RBS - Where have we got to, and looking ahead

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Bank of America Merrill Lynch Banking & Insurance CEO Conference

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Important information

Certain sections in this document 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’, ‘could’, ‘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, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; certain ring-fencing proposals; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; expected benefits from partnerships; 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.

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: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group’s counterparties and borrowers; 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 restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain businesses, assets and liabilities from RBS Bank N.V. to RBS plc; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; HM Treasury exercising influence over the operations of the Group; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the recommendations made by the UK Independent Commission on Banking and their potential implications; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, 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.

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Agenda for today

Strategic plan

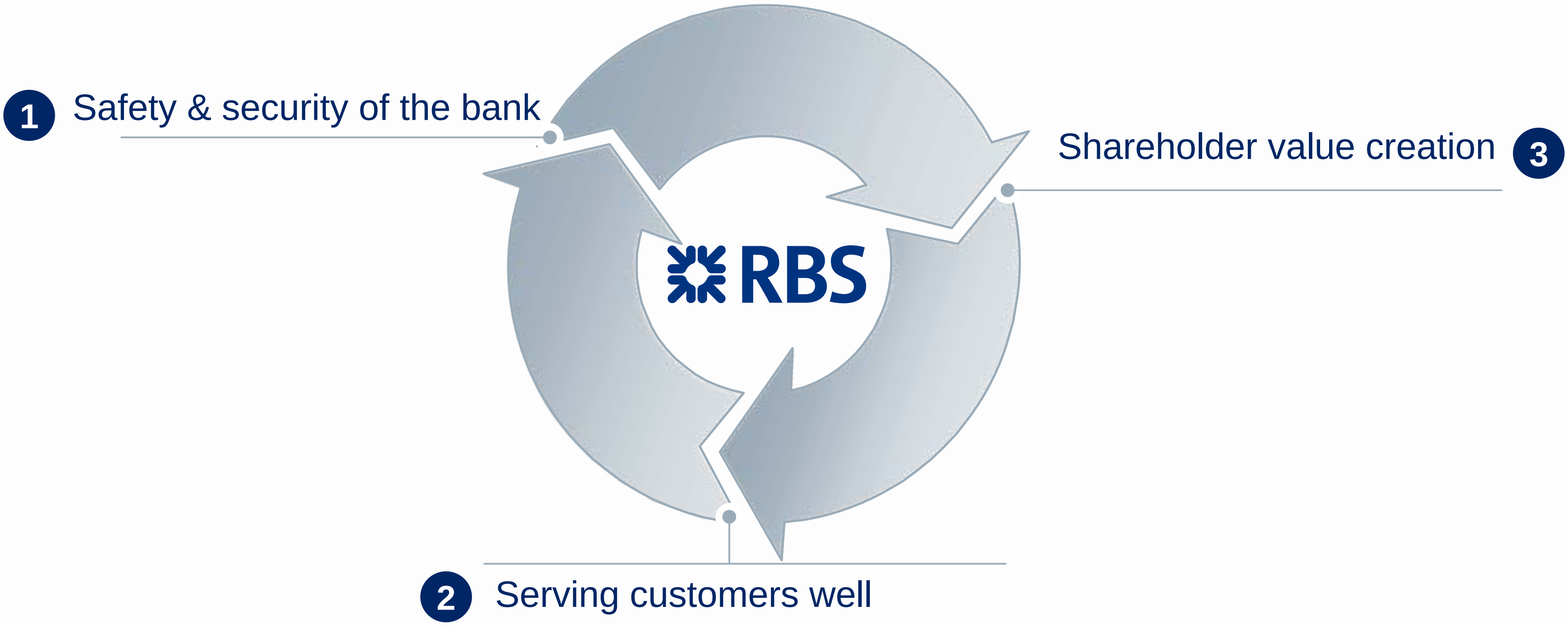
Progress to date

Challenges and RBS response

Implications & conclusions

Restructuring plan is based around three interlocking objectives

Key elements of the Strategic Plan



And implemented through our Core/Non-Core approach

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)

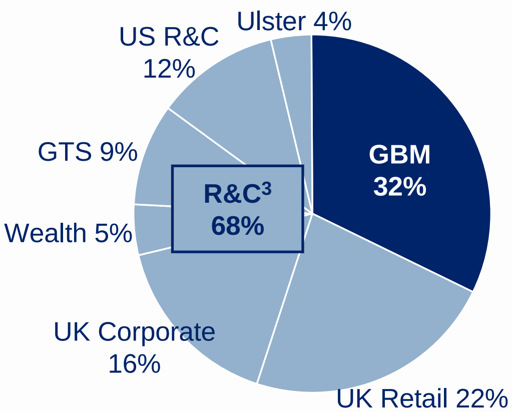
Our business building blocks

1. UK anchor	2.Global opportunities	3. Extending our Core through disciplined, consistent execution
Sustain an attractive and defensible customer driven franchise in the UK:	Focus on select global opportunities that:	Prioritise risk adjusted returns over growth:
▪ Build on leadership positions across our chosen segments ▪ Predicated on a belief in the long-term attractiveness of risk adjusted returns in the UK, from a leadership position	▪ Provide a deep local franchise, or ▪ Enable us to take advantage of long term globalisation trends and — Allow us credibly to compete — Are complementary to the Group — Deliver material synergies	▪ Selectively grow through pursuing opportunities that are within or contiguous to our Core franchises

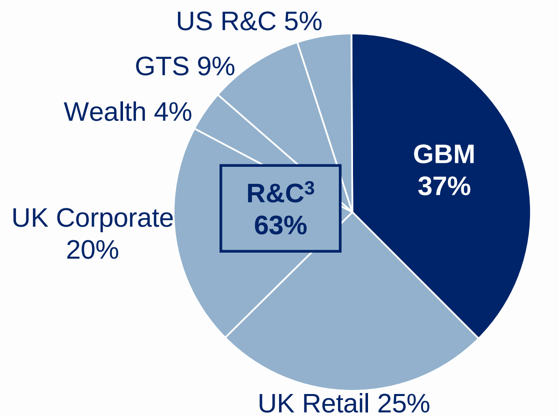
RBS Core Business 2011

Business portfolio

H111 revenues[1] by division

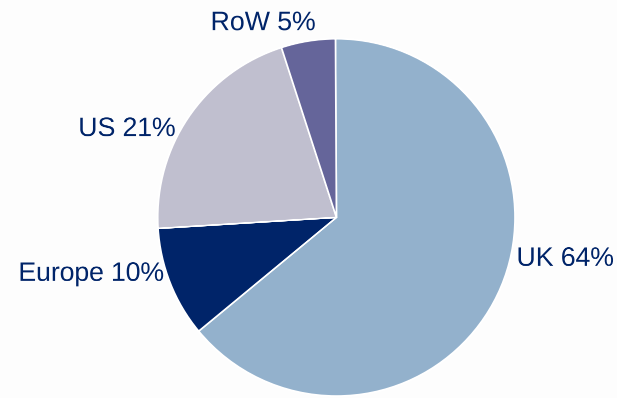


H111 operating profit[1,2] by division



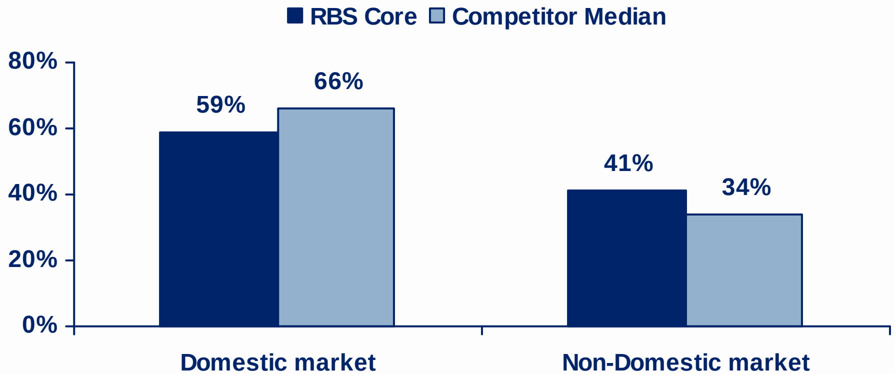
Geographic coverage

H111 revenues by geography

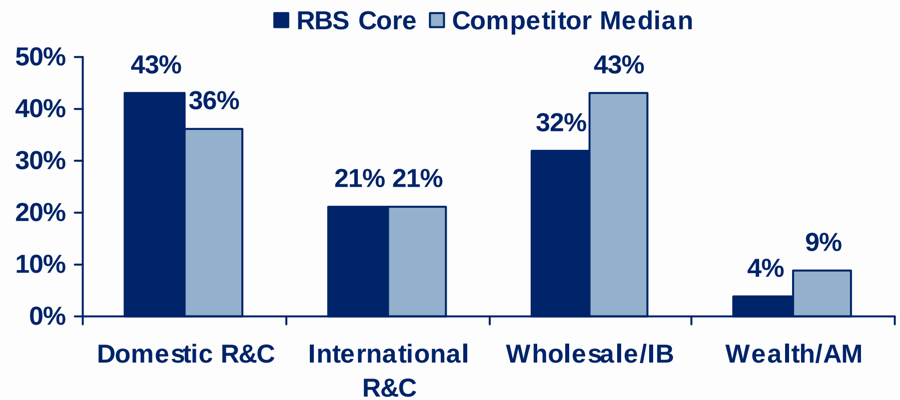


Business mix versus peers

2010 Revenues by geography vs peer average[4]



2010 Revenues by business mix vs peer average[4]



[1] RBS Core excluding RBS Insurance and Central items. [2] Excludes Ulster Bank. [3] Retail & Commercial. [4] Based on FY10 results, peers consist of Bank of America Merrill Lynch, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Lloyds Banking Group, Morgan Stanley, Santander, Societe Generale, UBS.

We have been clear on what was important and how we aimed to deliver

Group – Key performance indicators	Worst point	Q211	2013 Target
Balance sheet & risk:			
Loan : deposit ratio (net of provisions)	154%[1]	114%	c100%
Short-term wholesale funding[2]	£297bn[3]	£148bn	<£125bn
Liquidity portfolio[4]	£90bn[3]	£155bn	c£150bn
Leverage ratio[5]	28.7x[6]	17.8x	<20x
Core Tier 1 Capital ratio	4%[7]	11.1%	>8%[13]
Returns:			
Return on Equity (RoE)	(31%)[8]	Core 12%[9,10]	Core >15%
Cost : income ratio[12]	97%[11]	Core 58%[10]	Core <50%

- Market leading businesses in large customer driven markets
- Anchored in the UK and in Retail and Commercial banking
- Strong and stable risk profile
- Investor friendly, strategic discipline, execution effectiveness and strong risk management

[1] As at October 2008 [2] Amount of unsecured wholesale funding under 1 year including bank deposits <1 year excluding derivatives collateral. [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] Under review.

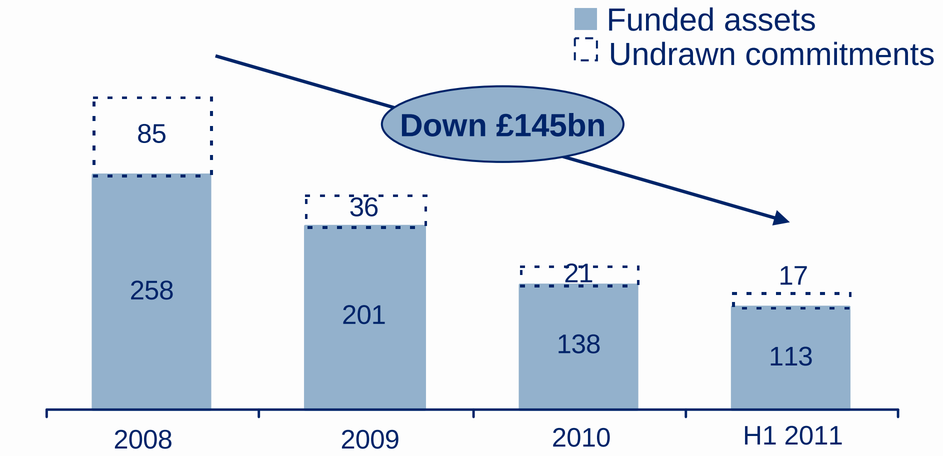
Agenda for today

- Strategic plan
- **Progress to date**
- Challenges and RBS response
- Implications & conclusions

Progress to date - Safety and security

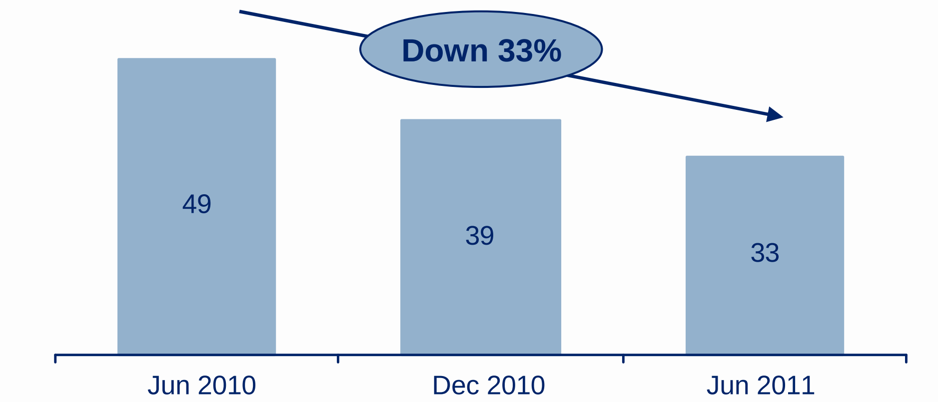
Reduction in Non-Core

Non-Core TPA progression, £bn



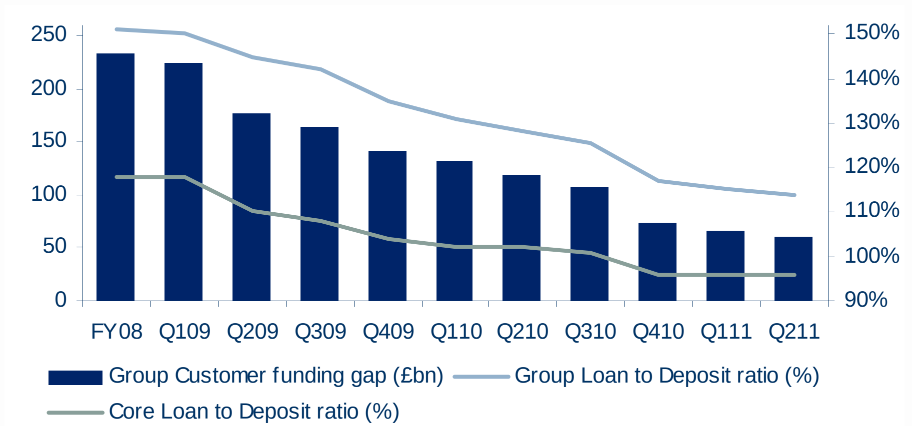
Reduction in concentration risk

Corporate SNC exposures over risk appetite, £bn



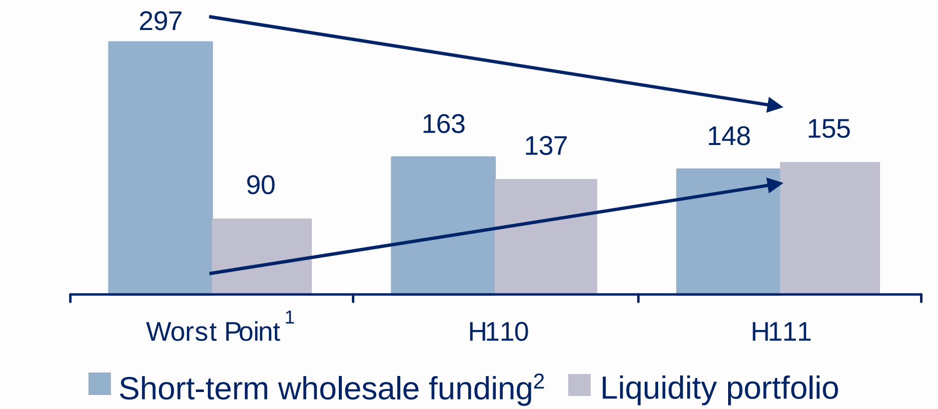
Improvement in funding position

Group funding position progression, FY08-H111



Reduced short term funding reliance; increased liquidity

Evolving Short term wholesale funding and liquidity reserves, £bn



[1] As at December 2008. [2] Amount of wholesale funding under 1 year including bank deposits < 1 year excluding derivatives collateral.

Progress to date - Serving customers well in large markets

Division	Revenues FY10, £bn	Deposits H111, £bn	Current market Position
UK Retail	5.4	96	Top 2
UK Corporate	3.9	100	Market leader
Wealth	1.1	37	UK Market leader
GTS	2.6	73	#6 Globally
Ulster Bank	1.0	24	#1 Northern Ireland, Top 3 Ireland
US R&C	2.9	57	Top 5 in region[2]
Insurance	4.1	8[1]	Market leader in motor and home
GBM	7.9	36	Top tier wholesale bank in chosen markets

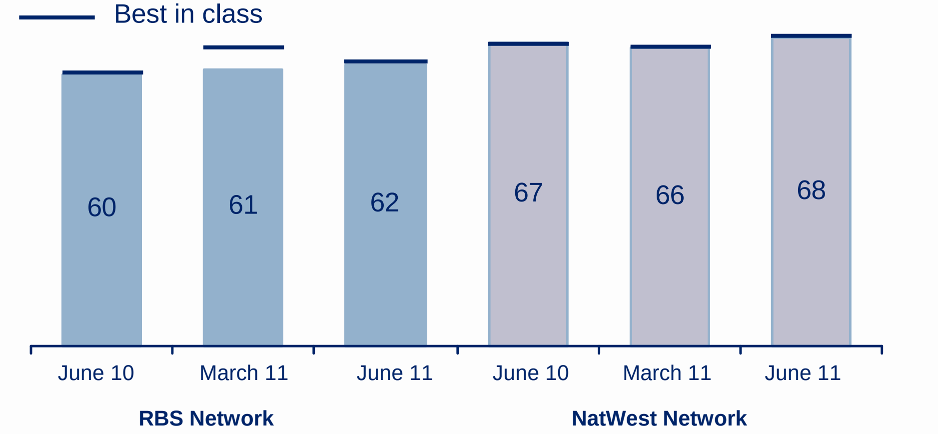
Enduring franchises reflecting continued focus on the customer

[1] Insurance reserves, primarily cash. [2] Excluding Detroit (7) and Chicago (12) MSA.

Progress to date – Serving customer well in large markets

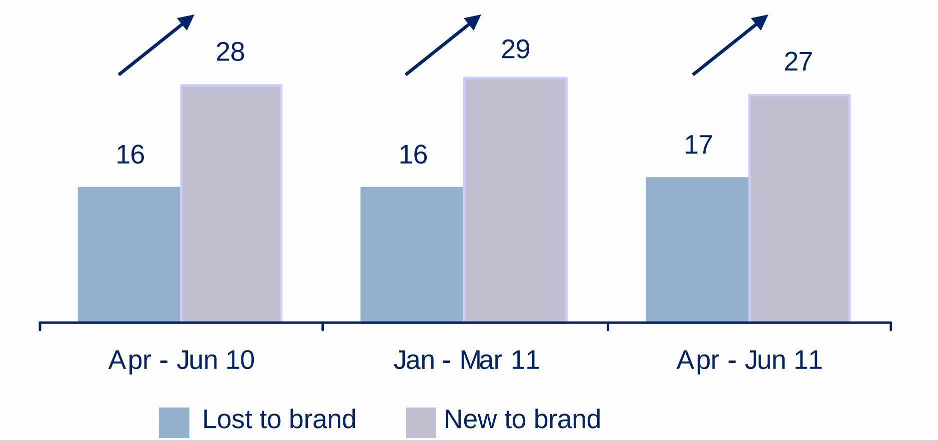
Best in class UK Retail customer service

Customer Satisfaction[1], %



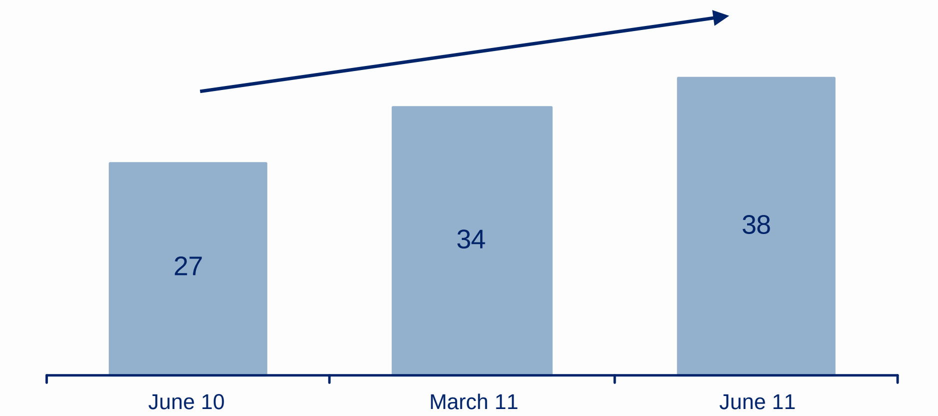
Ulster Retail gaining customers

Ulster Retail customers lost and new to the brand, '000



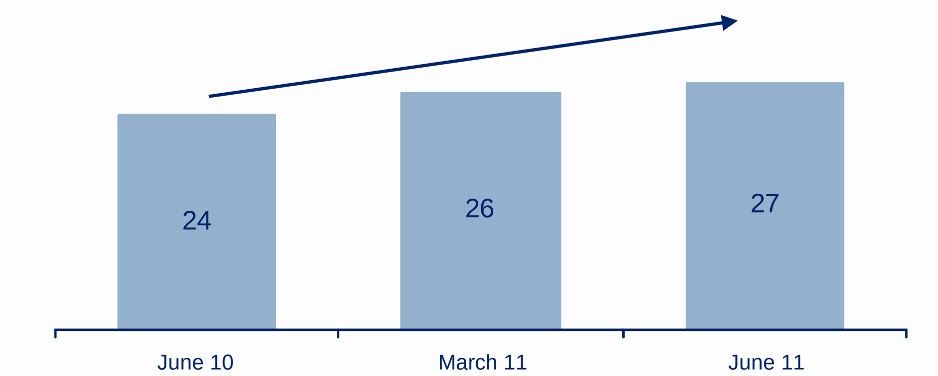
Increasing Wealth client penetration

Coutts UK Share of Wallet[2], %



Increasing US Retail client penetration

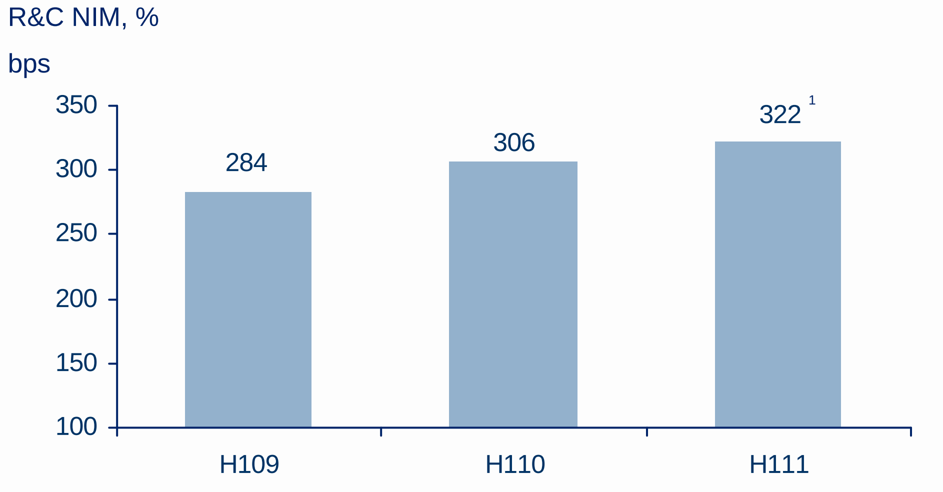
Citizens Consumer loans, penetration of deposit households, %



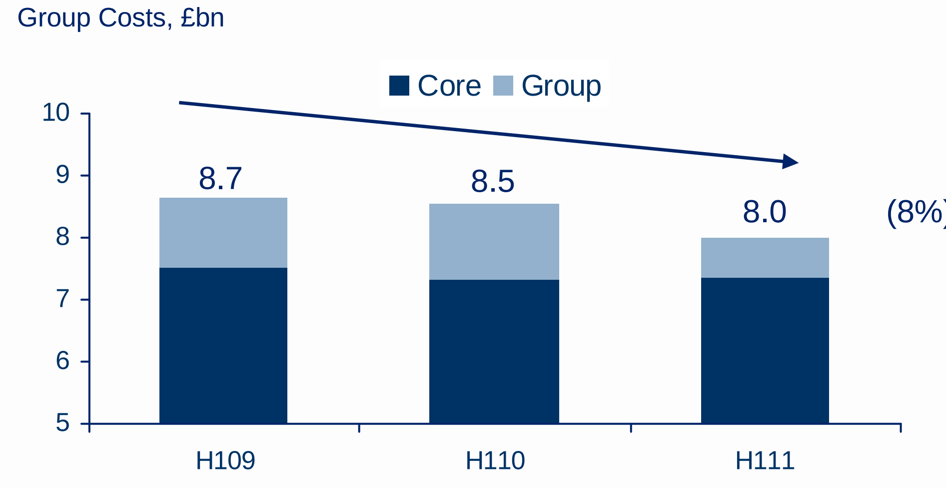
[1] Extremely and very satisfied, NatWest in E&W, RBS in Scotland. Source: GfK NOP FRS, Time period 3 months ending data. [2] Defined as client investible wealth held with Coutts UK, source: Client Surveys

Progress towards Shareholder value creation

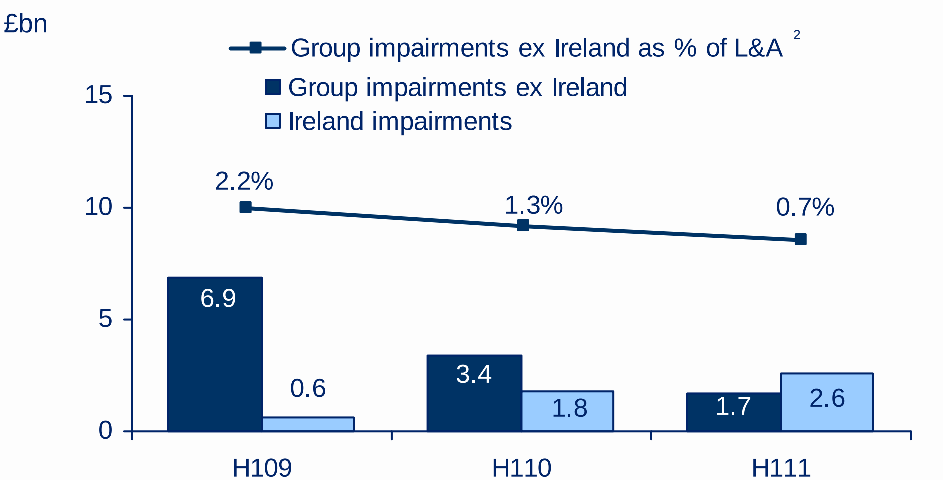
Rebuilding R&C NIM



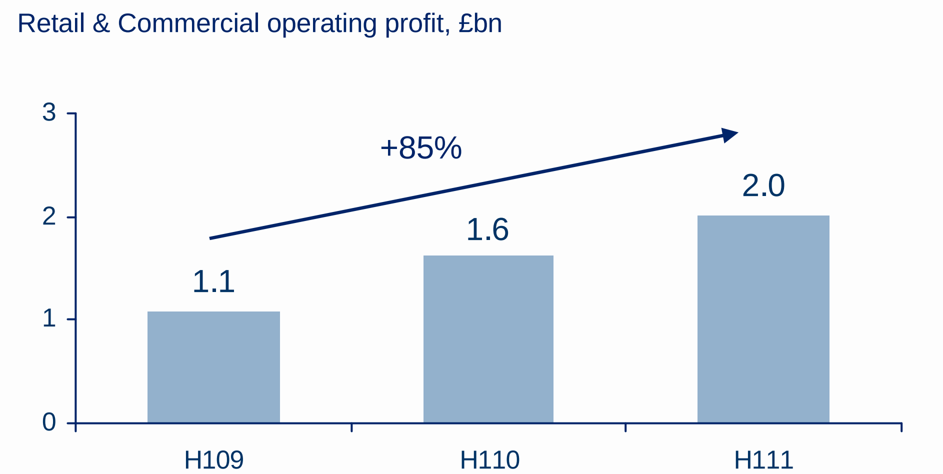
Actively managing down the cost base



Impairments ex Ireland down 51%



Steady progress in R&C profit

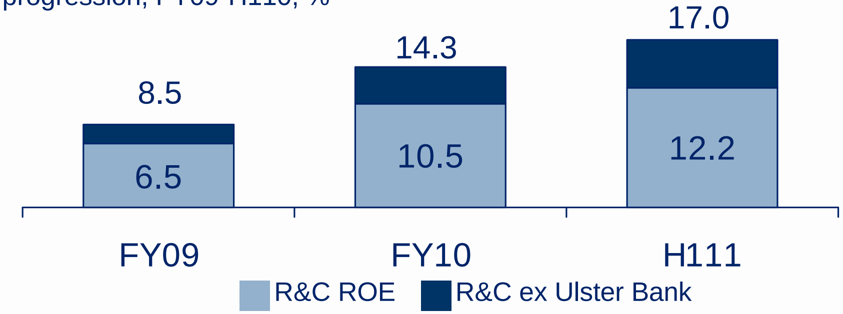


[1] H111 NIM excludes one off income adjustment in UK Corporate. [2] Gross loans to customers excluding reverse repos, including disposal groups.

Progress towards Shareholder value creation

Retail & Commercial: increasing returns

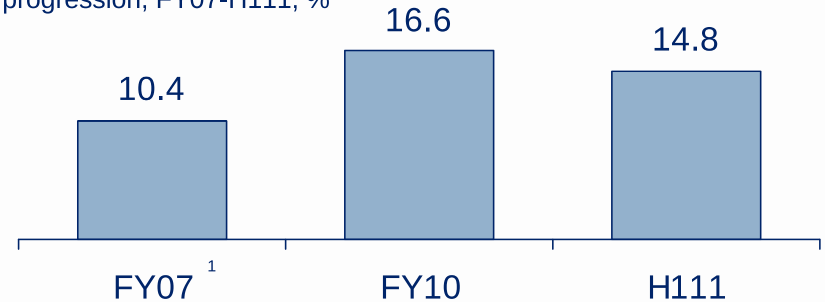
ROE progression, FY09-H110, %



- Repricing of asset portfolio has driven higher NIM
- Higher returns despite losses in Ulster
- Strong cost control driving efficiency
- Continued platform investment for future returns

GBM: £10.6bn cumulative operating profit FY09-H111

ROE progression, FY07-H111, %

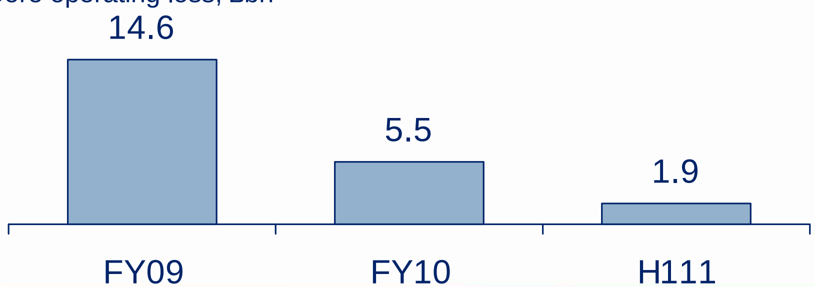


- Market environment challenging
- Respectable returns since 2009
- Regulatory headwinds
- Ongoing structural change
- Funded assets down from £873bn (FY07) to c£420bn

[1] Core GBM FY07

Non-Core: losses reducing

Non-Core operating loss, £bn

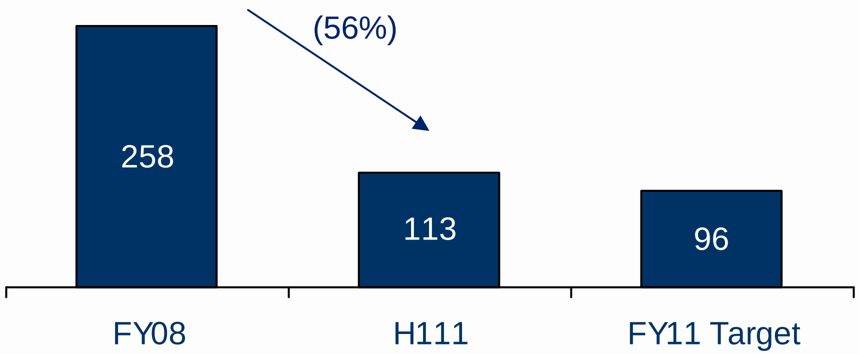


- Significant progress on Non-Core reduction
- Despite elevated Ulster Bank impairments, overall Non-Core losses significantly reduced

Progress towards Shareholder value creation

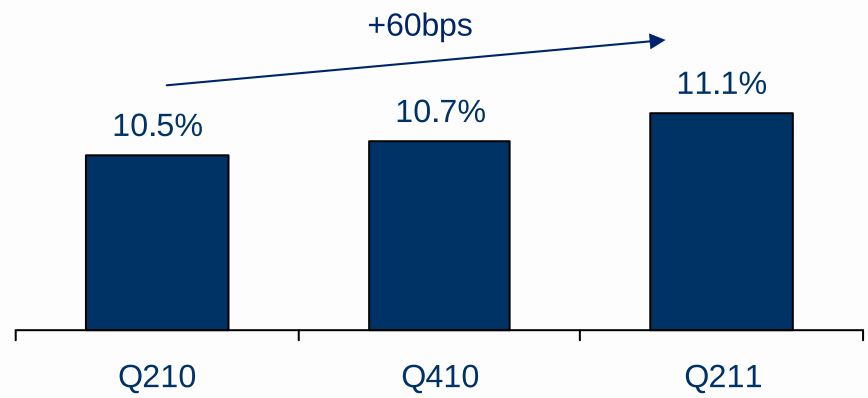
Non-Core reduction ahead of plan

Funded assets, £bn



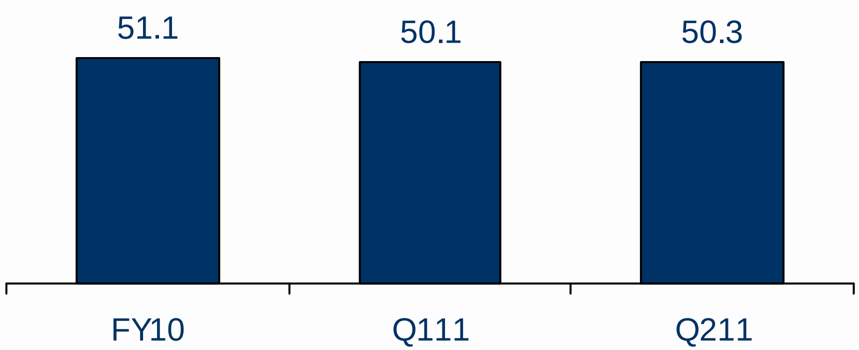
Core Tier One improved[1]

Core Tier 1 ratio, %



TNAV maintained despite significant one-offs

TNAV/Share, p



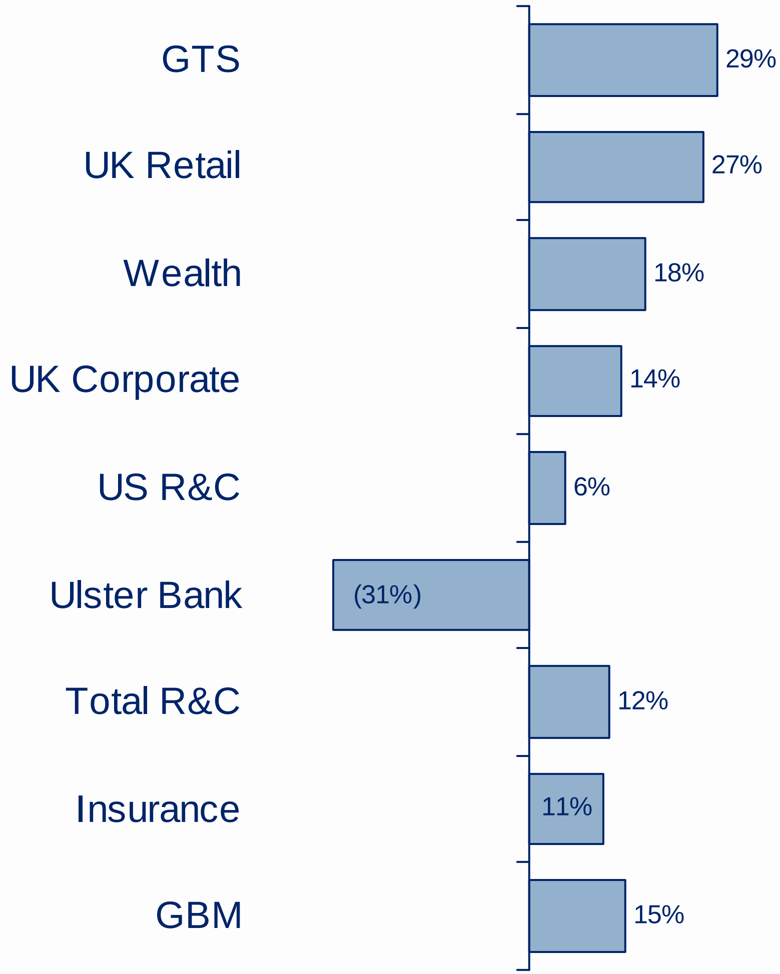
Both CT1 ratio and TNAV remain robust despite:

- Non-Core down 56% from inception
  - Asset disposals 40%[2] of this run-down
  - Average disposal loss of c3%
- Elevated Core and Non-Core Ulster Bank impairments
- Significant one-offs, e.g. PPI and Greek bond impairment

[1] Core tier 1 ratio includes APS benefit of 1.3% at Q210, 1.2% at Q410 and 1.3% at Q211. [2] FY09-H111.

Route map for medium term RoE improvement

H1 11 Divisional RoEs



- Resilient R&C revenues
- Ongoing cost saving programme
- Core impairments still above historical average
- Divisional improvement plan enacted; gaining traction
  - Irish results targeted to improve
  - US R&C value creation driven by margin, impairment normalisation and cost control
  - GBM facing further market and regulatory headwinds and operating model/industry change
- Non-Core remains ahead of plan

Agenda for today

- Strategic plan
- Progress to date
- **Challenges and RBS response**
- Implications & conclusions

Economic and Market challenges

Challenge	RBS Impact
■ Slower economic recovery — Interest rates 'lower for longer' — Lower investment / customer activity — Slower rebalancing of economies — Tail risk of double-dip	■ Lower R&C customer activity and balance sheet growth ■ NIM pressures from liabilities ■ Heightened focus on cost base ■ Caution on impairment trends
■ Investment Banking activity — Client risk aversion — Continued market uncertainty	■ Lower revenues ■ Challenge to reduce cost base further ■ Pressure on GBM ROE
■ Developments in funding markets — Concerns around bank/sovereign credit — Cost and availability of unsecured wholesale funding	■ Cushioned by restructuring, natural deposit base and Non-Core run-off ■ Higher wholesale unsecured funding costs ■ Uncertainty of demand for new issuance

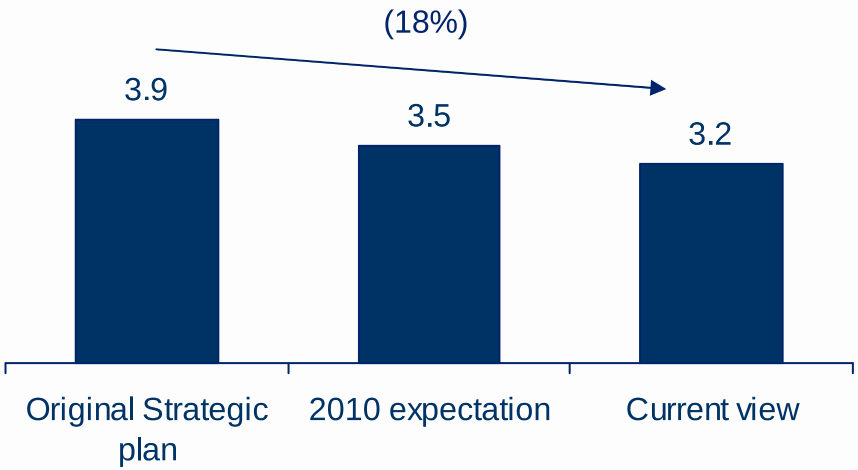
Regulatory challenges

Challenge	RBS Impact
■ Basel III capital requirements — Higher RWAs — Changes to capital deductions	■ Cushioned by Non-Core run-down ■ Higher capital requirement ■ Significant period of transition ■ Re-examine optimal business mix ■ RoE impact
■ Basel III Liquidity requirements — NSFR — LCR	■ Cushioned by restructuring to date ■ 2013 targets already substantially met ■ Higher funding costs
■ Dodd Frank — Significant overhaul of US banking regulations — Major new data reporting requirements needed	■ Pressure on US Retail revenues ■ Significant period of market and business change

RBS Response - Continued focus on costs

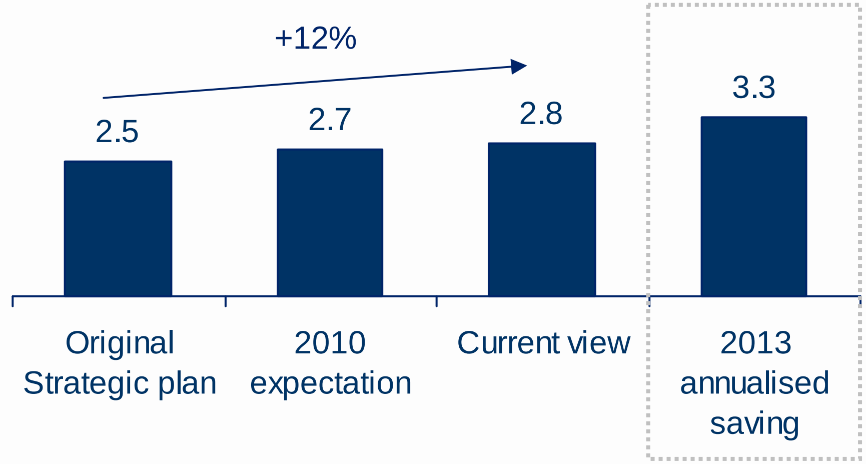
Lower cost of programme implementation….

Evolution of 5 year cost reduction programme spend



…with greater annualised cost saving

Evolution of 2011 annualised cost saving expectations

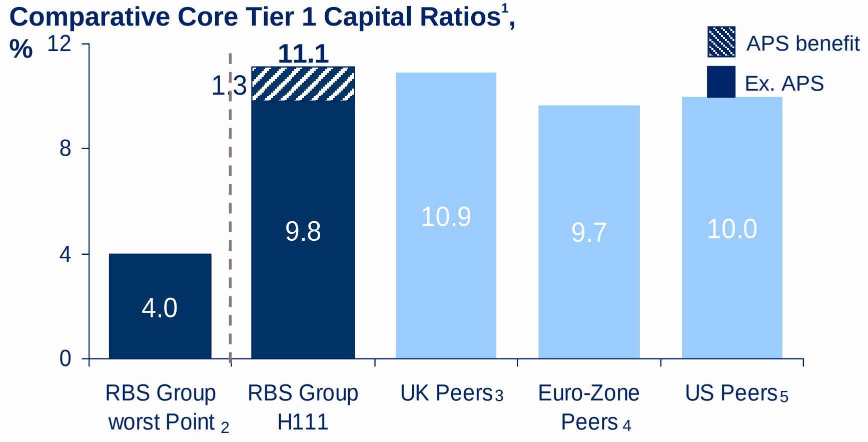


- Strong returns from cost reduction programme to date
- Ahead of expected savings of current programme with lower spend
- 1:1 annualised benefit expected by 2013

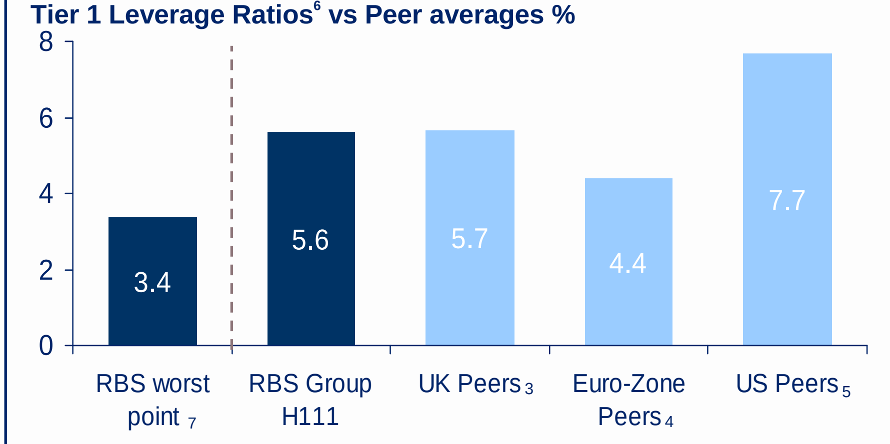
Actively working on further cost initiatives given economic outlook

RBS Response - Continued focus on balance sheet

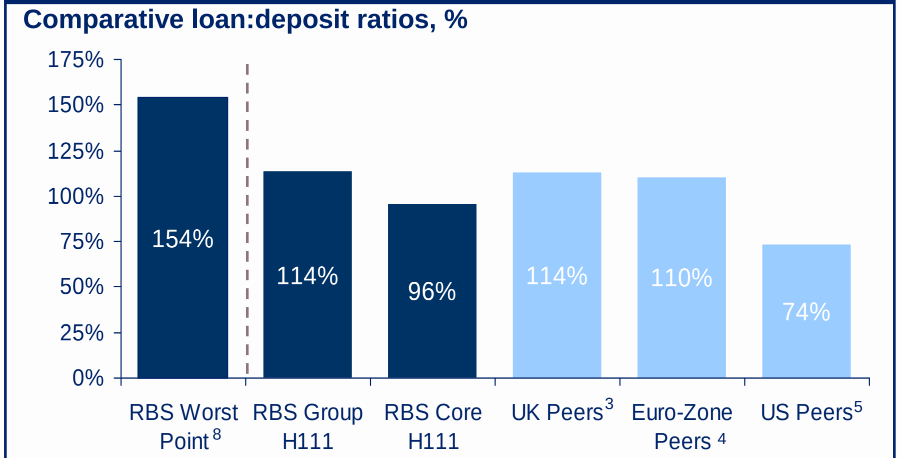
RBS capital ratios strong



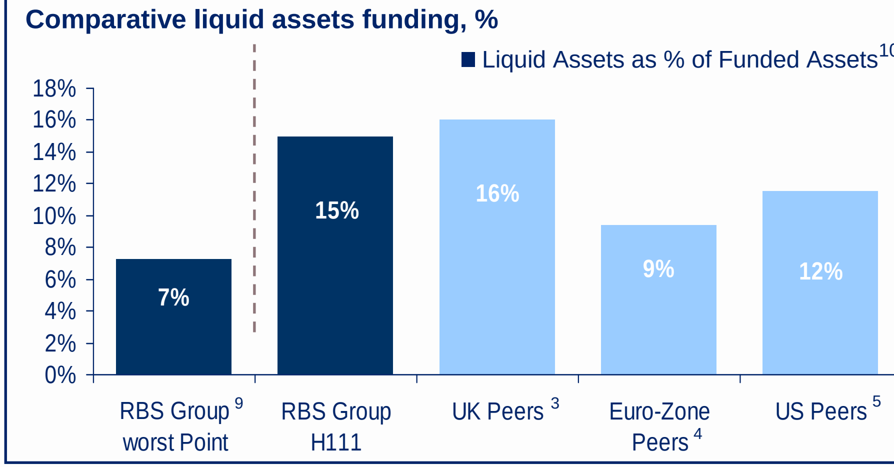
Leverage Ratios "in the pack"



Loan : Deposit ratio improved



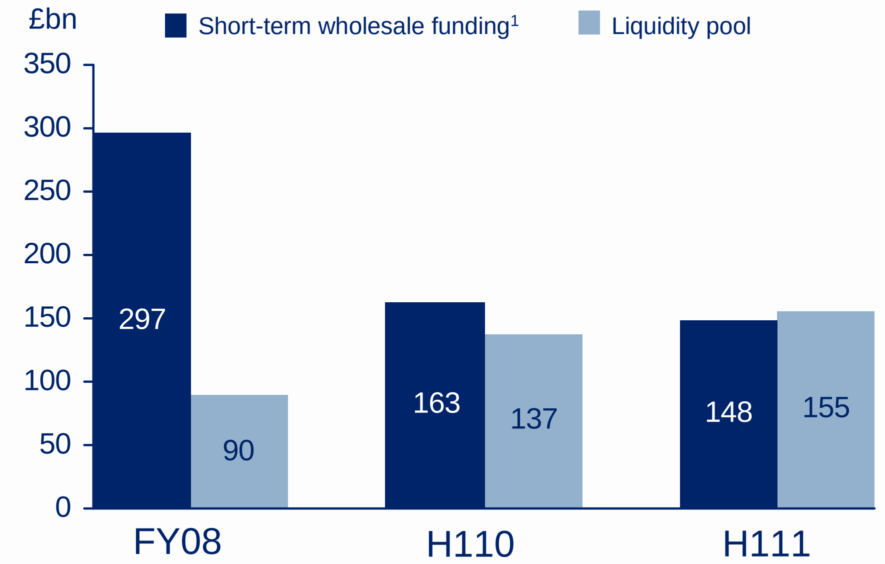
Liquidity balance achieved



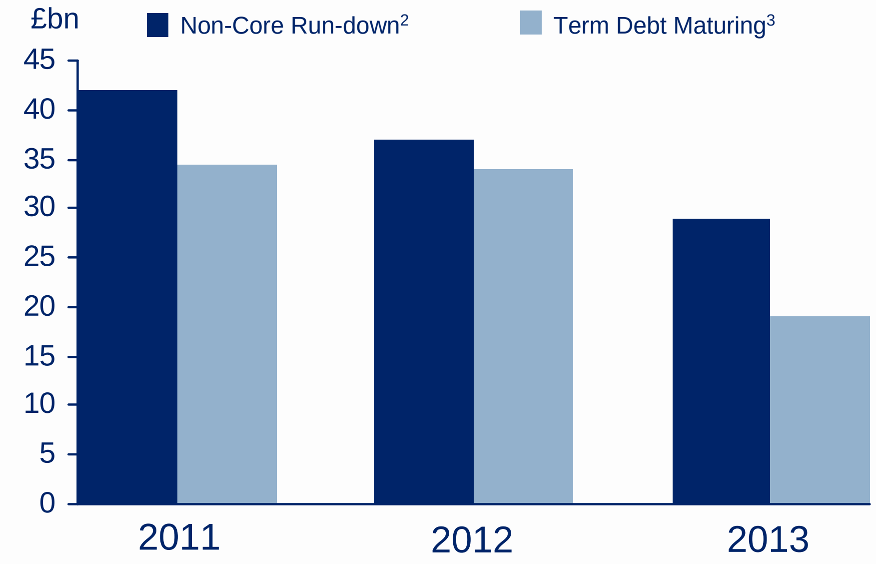
[1] As at H111. [2] As at 1 January 2008. [3] UK Peers consist of Barclays, HSBC, Lloyds Banking Group and Standard Chartered at H111 [4] Euro-Zone Peers consist of Deutsche Bank, Santander, BNP Paribas at H111. [5] US Peers consist of Bank of America, Citigroup, JP Morgan and Wells Fargo at H111. [6] 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] Source: Company Information & RBS Estimates: Liquid assets comprise AFS debt securities and cash, except for RBS, Lloyds & Barclays where company quoted liquidity is used.

RBS Response – Continue to reduce usage of short-term wholesale funding

Short-term wholesale funding[1] halved since 2008 now stands below liquidity pool of £155bn



Non-Core reduction lessens market funding requirement



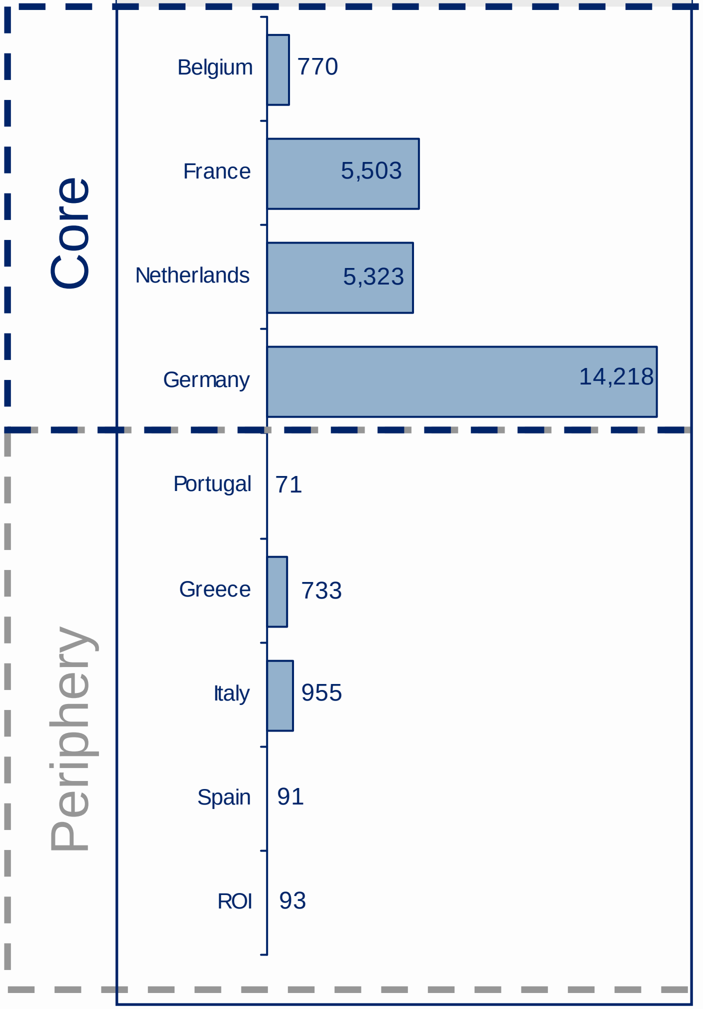
- Group liquidity pool covers more than 12 months of short term wholesale funding needs
- Reduced requirement of wholesale markets to continue to maintain maturity profile of liabilities
- Deleveraging and issuance of secured term funding more than covers term refinancing requirement

[1] Wholesale funding and bank deposits with residual maturity of less than 1 year, excluding derivative cash collateral. [2] Non-Core third party assets excluding derivatives. [3] Guaranteed and unguaranteed term debt and subordinated liabilities to contractual maturity.

RBS Response - Manage Eurozone exposure

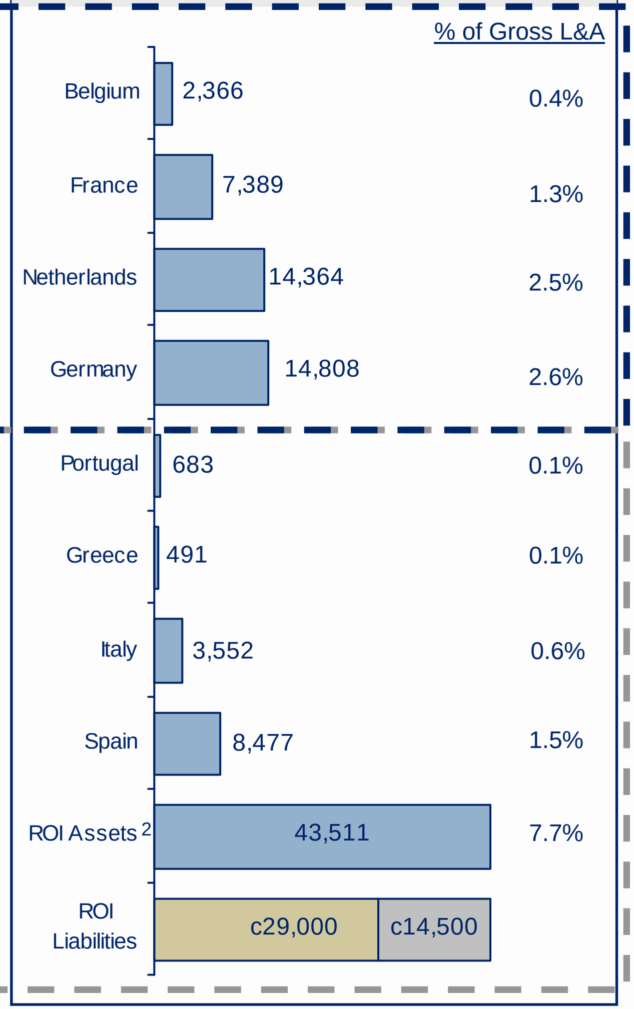
Sovereign Exposure[1]

Modest peripheral government bond exposure



Lending Exposure

Well-spread loan exposures - RoI predominantly a domestic balance sheet



- Ex Ireland, lending is primarily to large GBM multi-national customers
- Long established domestic in-market bank in Ireland
- Eurozone exposures to 'hard currency' countries outweigh peripheral exposures

[1] Net AFS banking book debt securities exposures. [2] Ulster Bank and GBM assets.

The ICB - initial thoughts

First impressions

- At tough end of market expectations
- Lead time and some ring-fence flexibility is helpful
- Drives an extension of the Group's existing restructuring plan

Positives

- Enough time to adjust
- Some flexibility on fence location
- Potential for mortgages to be outside ring-fence
- Some intra-group funding permissible

Negatives

- Will increase funding costs and capital need especially outside ring-fence
- May impede synergies to some extent
- Likely to raise costs and complexity for customers
- New PLAC[1] requirements
- Market activity and Non-EU businesses must be outside ring-fence

Ends uncertainty; must now optimise strategy given likely endorsement

[1] Primary loss absorbing capacity

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Implications

RBS Actions

- Balance sheet targets remain broadly appropriate
  - Reaffirm commitment to prudent funding position
  - Further reduction in Unsecured Wholesale Funding
  - Continued commitment to de-risking balance sheet via Non-Core
  - Re-examine optimal balance sheet size
- Reiterate continued focus on costs
  - Drive through further cost efficiency
  - Maximise investment returns
- Capital & return targets under review
  - Likely to raise targeted Core Tier 1 ratio in light of Basel, ICB impacts
  - Return target under review in light of challenges

Conclusions

Strategy remains	■ Make the Bank safe & sound ■ Return to value creation, positive economic profit ■ Focus on franchises and customers
Good progress to date	■ Balance sheet, funding, liquidity metrics strong and now ‘in the pack’ ■ Non-Core reduction ahead of schedule whilst building CT1 and maintaining TNAV ■ Improved returns in Core; currently at 12% ■ Customer and market share metrics maintained / enhanced
External challenges	■ Unprecedented level of regulatory change: Basel III, Dodd-Frank, ICB ■ Economic environment difficult; low GDP growth and interest rate expectations ■ Macro risks remain with attendant market volatility and customer caution
What we do	■ Reinforce existing Strategic Plan, revise where needed ■ Execute Plan decisively and meticulously; track and report progress ■ Continue to reduce risk including lowering unsecured wholesale funding usage

Questions?