RBS Markets Investor Roundtable

September 24th 2012

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, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; certain ring-fencing proposals; sustainability targets; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; 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 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 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 ability to implement strategic plans on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the ability to access sufficient sources of liquidity and funding; deteriorations in borrower and counterparty credit quality; litigation and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates; 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 extent of future write-downs and impairment charges caused by depressed asset valuations; 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; 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; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the implementation of recommendations made by the Independent Commission on Banking (ICB) and their potential implications; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; insurance claims; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; 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.

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

Today's speakers

John Hourican
CEO Markets & International Banking

Peter Nielsen
CEO Markets

Chris Kyle
CFO Markets & International Banking

David Coleman
CRO Markets & International Banking

Agenda

1	Introduction – overview of strategic changes	John Hourican Page 5-10
2	Markets update	Peter Nielsen Page 12-26
3	Financial performance and resource management	Chris Kyle Page 28-32
4	Risk management	David Coleman Page 34-38
5	Conclusion	Peter Nielsen Page 40

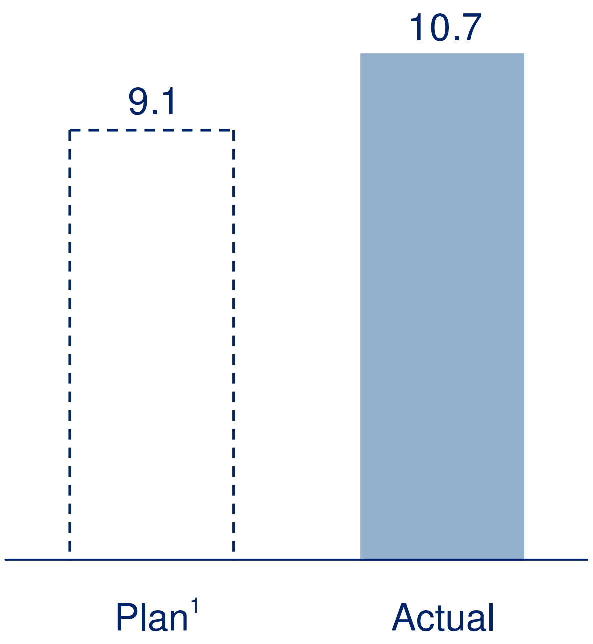
Summary

Delivered our promises	▪ Reduced size of the business and delivered critical profits to the Group ▪ Business exits announced in January on track
Markets now a focused business embedded in RBS Group	▪ Product engine for the Group's Corporate clients and serves the needs of the Financial Institution clients ▪ Supports the three pillars of the Markets & International Banking proposition – risk management, debt financing and transaction services ▪ Strengths in Rates, FX, DCM and Asset Backed Products
Making progress on Markets strategy	▪ Clear strategy in place to maintain competitive position, respond to market changes and deliver contribution to the Group ▪ Constraining use of capital and balance sheet ▪ Continuing to face strong market and regulatory headwinds ▪ Making good progress, well placed to hit medium-term targets

GBM strategy delivered ahead of plan

Profit ahead of expectations...

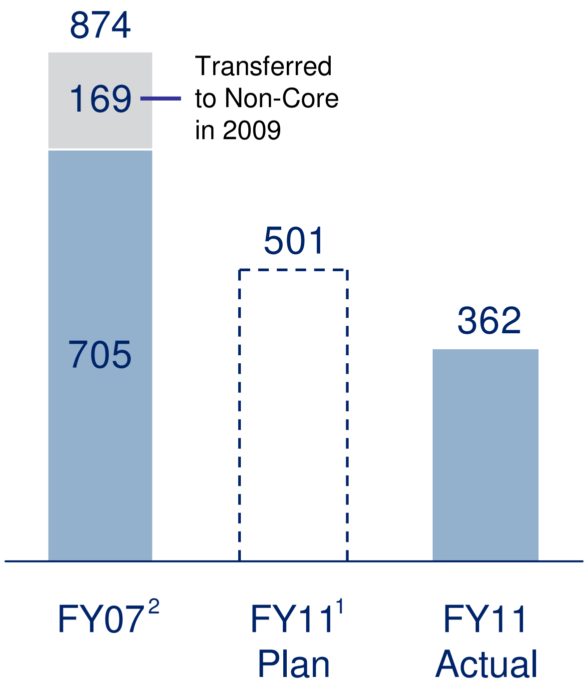
2009 - 2011 Cumulative Operating Profit, £bn



2009-11 average RoE 18%

...balance sheet managed down...

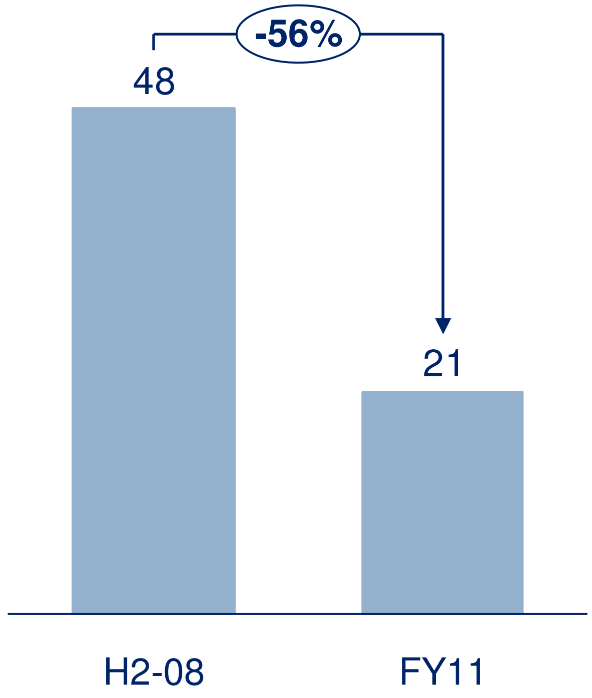
Third Party Assets, £bn



2007-11 Core reduction 48%

...reduced risk throughout

Markets Business Daily Revenue Volatility[3], £m



Enhanced risk culture

1 Excluding Sempra.

2 "Old" GBM pre-Core/Non-Core creation. 3 Standard deviation of Markets daily revenue.

Clear set of actions in 2012 to continue delivery

Industry developments

- Weak macro-economic environment outlook, reduced revenue pools
- Increased capital requirements given regulatory change
- Pressure from higher funding costs and credit rating changes

RBS '5 tests'

1. Top tier competitive position in enduring customer franchise
2. RoE > Cost of Equity
3. Proportionate use of balance sheet, risk and funding
4. Capable of organic growth
5. Balanced and interconnected – customers, products, people

RBS actions

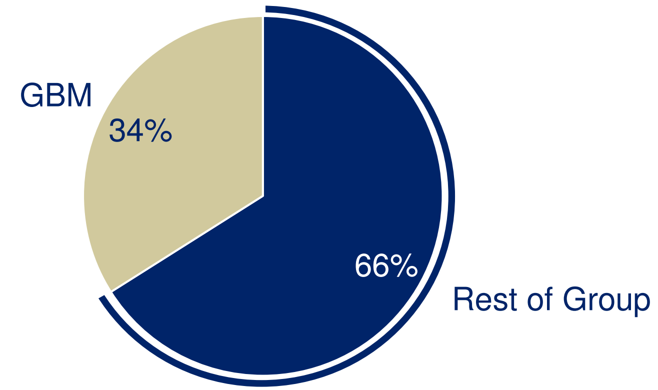
1. **Focused on strongest businesses and exited loss-makers**
2. **Redrawn operating model**
    - Formed "International Banking", combining Global Transaction Services International with Global Banking
    - Refocused "Markets": sales, trading, capital markets
    - Enhancing connectivity with other divisions
3. **Improving financial profile to raise RoE**
    - Reducing asset and capital use
    - Extracting cost synergies

Resulting business re-weights overall Group business mix

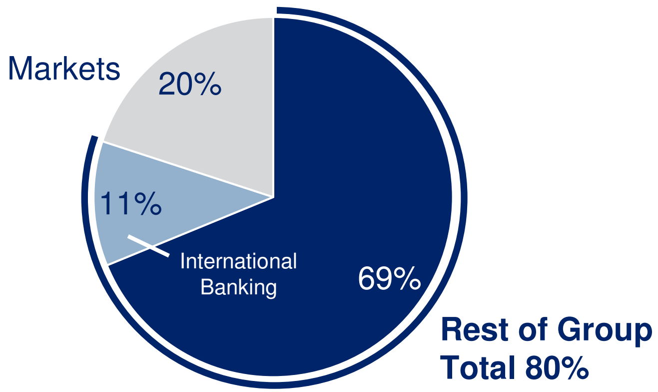
Revenues

Markets activities represent lower percentage of Group revenues

FY07 revenues[1], old structure



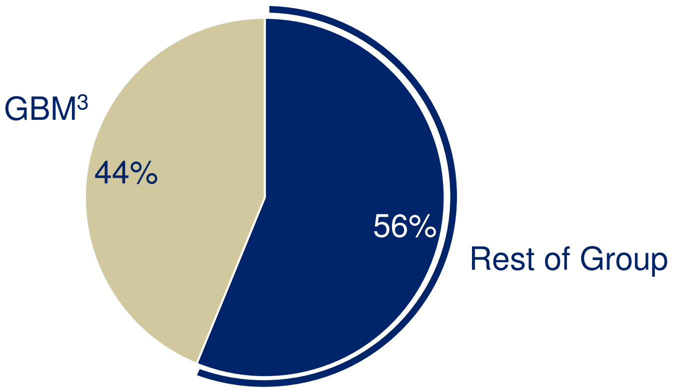
FY11 revenues[2], new structure



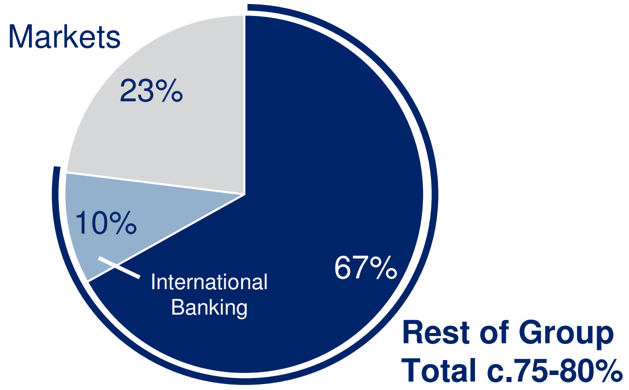
RWA

Markets scaled to drive strong returns with appropriate risk profile

FY07 RWA, old structure

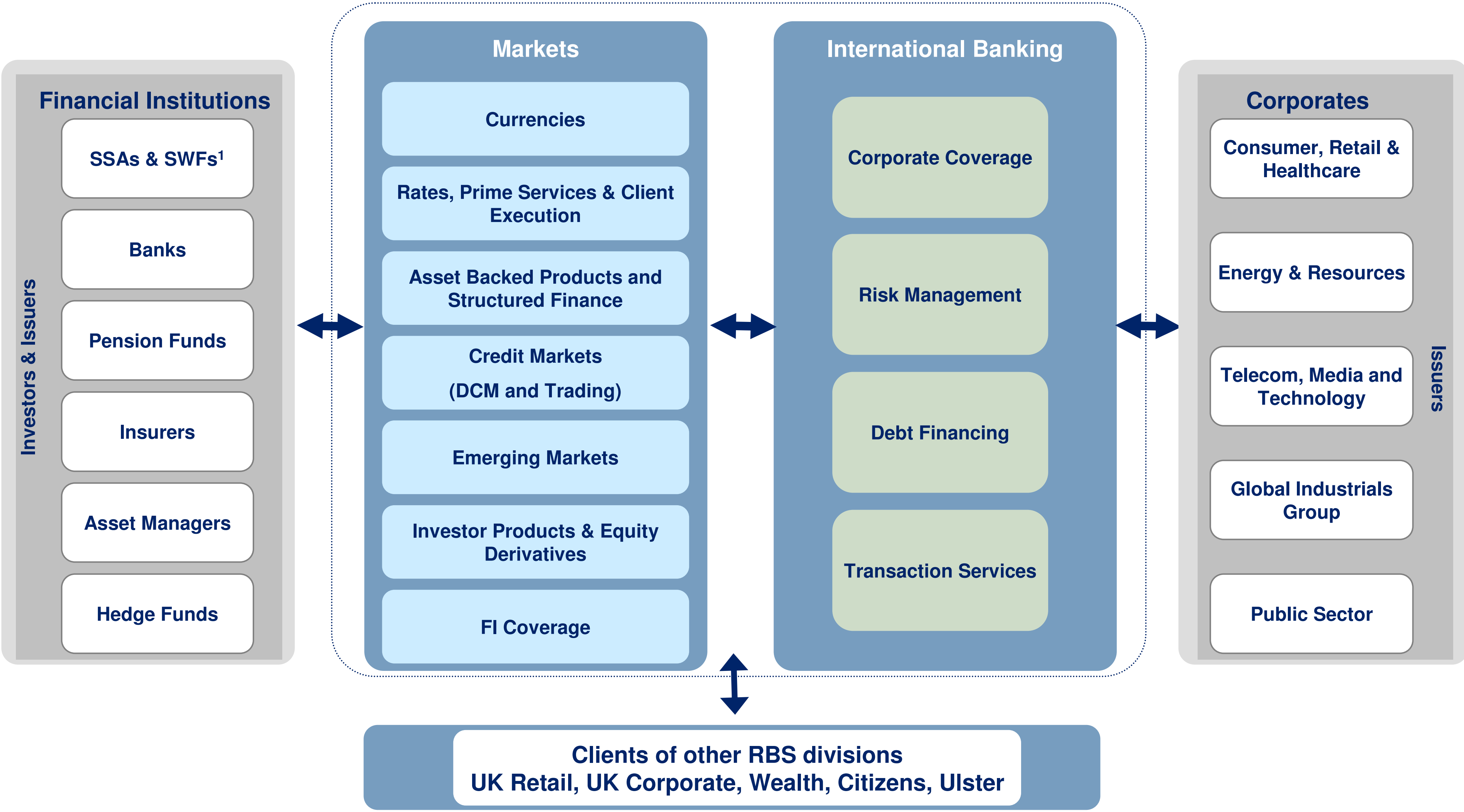


Target RWA[4] balance



1 Total Group excluding insurance. 2 Core excluding Insurance. 3 Estimated to account for c.67% of Group total on a Basel III basis. 4 RWA target fully loaded for Basel III.

New model: clear client focus and product engines support Group



1 SSAs = Sovereigns, Supranationals and Agencies;
SWFs = Sovereign Wealth Funds

Business exits and restructure well progressed

✓ = On track

	Progress update	Status
Exit Equities Cash Equities ECM Corporate Broking	• UK Corporate Broking sold to Jefferies	✓ Complete
	• Dutch business sold to ABN AMRO	✓ Complete
	• Agreed sale to CIMB of Asia Pacific Equities – Cash Equities: 5 countries – ECM and M&A: 9 countries	✓ Effect transfer of assets – Q4 12 completion
	• Remaining EMEA business wound down – Inventory positions closed – Staff exits completed	✓ Complete
Exit M&A and related Banking groups M&A Sector Groups	• Boutique created (~ 50 FTE[1]) • Distinct business until year end, then independent	✓ Complete separation – Q4 12
	• Remaining EMEA business wound down	✓ Focus on tail management – Q4 12 completion
Reduce Headcount 3,500 FTE[1] by end 2013	• Revised target: c.3,800 FTE[1] exits • c.3,000 to leave in 2012	✓ Headcount reductions continue – Q4 13 completion

1 FTE = Full Time Equivalent

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Markets: key messages

What is Markets?	▪ Focused business embedded in RBS Group: – Product engine for the Group's Corporate and Retail clients – Serves the Group's Financial Institution (FI) clients – Supports the three pillars of the Markets & International Banking proposition – risk management, debt financing and transaction services ▪ Powerful franchises across product, client and geography ▪ Particular strengths in Rates, FX, DCM and Asset Backed Products
What is Markets' strategy?	▪ Clear 5-part strategy: 1. Defend product strengths and capture related opportunities 2. Further develop FI and Corporate client franchises 3. Deliver cost re-engineering, control and capital agenda 4. Position Markets to compete in changing market structure 5. Rebuild people platform ▪ Making good progress, well placed to hit medium-term targets

Markets proposition today

Summary

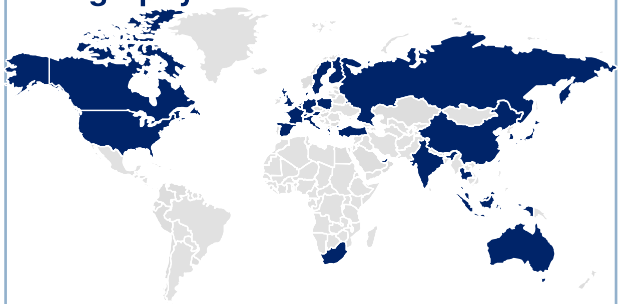
Markets supports the three pillars of the Markets & International Banking proposition:

- **Risk management** – comprehensive expertise in fixed income and FX products, liquidity and balance sheet management
- **Debt financing** – vanilla and structured bonds, loans and balance sheet advisory
- **Transaction services** – complementary FX and liquidity products

Clients

- Financial Institutions:
  - Asset Managers, Pension Funds and Hedge Funds – large institutional investors
  - Banks and Insurers – international institutions, regionals, small locals
  - SSAs and SWFs
- Clients of other divisions
  - International Banking
  - UK Corporate, Citizens, Retail, Wealth, Ulster
  - Non-Core

Geography



- Present in 34 countries globally:
  - 21 in EMEA
  - US and Canada
  - 11 in Asia

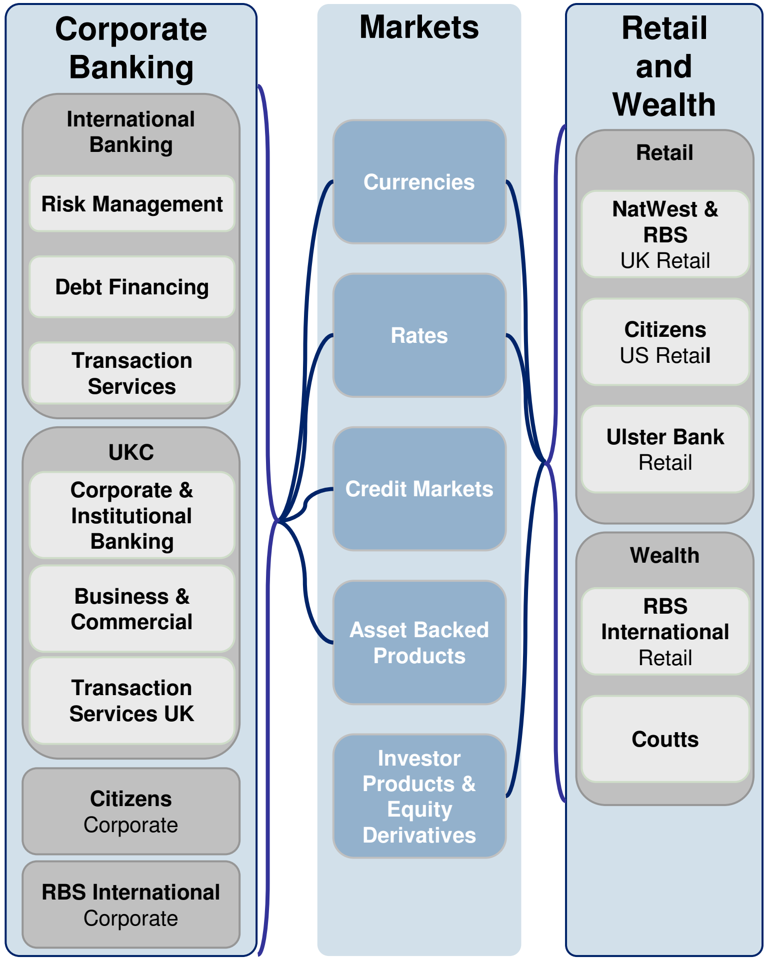
  including the leading financial market hubs
- Clients from over 100 countries

Product offering

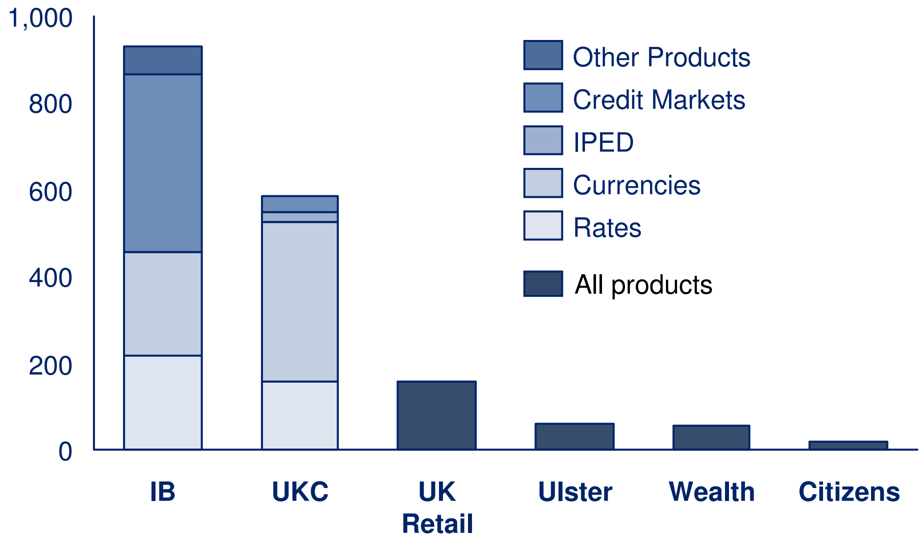
- Currencies – spot FX, options and currency hedging
- Rates – interest rate derivatives, swaps, inflation, money markets
- Prime Services & Client Execution – prime brokerage, clearing, futures, E-commerce
- Asset Backed Products and Structured Finance – securitisations, complex balance sheet, capital and liquidity solutions
- Credit Markets – origination, structuring, and execution of DCM and loan markets transactions, distribution of IG and HY bonds and loans
- Emerging Markets – access to non-G11 products
- Investor Products & Equity Derivatives

Key product engines for Group, accretive to RoE

Markets connectivity with RBS Group clients



2011 revenue from sales of Markets products to clients of other divisions
£m

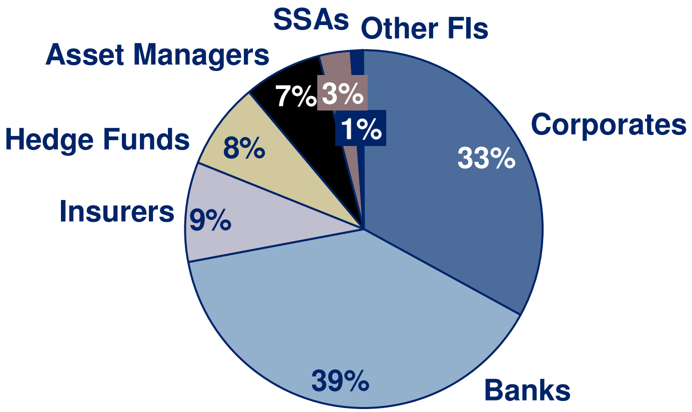


- £1.8bn revenue from sale of Markets products to clients of other divisions
- Adds materially to other divisions' RoE, e.g.:
  - c. 4 percentage points for International Banking (FY '11 RoE 12%)
  - c. 2 percentage points for UK Corporate (FY '11 RoE 15%)

Markets has a diverse portfolio of businesses

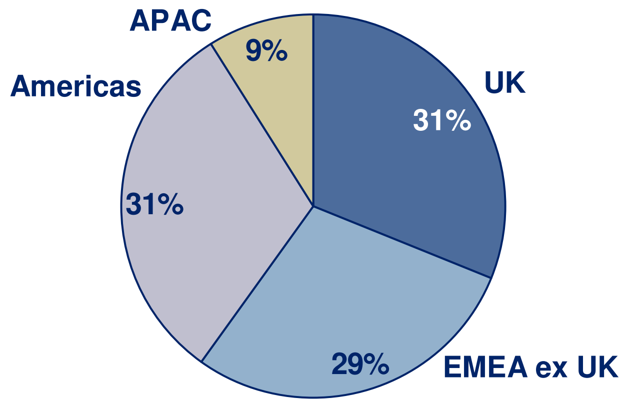
Powerful Corporate and Bank franchises

FY11 revenue split by client type[1]



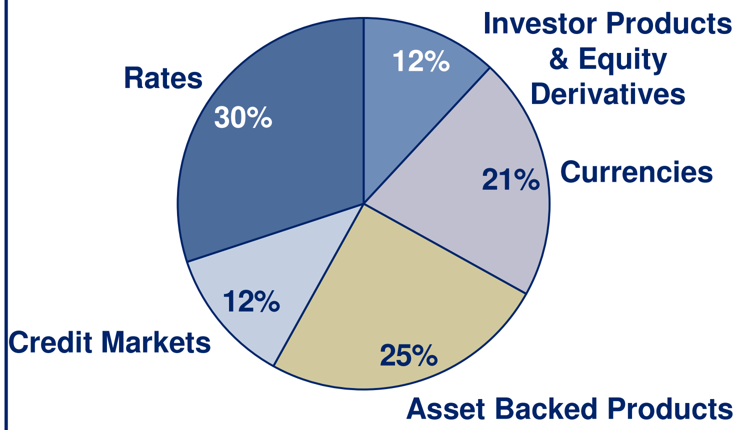
Leading UK player, strong in EMEA and US

FY11 revenue split by geography[1]



Strong in Rates, Asset Backed Products

FY11 revenue split by product[1,2]



1 Continuing businesses only, excluding Revenue Share

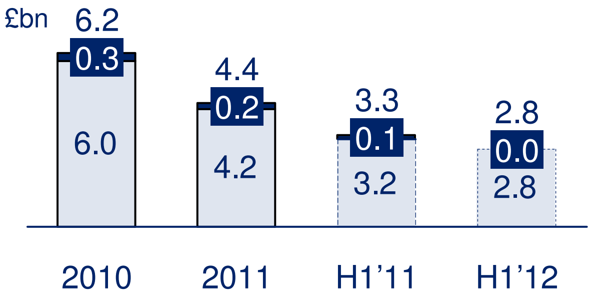
2 Rates includes Delta Trading, M&IB Treasury Markets, Non-Linear Trading, Prime Services & Client Execution. Credit Markets includes Flow Credit Trading and Debt Capital Markets (DCM). Relevant portions of our Emerging Markets business are reported in Rates, Credit Markets and Currencies.

Markets now a smaller, less resource intensive business

Income, Costs & Headcount

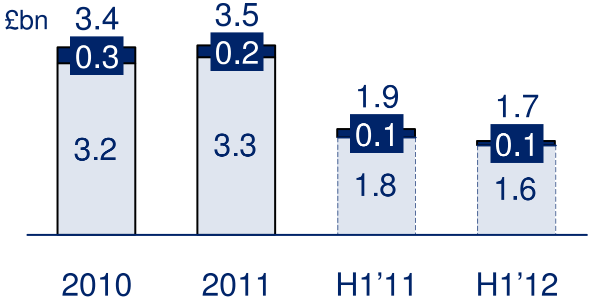
Revenues[1]

£bn



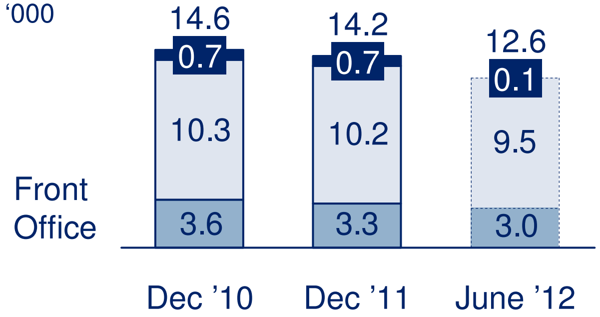
Costs

£bn



Headcount

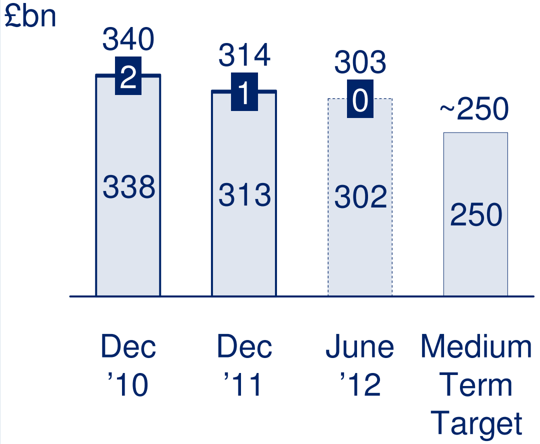
'000



Assets

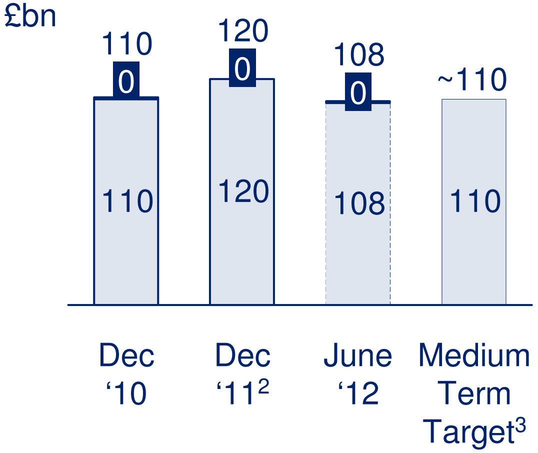
Third Party Assets (TPAs)

£bn



Risk Weighted Assets (RWAs)

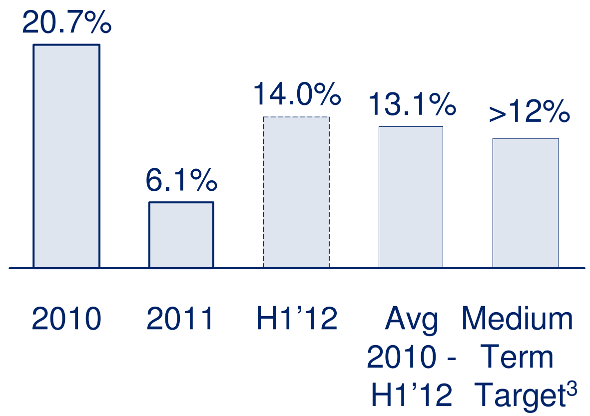
£bn



Returns

Return on Equity[4]

%



Run-Off Continuing

1 After inter-divisional revenue share of £0.9bn (2010), £0.8bn (2011), £0.4bn (H1 '11), £0.4bn (H1 '12)

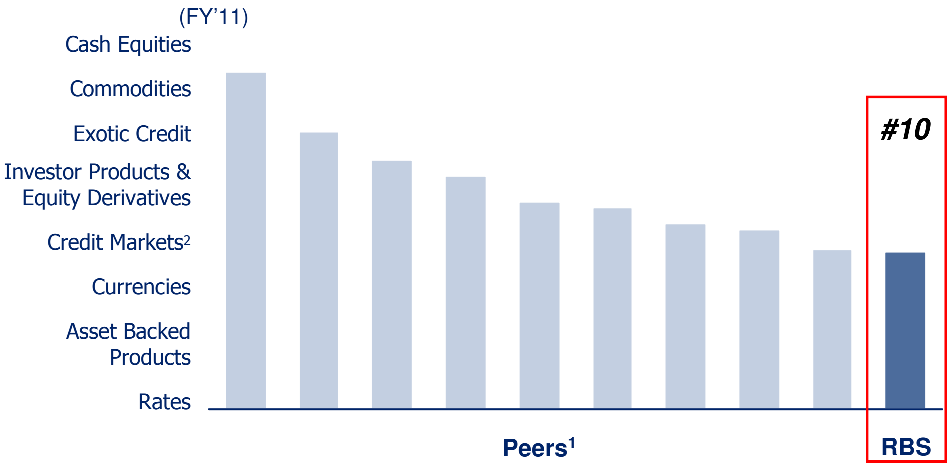
2 RWA increase in 2011 is due primarily to the impact of CRD3

3 Includes Basel 3 impacts. Ultimate target is c.£100bn

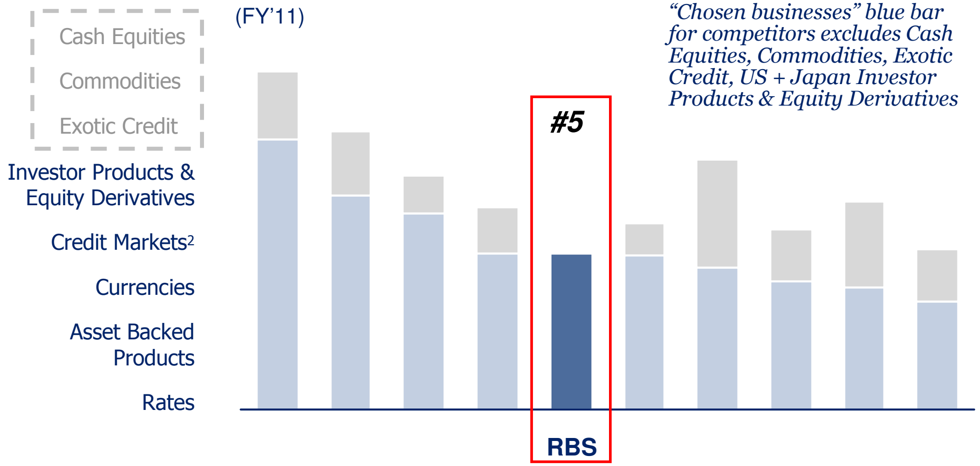
4 Operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses

In our chosen businesses RBS Markets ranks #5

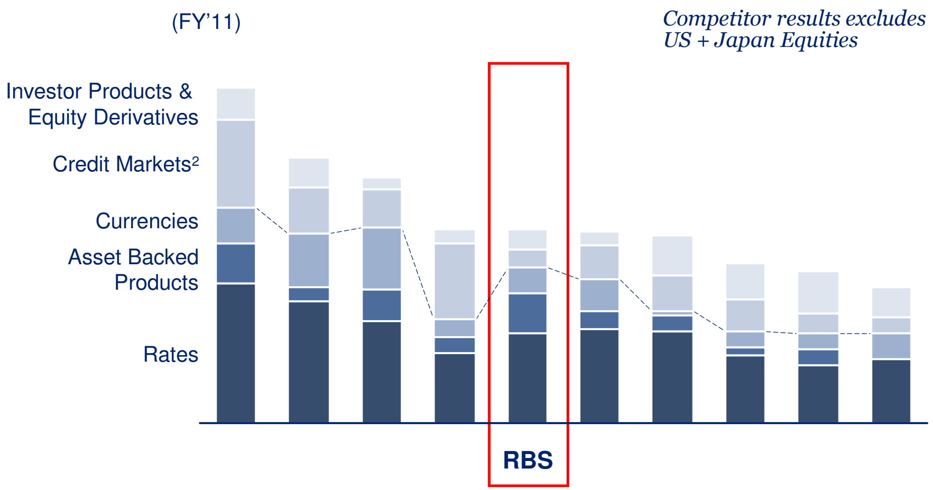
Full Product Basis – FY'11 Revenues



Chosen Businesses – FY'11 Revenues



Markets Product Mix – By revenue



- Top 5 in the products where we choose to participate
- Particularly strong in macro products – Rates, Asset Backed Products, Currencies – and DCM

Source: Coalition and Dealogic data, RBS analysis

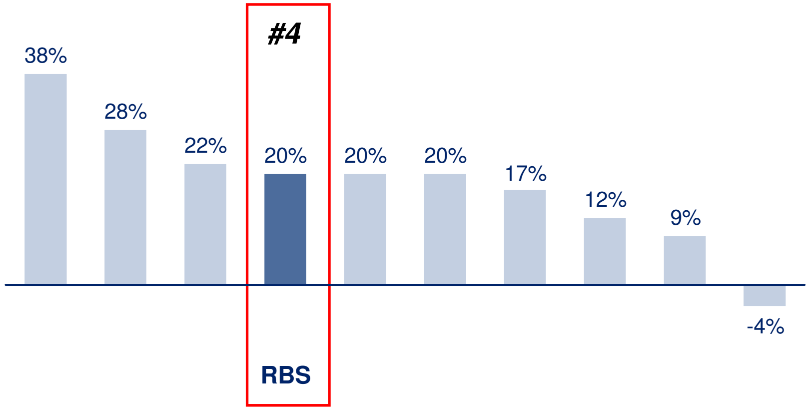
1 Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

2 Credit Markets includes Flow Credit and DCM

Efficient in generating returns from cost base and balance sheet

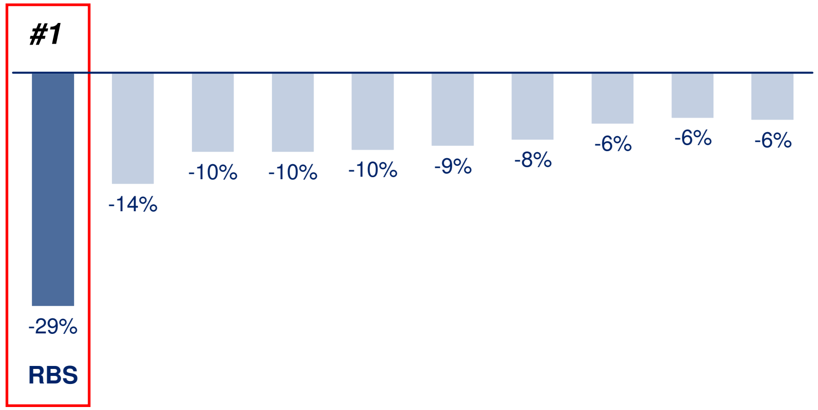
Profitability[1]

(FY'11)



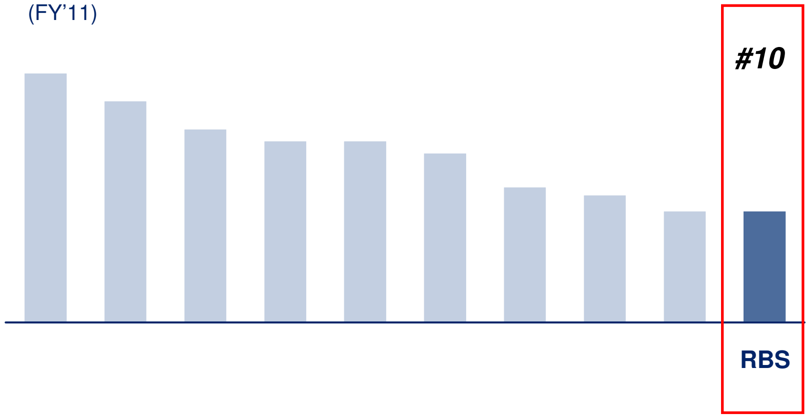
Headcount Reduction[2]

(June '12 vs. year end '10)



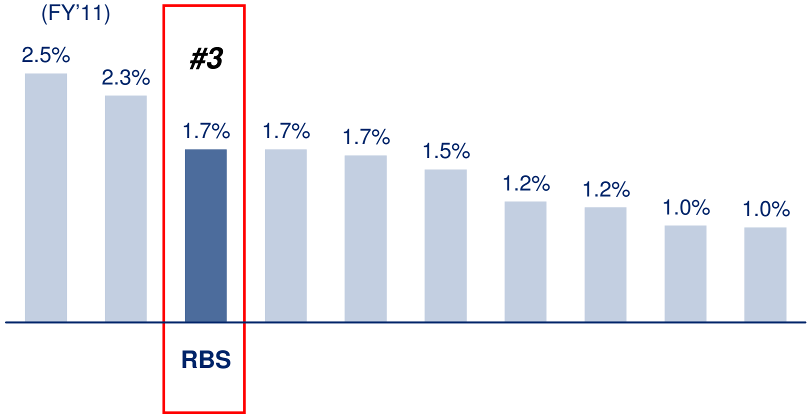
Balance Sheet[3]

(FY'11)



Income From Trading Activities (IFTA) / Trading Assets[3]

(FY'11)



Source: Coalition, company results releases, RBS estimates and analysis. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS.

1 Pre-tax operating profit / total revenues (excludes the impact of DVA / Own Credit)

2 Front Office Markets ex-DCM. Headcount data includes Sales & Trading only, Research headcount is excluded from this analysis.

3 Balance Sheet (ex Derivatives) and Trading Assets (ex Derivatives) include Debt & Equity instruments and Reverse Repo balances from IMS disclosures at Group level.

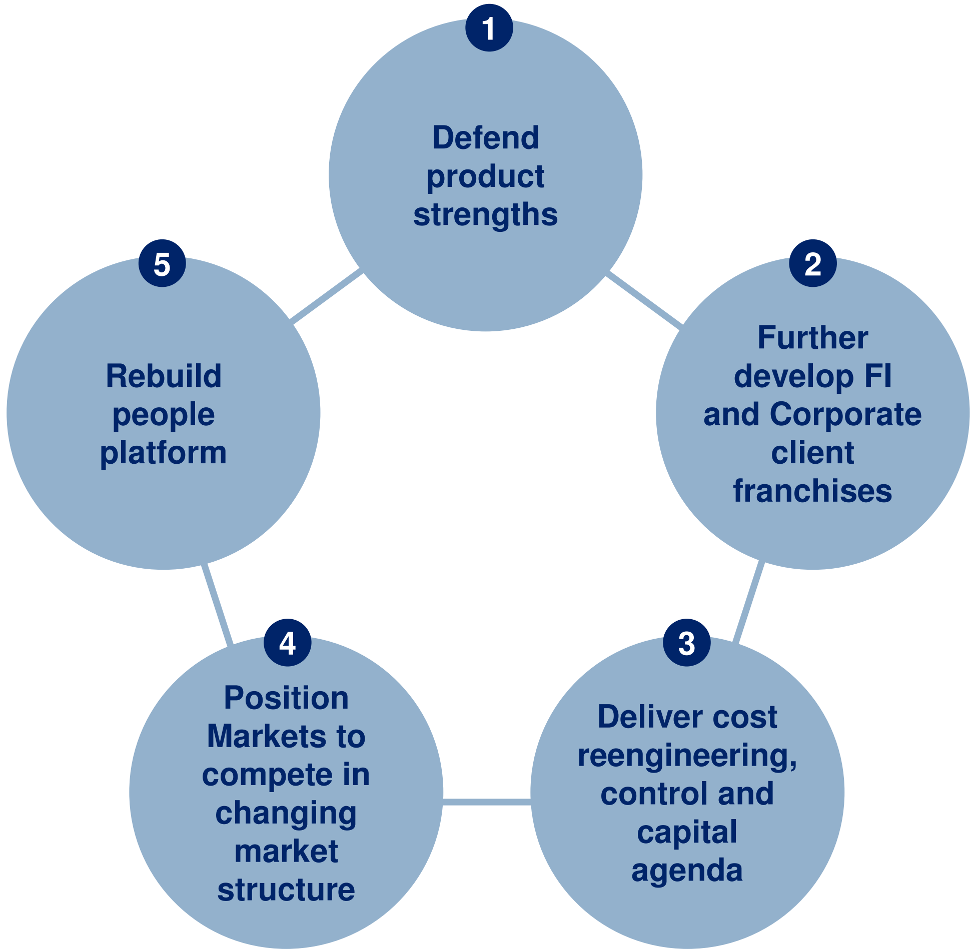
Prominent in industry awards

Rates	#1 USD Western Europe #2 Sterling Cash #3 Overall Rates Inflation Derivatives House of the Year 2012 Interest Rate Derivatives House of the Year
Debt Financing and Securitisation	Best Debt House in the UK Best for Sterling Issues Best Offshore RMB House Most Innovative Deal Best Islamic Local Currency #1 Corporate DCM House in EMEA H1 2012 #3 CNH Bonds 2011 Global Securitisation House of the Year EMEA Securitisation House of the Year EMEA Loan House of the Year Most Innovative Investment Bank for Structured Finance
Currencies	#1 Overall Client Service in EMEA #1 High Frequency Trading Firms in UK #1 FX Swaps & Options in UK THE 2012 PROFIT & LOSS DIGITAL FX AWARDS Innovation Award for RBS Agile™ Best Order Management Award for FX Stream
Investor Products	Structured Funds House of the Year Best in Germany, Nordic Region, Italy and CEE

Clear strategic response to challenging external context

Markets strategic context	
Macro-economic environment	▪ Weak global economy ▪ Eurozone instability
Banking industry	▪ Declining revenue pools ▪ Increased capital requirements and challenged funding conditions ▪ Move towards cash and futures ▪ Accelerating electronification ▪ Unbundling, disintermediation
Client franchise	▪ Weaker credit rating and higher CDS spreads than leading peers ▪ Committed to taking less risk
People challenges	▪ Industry-wide issues: – Retention – Morale – Ongoing change agenda

Markets strategic response



Defend product strengths and sensibly scale

Defend product strengths

Rates
£1.5bn[1]

De-risk and reshape:
- Scale back resource-intensive activities in new capital regime
- Focus on shorter-dated, more vanilla transactions
- Increase proportion of centrally cleared derivatives

Credit Markets
£0.6bn

Strengthen alignment :
- Improve effectiveness of credit chain, supporting DCM by ensuring origination and trading work together
- Continue focus on risk reduction in Credit Trading

Investor Products & Equity Derivatives
£0.6bn

Focus on strengths:
- Defend top rankings in exchange listed products in UK, Germany, Switzerland, Netherlands, Italy
- Tighten links with retail fixed income products

Capitalise on growth opportunities

Asset-Backed Products
£1.3bn

Rebalance product mix:
- Reweight towards primary as markets shift
- Capture European ABS opportunity

Currencies
£1.1bn

Leverage Group to grow share:
- Focus on transactional FX through International Banking and UK Corporate
- Capture FI wallet by enhancing e-commerce capability

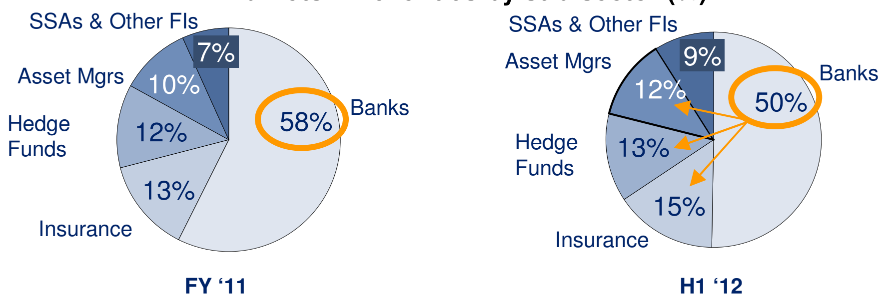
1 Figures are FY '11 revenues before inter-divisional revenue share

Further develop Financial Institution & Corporate client franchises

Reshape the FI client franchise – examples

Growing business with Non-Bank FIs	• Moving away from dependence on Banks • Hedge Fund, Asset Manager focus

Markets FI revenues by sub-sector (%)

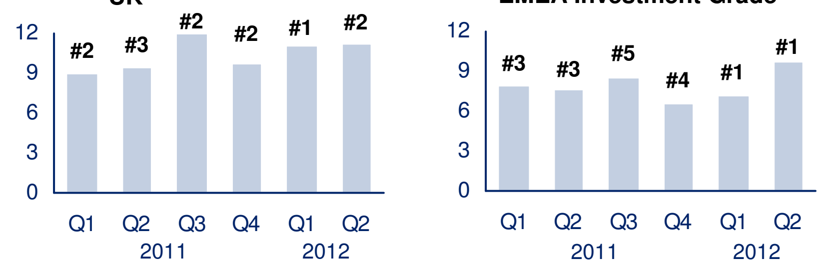


Delivering top tier solutions across products and regions	• Global securitisation capabilities • US securitisation, European covered bonds
Driving connectivity with the wider RBS Group	• Serving International Banking and UKCB clients • Group Treasury, Non-Core
Building "low touch" model	• Serving FIs electronically – low cost, high volume, high speed

Broaden the Corporate client franchise with Group partners – examples

Delivering corporate bond expertise	• Partnering with International Banking and UK Corporate to leverage lending relationships • Maintaining market leading position in UK and EMEA

Markets corporate bond issuance market share (%) and ranking

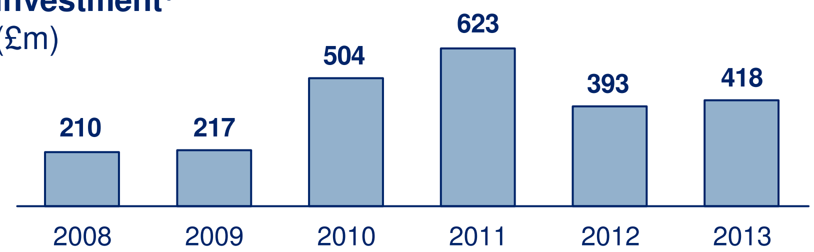


Transactional FX	• RBS one of only 4 major banks strong in both FX and Transaction Services • Joint initiative with International Banking to capture FX spend related to cash and trade transactions
UK smaller corporates	• Meeting challenge of FX bureaux • Partnering with UK Corporate to provide low-touch, low cost FX services

Deliver cost, control and capital agenda

Cost re-engineering

Investment[1]
(£m)



- Continuing to invest in technology and infrastructure
- Spend on regulatory change critical in 2010-'11, investment above historic levels through 2012-'13 Building a less complex technology architecture, decommissioning outdated, overlapping legacy systems

Control agenda

Product and Risk

- Smaller, more focused business
- Focus on aged inventory, stress loss (halved in last year), etc.

Control

- Front Office control awareness and culture
- Risk & Control assessment framework
- Supervisor training

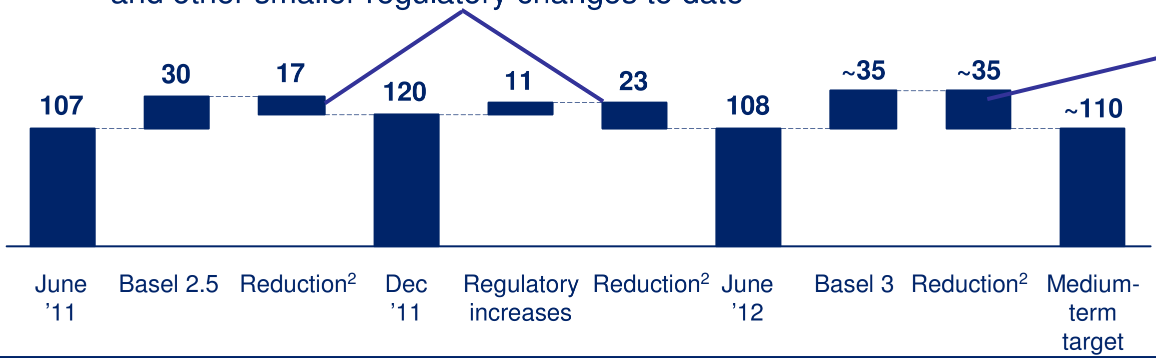
Govern-ance

- Risk & Control Committees
- Tracking and remediation of control issues

Mitigating impact of capital regulation

RWAs
(£bn)

- Successfully mitigated the impact of Basel 2.5 and other smaller regulatory changes to date



- 18 months of planning, preparation and activity so far to mitigate the upcoming impact of Basel 3
- Reducing RWAs with minimal revenue impact by restructuring the existing portfolio and putting Basel-3 based controls on new business – see overleaf

1 Excluding spend on the programme to integrate RBS NV into RBS plc, which had an additional spend of £150m in 2011, £126m in 2012, and planned £22m in 2013
2 Reductions achieved through combination of portfolio-level restructuring, detailed line-by-line mitigation and regulatory approvals

Manage down balance sheet without damaging revenues

Steps to reduce capital without proportionate reduction in revenues

Existing portfolio ("back book")

- Infrastructure and data quality enhancements
- Risk restructuring – e.g., tightening of security or collateral terms, bilateral risk reductions
- Tri-party risk triangulations, novations
- Regulatory capital model improvements

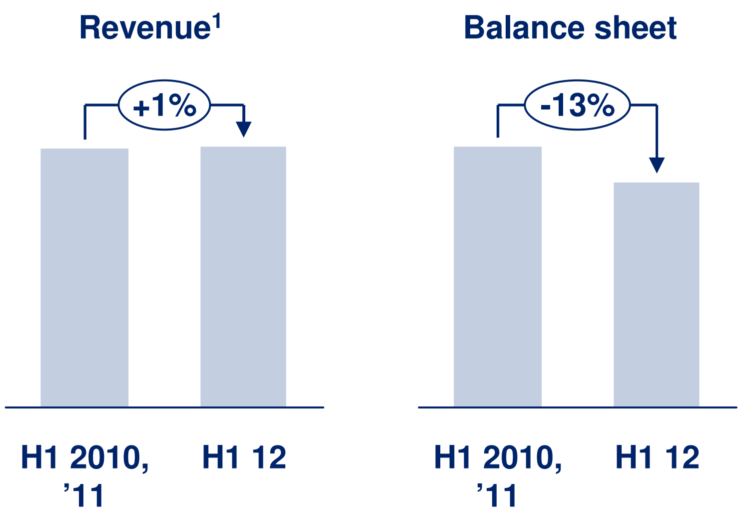
New business ("front book")

- Deployment of capital towards Basel 3-efficient business
- Increased capital velocity
- Tighter controls on security provisions and tenors
- Increased use of clearing

Balance sheet reduction in practice: Rates

- Given heavy impact of Basel 2.5 and Basel 3 capital regulations Rates has been a major focus of efforts to date
- Already succeeded in reducing Rates balance sheet by 13% in H1 '12 vs the average of H1 '10 and '11

Average quarterly:



1 Quarterly averages calculated on Q1 and Q2 only to avoid the comparison being distorted by seasonal revenue effects

Positioned for market structure changes

Regulations

- Higher capital requirements
- Reduced risk warehousing
- Pre- and post-trade transparency
- Post-trade regulatory reporting
- Recovery & Resolution Planning / "living wills"
- Constraints on activities in deposit-guaranteed institutions: Volcker, ICB ringfencing

Impact

1. Greater cost of compliance
2. Move from derivatives to cash and futures
3. Acceleration of electronification
4. Value chain unbundling: issuer, bookrunner, trader, investor
5. New market roles, disintermediation, new entrants
6. …But also business opportunities

RBS Markets actions

Growing Futures
Enhanced electronic offering

Building Clearing for key clients
Scalable cross-asset client infrastructure

Preparing for e-venues
Upgrade RBSM[1] to fully integrated platform

Building collateral optimisation
Offer collateral transformation services for clients

Testing new business models
Mandate sales[2], RBS Agile™ [3]

Greater uncertainty of market outcome

1 RBS Marketplace – RBS's proprietary electronic trading platform designed to deliver faster, simpler access to trade execution tools
2 Longer term commitments rather than single transactions
3 RBS Agile™ – a suite of derivative algorithm tools that enable clients to automate their gamma hedging and give them new opportunities to generate revenue

Rebuild people platform

Context

- Historic record of industry excess, which led to….
  - Heightened regulatory and control environment
  - Engagement from wider society and media
  - Changing pay structure/levels
  - Morale challenges
- With continuing competition for talent

RBS management actions

✓ **Leadership**	▪ Management renewal, succession and stability ▪ Transformational Leadership programmes and talent management, focused on the middle section of the staff population
✓ **People engagement**	▪ Stratified approach: – Retention of senior leaders, addressing flight risk – Demanding more of restructured middle management layer – Refreshing and emboldening junior and graduate population ▪ Focus on diversity and community
✓ **Organisational simplification**	▪ Separate Markets structure, clear front-to-back ▪ Focus on reducing layers and simplifying reporting lines
✓ **Reward**	▪ Pay aligned with performance and risk ▪ Transparent disclosure, deferrals, clawback
✓ **Accountability**	▪ Supervisory frameworks, "Three lines of defence" ▪ Clear expectations, performance management

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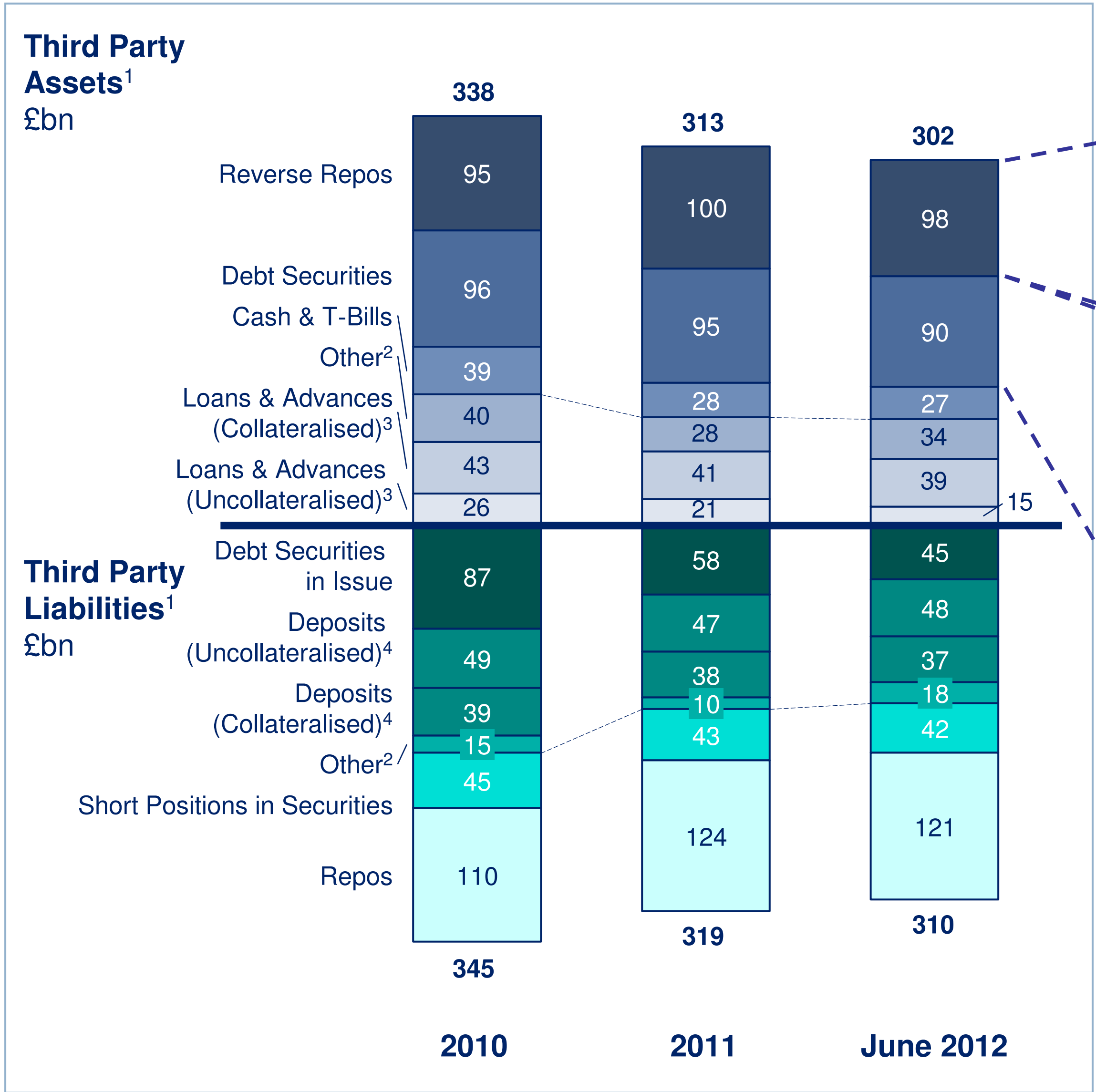
Markets delivered a robust performance in 2011 and H1 '12

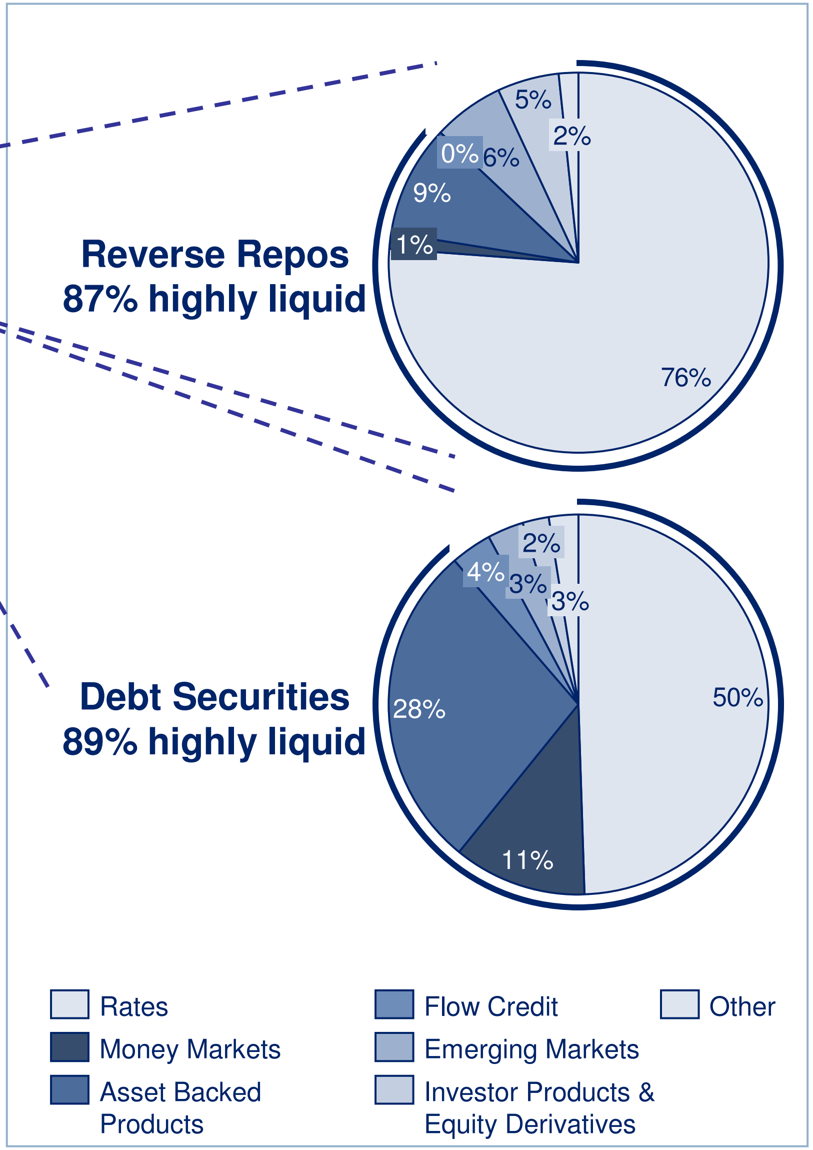
£m	2011	H1'11	H1'12
Total Income ongoing	**4,997**	**3,565**	**3,154**
Inter-divisional revenue share	*(767)*	*(412)*	*(360)*
Run-Off	*185*	*123*	*6*
Total Income	**4,415**	**3,276**	**2,800**
Direct Expenses			
Staff	(1,963)	(1,203)	(967)
Other	(746)	(354)	(351)
Indirect Expenses (property, technology, etc)	(769)	(377)	(386)
Total Expenses	**(3,478)**	**(1,934)**	**(1,704)**
Impairment (losses) / recoveries	(38)	14	(21)
Operating profit / (loss)	**899**	**1,356**	**1,075**
Of which: Ongoing	*943*	*1,364*	*1,129*
Run-Off	*(44)*	*(8)*	*(54)*
TPA (£bn)	314	365	303
RWA (£bn)	120	107	108
Return on Equity (%) [1]	**6.1%**	**17.1%**	**14.0%**
Cost:Income Ratio (%)	79%	59%	61%

- Reduction in Markets revenues in line with peers (H1 vs. H1)
- Tight focus on costs , reductions mirror revenue contraction
- De-leveraging of balance sheet and risk enables lower RWA despite regulatory headwinds
- RoE underpinned by combination of capital and cost initiatives

1 Excludes Run-off businesses

Markets Balance Sheet has been actively managed down





1 Excludes Run Off businesses which represented £0.4bn Assets and £(0.4)bn Liabilities as at H1 '12. Also excludes intra-group funding

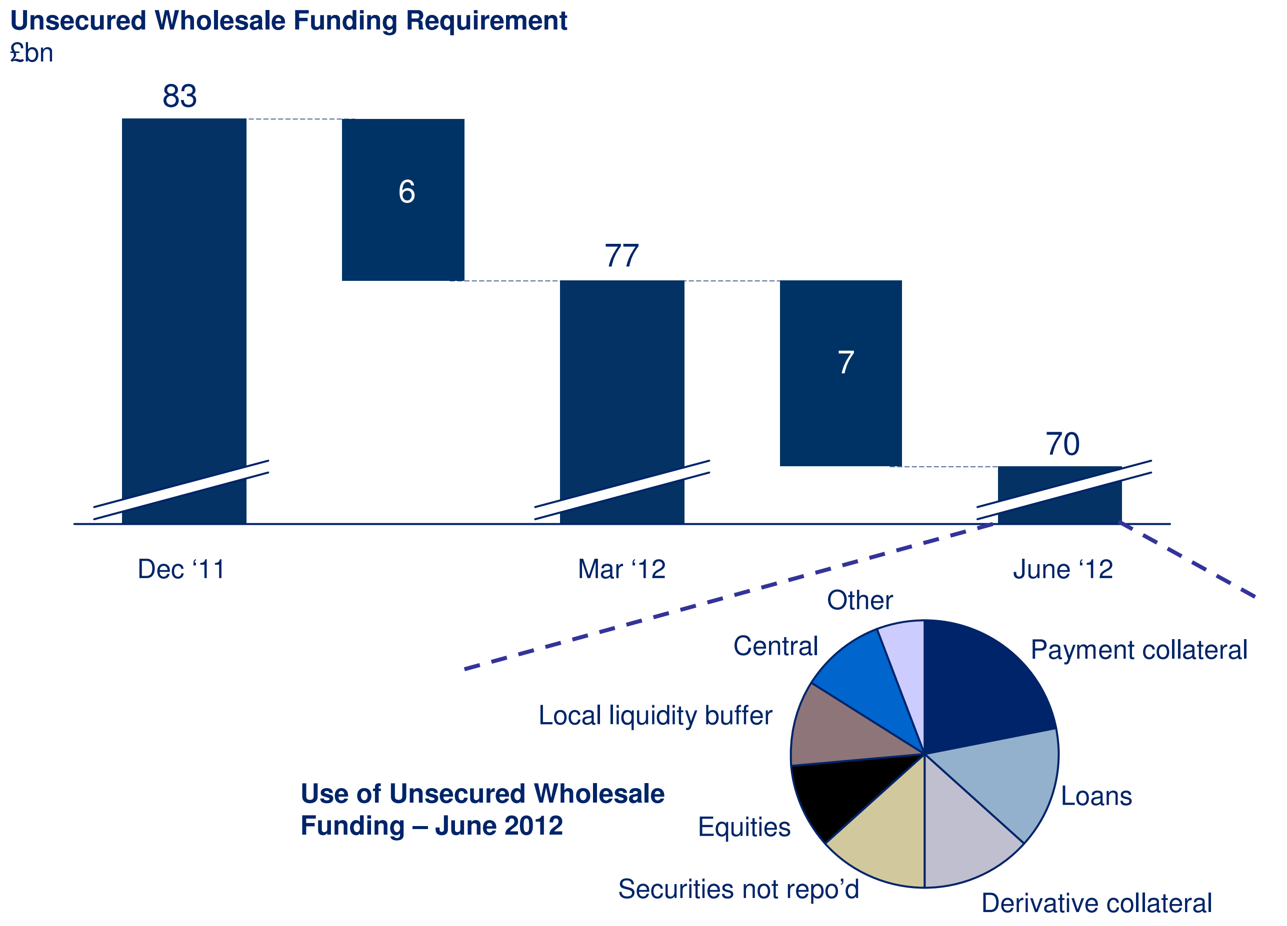
2 Other Assets primarily reflects Deals Pending Settlement and Equity Shares, Other Liabilities primarily reflects Deals Pending Settlement

3 Loans & Advances comprises Loans and Advances to Customers £30bn and Loans and Advances to Banks £24bn

4 Deposits comprises Deposits by Customers £34bn and Deposits by Banks £51bn

Unsecured wholesale funding requirement reduced

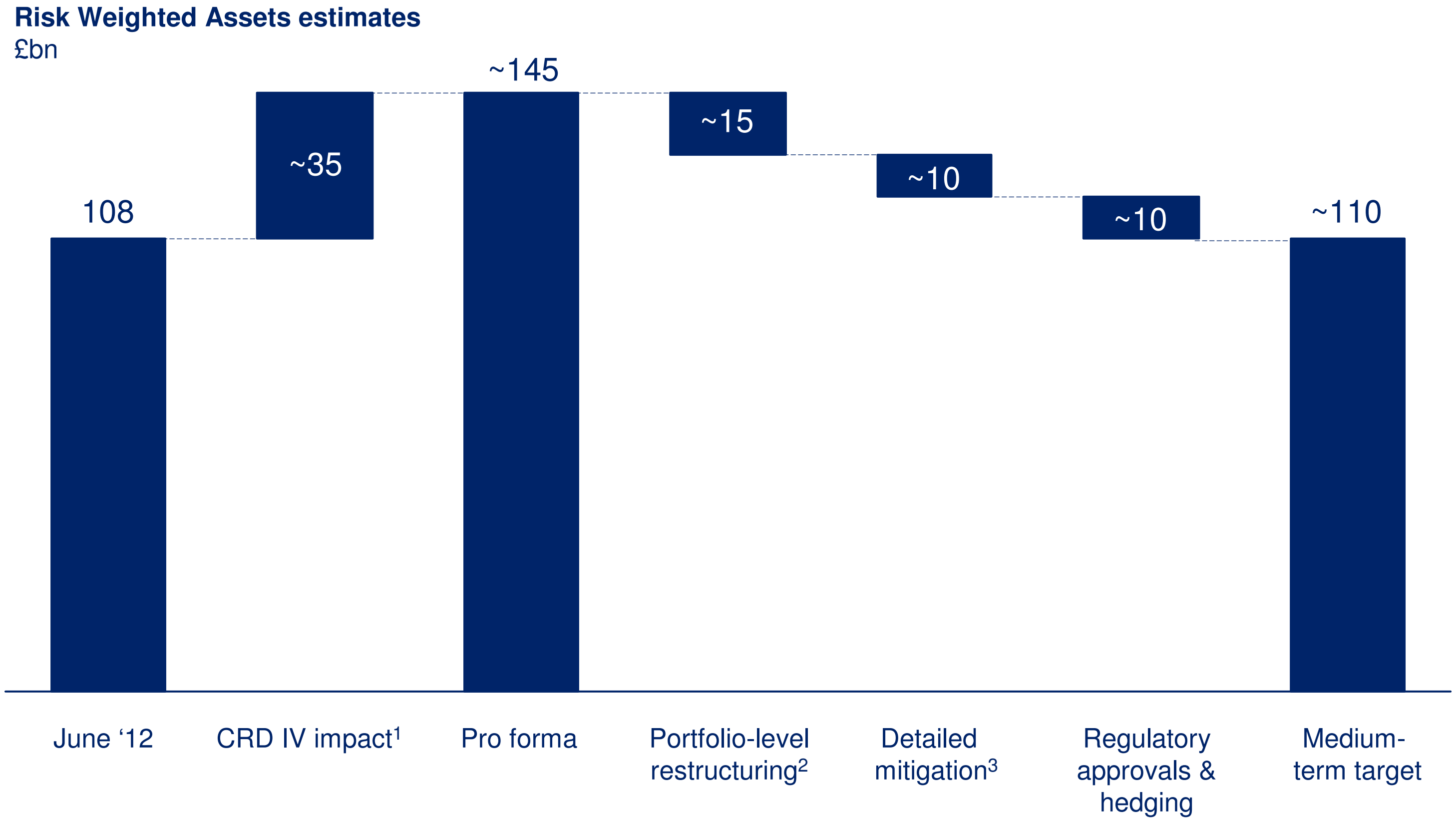
Managing down unsecured wholesale funding requirement



- Unsecured wholesale funding has fallen 16% in H1 2012
- This has been driven by initiatives to:
  - Increase secured deposits especially with Central Banks
  - Reduce less liquid assets in Asset Backed Products and Credit Trading
- Further reductions planned for H2 including further reducing Debt Securities not currently funding secured across the Treasury Markets, Asset Backed Products and Credit Trading businesses

Markets has clear plans to deliver its medium-term RWA target

Mitigating the impact of Basel 3 on regulatory capital

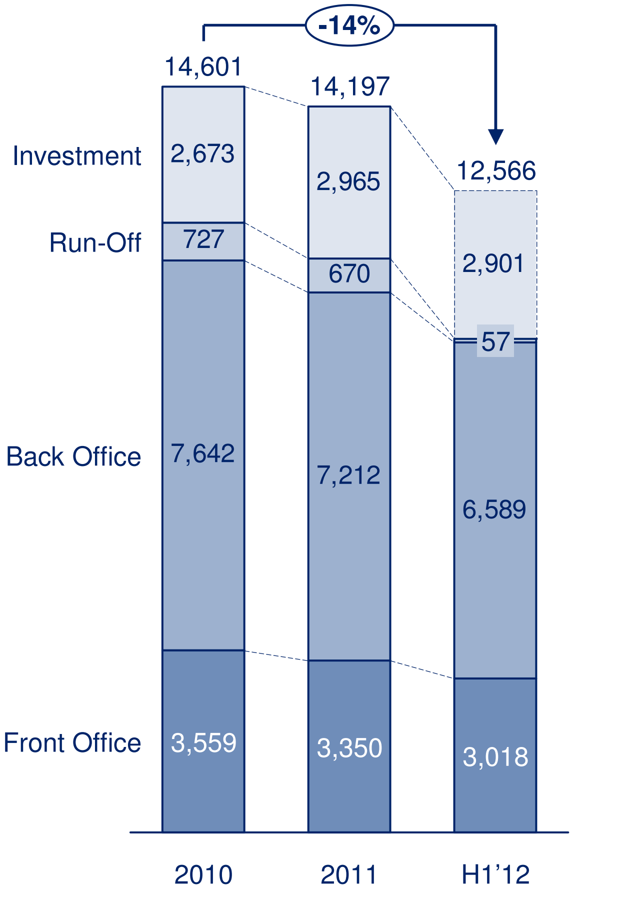


- Uplift to 2013 driven by estimated impact of CRD IV changes on existing portfolio
- Note that rules are not yet final, so there is potential for material change before the text is finalised – e.g., ongoing discussion on Corporate CVA Exemptions

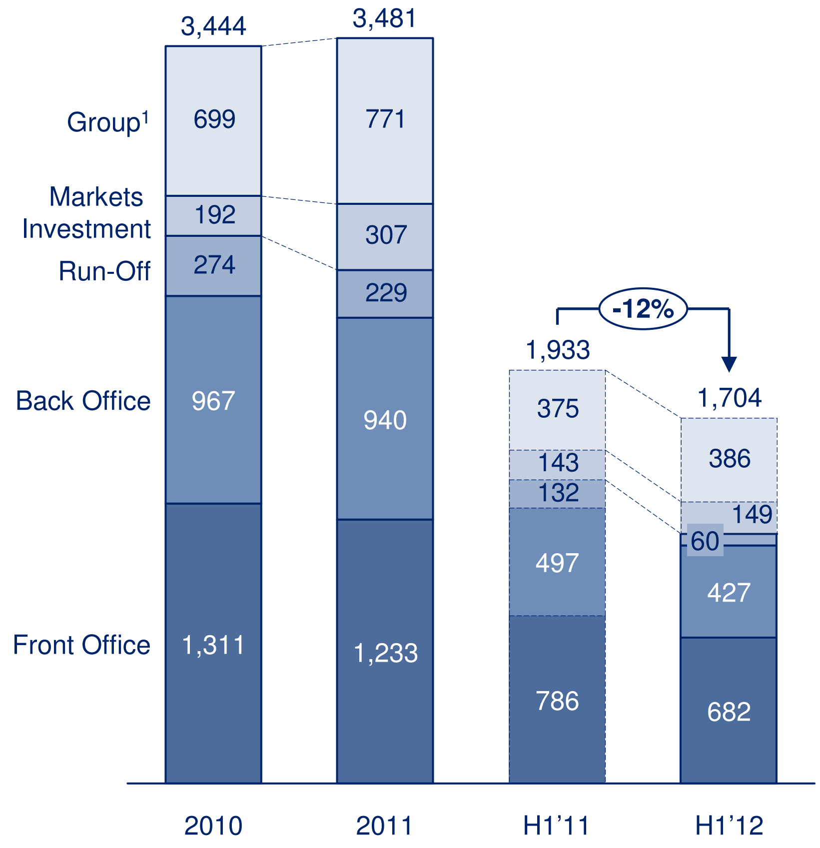
1 Estimated initial impact
2 Novations, restructuring, redeployment of capital towards Basel 3-efficient new business
3 Mitigating activities such as line-by-line reviews, infrastructure enhancements, etc.

Costs being managed down, but more work to do

Markets headcount



Markets total costs (£m)



Key messages

- 14% reduction in Markets headcount (2010-H1'12) reflecting investment in technology, reduced volumes and integration benefits
- Cost reduction lags headcount reduction but H1'12 Markets costs 12% down on H1'11, reflecting lower FTE offset by higher investment costs and investment in Risk areas
- Group costs include "stickier" items – e.g., property, IT infrastructure, Group functions

1 Group costs include property, technology, Group functions etc

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Risk management controls and standards clearly defined

1st line of defence	**Markets Business** ▪ Front Office ▪ Back Office	
2nd line of defence	**Control functions**	
3rd line of defence	**Group Internal Audit**	

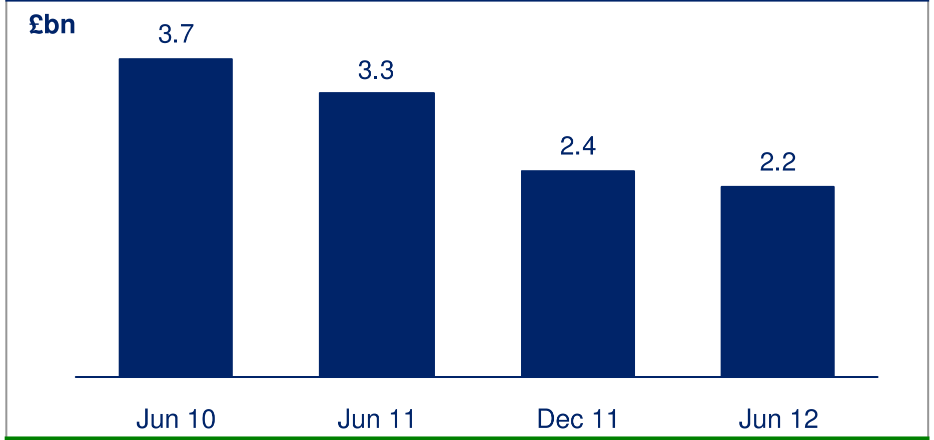
- **Culture defined and expectations clear**
  - Clear expectations at Group and Markets level
  - Calibrated to risk appetite
- **Risk governance and controls in place**
  - Governance processes provide continuing oversight of cultural and behavioural calibration
  - Continued enhancement of the control framework
- **Appropriate Measurement and Sanctions**
  - Risk performance and behaviour have primacy in performance evaluation
  - Risk management input a key factor in compensation determination

Continued progress in the Risk agenda

Risk Appetite Framework	▪ Group Risk Appetite Framework now embedded in strategy ▪ Risk Appetite and Strategy alignment established via regular stress testing ▪ Risk Capital Management team established to deliver divisional stress testing
Improved Limit Frameworks	▪ Limit control frameworks calibrated to Risk Appetite Framework ▪ Continual enhancement of controls e.g. introduction of dynamic counterparty limits linked to market indicators and aged inventory controls
Re-evaluation of Control Framework	▪ Control frameworks re-evaluated in light of recent market events (e.g. UBS and JP Morgan) ▪ Actions taken where potential for enhancement identified
Compliance and Conduct Agenda	▪ Working with regulators to manage introduction of evolving legislation and compliance standards ▪ Co-operating with authorities in relation to ongoing industry investigations
Risk Profile	▪ De-risking achieved ahead of market events, continuing as business strategy re-positioned ▪ Proactive management of exposure in the Eurozone periphery ▪ Continued progress by Counterparty Exposure Management in tightly controlling the derivative portfolio

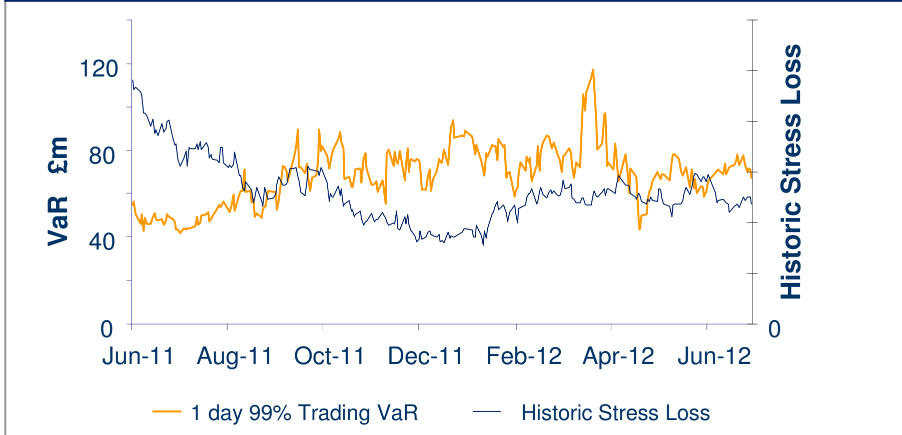
Improved risk metrics and lower P&L volatility

Aged Inventory



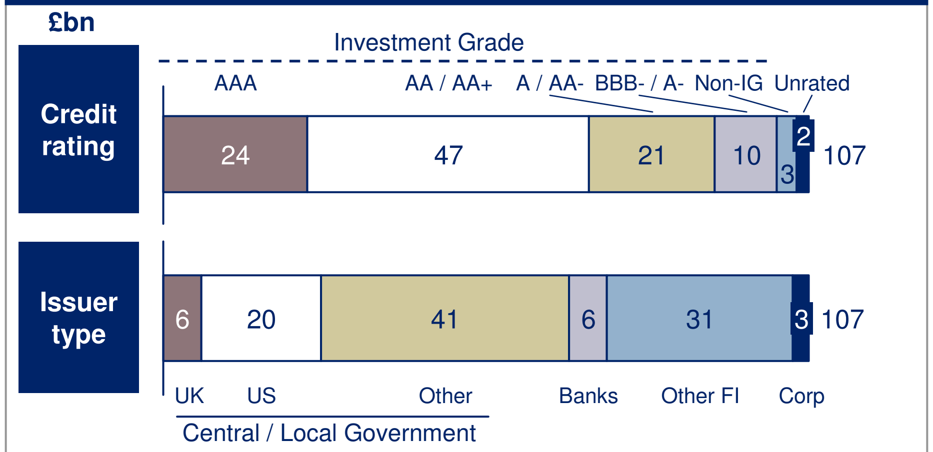
Disciplined inventory management driving down aged assets

VaR and Historic Stress Metrics



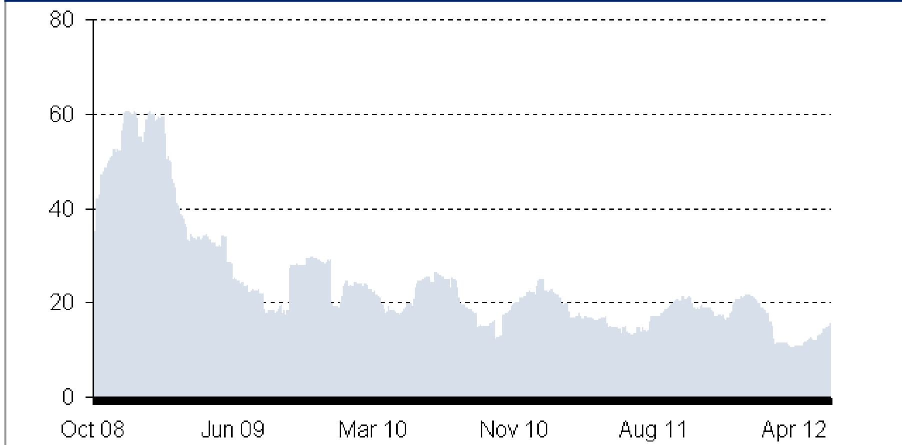
50% reduction in historic stress loss in year to June 12

Analysis of Cash Debt Securities (Jun 12)



~95% of assets are investment grade

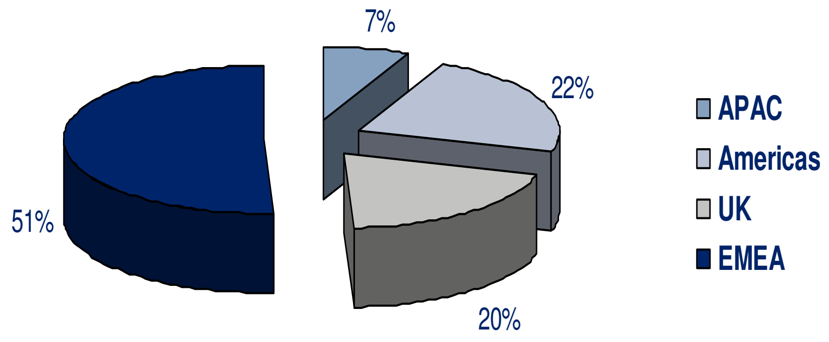
Sales & Trading revenue volatility



Revenue volatility substantially reduced

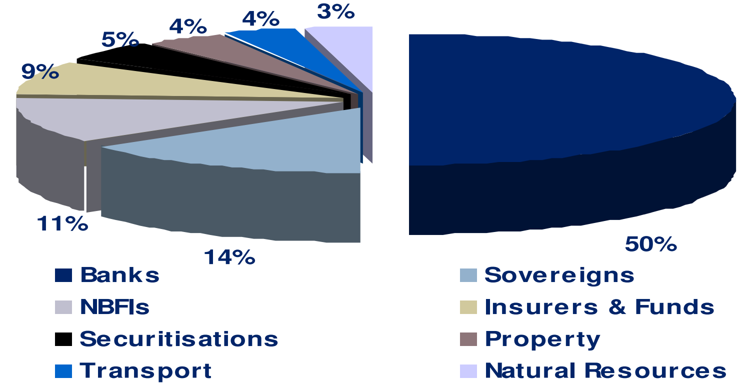
Diversified, high quality portfolio, limited exposure to Eurozone periphery

Geographic Distribution of asset portfolio (June 2012)



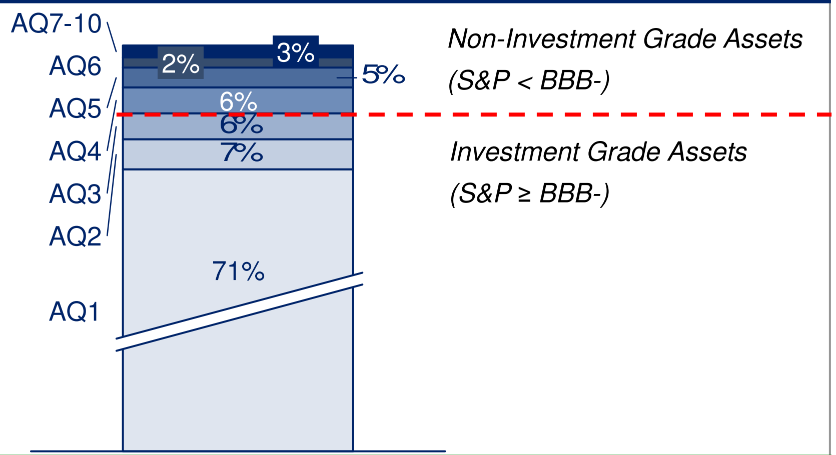
Distribution reflects focus on our core markets

Sector Distribution (June 2012)



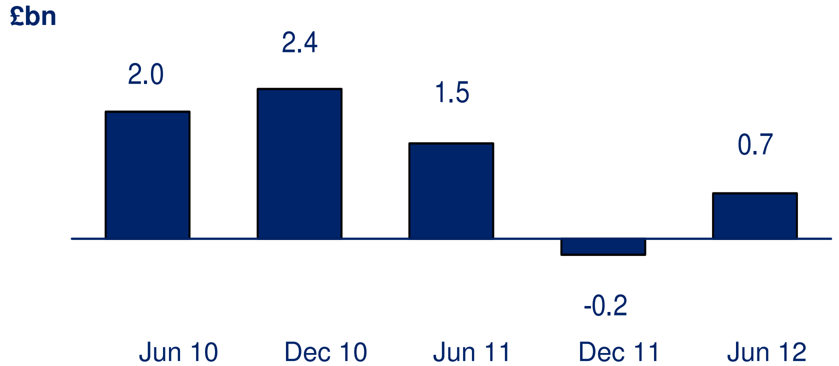
Portfolio weighted towards our major counterparties

Asset Quality (June 2012)



High quality portfolio, 84% investment grade

Eurozone Periphery Sovereign Issuer Risk profile



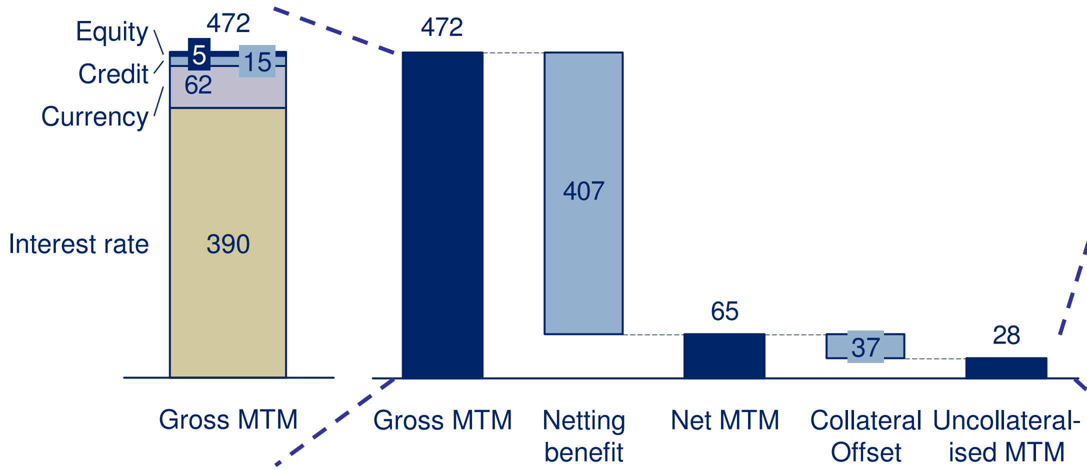
Exposure reduced and proportionate to flow volumes

'Other' largely comprises assets covered by the standardised approach, for which a probability of default equivalent to those assets covered by the internal ratings based approach is not available.

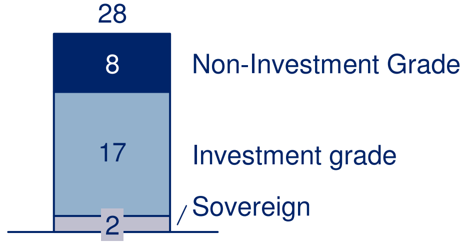
Management of Counterparty Derivative Risk

Mark to Market: Derivative Exposures

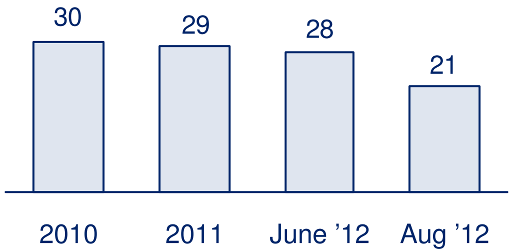
MTM derivative exposures June '12
£bn



Uncollateralised MTM breakdown June '12
£bn



Uncollateralised MTM 2010-12
£bn

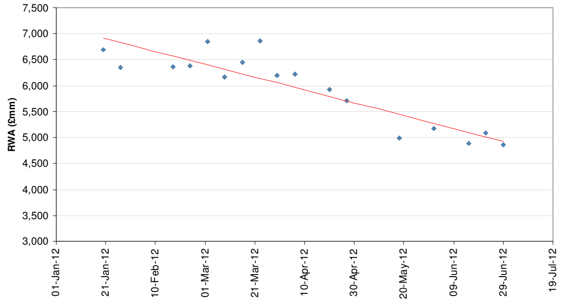


Counterparty Exposure Management team

- Front office team
- Consolidates all aspects of counterparty exposure management for derivatives business
- Actively manage risk concentration and reduce unwanted exposures
- Responsible for setting standards for derivatives documentation, using improved documentation to drive risk mitigation
- Ensure that all collateralised and uncollateralised trades are priced in line with the Derivatives Funding Policy
- Manage the funding and liquidity risk across all derivatives business, aiming to reduce the volatility in the funding exposure
- Manage / co-ordinate default process end to end

Counterparty exposure

Counterparty exposure – top trading counterparties January-July 2012[1]
£m



1 Proxy using the Basel 3 CVA add-on advanced methodology

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Conclusion

Delivered our promises	▪ Reduced size of the business and delivered critical profits to the Group ▪ Business exits announced in January on track
Markets now a focused business embedded in RBS Group	▪ Product engine for the Group's Corporate clients and serves the needs of the Financial Institution clients ▪ Supports the three pillars of the Markets & International Banking proposition – risk management, debt financing and transaction services ▪ Strengths in Rates, FX, DCM and Asset Backed Products
Making progress on Markets strategy	▪ Clear strategy in place to maintain competitive position, respond to market changes and deliver contribution to the Group ▪ Constraining use of capital and balance sheet ▪ Continuing to face strong market and regulatory headwinds ▪ Making good progress, well placed to hit medium-term targets

Appendix

Rates – De-risk and Reshape

Market Position & Financial Performance	H1 2011	FY 2011	H1 2012
Revenues, £m	1,036	1,474	1,217
% of Total Markets Revenues	29%	29%	39%

	FY 2011
Revenue Ranking[1]	6
Productivity Ranking[1]	1

2012 headlines

- Half year performance 17% ahead of 2011, driven mainly by strong performance in Q1

Short-term Focus

- Further focus on reducing RWAs in trading/sales activity
- Develop clearing services to ensure robust and scalable offering
- Continue focus in US on Dodd-Frank deliverables

Medium-term Objectives

- Increase proportion of centrally-cleared derivatives
- Scale back on selected resource intensive activities and reweight towards more vanilla, shorter-dated transactions
- Restructure or exit legacy assets unattractive under Basel 3
- Adjust plans as emerging regulation changes – e.g., corporate CVA exemption
- Manage cost base to new model

1. Source: Coalition. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS. Including Delta Trading, Nonlinear Trading, M&IB Treasury Markets, FIPB & Futures and Emerging Markets Rates

Currencies – Leverage Group Strengths to Grow Share

Market Position & Financial Performance

	H1 2011	FY 2011	H1 2012
Revenues, £m	508	1,060	421
% of Total Markets Revenues	14%	21%	13%

	FY 2011
Revenue Ranking[1]	5
Productivity Ranking[1]	2

2012 headlines

- Running in line with 2011 with Spot FX more robust than FX Options. Sales volumes up from 2011 driven by enhanced e-commerce capability via multi-dealer platforms

Short-term Focus

- Reshape FX Options business through risk reduction
- Mobilise Emerging Markets FX and Transaction FX initiatives
- Further improve connectivity with RBS Group businesses

Medium-term Objectives

- Continue to grow share, measured by the Euromoney survey
- Focus on FX connectivity through International Banking and UK Corporate
- Capture Financial Institutions wallet by enhancing e-Com capabilities
- Improve operational efficiency and control – continue reducing cost per trade (already 2nd lowest in the industry in the McKinsey 2011 survey)

1. Source: Coalition. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS. Including G10 and Emerging Markets FX

Asset Backed Products – Re-balance Product Mix

Market Position & Financial Performance

	H1 2011	FY 2011	H1 2012
Revenues, £m	984	1,254	805
% of Total Markets Revenues	28%	25%	26%

	FY 2011
Revenue Ranking[1]	2
Productivity Ranking[1]	1

2012 headlines

- Strong revenues driven by good trading client flow in H1. Market moving from secondary to primary more slowly than expected

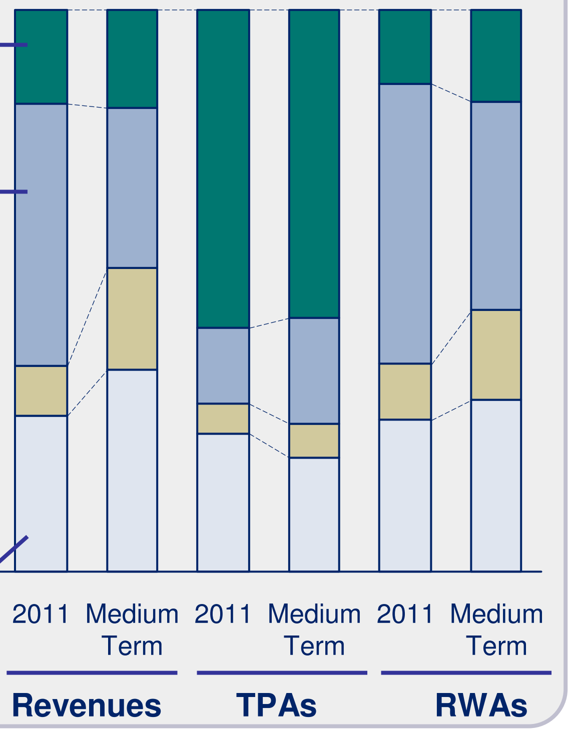
Strategies

- Reweight towards primary origination and financing as markets recover
- Reduce exposure to less liquid products
- Exit selected derivative positions and refine market risk hedging strategy

Product Specific

Defend position	US Agency
Reweight towards primary opportunities, away from secondary trading	US Non-Agency
Leverage origination platform to grow	US CMBS
Capture niche revenue opportunities	US Other
Support FI clients with solution capability	Europe

Shift in ABP product mix



1. Source: Coalition. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS. Including RMBS and other securitisation

Credit Markets – Strengthen Alignment between Origination & Trading

Market Position & Financial Performance

Including DCM	H1 2011	FY 2011	H1 2012
Revenues, £m	638	616	497
% of Total Markets Revenues	18%	12%	16%

Excluding DCM	FY 2011
Revenue Ranking[1]	10
Productivity Ranking[1]	NM[2]

2012 headlines

- Credit Trading aligned to DCM in new Credit Vertical organisation and reshaped as planned

Strategic Objectives

- Continue focus on RWA reduction in Credit Trading
- Offer liquidity more selectively and avoid revenue volatility
- Improve the effectiveness of Credit chain, ensuring all parts work together

Corporate

- Maintain leading position in corporate DCM across currencies, particularly in GBP & EUR and increasingly USD – #1 in EMEA Corp DCM and syndicated loans (H1 '12), #8 in US Corp DCM and syndicated loans (2011)
- Widen product offering for issuers

FIs

- Continue strengths in FI securitisation, structured finance and ABS – #4 in EMEA Securitisation and #5 in US ABS (2011)
- Bring FI DCM securitisation closer to ABS trading

1 Source: Coalition. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS. Including G10 and EM Flow Credit
2 Loss making in 2011 due to poor second half performance, so ranking not meaningful

Investor Products & Equity Derivatives – Focus on strengths in the Investor Product Suite

Market Position & Financial Performance	H1 2011	FY 2011	H1 2012
Revenues, £m	399	593	214
% of Total Markets Revenues	11%	12%	7%

	FY 2011
Revenue Ranking[1]	7
Productivity Ranking[1]	7

2012 headlines

- Revenues down year to date in difficult market conditions

Strategic Priorities

- Decision made in January to exit Cash Equities and ECM. Investor Products & Equity Derivatives (IP&ED) business was retained and business model refined
- IP&ED has gone through major business re-structuring in H1against a backdrop of a 25-35% decrease in Investor Products market volume across Europe
- Some initial successes:
  - Launched Inflation and FX structured funds
  - Maintained top rankings in Exchange Listed Products in UK(#1), Netherlands (#1), Germany (#5), Switzerland (#4), Italy (#4) and Australia (#2)
  - Reduction in front office headcount, RWA and balance sheet on track

RBS Group

1. Source: Coalition. Peers included – Barclays, Bank of America Merrill Lynch, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Morgan Stanley and UBS. Including Equity Derivatives and Equity Access & Collateral Services for EMEA & Asia (ex Japan)