Consistent Progress Continues

Nathan Bostock; Head of Group Restructuring & Risk

The Royal Bank of Scotland Group

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RBS
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In particular, this presentation includes forward-looking statements relating, but not limited to: the Group's restructuring plans, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), cost:income ratios, leverage and loan: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 Asset Protection Scheme (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. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. 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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What we are aiming for

To be amongst the world's most admired, valuable and stable **universal banks**, powered by **market-leading businesses** in **large customer-driven markets**

To target **15%+ sustainable RoE,** from a **stable AA category** risk profile and balance sheet

Well balanced business mix to produce an attractive blend of **profitability** and moderate but **sustainable growth** – **anchored in the UK and in retail and commercial banking** with **strong customer driven wholesale banking. Credible presence and growth prospects geographically and by business line**

Management hallmarks to include an open, **investor-friendly** approach**, strategic discipline** and proven **execution effectiveness**, **strong risk management** and a central **focus on the customer**

How we will get there

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 Bank
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)

2010 / 2011 – Executing the plan

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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 and APS exit
- 2013 targets achieved
  - Returns
  - Risk
  - Franchise

Core Bank – a sustainable & balanced design

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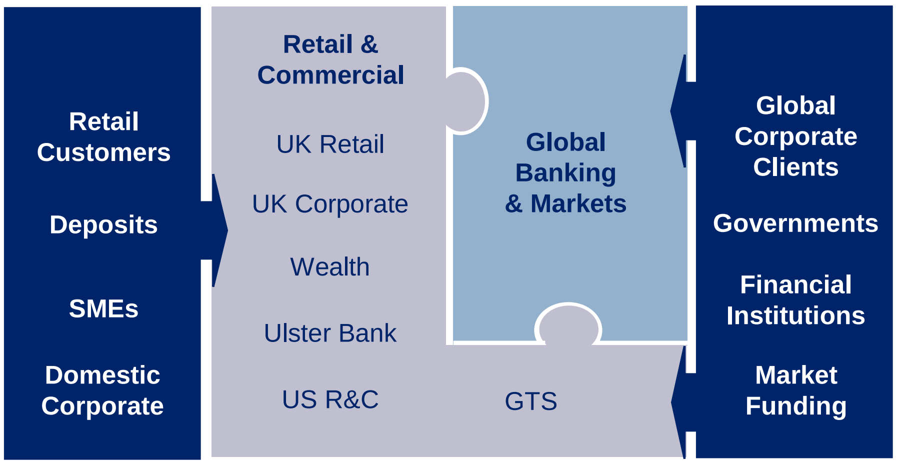
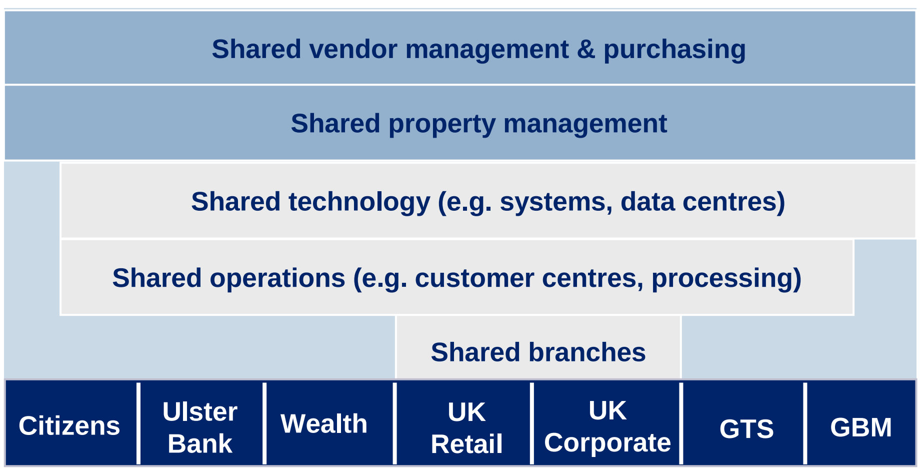
A complementary group of businesses….

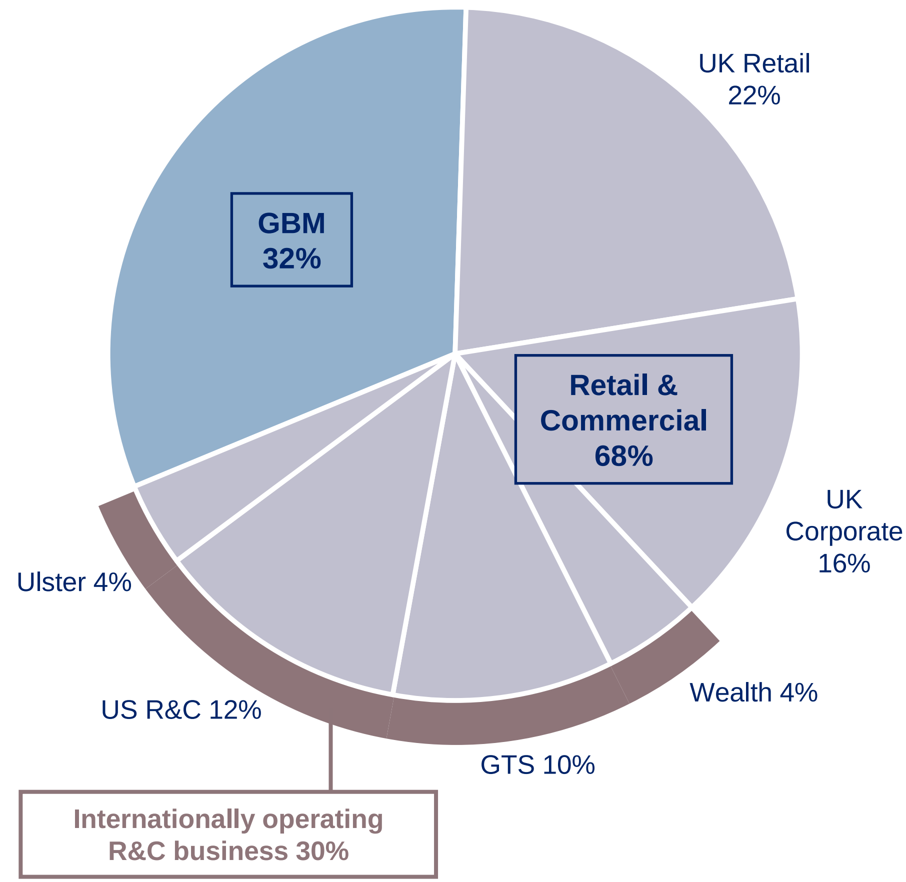


… with shared infrastructure…



… well balanced by business mix and geography

FY10 Core revenues[1] by Division



[1] Excluding Fair Value of Own Debt (FVoD), excluding RBS Insurance.

Tracking Well to Plan Targets

Group – Key performance indicators	Worst point	Q4 10 Actual	Q1 11 Actual	2013 Target
Loan : deposit ratio (net of provisions)	154%[1]	117%	115%	c100%
Short-term wholesale funding[2]	£343bn[3]	£157bn	£168bn	<£150bn
Liquidity portfolio[4]	£90bn[3]	£155bn	£151bn	c£150bn
Leverage ratio[5]	28.7x[6]	16.8x	17.4x	<20x
Core Tier 1 Capital ratio	4%[7]	10.7%	11.2%	>8%[15]
Return on Equity (RoE)	(31%)[8]	Core 12%[9,10]	Core 15%[9,10]	Core >15%
Cost : income ratio[12]	97%[11]	Core 58%[10]	Core 56%[10]	Core <50%

Divisions – Key performance indicators	Worst point	Q4 10 Actual	Q1 11 Actual	2013 Target
Retail & Commercial:				
RoE	7%[13]	11%	11%	>20%
Cost : income ratio[12]	60%[13]	54%	55%	c45%
Loan : deposit ratio[14]	99%[3]	86%	87%	<90%
GBM:				
RoE	(9%)[3]	10%	21%	>15%
Cost : income ratio[12]	169%[3]	67%	55%	c.55%
Non-Core:				
Third Party Assets	£258bn[3]	£138bn	£125bn	£20-40bn

[1] As at October 2008 [2] Amount of unsecured wholesale funding under 1 year including bank deposits <1 year. [3] As of December 2008 [4] Eligible assets held for contingent liquidity purposes including cash, government issued securities and other securities eligible with central banks. [5] Funded tangible assets divided by Tier 1 Capital. [6] As of June 2008 [7] As of 1 January 2008. [8] Group return on tangible equity for 2008 [9] Indicative: Core attributable profit taxed at 28% on attributable core average tangible equity (c75% of Group tangible equity based on RWAs). [10] Excluding fair value of own debt (FVoD). [11] 2008. [12] Adjusted cost:income ratio net of insurance claims. [13] As of December 2009. [14] Net of provisions. [15] Under review.

Non-Core Update

The Royal Bank of Scotland Group

Non-Core in the RBS Group context

£bn

Profit & Loss

	Non-Core 2009	Non-Core 2010	Non-Core Q1	Core 2009	Core 2010	Core Q1	Group 2009	Group 2010	Group Q1
Income from trading activities	-5.2	0.0	-0.3	9.1	4.5	1.8	3.8	4.5	1.5
Impairments	-9.2	-5.5	-1.1	-4.7	-3.8	-0.9	-13.9	-9.3	-1.9
Operating profit	-14.6	-5.5	-1.0	8.3	7.6	2.1	-6.2	2.1	1.1

Balance Sheet

	Non-Core 2009	Non-Core 2010	Non-Core Q1	Core 2009	Core 2010	Core Q1	Group 2009	Group 2010	Group Q1
RWAs	171	154	127	394	417	409	566	571	538
TPAs (excl. derivs)	201	138	125	884	888	927	1,085	1,026	1,052

Non-Core Division management

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A highly experienced management team in place

Support functions

Christine Palmer **CRO** *23 years in the industry*	John Collins **Legal** *21 years in the industry*
Nick Perkins **COO** *18 years in the industry*	Maeve Byrne **CFO** *12 years in the industry*
Wendela Currie **HR** *5 years in the industry*	Carolyn McAdam **Communications** *10 years in the industry*

Nathan Bostock
Head of Restructuring & Risk
30 years in the industry

Jeremy Bennett
Senior Advisor
19 yrs in the industry

Rory Cullinan
Head of Non-Core Division
30 years in the industry

Phil McDuell
Head of Non-Core Countries
24 years in the industry

- Non-Core Countries

Chris Marks
Co-Head of Markets
17 yrs in the industry

- Exotic credit derivatives
- Monolines and ABS
- Other Non-Core trading

Alan Devine
Head of Portfolio & Banking
34 years in the industry

- Real Estate
- Leveraged Finance
- Infrastructure & Asset Finance
- Corporate & Structured Assets
- - UK Corp. Banking
  - Ulster
  - UK Retail
  - Citizens

Mark Bailie
Chris Marks
Co-Heads of Solutions
16/17 yrs in the industry

Non-Core - from definition to delivery

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Definition	Delivery

2009 — 2010 — 2011

- Select assets → Build detailed data on assets
- Management in place → Build transaction infrastructure
- Formulate strategy → Communicate to stakeholders
- Sell countries & businesses
- Asset disposals build momentum

- Detailed asset model
- Specialist resource gaps filled
- Determined priorities and built stakeholder support
- Fast execution to preserve value and reduce risk
- Combined with aggressive run-off

Objectives of the Division

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Achieving run down while maximising shareholder value

Maximise Shareholder Value

- Optimise timing, cost and method of exit
- Accelerate reduction of capital and funding
- Maximise reduction in the RBS Group cost base

Protect the Core RBS franchise

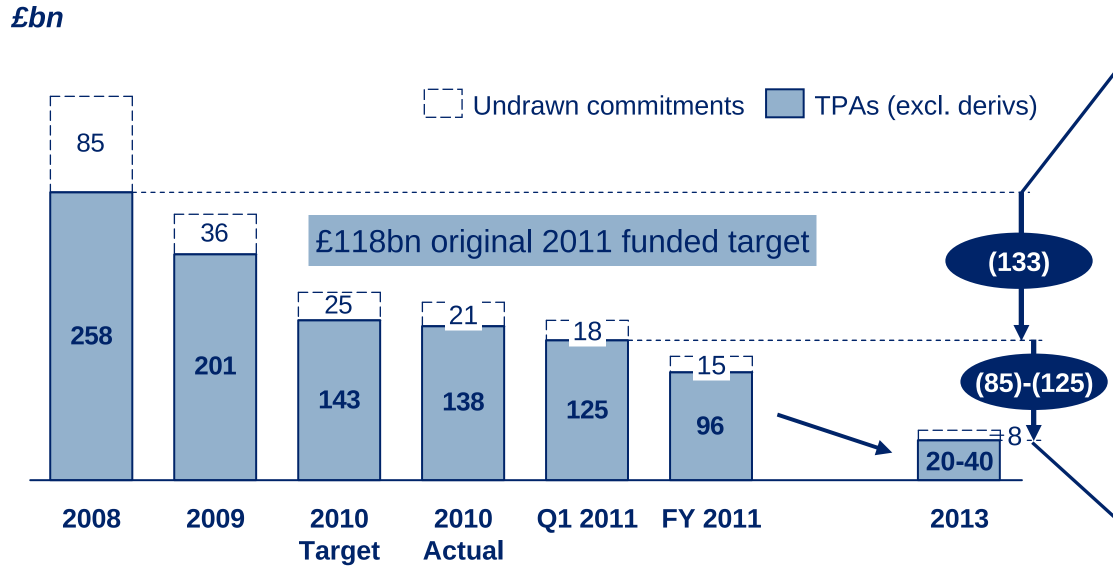
- Free Core business management to focus on continuing businesses
- Preserve Core client relationships with some assets Non-Core
- Rebalance risk profile

Exit Options

- Viable whole businesses
  - Sell now
  - Sell later
- Discontinued businesses/ portfolios
  - Close Now
  - Securitise/ Restructure/ Hedge/Sell
  - Hold to maturity

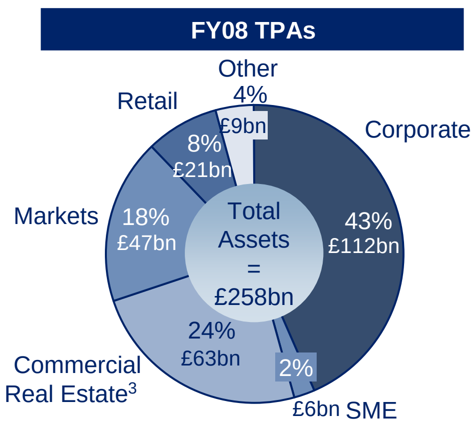
Non-Core targets and progress to date

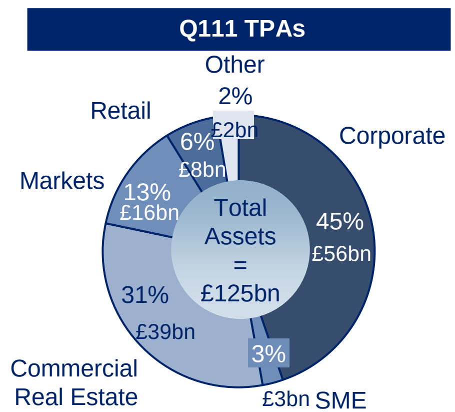
Non-Core TPA reduction plan – accelerated for 2011



	2009-13	2009-Q111
FX	(10)-(20)	(8)
Rollovers & drawings	20-30	13
Impairments	(20)-(30)[2]	(16)
Asset sales	(90)-(100)	(51)
Run-off	(110)-(130)	(71)

Target Progress to date





- Total portfolio down 52% from FY08 reflecting:
  - £56bn (50%) in Corporate
  - £31bn (66%) reduction in Markets
  - £24bn (38%)[4] reduction in CRE
  - £13bn (62%) reduction in Retail

[1] Previous target for funded assets for 2011 was £118bn. [2] Excludes FY08 impairments of £4.9bn. [3] Excludes Ulster Bank CRE portfolio of £5.0bn (value as at 31/06/10), transferred to Non-Core on 1st July 2010. [4] 43% adjusted for transfer of Ulster Bank CRE portfolio.

Asset reduction progress

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£bn, TPAs excl. derivatives

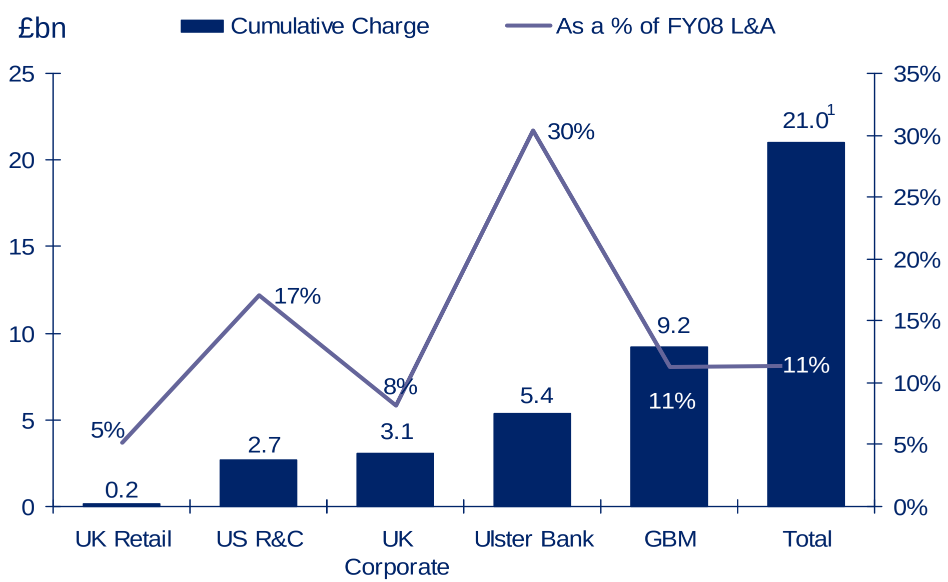
Disposals: H1, H2
Run-off: H1, H2

		FY 2010 H1	FY 2010 H2	FY 2010	Q1 2011	Signed but not completed at Q1
International Businesses & Portfolios *"24 businesses & countries completed/agreed"*	Disposals	3.5	2.0	5.5	0.0	0.6
	Run-off	2.9	6.4	9.3	4.4	
Portfolio & Banking *"Over 500 transactions in 2010"*	Disposals	4.8	7.6	12.4	2.4	2.1
	Run-off	12.3	5.1	17.4	2.5	
Markets *"Removed or sold more than 900 line items"*	Disposals	1.3	8.1	9.4	0.0	0
	Run-off	1.8	1.2	3.0	1.0	
Directly Managed *"Over half of Sempra disposed in 2010"*	Disposals	0.1	6.1	6.2	2.3	3.9
	Run-off	3.2		3.2	-0.6	
Total	Disposals	9.7	23.8	33.5	4.7	6.5
	Run-off	20.2	12.7	32.9	7.3	

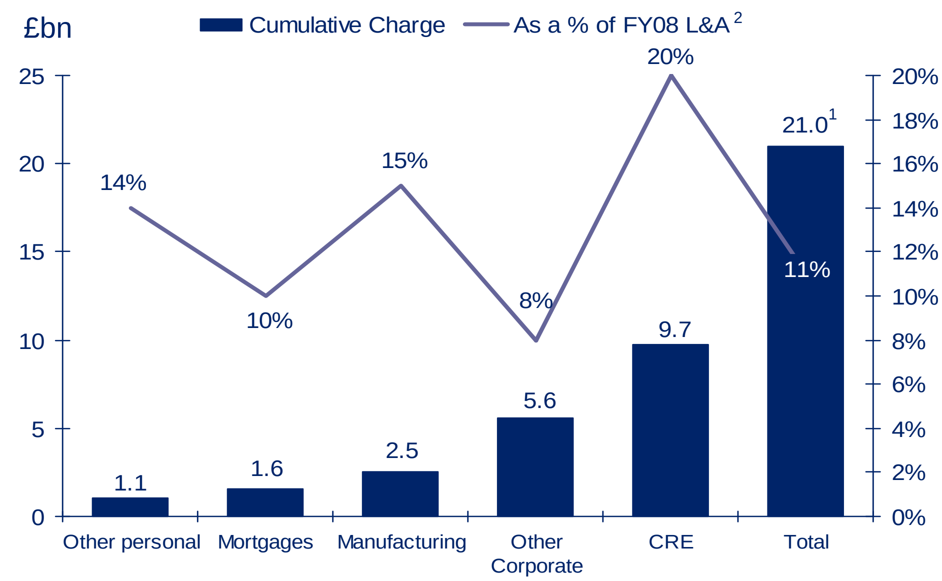
Note: Run-off excludes change controls, fair value and other movements

Impairment trends

Cumulative impairments by division



Cumulative impairments by sector



- £21bn cumulative impairments 2008 – Q1 2011
- Large Corporate and Retail impairments are trending favourably
- Expect Commercial Real Estate impairments to remain elevated, particularly in Ulster Bank
- Expect absolute numbers to decline as portfolio declines

[1] £15.8bn of impairments have been recognized over the period 1/1/09-31/3/11; balance of £5.2bn reflected in earlier periods. US R&C includes c£300m FY07 impairment charge relating to its Serviced by others (SBO) mortgage portfolio in addition to its FY08 to Q111 charges.

[2] GBM FY08 L&A sector split not available so FY09 L&A used to calculate the impairment charge as a % of L&A.

Ulster Bank Non-Core Asset Deep Dive

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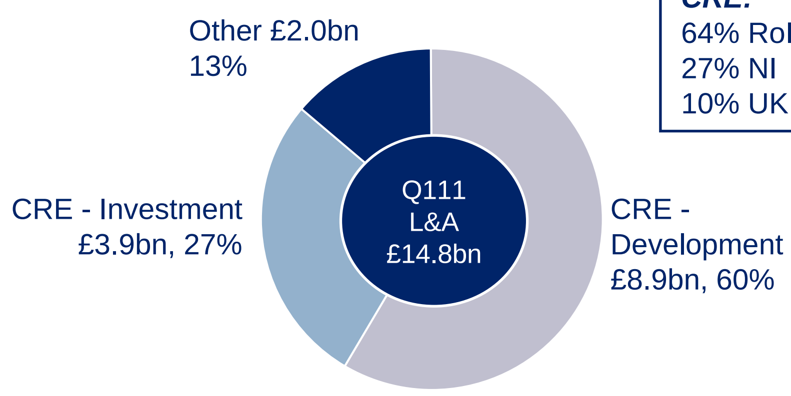
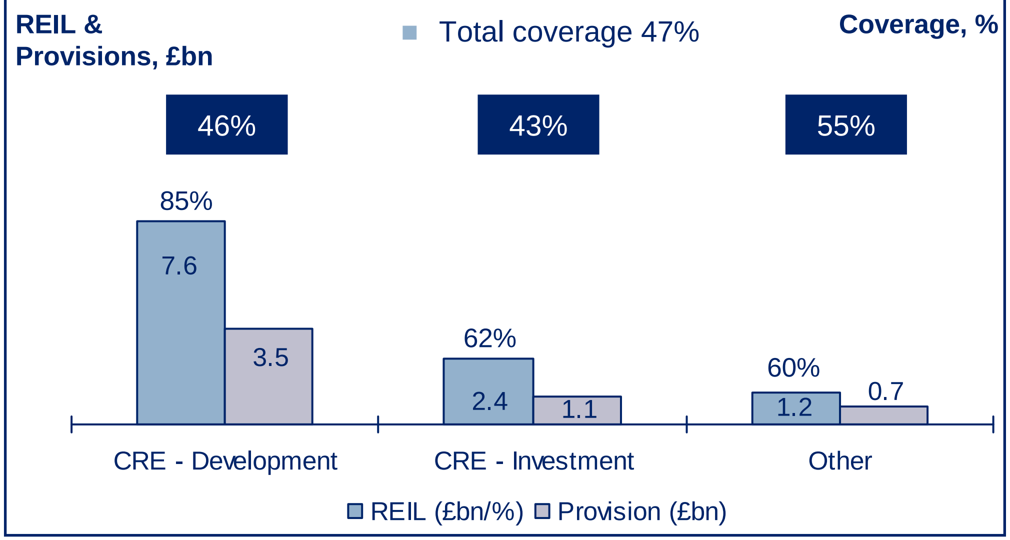
Ulster Bank – Non-Core gross L&A[1], £14.8bn, (-6% y-o-y)



CRE:
64% RoI
27% NI
10% UK

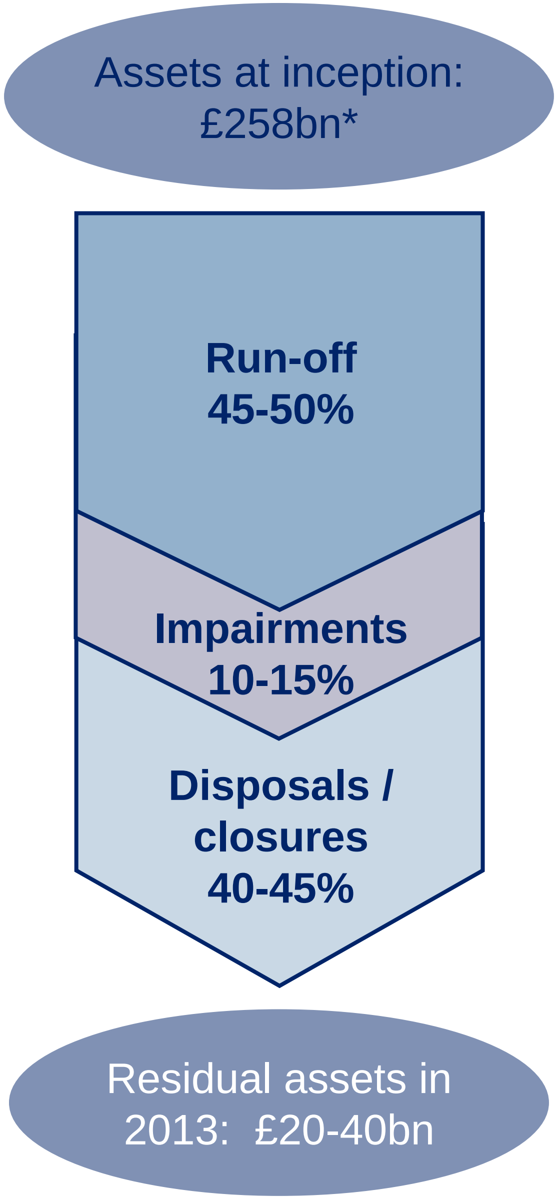
Ulster Bank – Non-Core REIL, Provisions & Coverage[2]



- Provisioning levels significantly strengthened at 47%
- 'In the pack' on provision coverage vs peers
- Expect impairments to remain elevated in 2011

[1] Excludes EMEA L&A of £0.5bn. [2] Provisions as a % of REIL. [3] Includes Core CRE Development lending REIL of £210m and provisions of £99m.

Non-Core run-off vs. disposal



- Run-off is:
  - The biggest contributor to run-down
  - More capital efficient and cheaper in valuation and execution costs than market disposals
- But cannot be taken for granted – it requires a focused and systematic approach and plenty of forward planning for us and clients

- <u>Stay close to clients</u> – as their circumstances change, opportunities arise to exit earlier or more cheaply
- <u>Robust approach</u> essential where clients push for haircuts on repayment
- <u>Rigorous resistance to rollovers</u> remains important as 5-7yr maturities need to be re-financed

Active portfolio management is fundamental to executing the Non-Core strategy successfully

*Note: Run-off inc. rollovers, drawings and FX movements. * Excludes MTM derivatives*

Future Non-Core disposals

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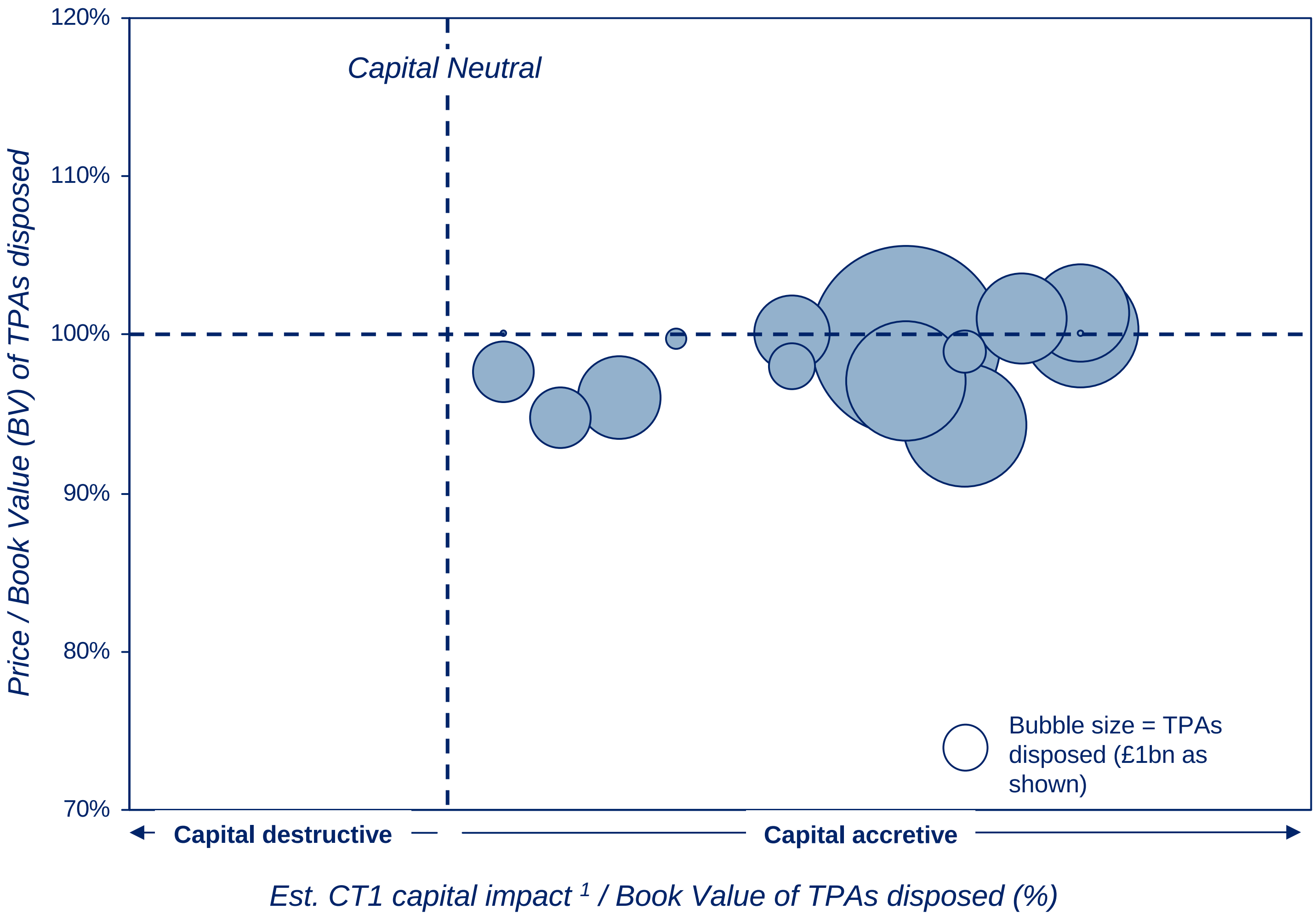
Potential for increased disposal losses

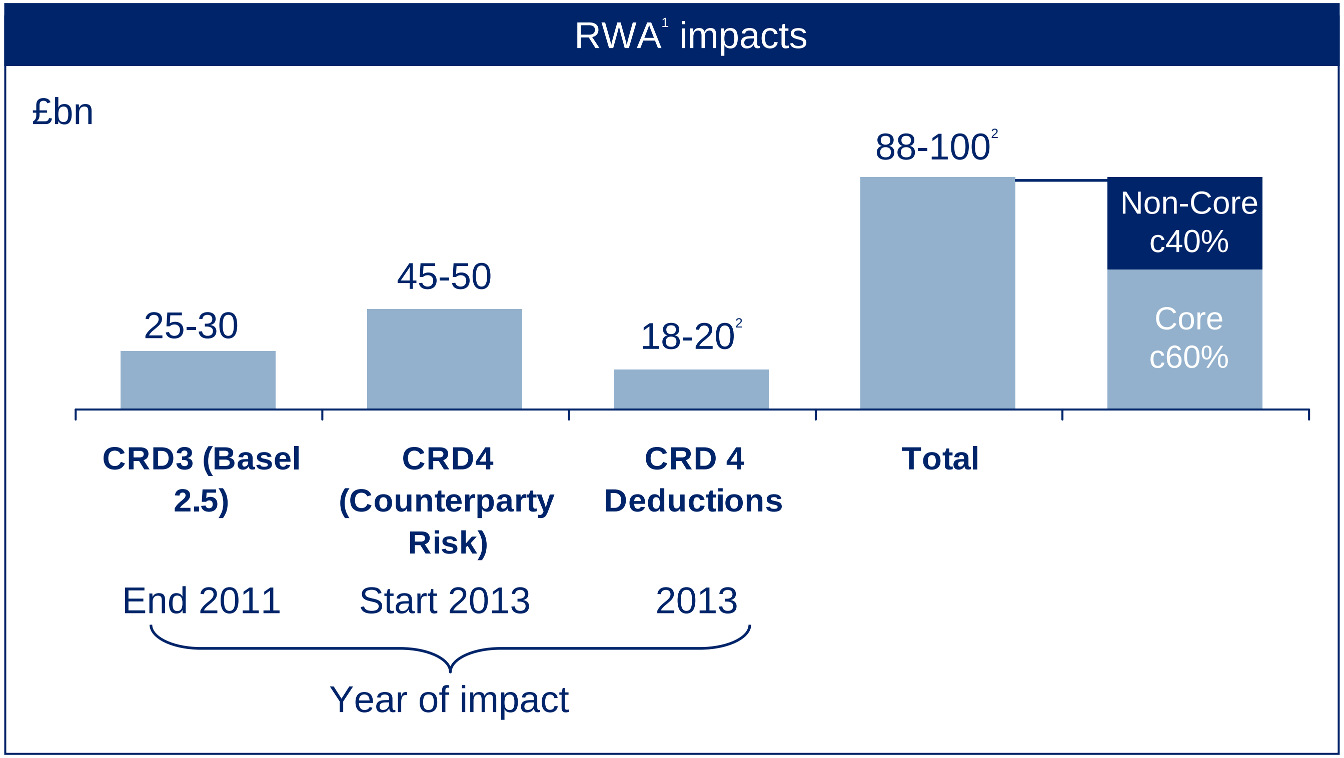
Indicative profile of Non-Core asset sales to date



- Progress to date:
  - FY08-Q111 cumulative disposals of £51bn
  - c£1.6bn[2] of disposal losses, split 50/50 above and below the line
  - Average disposal loss of 3%
- Future outlook: fall in impairments as Ireland is fully covered, partly offset by higher disposal losses on more illiquid positions

[1] Capital impact = (after-tax losses on sale + (cap rate * RWAs released)). [2] Includes £200m charge for portfolio de-risking in Q111.

Indicative RWA Impacts under Basel 3

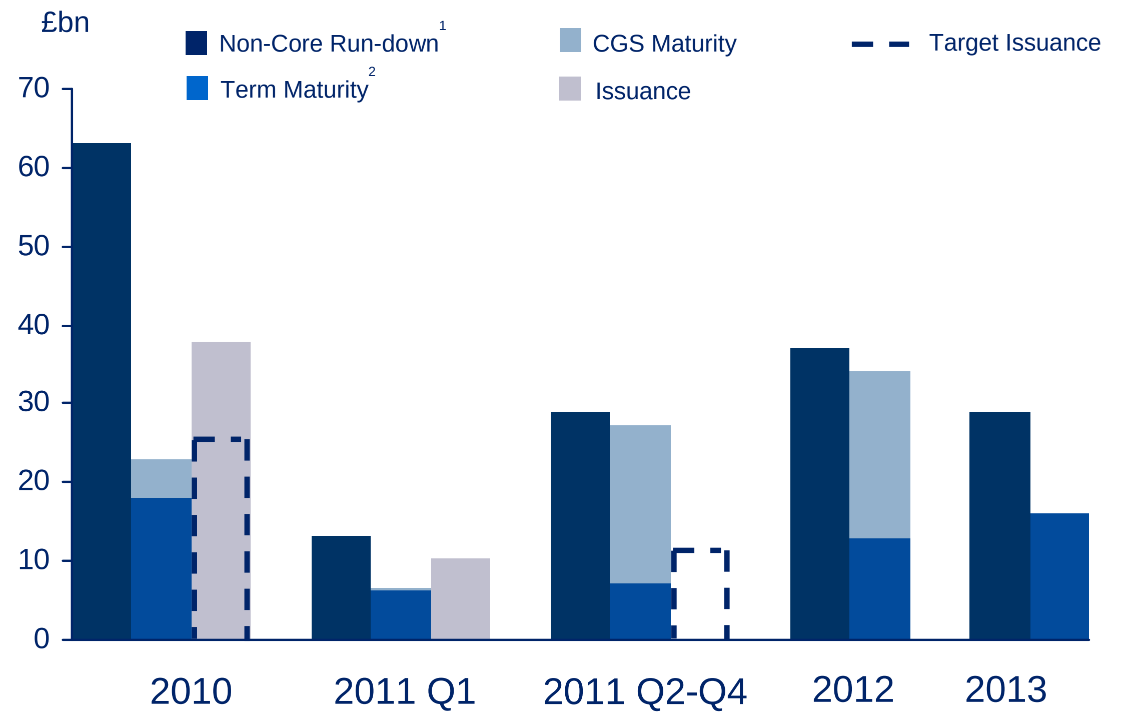


- Clarification provided from Basel Committee
- Uncertainties remain, with a range of potential outcomes
- Impacts split between Core and Non-Core
- Manageable within context of group

[1] Assessment based on current EU proposals. Net of Non-Core run-down, enhancements to internal models and mitigation.
[2] Net equivalent change in RWAs after reflecting the impact of the current capital deduction from Core Tier 1. Gross impact is forecast to be c£30-35bn.

Run-down of Non-Core reduces funding need

Asset reduction lessens market funding requirement



- Non-Core reduction reduces reliance on wholesale funding
- Lower requirement for public unsecured issuance going forward
- Q111 issuance of £10bn:
  - 42% private, 58% public
  - 55% of public deals unsecured, 45% secured
- CGS term funding outstanding of £40bn, will be fully repaid by July 2012:
  - Q411 £18.7bn
  - Q112 £15.6bn
  - Q212 £5.7bn
- €3bn of Covered Bonds issued in 2011

[1] Non-Core third party assets excluding derivatives. [2] Unguaranteed term debt and subordinated liabilities contractual maturity.

Risk Update

Dynamic Holistic risk agenda model

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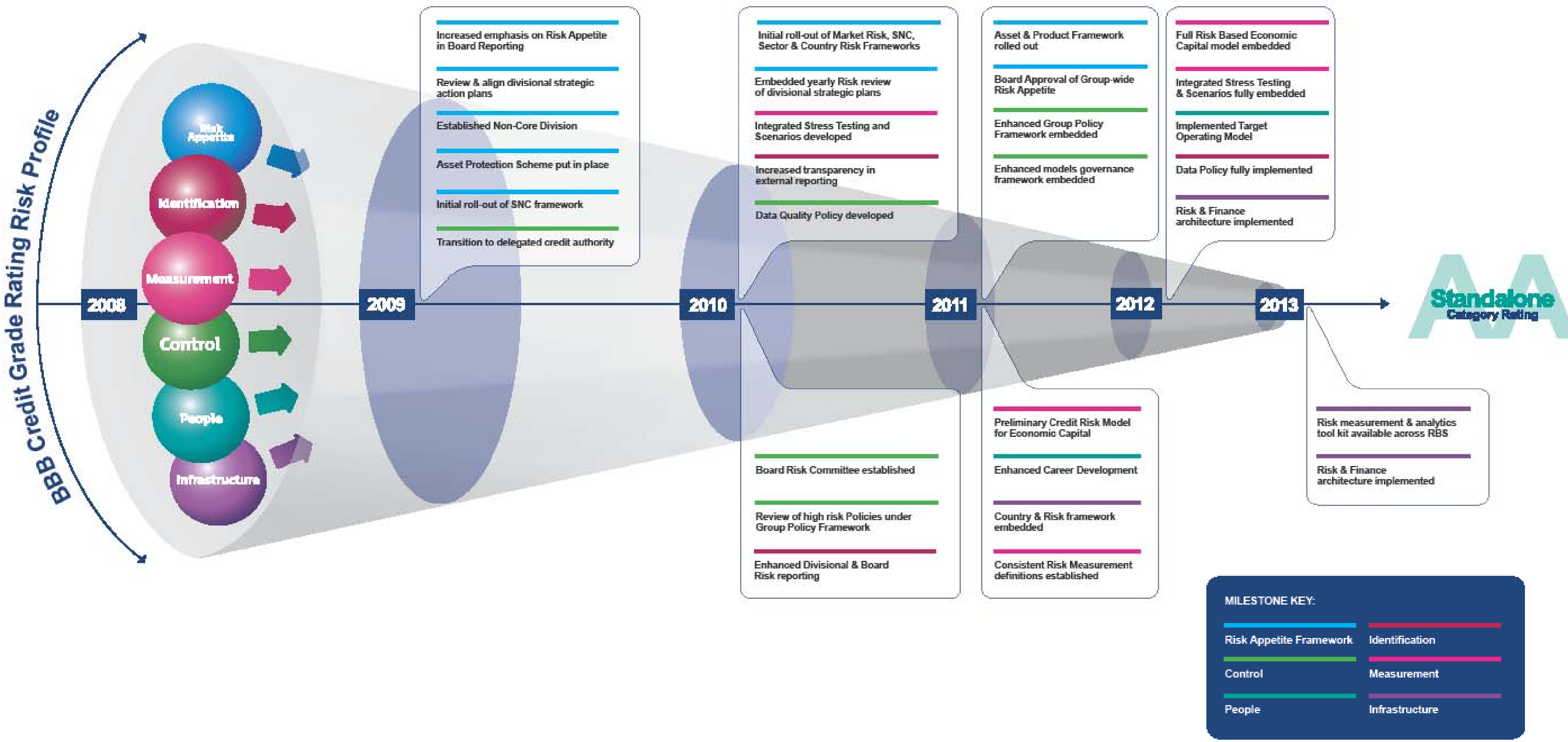
Macro-Economic

Sovereign Rating

Capital Requirements

Political & Regulatory

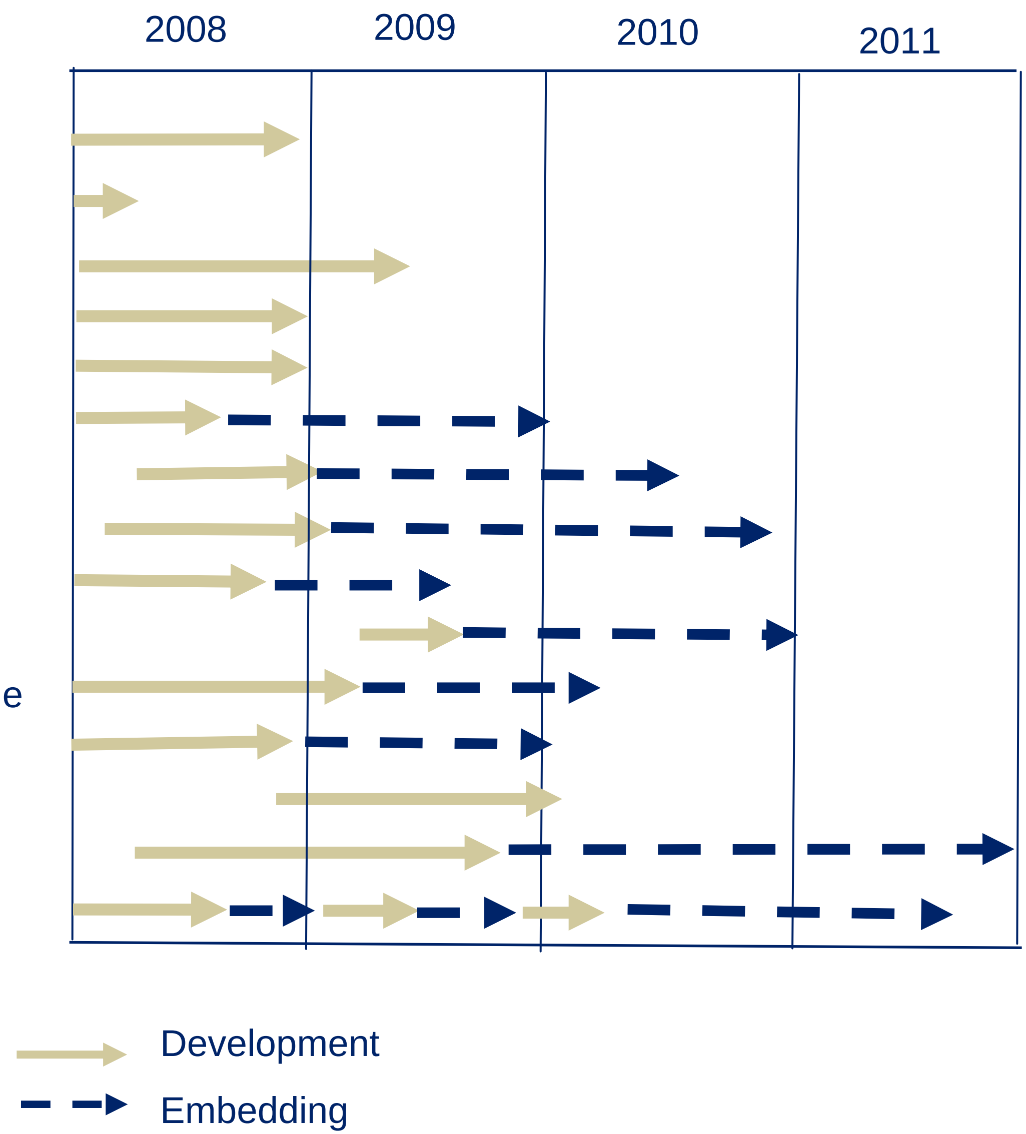
The Cone of Uncertainty



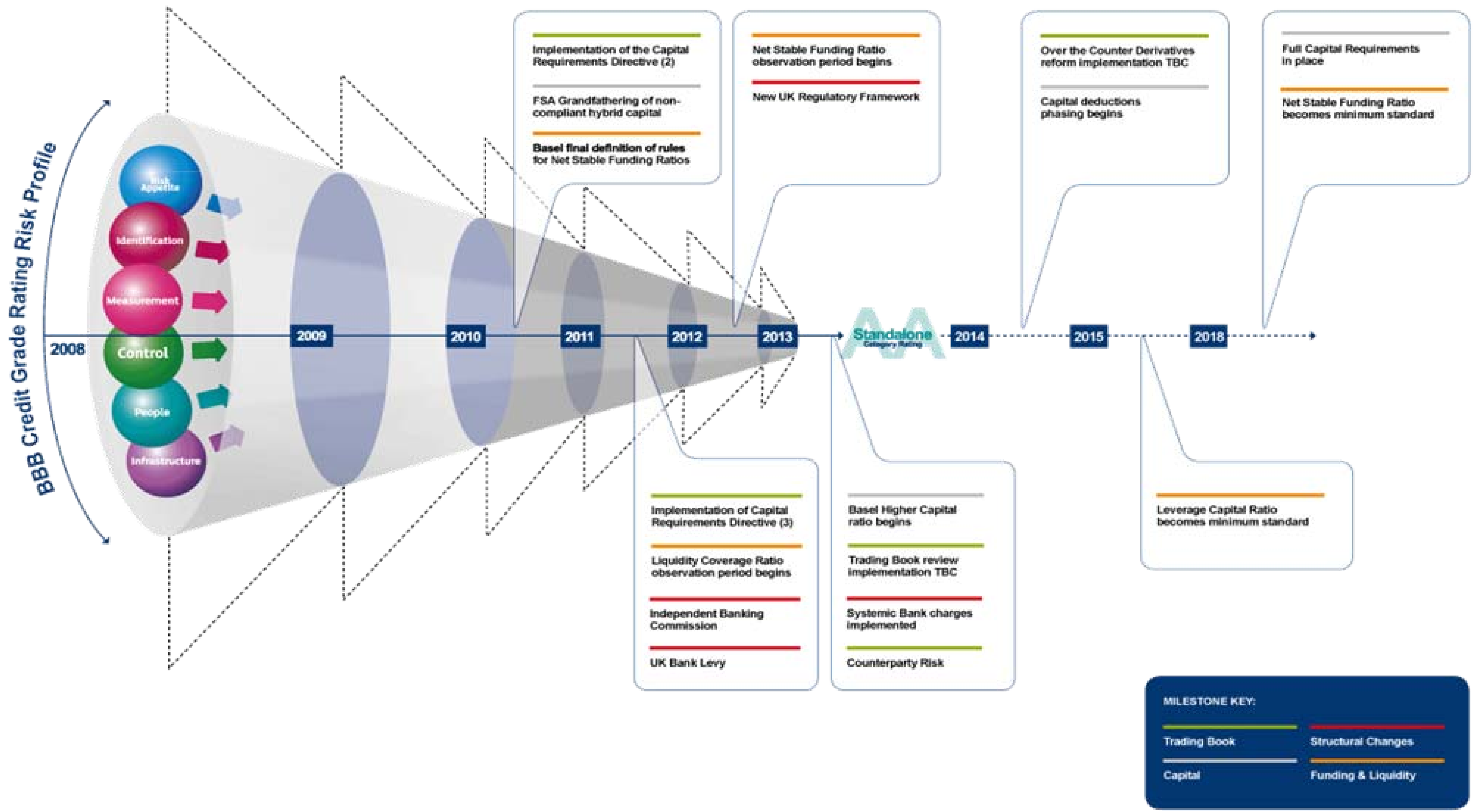
Getting to grips with risk management

Activity

- Review senior risk leadership
- Self certification
- Rationalise group policies
- Master rating scale
- Committed credit exposure (TCE)
- Exposure watchlist
- Concentration risk
- Credit approval framework
- Market Risk Committee
- Market risk framework - limits and controls
- Regulatory risk and operational risk coverage
- Country risk framework
- Group risk appetite
- Integrated stress testing
- Transparent Reporting



Revisit the Cone of Uncertainty



Maintain Stakeholder Confidence

- Stakeholder confidence is about rebuilding and maintaining the trust of our key stakeholders. Rebuilding our reputation will take time.

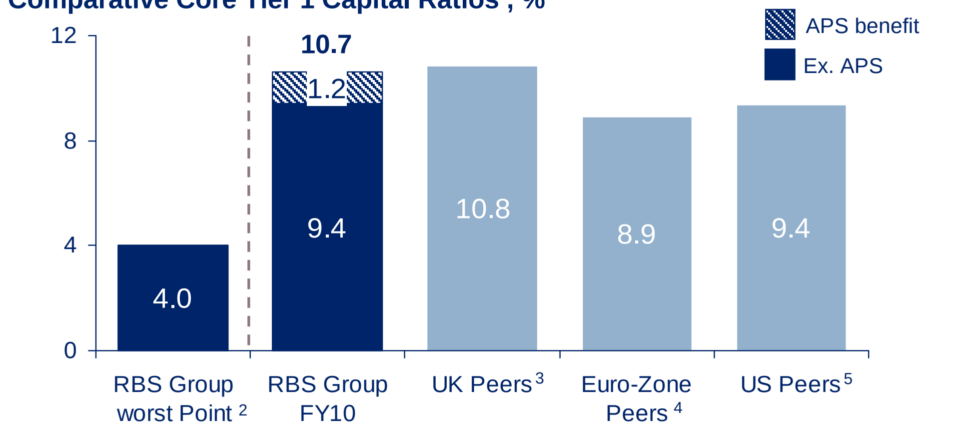
- In RBS' case specifically, it is a question of demonstrating that factors contributing to our outlier risk profile in the past have been adequately addressed. In many cases, this will need to be clearly demonstrated or 'proven' through sustained delivery and/or assurance testing

		Aspects of bank assessment	Relevant part of Risk Appetite Framework
Market Confidence	Quantitative	Capital adequacy	✓ Maintain capital adequacy
		Stable earnings	✓ Maintain stable earnings
		Liquidity and funding	✓ Maintain stable and efficient access to liquidity and funding
		Profitability	✓ Maintain stable earnings
	Qualitative	Franchise value	✓ Maintain stakeholder confidence
		Management and strategy	
		Risk positioning	
		Regulatory and reputation risks	

Risk envelope - Structural balance sheet improvements largely done

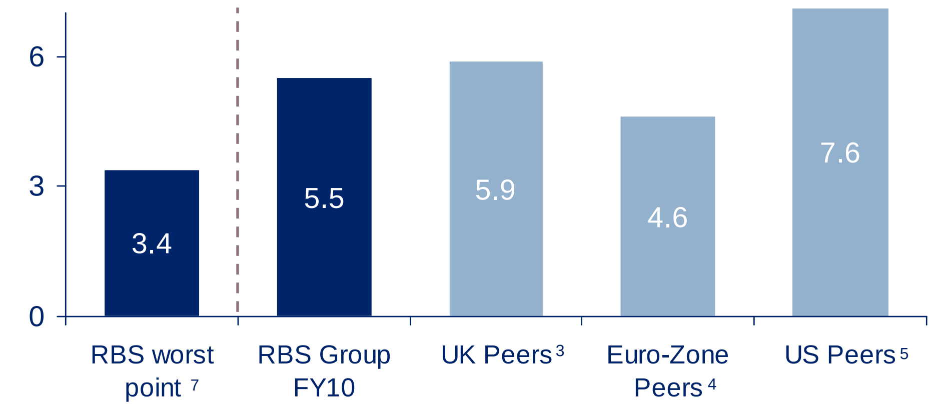
RBS capital ratios strong with Non-Core reducing

Comparative Core Tier 1 Capital Ratios[1], %



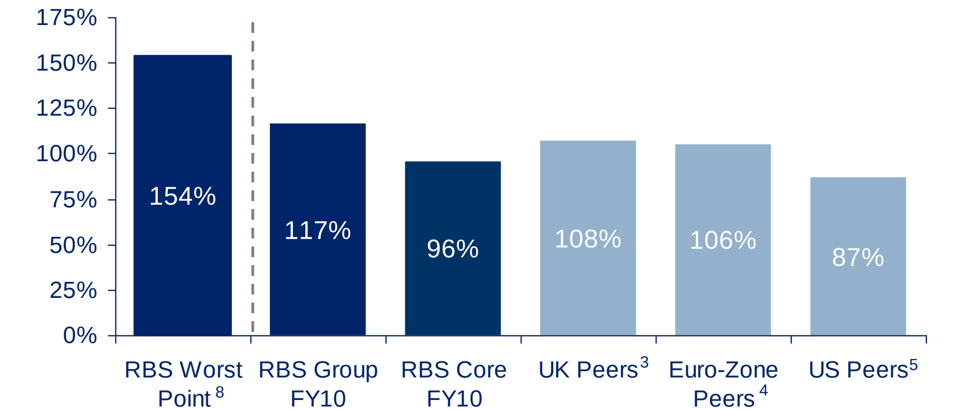
Leverage Ratios "in the pack"

Tier 1 Leverage Ratios[6] vs Peer averages %



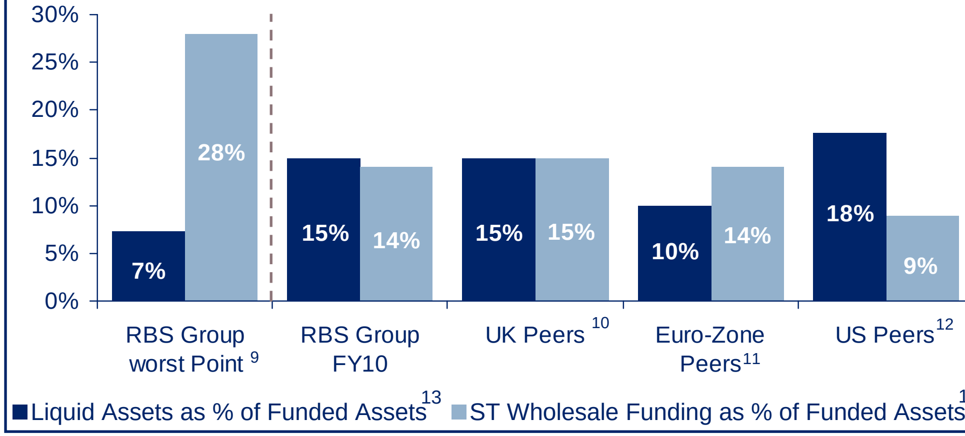
Loan : Deposit ratio improved

Comparative loan:deposit ratios, %



Wholesale funding & Liquidity balance achieved

Comparative liquid assets and ST wholesale funding, %



[1] As at FY10. [2] As at 1 January 2008. [3] UK Peers consist of Barclays, HSBC, Lloyds Banking Group and Standard Chartered at FY10 [4] Euro-Zone Peers consist of Deutsche Bank, Santander, BNP Paribas at FY10. [5] US Peers consist of Bank of America, Citigroup, JP Morgan and Wells Fargo at FY10. [6] Tier 1 leverage ratio is Tier 1 Capital divided by funded tangible assets. [7] As at FY07. [8] As at October 2008. [9] As at FY08. [10] UK peers consist of Barclays, Lloyds Banking Group and HSBC as at FY10. [11] European peers consist of Deutsche Bank and BNP Paribas as at FY10. [12] US Peers consist of JPMorgan, Bank of America and Citigroup as at H110. [13] Source: Company Information & RBS Estimates: Liquid assets comprise AFS debt securites and cash, except for RBS, Lloyds & Barclays where company quoted liquidity is used. [14] Source: Company Information & RBS Estimates: Short-term wholesale funding calculated excluding trading liabilities

Risk agenda in practise - risk concentration reduction progressing well

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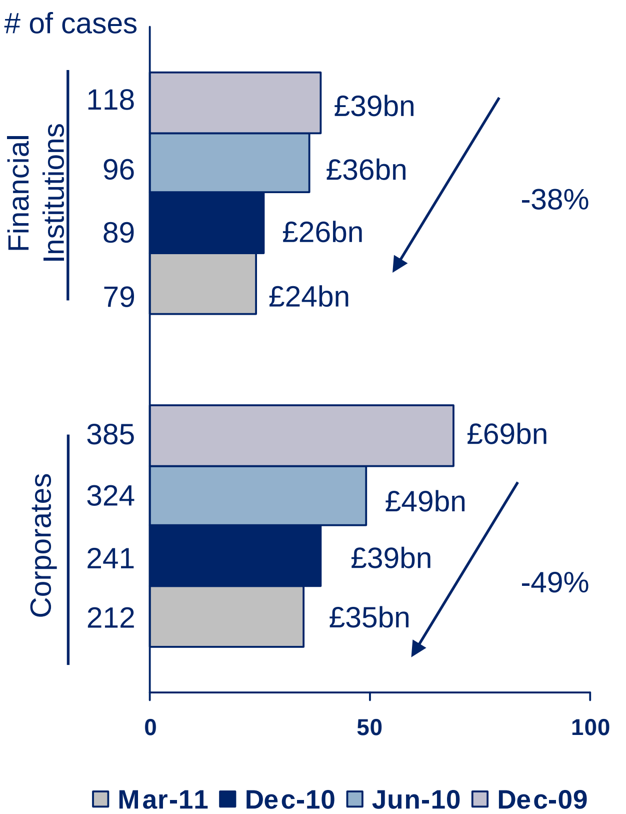
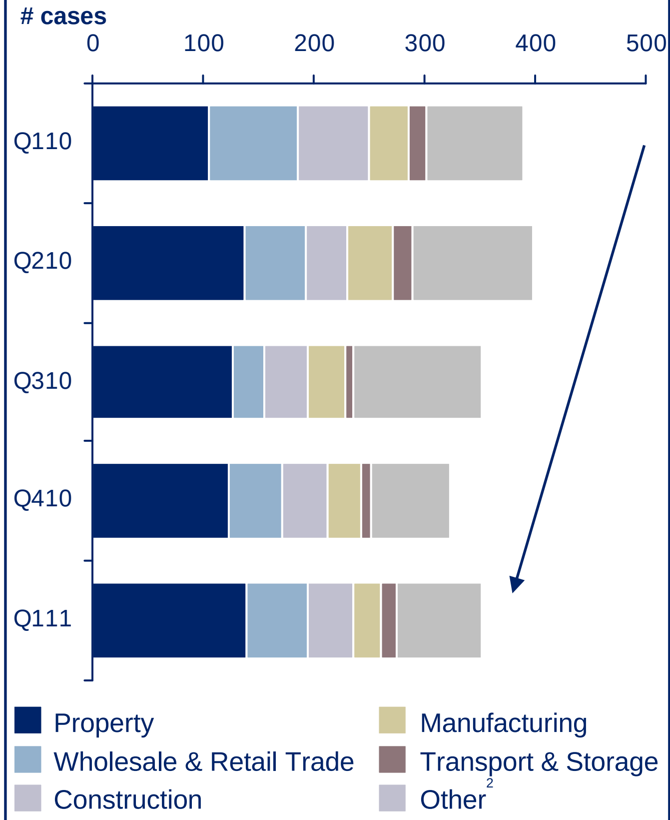
Substantial reduction in 'tall-trees' exposure

Single Name Concentration exposures over risk appetite[1]



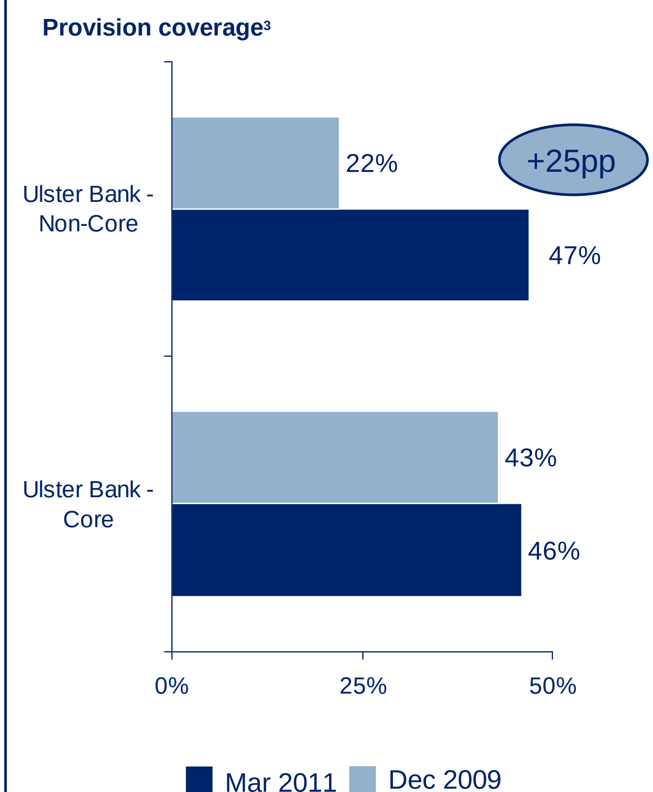
REIL growth slowing; transfers to work-out slowing

No. of wholesale cases transferred to Recoveries Units globally



Significantly improved provision levels in Ulster Bank

Provision coverage of Ulster Bank REILs



[1] The SNC framework sets graduated appetite levels according to counterparty credit ratings. The chart shows names that are in breach of the framework.

[2] Other is spread across a large number of sectors incl TMT, Tourism & Leisure and Business Services.

[3] Provisions as a percentage of risk elements in lending (REILs).

Conclusions

RBS

Group Momentum Maintained	■ All key Group metrics on or ahead of Plan for this stage of Strategic Plan ■ Risk agenda fully embedded and traction gained across the Group ■ March 2011 – S&P upgrade from BBB+ to A-
Non-Core delivery ahead of plan	■ Non-Core TPAs reduced 52% since inception ■ On target to be less than 10% of group assets by FY11 ■ Run-down target accelerated for 2011
Risk Envelope Improving	■ Structural balance sheet improvement largely done ■ Significant reduction in risk concentrations ■ Major milestones achieved in improving the Group's risk profile

Appendix

The Royal Bank of Scotland Group

Non-Core asset class composition changes

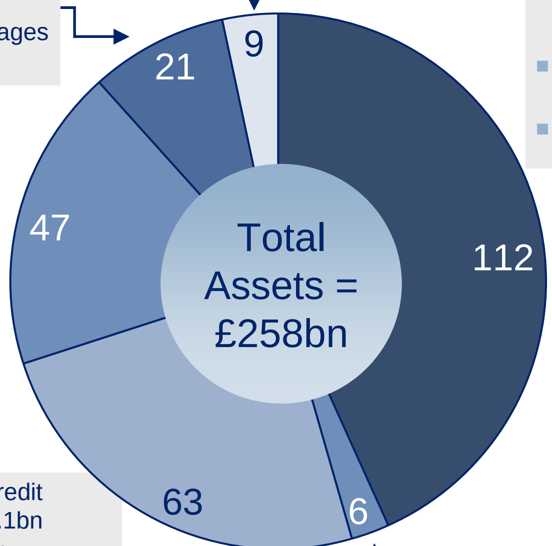
RBS

2008 Year-End TPAs (excl. derivs)

Retail
- UK Mortgages & Personal Lending £3.2bn
- US Mortgages & Personal Lending £11.9bn
- Ireland Mortgages £6.5bn

Other
- RBS Insurance £2.0bn
- Bank of China / Linea Directa £4.5bn
- Whole Businesses £0.8bn
- Shared Assets and Other £1.5bn

Corporate
- Project & Export Finance £21.3bn
- Asset Finance £24.2bn
- Leveraged Finance £15.9bn
- Corporate Loans & Securitisations £41.6bn
- Asset Management £1.9bn
- Countries £6.7bn



Markets
- Structured Credit Portfolio £20.1bn
- Equities £5.0bn
- Credit Collateral Financing £8.6bn
- Exotic Credit Trading £1.4bn
- Sempra £6.3bn
- Other Markets £6.2bn

Commercial Real Estate
- Real Estate Finance £38.7bn
- UK B&C £11.4bn
- Ireland £9.9bn
- US £2.8bn

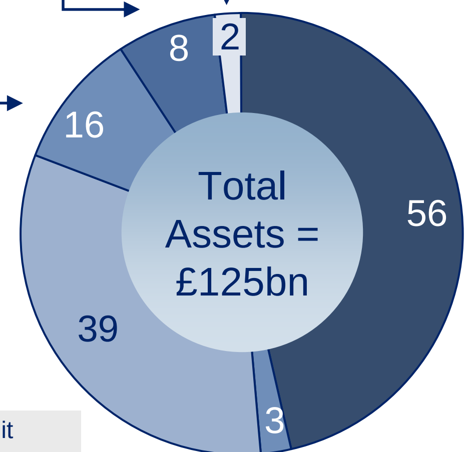
SME
- UK SME £4.2bn
- US SME £1.6bn

Q1 2011 TPAs (excl. derivs)

Retail
- UK Mortgages & Personal Lending £1.8bn
- US Mortgages & Personal Lending £5.7bn
- Countries £0.9bn

Other
- RBS Insurance £1.5bn
- Whole Businesses £0.1bn
- Shared Assets and Other £0.8bn

Corporate
- Project & Export Finance £15.6bn
- Asset Finance £18.5bn
- Leveraged Finance £6.6bn
- Corporate Loans & Securitisations £13.4bn
- Asset Management £0.9bn
- Countries £0.9bn



Markets
- Structured Credit Portfolio £10.7bn
- Equities £0.7bn
- Credit Collateral Financing £0.1bn
- Exotic Credit Trading £0.1bn
- Sempra £3.9bn
- Other Markets £0.8bn

Commercial Real Estate
- Real Estate Finance £22.6bn
- UK B&C £5.3bn
- Ireland £9.6bn[1]
- US £1.6bn

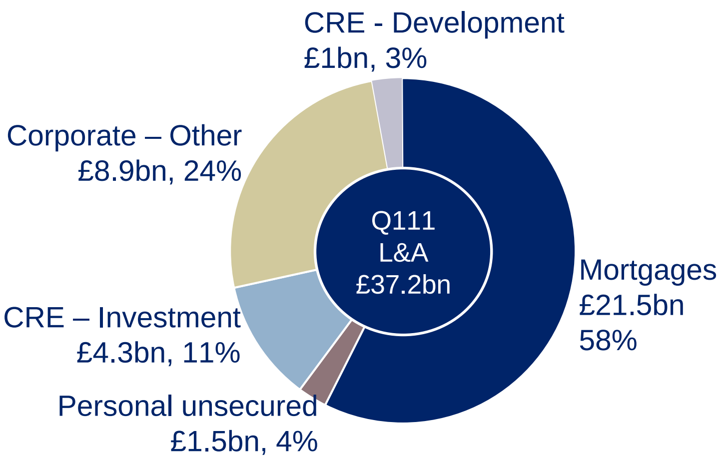
SME
- UK SME £2.6bn
- US SME £0.5bn

[1] Affected by the replacement of Irish Mortgages with Irish Commercial Real Estate announced at H1 2010 results. As at 30 June 2010 the CRE portfolio transferred was £5.0bn.

Update on Ireland – Asset Deep Dive

RBS

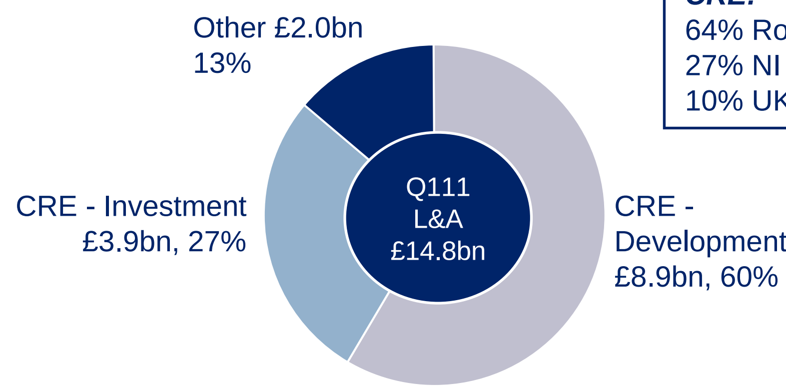
Ulster Bank – Core gross L&A, £37.2bn, (-4% y-o-y)



CRE:
57% RoI
20% NI
23% UK

Mortgages:
90% RoI
10% NI

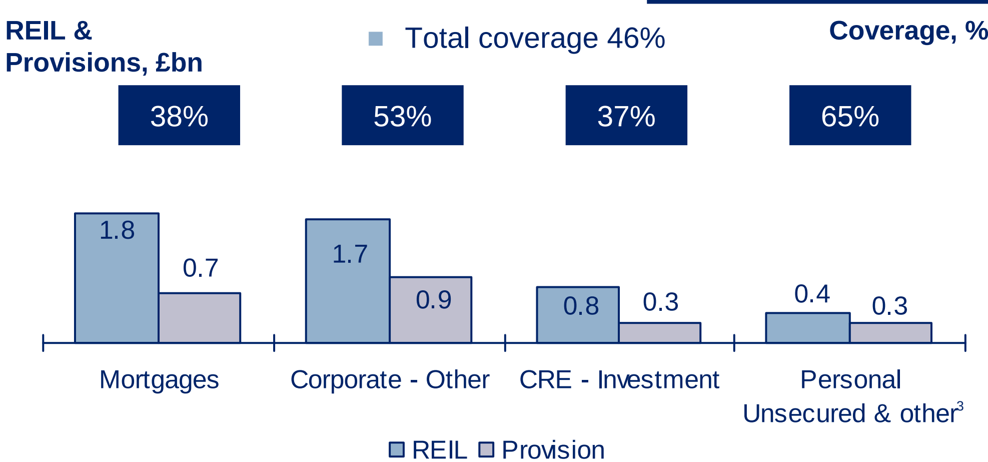
Ulster Bank – Non-Core gross L&A[1], £14.8bn, (-6% y-o-y)



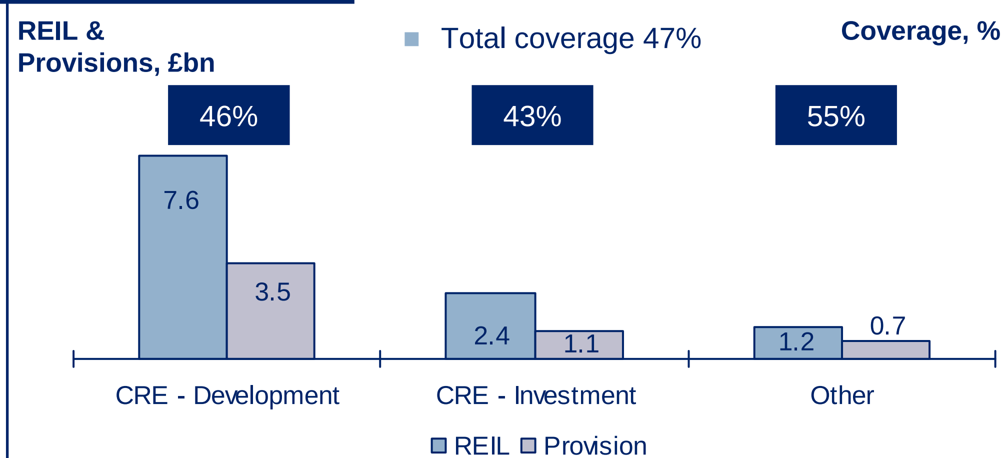
CRE:
64% RoI
27% NI
10% UK

Ulster Bank – Core REIL, Provisions & Coverage[2]

“In the pack” on provision coverage vs peers



Ulster Bank – Non-Core REIL, Provisions & Coverage[2]



[1] Excludes EMEA L&A of £0.5bn. [2] Provisions as a % of REIL. [3] Includes Core CRE Development lending REIL of £210m and provisions of £99m.