



UBS Financial Services Conference

Stephen Hester, Chief Executive Officer

12th May 2009

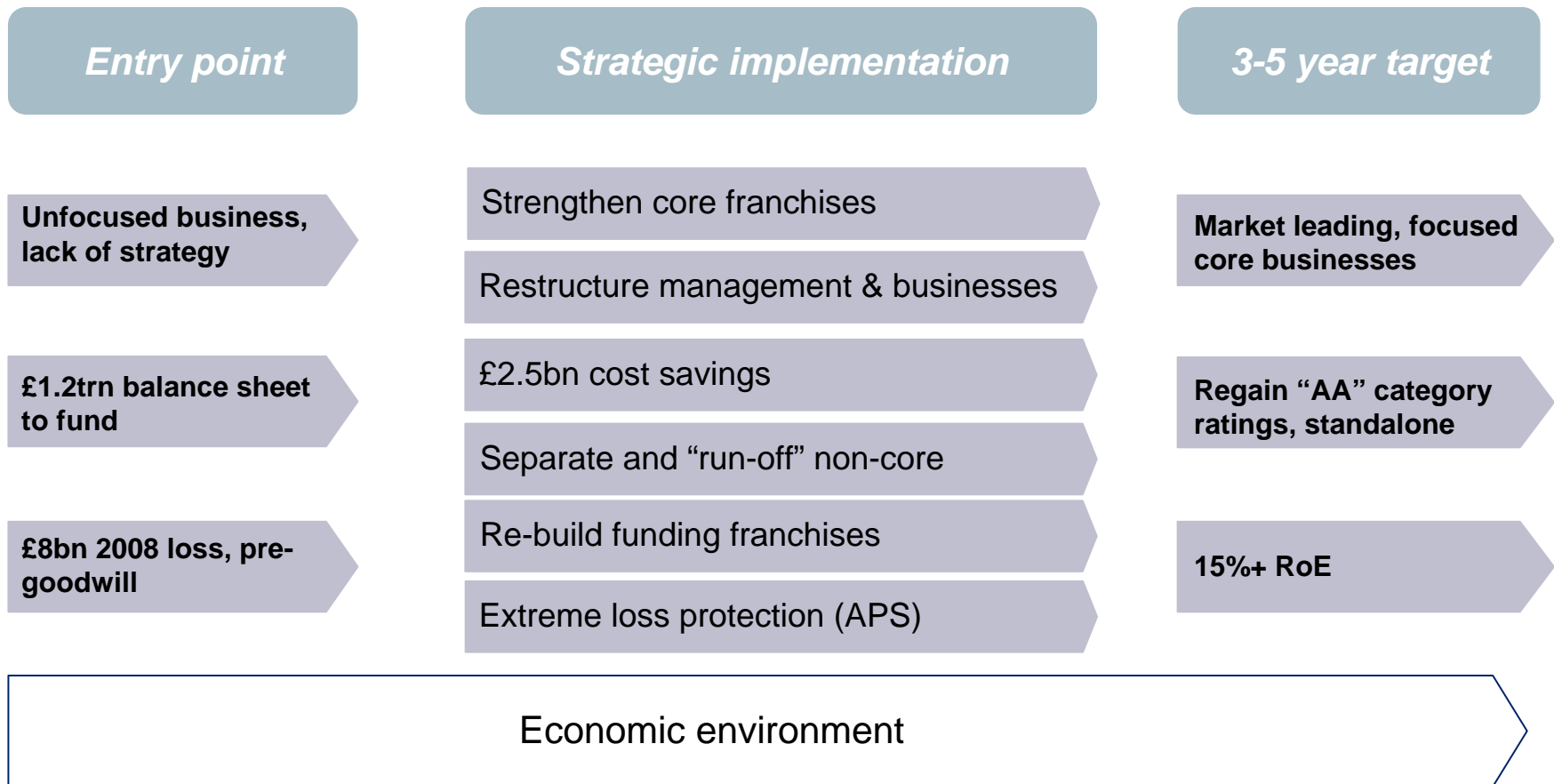
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The journey we are on

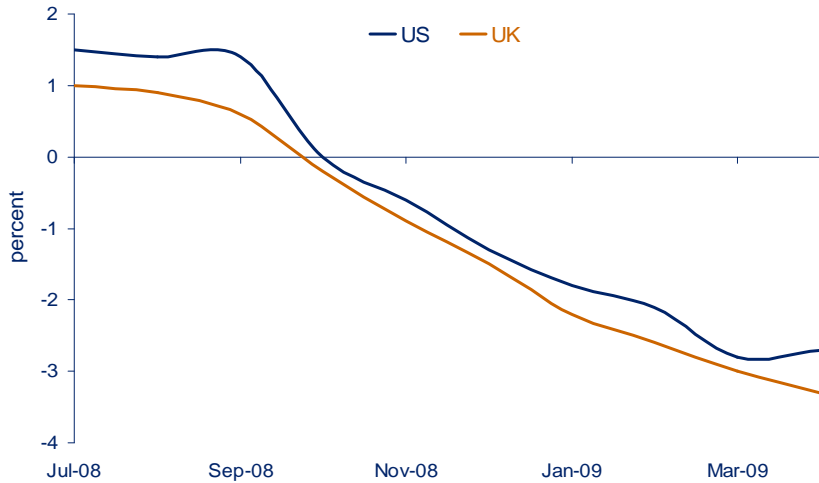




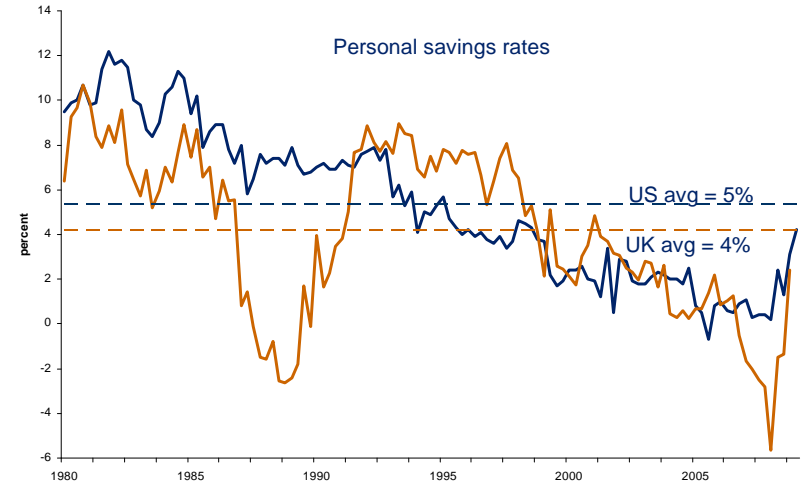
The environment we face

The environment we face

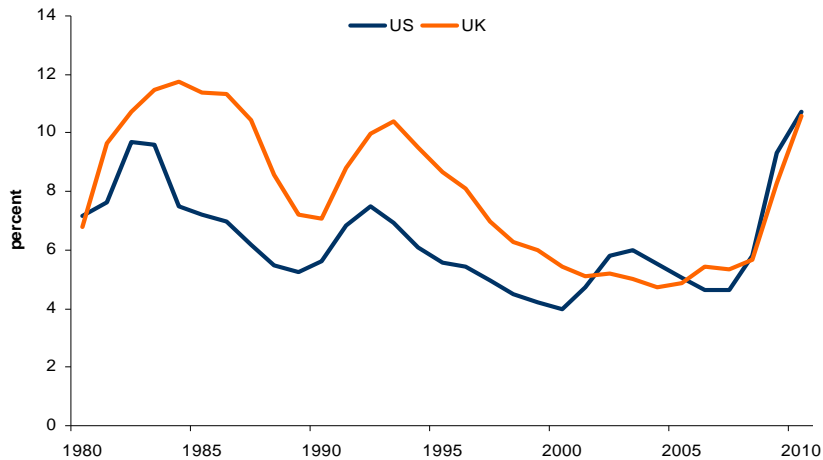
Consensus forecasts for 2009 GDP growth



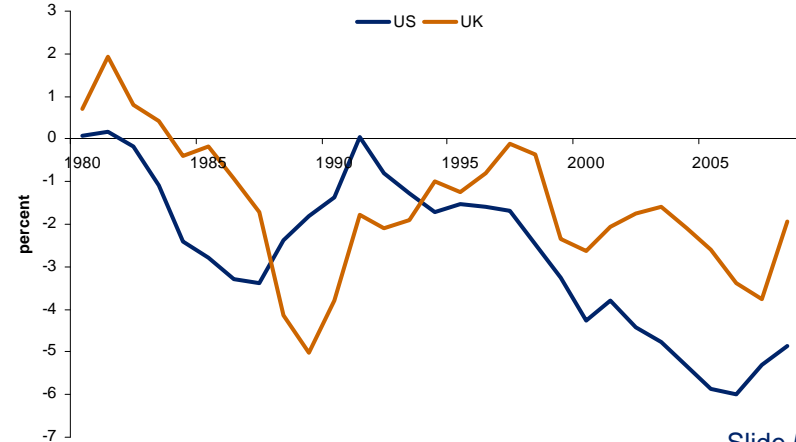
Imbalances must be unwound - UK & US savings ratio, 1980-2008



Unemployment trends – UK & US 1980 to forecast 2010



Current Account deficit – UK & US 1980-2009

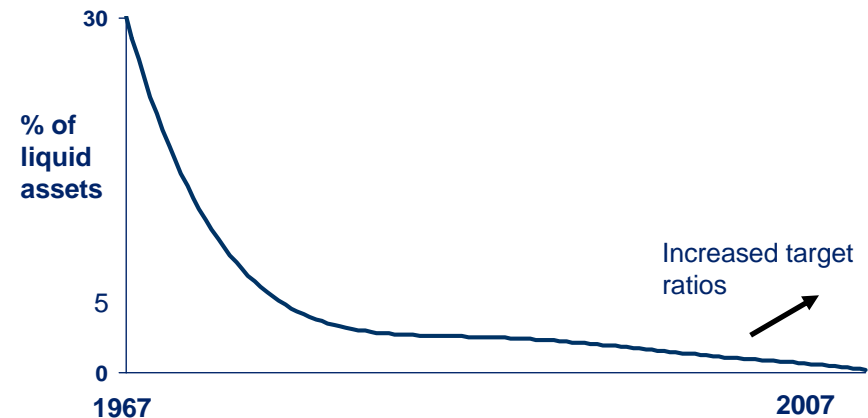


Source: Datastream, Consensus forecast

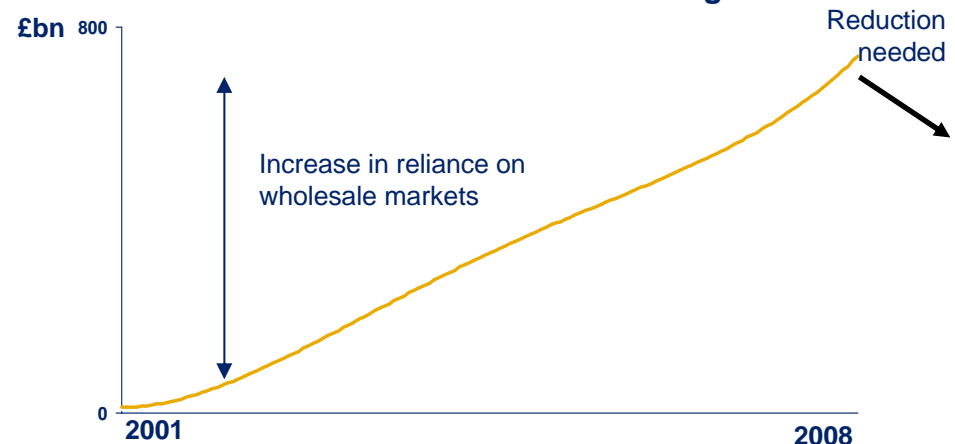
Banks need to improve liquidity and funding balance

- Liquid assets reduced from 30% to 0.5% over last 40 years
- Focus on holding higher level of liquid assets going forward - Government bonds
- Targeting 1980s levels 5-10% of asset liquidity
- Reduce reliance on short-term unsecured wholesale funding
- Increase maturity of wholesale liabilities

Liquid asset holdings on UK bank balance sheets



UK Banks' reliance on wholesale funding





RBS's Customer Franchises – strong foundations on which to build

Market leading customer franchises

UK

- #1 Small business banking
- #1 Corporate and commercial
- #1 Cash management
- #1 Private banking
- #2 Personal current accounts
- #1 Motor insurance
- #2 Household insurance

GBM / GTS Global Rankings

- #3 Corporate bonds
- #3 Syndicated loans
- #4 Foreign exchange
- #5 Interest rates
- #5 Securitisation
- #3 Merchant acquirer
- #5 Trade finance

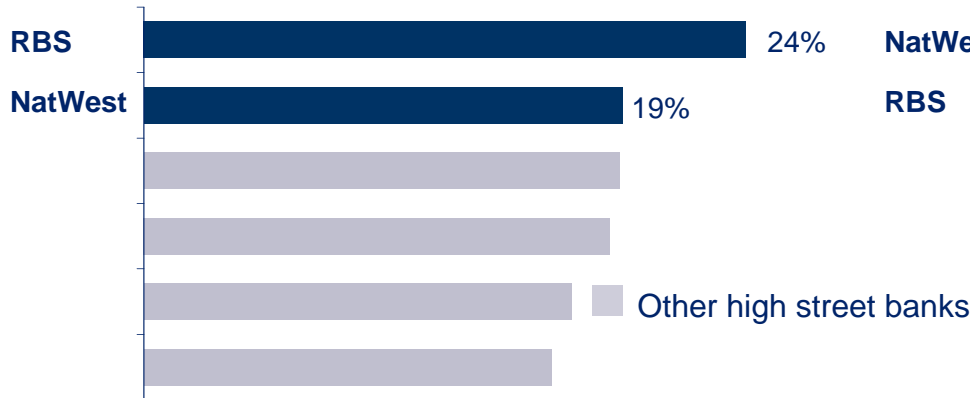
US / Citizens

- #2 bank by deposits in New England and #3 in Pennsylvania
- #1 by branches in New Hampshire and Rhode Island, #2 in Pennsylvania



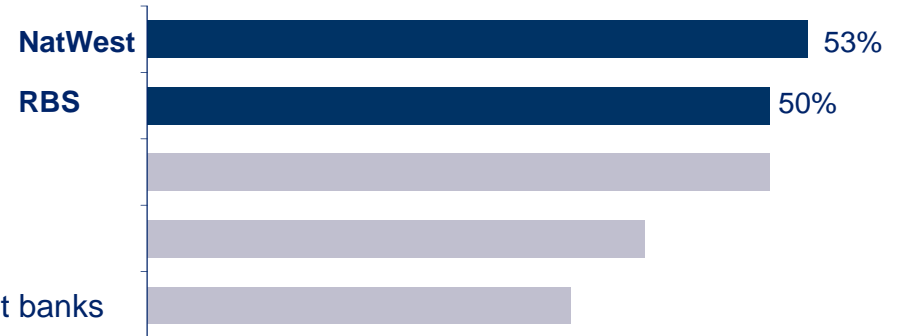
Customers have stayed with us - UK

UK Retail - Overall Satisfaction 2008



Source: GfK FRS, GB December 2008, personal customers, quarterly rolling, for high street banks, extremely satisfied with main current account provider

UK Commercial - Overall Satisfaction 2008



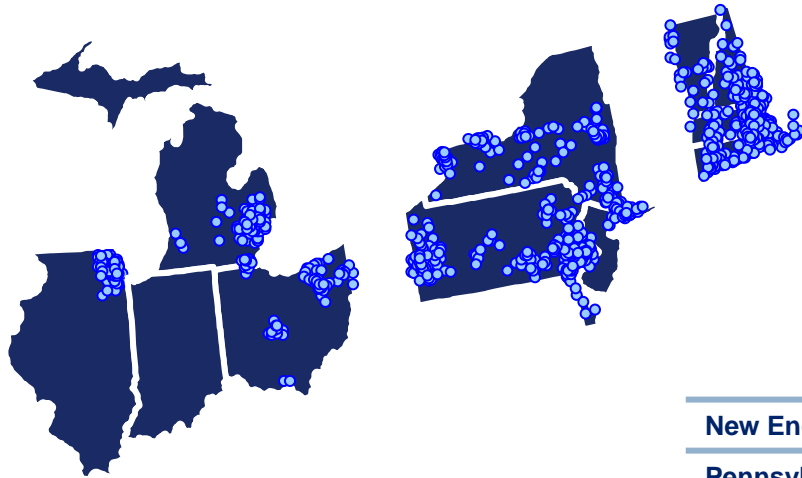
Source: Ipsos MORI telephone survey, England & Wales, October 2008, RBS UK Commercial Banking Customers, £1m-£25m turnover (2,326 responses), against main competitors, very satisfied overall

Retail Customer accounts	Millions Mar 09	Q109 vs Q108 % Change	Millions Dec 08	FY08 vs FY07 % Change
UK Current Accounts	12.5	3%	12.4	3%
UK Savings Accounts	9.2	15%	8.8	13%
UK Insurance own-brand motor	7.1	6%	7.0	4%
UK Insurance own-brand non-motor	5.7	5% ¹	5.6	5% ¹
Europe consumer ²	2.5	9%	2.4	8%

¹ Insurance own-brand non-motor presented on an underlying basis, headline growth is 49% with rescue policies included in RBS and NatWest packaged account offering.

² Ulster Bank Republic of Ireland, RBS Insurance Germany and Italy, UAE, Romania and Kazakhstan

Customers have stayed with us – US Retail & Commercial



- A strong franchise in New England and Pennsylvania with good Branch distribution in the Mid-West

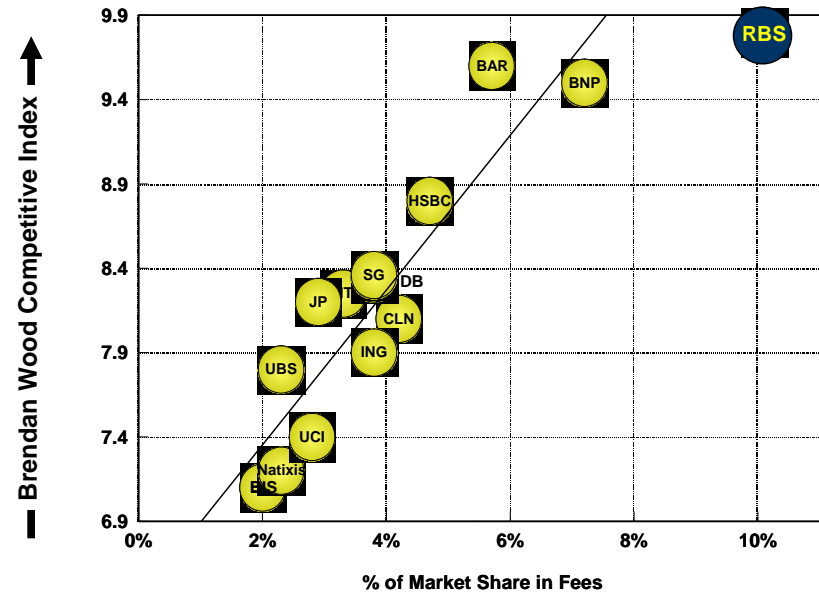
	Population (m)	Citizens Branches	Citizens Deposit Rank
New England	13.1	488	2nd
Pennsylvania	12.6	403	3rd

Overall Citizens business metrics	Mar 09	Mar 08	Change %
# Accounts retail checking (m)	3.5	3.4	3%
# Accounts small business checking ('000)	480	450	7%

Customers have stayed with us – Global Wholesale

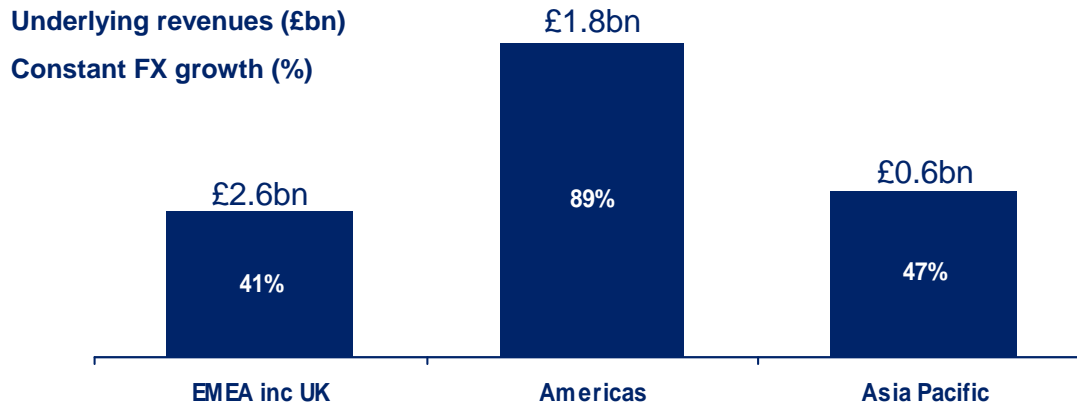
Customer Relationship Ranking	UK	Western Europe	USA
Total Relationships	#1	#2	#6
Important Relationships	#1	#3	#6
Lead Relationships	#1	#3	#4
Domestic Banking	#1	= #6	= #9
International Banking	#2	#2	#3

European Bonds & Loans Competitive Positioning¹



And our most threatened businesses performed

Q109 vs Q108 GBM Growth in Underlying Revenue by region at constant FX¹



- Strong underlying performance
- Broad based Geographical performance
- Rates income up 93%
- Currencies income up 65%
- Equities income up 117%
- Credit markets income up 105%

Comparative Divisional Underlying Revenue Performance

Q109 vs. Q108

GBM	Q109 vs. Q108
Deutsche Bank	100%
Citi	62%
JP Morgan Chase	62%
Credit Suisse	54%
Goldman Sachs	18%
Morgan Stanley	(55%)
UBS	(87%)

¹ Adding back trading asset write-downs

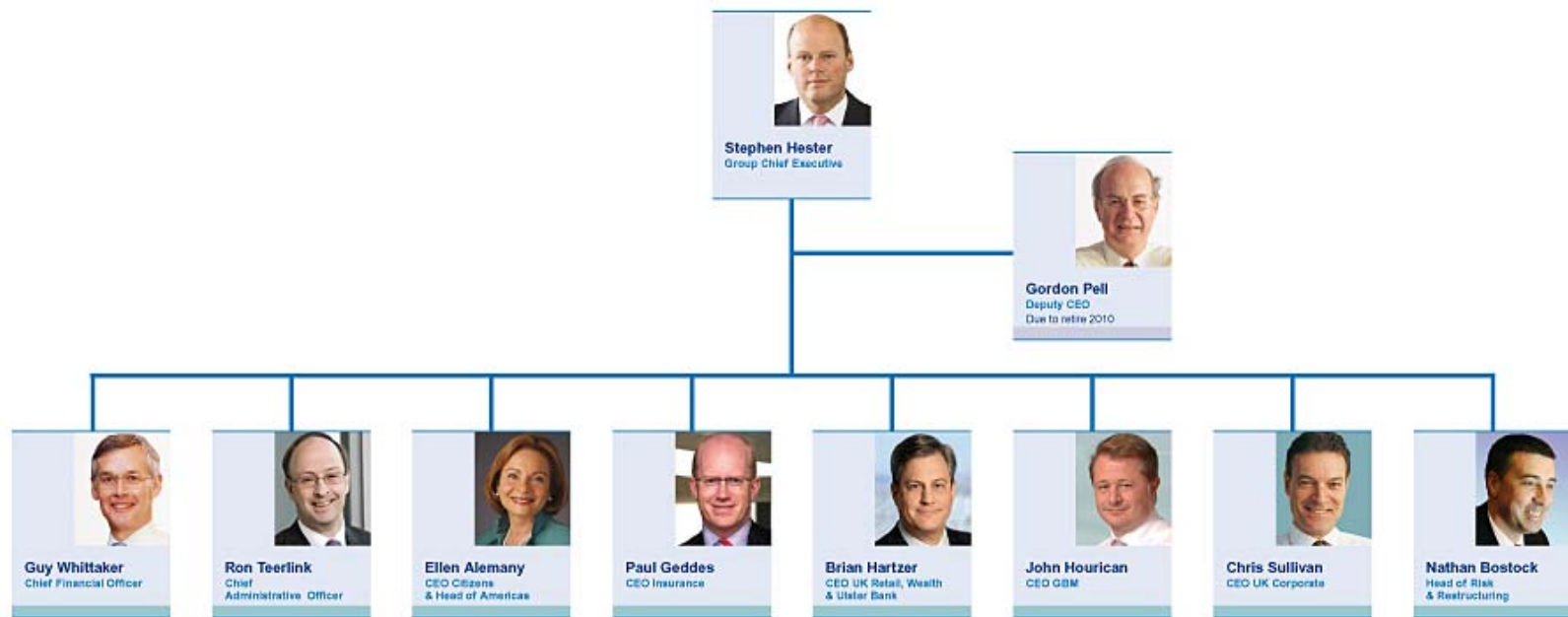
² After deducting trading asset write-downs

Source, Company Q1 results announcements



Implementation of change

New Management Team



(leaving 10/09)

- Philip Hampton appointed Chairman in February 2009
- Once the announced management changes have taken effect, all 9 members of the Group's Exco will be new to their posts within the last 14 months, 7 since October 2008

Business Focus - Disposal and restructuring update

- £240bn Non-Core Division reported from June, 2009
- Gain of £4.5bn on capital instrument tender and exchange
- Disposal of Bank of China stake (Jan '09)
- Completed disposal of Citizens branches in Indiana
- Disposal of 50% stake in Linea Directa for €426m
- Disposal of Asian Retail & Commercial assets in process
- Other non-core country exits also in process

Business realignment - actions & initiatives

Group

- Validation of Strategic Plan
- Implement business restructuring
- Cost savings pursued - £2.5bn
- Run down of non-core
- Improved risk management disciplines
- Delivery of customer initiatives

GBM

- Implement non-core exits
- Streamline target customer set
- Intense focus on building core client franchise
- Substantive management change
- Overhaul balance sheet funding
- Shift from 'balance sheet' to 'flow'

GTS

- Increase product penetration in home markets
- Cross-sell international products to corporate & institutional clients
- Rightsize the global network
- Technology investment to stay ahead
- Focus on deposits

UK Retail

- Reduce costs; lean and automation
- Reconfigure branch footprint, migrate to remote channels
- Build affluent proposition
- Invest in systems and sales
- Focus on deposits
- Manage regulatory threats

Business realignment - actions & initiatives

UK Corporate, Business & Commercial

- Implement 'value based' targeting
- Manage portfolio stress
- Reduce cost base
- Invest in systems and service
- Rebalance away from real estate
- Focus on savings

Wealth

- Overhaul product platform
- Grow Relationship Manager base, enhance productivity
- Investment in technology platform
- Focus on savings

Ulster Bank Group

- Shrink real estate book
- Pro-actively manage impairments
- Increase and diversify deposit base
- Move to single brand
- Significant cost restructuring

Insurance

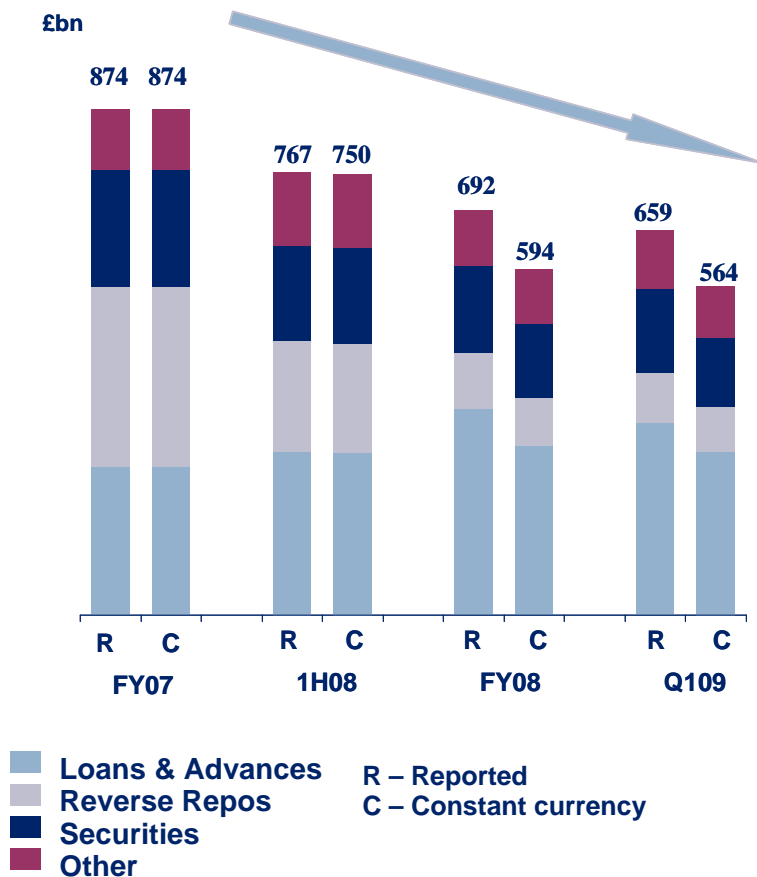
- Pursue growth through cost leadership
- Deploy cost and brand strengths in aggregator channel
- Build commercial lines on multi-channel basis
- Professionalise investment management

US Retail & Commercial

- Focus on core regional footprint
- Exit out-of-footprint activities
- Address under-investment in systems & marketing
- Intensify customer cross-sales
- Take out cost

Focus on funding – de-lever & reduce reliance on wholesale funding

GBM Balance Sheet: Focus on de-leveraging



Constant currency calculation based on 2007 balance sheet date exchange rates

RBSG Balance Sheet FY08*



- Non-core division run down over 5 years – reducing balance sheet by c20%
- Non-core run down reduces unsecured wholesale funding whilst liquidity and term funding increase
- Targeting a loan to deposit ratio approaching 100%

* Excluding derivatives

The Government Asset Protection Scheme (APS)

RBS strengthened and able to increase UK lending

~£300bn (net) assets protected against further deterioration

RBS pay by issuing £6.5bn of B-shares & forgoing UK tax asset

RBS liable for first loss amount up to £19.5bn

Further £13-19bn of B shares to increase capital buffer; optional conversion at 50p into ordinary shares

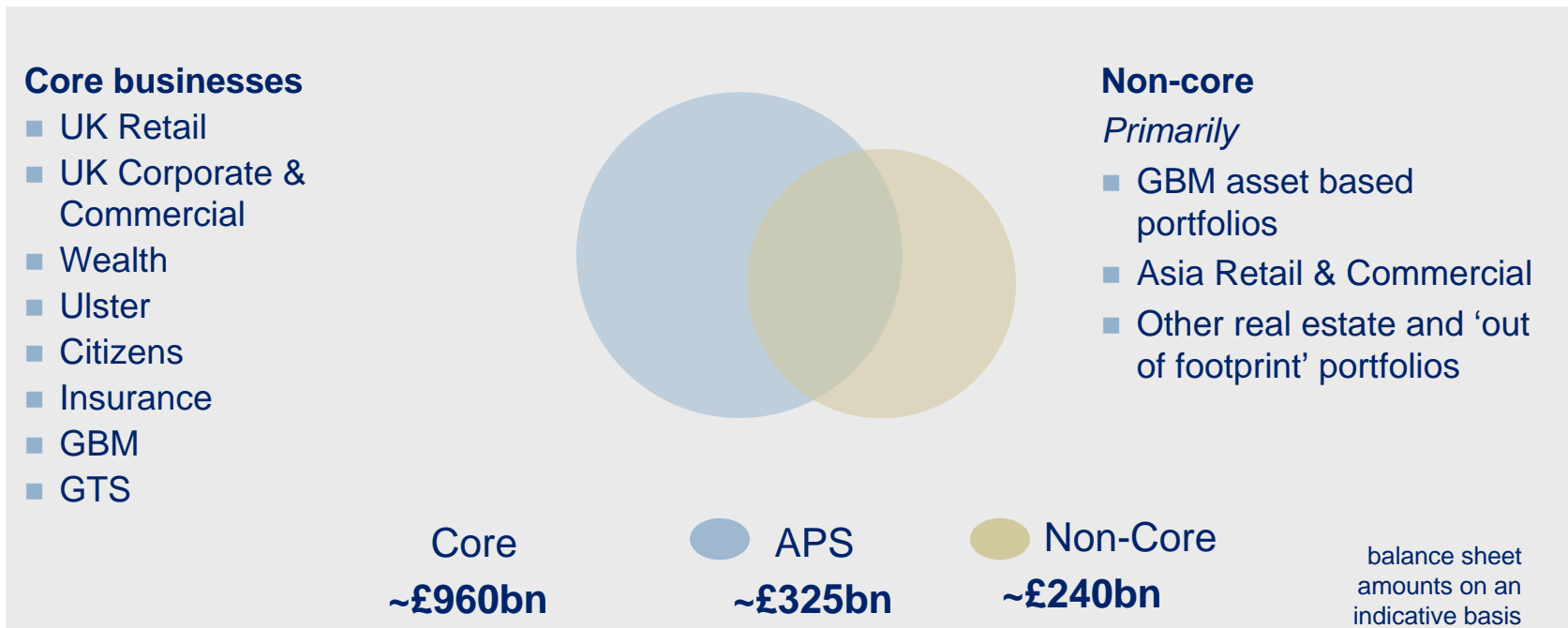
Government covers 90% of subsequent losses

75 - 85% of Q1 impairments & write-downs in APS

Subject to shareholder approval at general meeting over summer months

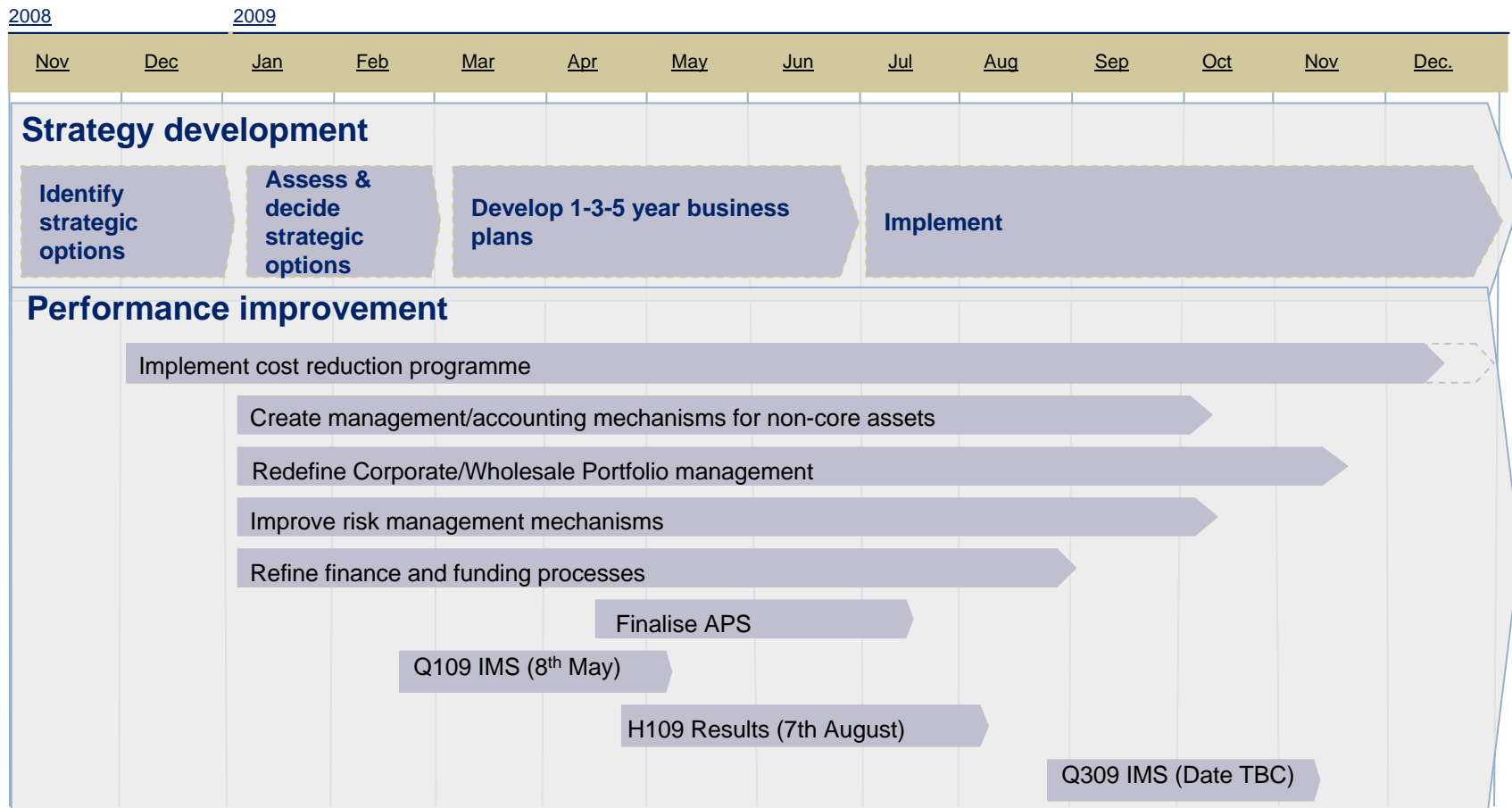
APS and Non-Core - Future basis for disclosure

Non core and APS third party asset overlap



- Disclosure to report core divisions performance plus that of separated non-core division
- Operating profits fully loaded including manufacturing and central costs
- Proforma full year 2008 results (and first half 2008 results) to be issued early July
- First half 2009 results in new format to be announced on 7th August
- APS and non-APS impairment and credit metrics to be separately disclosed and analysed

Business restructuring - 2009 Implementation





Q1 2009 Results – What evidence?

Q1 2009 results highlights

	Q1 2009 £m	Q1 2008 £m	Change %	Full Year 2008 £m
Total Income	9,702	7,722	26	26,875
Operating profit before impairment losses	4,079	2,863	42	6,873
Impairment	(2,858)	(656)	-	(7,428)
Credit market write-downs and one-off items	(797)	(1,412)	(44)	(5,641)
Integration and restructuring costs	(379)	(74)	-	(1,357)
(Loss)/profit attributable to ordinary shareholders	(857)	245	-	(8,024)
Write-down of goodwill and other intangible assets (less tax credit of £715m)	-	-	-	(16,196)
Cost : income ratio	48.0%	-	-	59.9%
Pro-forma Core Tier 1 ratio (pre APS)	6.7% ¹	-	-	6.8% ²
Total Assets	2,060bn	-	-	2,218bn
Leverage ratio ³	4.9% ⁴	-	-	4.7%

¹ Pro forma for the completion of £5 billion HMT preference share conversion which completed on 14th April 2009 and £4.5 billion pre-tax gain recorded on capital instrument exchange and tender offers completed on 24th April 2009

² Pro forma for the completion of £5 billion HMT preference share conversion which completed on 14th April 2009

³ Tier 1 capital divided by assets, excluding MTM trading derivatives and intangibles

⁴ Adjusted for £4.5 billion pre-tax gain recorded on capital instrument exchange and tender offers completed on 24th April 2009

Q1 2009 results implications

- Core franchises “intact”. Provide bedrock on which recovery will be based
- Change happening at a good pace
- Revenue capacity points way to shareholder value once restructuring is complete
- Major “legacy” credit risk positions will cause losses for a period – APS helps draw a line here
- Net interest margin headwinds are serious
 - Mainly cyclical (low interest rates)
 - Some secular (higher funding cost, liquidity and term structure)



Conclusions

What does good look like?

- Achieve sustainable return on tangible equity of 15%+

Return	Equity	Business
Good cost control	Disciplined risk limits	Top tier customer flow businesses
Organic income growth leveraged off strong competitive position in core franchises	Stronger portfolio balance	Run off of non-core division complete
	Focus on EVA	

- Strong core tier 1 ratio
- Customer loan:deposit ratio approaching 100%
- Stable stand-alone funding
- Robust AA category stand-alone credit ratings
- Best in class disclosure, transparency and investor outreach
- UK Government selldown successfully

We believe we have now assembled the building blocks necessary for recovery

- Customer franchises intact ✓
- Analysis and Presentation of the problems ✓
- Management and Board changes ✓
- Recapitalisation & Government funding support ✓
- New Strategy – roadmap to unite people and resources ✓
- Asset Protection Scheme – improve protection against the risk of extreme loss during the next few years [✓]

What now?

Hard work to realise these plans – tough times continuing for a while as recession plays out



Questions?
