The Royal Bank of Scotland Group

Q3 2012 Results

2nd November 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; 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 conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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Business Highlights & Review

Business highlights

APS exit achieved:

- HM Treasury / FSA approval to exit granted, effective 18th October 2012
- Core Tier 1 Ratio ex APS 10.4%[1] (FY11 9.7%)
- Significant achievement on the 'road to normality'

Direct Line Group IPO – first tranche completed

- A further milestone in the Group's restructuring plan
- Successful listing of 35% of the company; Gross proceeds of c£0.9bn received in Q4; £1bn dividends received YTD

Branch disposal – new sales effort commencing:

- Santander 'pull out' disappointing
- Most of separation work already completed, business remains profitable and well-funded
- Efforts underway to divest the business

Core Business – resilient underlying progress continues:

- YTD Core RoE 10%; ex Ulster Bank 13%
- Operating profit continues to be stable

Non-Core – further reduction achieved:

- Funded assets reduced to £65bn, down c£195bn since inception; on track for YE target of £60bn
- Impairments down 30%, operating loss 32% lower Q-o-Q

[1] Including 70bps negative regulatory model impact YTD.

Financial highlights

Core Business:

	Q312	
Operating profit[1]	£1.6bn	+8% Q-o-Q, improved Markets performance, gains offset lower UK Corp. profits
Return on Equity[2]	10%	YTD R&C ex Ulster Bank RoE 14%, Markets RoE 12%[3]
R&C NIM	2.92%	Broadly flat Q-o-Q, ongoing pressure from narrowing deposit margins
Cost : income ratio[1,4]	59%	Costs remain tightly controlled, down 5% Q-o-Q
Impairments	£0.8bn	+£24m Q-o-Q, driven by UK Corporate single name charges
Loan : deposit ratio[5]	91%	LDR further improved; deposits held stable, loan demand remains muted

Group Progress:

	Q312	
Operating profit[1]	£1.0bn	+61% Q-o-Q driven by reduced Non-Core losses and higher Core contribution
Non-Core funded assets	£65bn	A further £7bn reduction; firmly on track for year end target
Capital strength	11.1%[6]	CT1 including APS benefit stable at 11.1%; CT1 ex APS 10.4%
Pre-tax loss	£1.3bn	Driven by £1.5bn own credit adjustment and £0.4bn PPI provision top up

[1] Excluding own credit adjustment (OCA). [2] Equity allocated based on share of Group tangible equity. [3] Ongoing businesses. [4] Adjusted C:I ratio net of insurance claims. [5] Net of provisions. [6] Includes APS benefit of 0.7%, Ex APS CT1 10.4%.

Progress against plan

Group – Key performance indicators	Worst point	Q312	Medium-term Target
Balance sheet & risk (Group):			
Loan : deposit ratio (net of provisions)	154%[1]	102%	c100%
Short-term wholesale funding[2]	£297bn[3]	£49bn	<10% TPAs
Liquidity portfolio[4]	£90bn[3]	£147bn	>1.5x STWF
Leverage ratio[5]	28.7x[6]	15.4x	<18x
Core Tier 1 Capital ratio	4%[7]	11.1%[8]	>10%
Value drivers (Core):			
Return on Equity (RoE)[10]	(31%)[9]	10%	>12%
Cost : income ratio[12]	97%[11]	59%	<55%

Achieved

- Capital, funding and liquidity positions robust
- Safety and soundness remains a key priority

[1] As at October 2008 [2] Amount of unsecured wholesale funding under 1 year including bank deposits <1 year excluding derivatives collateral. [3] As of December 2008 [4] Eligible assets held for contingent liquidity purposes including cash, government issued securities and other securities eligible with central banks. [5] Funded tangible assets divided by Tier 1 Capital. [6] As of June 2008 [7] As of 1 January 2008. [8] Includes APS benefit of 0.7%, CT1 ex APS 10.4%. [9] Group return on tangible equity for 2008 [10] Indicative: Core attributable profit taxed at 28% on attributable core average tangible equity (c80% of Group tangible equity based on RWAs). [11] 2008. [12] Adjusted cost:income ratio net of insurance claims.

Finance & Risk Review

Group financial highlights

£m	Q312	Q212	Q312 vs. Q212	Q311	Q312 vs. Q311
Income	**6,458**	**6,438**	**20**	**6,093**	**365**
Operating Expenses	(3,639)	(3,877)	238	(3,821)	182
Net Claims	(596)	(576)	(20)	(734)	138
PBIL[1]	**2,223**	**1,985**	**238**	**1,538**	**685**
Impairment Losses	(1,176)	(1,335)	159	(1,536)	360
Operating Profit/(Loss)	**1,047**	**650**	**397**	**2**	**1,045**
One-off and other items[2]	**(2,305)**	**(751)**	**(1,554)**	**2,002**	**(4,307)**
Profit/(Loss) Before Tax	**(1,258)**	**(101)**	**(1,157)**	**2,004**	**(3,262)**
Attributable Profit/(Loss)	**(1,384)**	**(466)**	**(918)**	**1,226**	**(2,610)**
Net interest margin	1.94%	1.95%	(1bp)	1.84%	10bps
Cost:income ratio[3]	62%	66%	(4pps)	71%	(9pps)

Capital & Balance Sheet	30 Sept 12	30 Jun 12	Sept 12 vs. Jun 12	31 Mar 12	Sept 12 vs. Mar 12
Funded balance sheet	**£909bn**	**£929bn**	**(2%)**	**£950bn**	**(4%)**
Risk-weighted assets[4] (pre APS)	**£481bn[4]**	**£488bn[4]**	**(1%)**	**£496bn[4]**	**(3%)**
Core tier 1 ratio	**11.1%**	**11.1%**	**-**	**10.8%**	**30bps**
Net tangible equity per share	**476p**	**489p**	**(3%)**	**488p**	**(2%)**

[1] Profit before impairment losses. [2] Includes own credit adjustment, restructuring & integration costs, APS CDS fair value changes, credit market event, gain on redemption of own debt, PPI and strategic disposals. [3] Calculated using income net of insurance claims. [4] Excludes £48bn of APS RWA relief as of 30th September 2012, £53bn as of 30th June 2012 and £62bn as of 31st March 2012.

Below the line items

£m	Q312	Q212	Q312 vs. Q212	YTD 12	YTD12 vs. YTD11
Own Credit Adjustment (OCA)	(1,455)	(518)	(937)	(4,429)	(6,815)
PPI costs	(400)	(135)	(265)	(660)	190
Amortisation of purchased intangibles	(47)	(51)	4	(146)	23
Integration and restructuring costs	(257)	(213)	(44)	(930)	(344)
Gain / (Loss) on redemption of own debt	(123)	-	(123)	454	198
Strategic disposals	(23)	160	(183)	129	151
Other[1]	0	6	(6)	(62)	1,711
Total	*(2,305)*	*(751)*	*(1,554)*	*(5,644)*	*(4,886)*

- £0.9bn additional in OCA charge relative to Q212
- OCA charge YTD £4.4bn driven by strong improvement in RBS credit spreads
  - 5 year cash spreads have improved from c450bps to c100bps YTD
- PPI provision topped up by a further £400m; £1.7bn of redress charges taken to date

[1] Includes APS fair value changes, Sovereign debt impairment, RFS Holdings minority interest and other.

Core performance

£m	Q312	Q212	Q312 vs. Q212	Q311	Q312 vs. Q311
Net Interest Income	2,794	2,925	(131)	2,949	(155)
Non Interest Income	3,614	3,512	102	3,079	535
Income	**6,408**	**6,437**	**(29)**	**6,028**	**380**
Operating Expenses	(3,427)	(3,615)	188	(3,498)	71
Net Claims	(596)	(576)	(20)	(696)	100
PBIL[1]	**2,385**	**2,246**	**139**	**1,834**	**551**
Impairment Losses	(752)	(728)	(24)	(854)	102
Operating Profit	**1,633**	**1,518**	**115**	**980**	**653**

- Core income broadly flat despite ongoing muted customer demand
- Resilient performance from UK Retail and Markets, offsetting more challenging results in UK Corporate
- Expenses remain tightly controlled, down 5% Q-o-Q and 2% Y-o-Y
- Impairment losses increase slightly due to a number of significant individual cases in UK Corporate; Ulster Bank Core impairments broadly stable

[1] Profit before Impairment Losses.

Divisional performance

Operating profit, £m	Q312	Q212	Q312 vs. Q212	Q311	Q312 vs. Q311
UK Retail	464	437	27	510	(46)
UK Corporate	368	512	(144)	429	(61)
Wealth	65	64	1	45	20
International Banking	175	167	8	228	(53)
Ulster Bank	(242)	(245)	3	(208)	(34)
US R&C	223	229	(6)	123	100
Total R&C	**1,053**	**1,164**	**(111)**	**1,127**	**(74)**
Markets	295	251	44	(348)	643
Direct Line Group	109	135	(26)	123	(14)
Central items	176	(32)	208	78	98
Total Core	**1,633**	**1,518**	**115**	**980**	**653**

- Core profit up £115m Q-o-Q, c£650m Y-o-Y; gains in Central items and stronger Markets performance offset by weaker UK Corporate results
- UK Retail profits up 6% Q-o-Q, with modest income growth boosted by a £16m reduction in expenses
- UK Corporate down £144m due to higher single name impairments in Q3 and non-repeat of Q2 income credits
- US R&C RoE in Q3 of 9.7%, credit costs favourable
- Ulster Bank losses stable Q-o-Q; no turn imminent

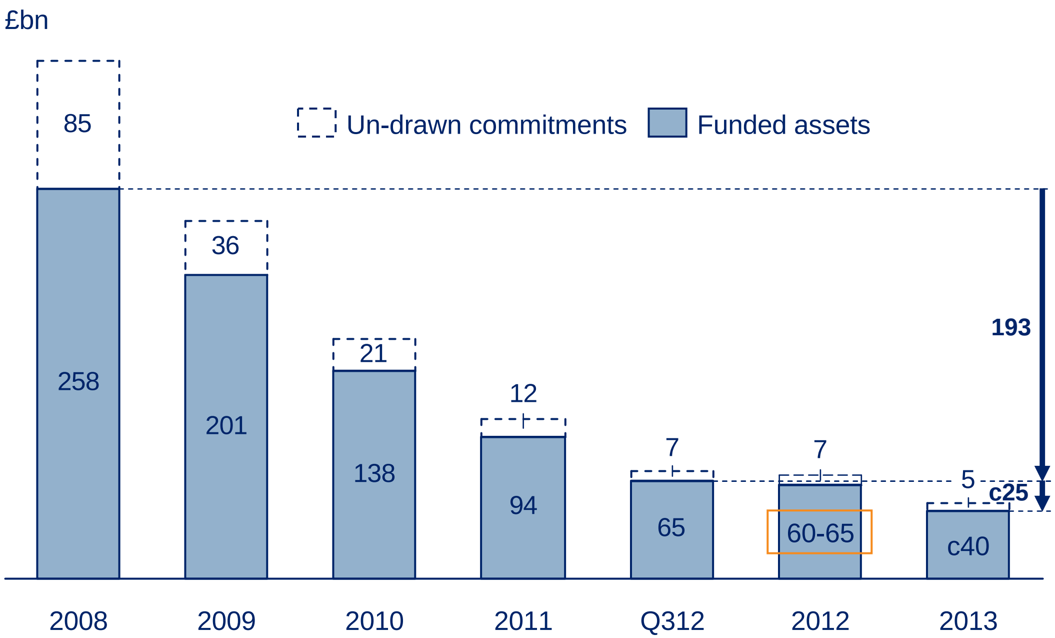
Non-Core performance

£m	Q312	Q212	Q312 vs. Q212	Q311	Q312 vs. Q311
Net Interest Income (NII)	86	86	0	183	(97)
Non-Interest Income	(36)	(85)	49	(118)	82
Total Income / (Loss)[1]	**50**	**1**	**49**	**65**	**(15)**
o/w de-risking (losses)	*(206)*	*(41)*	*(165)*	*(246)*	*40*
o/w disposal gains/(losses)	*(42)*	*(39)*	*(3)*	*(37)*	*(5)*
Operating Expenses	(212)	(262)	50	(323)	111
Insurance net claims	-	-	-	(38)	38
Profit / (Loss) before impairment losses	**(162)**	**(261)**	**99**	**(296)**	**134**
Impairment Losses	(424)	(607)	183	(682)	258
o/w Ulster Bank[2]	*(164)*	*(191)*	*27*	*(283)*	*119*
o/w Other	*(260)*	*(416)*	*156*	*(399)*	*139*
Operating Loss	**(586)**	**(868)**	**282**	**(978)**	**392**
TPAs[3], £bn	65.1	72.1	(7)	105.1	(40)
RWAs, £bn	72.2	82.7	(11)	117.9	(46)

- Favourable market conditions resulted in tightening of credit spreads and improvement in market prices
- Continued de-risking activity reduced RWAs by c£11bn QoQ
- Cost reduction driven by lower headcount and lower operating lease depreciation
- c£0.2bn reduction in impairments driven by non-repeat of a Project Finance provision in Q2

[1] Excludes IFRS5 disposals. [2] Includes EMEA related impairments of nil in Q312, £2m Q212 and £2m in Q311. [3] Third party assets, excluding derivatives.

Non-Core run-down



	2009-2013	2009-Q312
FX	(10)-(20)	(10)
Rollovers & drawings	20-30	18
Impairments	(20)-(30)[1]	(21)
Asset sales	(90)-(100)	(81)
Run-off	(110)-(130)	(99)

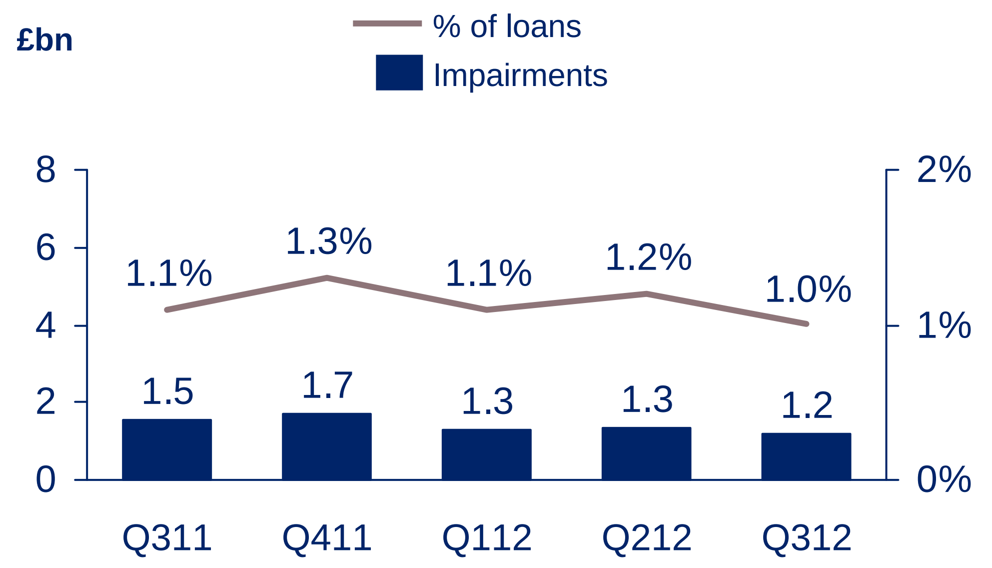
Target · Progress to date

- A further £7bn reduction in funded assets during the quarter, £29bn YTD
- £4bn of run-off, £2bn of disposals achieved
- Remain on target to exit c85% of original portfolio by end of 2013

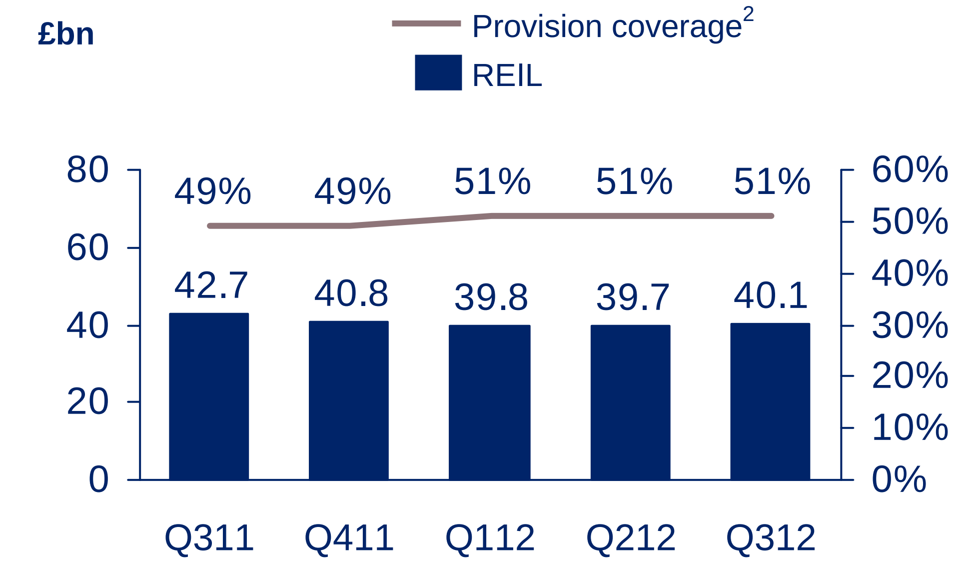
[1] Excludes FY08 impairments.

Impairments, REIL and provision coverage

Impairment trends, Q311 – Q312



REIL[1] and provision coverage, Q311 – Q312



- Group impairment charge declines to £1.2bn, driven by reduction in Non-Core and stabilisation at Ulster Bank
- REIL of £40bn, broadly flat, remain appropriately provisioned at 51%

[1] REIL = Risk elements in lending. [2] Provision balance as a percentage of REIL.

Funding and liquidity measures

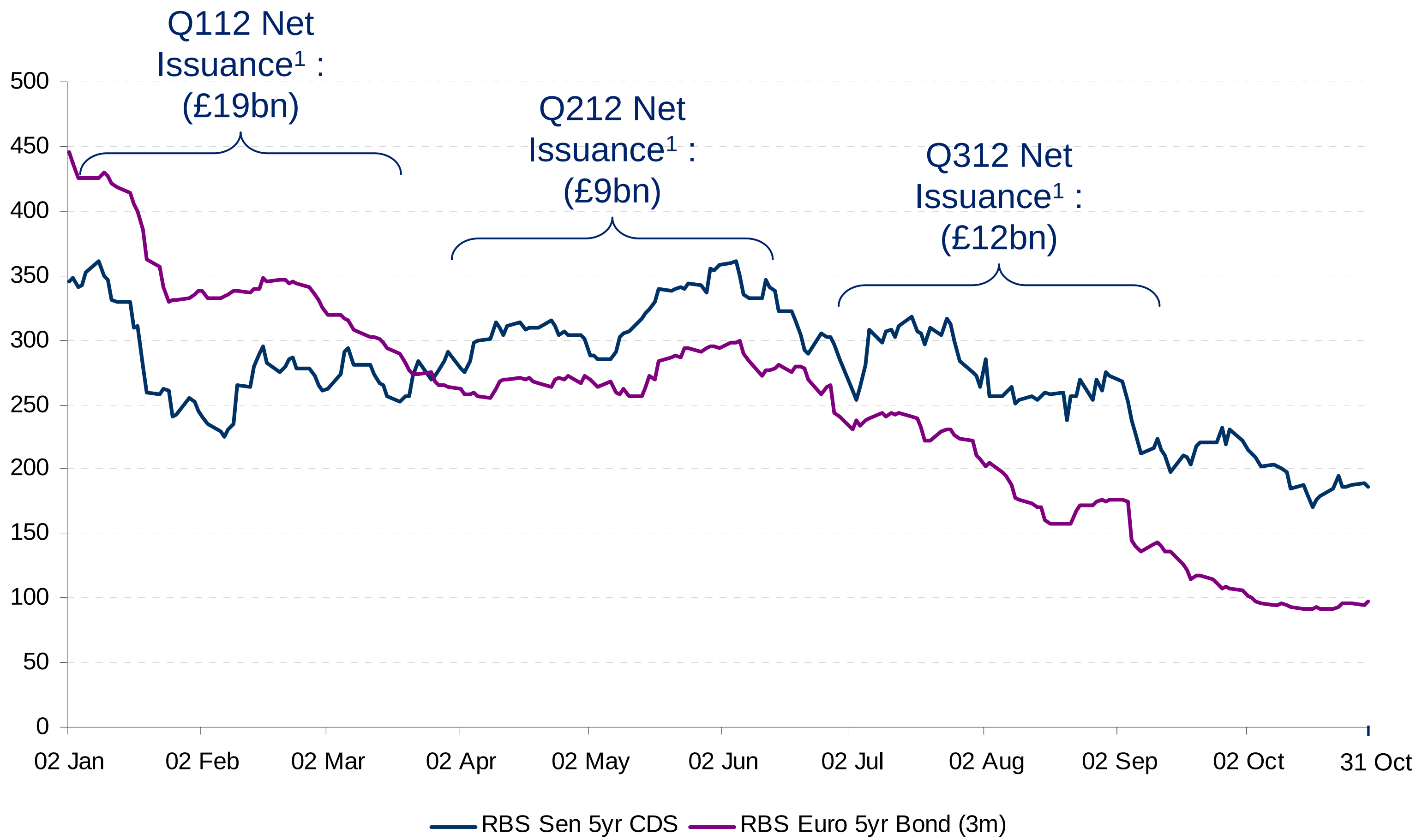
£bn	Worst Point[1]	Q212	Q312	Q-o-Q
Funded Balance Sheet[2]	**1,227**	**929**	**909**	**(2%)**
Liquidity Buffer[3]	**90**	**156**	**147**	**(6%)**
Total Wholesale Funding (TWF)[6]	**446**	**181**	**159**	**(12%)**
o/w STWF[4] (<1 year)	**297**	**62**	**49**	**(21%)**
Customer Deposits[5]	**-**	**435**	**435**	**0%**
Net Stable Funding Ratio (NSFR) (%)	**79%**	**115%**	**115%**	**0bps**

Key Metrics	Worst Point[1]	Q212	Q312
Loan : Deposit Ratio	**154%**	**104%**	**102%**
Loan: Deposit Ratio (Core)	**-**	**92%**	**91%**
Liquidity Buffer[3] as % Funded Balance Sheet	**7%**	**17%**	**16%**
Liquidity Buffer[3] as % STWF[4]	**30%**	**252%**	**300%**
STWF[4] as % Funded Balance Sheet	**24%**	**7%**	**5%**
STWF[4] as % TWF[6]	**67%**	**34%**	**31%**

- Further improvement in LDR, Group now 102%, Core 91%
- Short-term wholesale funding reduced by £13bn to £49bn; now only 5% of funded assets
- Liquidity buffer covers STWF 3 times

[1] Worst point taken as at FY08 except Loan:Deposit Ratio (October 08). [2] RBS pro-forma. [3] Liquidity buffer reserves comprise cash at central banks and eligible unencumbered government and other debt securities. [4] Short-term Wholesale Funding comprises the sum of all the Group's outstanding debt securities, subordinated liabilities and wholesale bank deposits with a residual maturity of less than one year. Wholesale bank deposits excludes cash collateral received under derivatives contracts. [5] Including deposits in disposal groups (£22.5bn Q212 and £22.2bn Q312). [6] Total Wholesale Funding excluding derivatives collateral.

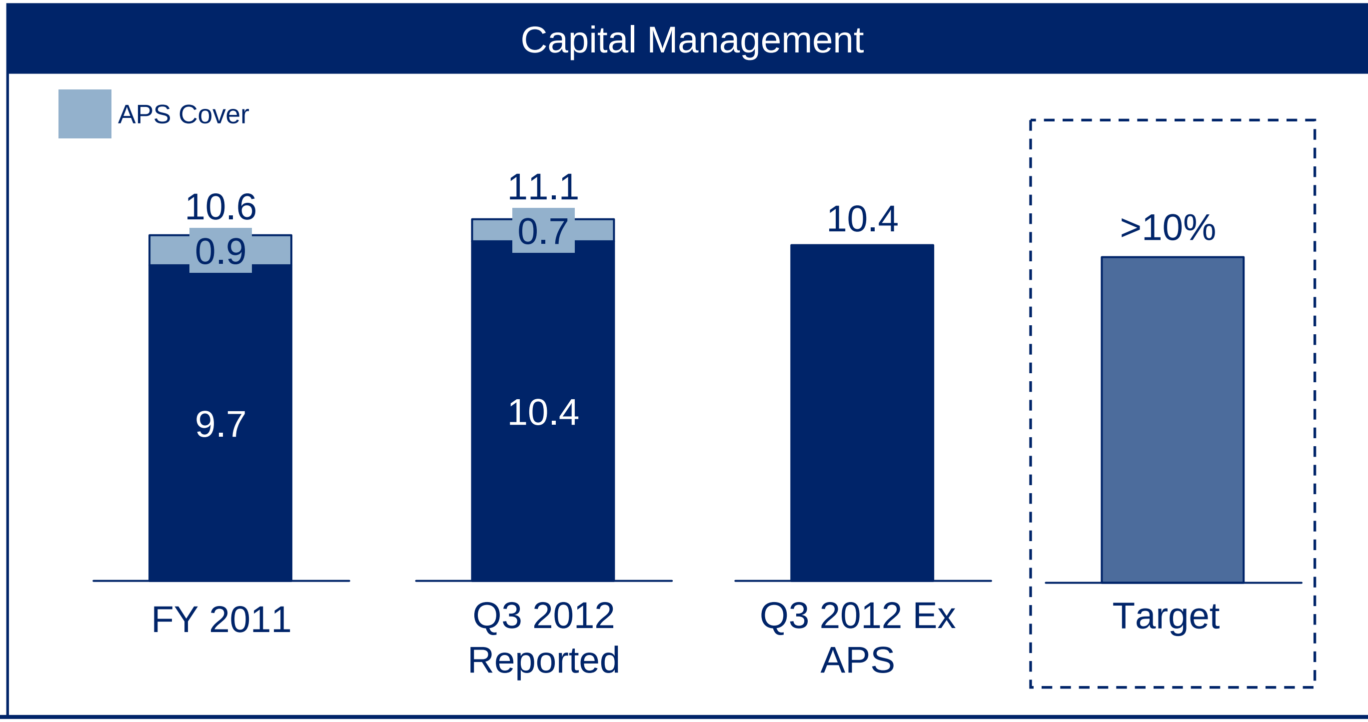
RBS Cash Bond, CDS and net issuance



- Significantly strengthened credit profile
- CDS spreads halved since their 2011 peak
- Spreads on five year maturity narrowed from c450bps to c100bps YTD

[1] Senior unsecured funding less maturities and buy-backs. Excludes capital, HoldCo issuance, fair value and FX adjustments.

The capital journey



- CT1 ex APS of 10.4%, despite absorbing uplifts of 70bps YTD from regulatory changes
- Targeting year end 2012 & 2013 CT1 at 10% or above post regulatory impacts
  - No change in fully loaded Basel III outlook
- Headwinds: regulatory model changes and Basel III
- Further mitigation / tailwinds: Non-Core reduction, ongoing Markets restructure, earnings generation

Conclusions

Core Franchises	■ Performance stable; growth challenging given environment ■ Good quarterly performance in UK Retail, Markets and Citizens; UK Corporate challenged ■ Core YTD RoE resilient at 10% (13% ex Ulster Bank)
Non-Core and Risk	■ Good progress in risk improvement agenda ■ Non-Core assets down by a further £7bn, £29bn YTD ■ On track to achieve lower end of year end target (£60-65bn)
Balance Sheet	■ Funded assets down £20bn Q-o-Q ■ Customer deposits stable; Loan reduction driven by Non-Core run-off ■ LDR further improved; Group at 102%, close to long-term target of 100%
Capital Position	■ Successful exit of Asset Protection Scheme completed ■ Core Tier 1 Ratio ex APS of 10.4% ■ Remain on course to support the business plan while absorbing regulatory change

Appendix

Non-Core asset class composition changes

YE 2008 funded assets

Retail

UK Mortgages & Personal Lending £3.2bn

US Mortgages & Personal Lending £11.9bn

Ireland Mortgages £6.5bn

Other

RBS Insurance £2.0bn

Bank of China / Linea Directa £4.5bn

Whole Businesses £0.8bn

Shared Assets and Other £1.5bn

Corporate

Project & Export Finance £21.3bn

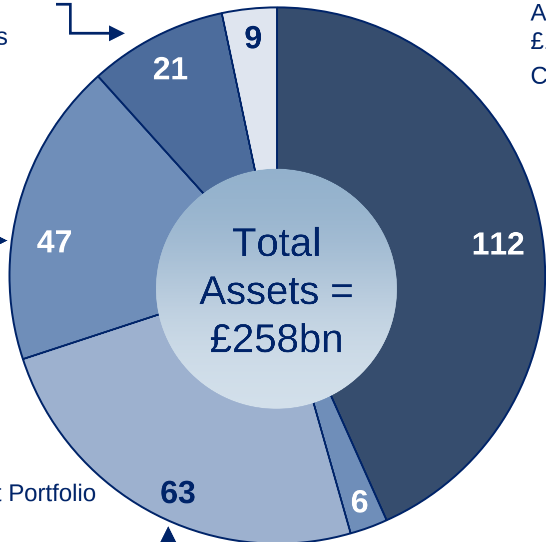
Asset Finance £24.2bn

Leveraged Finance £15.9bn

Corporate Loans & Securitisations £41.6bn

Asset Management £1.9bn

Countries £6.7bn



Markets

Structured Credit Portfolio £20.1bn

Equities £5.0bn

Credit Collateral Financing £8.6bn

Exotic Credit Trading £1.4bn

Sempra £6.3bn

Other Markets £6.2bn

Commercial Real Estate

Real Estate Finance £38.7bn

UK B&C £11.4bn

Ireland £9.9bn

US £2.8bn

SME

UK SME £4.2bn

US SME £1.6bn

Q3 2012 funded assets

Retail

US Mortgages & Personal Lending £3.0bn

Countries £0.7bn

Other

Shared Assets and Other £0.4bn

Corporate

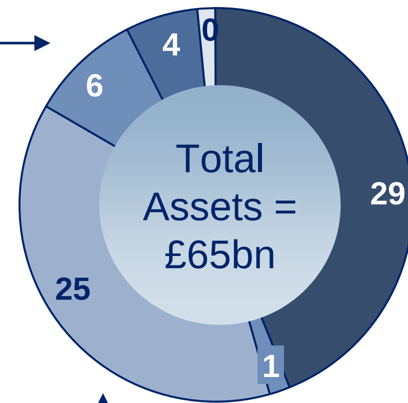
Project & Export Finance £9.1bn

Asset Finance £9.0bn

Leveraged Finance £3.3bn

Corporate Loans & Securitisations £6.7bn

Countries £1.0bn



Markets

Structured Credit Portfolio £5.2bn[1]

Equities £0.1bn

Exotic Credit Trading £0.2bn

Commercial Real Estate

Real Estate Finance £15.3bn

UK B&C £2.9bn

Ireland £6.2bn

US £0.6bn

SME

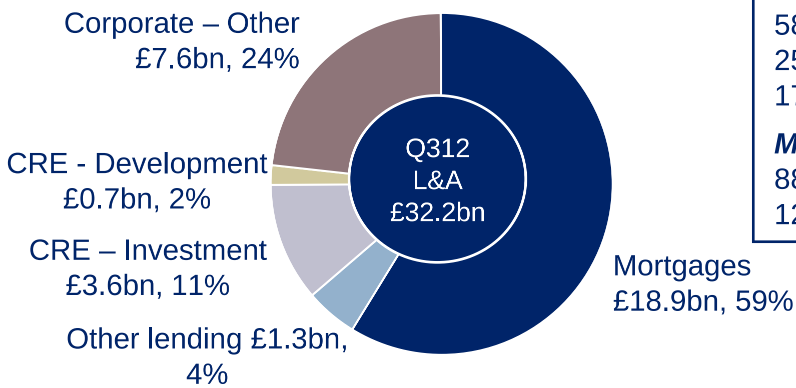
UK SME £1.1bn

US SME £0.2bn

[1] SCP includes £3.3bn of Corporate, £0.6bn RMBS, £0.4bn CMBS, £0.1bn Trapped SPVs and £0.8bn Other ABS.

Ulster Bank loan book

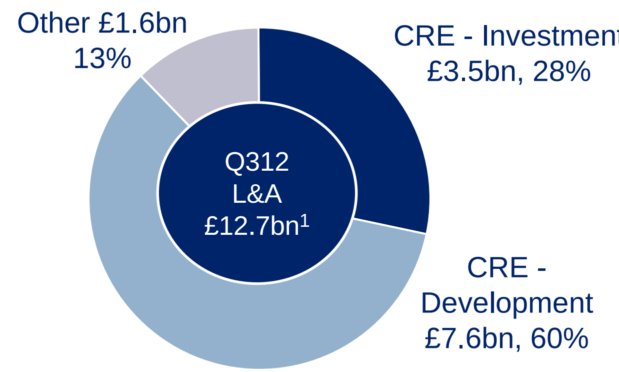
Ulster Bank – Core gross L&A, £32.2bn



CRE:
58% RoI
25% NI
17% UK

Mortgages:
88% RoI
12% NI

Ulster Bank – Non-Core gross L&A, £12.7bn[1]

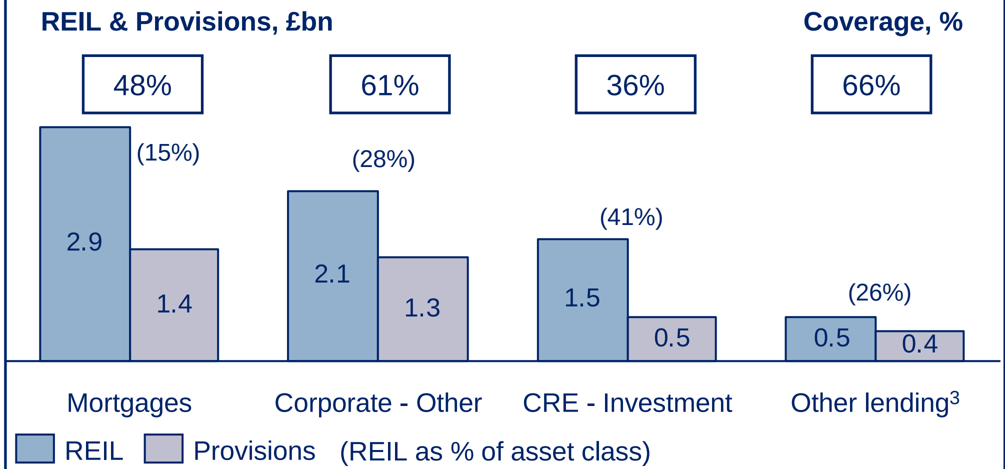


CRE:
64% RoI
27% NI
9% UK

Ulster Bank – Core REIL, Provisions & Coverage[2]

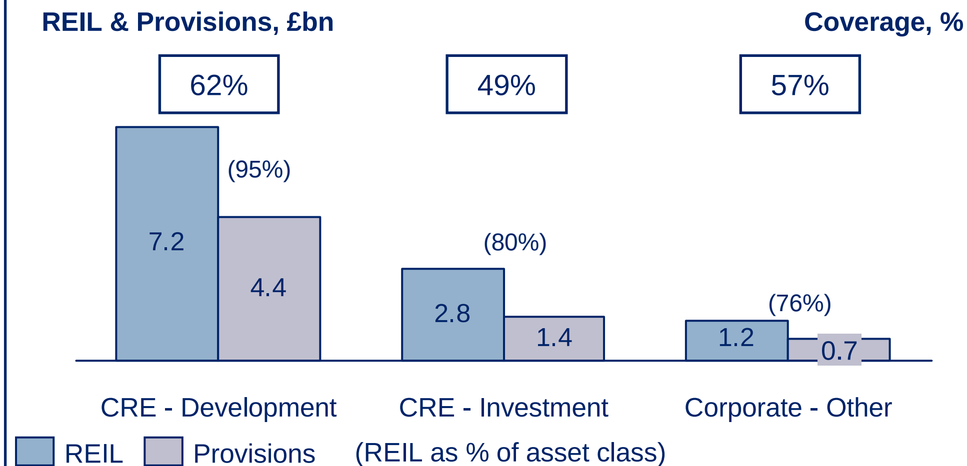
Total coverage 51%

'In the pack' vs peers



Ulster Bank – Non-Core REIL, Provisions & Coverage[2]

Total coverage 58%

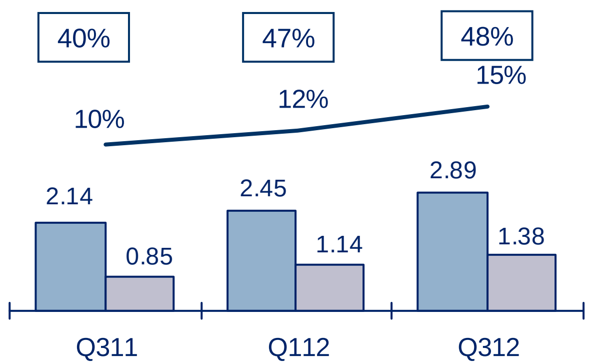


[1] Excludes EMEA L&A of £0.3bn. [2] Provisions as a % of REIL. [3] Includes Core CRE Development lending REIL of £345m and provisions of £173m.

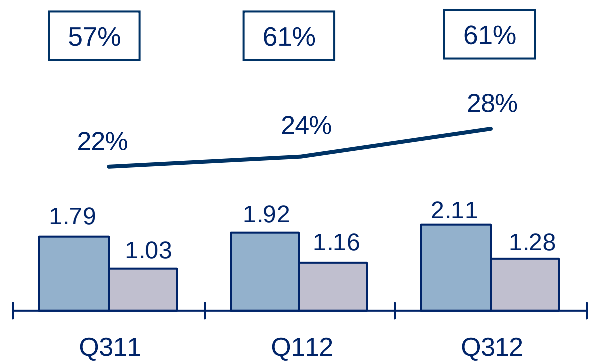
Ulster Bank asset quality

Core Ulster Bank, £32.2bn loan book – 51% provision coverage[1]

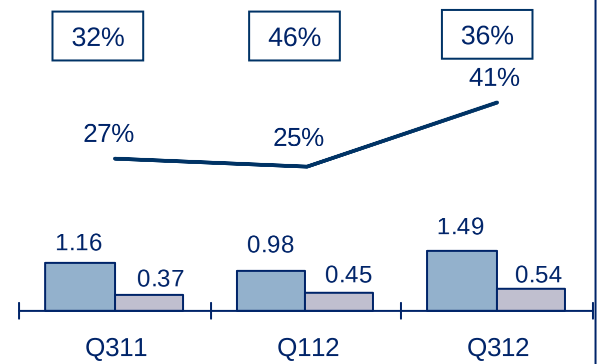
£bn **Mortgages**



£bn **Corporate - Other**



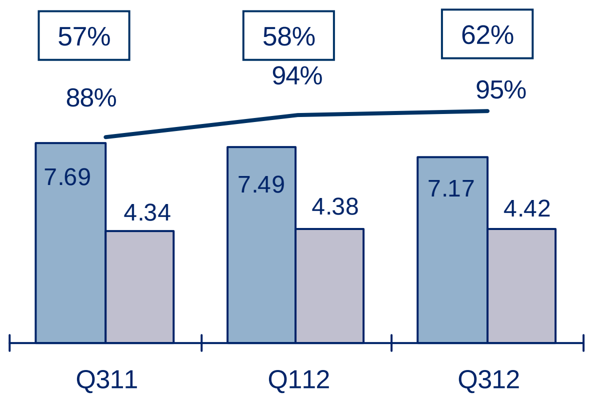
£bn **CRE - Investment**



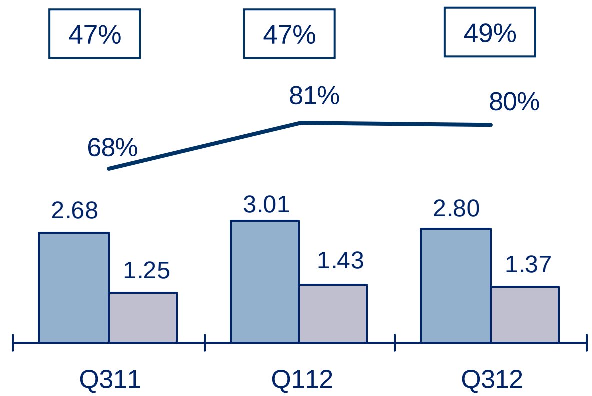
REILs, £bn — Provisions, £bn — REIL as % of gross L&A — % Provision coverage[1]

Non-Core Ulster Bank, £12.7bn loan book[2] – 58% provision coverage[1]

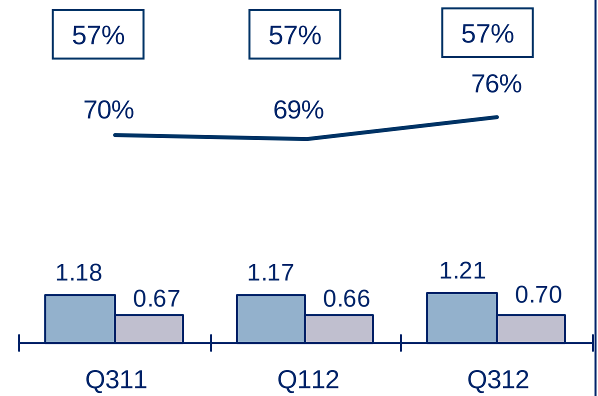
£bn **CRE - Development**



£bn **CRE - Investment**



£bn **Corporate - Other**



[1] Provisions as a percentage of risk elements in lending (REILs). [2] Excludes EMEA loans of £0.3bn.