Q3 2009 performance highlights

6th November 2009

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Q3 2009 Results – Business highlights

- Finalisation of Asset Protection Scheme
- EC agreement in principle on State Aid and Group restructuring
- Stable performance in Core businesses
- Continued progress in Non-Core run off
- Impairment trends appear to be plateauing though at elevated levels
- Strengthened capital base post APS and B Share issuance

Q3 2009 Results – Financial highlights

- Core Bank profit £1.2bn, Non-Core loss £2.7bn
- Net interest margin increases vs Q2
- Group impairments decline 30% to £3.3bn
- Credit impairments appear to be plateauing versus first half levels overall
- RWA growth due to monoline downgrades, pro-cyclicality in Basel II models and by FX movements, pressures likely to continue in 2010[1]
- On target to surpass retail lending commitments

[1] Eg. ABN AMRO's move to Basel II in 2010 likely to lead to an increase in RWAs

Indicative terms of APS Accession – APS I vs APS II

RBS

Key elements – APS I

- Asset Pool:
  - £325bn at 31 December 2008
- First Loss:
  - £42bn (£19.5bn + £22.7bn of historic provisions)
  - 90/10 HMT/RBS split thereafter
- Fee:
  - 2% of asset pool £6.5bn
  - DTA 'give up' - £5.2bn historic + future tax losses
- B Shares:
  - £19.5bn day 1 issuance, £6bn optional
  - 7% coupon
  - Mandatorily convertible based on ordinary share price of 65p
- Asset coverage:
  - Citizens and equities excluded
- HMT shareholding:
  - Ordinary shareholding 70.3%
  - Economic interest 82.7%

Key elements – APS II

- Asset Pool:
  - £282bn at 31 December 2008
- First Loss:
  - £60bn (£38.7bn + £21.3bn of historic provisions)
  - 90/10 HMT/RBS split thereafter
- Fee:
  - £700m fee per annum 2009-11
  - £500m fee per annum thereafter
  - Minimum £2.5bn fee over life of scheme
- B Shares:
  - £25.5bn day 1 issuance
  - 7% coupon, no mandatory conversion
  - £8bn additional contingent capital facility, mandatorily issued if CT1 falls below 5%
- Asset exclusions:
  - CDPCs, Conduits, Repos, assets potentially eligible for sovereign schemes
- HMT shareholding:
  - Ordinary shareholding remains 70.3%
  - Economic interest rises to 84.4%

Note: RBS is currently in negotiations with Her Majesty's Treasury regarding finalisation of the terms of the APS scheme, which will be subject to approval by the European Commission, shareholder approval and other regulatory approvals

European Commission & State Aid

- European Commission approves RBS State Aid and Restructuring Plan in principle[1]
- Approval covers capital provided to RBS in October 2008, January 2009 and the proposed capital raising following accession into the UK Government's APS
- RBS will implement a series of restructuring measures to be completed by 2013, supplementing the strategic plan announced in February 2009
- RBS to divest RBS Insurance, Global Merchant Services, RBS Sempra Commodities, the RBS branch network in England & Wales and NatWest branches in Scotland
- Divestments timed to maximise value utilising IPOs, agreed sales or a combination
- Non-payment of dividends and coupons on ordinary shares, preference shares and all other hybrid instruments limited to a fixed period of two years[2]

[1] The Restructuring Plan is still subject to approval by the EU College of Commissioners
[2] The extent and timing of this obligation and the securities which it will impact is subject to further discussion between RBS, HMT and the European Commission

APS & EC

- Agreement on APS and the in principle EC agreement on State Aid provides us with the clarity to get on and execute our plans

- We will have a strong and stable capital base for the Group

- The disposal programme agreed with the EC makes our turnaround somewhat harder, adding some execution risks, but it does not put our recovery in jeopardy. We remain confident we can achieve our strategic objectives

- In moving to the revised APS arrangement, note that:
  - Our ‘base’ case has not materially changed since February
  - Our impairments appear to have reached a plateau
  - We believe the stress case for impairments is unlikely and so we are unlikely to draw down on the contingent capital
  - As such, APS is now truly ‘stress case’ cover with a higher first loss, lower fees, no payouts under the base case and lower capital relief

APS & EC

The change from APS I is:

- Elimination of ‘expected’ cover claims is offset by retention of DTAs and lower fees
- Reduced capital relief is offset by the additional £6bn B shares from HM Treasury
- The contingent capital triggers if CT1 falls below 5%
- We have the flexibility to exit the APS at any time, subject to FSA approval and to a minimum fee of £2.5bn less cumulative fees paid

Our goal would be to exit APS when economic conditions and performance permit:

- Would need to absorb RWAs back onto balance sheet
- Target within period to 2013

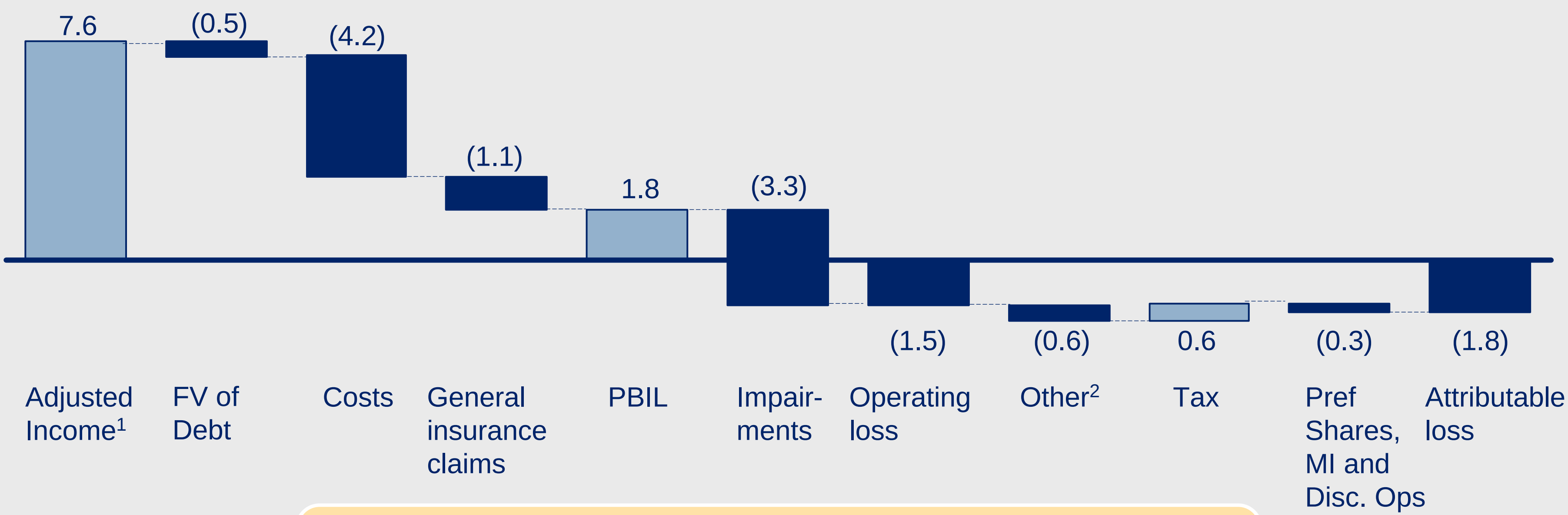
Opportunities and challenges

- Restructuring & implementation
- Regulatory & Government influences
- Economic outlook
- Non-Core run down and losses
- Implementation of EC requirements

Financial review

Group – Q309 Results

Group performance, £bn



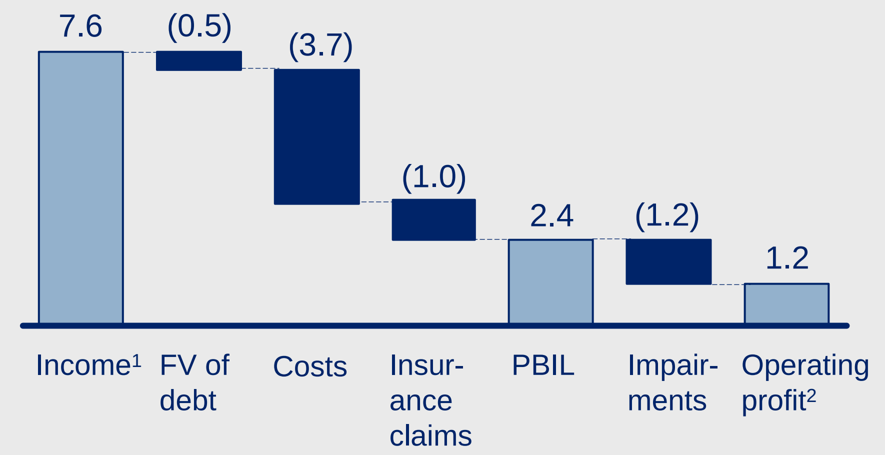
- Revenues stable demonstrating strength of franchise
- Strong cost management
- Robust PBIL development +£600m vs Q209
- Operating loss narrowed to £1.5bn

1 Excludes negative impact of £484m fair value of own debt movement

2 Includes £0.3bn integration & restructuring costs, £0.2bn one-off losses and £0.1bn amortisation of intangible assets

Q309 Results – Core & Non-Core

Core division, £bn



- Impairments lumpy but stabilising
- Reduced impact of fair value of own debt Q3 vs Q2

Non-Core division, £bn

- Trading losses substantially reduced
- Impairments lower due to reduced charges from UK Corporate & GBM
- TPAs reduced by £12bn

1 Excludes £484m negative fair value of own debt movement
2 Profit before tax, purchased intangibles amortisation, write-down of goodwill and other intangible assets, integration and restructuring costs
3 Includes £0.7bn of credit market write-downs

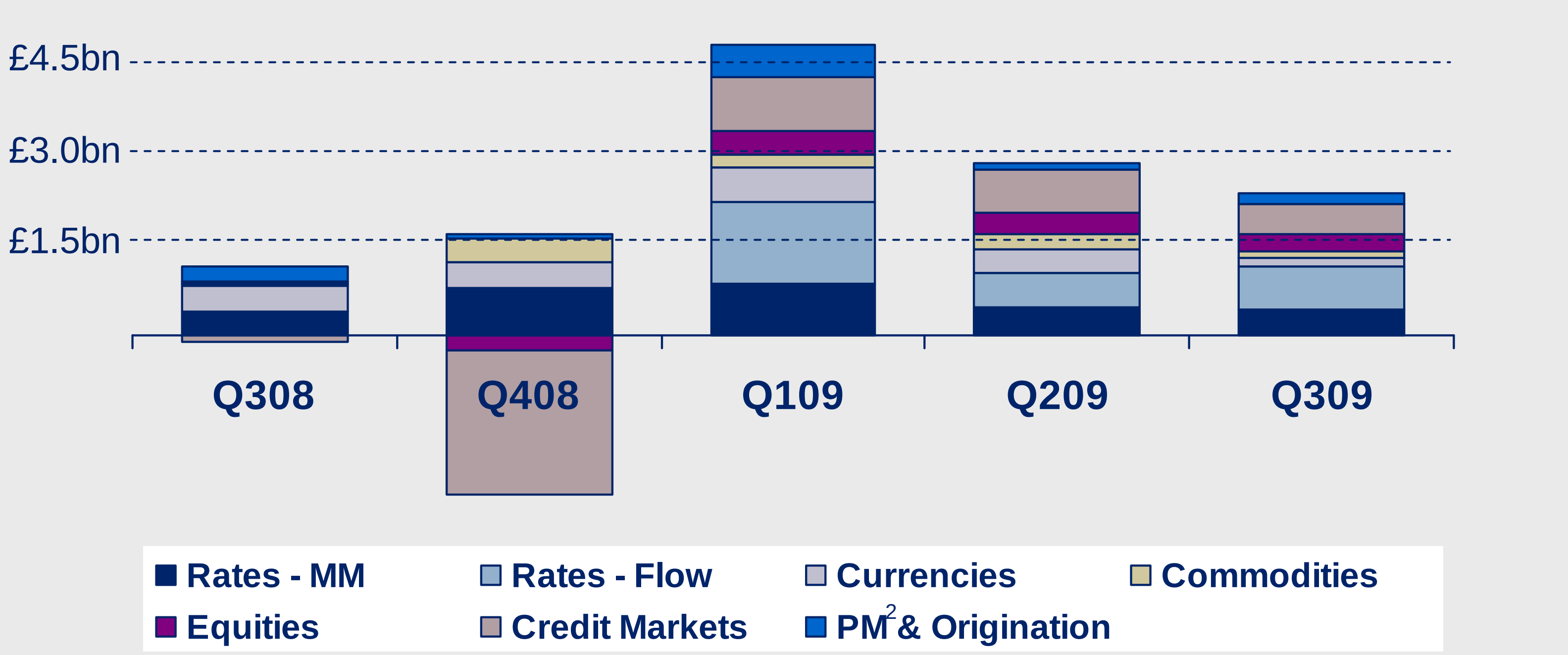
Net interest margin trends

Division	Q209 %	Q309 %	Comments	Outlook
UK Retail	3.69	3.47	Savings competition & lower interest rate hedges impacting liability margins	
UK C&C	2.17	2.38	New business asset margins widened, lending re-priced to LIBOR	
US R&C	2.30	2.34	Wider asset margins due to repricing	
Ulster Bank	2.03	1.74	Asset re-pricing initiatives more than offset by increased cost of deposits	
GBM	1.48	1.08	Reduction driven by lower money market income. Asset margins continue to rise.	
Non-Core	0.45	0.55		
Group	**1.70**	**1.75**		

- Near-term margins broadly stable as asset margin improvements are offset by increased term funding costs, increased liquidity costs and deposit hedge run-off

Core - GBM income by product

GBM Q-O-Q income by product[1], £bn



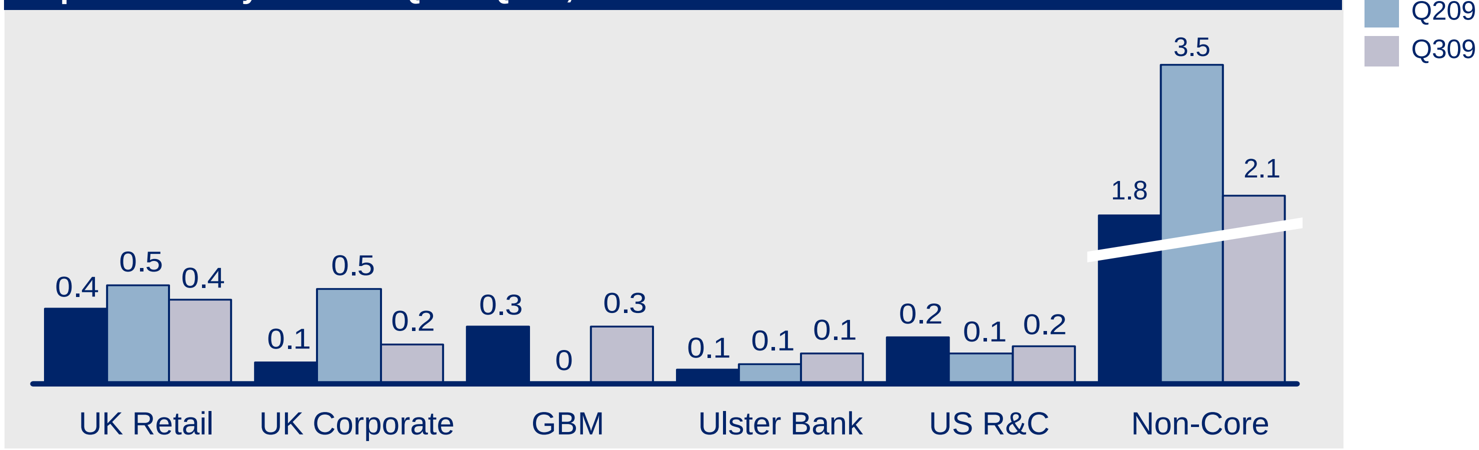
- Core franchise performing well – in a traditionally quiet quarter
- Flow business revenues remaining strong, good client activity
- Equities business driven by corporate capital raising activity[3]

1 Excludes FV own debt movements
2 Portfolio Management
3 Versus Q308

Group - Credit quality

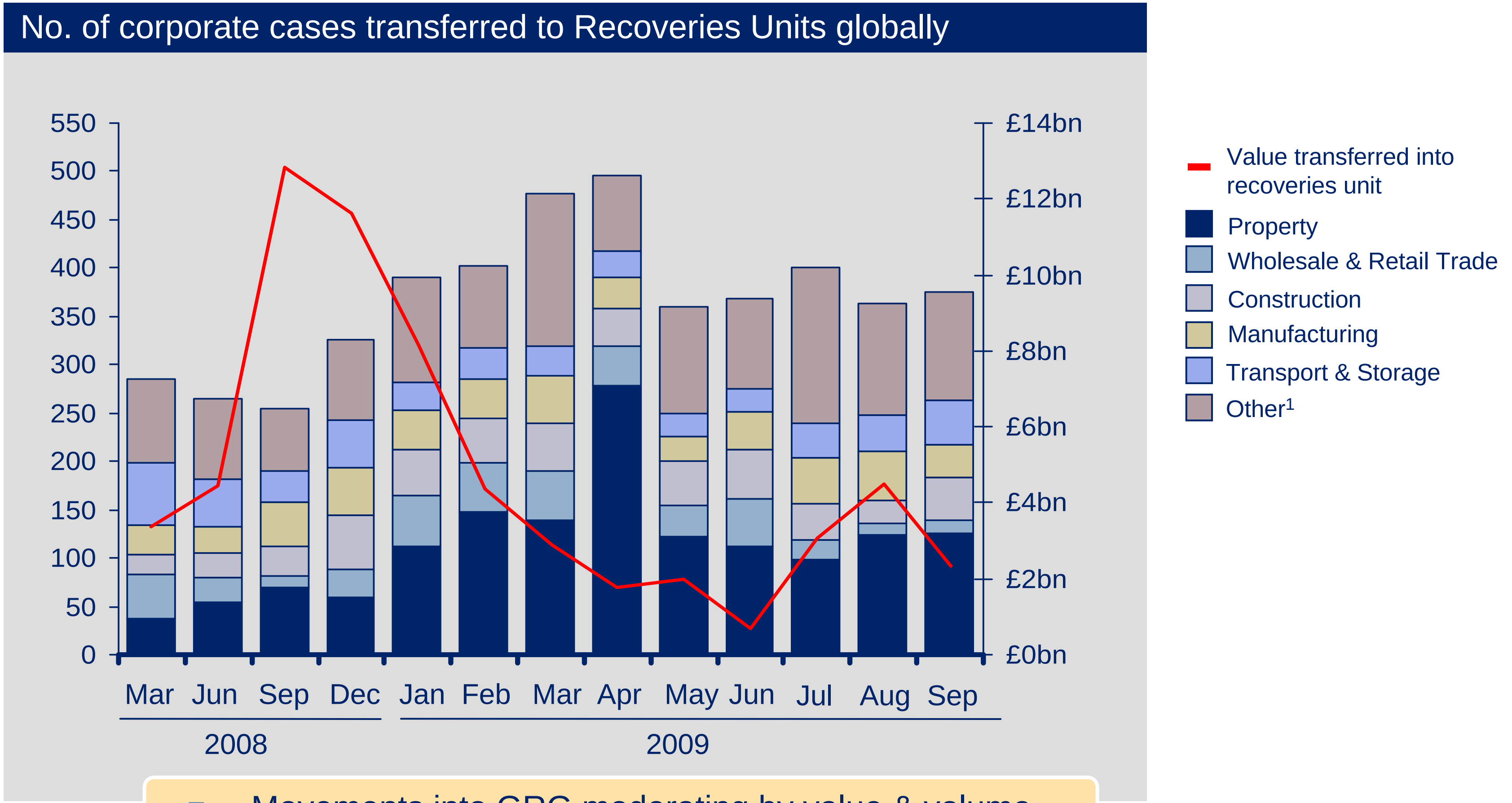
	FY08	H109	Q109	Q209	Q309 Core	Q309 Non-Core	Q309 Total
Gross L&A[1], £bn	701.3	610.4	681.8	610.4	447.2	159.3	606.5
NPL + PPL, £bn	19.0	31.0	23.7	31.0	11.9	23.7	35.6
NPL + PPL, % of L&A	2.69%	5.08%	3.48%	5.08%	2.62%	14.88%	5.84%
Impairment Charge, £bn	7.4	7.5	2.9	4.7	1.2	2.1	3.3
Impairment charge[2], % of L&A	0.91%	2.22%	1.34%	2.98%	0.99%	5.37%	2.14%
Provision coverage, %	50%	44%	45%	44%	55%	37%	43%

Impairments by division Q109-Q309, £bn



1 Gross loans & advances to customers excluding reverse repurchase agreements and stock borrowing
2 Impairment charge calculation excludes impairments from AFS securities (£0.7bn)
3 Subject to any changes to the Scheme

Impairments outlook – Wholesale

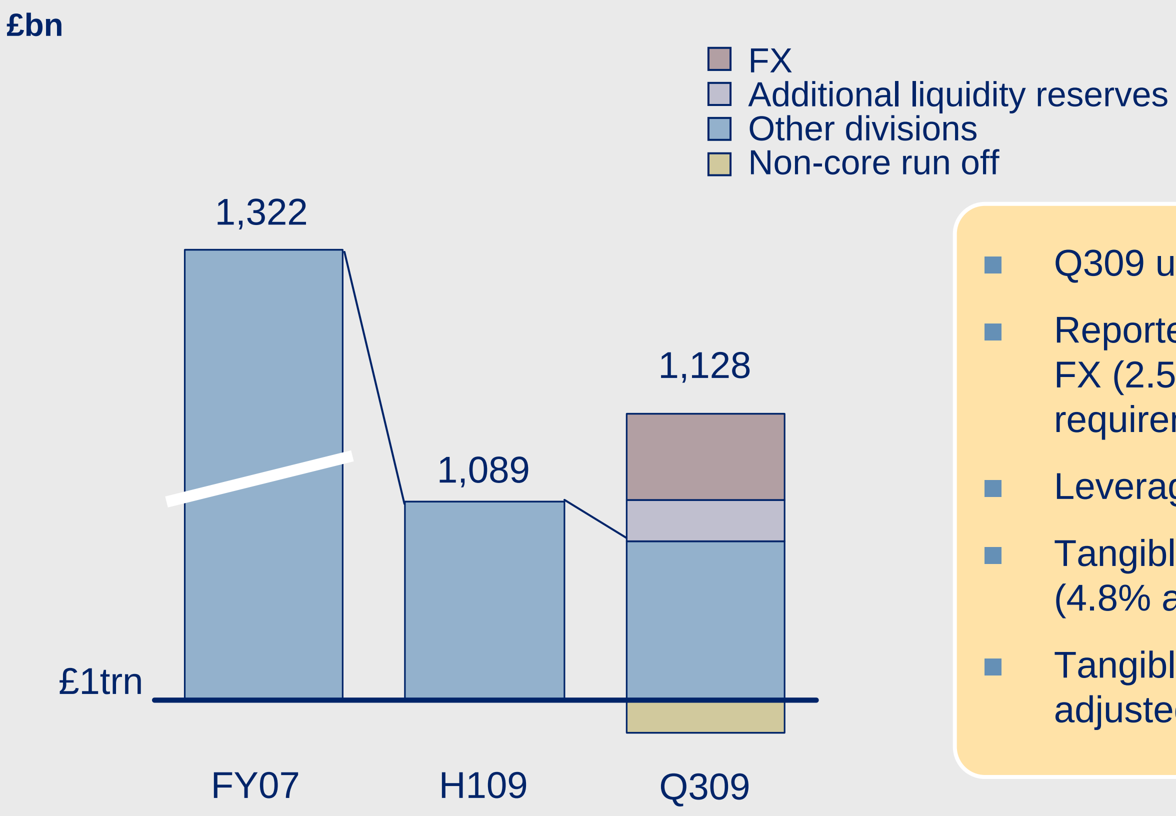


- Movements into GRG moderating by value & volume
- Cases plateauing, but at an elevated level
- Continued broad sector spread

1 Other includes TMT, Tourism & Leisure, Business Services, Banks & FIs and others

Group balance sheet movement

Funded balance sheet road map FY07, H109 & Q309

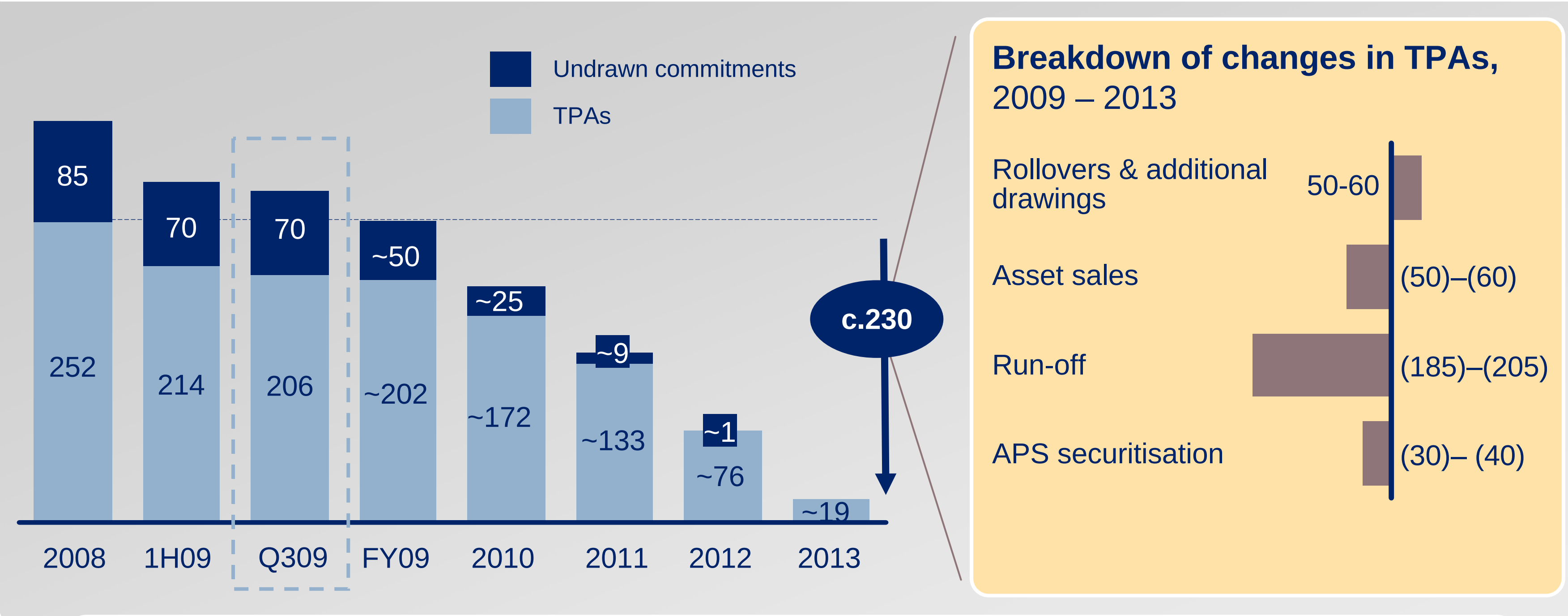


- Q309 underlying reduction 1% vs Q209[1]
- Reported position negatively impacted by FX (2.5%) & additional liquidity requirements (2.2%)
- Leverage ratio[2] 23x (18x adjusted[3])
- Tangible common equity ratio[4] 3.0% (4.8% adjusted[3])
- Tangible equity per share, 59.4p (51.1p adjusted[3])

[1] Adjusted to exclude FX and additional liquidity requirements
[2] Tier 1 leverage ratio is based on total tangible assets (after netting derivatives) divided by Tier 1 capital
[3] Adjusted for APS and B Share issuance and after deducting £2.5bn CDS value and £1.6bn Contingent Capital fee
[4] Tangible equity leverage ratio is based on total tangible equity divided by total tangible assets (after netting derivatives)

Non-core asset run-off targets

Non-Core third party assets (TPAs excl MTMs) run-off targets[1], £bn

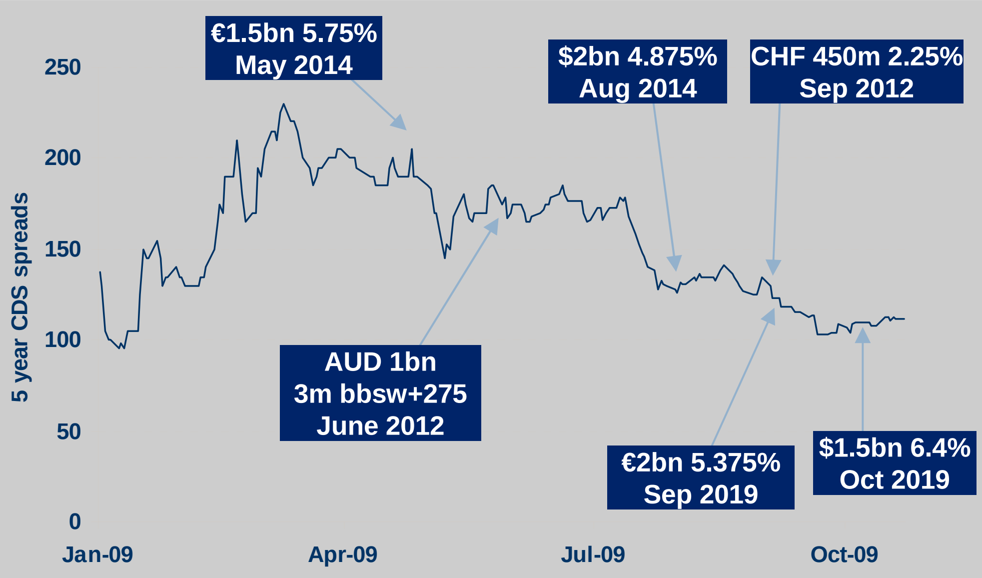


- Ongoing reduction in TPAs achieved in the quarter, down 18% since FY08 to £206bn
- Underlying reduction excluding derivatives of £12bn achieved, run-off remains on target
- Agreement reached on certain Asian business disposals
- Good progress in unwinding legacy trades & restructuring real estate financings
- Non-Core targets to be revised February 2010 reflecting no APS securitisation, increased focus on asset sales and updated drawdown assumptions

[1] Run-off at constant year-end 2008 FX rates

Funding and liquidity

RBS unguaranteed funding issues (YTD 2009)



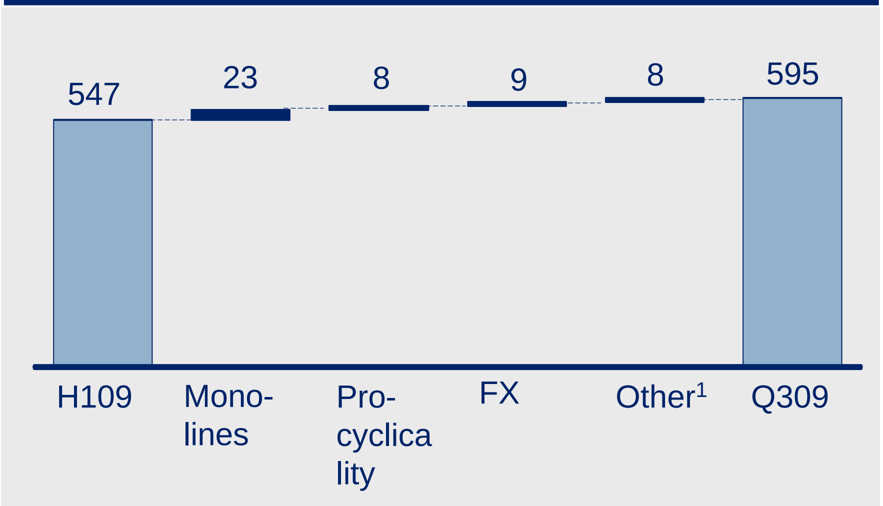
Key Funding Metrics

	FY08	Q209	Q309
Loan:deposit ratio	152%	145%	142%
Loan:deposit gap	£241bn	£178bn	£164bn
Liquidity reserves	£90bn	£121bn	£140bn

- Significant reduction in CDS levels
- Over £9bn of unguaranteed issuance since April 2009 (GBP equivalent)
- Increased frequency and diversity of debt issuance YTD

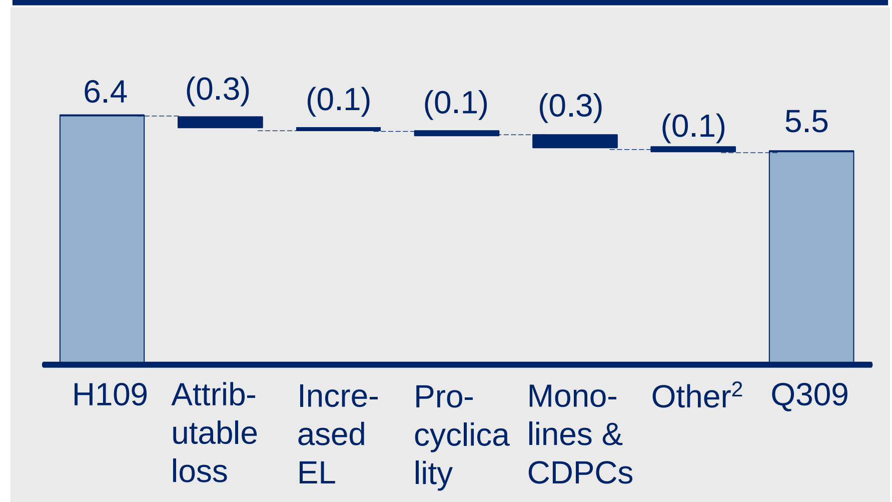
RWA & Capital progression

RWAs £bn



- Lower credit ratings on Monolines
- Pro-cyclicality
- Strengthening of € and US$

Core Tier One ratio %



- Reduction driven by Monoline downgrades and attributable loss in Q3
- Q309 pro-forma CT1 ratio post APS & B Share issuance 11.1%

[1] Includes loss of relief trades
[2] Includes loss of capital relief trades and modelling changes


RBS