What's done, what's left to do

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Agenda

RBS strategic vision and targets

Fixing the risk envelope and concentration reduction

Core business progress

Key industry issues

Summary and conclusions

RBS
The Royal Bank of Scotland Group

RBS Strategic Vision and Targets

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	Non-Core Bank The primary driver of risk reduction
■ Built around customer-driven franchises ■ Comprehensive business restructuring ■ Substantial efficiency and resource changes ■ Adapting to future banking climate (regulation, liquidity etc)	■ 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)

Strong achievements to date

RBS strategic plan re-affirmed & "on-track"	■ All key Group metrics on or ahead of Plan for this stage ■ Particular progress on Group risk reduction and reshaping
Non-Core reduction & business re-shaping progressing well	■ Non-Core TPAs[1] reduced 51% since inception[2] ■ On target to be less than 10% of group assets by FY11; run-down target accelerated ■ EU mandated disposals progressing well, Insurance disposal targeted for H2 2012
Core bank strategy gaining traction	■ Customer franchises strong ■ Strong improvement in Retail & Commercial keeps Core returns above cost of capital despite GBM normalising ■ New management across Group businesses establishing positive track record ■ Cost and investment programmes on-track to deliver
Strengthened balance sheet	■ Liquidity, funding and leverage ratios strong and back "in the pack" ■ Significantly reduced reliance on short-term wholesale funding; Core LDR exceeds target

[1] Third party assets excluding derivatives.
[2] Includes £12bn of pending deals at FY10

The financial parameters of our Plan and Progress

Group – Key performance indicators	Worst point	FY 10 Actual	2013 Target
Loan : deposit ratio (net of provisions)	154%[1]	117%	c100%
Short-term wholesale funding[2]	£343bn[3]	£157bn	<£150bn
Liquidity reserves[4]	£90bn[3]	£155bn	c£150bn
Leverage ratio[5]	28.7x[6]	16.9x	<20x
Core Tier 1 Capital	4%[7]	10.7%	>8%
Return on Equity (RoE)	(31%)[8]	Core 13%[9,10]	Core >15%
Cost : income ratio[12]	97%[11]	Core 56%[10]	Core <50%

Divisions – Key performance indicators	Worst point	FY 10 Actual	2013 Target
Retail & Commercial:			
RoE	7%[13]	10%	>20%
Cost : income ratio[12]	60%[13]	56%	c45%
Loan : deposit ratio[14]	99%[3]	86%	<90%
GBM:			
RoE	(9%)[3]	16.6%	>15%
Cost : income ratio[12]	169%[3]	56%	c.55%
Non-Core:			
Third Party Assets	£258bn[15]	£138bn	£20-40bn

[1] As at October 2008 [2] Amount of unsecured wholesale funding under 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 (c70% 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. [14] As at FY08.

Our Core Bank - A sustainable and balanced design

RBS

A complementary group of businesses….

Retail Customers

Deposits

SMEs

Domestic Corporate

Retail & Commercial

UK Retail

UK Corporate

Wealth

Ulster Bank

US R&C

Global Banking & Markets

GTS

Global Corporate Clients

Governments

Financial Institutions

Market Funding

… with shared infrastructure…

Shared vendor management & purchasing

Shared property management

Shared technology (e.g. systems, data centres)

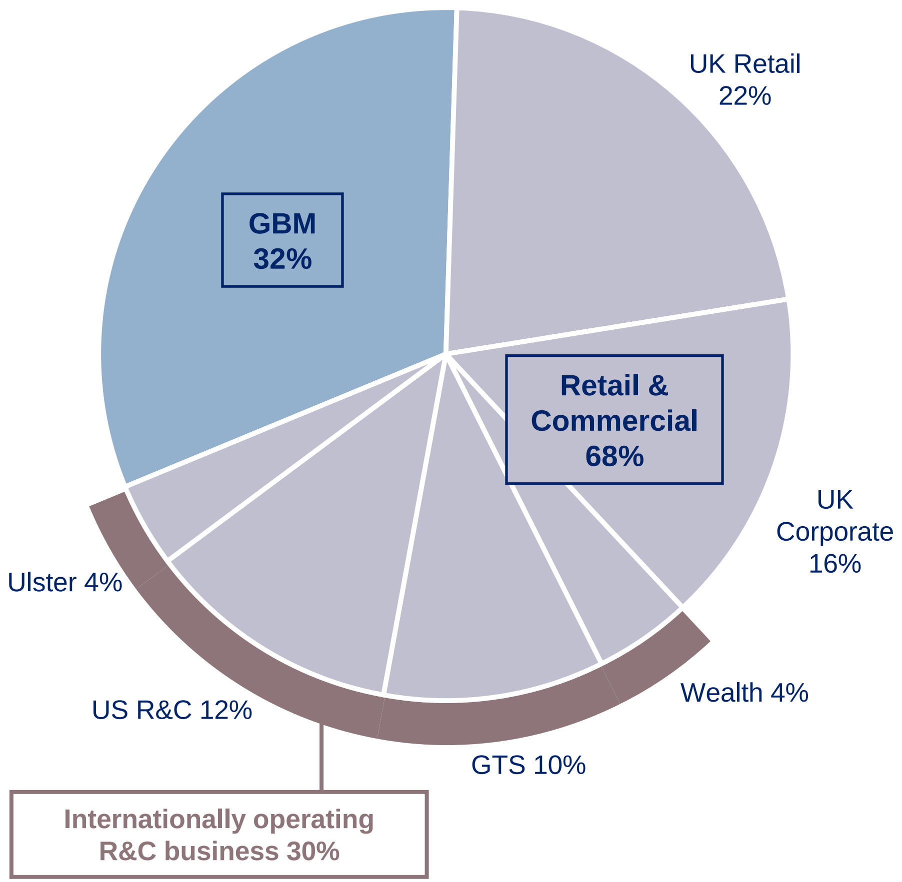
Shared operations (e.g. customer centres, processing)

Shared branches

Citizens	Ulster Bank	Wealth	UK Retail	UK Corporate	GTS	GBM

… well balanced by business mix and geography

FY10 Core revenues[1] by Division



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

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Fixing the risk envelope & concentration reduction

Risk envelope - Structural balance sheet improvements largely done

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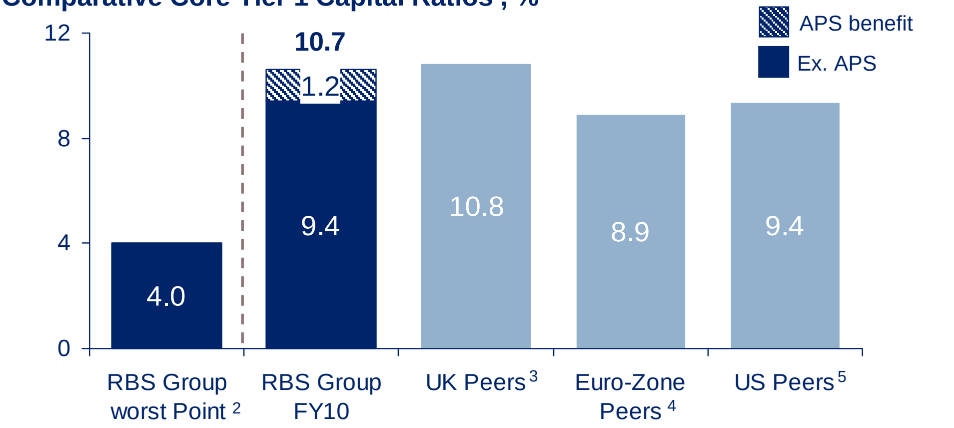
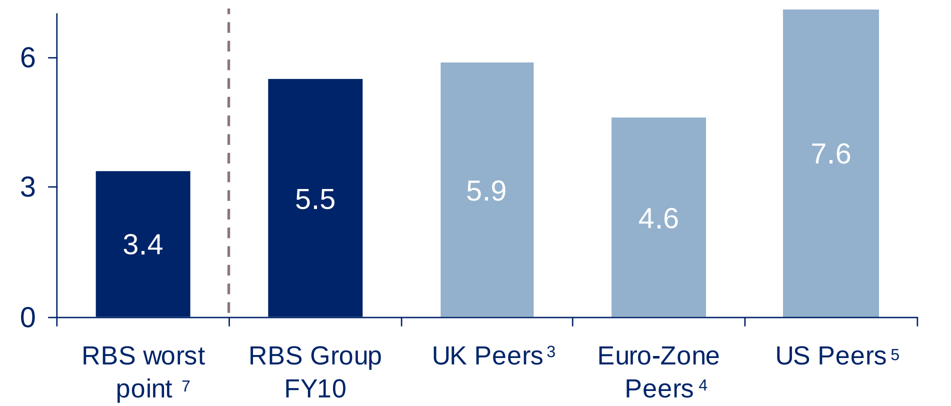
RBS capital ratios strong with Non-Core reducing

Comparative Core Tier 1 Capital Ratios[1], %



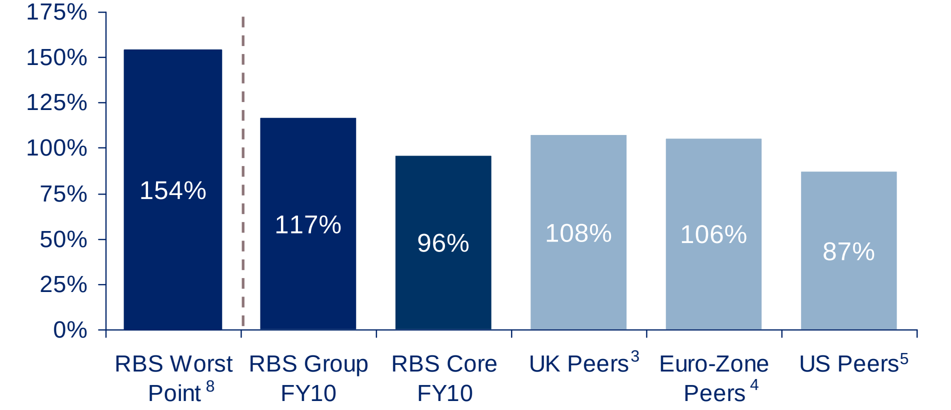
Leverage Ratios "in the pack"

Tier 1 Leverage Ratios[6] vs Peer averages %



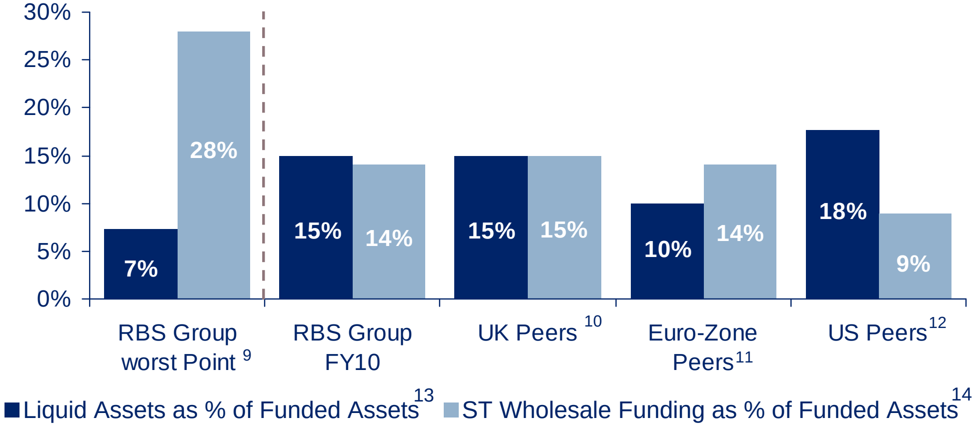
Loan : Deposit ratio improved

Comparative loan:deposit ratios, %



Wholesale funding & Liquidity balance achieved

Comparative liquid assets and ST wholesale funding, %

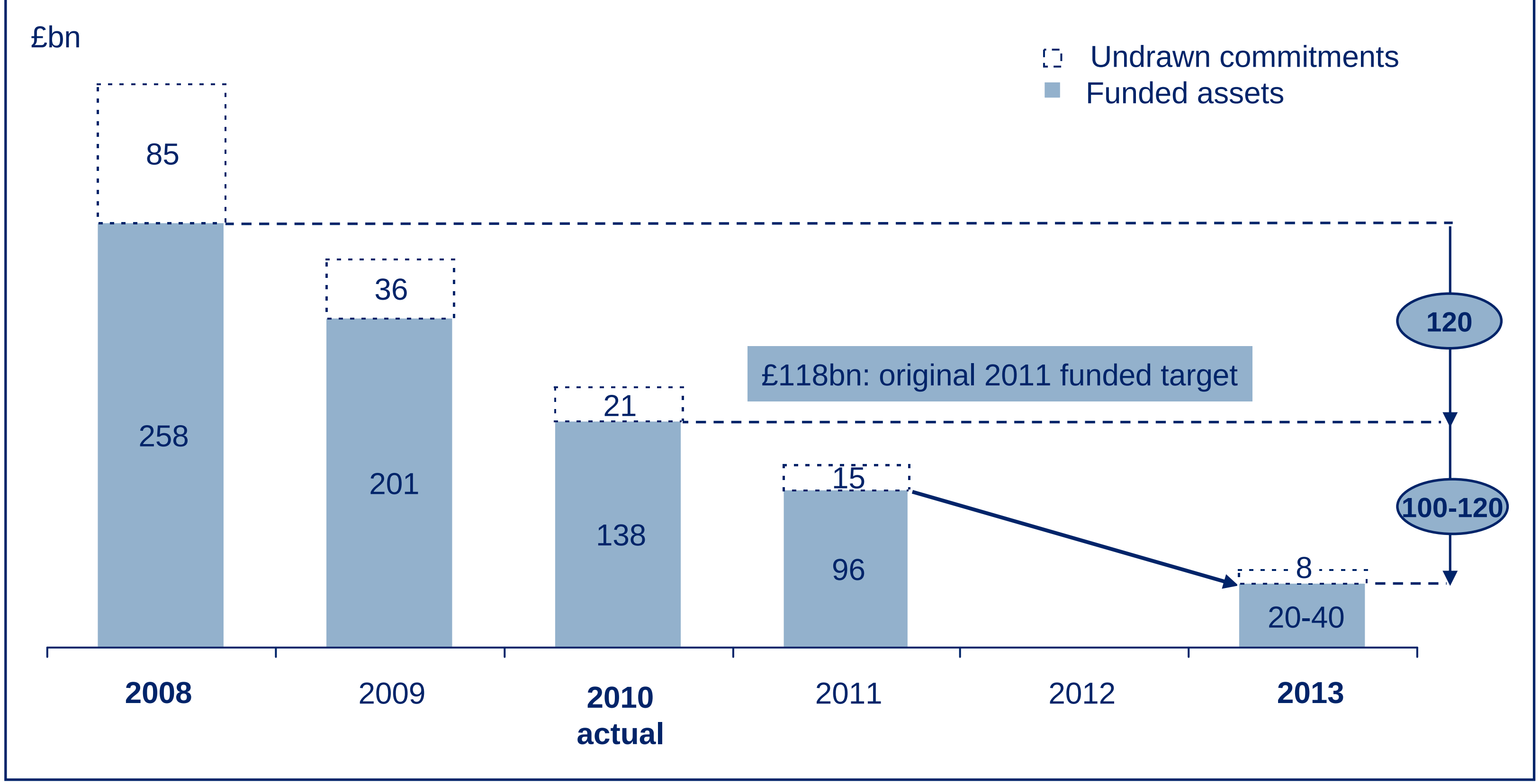


[1] As at FY10. [2] As at 1 January 2008. [3] UK Peers consist of Barclays, HSBC, Lloyds Banking Group and Standard Chartered at FY10 [4] Euro-Zone Peers consist of Deutsche Bank, Santander, BNP Paribas at FY10. [5] US Peers consist of Bank of America, Citigroup, JP Morgan and Wells Fargo at FY10. [6] 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 concentrations - Excellent progress reducing Non-Core but more to do

RBS

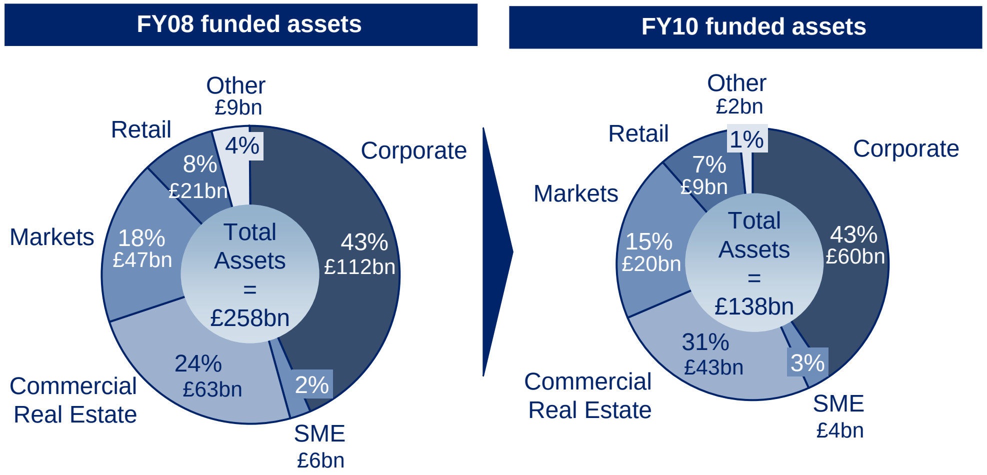
Non-Core reduction profile



- Non-Core funded assets reduced by £120bn since inception
- On target to be <10% of Group funded assets by FY11
- EU disposals largely completed/contracted; planned H2 2012 for Insurance IPO/sale

Risk concentrations - Future Non-Core disposals

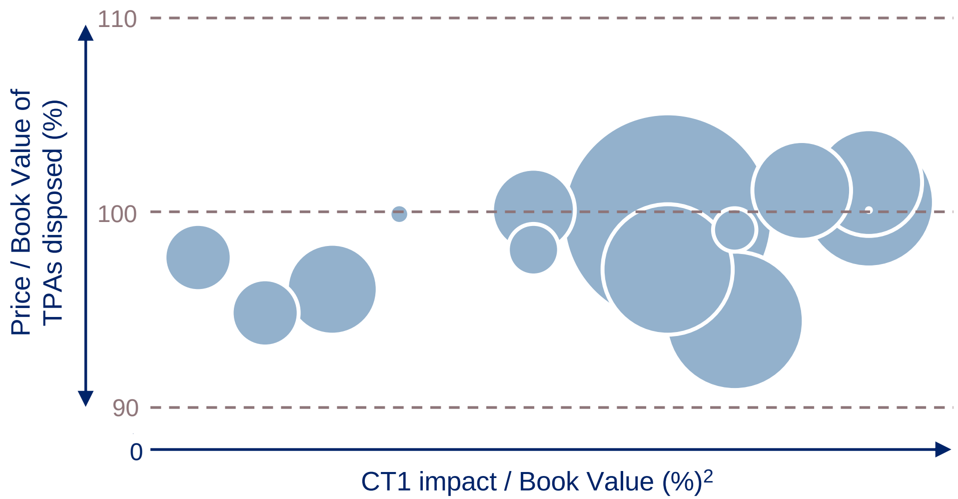
Balanced portfolio reduction to date



- Reduction across all asset classes, supported by run-off of £64bn in 2009-10
- Significant pro-active disposals, optimised in capital terms and intrinsic value

Potential for increased disposal losses

Indicative profile of Non-Core asset sales to date[1]



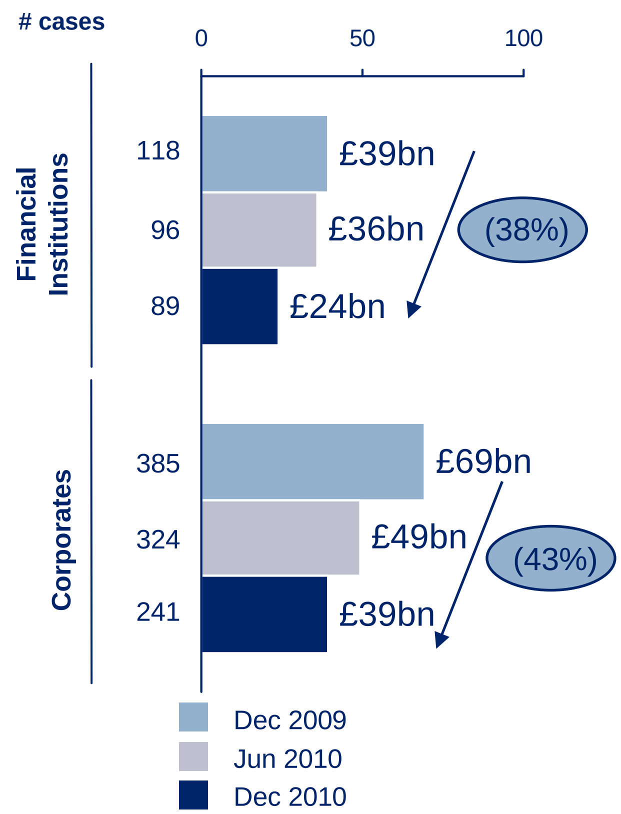
- Non-Core impairment charges expected to fall as credit cycle improves and provisioning targets achieved
- Average cost of disposals likely to rise as sales involve more illiquid low margin and restructured assets

[1] 2009-2010
[2] Capital impact = After-tax losses on sale + (capitalisation rate * RWAs released)

Risk concentrations - Reduction progressing well

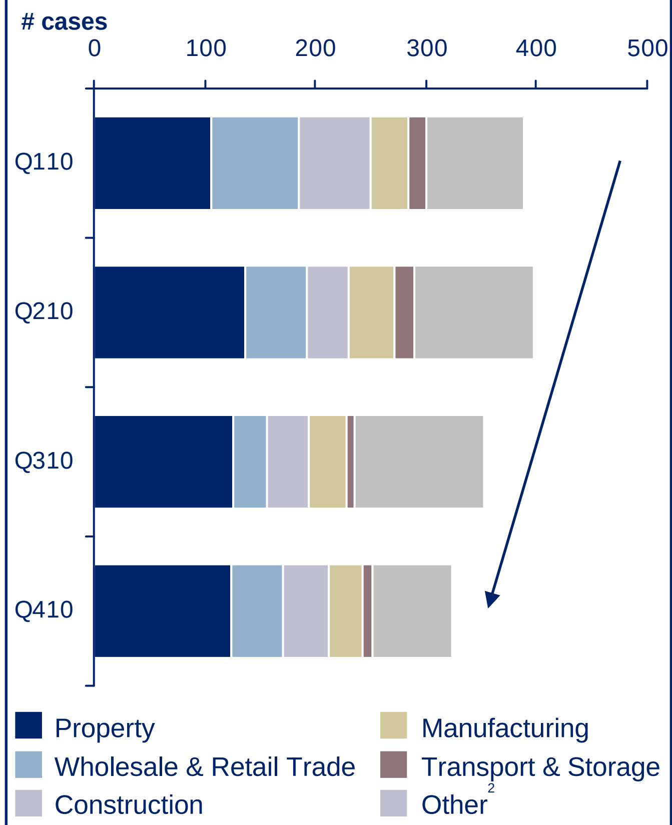
Substantial reduction in 'tall-trees' exposure

Single Name Concentration exposures over risk appetite[1]



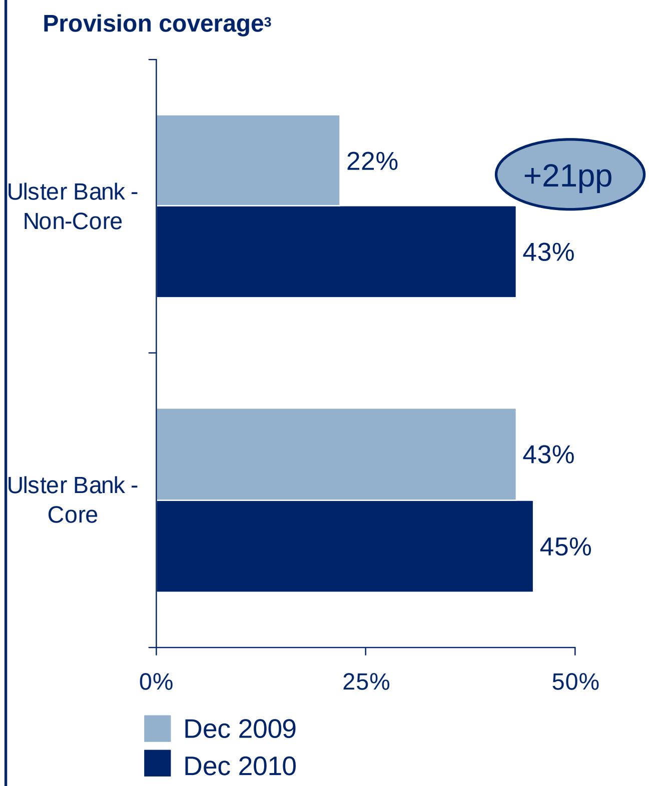
REIL growth slowing; transfers to work-out moderating

No. of wholesale cases transferred to Recoveries Units globally



Significantly improved provision levels at 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).

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Core business progress

2010 - Strength and potential of Core RBS taking shape

RBS

- Core RBS produced solid FY10 performance, increasingly well balanced
- Retail & Commercial businesses up strongly despite losses in Ireland
- GBM revenues “normalised” in weaker markets
- Good cost re-engineering, Retail & Commercial C:I ratio improved 430bps y-o-y
- Good deposit growth delivers Core LDR of 96%, 800bps improvement
- On-going actions to underpin cyclical recovery
  - New management teams gaining traction
  - Investment programme
  - Customer targeting and service initiatives
  - Improved risk disciplines throughout

Market leading, customer driven franchises

Division	Market position	Customer Numbers/satisfaction	FY10 deposits £bn	FY10 deposits Y-o-Y change	Comments
UK Retail	↗	↗	£96.1bn[1]	10%	Robust franchises, increasing customer satisfaction; strong deposit and mortgage performance
UK Corporate	→	↗	£100.0bn	14%	Leading customer satisfaction & market position Strong growth in deposits reflecting success in broadening of relationships
Wealth	→	→	£36.4bn	2%	Lending up 18% driven by strong mortgage growth (+20%) Coutts UK customer numbers up 1%. Good growth in Q4, deposits up 5%, AUM up 3%
GTS	→	→	£69.9bn	13%	Strong trade finance lending, up 58%, driven by increasing world trade flows Strong deposit increase driven by international cash management business
Ulster	→	↗	£23.1bn	5%	Resilient deposit performance Good growth in customer numbers, up 3%
US R&C	→	→	£58.7bn[2]	(2%)	Strong customer satisfaction, improving quality of relationships, average checking balances up 11%[3], improving product and customer mix
GBM	→	→			Continued focus on improving target client revenues and share of wallet. Maintaining top tier positions with FICC. Banking client relationships: #1 important relationships in UK, #3 Europe, #5 USA, #9 APAC
Insurance	↘	→			Rating / pricing action has reduced higher risk motor customer numbers, while high retention rates have been maintained for preferred risks. Growth in own brands home (2%), international (15%) and travel (64%)

[1] Excluding Bancassurance. [2] Excluding repos, US$ deposits FY10 $91.2bn (-6% y-o-y). [3] Total US Retail & Commercial including Commercial and SME checking balances.

Tracking well to established targets

	Return on Equity[1], %			Cost : income Ratio, %			Loan : deposit ratio, %		
	FY09	FY10	2013 Target	FY09	FY10	2013 Target	FY09	FY10	2013 Target
UK Retail	3	18	>15	60	52	c.50	115	110	<105
UK Corporate	9	12	>15	43	43	<35	126	110	<130
Wealth	30	19	ns	59	70	<50	38	44	<30
GTS	42	43	ns	59	57	<50	21	21	<20
Ulster Bank	(12)	(21)	>15	73	59	c.50	177	152	<150
US R&C	(1)	4	>15	78	72	<55	80	81	<90
GBM	30	16.6	>15	42	56	c.55	nm	nm	nm

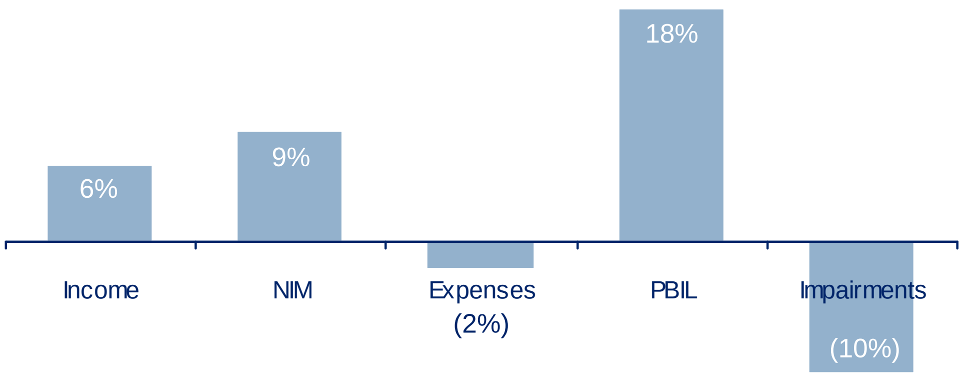
ns – none stated, nm – not meaningful

[1] Return on Equity is based on divisional operating profit after tax, divided by divisional notional equity based on 9% of divisional risk weighted assets (10% GBM), adjusted for capital deductions.

Businesses rebalancing;
Operating performance gaining traction

Sharp improvement in Retail & Commercial….

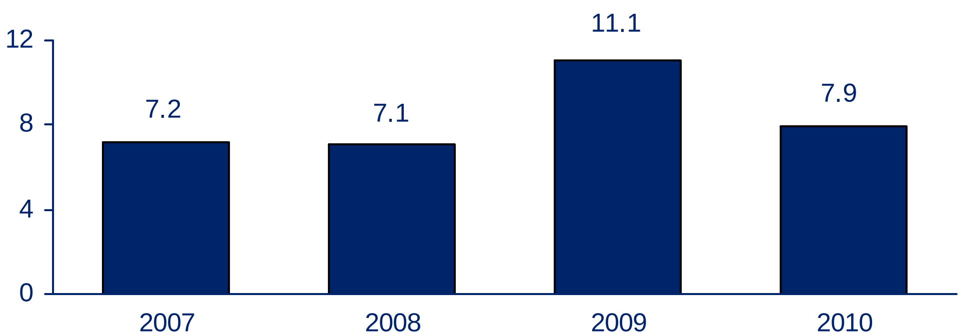
R&C[1] operating performance, FY10 vs FY09



- Income growth supported by asset margin expansion outweighing higher funding and liquidity costs
- Cost savings balanced by continued investment in the business
- Impairment reduction despite higher losses in Ireland

…as GBM 'normalises'

GBM Core revenues[2] £bn



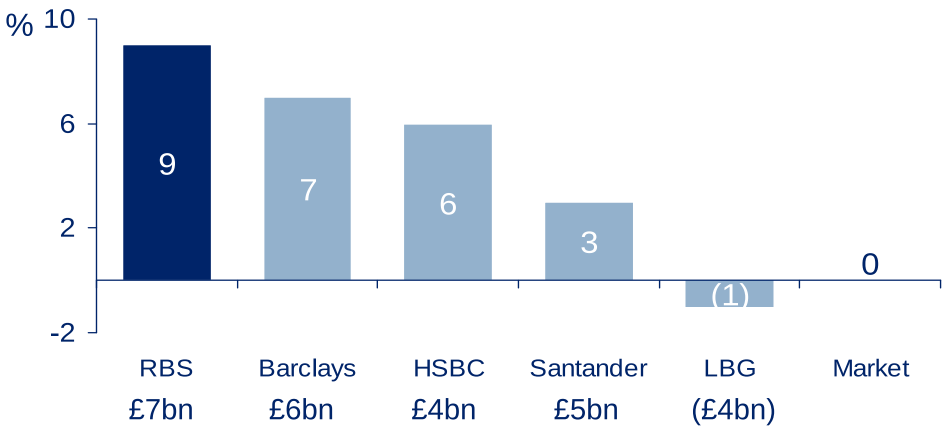
- Resilient revenue performance despite weaker market backdrop
- Revenues return to a more normalised level
- Good operating discipline: Total expenses down 6% y-o-y, Staff costs down 7% y-o-y

[1]Consists of UK Retail, UK Corporate, Ulster Bank, GTS, Wealth, US Retail & Commercial. [2] Underlying revenues, excluding fair value of own debt and Sempra.

Good progress in key markets

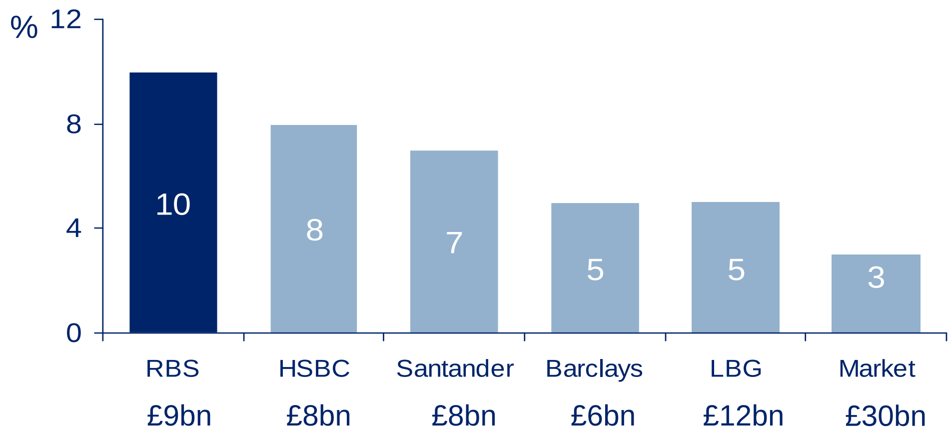
Increased UK mortgage participation

UK Retail – Mortgage lending growth FY10[1], %

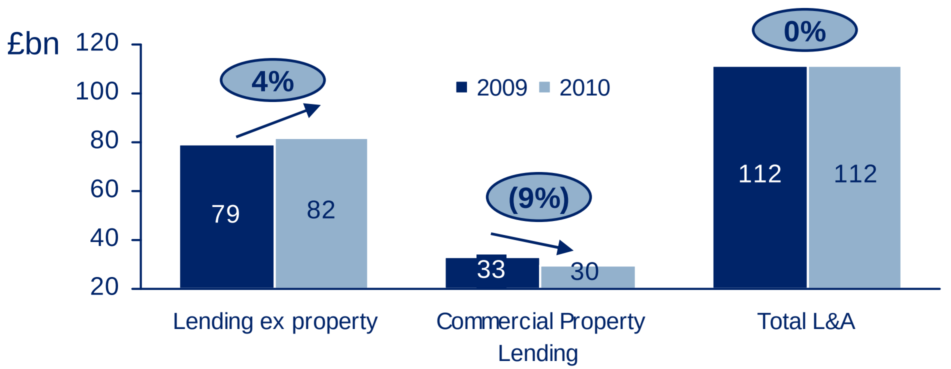


Strength of franchise attracting good deposit growth

UK Retail – Deposit growth FY10[1,2], %



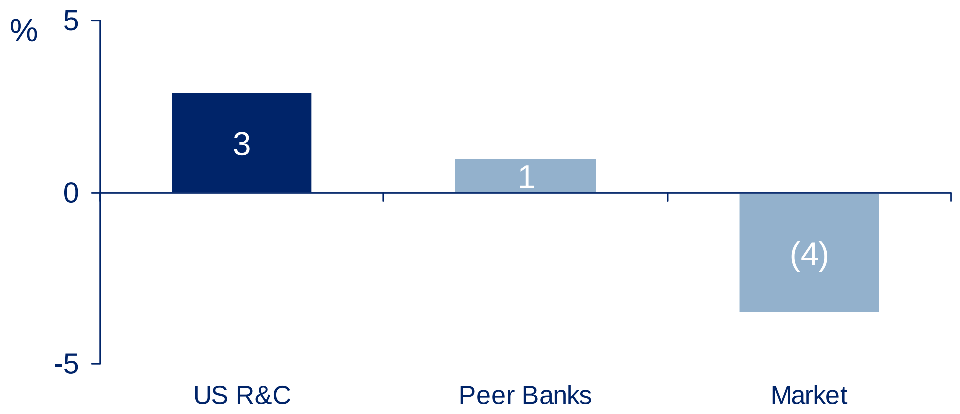
A major contributor to UK lending



- Gross lending £52bn to businesses March 2010-Feb 2011, including £30bn to SME's; Peers down c3%[3]

US R&C C&I loan growth starting to recover

US R&C, Commercial & Industrial loan growth FY10[4], %



[1] Mortgage spot lending balances 31st December 2010 versus 31st December 2009. [2] Barclays growth excludes the impact of Standard Life Bank; HSBC deposit figures are for UK PFS Division, HSBC FY10 is an estimate based on PFS Europe HoH growth. [3] Average of growth rates reported by Barclays Corporate, Lloyds Wholesale, Santander UK Region & HSBC Commercial Banking Europe. [4] Average Peer Group: BB&T, Comerica, Fifth Third, KeyCorp, M&T Bank, PNC Financial, Regions Financial, SunTrust; U.S. BancorpMarket: All U.S. Commercial Banks, US Savings Banks and US Savings Institutions

Key Industry Issues

Key industry issues - Regulation

Issue	Status	Timing	RBS Impact
Basel III	Part clarified	FY11 ongoing	▪ Net RWA growth of c£88-100bn[1], uncertainties remain ▪ Impacts split between Core & Non-Core ▪ Manageable within context of the Group
SIFI, GSIFI	Open	H2 11, H1 12 [TBC]	▪ TBC; issue of 'level playing field' vs. UK 'Finish' (UK environment 'hawkish')
CoCos/ Bail-ins/Resolution	Open	2011/2012	▪ TBC
ICB : Competition	Open	Interim report – Apr 2011 Final report – Sep 2011	▪ TBC; EU related disposals already announced
ICB : Structure	Open	Interim report – Apr 2011 Final report – Sep 2011	▪ TBC; impact from higher 'trapped' capital requirements and funding costs if subsidiarisation required

[1] Estimated impact

Key industry issues - Economic trends

Issue	RBS outlook	Primary anticipated impact on key business drivers: Margins	Impairments	GBM Earnings
Interest rates	■ Forecast two steady rate rises by FY11 in UK. Gently rising trends forecast	✓		
Economic growth	■ Moderate recovery in developed world. Subdued consumer in UK; US improving		✓	
Market volatility	■ Risk sentiment improving, but remains volatile and sensitive to shocks. Deficits in Western world slowly decline		?	?

- Expect steady recovery overall, but sensitive to volatility
- Outlook consistent with Strategic Plan

[1] 2009, 2010

Key industry issues - Driving RoE

>15% Core RoE target looks achievable, subject to regulatory and economic factors

2010 Core RoE 13% → 2013 Core RoE >15%

Upside from 2010	Downside from 2010
Net interest margin: Further support from liabilities margin with rising rates	**RWAs:** Regulatory increases
Balance sheet: Core lending & deposit growth targeted as economies recover	**Retained equity:** Regulatory increases
Costs: Balance of cost savings and re-investment drives falling real costs	**Risk to economic recoveries:** Would threaten upsides targeted
Impairments: Continued progress toward a more 'normalised' charge	

Summary & conclusions

A clear plan for the future

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	Targeting RoE 15%+ on a strong 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, positive disciplines well established
	Orderly UK Government stake sell down to be commenced
Investor friendly	Transparent responsive communication with few negative surprises
	Clearly articulated strategy with evidence of it working

Summary and conclusions

Strong progress to date

- Greatly increased balance sheet strength, risk envelope improvement largely done, work still to do on concentration risk
- Economic and market environment remains uncertain and may take time to clarify
- Customer metrics good, investment programme starting to deliver, businesses rebalancing
- RoE targets look achievable but may be impacted by regulatory factors