic Plan
- Good progress made against our published key metrics

Non-Core run off progressing to plan
- 4% reduction in TPAs

Progress to date

Key Financial Highlights – Q1 10

Core Business

- Operating profit: £2.3bn, +92% vs Q409
- ROE: 15%, in line with long run targets
- NIM: 2.11%, +5bps vs Q409 driven by GBM
- Costs: flat q-o-q, -5% y-o-y
- C:I ratio improved 400bps to 47%
- Credit profile: ongoing improvement, impairment losses reduced 25% q-o-q to £971m
- LDR: further improvements made; 102% vs 104% in Q409
- RWAs: £421bn, +7%, driven by ABN AMRO migration

Group Risk Profile

- Impairments: £2.7bn, -14% q-o-q driven by improvements in Core and Non-Core
- LDR: 131%, 400bps improvement q-o-q
- Non-Core run off: tracking to plan, a further 4% (£8bn) reduction in TPAs in Q1
- Core Tier 1 ratio 10.6%, RBS remains a highly capitalised bank
- Tangible NAV 51.5p/share[1], small increase q-o-q

[1] Indicative pro forma fully diluted for 51bn B Shares

Building blocks of the RBS Recovery

Building blocks of the RBS Recovery

RBS

What are the necessary internal metrics and external factors to achieve the plan?

Internal metrics

- We have strong franchises in large customer-driven markets
- Sustained and improving customer satisfaction levels
- Remain well capitalised and can deliver our funding plan
- Non-Core run-off drives the decline in risk concentrations and wholesale funding reliance
- Strategic plan, investment and income initiatives drive sustainable growth
- Liability margins to improve – asset margins to hold
- We can deliver good cost efficiency
- Impairments trend to "normalised" levels
- Management execute the plan well and drive cultural change

External factors

- World economic recovery continues
- Interest rates normalise
- Strong but rational competition going forward
- Path of regulatory change will be phased and sensible

Building blocks of the RBS Recovery

Internal metrics

Building blocks of the RBS Recovery – Internal metrics

RBS

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.

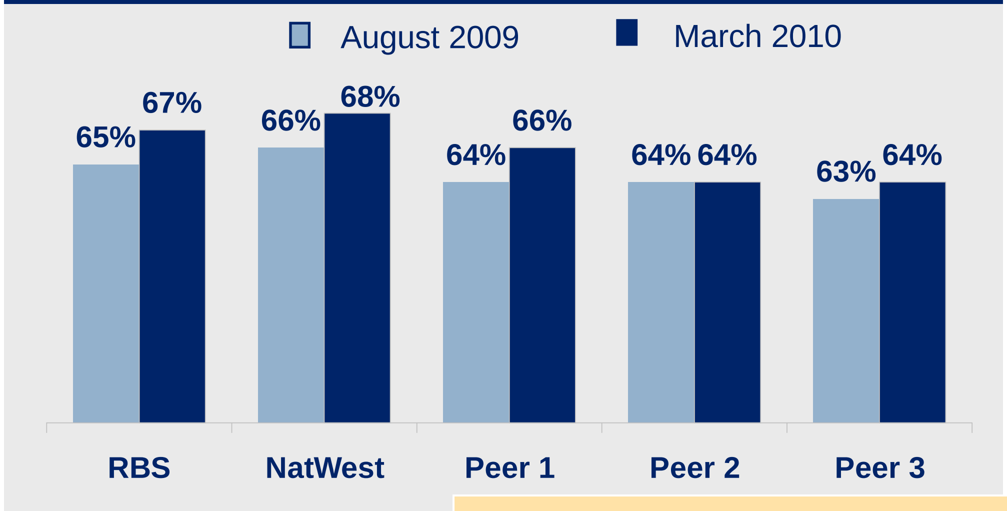
Our franchises have sustained market positions, with customer numbers steady or growing

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

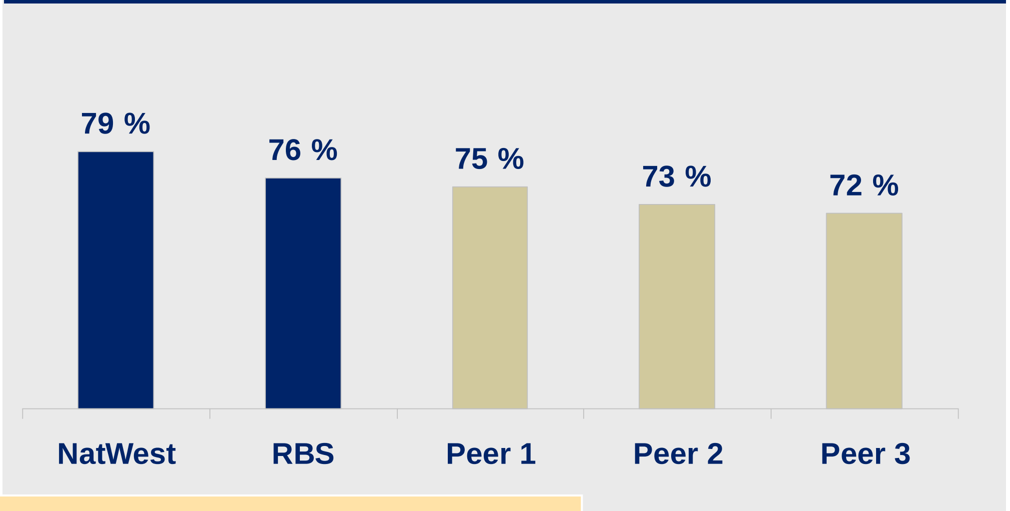
Building blocks of the RBS Recovery – Internal metrics

Sustained and improving customer satisfaction levels

UK Retail[1]



UK Commercial[2]



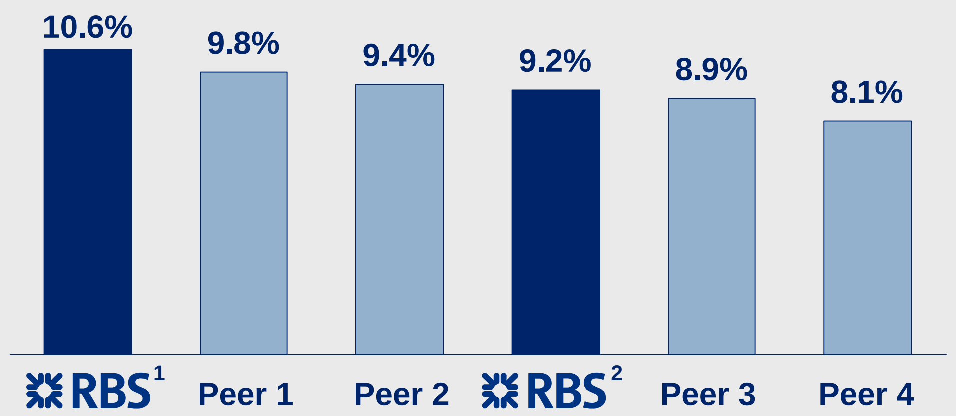
- Robust franchises remain intact
- Customer satisfaction strong (relative)
- Much more can / will be done

[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

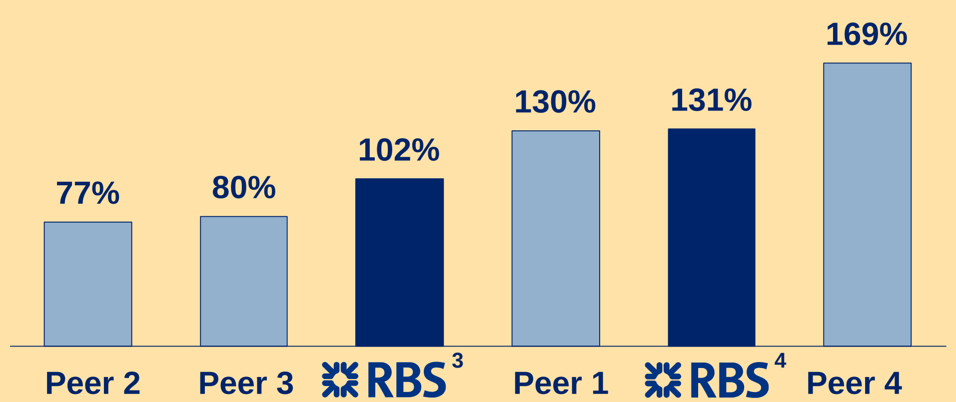
Building blocks of the RBS Recovery – Internal metrics

Remain well capitalised and can deliver our funding plan

Core Tier 1 ratio



Loan to deposit ratio



- Core Tier 1 ratio is the highest in our immediate peer group
- Loan to deposit ratio continues to improve due to the focus on growing customer deposits
- Asset Protection Scheme provides c140bps of support to our Core Tier 1 ratio
- RBS retains the benefit of the APS and related contingent capital – valuable fall back protection

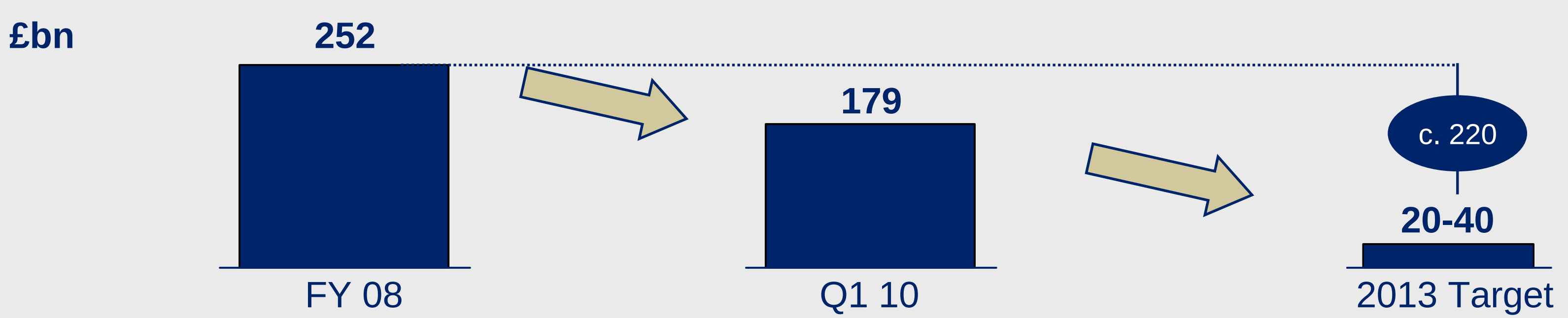
[1] Core Tier 1 ratio including benefit of Asset Protection Scheme. [2] Core Tier 1 excluding benefit of Asset Protection Scheme. [3] Figure relates to RBS Core only. [4] Figure relates to RBS Group
Source: RBS and peers company disclosure for FY09 or Q1 10 if disclosed.

Building blocks of the RBS Recovery – Internal metrics

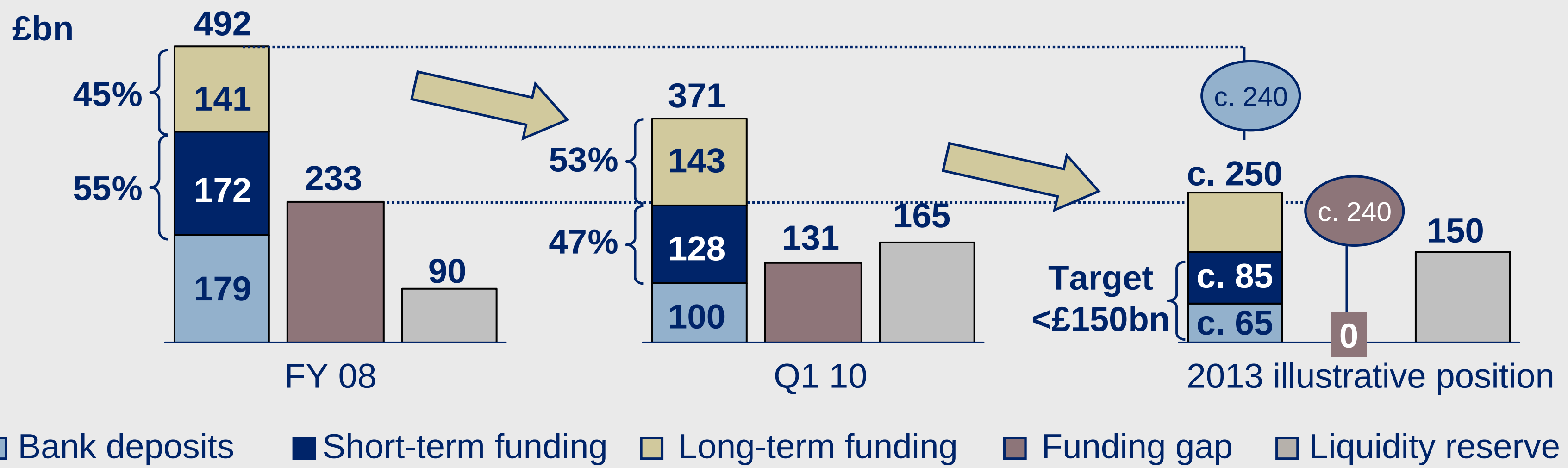
RBS

Non-Core run-off drives the decline in risk concentrations and wholesale funding reliance

Non-Core run-off (TPAs)



Wholesale funding requirement



- Run-off of non-core assets drives decline in overall wholesale funding requirement
- Non-Core run-off solves funding gap and reliance on wholesale funding
- Liquidity reserve at target of c£150bn which covers short-term funding target
- Non-Core run-off closes funding gap and achieves loan to deposit target of 100% by 2013

Building blocks of the RBS Recovery – Internal metrics

RBS

Strategic plan, investment and income initiatives drive sustainable growth

Non Interest Income - Leveraging for growth

Investment	In systems, proposition, technologies and staff
Cross-sell	Leverage group capabilities e.g: ■ New affluent proposition in UK Retail ■ GBM Capital Market products in UK Corporate ■ New Bancassurance platform in Ulster ■ GTS products available across the corporate franchise
Customer relationships	Leveraging client relationships e.g: ■ GBM – deepening corporate and FI relationships, focus on core clients ■ Retail & Commercial – increasing share of wallet through client cross-sell

Investment - major programmes underway

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

Example projects:

- Multi-channel / internet development – c12% of spend
  - UK Retail; build new channel platforms & capabilities
  - UK Retail; migrate customers to remote channels & improve productivity
  - GTS; on-line portals/cash mgt/trade services
- Reduce cost to serve – c55% of spend
  - Group - process efficiencies across business areas
  - GBM - automation of operational processes
- Improve MI systems – c4% of spend
- Improve & integrate infrastructure – c10% of spend
  - UK Retail – new sales management platform
  - GBM – enhanced trading platforms

Building blocks of the RBS Recovery – Internal metrics

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%

To achieve the plan:

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

Outlook

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

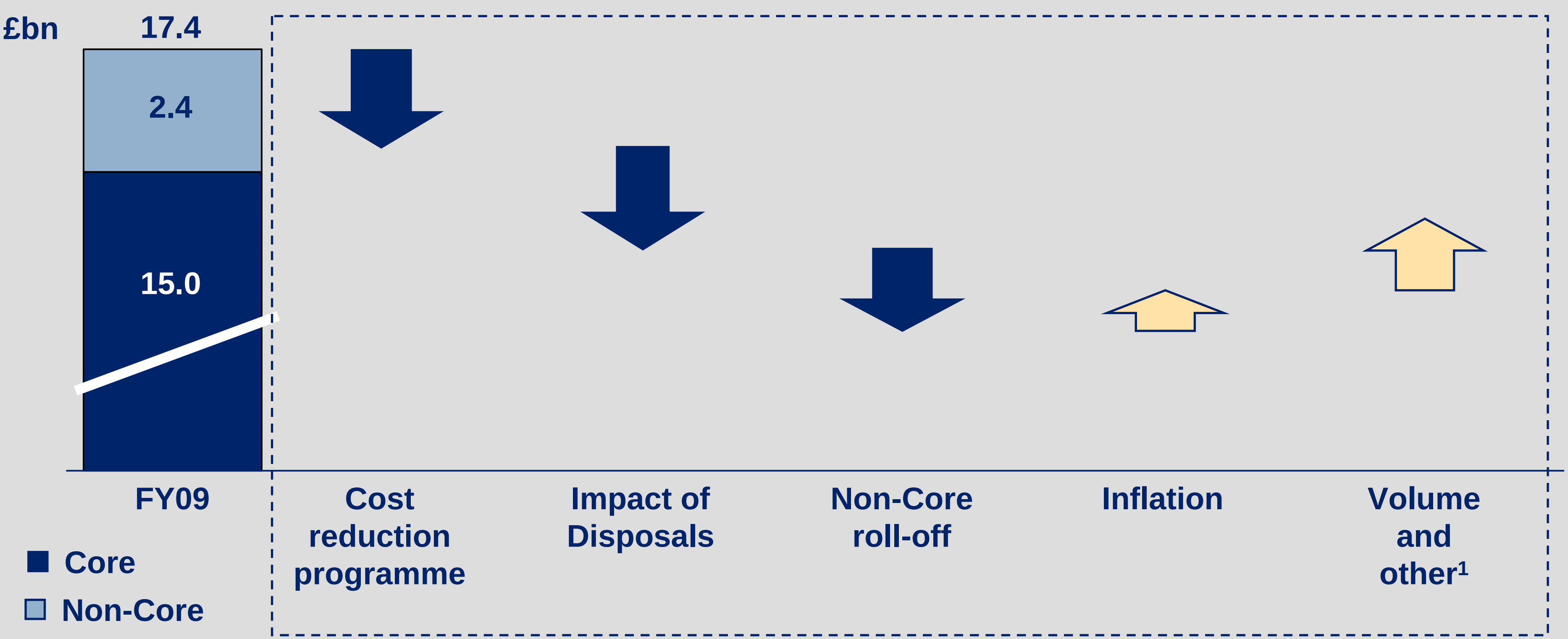
Possible risks:

- 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

Building blocks of the RBS Recovery – Internal metrics

We can deliver good cost efficiency



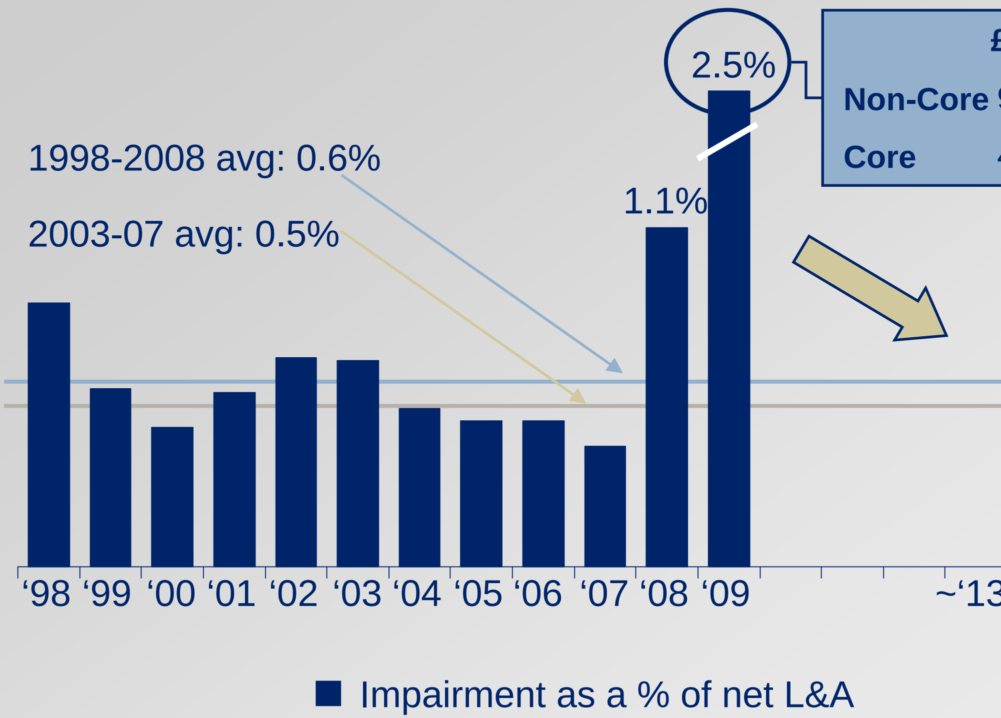
- Core costs broadly flat over the planning horizon
- Impact of inflation & volume growth in Core offset by business re-investment & cost reduction
- Rump of Non-Core costs of c£300-400m expected in 2013, falling away rapidly thereafter
- Target cost:income ratio of less than 50%

[1] Includes FX impact

Building blocks of the RBS Recovery – Internal metrics

Impairments trend to "normalised" levels

Impairments – returning to normalised levels



	£bn	% of L&A
Non-Core	9.2	5.7
Core	4.7	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

Building blocks of the RBS Recovery

External factors

Building blocks of the RBS Recovery – External factors

RBS

World economic recovery continues

Current position

- Outlook is better than expected 6-12 months ago
- US and UK current account and savings deficits are starting to improve
- UK housing market has performed better than expected
- Confidence in markets has improved but will remain sensitive to news flow and market developments
- Low interest rates have improved liquidity which could continue

Assumptions

- Subdued loan growth as economies recover slowly and customers delever
- RBS deposit growth marginally ahead of nominal GDP growth; c4-5% p.a.
- Interest rates move and “normalise” from 2011

Consensus Economic Data[1]

UK (%)	**2009**	**2010**	**2011**	**2012**	**2013**
GDP[1]	-4.9	1.3	2.3	2.1	2.4
Unemployment[2]	5.2	5.2	n.a.	n.a.	n.a.
Inflation (CPI)[1]	2.2	2.7	1.7	2.1	2.5
US (%)	**2009**	**2010**	**2011**	**2012**	**2013**
GDP[1]	-2.4	3.2	3.1	3.4	3.2
Unemployment [2]	9.6	9.1	n.a.	n.a.	n.a.

Possible Risks

- Economic growth falters
- Economic imbalances
- Sovereign credit risks
- Wholesale funding, liquidity risks
- Harsh capital and liquidity regimes hinder growth
- Interest rates, inflation rise rapidly

[1] Consensus economics (April 2010 survey)
[2] Claimants count

Building blocks of the RBS Recovery – External factors

Strong but rational competition going forward

Current position and outlook

- Strong but rational competition
- Banking, similar to other mature capital intensive industries, is relatively concentrated
- New business margins are broadly consistent with industry return targets
- Increased industry funding costs e.g. liquidity, capital and funding need to be reflected as interest rates normalise
- Competitors have similar capital, funding and return targets
- Banks are capital intensive and becoming more so and cannot survive without moving to exceed cost of capital (CoE 10-15%)

Possible risks

- New market entrants / return of foreign banks
- Irrational behaviour from established competitors
- Return of irrational wholesale and securitisation markets
- Banks move up risk profile again to generate increased returns
- Regulatory intervention

Building blocks of the RBS Recovery – External factors

RBS

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

Building blocks of the RBS Recovery – External factors

Government policy

Support

- UK and other Governments have been supportive
  - Liquidity and funding support can now wind down
  - Crucial task for RBS to provide opportunity for UK Government to sell down stake profitably
- UK Government, through UKFI, has remained a constructive shareholder and operated in line with shareholder best practice

RBS Commitments

- Lending commitments 2010:
  - Residential lending – make available £8bn net
  - Business lending – make available £50bn gross new facilities
- Competition – EU mandated sales

Risks

- Debates around:
  - Industry structure
  - Bank specific taxes and levies
  - Basel III capital and liquidity proposals
- Impact of consumer legislation – e.g. overdraft fees

Building blocks of the RBS Recovery – External factors

RBS

UK Government's RBS shareholding

Government (UKFI) Investment

	Shares (m)	Total Investment (£m)	Investment per Share (p)
Ordinary Shares[1]	39,645	20,027	50.5p
B Shares	51,000	25,500	50.0p
Total investment[2]	**90,645**	**45,222**	**49.9p avg**

Key points

B shares:

- Hold the same rights as the ordinary shares
- Non-voting
- Dividends are fully discretionary[3]
- Rank pari passu with ordinary shares on winding up/liquidation

Superior dividend rights attached to B[3] Shares fall away once the share price is over 65 pence for 20 days[4]. Convertible into Ordinary Shares at the Government's option[5]

- Government expected to sell-down over time; seeking to maximise value
- Increase the level of free float
- Improves the investment case
- Sell down builds public confidence that RBS support will be profitably repaid

[1] Adjusted to take account of around £270m of accrued dividends and redemption premiums received on conversion of preference shares
[2] Includes £305m of fees paid to UK Government
[3] Separate dividend Access Share provides enhanced discretionary dividend rights of the greater of either 7% of the B Share issue amount or 250% of dividends paid on one Ordinary Share
[4] Twenty dealing days in a period of 30 dealing days
[5] Subject to 75% cap of ordinary shares

Concluding remarks

Conclusion

The New RBS 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, growth, risk profile and business cycle
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

Delivering the plan should create an attractive investment case