

Make it happen



Merrill Lynch Banking & Insurance Conference 2008

Sir Fred Goodwin, Group Chief Executive

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- The outlook is subdued
- Economic forecasts uncertain
- There will continue to be economic activity even though growth prospects are dampened
- Opportunities will be spread unevenly by geography
- Strong franchises and diversification of income streams will remain important . . .
- As will operational effectiveness

Consensus GDP Growth Forecasts

	<i>Jan 07 2008</i>	<i>Jul 07 2008</i>	<i>Feb 08 2008</i>	<i>Sep 08 2008</i>	<i>Sep 08 2009</i>
UK	2.4%	2.2%	1.7%	1.2%	0.6%
US	3.0%	2.8%	1.6%	1.8%	1.4%
Eurozone	2.1%	2.3%	1.6%	1.3%	0.9%
Asia-Pacific	4.8%	5.0%	4.9%	4.8%	4.6%

Diversification of the Franchise

<i>Underlying Contribution £m</i>	<i>1H08</i>	<i>%</i>
Global Markets		
– Global Banking & Markets	2,405	30
– Global Transaction Services	886	11
Regional Markets		
– UK Retail & Commercial Banking	3,221	40
– US Retail & Commercial Banking	534	7
– EME Retail & Commercial Banking	416	5
– Asia Retail & Commercial Banking	126	1
RBS Insurance	513	6
Total before Manufacturing costs and Central Items	8,101	100

Diversification of Income Streams

Income by Type

Net Interest Income 45%

Business deposits 7% Personal lending 11%

Personal deposits 10%

Insurance net premium income 17%

Other operating income 5%

Income from trading activities 14%

Business lending 17%

Net fees and commissions 19%

Non-Interest Income 55%

Income by Geography

Asia-Pacific 6% Rest of World 1%

US 17%

Europe 14%

UK 62%

Highlights

- Strength of the Franchise
 - UK Retail & Commercial
 - US Retail & Commercial
 - GBM
- Opportunities for Growth
 - GBM
 - GTS
 - Asia
- Operational Effectiveness
 - Balance Sheet
 - De-leveraging
 - Margins
 - Credit Quality
 - Integration
 - Manufacturing

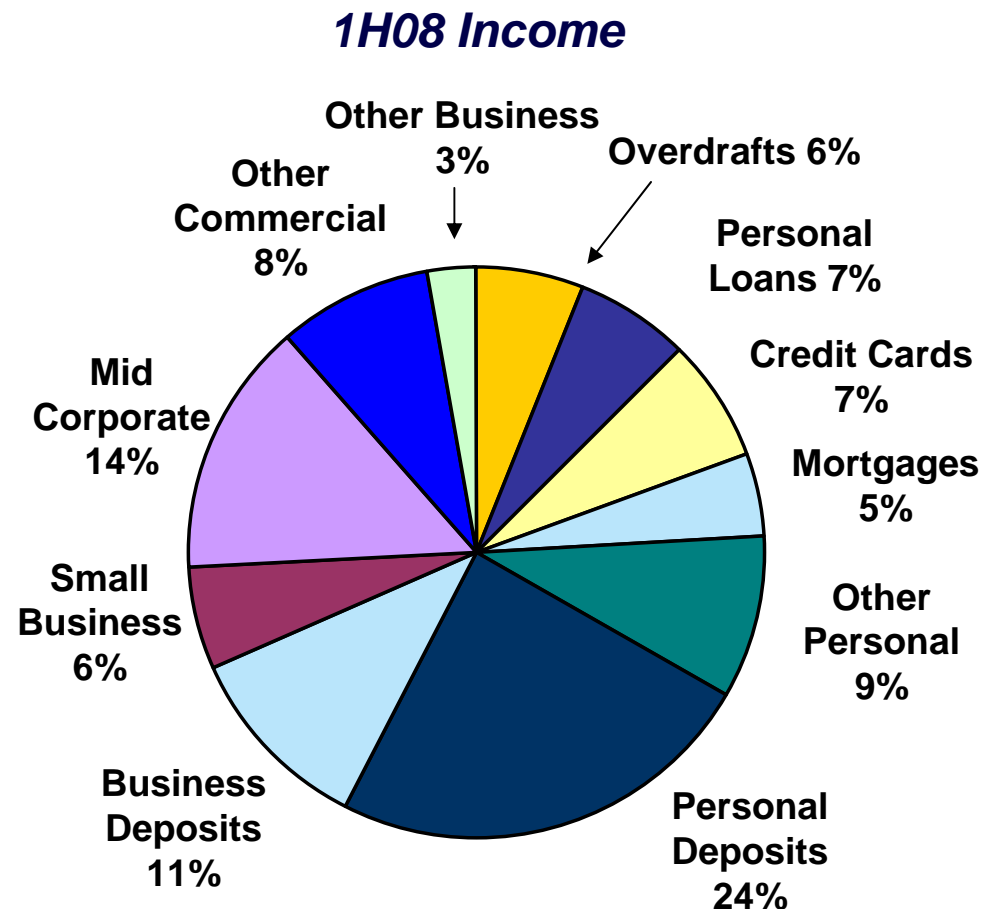
Strength of the Franchise: UK Retail & Commercial Banking

Strong and diversified franchise well positioned with high returns on equity

	1H08
Total income	+5%
Contribution	+7%
Operating profit	+8%

Strong customer franchises

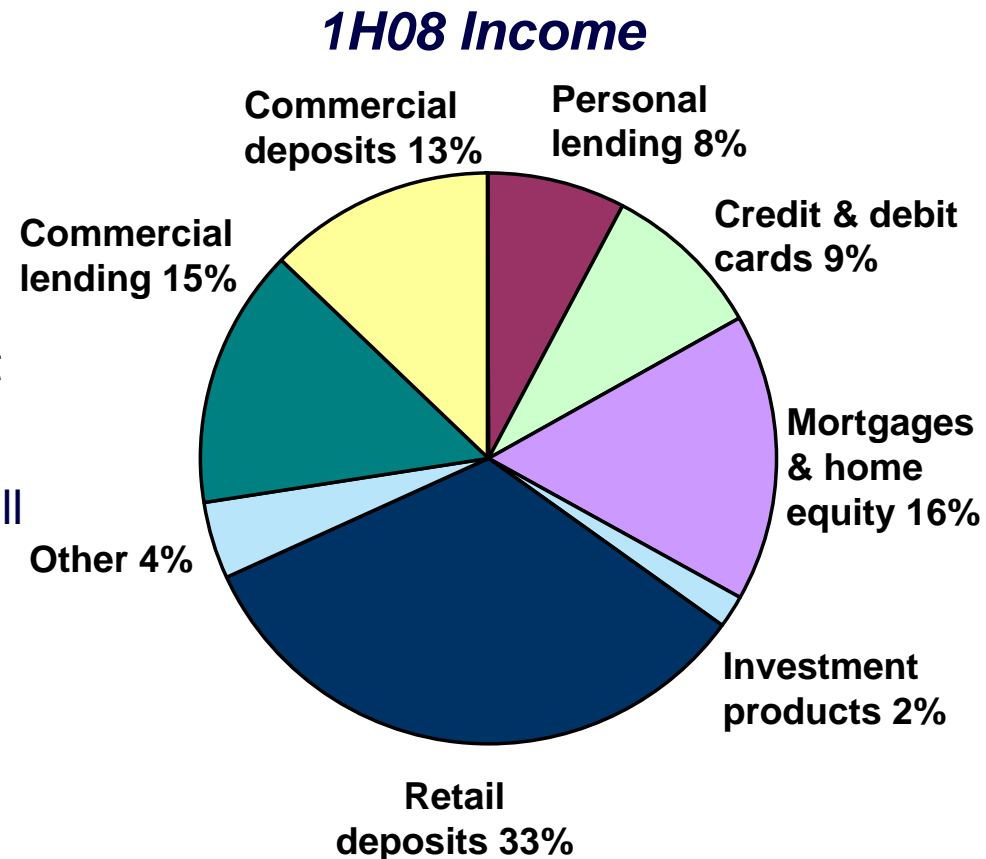
- #1= personal current accounts
- #1 private banking
- #1 small business banking
- #1 corporate and commercial



Strength of the Franchise: US Retail & Commercial Banking

Strong franchise well positioned in consolidating market

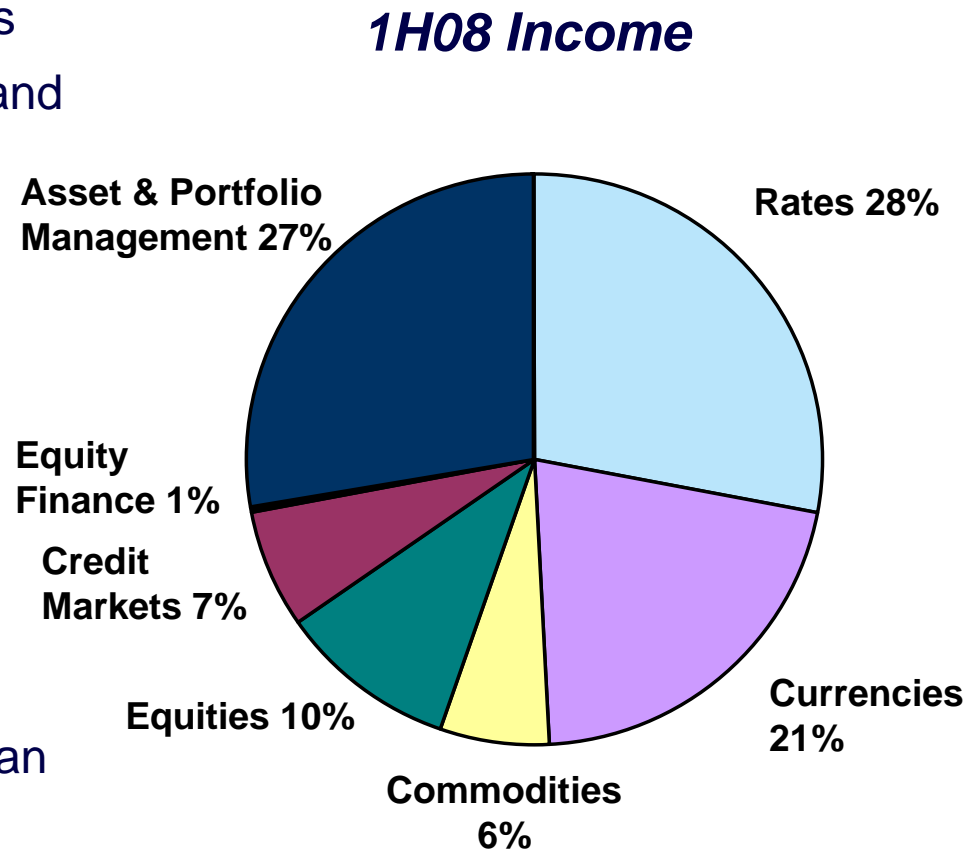
- Deposit-led franchise: RBS America #6 largest in the US
- Less exposed than peers to credit issues
- US further through economic cycle than UK and Europe, housing market correction further advanced
- Changes in competitive landscape will provide organic opportunities
- Significant potential in commercial banking
 - Drawing on GBM/GTS product strengths



Strength of the Franchise: Global Banking & Markets

GBM has market-leading customer franchises, product depth and global reach

- Market leading customer franchises
 - #1 in UK and Europe, #5 in US and Asia (ex Japan)
- Product depth
 - #4 Global IG Corporate Bonds
 - #4 Global Syndicated Loans
 - #5 European ECM
 - #1 Project Finance MLA
 - #4 Global FX
- Local markets presence in more than 50 countries



Opportunities for Growth: GBM Risk Management Products



Combination with ABN AMRO has enhanced risk management product capabilities and local reach which will provide sustainable growth

- Volatility has driven increased customer demand, strongly positioned to meet customer needs
- Sustainability of growth supported by
 - Local markets presence
 - Expanded global franchise
 - Fewer competitors

<i>Income</i>	<i>1H08 v 1H07</i>
Currencies	+34%
Local Markets	+88%
Rates	+112%

<i>Product Ranks</i>	<i>1H07</i>	<i>1H08</i>
Foreign Exchange	#4	#4
Currency options	#2	#1
Interest rate options	#9	#5
Interest rate swaps	#7	#5
Forward rate agreements	#8	#4

Opportunities for Growth: Global Transaction Services

Delivers high quality earnings through the cycle

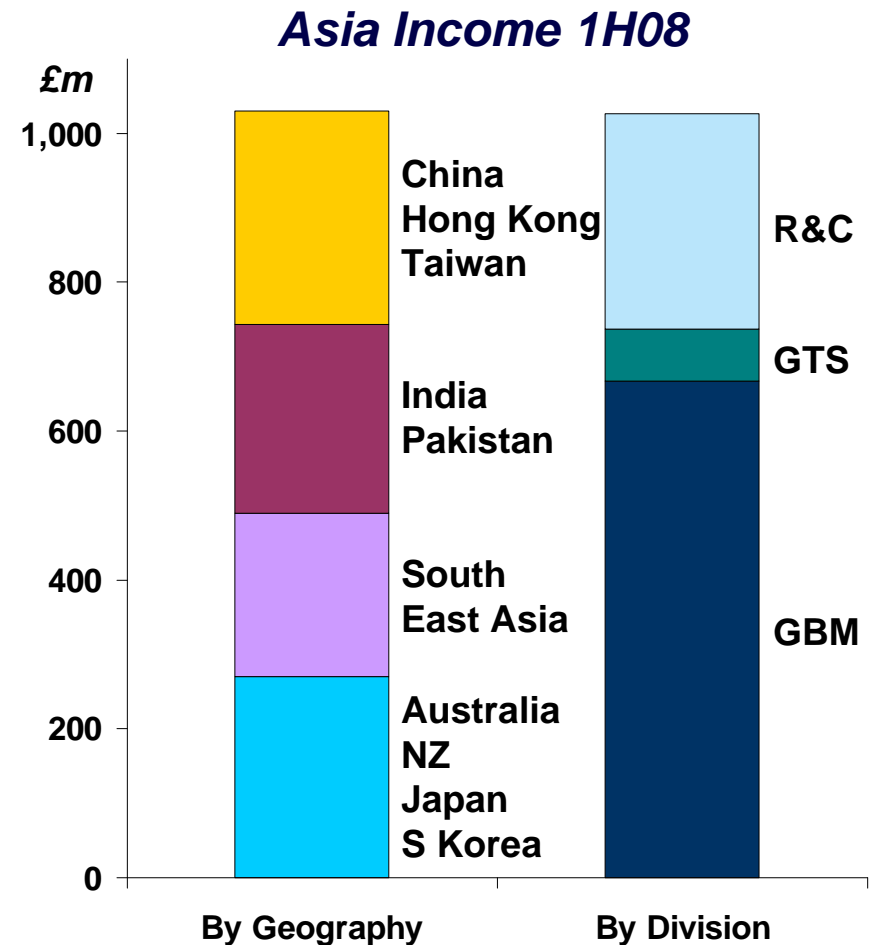
- Global cash management, trade finance, merchant services and commercial cards
- Top 5 transaction bank with presence in more than 50 countries, scalable infrastructure
- A network business with high barriers to entry
- Low volatility and low capital intensity
- Substantial source of stable deposits: £59bn, +10% 1H08
- Cross-sale of product suite complementary to GBM activities

	1H07	1H08	
	£m	£m	%
Net interest income	393	440	+12
Non-interest income	652	733	+12
Total income	1,045	1,173	+12
Contribution	789	886	+12
Operating profit	578	665	+15

Opportunities for Growth: Asia

Integrated proposition in strongest growing region

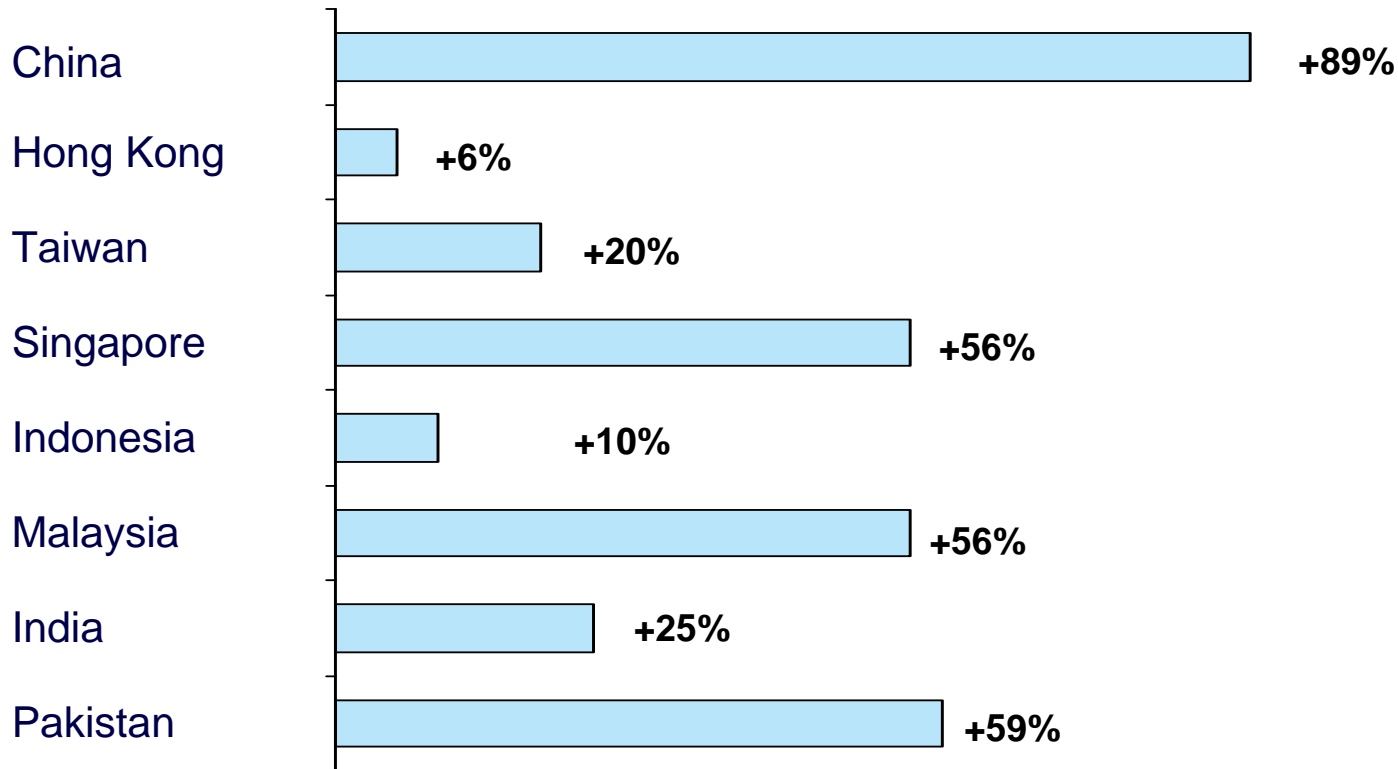
- £1bn income from Asia in 1H08
- GBM/GTS presence in 15 Asian markets, retail & commercial proposition in 8 Asian markets
- Linkages between propositions
 - Affluent clients often business owners
 - Strong trade focus drives GTS product needs
 - GBM investor product platform provides multi-asset proposition



Opportunities for Growth: Asia - Retail & Commercial

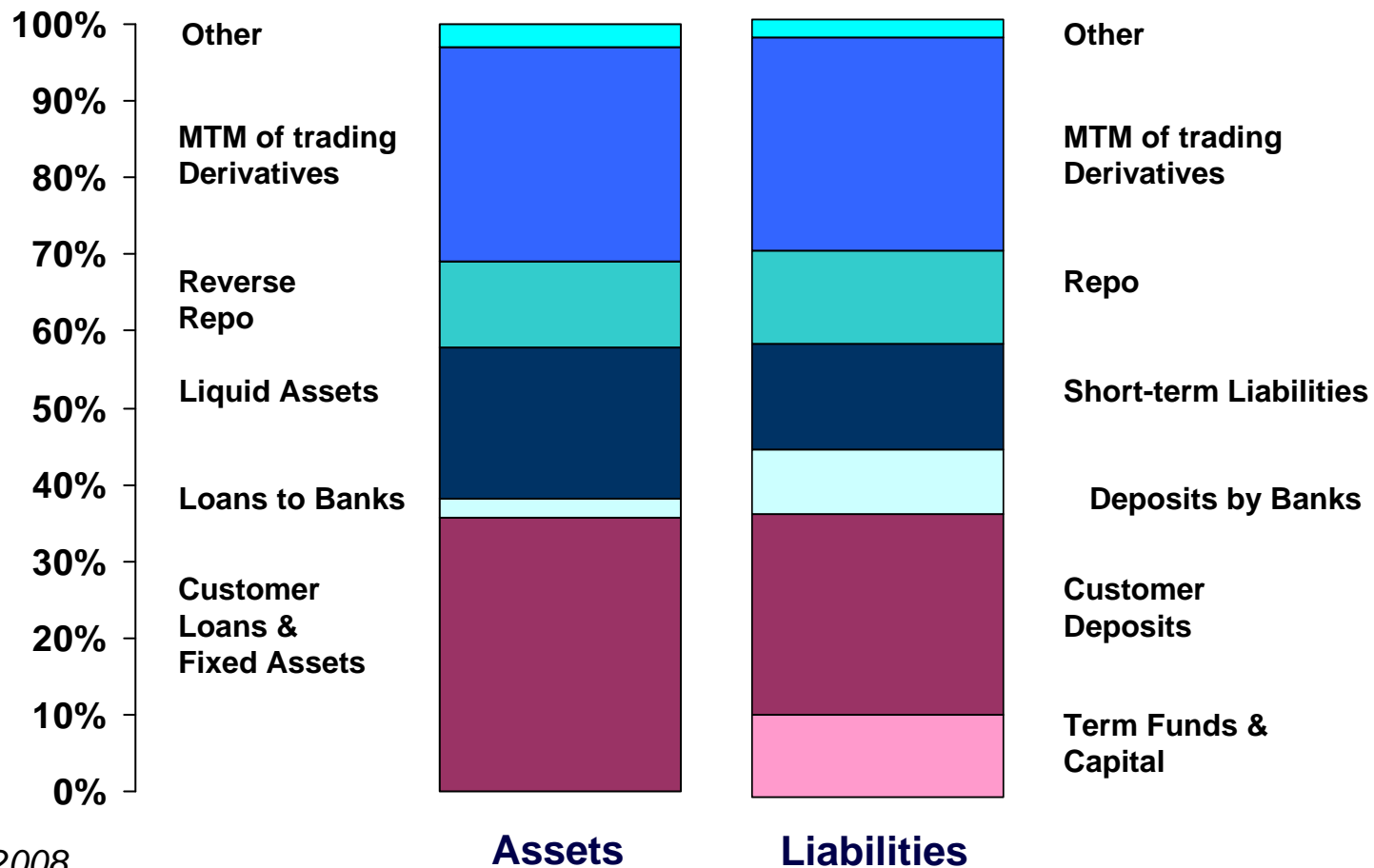
The continued expansion of the Asian economies provides strong opportunities in affluent and commercial banking

Retail & Commercial Income Growth 1H08



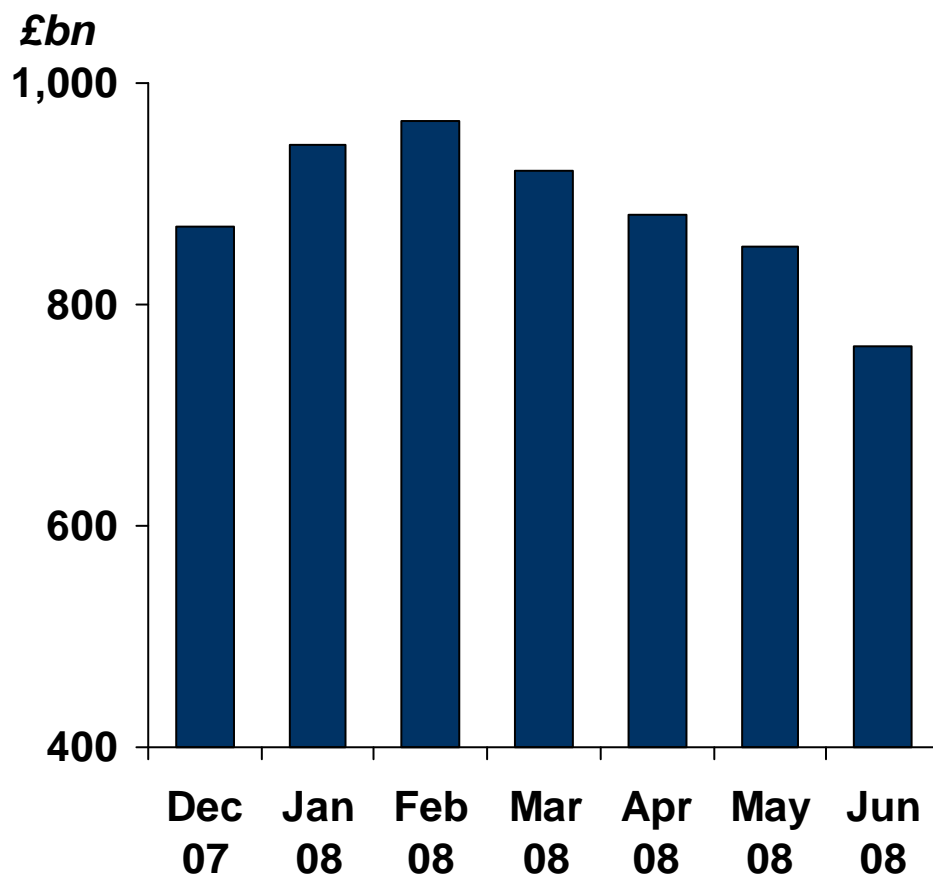
Operational Effectiveness: Balance Sheet

Well matched balance sheet structure



Operational Effectiveness: Balance Sheet De-Leveraging

GBM Third Party Assets*

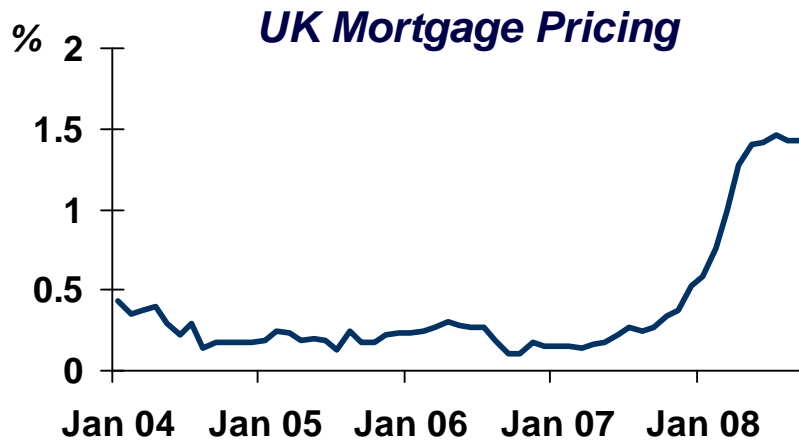


- Reduction of £108bn in third party assets in the first half, £157bn in 2nd quarter
- Focus on improving risk/return profile, whilst continuing to support customer relationships
- Programme continues in 2H08
 - Reductions in trading, repo and loan books
- Target capital ratios remain >6% core and 7.5%-8.5% tier 1

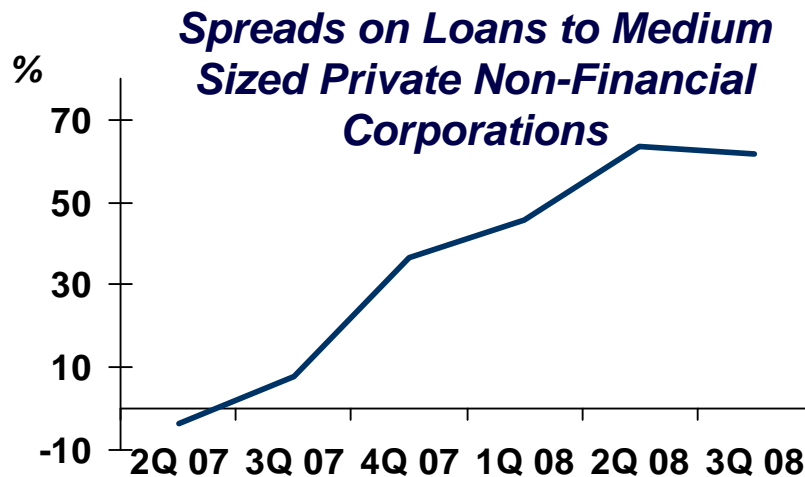
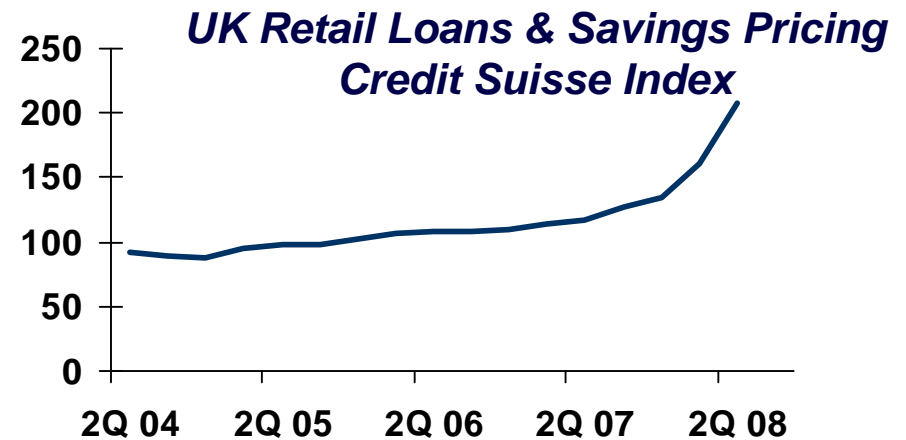
* Third party assets excludes derivatives

Operational Effectiveness: Margins

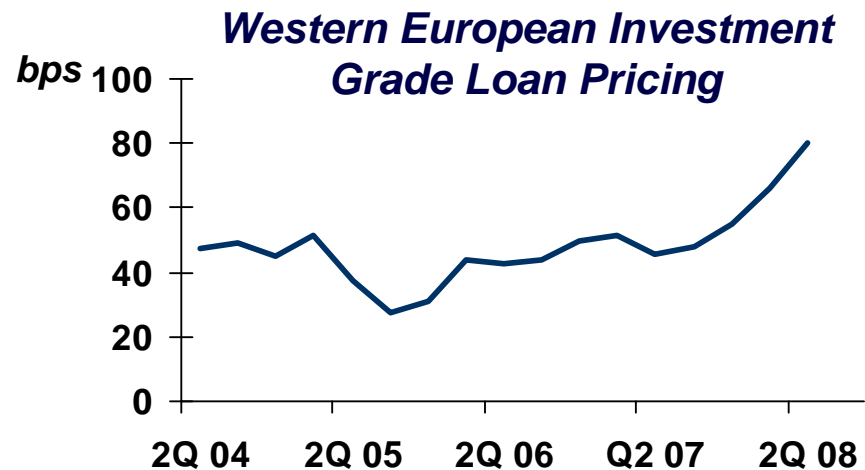
Increased risk premiums now available across the business



Source: Credit Suisse UK Banks Monthly Report



Source: Bank of England, Balance of respondents reporting increasing spreads

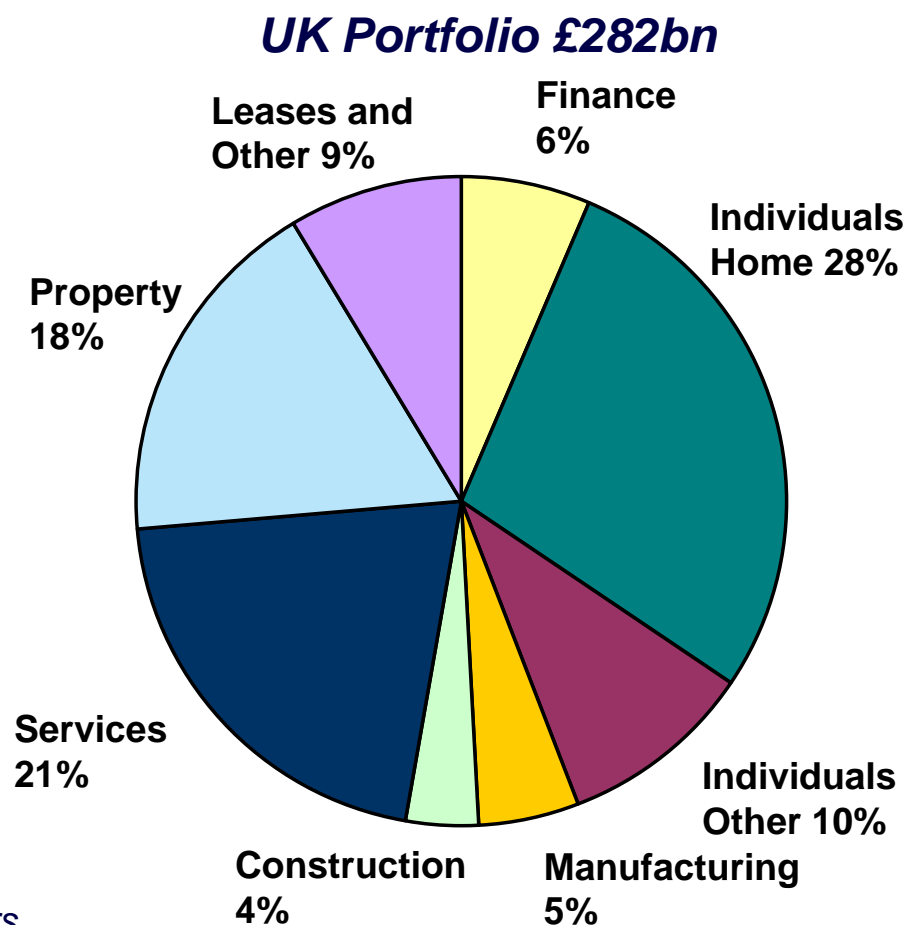


Source: Reuters Loan Pricing Corporation

Operational Effectiveness: Credit Quality

Diversified and high quality portfolio - UK

- UK Mortgages
 - Average LTV 49%
 - Buy-to-let 1% UK loan book
- UK Consumer Unsecured
 - Credit card 3 month arrears 0.58%
- UK Commercial Property
 - Average LTV 68%
 - 1% speculative

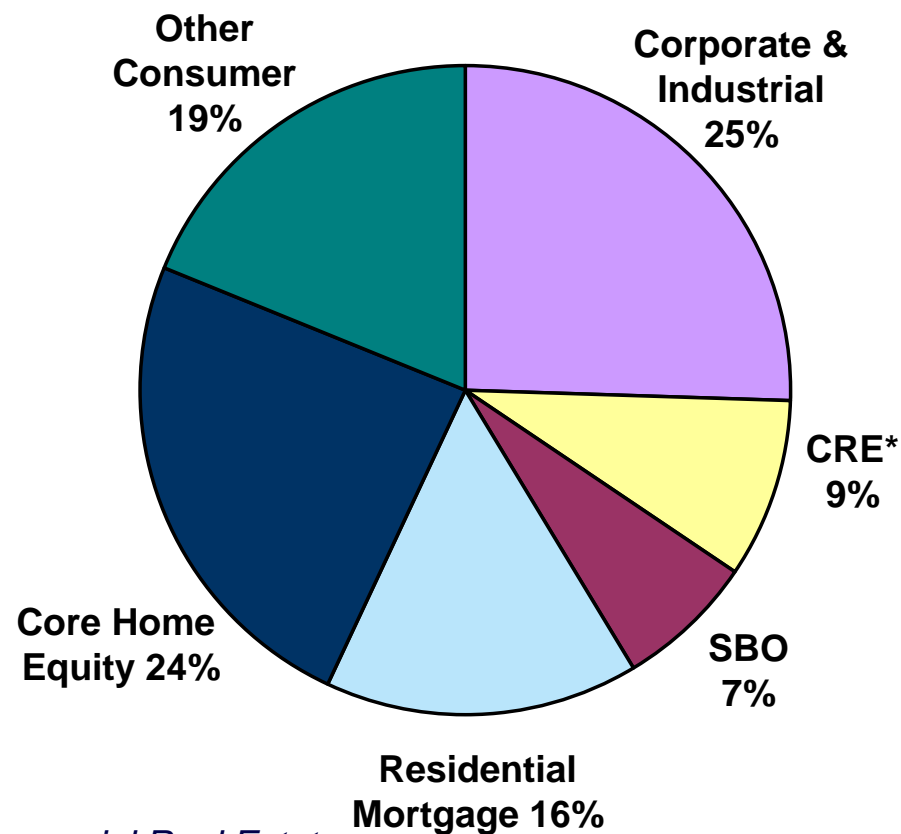


At 30 June 2008. Gross loans and advances to customers, net of reverse repos and stock borrowing

Diversified and high quality portfolio - US

- US Core Consumer Real Estate
 - Average LTV 64%
 - Average FICO 748
 - No Option ARMs
 - No sub-prime origination
- US Commercial Real Estate
 - Average LTV 64%

US Portfolio £57bn

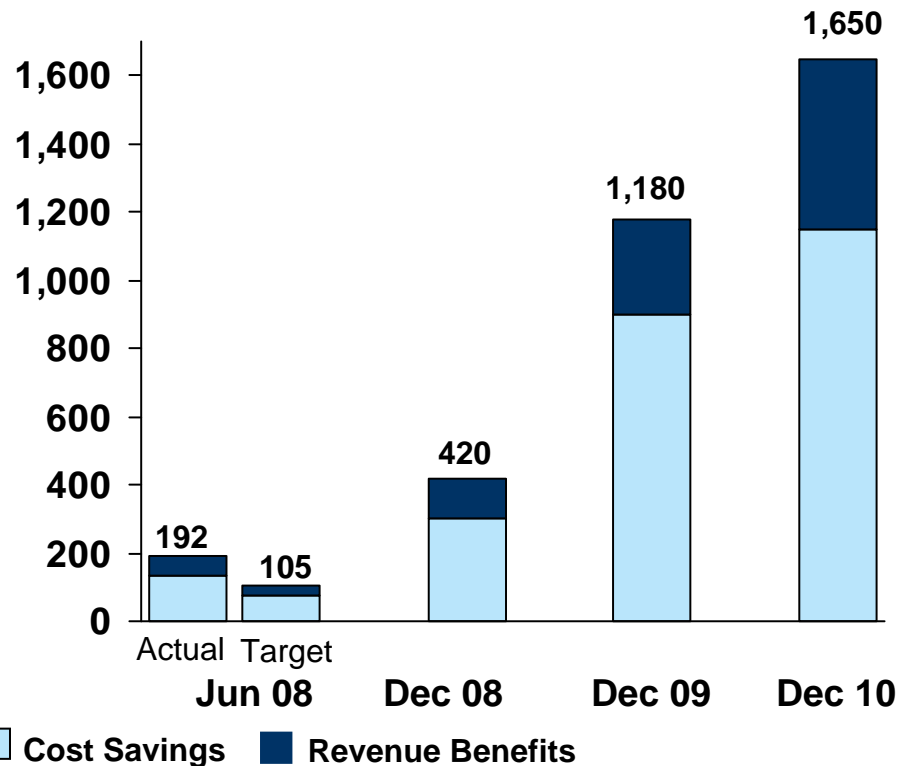


Operational Effectiveness: Integration

Integration remains on track to deliver £1.2bn benefits in 2009 and £1.7bn by 2010

Transaction Benefits

Impact on profit before tax

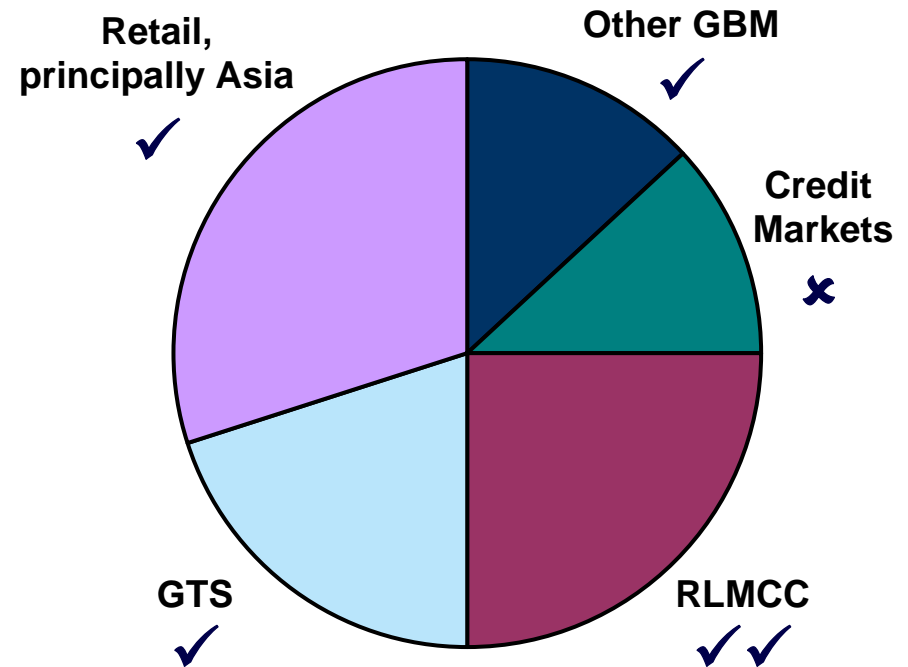


- Delivery of benefits remains ahead of plan
- Accelerated delivery of GBM headcount reductions and increased purchasing savings
- Scaling of GBM IT systems complete, client cut-over and novation underway

Revenue benefits delivering ahead of plan

- Revenue benefit plans to deliver £280m by 2009, £500m by 2010
 - 50% from strong growing Asia Retail and GTS businesses
 - 25% from outperforming Rates, Local Market, Currency & Commodity businesses
- Physical re-branding implemented in 31 countries

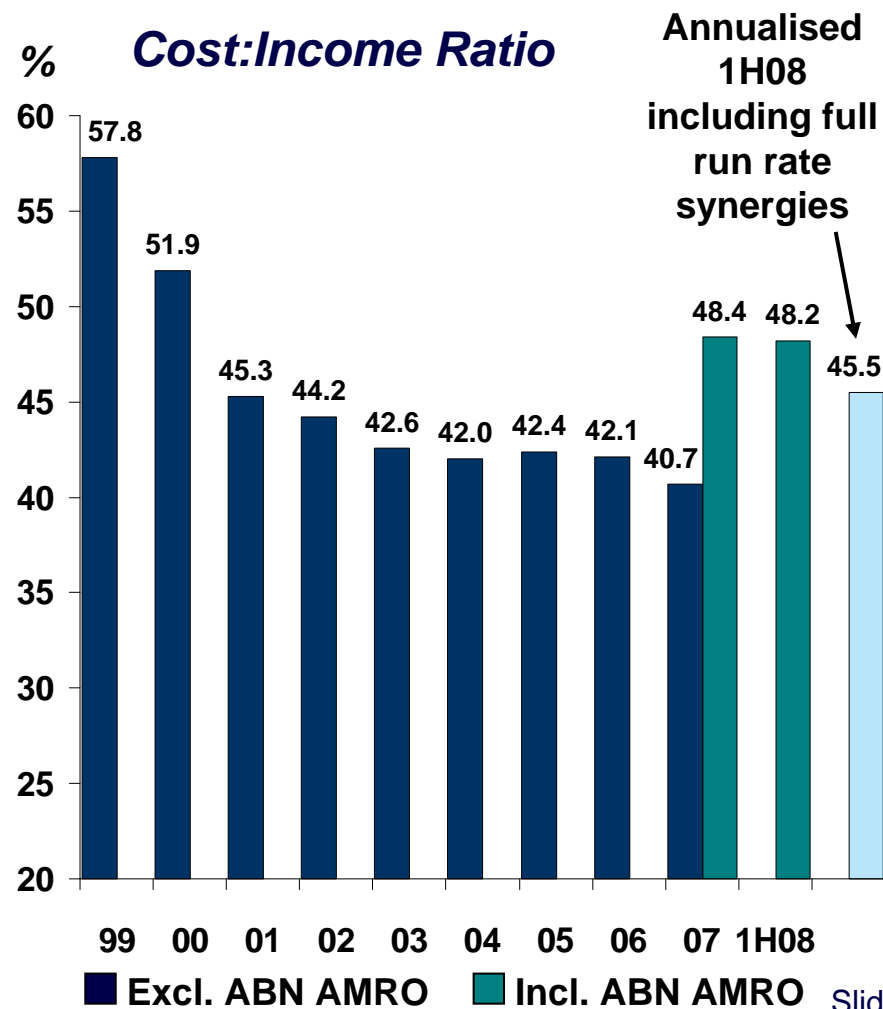
Composition of Revenue Benefits



Operational Effectiveness: Group Manufacturing

Significant scope for further efficiency gains

- Roll out of UK model globally
- Beyond integration, scope for significant additional efficiency improvements from
 - Global hubs
 - IT platform consolidation
 - Property consolidation
- Reduction of cost:income ratio by 5 percentage points would increase profit before tax by £1.7bn



- The outlook for 2009 is challenging and presents a changing competitive landscape
- We have franchise and operational strength to meet these challenges
- We are delivering against our plans and targets
- We have the flexibility to respond to organic opportunities as they emerge