Results 2008

Philip Hampton, Chairman

26 February 2009

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Re-building Standalone Strength

Stephen Hester, Group Chief Executive

26 February 2009

The 3-5 Year Journey to Standalone Strength

- Restructure as premier financial institution, anchored in the UK while serving individual and institutional customers here and globally
- Rebuild attractive shareholder value for all and enable UK Government to sell down its shareholding profitably
- Be leaders in our markets – effective and disciplined in our management
- Re-commit the entire organisation to delivering for our customers

Our primary task is to rebuild standalone strength and value

Building Blocks Necessary for Recovery

Recapitalisation & Government funding support	✓
Management and Board changes	✓
Analysis and Presentation of ‘the problems’	✓
New Strategy – roadmap to unite people and resources	***Today***
Asset Protection Scheme – improve protection against extreme loss during strategy execution	***Today***
Severity of downturn “manageable”	***Tbd***

What now – Execution!

Today

The strategy we announce today will:

- Shift ~20% of funded assets to Non-Core Division for disposal/run down
- Cut more than £2.5bn out of the cost base
- Benefit from the Government Asset Protection Scheme

- Radically restructure GBM, taking out 45% of capital employed
- Deliver substantive change in all businesses
- Centre on UK with tighter, more focused global operations
- Target retail and commercial exit outside UK, Ireland and US

- Drive major changes to management, processes and culture

Country exits subject to consultation with works councils, regulators and social partners

Action to Date

- Major decisions on Strategy made ☑
- Deleveraging and reducing wholesale funding begun ☑
- New RWA and asset growth constrained ☑
- Comprehensive cost reduction underway ☑
- Restructured compensation ☑
- Fuller suite of management tools deployed ☑
- Introduced new disciplines on risk concentrations and processes ☑
- Restructured and simplified management ☑

2008 Results

Our results for 2008 were bad:

- Net attributable losses before goodwill of £7.9bn
- £16.2bn write-down of goodwill paid on prior acquisitions

- This masks the inherent strengths of RBS’ businesses and strong or resilient performances by most of the Bank
- The global economic downturn will test us again in 2009
- All our efforts are now focussed on the path to recovery

The Past – issues to address

Leverage

ABN AMRO acquisition

Strategy

Risk controls

Profit focus

Management & processes

Strategic Plan

Top Down Tests

- **Regain standalone AA ratings category** – lower leverage, less reliance on unsecured wholesale funding, stronger businesses
- **15%+ return on tangible equity (ROE)** – necessary to cover cost of capital
- **More stable business mix** – cease proprietary activity, focus on customer flows, risk management & less leverage

Tests for each Business

- Top tier competitive position in enduring customer franchise
- 15%+ ROE in normal markets
- Proportionate use of balance sheet, risk & funding
- Capable of organic growth – but “market limited”
- Connected to the Group – customers, products, people

Strategic Plan

Non-Core and Core split

Non-Core

- Non-Core division to be separately managed and wound down within the existing legal structures of the Group

Core

- UK Retail
- UK Corporate & Commercial
- Wealth
- Ulster
- Citizens
- Insurance
- GBM
- GTS

- All other businesses have been through root and branch strategic review: no sacred cows
- Many will be significantly restructured
- All subject to cost programme
- All have tight RWA targets

A 'self help' programme given weakness of disposal markets

Non-Core

- Non-strategic assets
- Stressed assets
- Includes portfolios, assets and businesses
- Vast majority from GBM
- Retail and commercial businesses continental Europe and Asia
- Other Retail & Commercial Non-Core

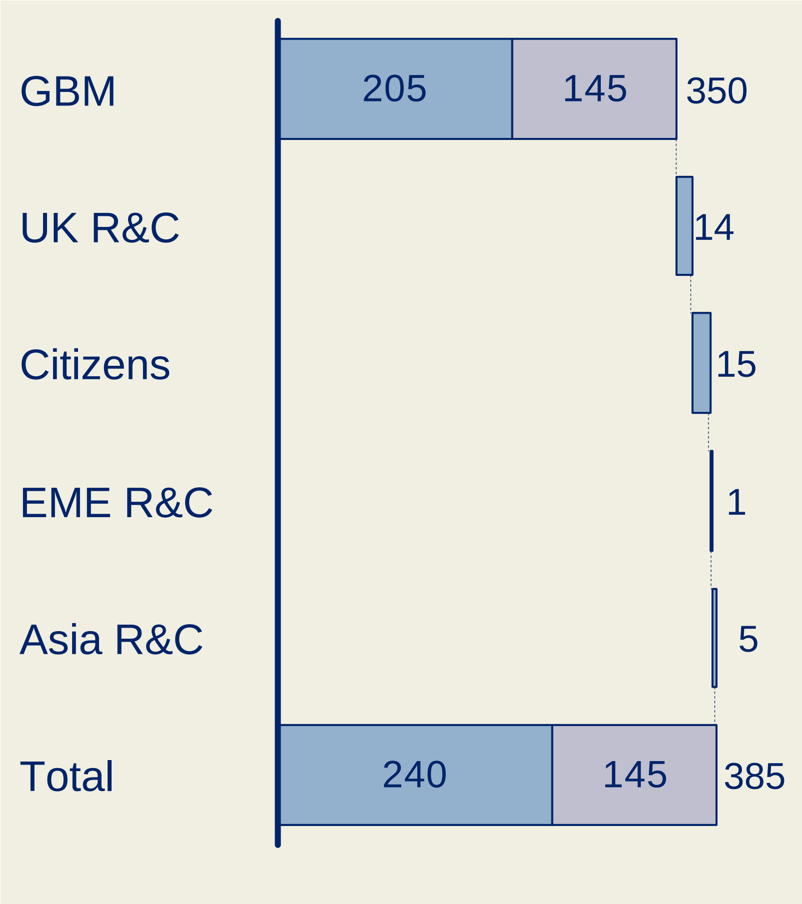
2008 financials

- ~£240bn assets (+~£145bn derivative positions)
- ~£155bn RWA
- ~£3.9bn revenues
- ~£1.1bn direct expenses
- ~£3.2bn impairment losses
- ~£9.2bn credit market and other trading asset write-downs

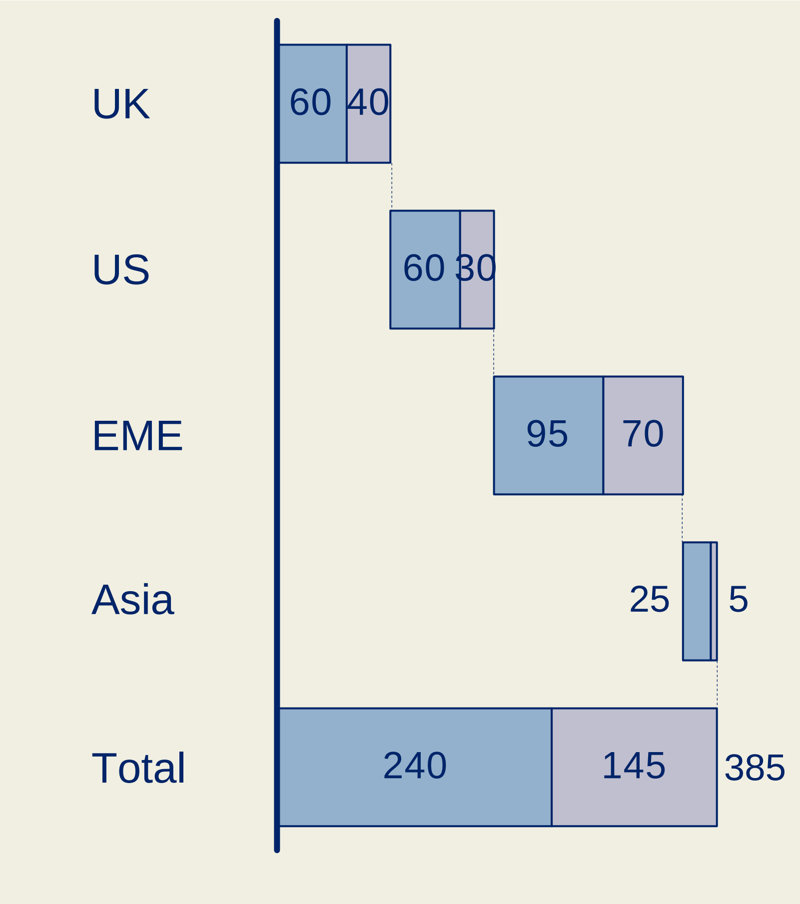
- Separately managed, reporting line to CEO
- Matrix support from donor Divisions
- Run-off over 3-5 years as fast as is consistent with value and risk

Non-Core

Non-Core Assets by Division, 2008 £bn



Non-Core Assets by Region, 2008 £bn



Third Party Assets excluding derivatives MTM Derivatives MTM

GBM geographic split based on client view

Global Banking & Markets

Re-size and re-focus GBM

Retention Rationale

- Restructured and de-risked business will deliver steady and significant profits
- Can maintain top tier customer businesses
- Natural complement to corporate businesses
- No viable market exit opportunity

Planned actions

- £350bn in assets to non-core:
  - Exit balance sheet heavy, niche segments
  - Focus on major financial centres, scale back presence elsewhere
  - Exit illiquid products/proprietary trading
- New risk management disciplines and substantial operating cost reductions

Goals

- 20%+ ROE
- £150bn RWA (45% lower than today)
- Business limited to liquid customer franchises with top tier competitive position
- Major re-balancing of funding requirement

Global Banking & Markets

Split between Core and Non-Core

Core		Non-Core
Core businesses	**Restructured core businesses**	**Non-Core assets and businesses**
Essential to our clients *Resilient origination and distribution markets*	*Re-sized market opportunity* *Reduced RBS capacity*	*Distressed asset prices and “closed” markets* *Non strategic to RBS, including some highly valuable businesses*
FX and options Rates Money markets Commodities Cash equities DCM ECM Restructuring and advisory	ABS Trading Flow Credit Trading Equity derivatives Equity financing Prime ABS origination Corporate and FI lending	Structured credit trading Illiquid proprietary trading Structured derivatives Asset management Non-conforming ABS origination Real estate lending Leveraged finance lending Project finance lending Asset finance
~£153bn RWA		**~£126bn RWA**

GBM & GTS International Network

Streamlined footprint, while maintaining global proposition

Primary countries

- Australia, China, France, Germany, Hong Kong, India, Ireland, Italy, Japan, Netherlands, Russia, Singapore, Spain, Sweden, UAE, UK, US

Refocused countries

- Austria, Belgium, Brazil, Canada, Czech Republic, Denmark, Finland, Greece, Indonesia, Korea, Luxembourg, Malaysia, Mexico, Norway, Poland, Qatar, South Africa, Switzerland, Taiwan, Thailand, Turkey

Explore new ownership

- Argentina, Bahrain, Chile, Colombia, Egypt, Kazakhstan, New Zealand, Pakistan, Philippines, Portugal, Romania, Slovakia, Uzbekistan, Venezuela, Vietnam

Subject to consultation with works councils, regulators and social partners

Citizens

Focus on retail and commercial customer relationships in core footprint

Retention Rationale

- Strong franchise and attractive portfolio in core markets
- Meets the Group strategic tests over cycle
- Improves Group funding ratios
- Improves Group geographic balance and opportunities
- Sale would be destructive of value and capital

Planned actions

- Exit most activities outside core "footprint"
- Cost restructuring in order to re-invest in the core franchise (incl technology and marketing spend)
- Improved cross-sell to in-footprint customers
- Resize risk portfolios
- Revitalise retail (sales, technology, deposits)

Goals

- Top 5 in the markets we serve
- Disciplined use of balance sheet:
  - 1:1 ratio loans/deposits
  - Retain below average risk profile
- 15%+ ROE
- Greater organic growth
- Increase connectivity with rest of Group

UK and Wealth

	UK Retail	UK Corporate & Commercial	Wealth
Key Actions	▪ Reduce costs: Online, lean, automation ▪ Segment service by value ▪ Invest in systems and sales	▪ Manage portfolio stress ▪ Reduce cost base, tailor cost to serve to value ▪ Invest in systems and service	▪ Consolidate UK and international ▪ Grow RM base, enhance productivity ▪ Investment in platform
Goals	▪ ROE 15%+ ▪ Funding growing faster than assets ▪ Customer service leadership ▪ Lending commitments	▪ ROE 15%+ ▪ Work off risk concentrations ▪ Stronger credit, portfolio management processes ▪ Deposit growth ▪ Lending commitments	▪ Maintain high ROE ▪ Continued AuM growth ▪ Sustain UK market leadership

Other businesses

	Ulster Bank	Insurance	GTS
Key actions	■ Re-balance assets/ liabilities ■ Pro-actively manage risk ■ Increase and diversify deposit base ■ Move to single brand ■ Significant cost restructuring	■ Re-invigorate top line growth by investing efficiencies ■ Strengthen multi-channel distribution	■ Maximize value of global capabilities ■ Rightsize the global network (incl. country exits) ■ Maintain service levels ■ Slimmed down operating model
Goals	■ 15%+ ROE ■ Improved loan:deposit ratio ■ Risk concentration reduced ■ Franchises maintained	■ 20%+ ROE ■ Extend lead ■ Lowest cost operations ■ Strong UK commercial lines	■ Maintain high ROE ■ Europe as core base ■ Leading SEPA bank ■ Explore in-organic options

Management disciplines and culture

Financial discipline

- Improved controls and costs/capital fully allocated to Divisions
- Focus on funding balance
- Disciplined RWA usage in the core (value not volume)
- Focus on returns (and setting of return targets) not just profits
- Total balance sheet size controlled and liquidity surprises avoided

Risk management disciplines

- Reduced single name, sector & country concentration limits
- Earnings volatility/ impairments managed down
- Strengthened risk function role
- Drive business performance through focus on returns and strategy
- New reporting systems increase transparency

Underpinned by new management processes and incentives

Expenses

Maximising efficiency crucial to restoring shareholder value

- Deliver greater than £2.5bn (16%) efficiency cost savings by 2011 versus 2008, at constant exchange rates
- This includes the remaining £0.5bn already promised from ABN AMRO integration not reflected in 2008
- The greatest savings arise in GBM and Manufacturing
- Restructuring charges likely over next 3 years: 1.5 - 1.75 year payback targeted
- The programme does not include effect of inflation, incentive pay movements, or cost reductions arising from business exits or the impact of new projects (if any)

The Asset Protection Scheme

RBS objectives

Secure asset insurance that protects and enhances capital strength and outlook, thereby

- Enhancing financial strength and stability for customers and depositors
- Reducing risk to shareholders
- Allowing greater support for UK customers via increased lending
- Facilitating Non-Core run-off plan, leaving Core Bank more free to restructure and progress

The Asset Protection Scheme

Overview

- RBS has the opportunity to “insure” the following portfolios:
  - £225bn third party assets and £44bn undrawn commitments
  - £33bn derivative counterparty risk exposures
  - Total pool of £302bn, RWAs ~£160bn
- Insured assets would be:
  - 53% placed in non-core division
  - 47% part of ongoing businesses. Rationale for latter to “make room” for new UK lending commitments
- More detail and recommendation to shareholders to follow in the coming weeks

The Asset Protection Scheme

Core elements of the scheme	Description
RWA relief	Estimated at £144bn at 31 Dec 2008 (Reflecting 90/10 risk sharing on second loss)
Percentage of first loss borne by RBS on pool	6%
Split of second loss	90% to HMT / 10% to RBS
Fee paid	2% of gross pool to be amortised over 7 years

- £6.5bn fee would be "paid" up front via issue to HMT of B shares, a Core Tier 1 capital instrument defined as ordinary shares with preferential rights in respect of dividends
- Additional £13bn of capital would be issued to HMT as part of APS agreement with a further £6bn available thereafter at RBS' option

Pro forma financial impact 31 Dec 2008

	Pre	Post
RWAs	£578bn	£434bn
Core Tier 1 capital	£41bn	£54bn
Core Tier 1 ratio	7.0%	12.4%

- Post APS Core Tier 1 impacted by issuance of £19.5bn B shares, offset by the £6bn deduction of first loss exposure (50% of first loss, capped at 8% of RWAs)
- Over time book value attributable to Ordinary Shareholders eroded by fee amortisation, the cost of the B shares and potential losses on insured assets
- RBS would also be required to give up the tax shelter from any part of future UK losses prior to returning to profitability

UK lending commitments

Entry into the APS would also involve RBS committing to:

- £25bn increase in net lending commitments in 2009 (vs current plan)
- Further £25bn increase provisionally targeted in 2010
- Commitment for each year divided
  - £9bn mortgages
  - £16bn SME and corporate
- Lending subject to commercial pricing, credit decisions and risk limits

Challenges at Hand

- Executing "business as usual" is a challenge for all banks in the current economic environment
- The quantum and urgency of change required at RBS to recover its standalone strength is a major additional challenge
- Market pessimism, illiquidity, strained funding markets and industry de-leveraging make "short cuts" unviable
- Need to retain and motivate our people and rebuild external confidence
- Market environment very uncertain – credit costs are rising, risk of further write-downs

Building Blocks Necessary for Recovery

Recapitalisation & Government funding support	✓
Management and Board changes	✓
Analysis and Presentation of 'the problems'	✓
New Strategy – roadmap to unite people and resources	***Today***
Asset Protection Scheme – improve protection against extreme loss during strategy execution	***Today***
Severity of downturn "manageable"	***Tbd***

What now – Execution!

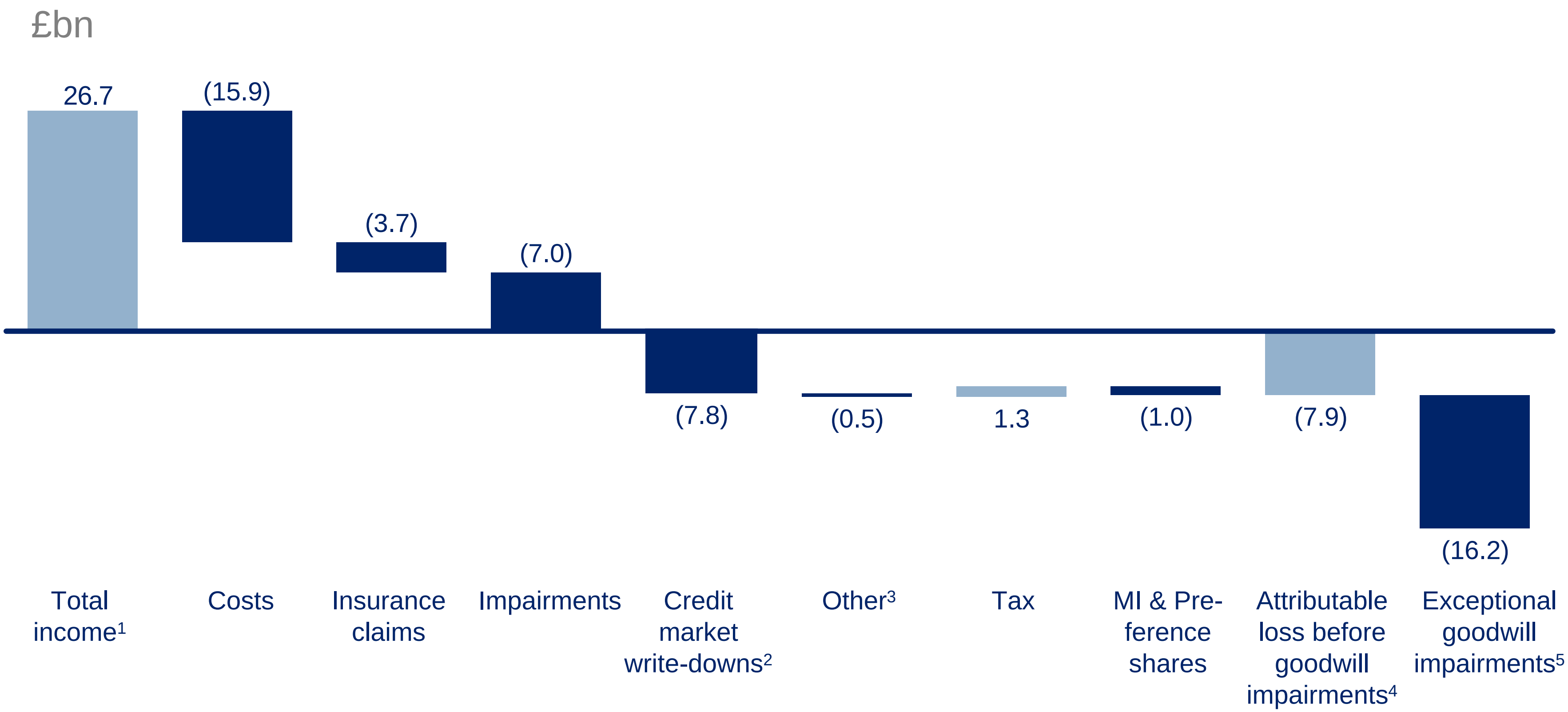
Results 2008

Guy Whittaker, Group Finance Director

26 February 2009

Financial Review

2008 group results



[1] Net of Bancassurance claims

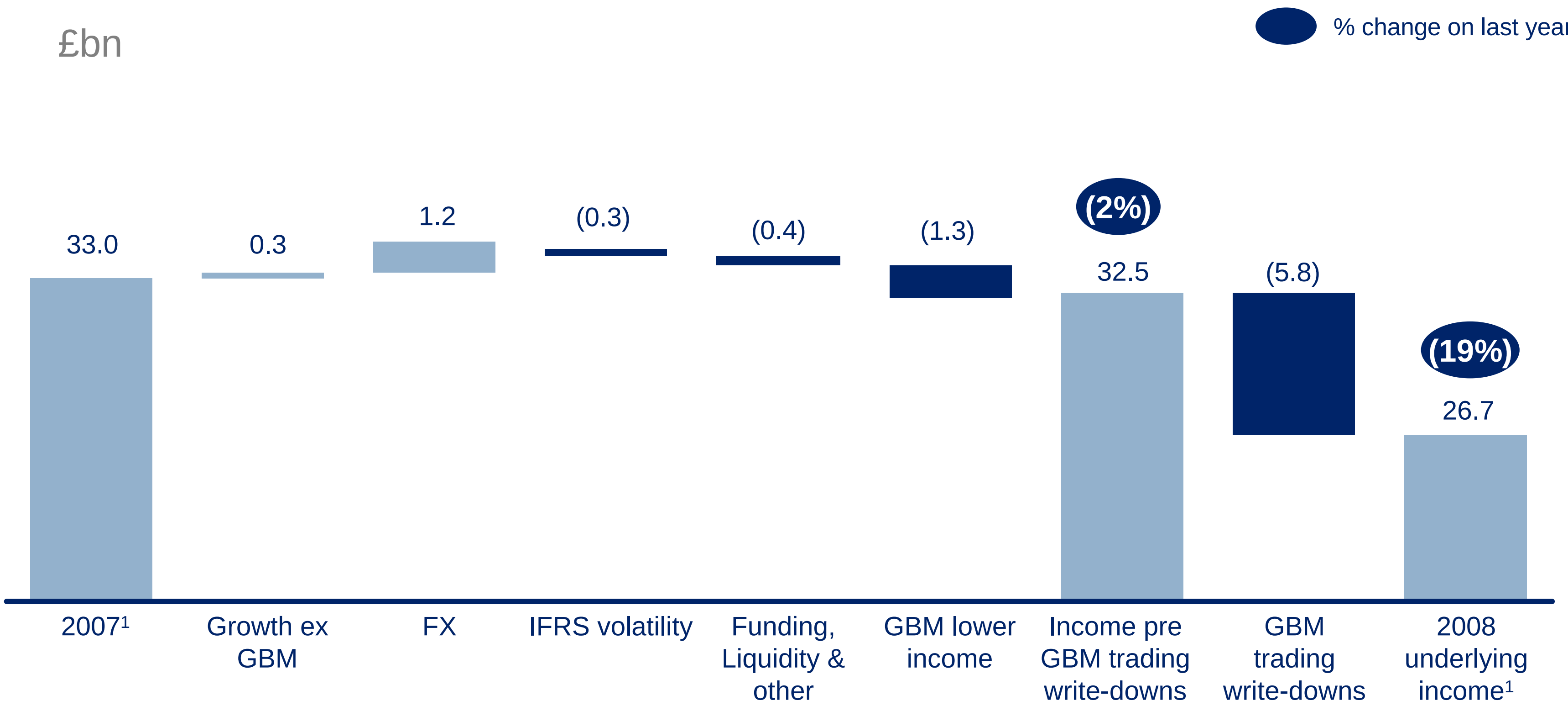
[2] Includes £0.5bn charged to impairments relating to re-classified assets

[3] Includes FV of debt of £1.2bn, £0.4bn disposal gains, £0.3bn share of shared assets, £1.1bn integration costs, £0.3bn restructuring costs & £0.4bn amortisation of intangibles

[4] Before exceptional goodwill impairments

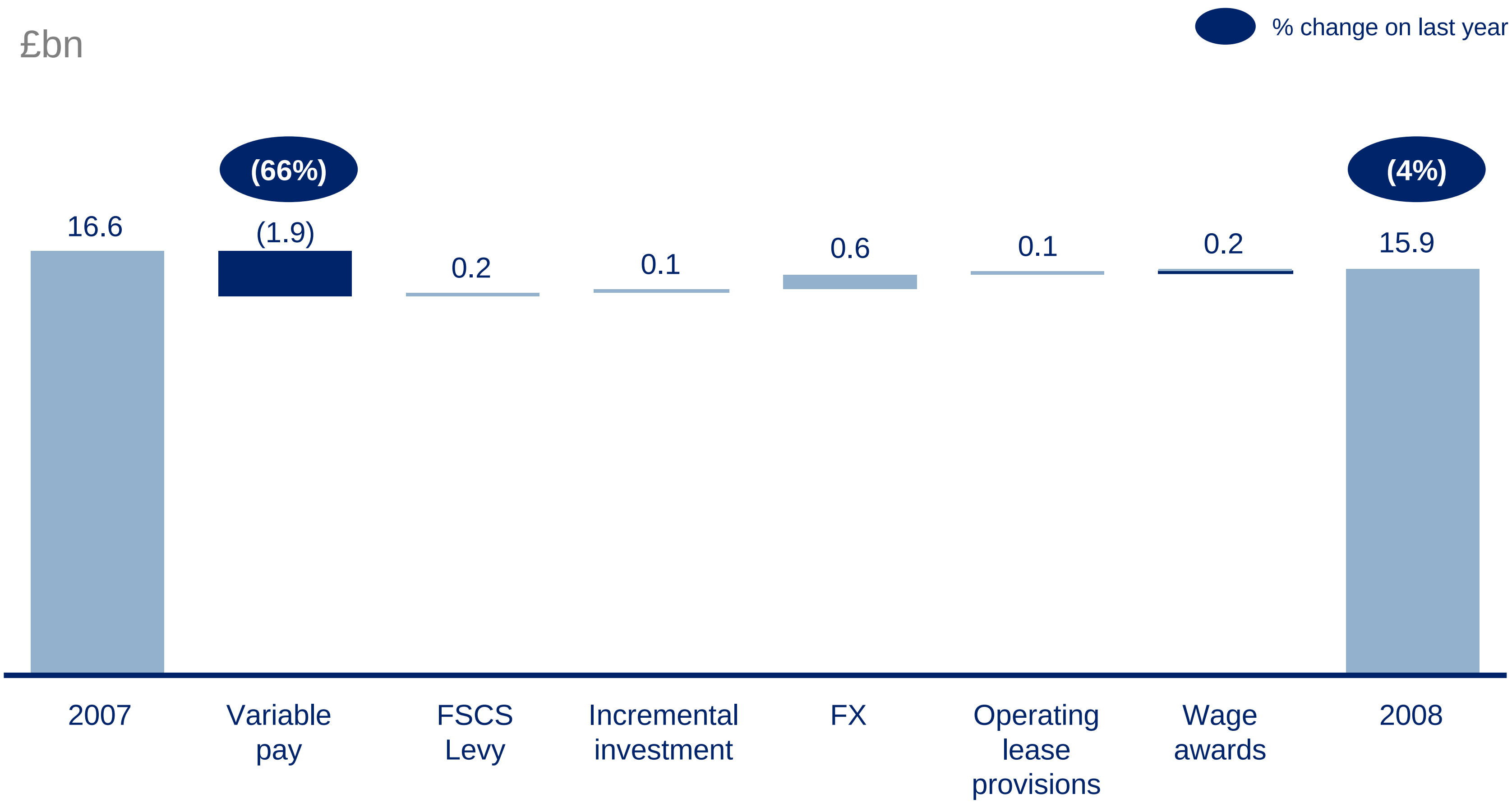
[5] Including tax credit of £0.7bn

Income road map

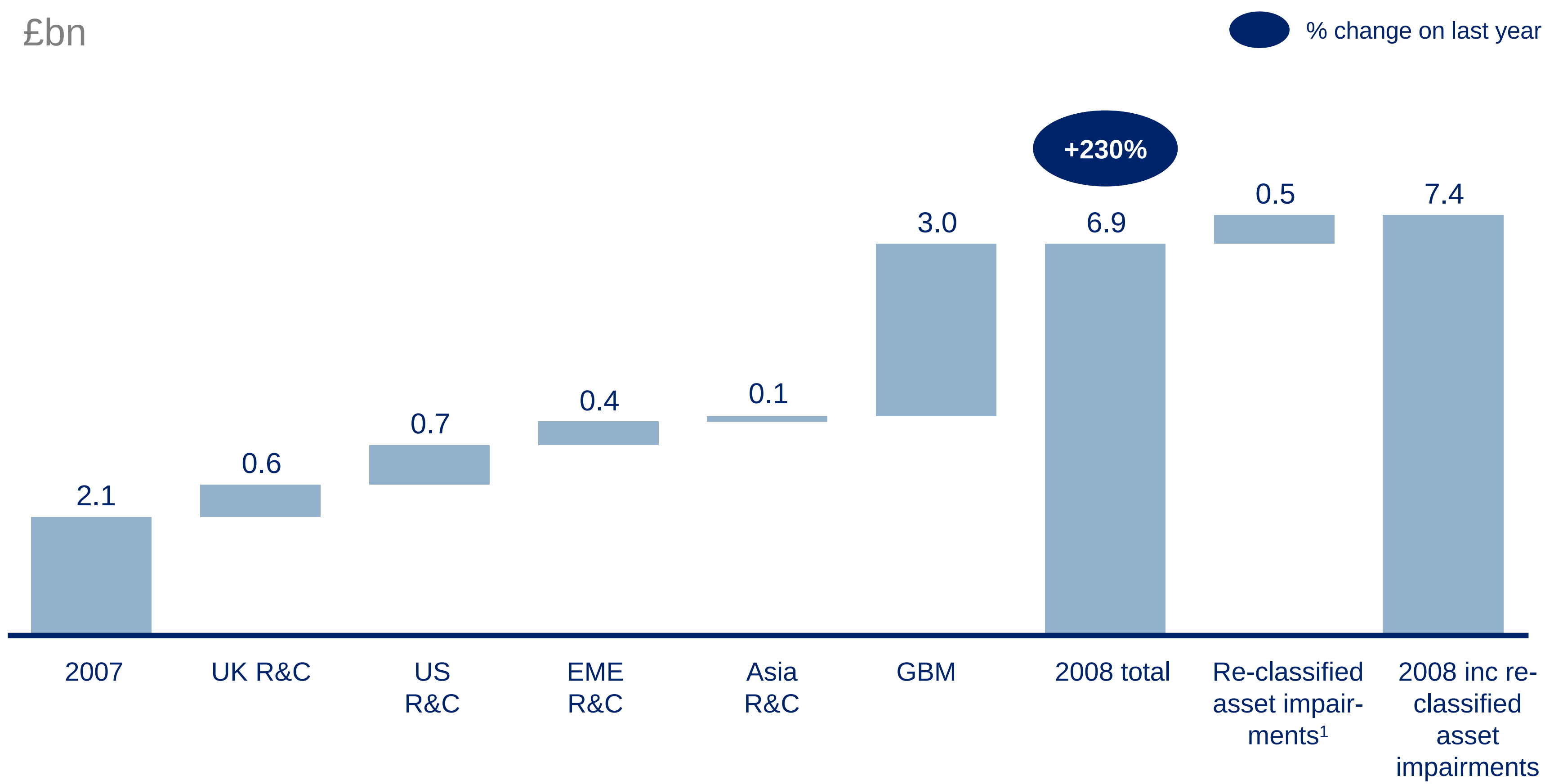


[1] Net of Bancassurance claims

Cost road map

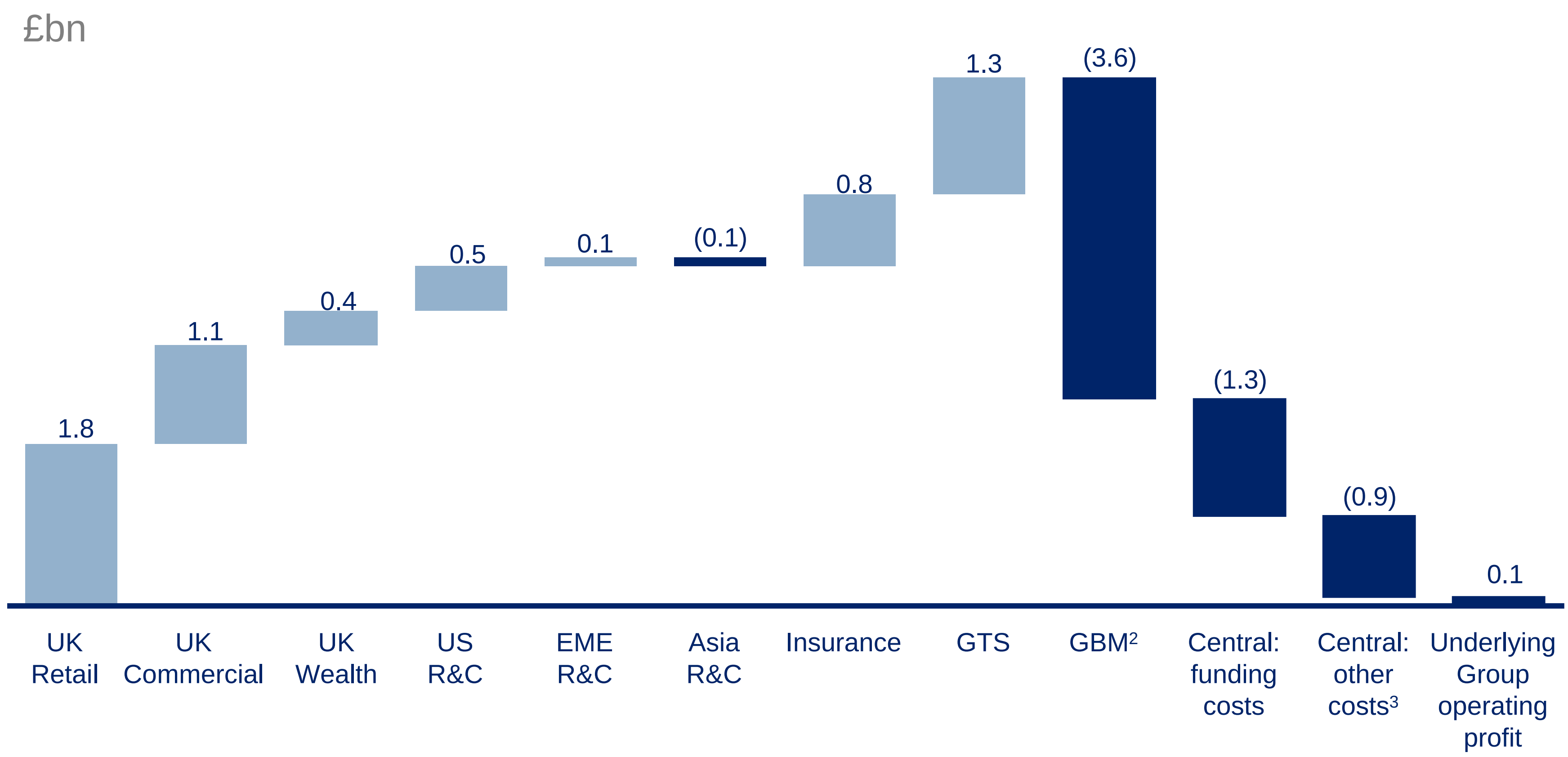


Impairments road map



[1] Impairments relating to re-classified assets shown separately in credit market write-downs

Divisional operating profit[1]

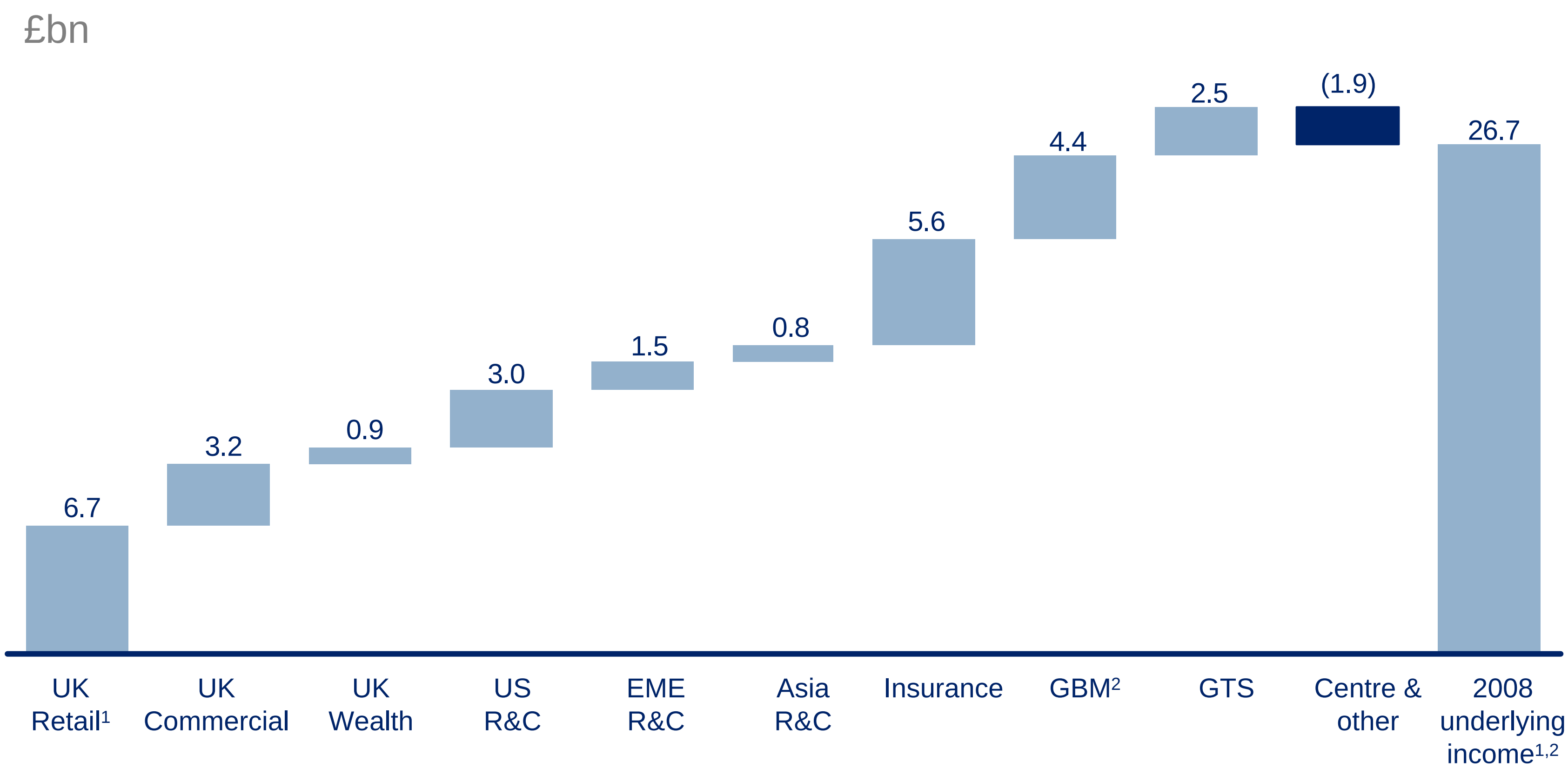


[1] Post manufacturing costs

[2] Excludes £7bn of credit market write-downs & one off items, £0.5bn of impairments relating to re-classified assets, and includes £5.8bn of other trading asset write-downs

[3] Includes central function headcount

Divisional income



[1] Net of Bancassurance claims

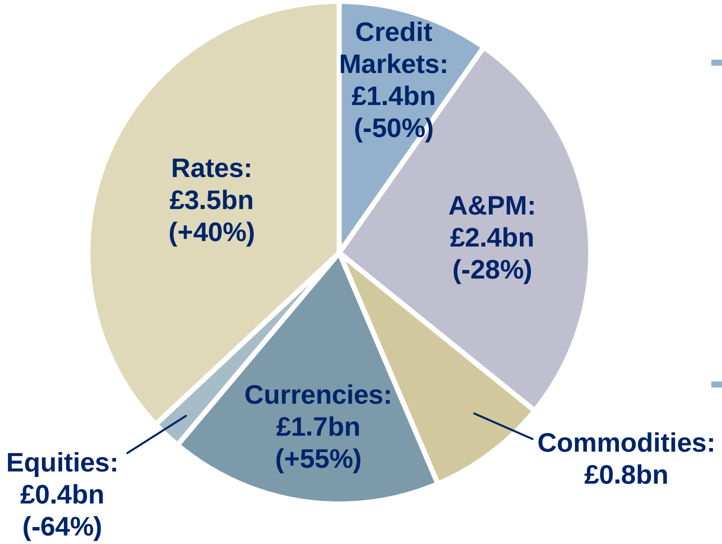
[2] Excludes £7bn of credit market write-downs & one off items, includes £5.8bn of other trading asset write-downs

Net interest margin trends

	FY07 %	FY08 %	Comments	09 Outlook
UK R&C	3.39	3.21	■ Higher funding costs/lower deposit margins ■ Outweigh improved front book pricing	
US R&C	2.74	2.73		
EME R&C	2.23	2.02		
GBM	0.75	1.19	■ Strong Money Markets from declining rates	
Group	2.00	2.10	**2009 outlook impacted by:** ■ Low interest rates 10-15bps ■ Incremental liquidity costs 5-10bps ■ Lower deposit margins 5-10bps	

GBM – underlying income

2008 Revenue = £10.2bn



	2008 £bn	2007 £bn	%
Underlying revenue	10.2	10.9	(6)
Trading write-downs	(5.8)	-	-
Published underlying revenue	4.4	10.9	(60)
Credit market write-downs	(7.0)	(1.8)	-
Published headline revenue	(2.5)	9.1	-

Other items:	**2008** £bn	**2007** £bn
- RBS Sempra Commodities	*0.8*	*-*
- other operating income	*0.6*	*1.9*

- Rates, Currencies and Commodities strong
- Debt and Equity subdued
- Write-downs as previously indicated

Note:Published write-downs = £7.0bn. This includes total losses of (£9.0bn) plus gains on fair value own debt and CDS hedging of £2.0bn
A&PM = Asset & Portfolio Management

Risk Management

GBM – Trading asset write-downs

	Write-down[1] £bn	Comments
Structured credit	2.4	▪ MTM write-downs on run-off businesses
Counterparty	2.3	▪ Lehman Brothers (£0.7bn) ▪ Icelandic Banks (£0.6bn) ▪ Madoff (£0.6bn)
CDPCs	0.6	▪ CVA increase of £1.3bn offset by hedging benefits
Principal Finance	0.5	▪ Principal losses on Merchant Banking and Private Equity portfolios
Total Trading write-downs	**5.8**	▪ £0.8bn total Q3 08 ▪ £4.1bn total Q4 08

[1] Pre-tax write-downs for full year 2008

GBM – Credit Market write-downs

	Write-down[1] £bn	Net Exposure[2]	Avg Price %	Comments
ABS CDOs	3.0	1.3	21	▪ Legacy positions
US Residential Mortgages	1.5	0	n/a	▪ Legacy positions – now exited
US Commercial Mortgages	0.1	0.4	87	▪ Legacy positions – exposures much reduced
Monolines Exposures	3.1	4.8	n/a	▪ CVA of £6bn, over 50% reserved
Leveraged Loans - HFT	1.1	0.1	n/a	▪ Legacy portfolio - small remaining exposure in HFT[3]
CLOs	0.2	0.5	81	▪ Legacy portfolio – small remaining exposure in HFT[3]
CDS Hedging	1.6			
Total	**7.3**			

[1] Pre-tax write-downs for full year 2008 excluding £0.5bn relating to re-classified assets
[2] Exposures as at 31 December 2008 net of hedges and write-downs
[3] Held-for-trading

Impairments by division

	Impairments £bn	Comments
UK Retail & Wealth	1.3	▪ Personal unsecured flat, weaker H2 ▪ Primarily small business deterioration
UK Corporate & Commercial	0.7	▪ Mainly house builder and development property ▪ Losses concentrated in smaller end of corporate sector
US Retail & Commercial	1.0	▪ Retail deterioration, SBO build and Commercial Real Estate
EME	0.5	▪ Primarily residential investment and development
Asia	0.2	▪ Deterioration in consumer credit portfolios
GBM	3.2	▪ £2.7bn in Q4, including LyondellBasell (£0.9bn) and other smaller cases
2008 Total	6.9	▪ Total £4.8bn higher than 2007
Re-classified assets	0.5	▪ IAS 39 re-classified assets
2008 inc re-classified assets	7.4	

Credit quality

	FY 2008	FY 2007	Change (reported)	Change (constant FX)
Gross Loans & Advances (L&A)[1] £bn	701	563	25%	8%
NPL + PPL £bn	18.9	8.4	126%	113%
NPL + PPL % of L&A	2.69%	1.49%		
Impairment charge % L&A[2]	0.91	0.37		
Provision coverage %[3]	50	59		

- NPLs increased £10bn: 50% GBM, 50% Regional Markets
- Provision balance
  - 60% RM
  - 40% GBM
- Lower coverage ratio reflects changing mix from unsecured personal to secured exposures and write-offs of £3bn

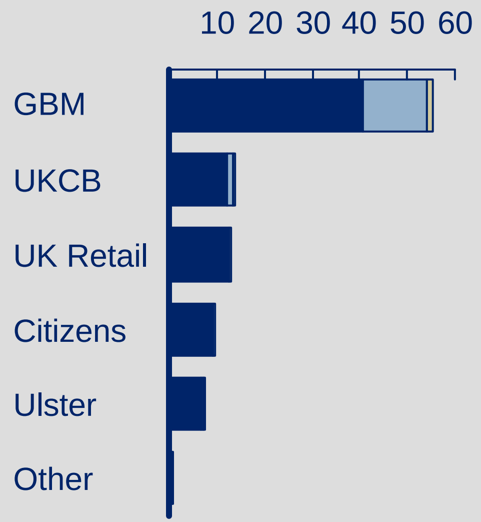
[1] Gross loans & advances to customers excluding reverse repurchase agreements and stock borrowing
[2] Impairment charge calculation excludes impairments from available-for-sale securities
[3] Provision coverage is in respect of both customers and banks

Portfolio quality – overview

Normal monitoring
Heightened monitoring
Non-Performing Book

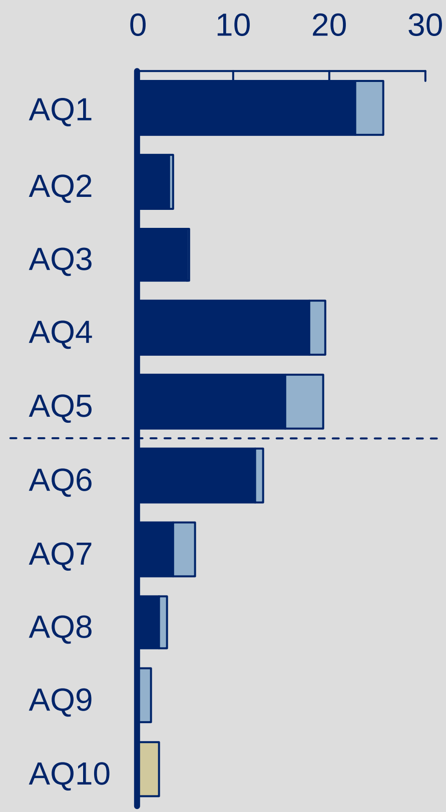
Exposure by division

% of portfolio by division



Exposure[1] risk rating

% of portfolio by grade



Portfolio performance

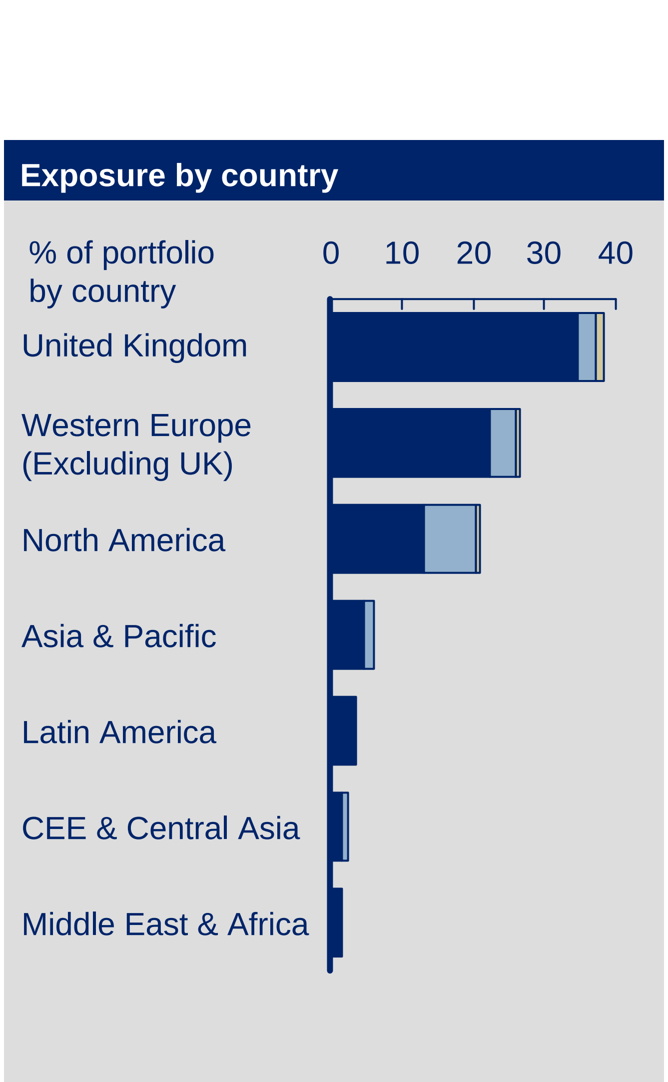
£bn

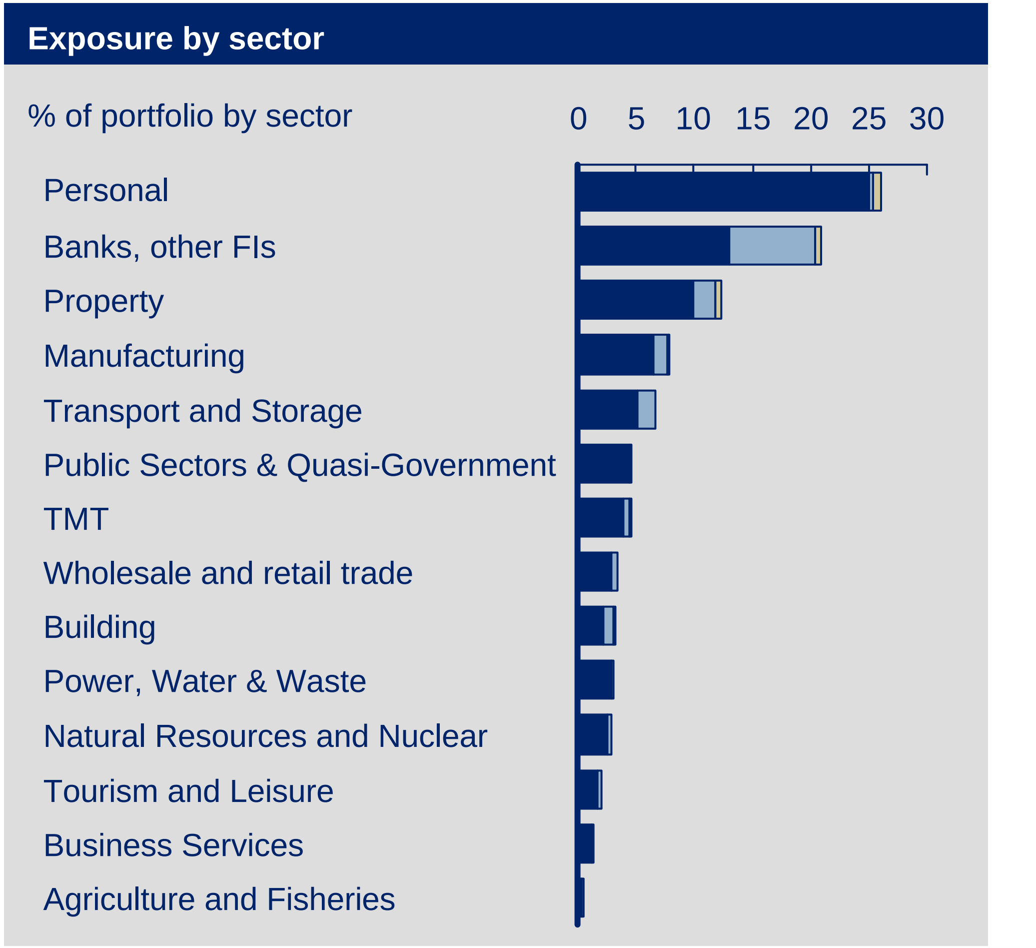
Normal monitoring	**703**
Financial institutions	110
Corporates and personal	593
Heightened monitoring	**133**
Financial institutions	64
Corporates and personal	69
NPLs	**19**
Total	**855**

[1] Exposures are defined as credit risk assets consisting of loans and advances (including overdraft facilities), installment credit, finance lease receivables, debt securities and other traded instruments across all customer types.

Asset Quality (AQ) bands allow the internal reporting and oversight of risk assets by differentiating on the basis of the key drivers of default for a customer type. Bands also map to asset quality and wholesale exposure scales, enabling detailed internal and external reporting of risk depending on audience and business need

Portfolio quality – by country and sector



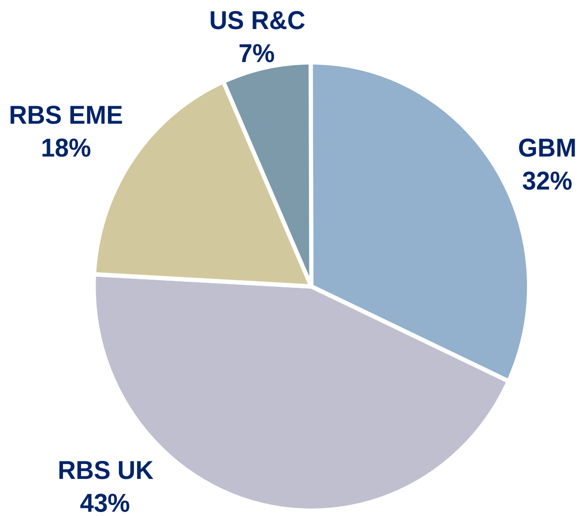


[1] Exposures are defined as credit risk assets consisting of loans and advances (including overdraft facilities), installment credit, finance lease receivables, debt securities and other traded instruments across all customer types.

Commercial Property exposure[1]

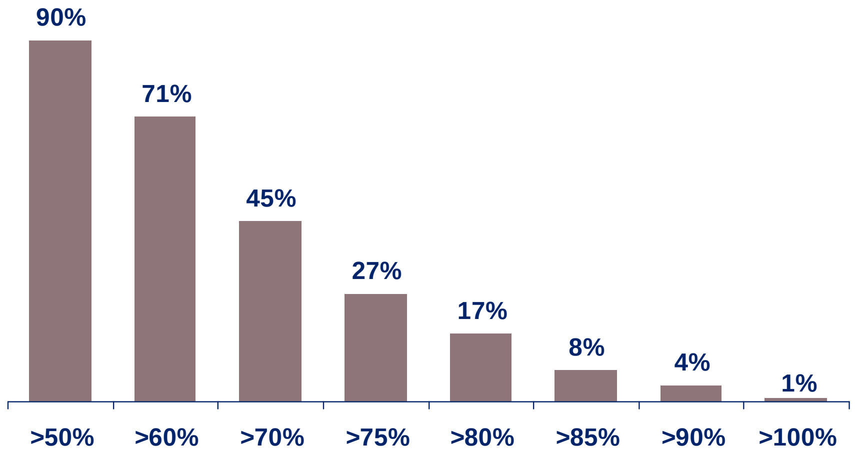
Global portfolio: £97bn

By Division:



UK portfolio[2, 3]: £56bn

Core portfolio cumulative LTV distribution:



- 58% UK lending, 12% RoI, 8% US, Western Europe 17% o/w Spain 3%, Germany 6%
- 73% investment, 24% development
- Less than 2% speculative lending
- Average LTV 84%[3]
- Occupier markets are weakening
- Lower interest rates mitigates the impact on tenant cash flow

[1] Includes commercial property and residential property developers

[2] Includes RBS UK (£41bn), GBM (£9bn) & UB NI (£6bn). LTV calculation based on a sub portfolio of £43bn where LTVs are applicable

[3] Basis of valuation - Cumulative LTVs, most recent valuation; Average LTVs - based on stress testing and applying property index movements to update valuations

Single Name Concentration[1] exposure

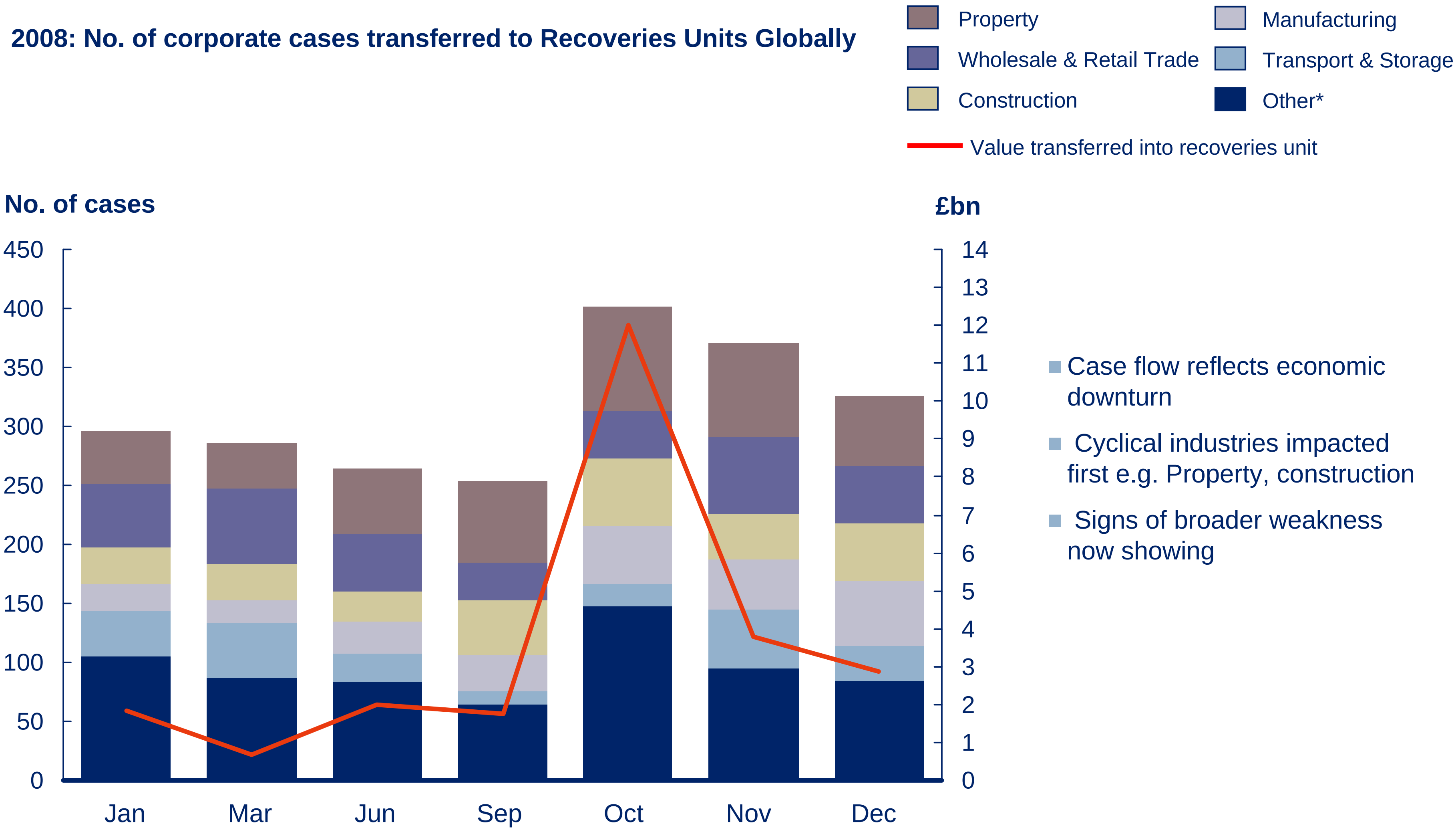
		Total committed exposure (TCE)[2], £bn	% of total TCE[2]	Investment grade %	TCE[2]/entity, £bn	Heightened monitoring cases
Financial Institutions	Total (127 FIs)	253	25%	93%	2.0	5
	Of which top 20	132	13%	100%	6.6	2
Corporate	Total (170 corporates)	160	16%	75%	0.9	18
	Of which top 20	44	4%	83%	2.1	2

[1] Single Name Concentration defined as names > £0.5bn total committed exposure

[2] TCE (Total committed exposure) includes both credit and counterparty risk. Total TCE group-wide as of year end 2008 = £1trn

Impairments outlook

2008: No. of corporate cases transferred to Recoveries Units Globally



- Case flow reflects economic downturn
- Cyclical industries impacted first e.g. Property, construction
- Signs of broader weakness now showing

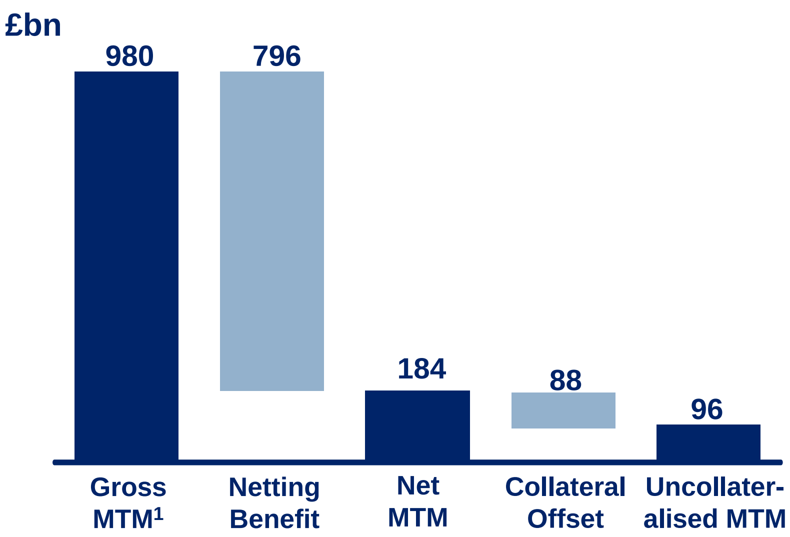
* Other includes TMT, Tourism & Leisure, Business Services, Banks & FIs and others

Risk mitigation actions

Problem recognition and management	▪ Scale up of recoveries units globally ▪ Early transfer to specialist monitoring and management units
Trading counterparties	▪ Reduced trading positions ▪ Reduced credit markets inventory ▪ Tightened collateral management
Single name concentrations	▪ Targeted reduction of biggest exposures
Country risk concentration	▪ Reduced limits to 25 emerging markets countries by 31%
APS	▪ Significant risk mitigation across credit and trading portfolios

GBM – Derivative Trading Assets

Derivatives: majority is flow product in liquid markets



Uncollateralised Derivative Portfolio	2008 £bn	%
Government	8	8
Investment Grade	48	50
Monolines & CDPCs	17	18
Non-Investment Grade	23	24
Total	**96**	**100**

Collateralised exposure:

- 95% G7 cash or government bonds, 5% other securities with haircut

Uncollateralised exposure:

- Includes mid-corporate exposure in non-investment grade
- £9.9bn reserve against uncollateralised exposure

Asset (Gross MTM)	2008 £bn	2007 £bn	% Chg
Interest rate	648	201	223%
Currency	162	46	250%
Credit derivatives	161	26	526%
Equity	9	6	38%
GBM Total[1]	**980**	**279**	**251%**

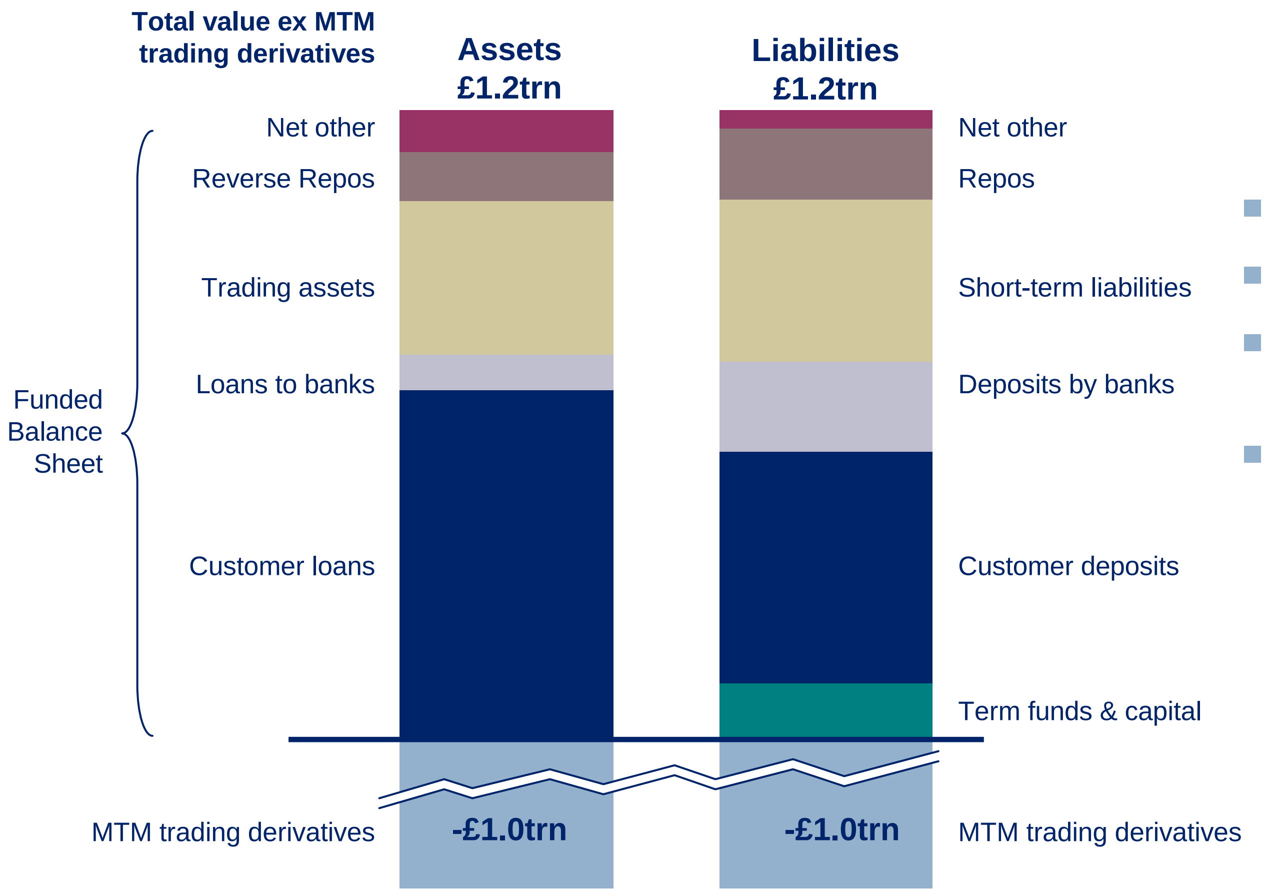
Growth in position driven by:

- 80% market parameters; i.e. interest rates/credit spreads
- 12% FX related
- 8% volume related

[1] Excludes £11bn of non-GBM derivatives. The net MTM is the MTM post legal netting applied in RBS GBM credit management systems

Funding & Capital

Composition of the balance sheet



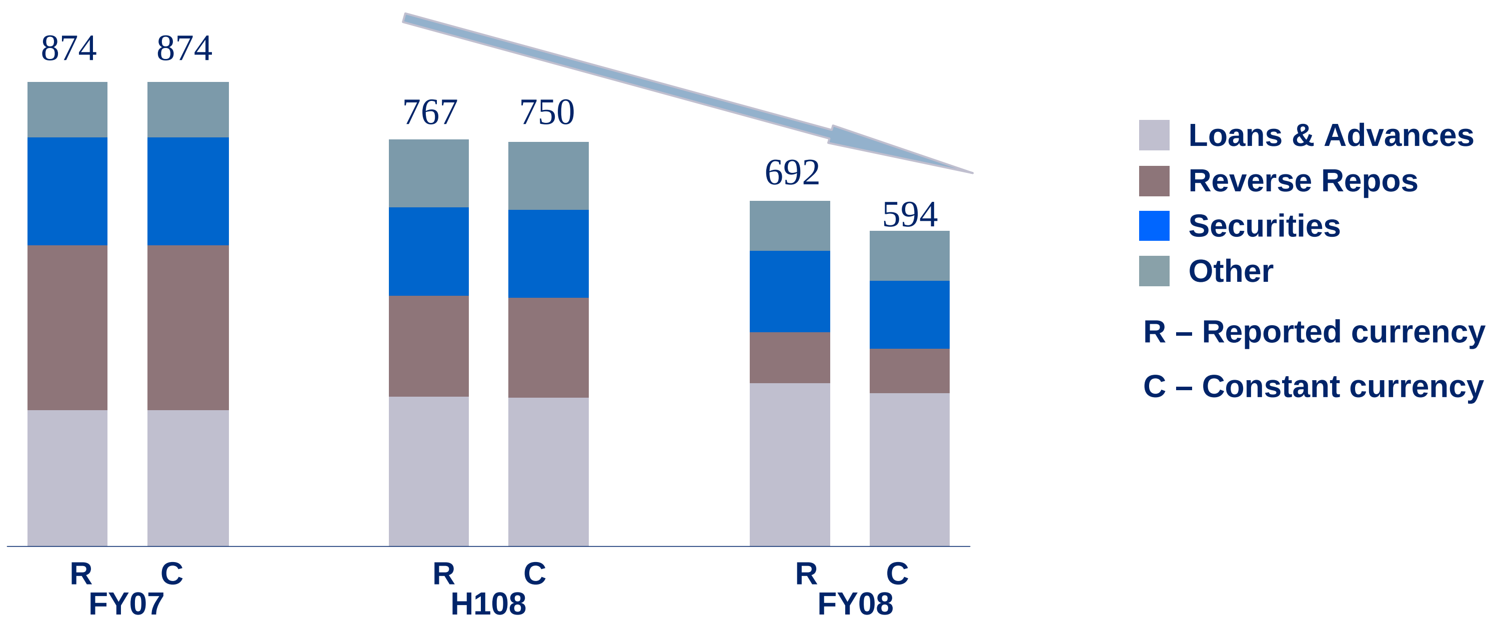
- Total balance sheet £2.2trn
- £1.2trn funded balance sheet
- Funded BS reduced 17% on a constant currency basis
- Leverage ratio on adjusted basis 4.7%[1] excluding derivatives

[1] Tier 1 ratio divided by assets excluding MTM trading derivatives

GBM funded balance sheet

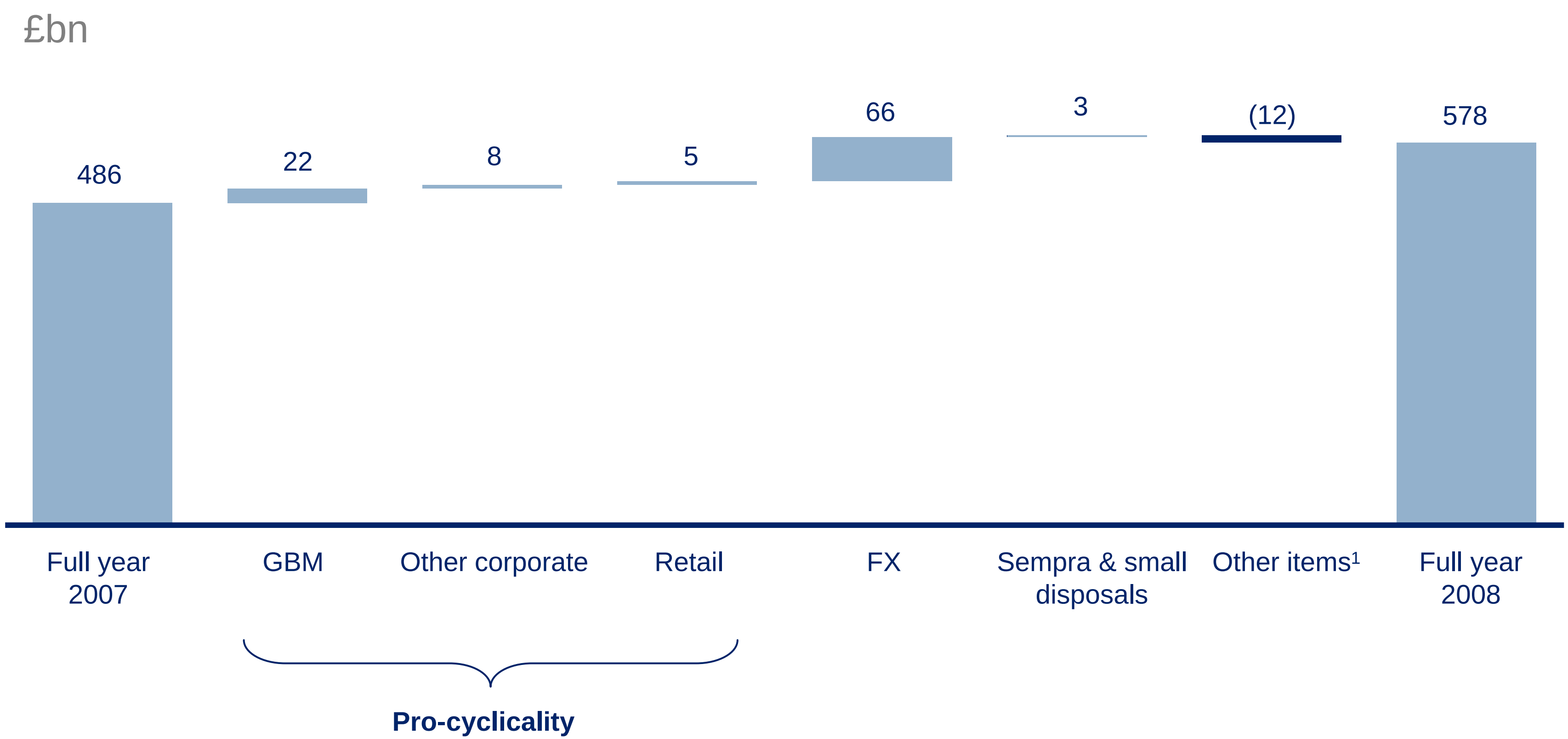
Reported vs Constant FX

£bn



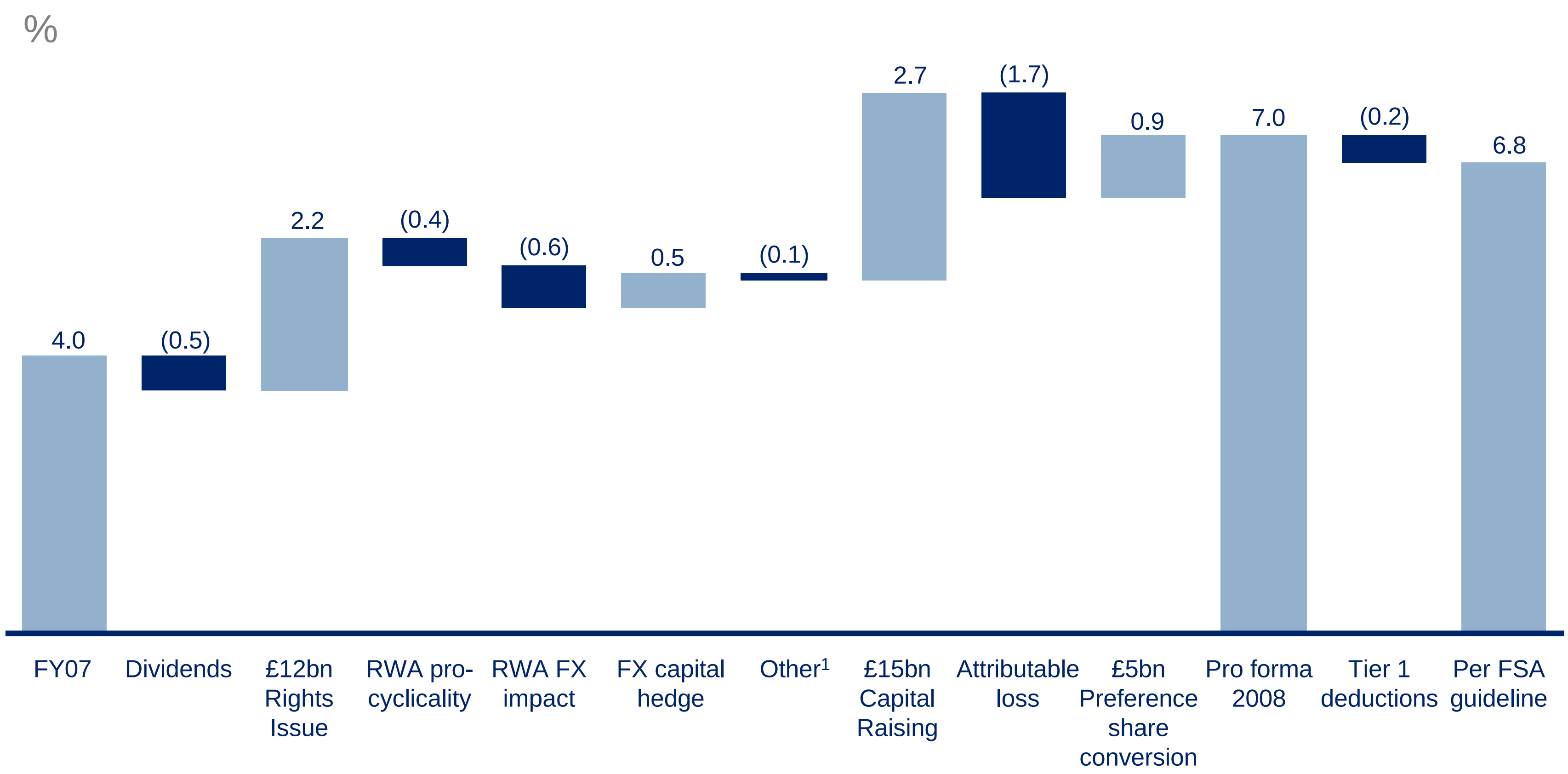
- Funded assets reduced 21% on a reported basis
- Funded assets reduced 31% on a constant currency basis
- Securities & Repos reduced by 41% and 73% on a constant currency basis
- L&A up 14% underlying, predominantly reflecting increased drawdowns

RWA progression



[1] Includes Basel II model benefits, underlying performance and methodology changes

Capital progression – Core Tier One Ratio



1 Other includes underlying RWA reduction and pension adjustment

Illustrative "target" shape of balance sheet

RBS

3-5 years

3-5 years	Target		£bn	What would it take to get there?
Reduce risk focused on core business	Core Tier 1 Ratio 6.5%	RWA*	470	~£110bn reduction in RWA
		Nominal assets	900	~£250bn reduction in nominal assets
Balanced funding position	Customer loans/deposits 100%	Customer deposits	550	3.6% CAGR in customer deposits (£90bn total increase)
		Customer loans	550	4.4% annual reduction in customer assets (£140bn total decrease)
		Customer loans-deposits	0	
Stable returns	Return on equity 15%+			Weathering 2009-11 Smoothing volatility with APS Core businesses generating strong earnings by 2012-13

Non core bank

Questions

26 February 2009

Appendix

Supplementary Slides

Appendix - table of contents

Strategic review - evaluation of businesses against 5 criteria

1 **Customer franchise**	Is our business based on an enduring customer franchise? Do we have clear competitive advantage and strong market shares? Have we taken account of how the market and competitive environment will change?
2 **Returns**	If we fully allocate costs and properly measure equity, can our businesses meet a hurdle rate of 15% after-tax return on tangible equity in ‘normal’ times, looking forward? For riskier businesses the hurdle rate should be higher
3 **Growth**	Are the businesses capable of at least 5–10% organic growth in normal times?
4 **Risk and funding**	Are the businesses ‘proportionate’ users of risk and balance sheet relative to franchise and profitability? Importantly, we need to consider funding sources too
5 **Connectivity**	Do the businesses fit with each other – are there shared skills efficiencies, client transactions, etc.?

UK Retail

Re-position in a changing market

Position

- Leading UK retail franchise with 15m+ customers
- Significant revenue pressures from economic environment and regulation

Planned actions

- Reduce costs: shift online; lean processes and automation
- Segment service propositions by value
- Invest in sales: improve cross-selling and front-line productivity

Goals

- 15%+ ROE regained
- Maintain customer service reputation
- Funding growing faster than assets
- Leading sales and cross-sales productivity
- Support customers and fulfil lending commitments

UK Corporate and Commercial

Optimise the value of market leadership

Position

- Market leaders with 30%+ market share
- Significant exposure to property
- Client stress a major short term challenge
- Considerable opportunities to grow cross-sell, build deposits and lower costs

Planned actions

- Manage portfolio stress
- Reduce cost base and tailor cost to serve to value
- Improve funding contribution
- Invest in credit and MI systems, new channels and branch service

Goals

- ROE 15%+
- Improved balance sheet diversity
- Stronger credit processes and portfolio management
- Improved risk/return per customer
- Faster than market deposit growth
- Maintain market leadership
- Support customers and fulfil our lending commitments support customers

Wealth

Further growth opportunities

Position

- UK market leader, well positioned in its international markets
- Market leading performer on revenue margin and asset growth
- Large profitable Group contribution with headroom to grow

Planned actions

- Consolidate UK and International Wealth businesses
- Grow RM base, enhance productivity
- Continue investment in platform

Goals

- Maintain high ROE
- Continued AuM growth from greater share of wallet and market penetration
- Sustain UK market leadership

Ulster Bank

Manage tightly through economic weakness

Retention Rationale

- Leader in Northern Ireland and #3 position in Republic of Ireland
- Franchise is strong, fully invested and shares UK infrastructure
- Meets the Group tests over cycle

Planned actions

- Support our customers whilst re-balancing assets/liabilities
- Increase and diversify deposit base and reduce reliance on wholesale
- Pro-actively manage risk exposures
- Move to a single brand strategy
- Achieve significant cost reduction

Goals

- ROE 15%+
- Improved loan to deposit ratio
- Leading franchises maintained
- Risk concentration significantly reduced

Insurance

UK market leader

Retention Rationale

- UK’s #1 personal lines insurer; operates the two leading direct brands
- Well capitalised and self-funding
- Provides source of stable and differentiated earnings (e.g., insurance cycle not strongly correlated with banking)
- Tied to renewed focus on UK
- Recent sale process demonstrated sale option currently value destructive

Planned actions

- Reinvigorate top line UK growth by investing cost and claims efficiencies into pricing, capability and other growth initiatives
- Strengthen multi-channel distribution:
  - Bank channels
  - Online

Goals

- Extend lead as UK’s largest and most profitable personal lines insurer
- Target lowest cost operations
- Build strong UK commercial lines business
- Sustain 20%+ ROE

Global Transaction Services

Strong product capabilities supporting Group customers

Retention Rationale

- High ROE, low risk
- Major contributor of funds to Group
- Integral to wholesale/ commercial businesses in core markets

Planned actions

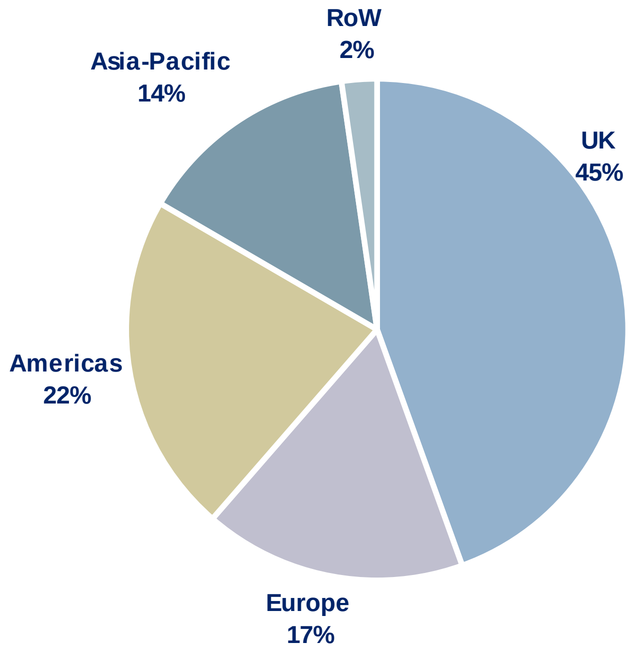
- Maximize value of global capabilities acquired from ABN AMRO
- Rightsize the global network (including country exits) ensuring minimal impact on key global clients
- Maintain service levels during change
- Implement a slimmed down GTS/ Manufacturing front to back operating model

Goals

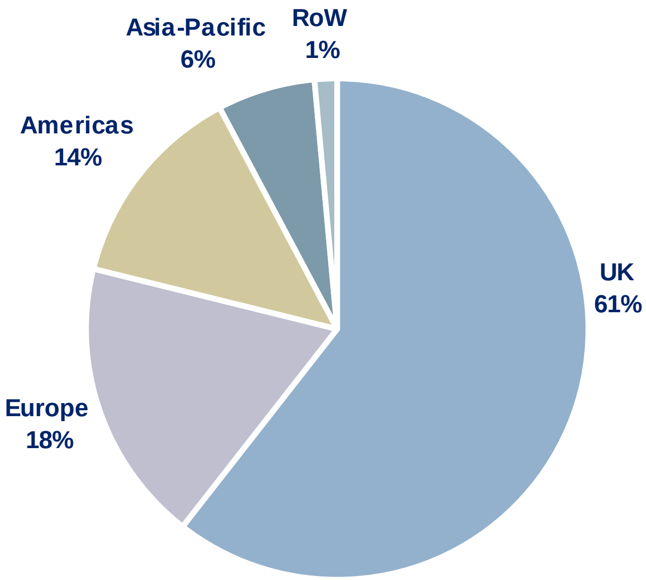
- Establish Europe as our core base
- Become a leading SEPA bank
- Continue to deliver high ROE and funding to the Group
- Explore in-organic options on segments of business

Geographic income – GBM and GTS

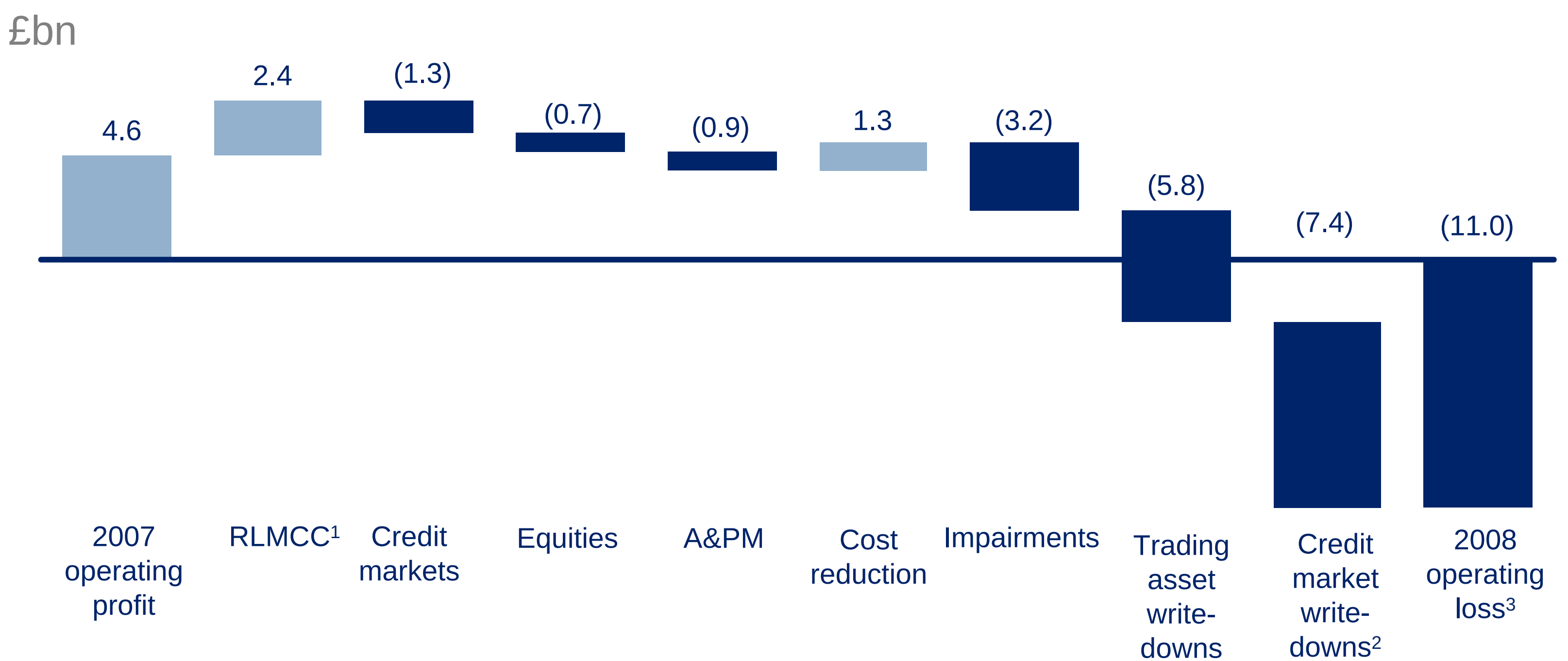
GBM: FY08 Underlying income £10.2bn



GTS: FY08 Income £2.5bn



Profit road map - GBM



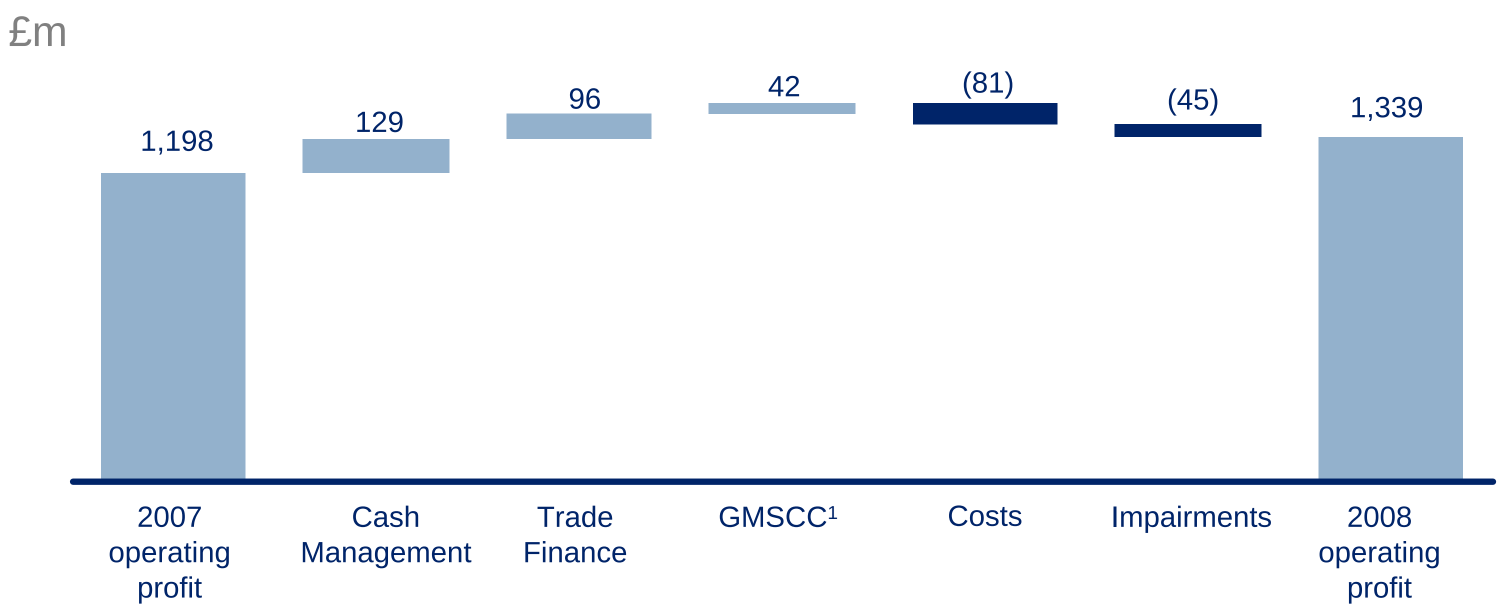
- Exceptional performance in Rates, FX and Currencies
- Cost reductions driven by lower variable compensation
- 91% of Impairments occurred in H2

[1] Rates, Local Markets, Currencies & Commodities

[2] Includes £0.5bn of impairments relating to re-classified assets

[3] Operating loss after credit market write-downs (£7.0bn) impairments on re-classified assets (£0.5bn) and other trading asset write-downs (£5.8bn)

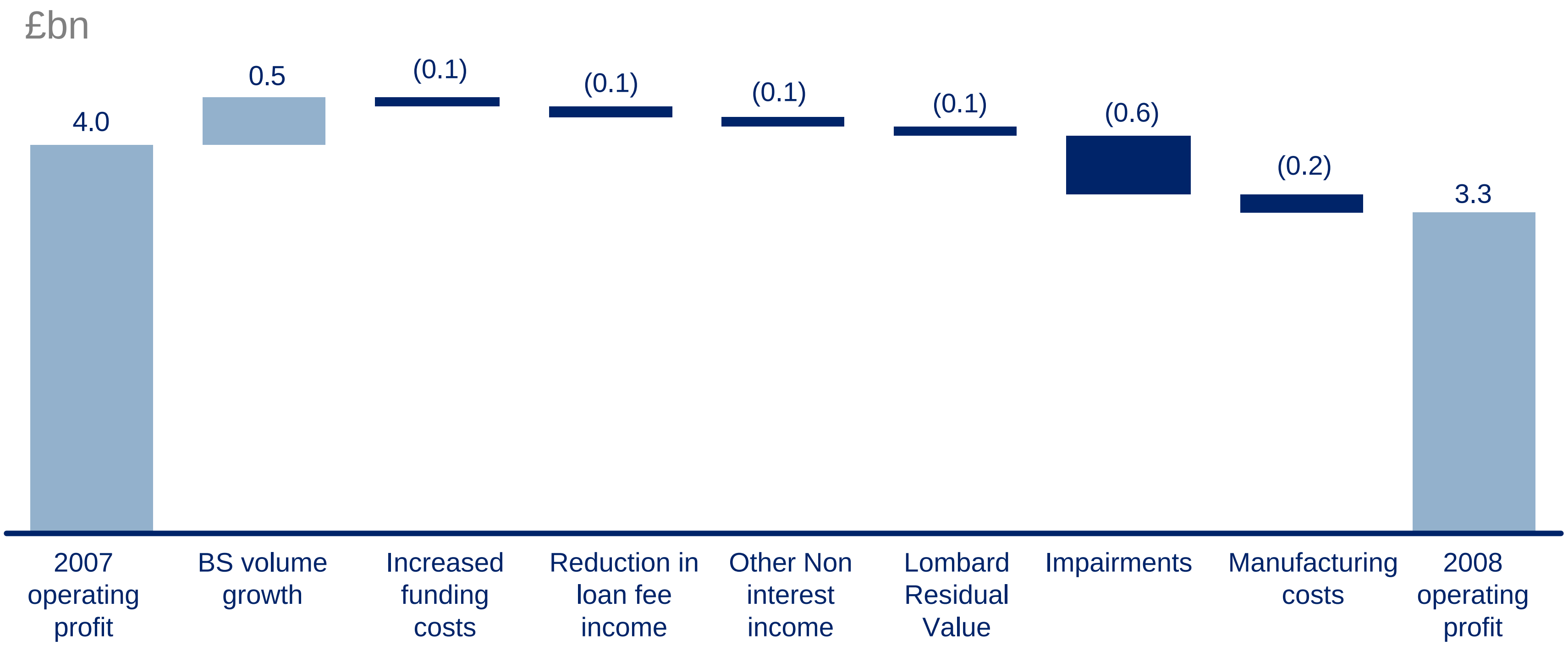
Profit road map - GTS



- Income growth driven by Cash Management up 9% and Trade Finance up 57%
- Cost increase driven by divisional development, investment in Global Merchant Services and Manufacturing allocation

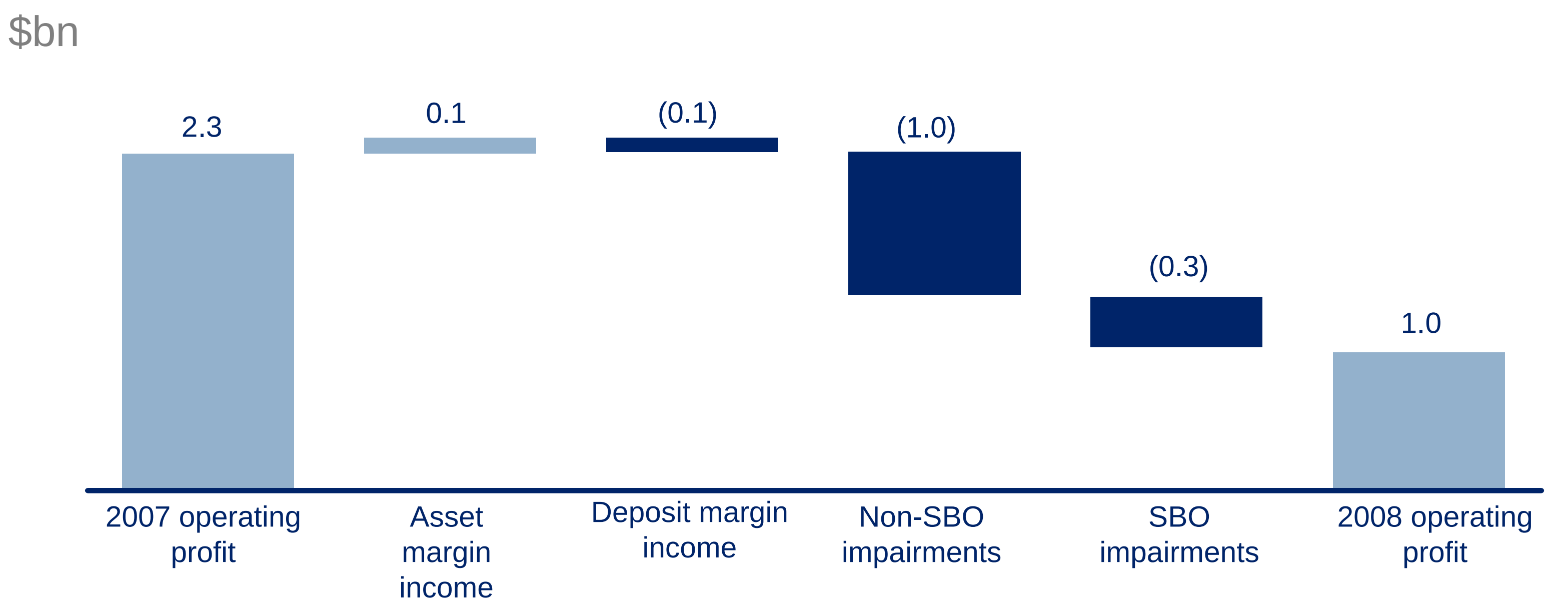
[1] Global Merchant Services & Commercial Cards

Profit road map - UK Retail & Commercial



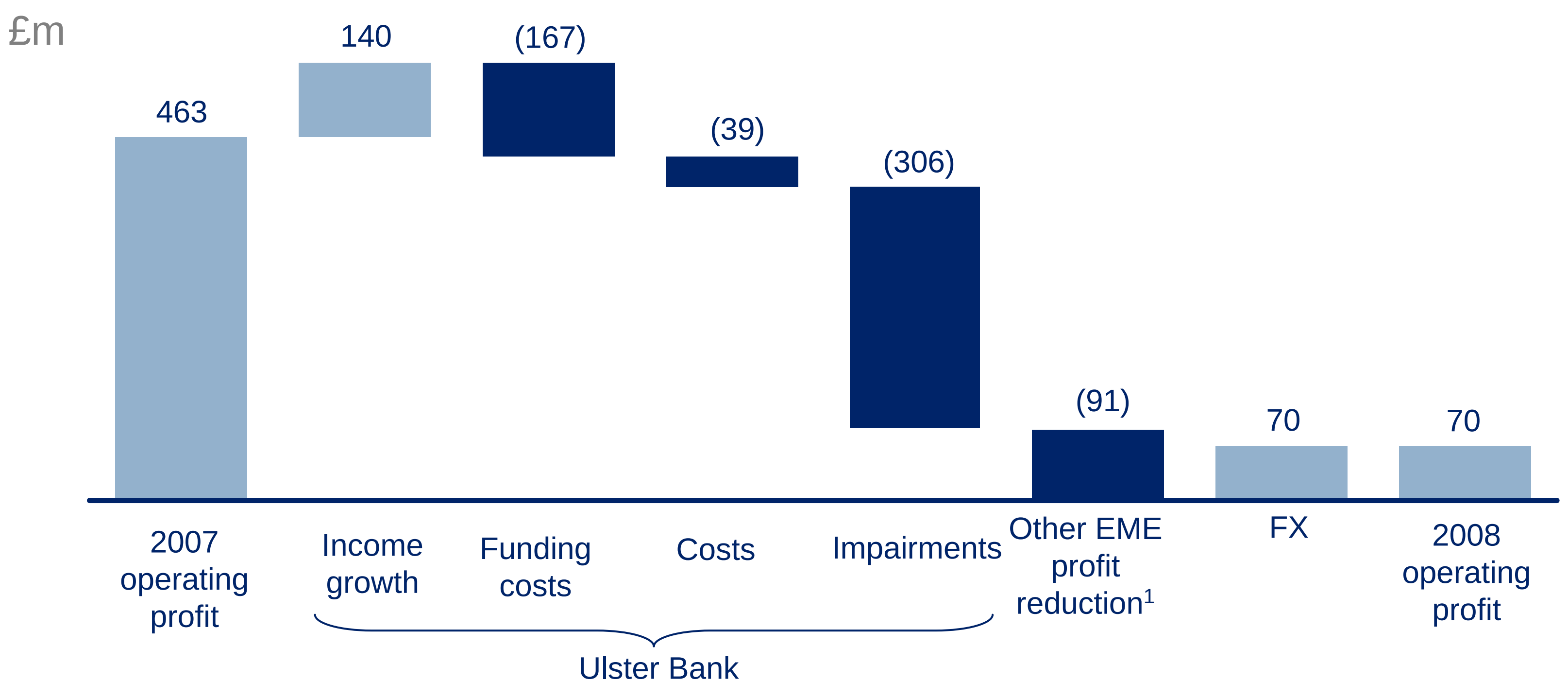
- Strong balance sheet growth improving net interest income
- Reduced appetite for unsecured loan products & bancassurance impacting non interest income
- Impairment growth primarily in small business & commercial

Profit road map - US Retail & Commercial



- Widening asset margins
- Hitting deposit floors due to low rate environment
- Prime loan portfolios impacted by US economic weakness

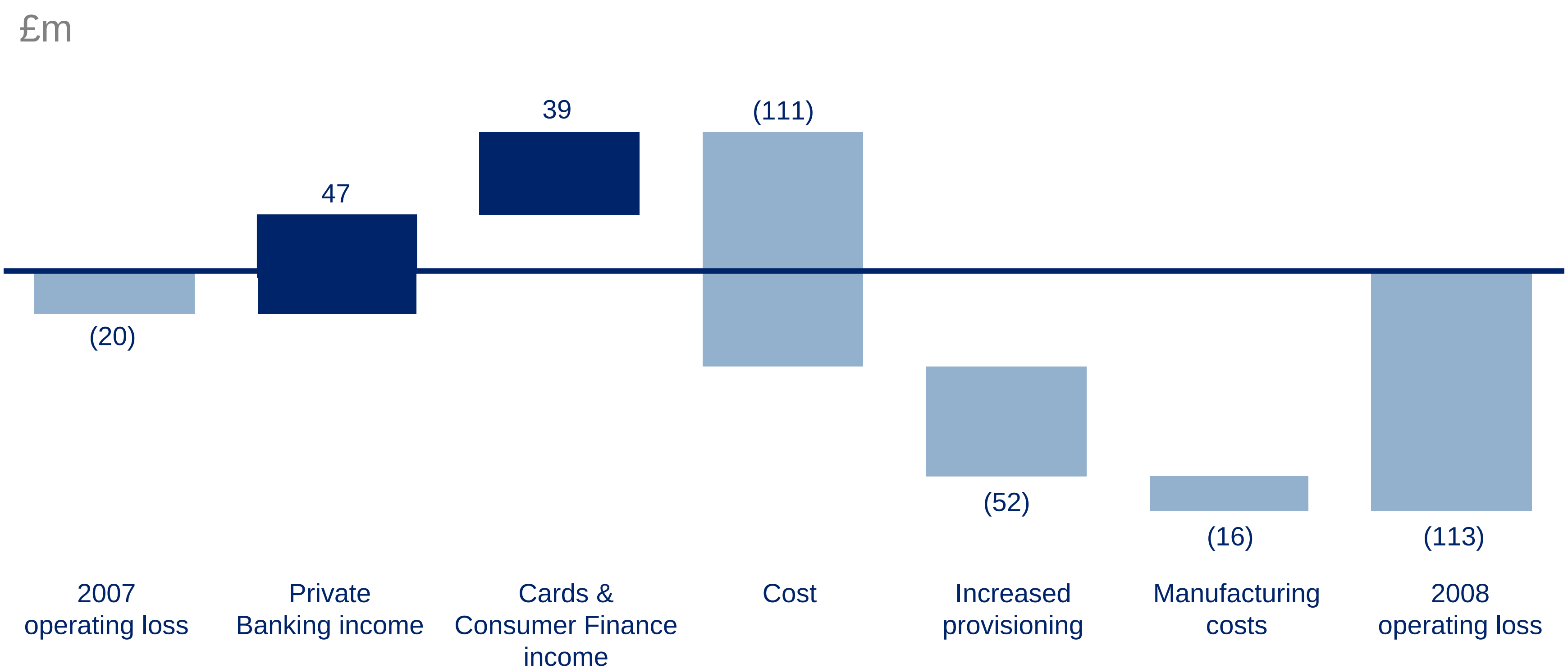
Profit road map - EME Retail & Commercial



- Deterioration in credit metrics, particularly property and construction sectors
- Sale of ECF and Spanish business
- Increased funding costs & impairment growth

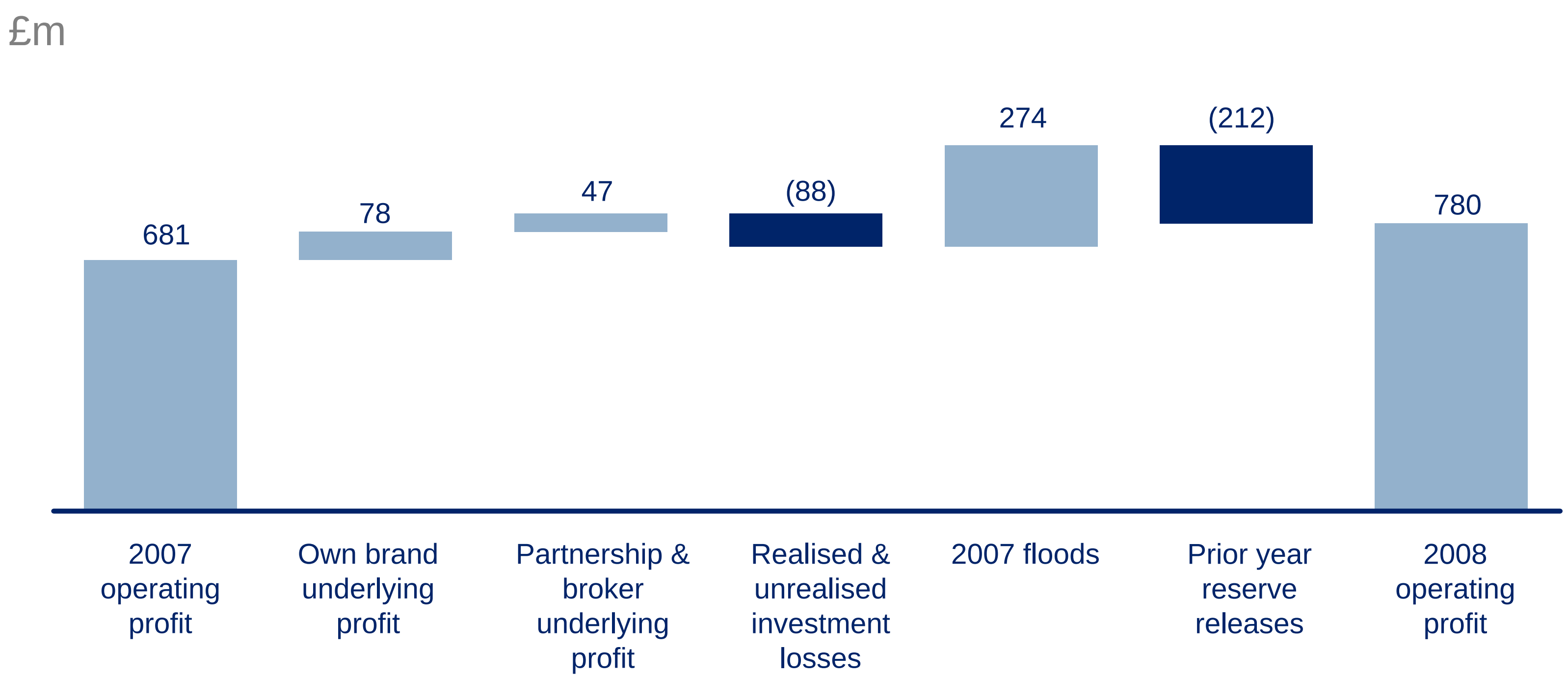
[1] Includes ECF discontinued business

Profit road map - Asia Retail & Commercial



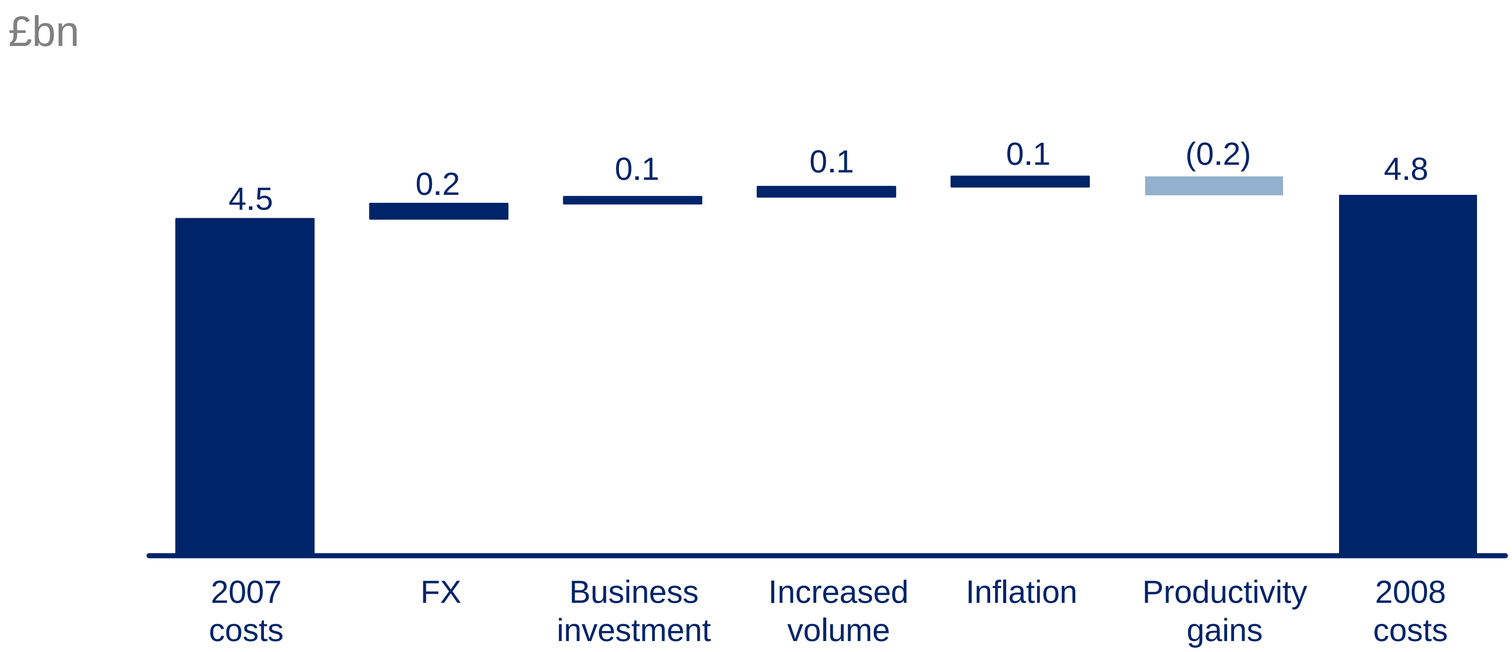
- Good growth in Private Banking and Cards & Consumer Finance
- Increased business investment driving cost growth
- Increased provisioning related primarily to Indian franchise

Profit road map - Insurance



- Record operating profit of £780m
- Good growth in own brand motor & home insurance
- Continued strong claims management
- Continued strategy to focus on profitability within partnership and broker

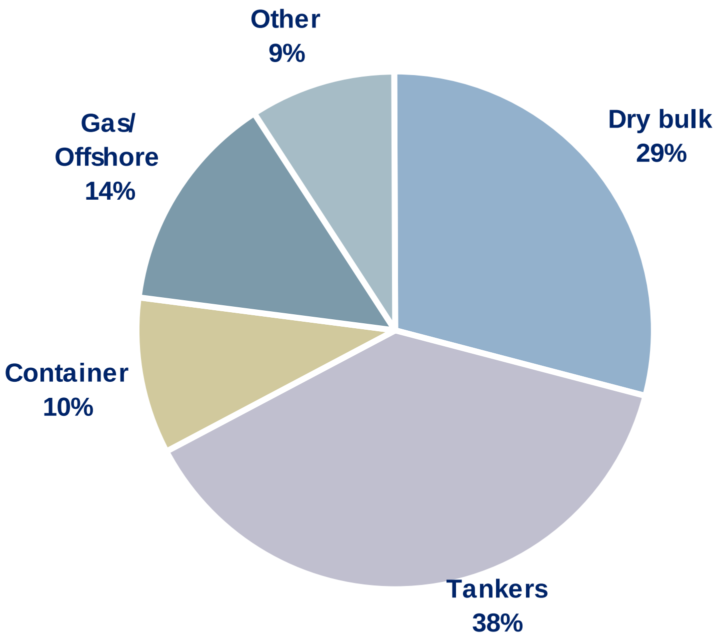
Cost road map - Manufacturing



- 2% growth at constant FX
- Investment in the Group's Corporate Banking network & Manufacturing infrastructure
- Productivity gains absorbing volume & inflation growth

Credit by corporate sector - Shipping

By sub-sector

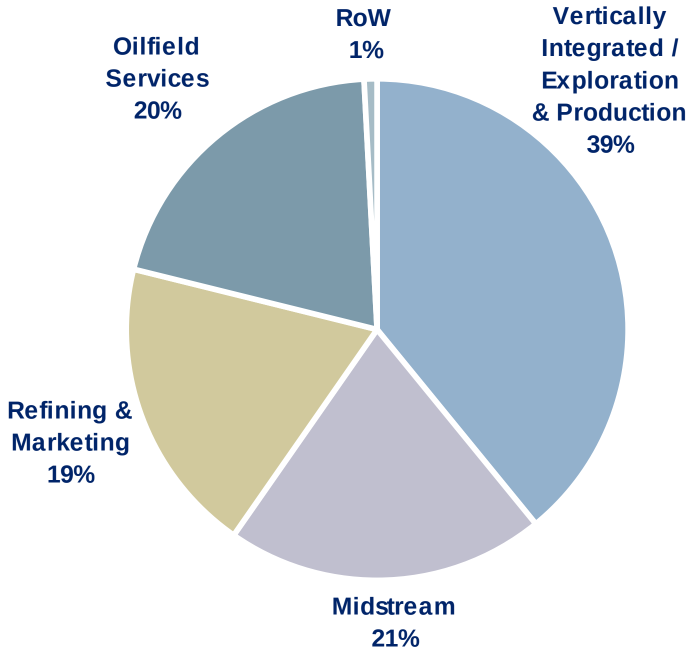


- £16bn total portfolio, almost entirely within GBM
- Primarily lending to SPVs with full security over the asset & related cashflow
- Long relationships with established independent owners
- £5bn customer deposits across the portfolio
- Average LTV 56%
- 86% of lending against vessels built since 2000

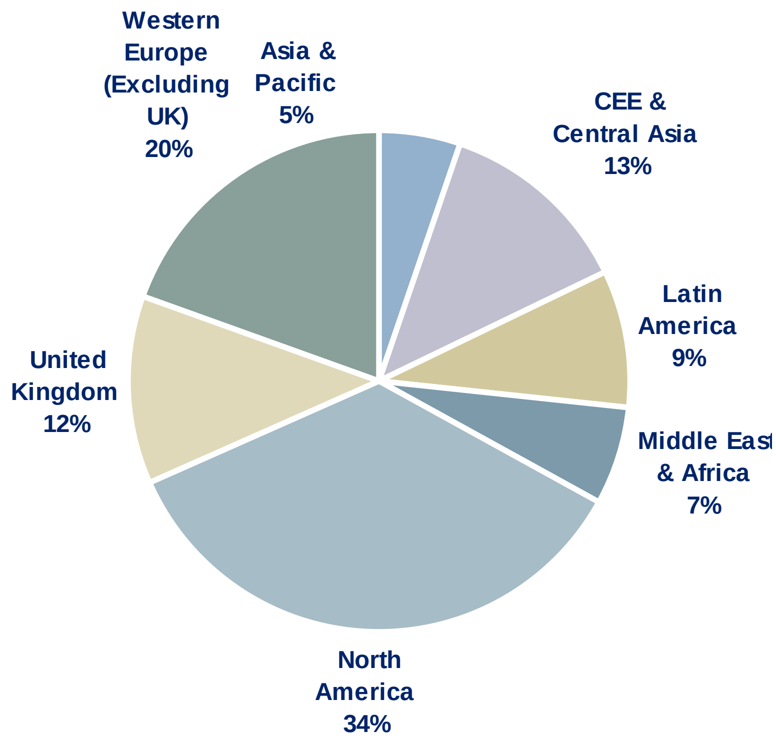
LTV calculation basis – Calculated quarterly by reference to local ship brokers. Latest valuation 31st December 2008.

Credit by corporate sector - Oil & Gas

By sub-sector



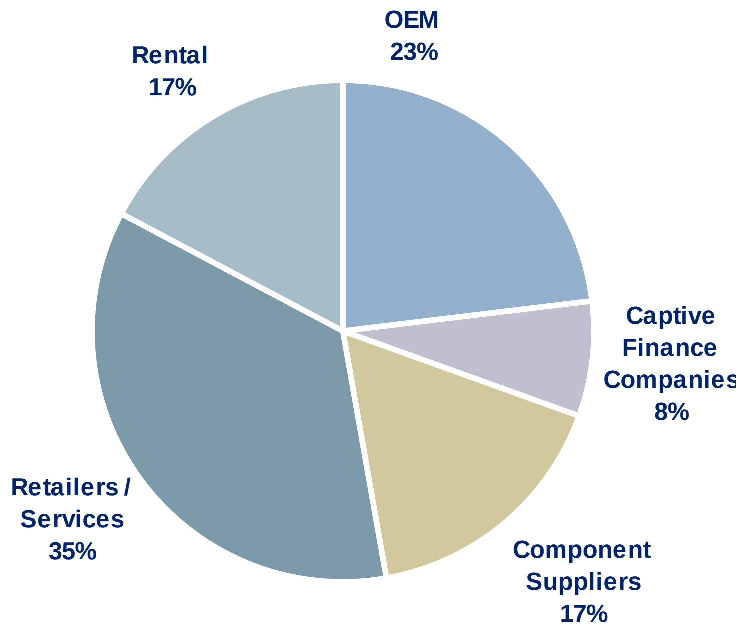
By geography



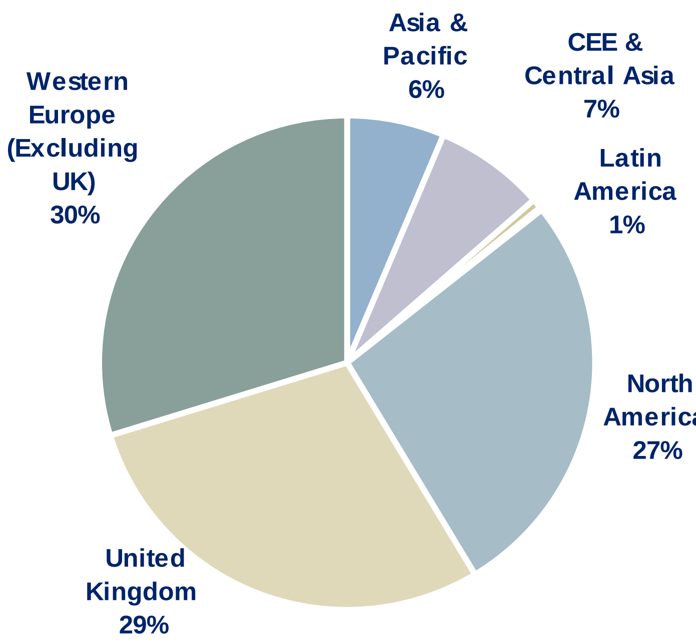
- £24bn portfolio, 90% GBM, 5% UKCB, 5% other
- Exploration & production exposures are principally secured borrowing base facilities, referenced to conservative forward looking oil price assumptions, adjusted on a regular basis

Credit by corporate sector – Automotives[1]

By sub-sector



By geography

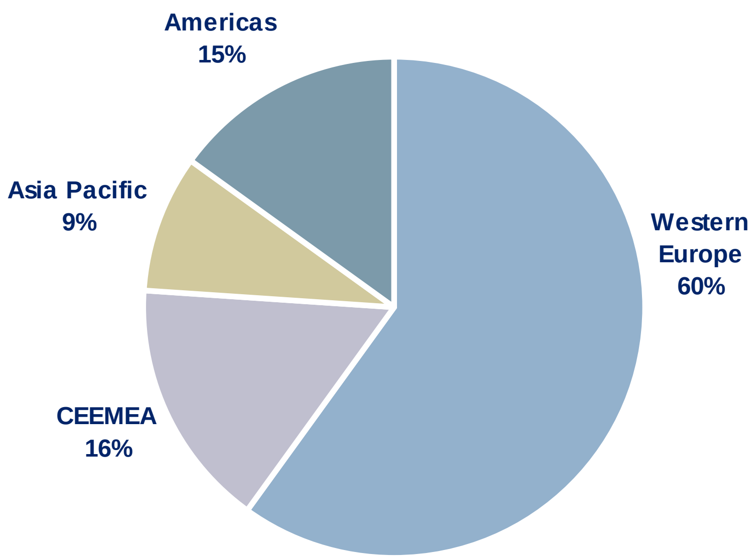


- £14bn portfolio - 62% GBM, 23% UKCB, 9% US, 6% other
- Maintaining a cautious approach to the sector
- Relationships with largest players
- Expect pressure on the portfolio due to the scale of market downturn

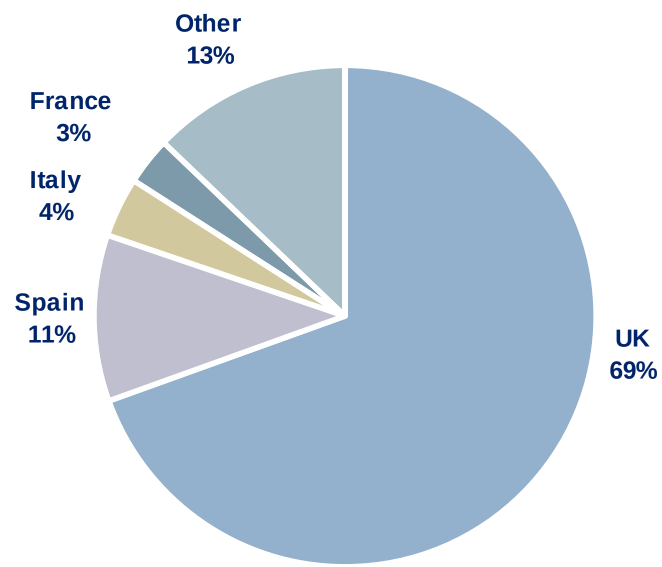
1 Automotive exposure excludes conduits

Credit by corporate sector - Project Finance

By geography



Western Europe, portfolio

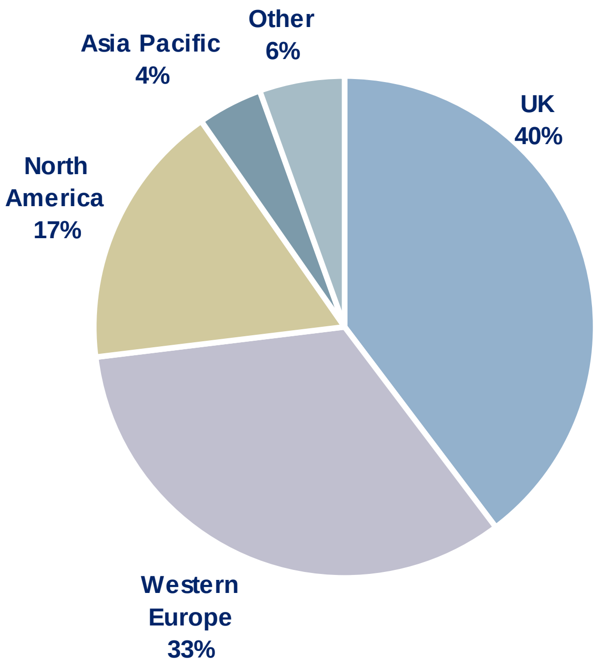


- £16bn portfolio, of which Western Europe 60%
- Total deals – 615
- Average deal size based on limits - £51m

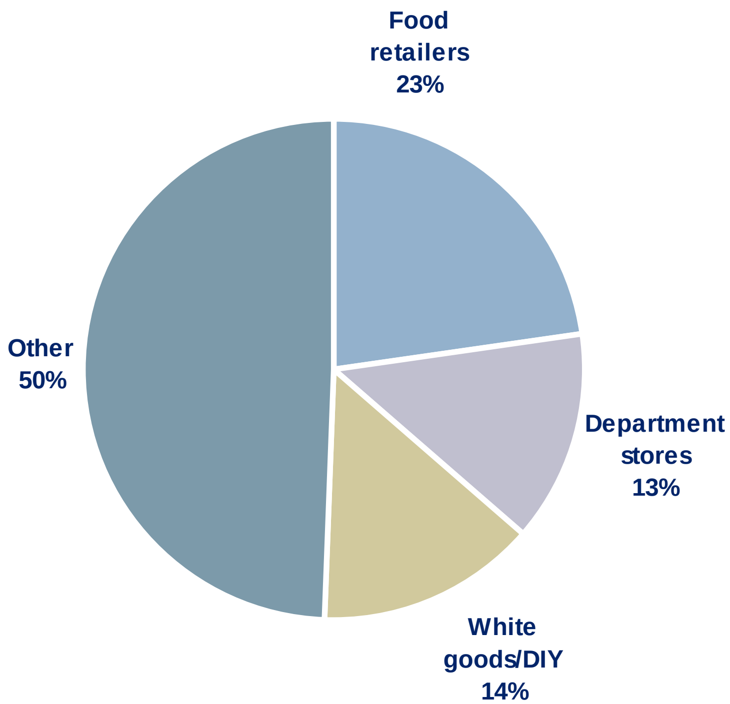
- £10bn portfolio

Credit by corporate sector - Retailers

By geography



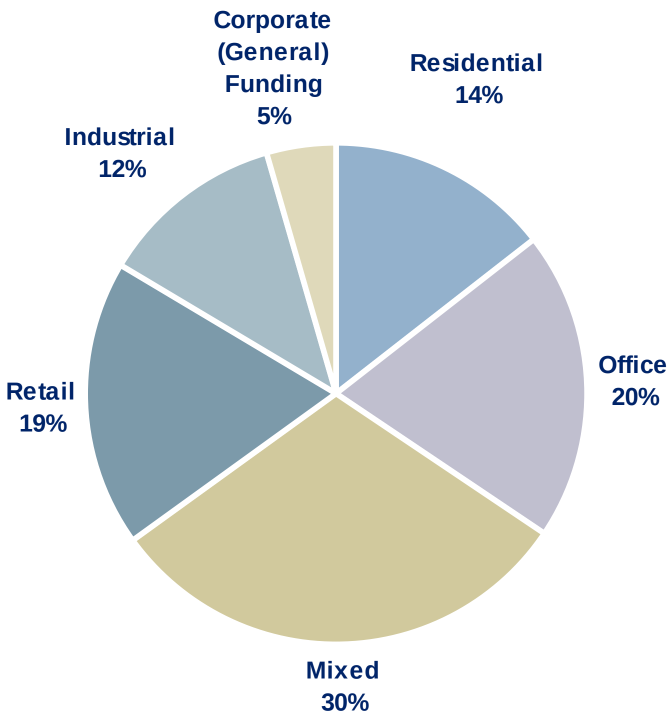
By type



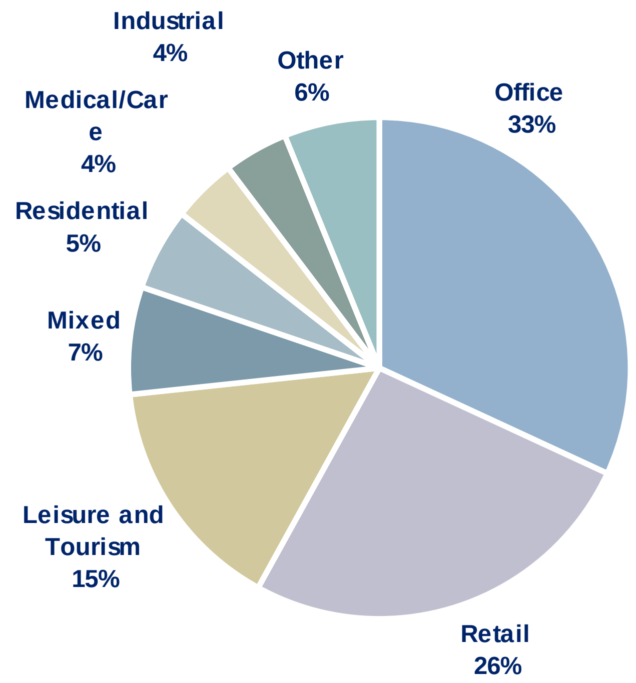
- £18.2bn total exposure
- GBM 50%, UKCB 27%, Ulster 12%, US R&C 10%
- Cautious stance taken in 2008/09
- Small number of cases in Restructuring unit currently

Commercial Property by type – RBS UK & GBM

RBS UK[1] by property type – portfolio: £42bn



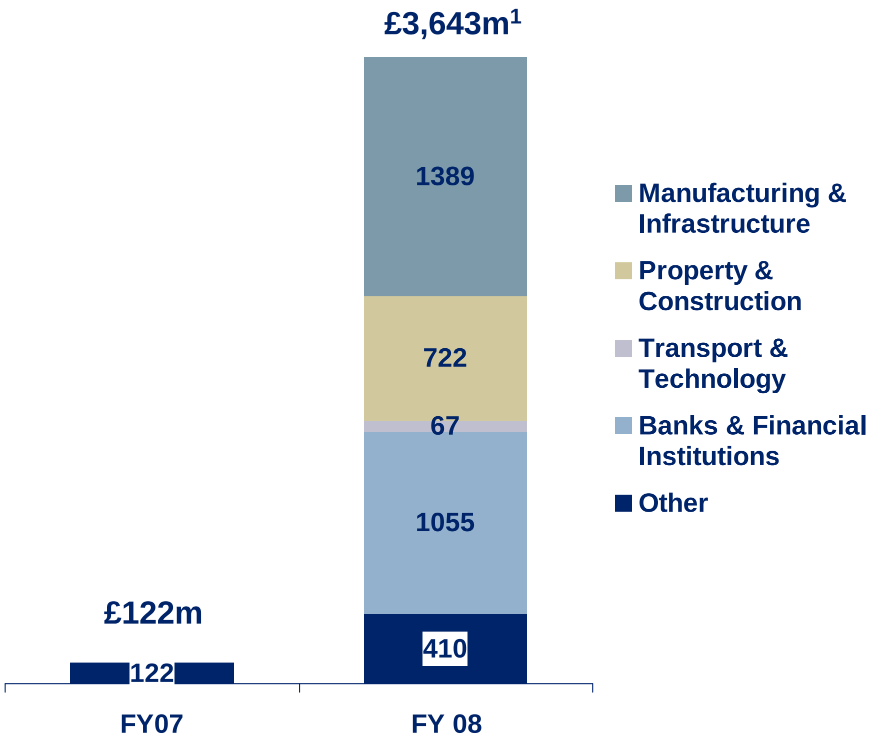
GBM[2] by property type – portfolio: £25bn



[1] RBS UK Sector split based on RBS UK core portfolio

[2] Excludes £6bn relating to ABN AMRO and debt securities

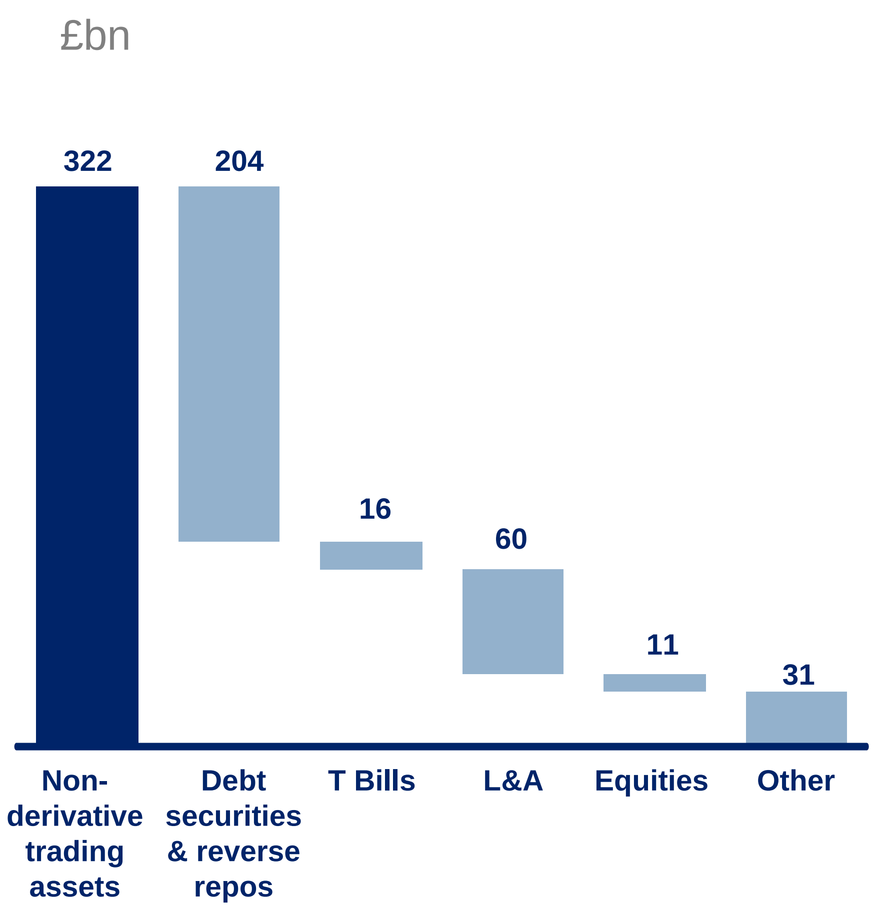
Impairment Losses by division – GBM



Trends Analysis	2008	2007
NPL as % of L&A	1.9%	0.3%

1 Includes £466m on re-designated assets

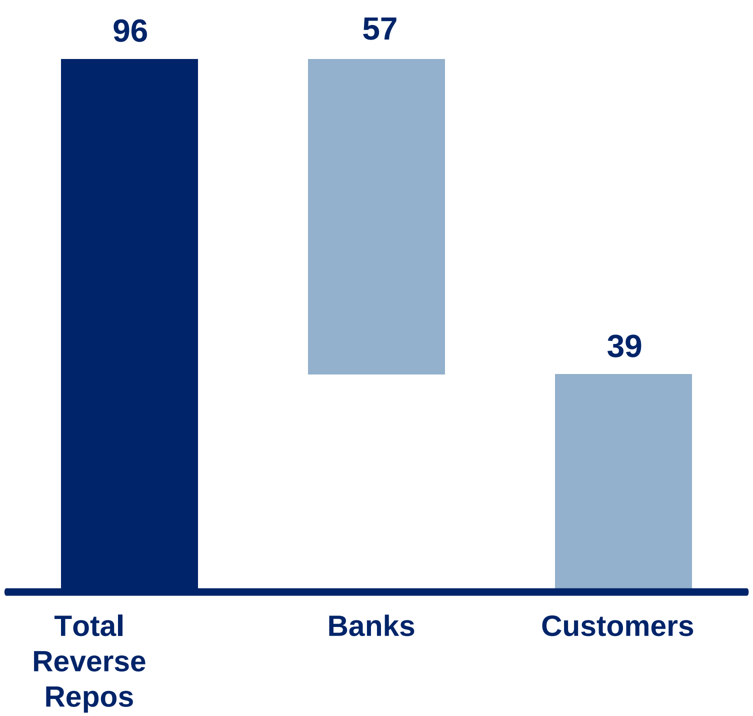
GBM – Non-Derivative Trading Assets



Asset	2008 £bn	2007 £bn	Y-o-Y %
Debt securities & reverse repos	204	476	(57%)
T Bills	16	16	-
Loans & advances	60	42	42%
Equities	11	29	(62%)
Other	31	23	35%
GBM Total	**322**	**586**	**(45%)**

GBM – Reverse Repos

£bn



Exposure by counterparty	2008 £bn	2007 £bn	Y-o-Y %
Reverse Repos – Banks	57	166	(66%)
Reverse Repos – Customers	39	143	(73%)
Total	**96**	**309**	**(69%)**

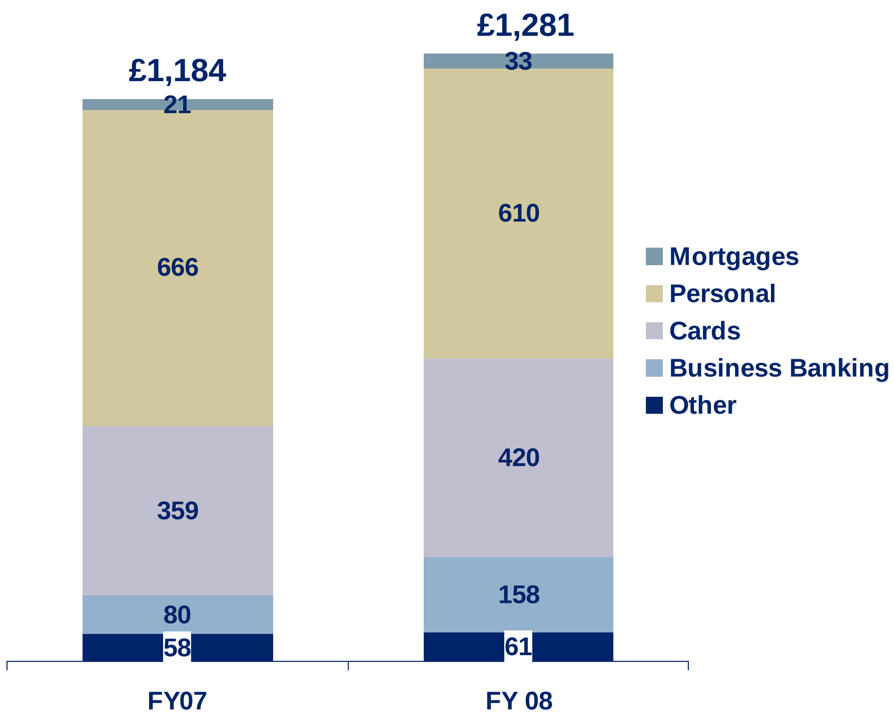
Maturity profile	% of total MTM
< 3 months	83%
< 6 months	12%
< 1 year	4%
> 1 year	1%
Total	**100%**

Collateral quality distribution	
Government	89%
Corporates	7%
Other	4%
Total	**100%**

Collateral quality distribution and tenor distribution are calculated based on gross reverse repos

Impairment Losses by division – UK Retail Banking

£m



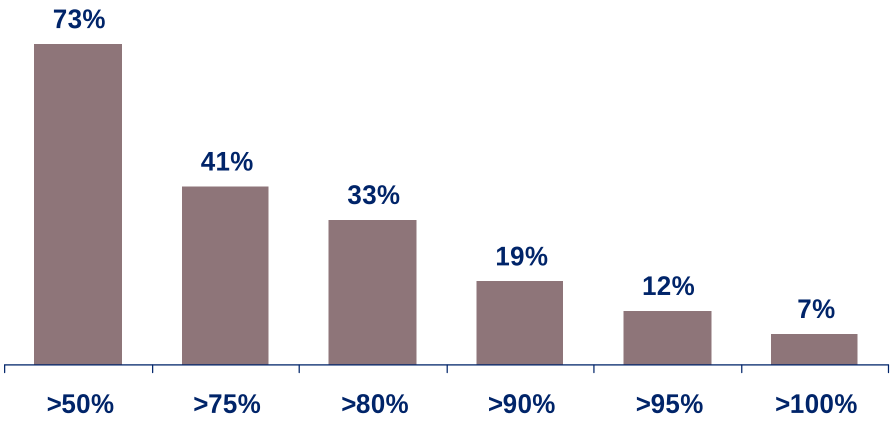
Trends Analysis	2008	2007
NPL as % of L&A	4.1%	3.9%
IL as a % of closing book loans		
Mortgages	<0.1%	<0.1%
Credit Cards	6.6%	4.6%
Personal	3.8%	3.9%
Business Banking	0.8%	0.4%

Business = companies with turnover below £1m

UK Retail mortgages

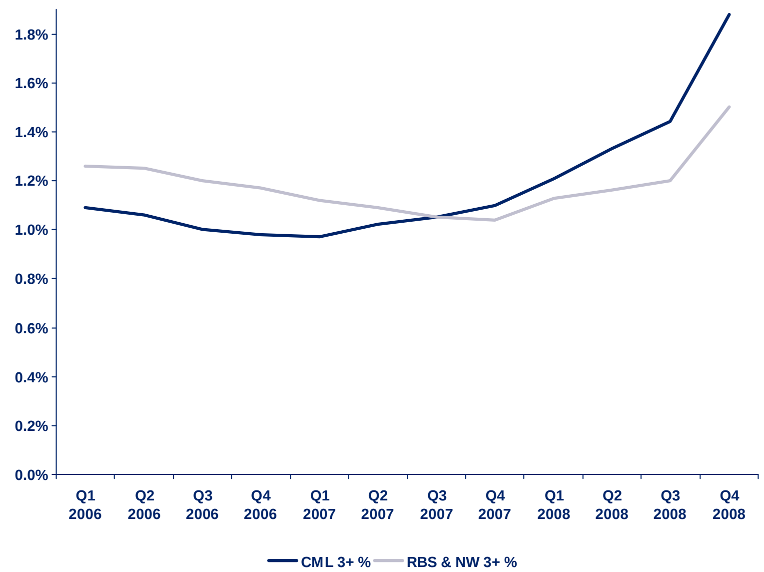
UK portfolio[1]: £75bn

Cumulative LTV distribution as % of book value[1, 2]:



- **93% Mainstream, 7% Buy-to-let**
- **Mainstream LTV 54%**
- **Buy-to-let LTV 63%**
- **Average LTV 55%**
- **Mortgage impairment charge in 2008 - £32m**

Mortgages – Arrears vs CML[3]



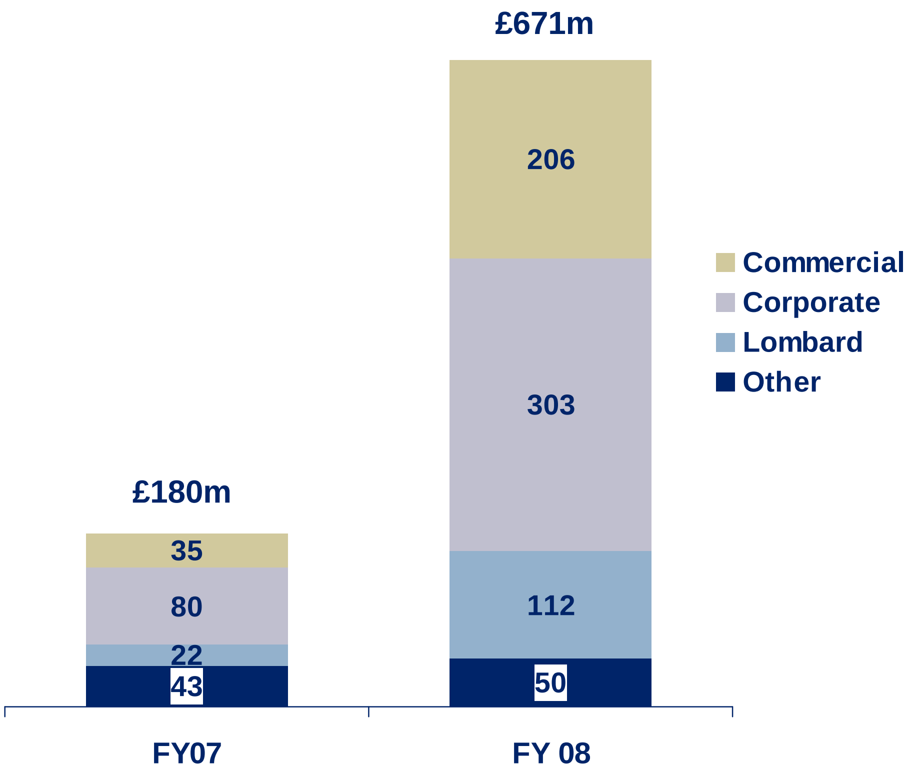
[1] Excludes Northern Ireland & business off-set mortgages

[2] LTV basis – current valuation

[3] Council of Mortgage Lenders

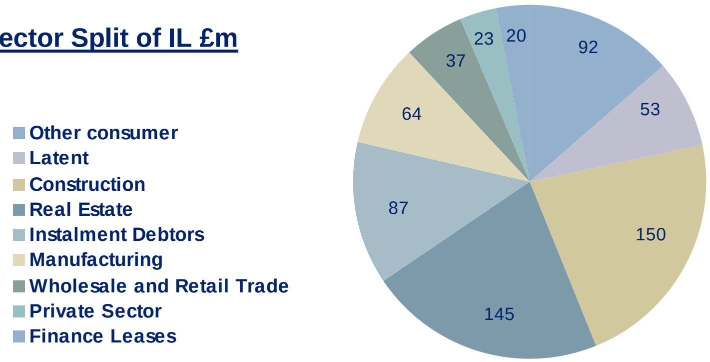
Impairment Losses by division – UK Corporate & Commercial Banking

£m



Trends Analysis	2008	2007
NPL as % of L&A	2.7%	1.2%
IL as % of closing book loans		
Commercial	0.6%	0.1%
Corporate	0.4%	0.1%
Lombard	1.8%	0.4%
Other	0.5%	0.6%

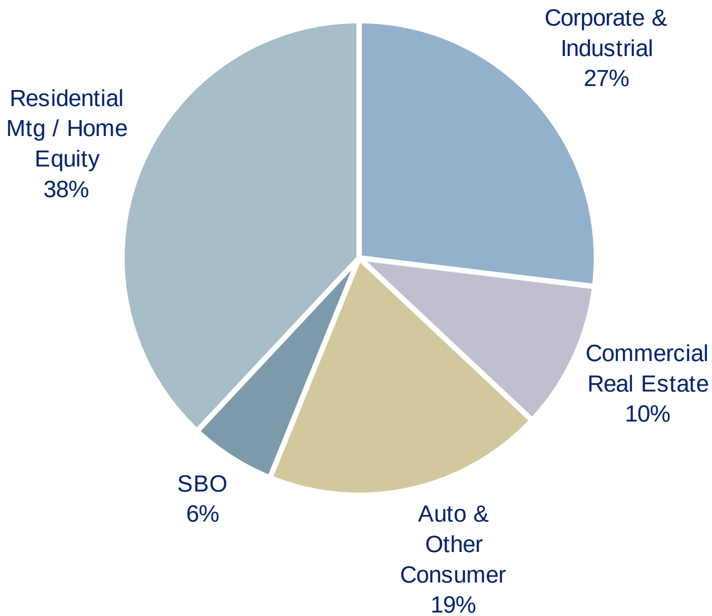
Sector Split of IL £m



Commercial = companies with turnover between £1-25m
Corporate = companies with turnover above £25m

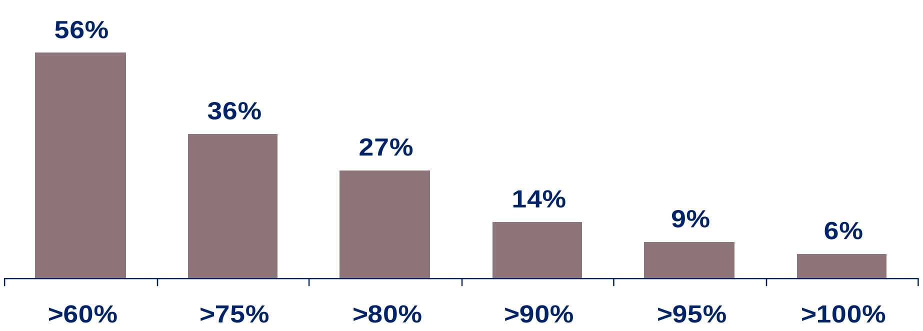
US Retail & Commercial

Total Portfolio - $113bn



Home Equity & Residential Mortgage Portfolio (ex SBO)

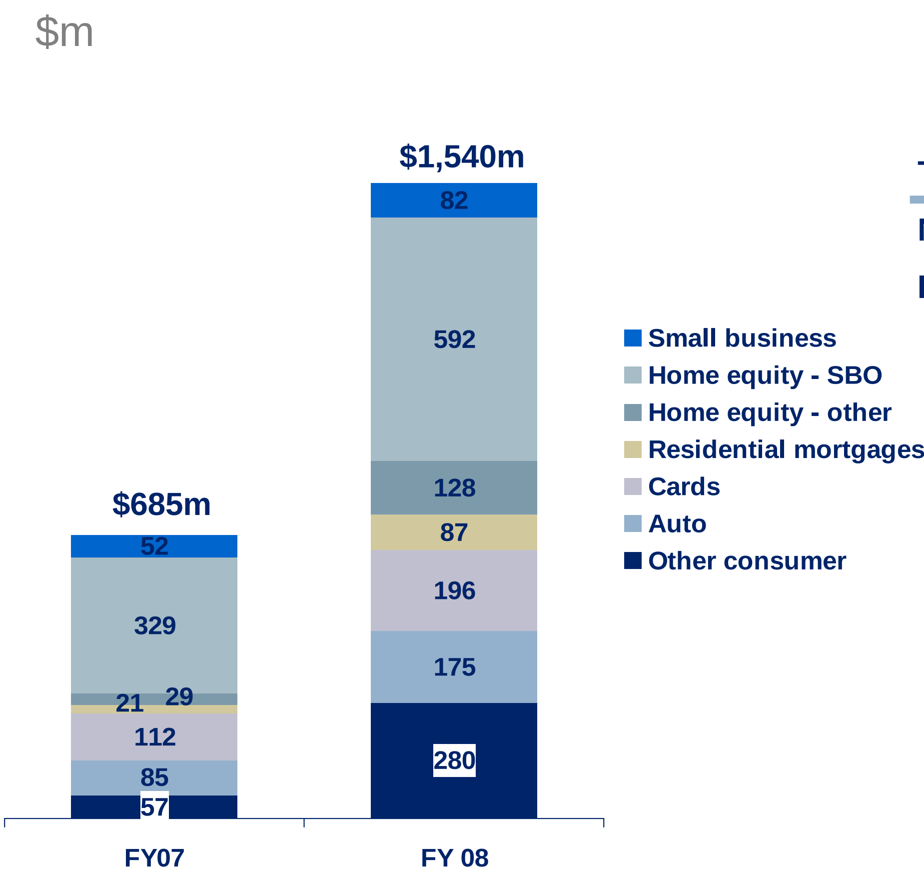
Cumulative LTV distribution as % of book value:



- **Average LTV 63%**
- **Average FICO 700+**

LTV basis – most recent valuation

Impairment Losses by division – US Retail



Trends Analysis	2008	2007
NPL as % of L&A	0.9%	0.5%
IL as a % of closing book loans		
Small business	5.9%	3.8%
Home equity	0.5%	0.1%
SBO	8.4%	3.8%
Residential mortgages	0.6%	0.1%
Cards	8.2%	4.8%
Auto	1.6%	0.7%
Other consumer	3.2%	0.7%

Other consumer also includes Unallocated & General reserves and IFRS adjustments

US Retail – consumer lending metrics

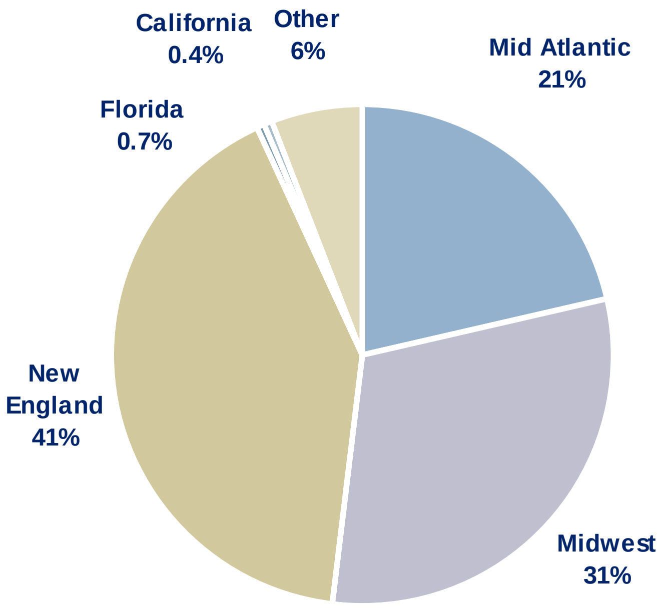
		Residential Mortgage	Core Home Equity	SBO Home Equity	Indirect Auto
	Outstanding Balance	$14bn	$28bn	$7bn	$11bn
	Percentage of Loans	14%	25%	6%	10%
	Weighted Average FICO	732	747	712	747
	Weighted Average CLTV	66%	62%	100%	-
	Fixed Rate Loans	63%	58%	-	-
	Adjustable Rate Loans	37%	42%	-	-
	First Lien	99%	49%	3%	-
	Second Lien	1%	51%	97%	-
Portfolio	2008	5%	14%	0%	34%
Vintage	2007	11%	17%	19%	29%
	2006	11%	16%	38%	18%
	2005	32%	12%	38%	15%
	Pre 2004	41%	41%	5%	4%
Cumulative	>700	79%	82%	58%	85%
FICO	>660	89%	91%	72%	98%
Distribution	>520	99%	98%	89%	100%

SBO book is closed, amortising book
FICOs & LTVs are current not at point of origination

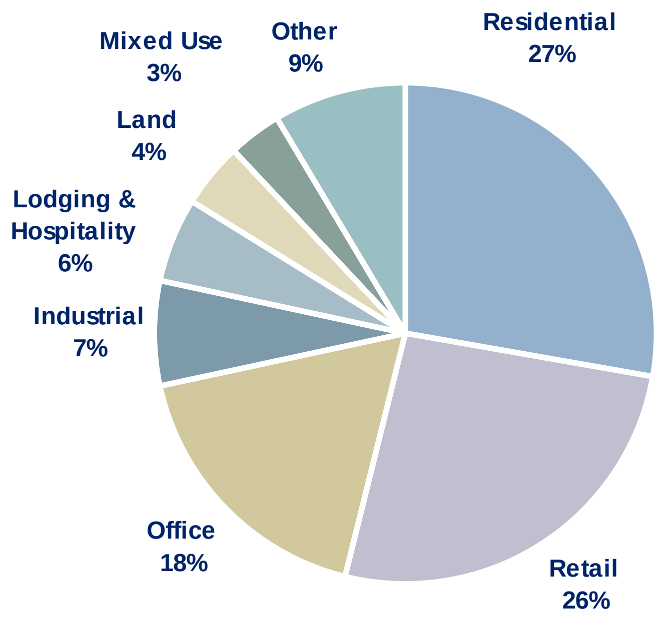
US Retail & Commercial - commercial property

Total portfolio: $9bn

By Geography



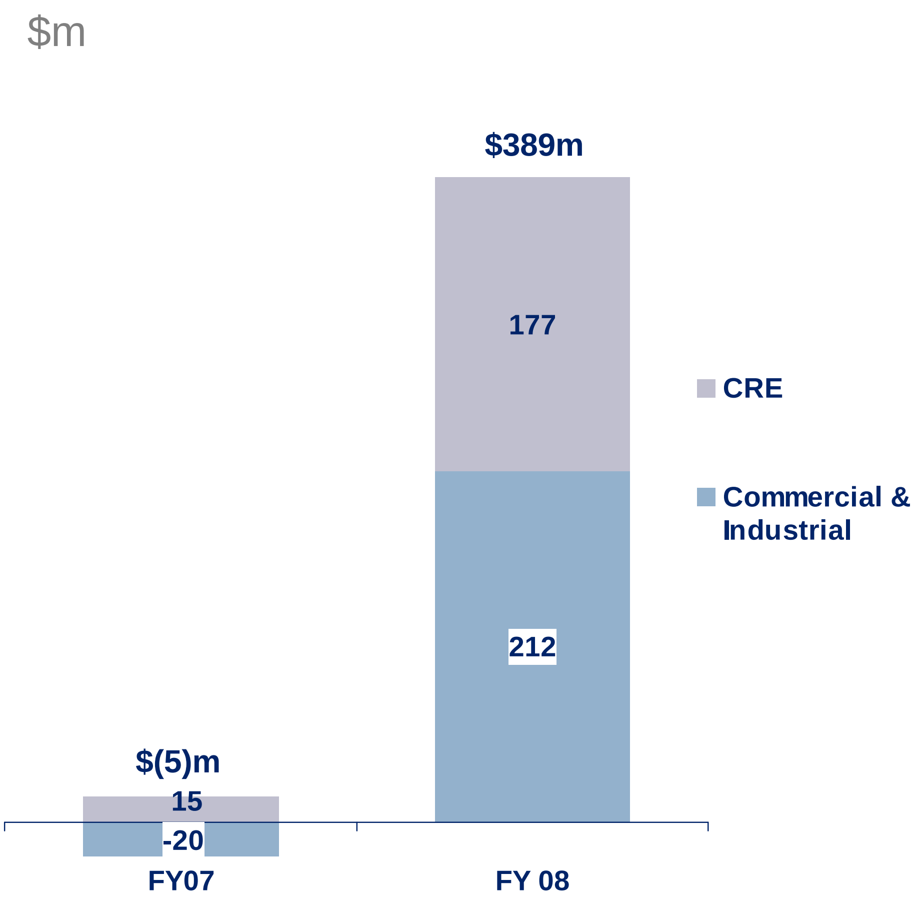
By Property Type



- Average LTV 62%
- Average loan size <$3m

LTV basis – current valuation

Impairment Losses by division – US Commercial

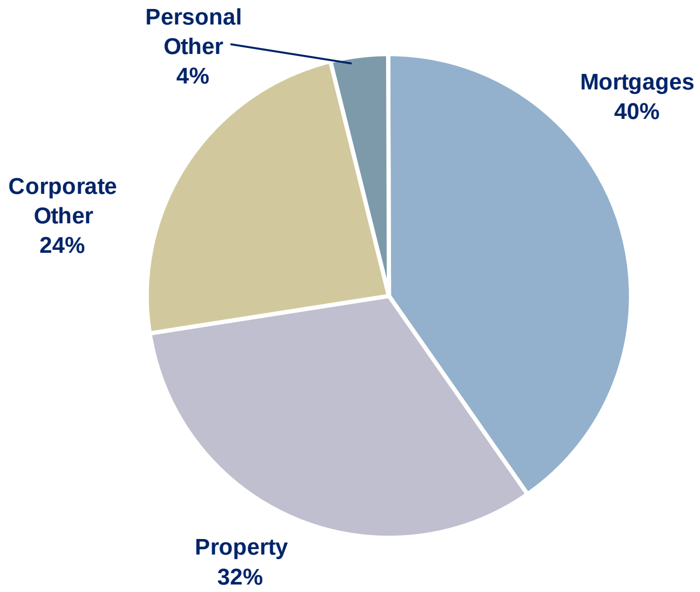


Trends Analysis	2008	2007
NPL as % of L&A	1.3%	0.6%
IL as a % of closing book loans		
Commercial Real Estate	1.6%	0.2%
Commercial & Industrial	0.7%	-0.1%

FY07 benefitted from a number of write backs and methodology changes

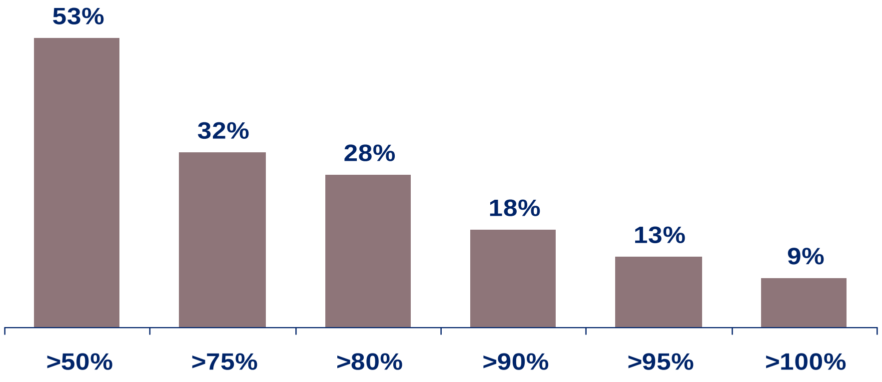
Ulster Bank

Total portfolio £60bn



UB mortgage portfolio: £25bn

Cumulative LTV distribution as % of book value[1]:



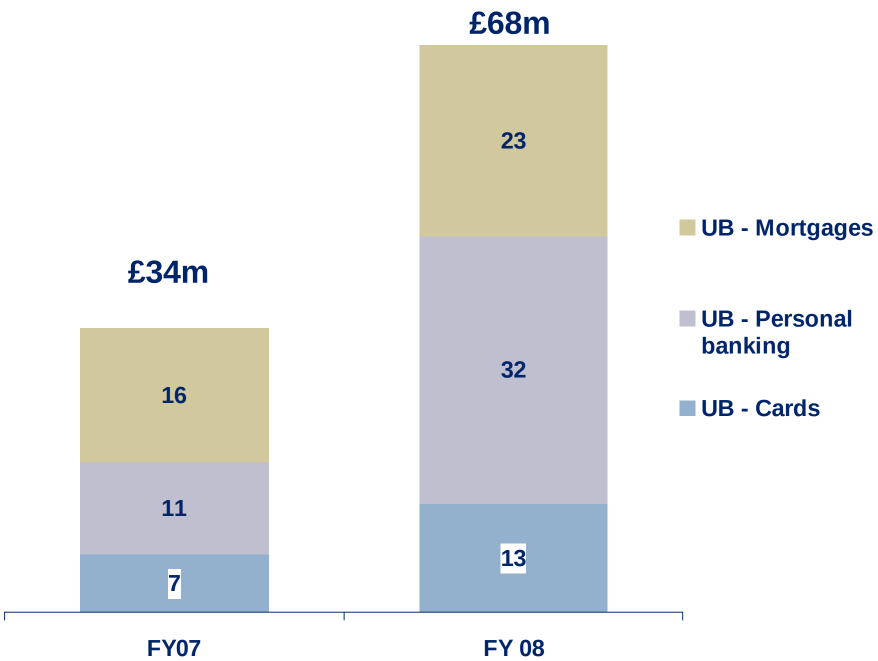
- 40% of book is mortgage funding, secured by properties
- Very low exposure to unsecured consumer lending
- 32% of book across commercial development & investment, residential development & investment and contractors/building suppliers

- Average LTV 47%
- Buy to Let LTV 55%

[1] Calculated based on volume. LTV basis – current valuation

Impairment Losses by division – Ulster Bank Retail

£m

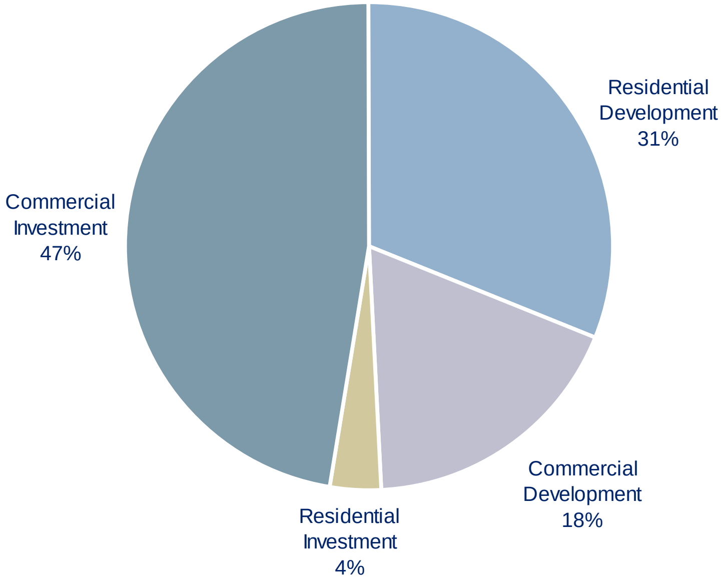


Trends Analysis	2008	2007
NPL as % of L&A	2.1%	1.2%
IL as a % of closing book loans		
UB Mortgages	0.1%	0.1%
UB Personal Banking	3.5%	1.5%
UB Cards	3.9%	2.9%

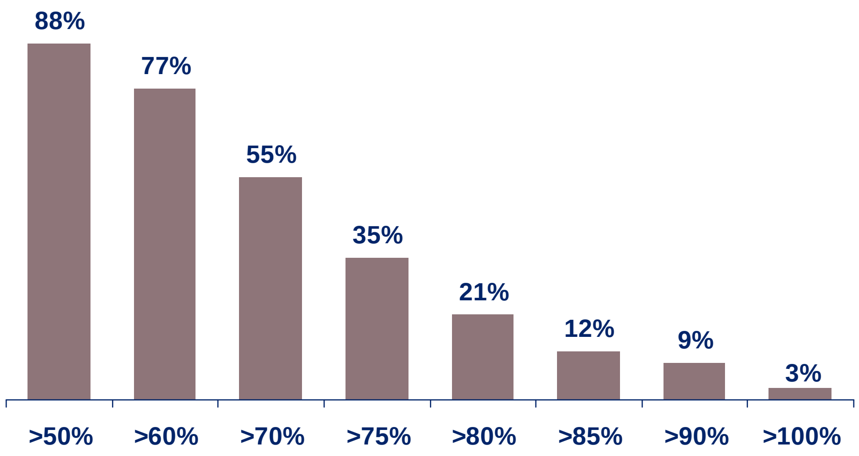
Ulster Bank - Commercial Property

Portfolio: £17bn

By type:



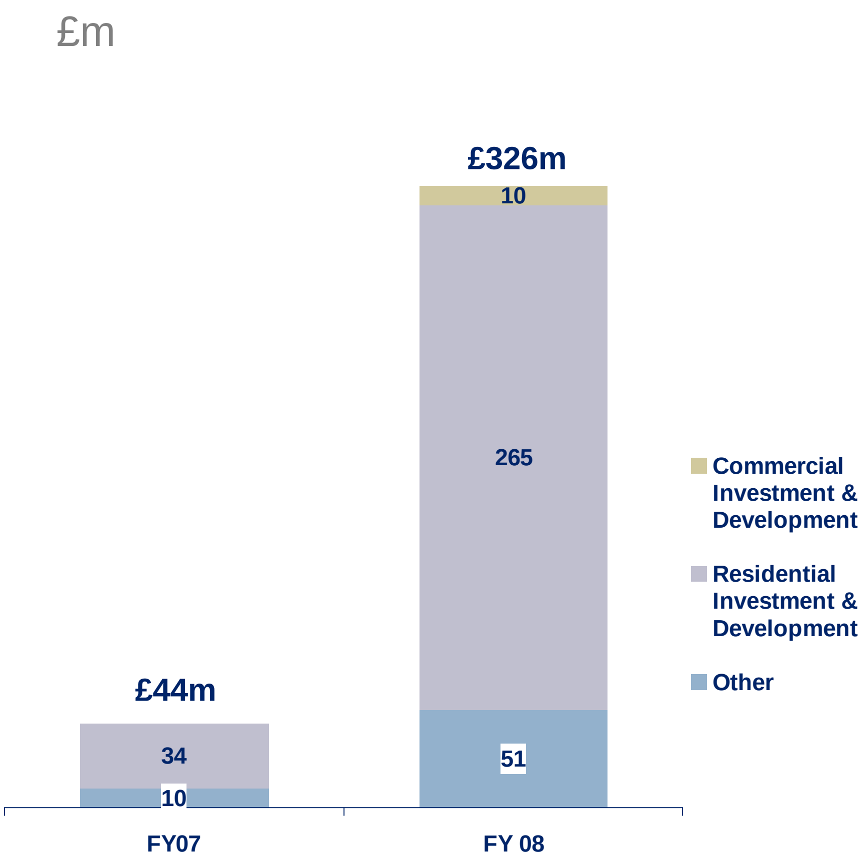
Cumulative LTV distribution as % of book value:



- 65% Republic of Ireland, 35% UK
- 1.8% speculative lending, capped at 3%
- Average LTV 70%, average ICR 136%

Excludes house builders of £1.7bn and contractors/building suppliers of £0.8bn
LTVs, basis for calculation is most recent valuation

Impairment Losses by division – Ulster Bank Corporate



Trends Analysis	2008	2007
NPL as % of L&A	8.0%	1.5%
IL as a % of closing book loans		
Commercial Investment & Development	0.1%	0.0%
Residential Investment & Development	3.2%	0.5%
Other	0.3%	0.1%

Asian Consumer Finance

Country	Product Program	Balance (£m)	90+ past due
Taiwan	Credit Cards	447	2%
	Mortgages	93	0%
	TTBB Legacy Mortgages	88	6%
	TTBB Legacy Personal Loans	114	5%
India	Credit Cards	217	7%
	Personal Loans	343	4%
	Mortgages	194	2%
	SME	228	1%
Indonesia	Credit Cards	49	3%
	Unsecured Personal Loans	71	3%
Pakistan	Personal Loans	40	7%
	Credit Cards	39	9%
Singapore	Credit Cards	92	1%
	Unsecured Personal Loans	93	1%
	Private Banking SME	52	0%
	Investments	45	1%
	Investment Secured Loans	42	0%
	Mortgages	62	8%
Hong Kong	Unsecured Personal Loans & Revolving Loans	73	0%

Only Portfolios with Balances over € 40m (£38m) shown
TTBB was bought by ABN AMRO prior to the acquisition and is currently in run-off.