RBS
The Royal Bank of Scotland

GBM / GTS Client Slides

Trading Update, Capital Restructuring, & Credit Ratings

4 February 2009

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Trading Update

➢ **On Monday 19 January 2009 RBS provided a trading update in which it announced that the group will report a loss before exceptional goodwill impairments of GBP7bn-GBP8bn for the full year 2008.**

➢ **The headline losses for RBS come as a result of significant deterioration in the financial markets in Q4 2008, which also affected other big international banks:**

- **Citigroup:** **full year loss of USD41bn (Before tax)**
- **Merrill Lynch:** **full year loss of USD43bn (Before tax)**
- **UBS:** **full year loss of SFR20bn**

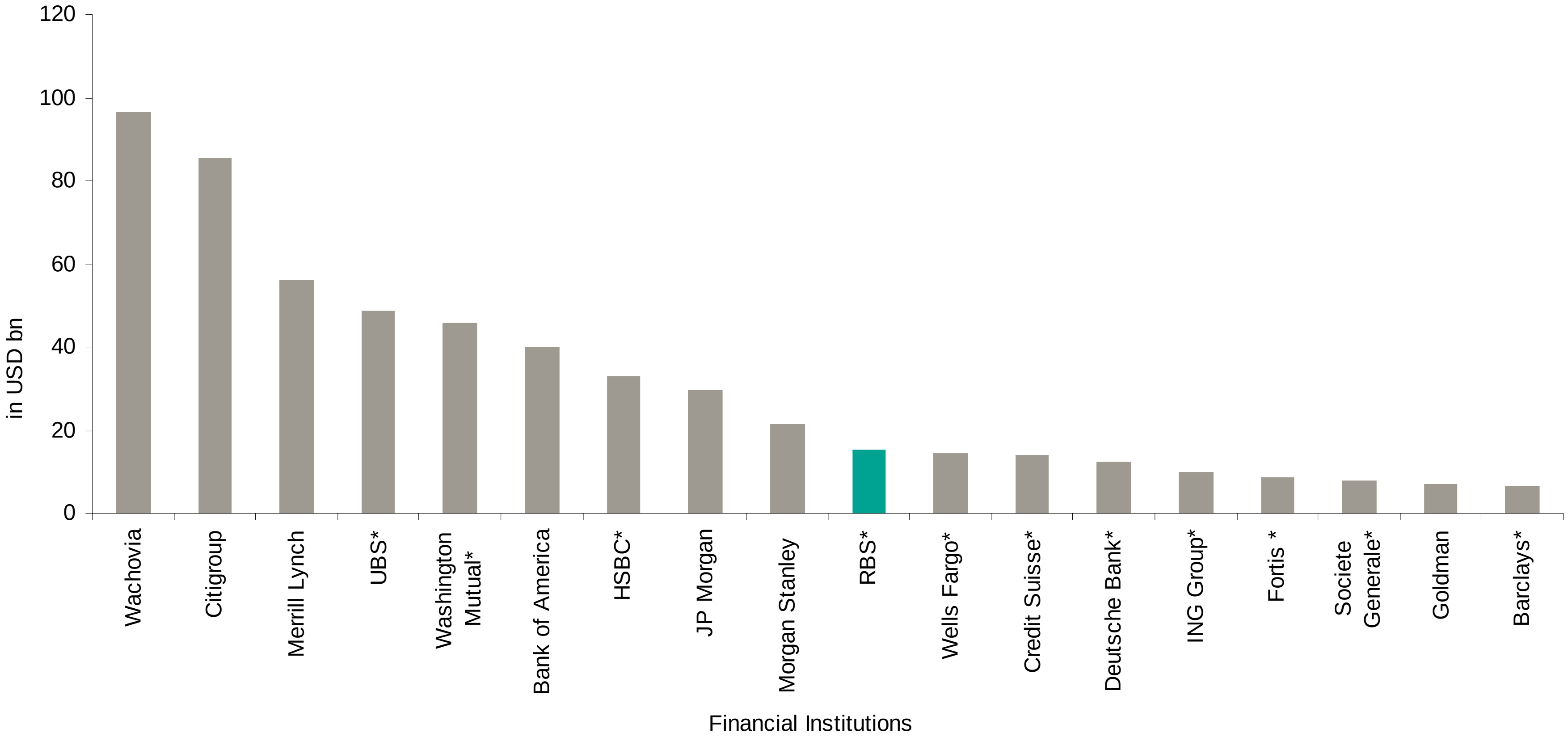
➢ **RBS estimates break-even underlying financial performance after credit impairment losses (estimated at GBP6.5-7 billion), reflecting profitability across our retail and commercial businesses in the UK and elsewhere**

➢ **RBS is also reviewing the carrying value of goodwill and other purchased intangibles. Preliminary findings indicate an estimated impairment charge in the region of GBP15-20 billion. These impairments have no effect on the Group's regulatory capital ratios and represent non-cash items.**

RBS stated that "the combination of our own determined actions, strengthened financial and funding position and continuing Government and Central Bank support should allow good progress to be made in restoring strength and value to RBS while supporting our customers in their own challenging times".

Financial institutions – write downs

Cumulative write downs announced between 01.01.2007 – 19.01.2009 (Source Bloomberg)



Please note: Write down figures for banks marked with an asterisk (*) do not capture Q4 reporting (data taken from Bloomberg)

Capital Restructuring

➢ **On Monday 19 January 2009 RBS announced that it has reached agreement with HM Treasury ('HMT') to replace the GBP5bn preference shares it holds with new ordinary shares. Current shareholders will be offered more shares at a discount of 8.5% from the close on January 16. If all the shares are not taken up, the government will take them which would increase their holding to 70%.**

➢ **The prospect of increased government ownership of RBS will have no impact on our clients – indeed, clients can take comfort from the fact that government is standing behind the Group. Furthermore, the government has stated that its intention is not to be a major shareholder of any bank in the long term.**

➢ **Our capital structure will materially improve from the agreement with HMT; Core Tier 1 capital is expected to increase by just under one percentage point, on a proportionately consolidated basis, to between 6.9% and 7.4%, as a consequence to the capital restructuring. This will further enhance RBS' financial strength, to the benefit of our clients.**

➢ **The agreement with HMT will remove the annual cost of the coupon payments of GBP600 million for RBS, and removes the priority for RBS to pay down preference shares – allowing the bank to redirect capital towards UK mortgage, SME clients and large corporates.**

➢ **These decisive measures to recognise excess risk and deal with it have been taken by the Group's new management, who include the new Group CEO and new CEO of the Global Banking & Markets division. Last week RBS also announced that it has appointed a new Group Chairman.**

Stephen Hester stated that "the support we are receiving from Government benefits all our stakeholders and enables us to provide more customer support in return".

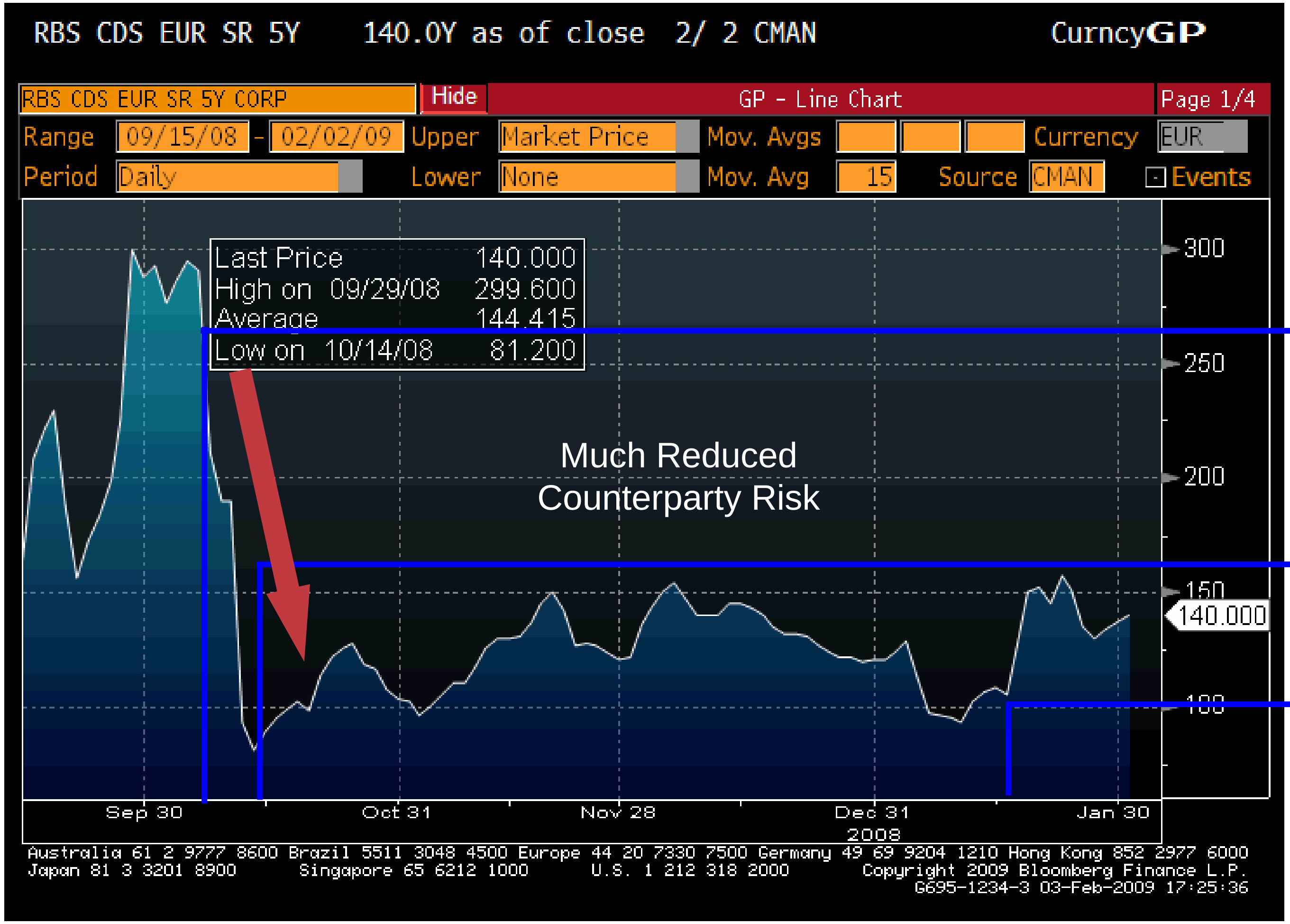
HM Treasury Statement – Measures to support lending

- **On 19 January 2009, the UK Government announced a comprehensive package designed to reinforce the stability of the financial system, to increase confidence and capacity to lend, and in turn to support the recovery of the economy. The key measures include:**

Extending the drawdown window for new debt under the Government's Credit Guarantee Scheme (CGS)	• The Government is extending the drawdown window of the CGS from 9 April 2009 to 31 December 2009, subject to state aid approval. • The objective is to reduce the risks on lending between banks. This will support orderly issuance of debt guaranteed under the CGS. All other aspects of the scheme will remain the same, including the final maturity date of 9 April 2014. During the drawdown window, banks can issue new debt - and once it has been issued, they can keep rolling it over after the window closes (all of it until 13 April 2012 and up to one-third of the total until 9 April 2014).
Establishing a new facility for asset backed securities	• A new guarantee scheme will be launched for asset backed securities, designed to improve banks' access to wholesale funding markets, help support lending, and promote robust and sustainable markets over the longer-term. • The Government will, in consultation with issuers and investors, provide full or partial guarantees to be attached to eligible triple-A rated asset-backed securities, including mortgages and corporate and consumer debt. • The scheme will commence in April 2009, subject to state aid approval.
Extending the maturity date for the Bank of England's Discount Window	• Since October 2008, the Bank of England has provided a permanent Discount Window Facility to banks, with a normal length of borrowing of 30 days. The Special Liquidity Scheme (SLS), introduced as a temporary facility in April 2008, will close on 30 January 2009 as planned, remaining operational for three years thereafter. • Upon its closure, in order to ensure the availability of long-term liquidity provided by the SLS is continued, the Bank will extend its Discount Window Facility, with its maturity increasing from 30 days to 1-year for an incremental fee of 25bps. This will enable banks to continue to have access to long-term liquidity on demand.
Bank of England asset purchase facility	• As a further step to increase the availability of corporate credit, by reducing the illiquidity of the underlying instruments, the Bank of England will set up an asset purchase programme implemented through a specially created fund. • The Bank will be authorised by the Treasury to purchase high quality private sector assets, including paper issued under the CGS, corporate bonds, commercial paper, syndicated loans and a limited range of asset backed securities created in viable securitisation structures. • The Treasury will authorise initial purchases of up to GBP 50 bn, financed by the issue of Treasury Bills. Given the scale of the programme, the Bank will be indemnified by the Treasury. This programme will come into effect from 2 February.
Capital and Asset protection scheme	• To provide certainty and confidence to banks in their lending, the UK Government plans to offer capital and asset protection on those assets most affected by the current economic conditions. This will reduce banks' uncertainty about the value of past investments, so providing them with greater confidence to lend in the future to creditworthy businesses, homeowners and consumers. • The Government will make a further statement on the details of the scheme by the end of February.
Capital regulation	• In addition, to address any potential uncertainty and to mitigate unintended pro-cyclical effects, the FSA is publishing a statement clarifying its expectations around bank capital ratios. • The FSA's statement makes clear that there are no new statutory requirements for capital and that it sees the capital buffers built in as part of the recapitalisation exercise as playing a role in both withstanding losses and facilitating continued lending. The FSA's statement is consistent with the statement by the Basel Committee on Banking Supervision issued on 16 January.

- **The UK Government will collaborate internationally to stabilise & strengthen the global financial system, ahead of the 2 April London Summit.**

RBS continues to receive full government support and remains a strong Counterparty



Following RBS participation in the Government support scheme, our credit default swap level more than halved since the first week of October 2008

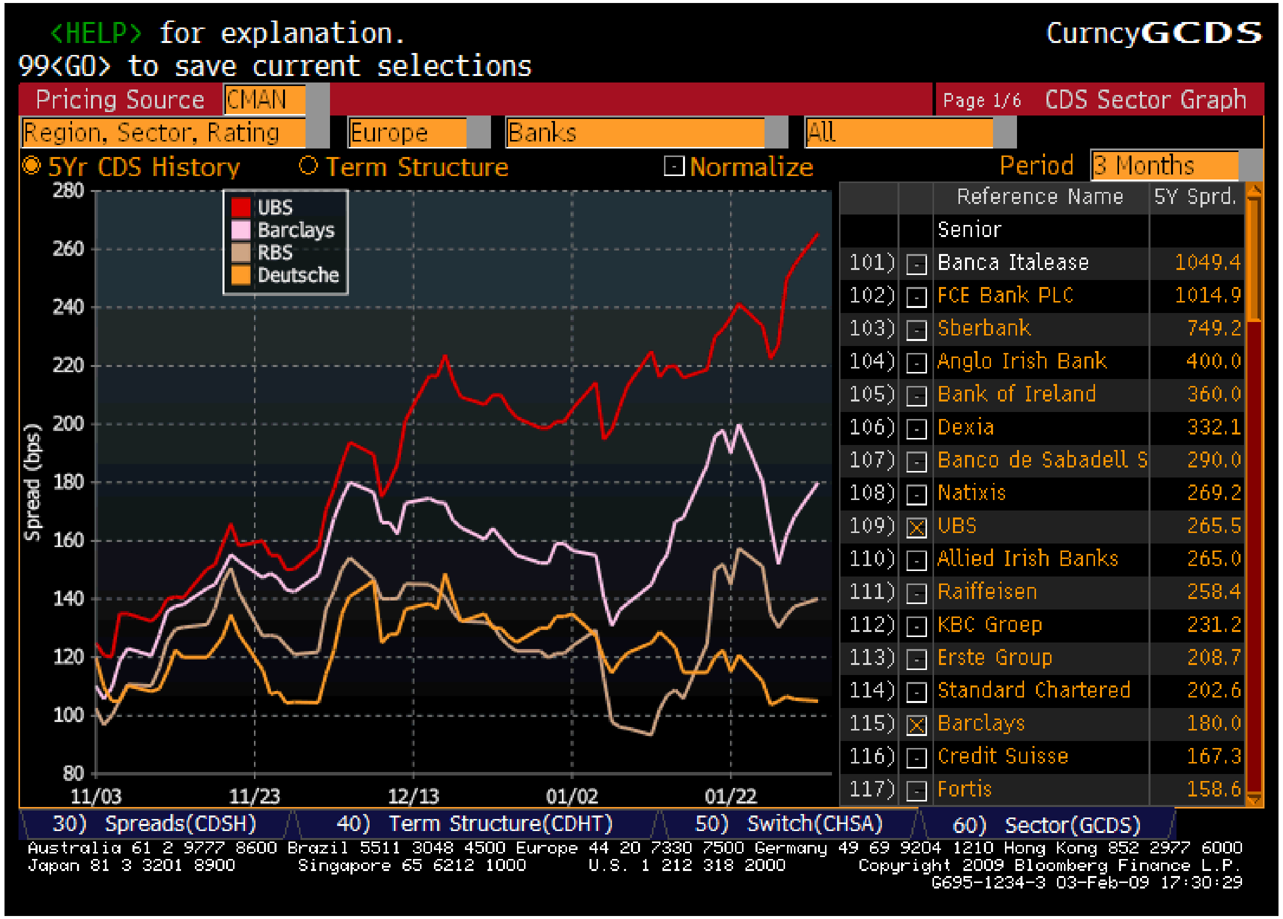
- **The UK Government announcing a support package to stem the financial crisis** (07/08 October 2008)
- **RBS' announcement of its level of participation and recapitalisation** (13 October 2008)
- **RBS' trading update and announcement of its capital restructuring** (19 January 2009)

Source: Bloomberg (2 February 2009)

RBS

RBS remains a strong Counterparty

➢ **Despite the decline in the value of RBS shares, its CDS levels imply that the bank remains a strong counterparty. In relative terms, when compared to other large international Banks, RBS' CDS levels continue to signal relatively low credit default risk.**



Source: Bloomberg (2 February 2009)

RBS – Moody's Downgrade 20 January 2009

➢ On 20 January 2009 Moody's downgraded all long-term ratings of The Royal Bank of Scotland plc (RBS) and of the holding company, The Royal Bank of Scotland Group plc. The senior unsecured rating of RBS was downgraded to Aa3 from Aa1 with a negative outlook.

➢ The downgrade comes following Moody's placement of RBS plc under review for possible downgrade on 22 December 2008

➢ With this downgrade Moody's are following the action taken by the other two major rating agencies S&P and Fitch who announced their changes in December and confirmed their ratings on 20 January 2009

➢The new Moody's credit rating of Aa3 is one notch higher than S&P and in line with Fitch

RBS - Credit Ratings

	Standard & Poor's	Moody's	Fitch
RBS (Group Level)	A	A1	AA-
RBS (Bank Level)	A+	Aa3	AA-
NatWest (Bank)	A+	Aa3	AA-
Citizens Financial Group	A	Aa3	A+
Ulster Bank Ltd	A+	Aa2	A+
Ulster Bank Ireland Ltd	A+	Aa2	A+

Source: RBS group (updated as at 21 Jan 2009)

RBS has a well diversified business

- **With a strong international Franchise**
- **With over 40 million customers**
- **With strong underlying businesses such as Global Transaction Services (GTS), RBS Insurance and GBM business lines such as Rates and Foreign Exchange**
- **Post strategic review and risk reduction, RBS will be even stronger with stable, profitable and market-leading customer franchises with a global reach and presence**
- **RBS' credit rating is A+ outlook stable from S&P (long-term debt).**

International Banks Rating Table

	S&P	Moody's	Fitch
BNP Paribas	AA	Aa1	AA
HSBC	AA	Aa1	AA
Santander	AA	Aa1	AA
BBVA	AA	Aa1	AA-
ING Bank NV	AA	Aa2	AA
Bank of America NA	AA-	Aa2	A+
JPMorgan Chase Bank	AA-	Aa1	AA-
Barclays	AA-	Aa3	AA-
Société Génerale	AA-	Aa2	AA-
RBS	**A+**	**Aa3**	**AA-**
Deutsche	A+	Aa1	AA-
Citibank NA	A+	Aa3	A+
UBS	A+	Aa2	A+
Credit Suisse	A+	Aa1	AA-
Unicredit	A+	Aa3	A+
Goldman Sachs	A	A1	AA-
Morgan Stanley	A	A2	A
Commerzbank	A	Aa3	A

The table shows long term Ratings at bank level sourced from Bloomberg and bank websites as at: 4 February 2009, sorted in descending order by S&P ratings