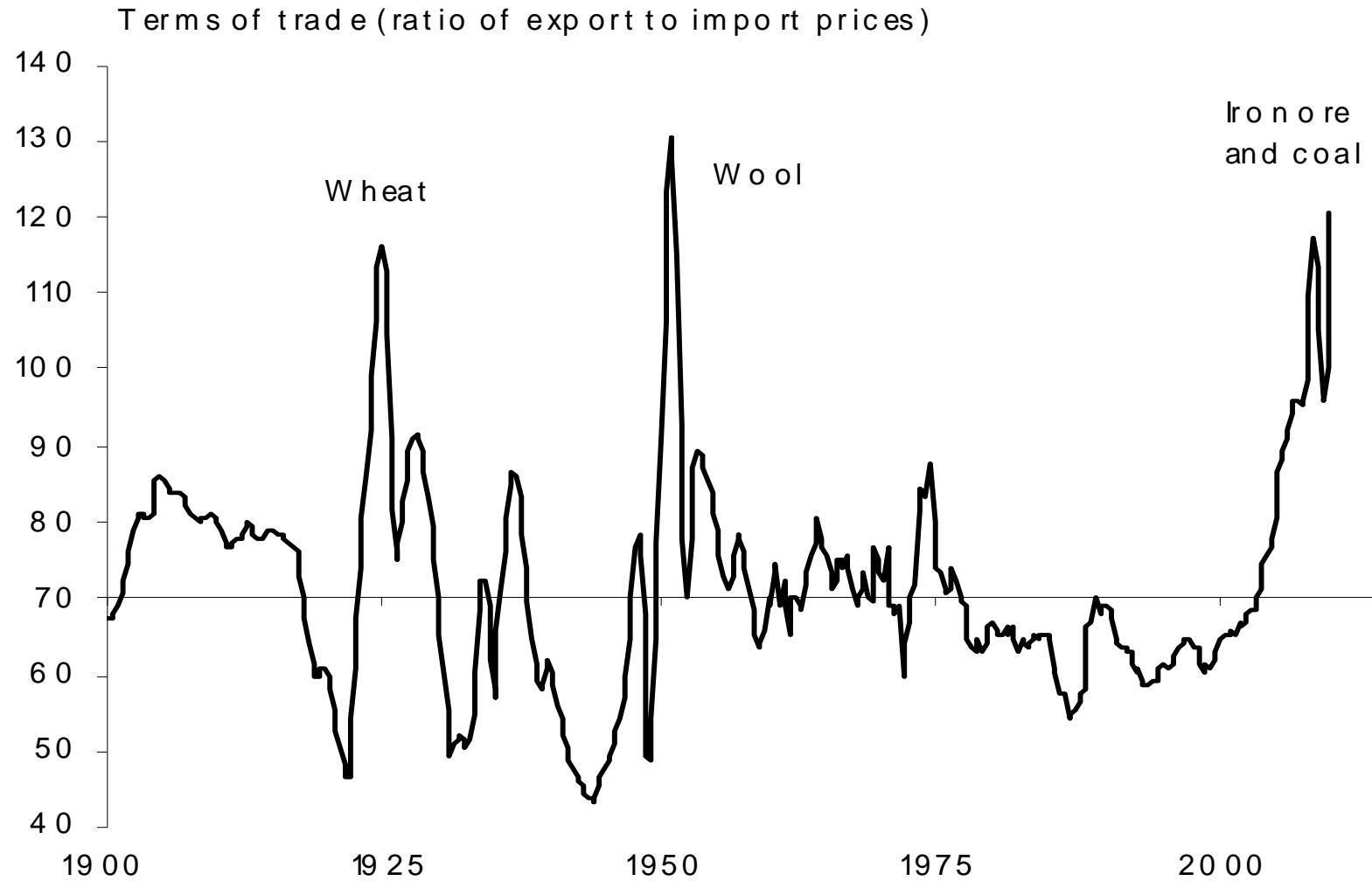



Inflation Linked Bonds : A Vital Asset Class for Investors & Policy Makers



The Outlook for Monetary and Fiscal Policy Settings

The resources boom is back as export prices surge

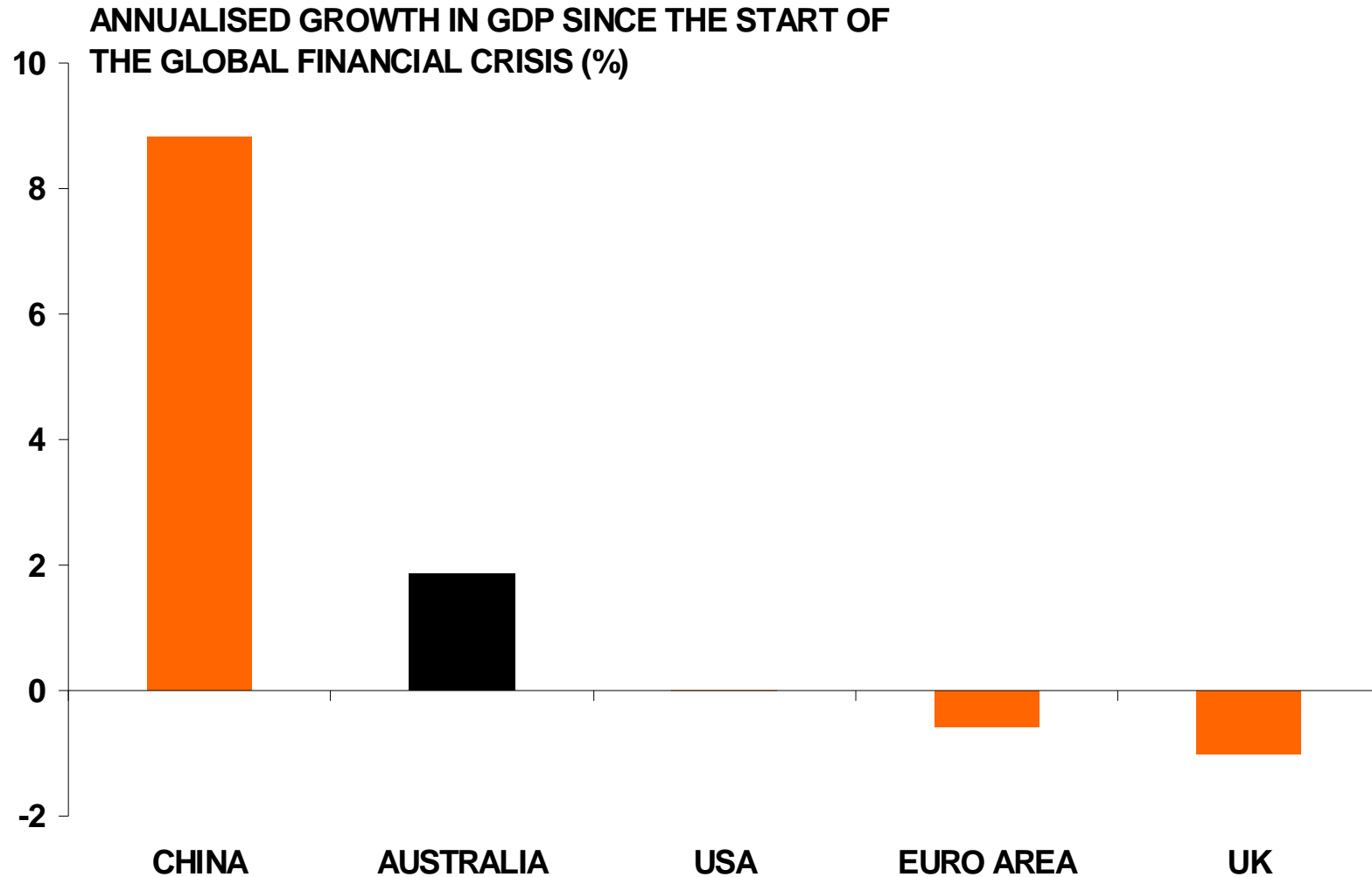


Asia has always been important to Australia, but China matters most

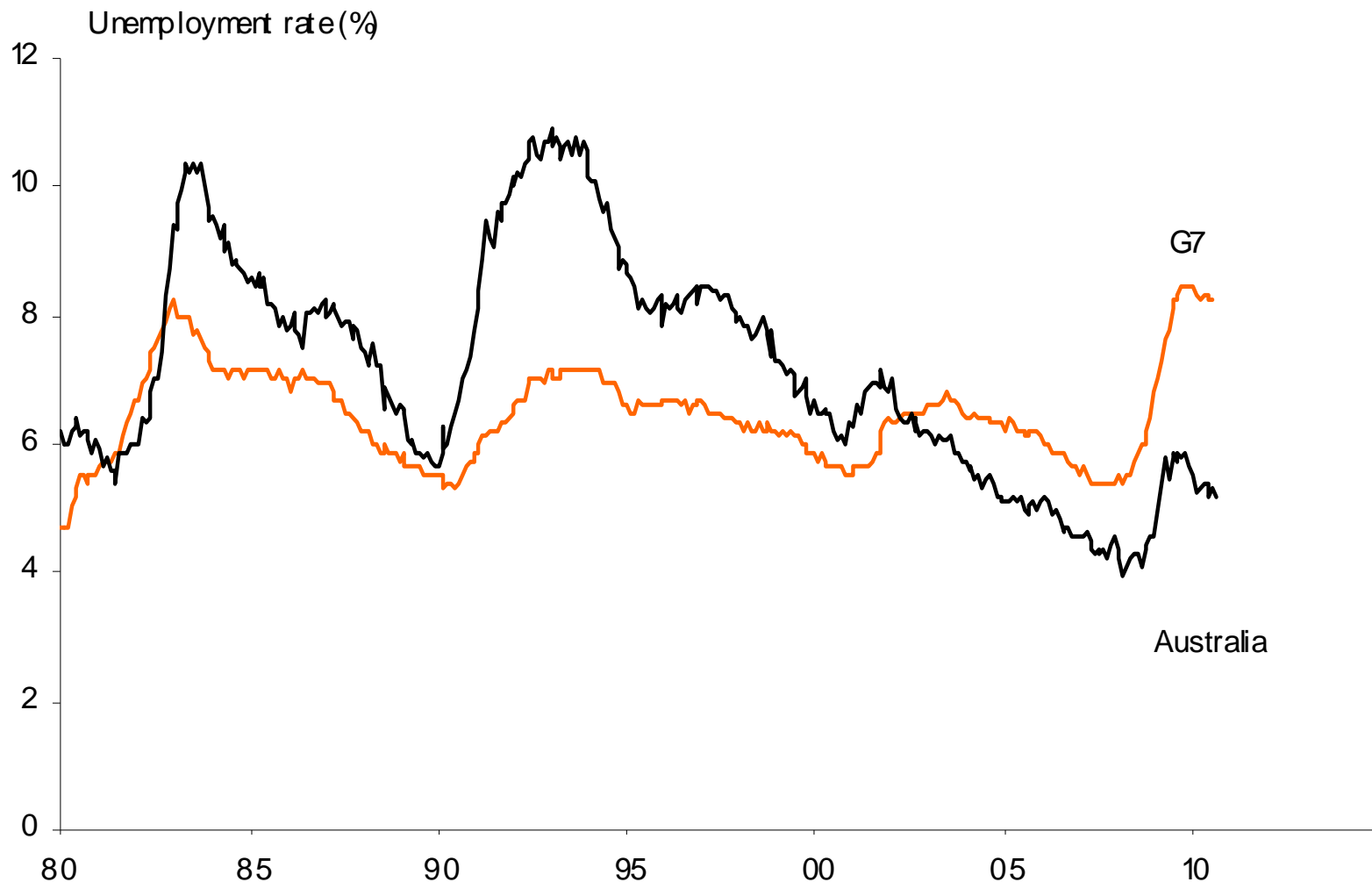
EXPORT MARKETS

1. CHINA	22%
2. JAPAN	17%
3. KOREA	8%
4. INDIA	7%
5. TAIWAN	4%
=5 EURO AREA	4%
=5 USA	4%

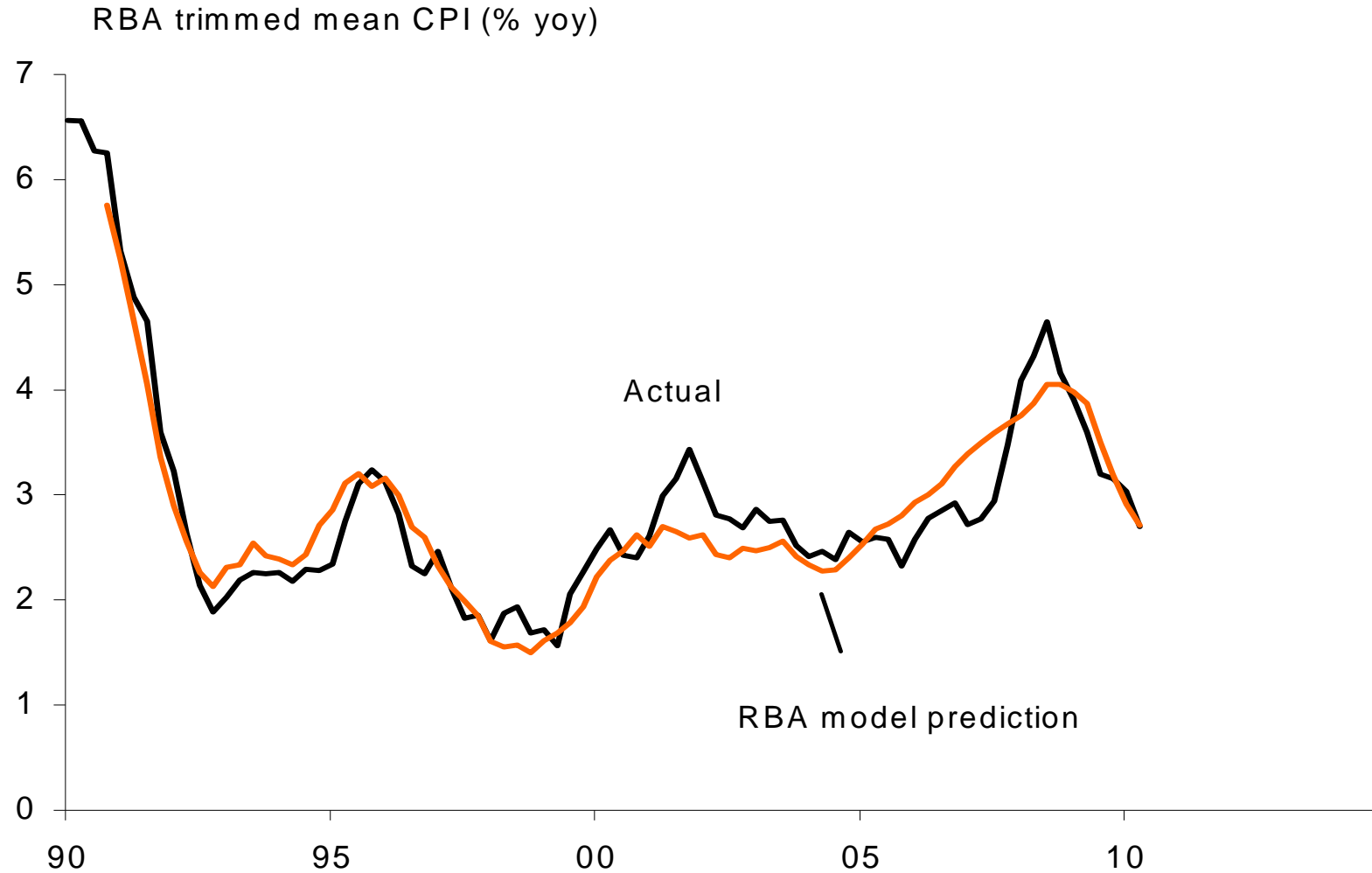
China strength is driving the resources boom



The problem is that the economy has less spare capacity than in past upswings



Spare capacity matters because inflation is best modeled as a function of unemployment, market expectations & import prices



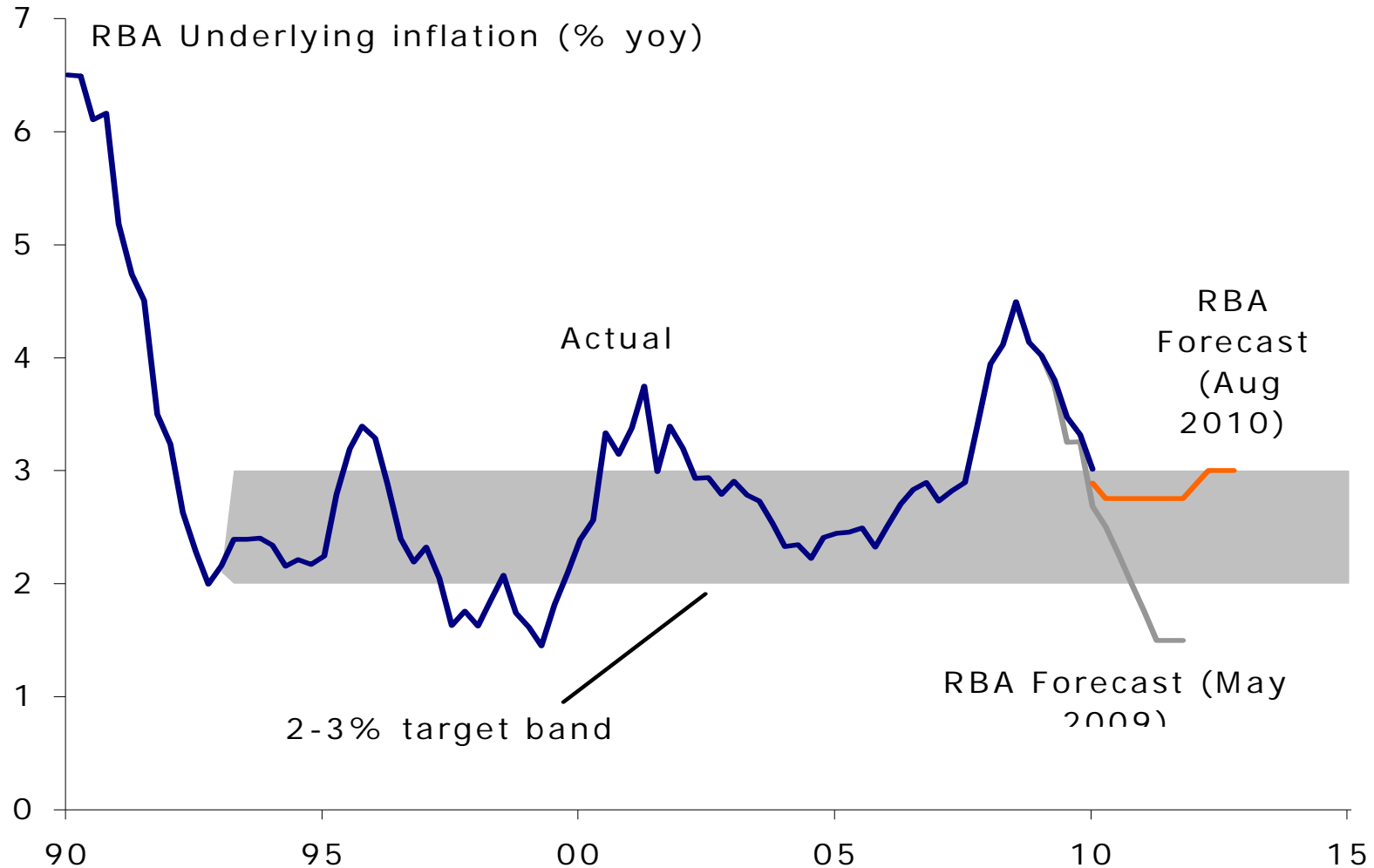
Inflation models suggest that the RBA can't live with unemployment of less than 5%

An unemployment rate in the 4s is inconsistent with the 2-3% target band, assuming no change in the exchange rate

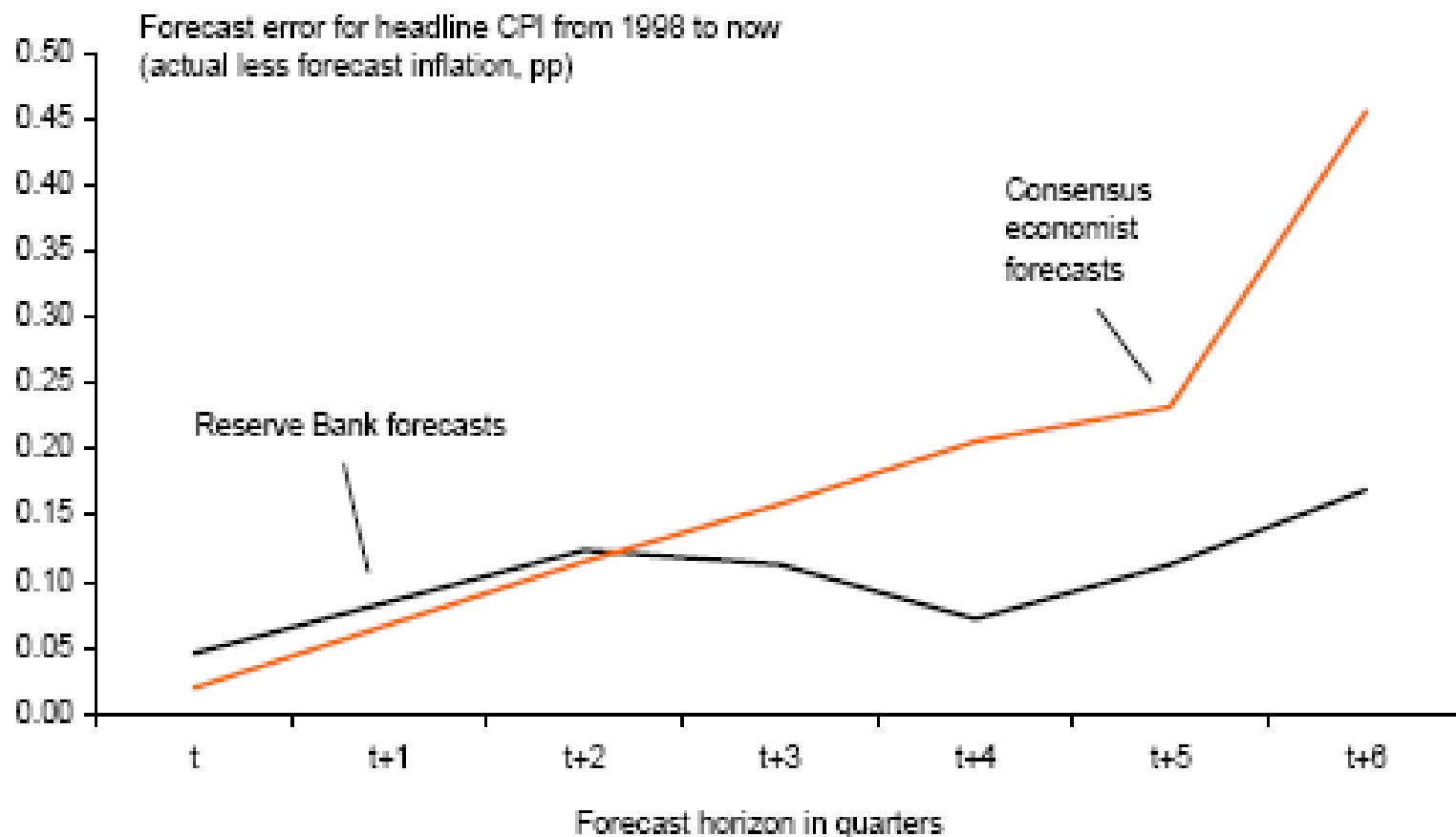
	<u>Predicted annual underlying inflation (%)</u>						
	<u>Breakeven inflation rate:</u>						
<u>Unemployment rate:</u>	2%	2¼%	2½%	2¾%	3%	3¼%	3½%
4%	3.5	3.6	3.8	3.9	4.0	4.2	4.3
4¼%	3.2	3.4	3.5	3.7	3.8	4.0	4.1
4½%	3.0	3.2	3.3	3.5	3.6	3.7	3.9
4¾%	2.8	3.0	3.1	3.3	3.4	3.6	3.7
5%	2.7	2.8	2.9	3.1	3.2	3.4	3.5
5¼%	2.5	2.6	2.8	2.9	3.1	3.2	3.3
5½%	2.3	2.5	2.6	2.8	2.9	3.1	3.2
5¾%	2.2	2.3	2.5	2.6	2.8	2.9	3.0
6%	2.1	2.2	2.3	2.5	2.6	2.8	2.9

Source: RBS

The RBA doesn't have any room for error, so higher inflation => higher interest rates



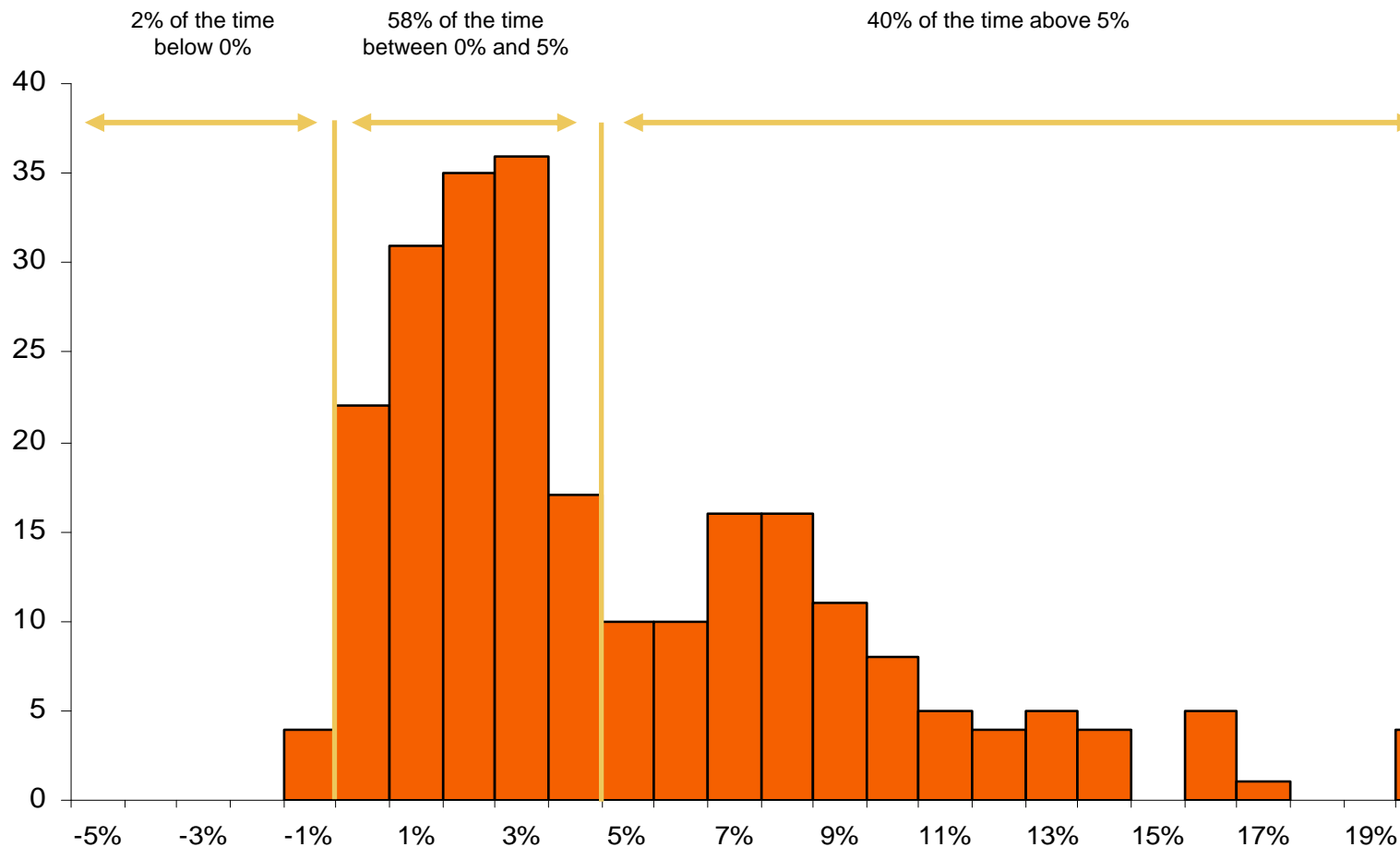
The market should pay more attention to the RBA as they have a good track record on inflation forecasting



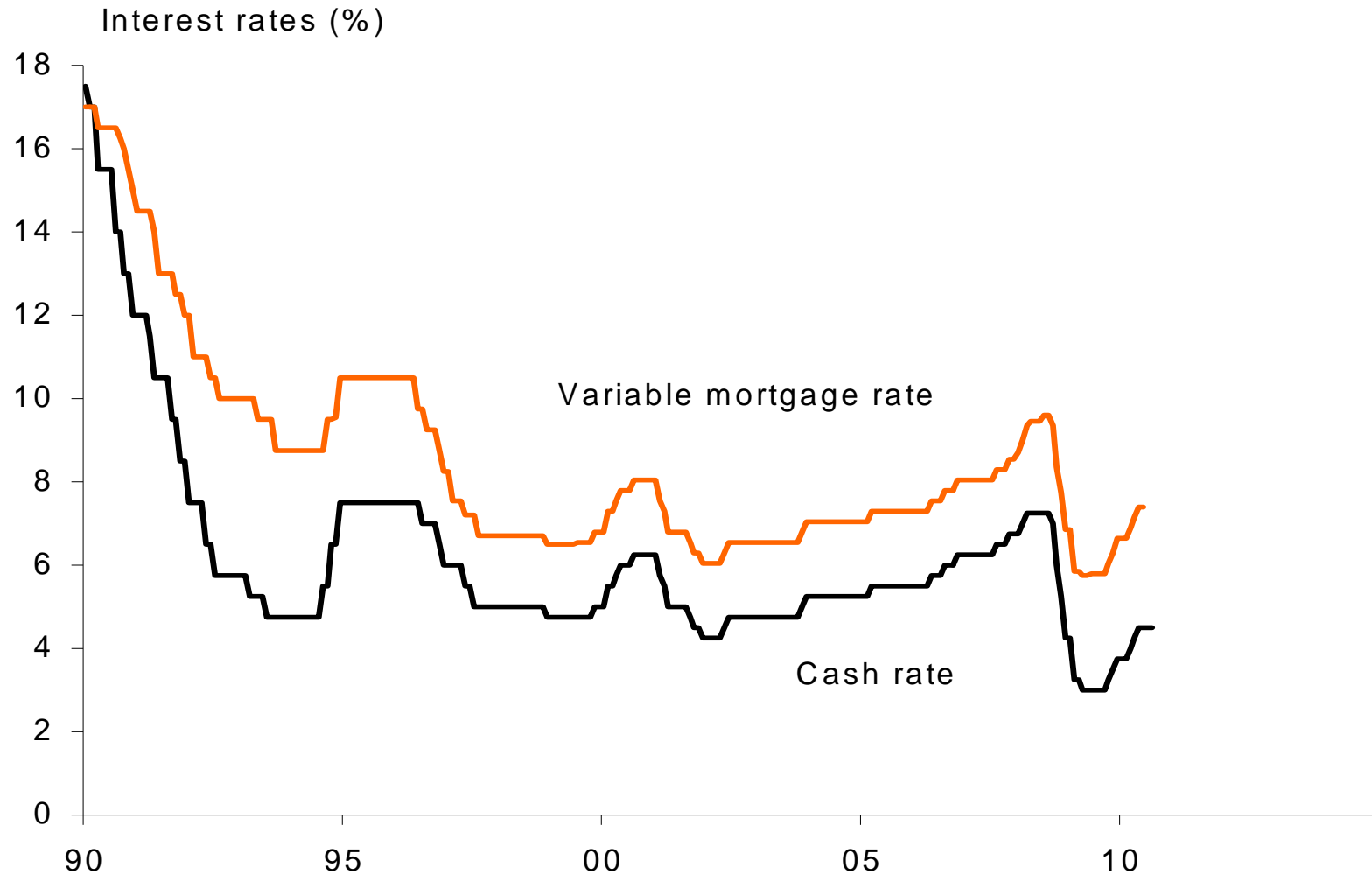
Source: ABS, Consensus Economics, RBA and RBS

The RBA wants to avoid making the same mistake again – i.e. past resources booms have ended in inflation and inflation has been hard to control

Distribution of AUD inflation since 1949



Interest rates are at “normal” levels now, so we should see tight monetary policy over the next year



A Taylor Rule suggests that interest rates should soon rise further

Calibrated Taylor rule - Cash rate = $2\frac{1}{2}\%$ real rate + inflation forecast + $\frac{1}{2}*(\text{inflation forecast} - \text{RBA } 2\frac{1}{2}\% \text{ target}) + \frac{1}{2}*\text{output gap}$

Output gap (%)	Inflation forecast (%)												
	1	1¼	1½	1¾	2	2¼	2½	2¾	3	3¼	3½	3¾	4
-2	1¾	2.1	2½	2.9	3¼	3.6	4	4.4	4¾	5.1	5½	5.9	6¼
-1	2¼	2.6	3	3.4	3¾	4.1	4½	4.9	5¼	5.6	6	6.4	6¾
Flat	2¾	3.1	3½	3.9	4¼	4.6	5	5.4	5¾	6.1	6½	6.9	7¼
1	3¼	3.6	4	4.4	4¾	5.1	5½	5.9	6¼	6.6	7	7.4	7¾
2	3¾	4.1	4½	4.9	5¼	5.6	6	6.4	6¾	7.1	7½	7.9	8¼

Our central case and the risks

Key forecasts

(% yoy/ %)	Q4 09	Q4 10(e)	Q4 11(e)
<u>RBS</u>			
GDP	2.6	3.9	3.8
Underlying inflation	3.3	2.8	3.4
Cash	3¾	4¾	6
10Y bond	5.5	5½	6
AUD	0.90	0.90	0.97
<u>RBA</u>			
GDP	2.6	3¼	3¾
Underlying Inflation	3.3	2¾	2¾

(e) estimate; * end period

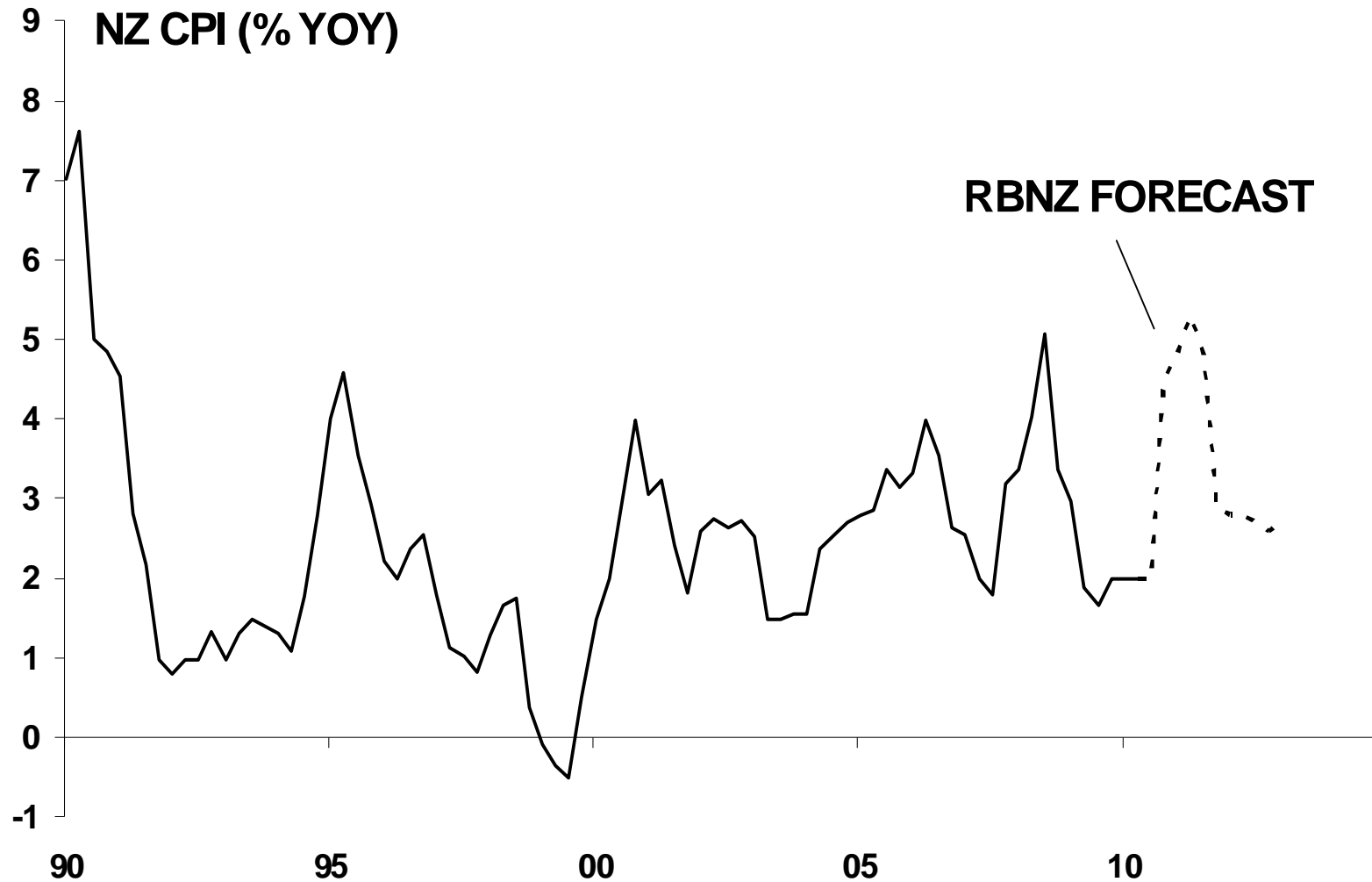
Central Case

- Resources boom
- Strong growth
- Higher inflation
- Higher rates
- Higher exchange rate

Risks

- World economy (China tightening; US double dip, etc)
- Regulation raises bank cost of funds
- House prices /household debt a problem if unemployment spiked

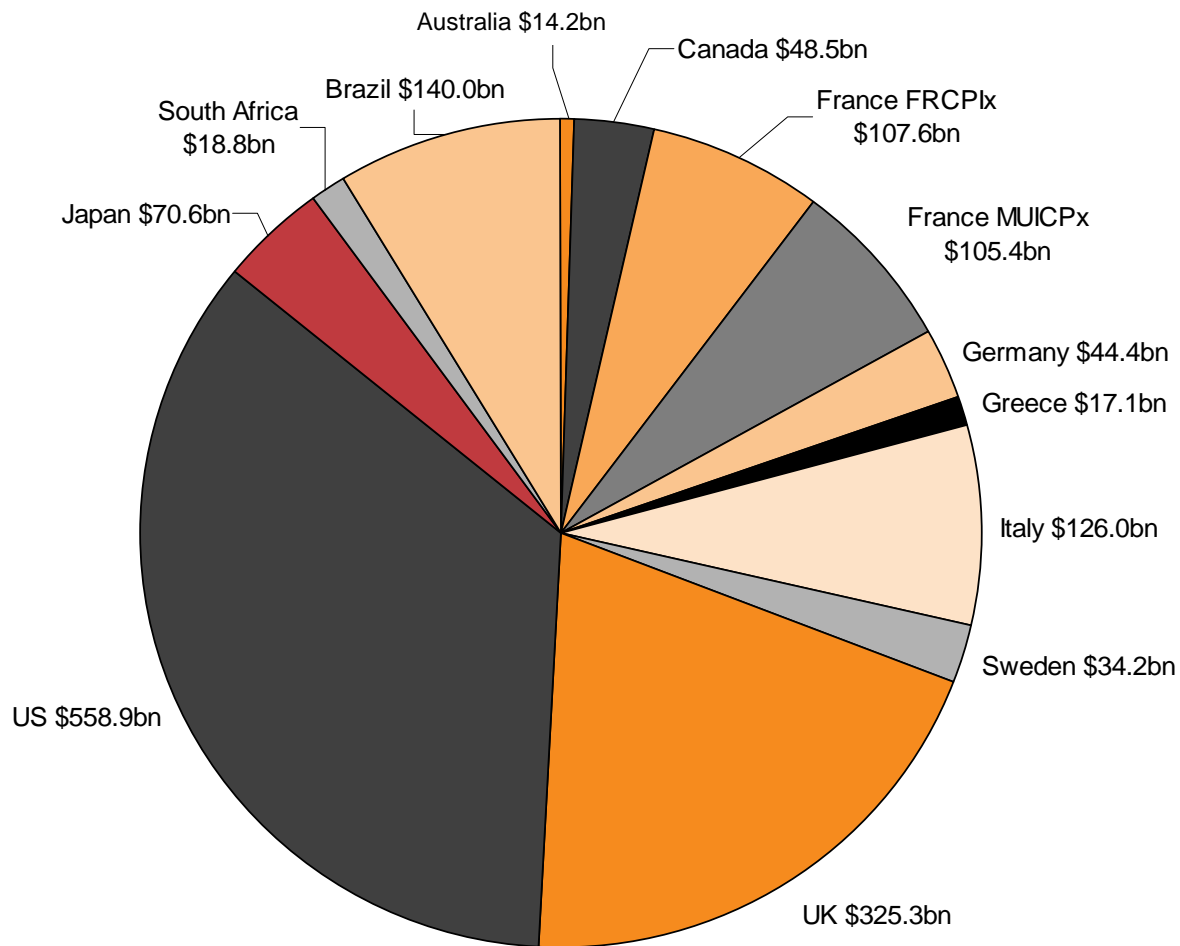
NZ broadly follows the Australian business cycle, but it faces a temporary inflation shock from higher taxes





Australian Linkers in a Regional Context

Australia is one of only two liquid inflation markets in Asia pacific



Asia pacific inflation markets

India

5Yr linkers matured in 1999. Govt has toyed with idea of potential new issuance.

Thailand

Govt has announced intention to issue new 10yr linker in 2010/11 (approx 4b baht or US\$122m).

Japan

With the advent of deflation, the government began buying back linkers in 2009/10.

South Korea

Began issuing 10yr linkers in Jun 2010, first time since Aug 2008. Have committed to monthly tender programme.

Australia

Market reopened in 2009, with the government's \$4b linker syndication. A new line of up to A\$2.5b 20yr linkers expected in 2010.

New Zealand

US\$1bn on issue, looking at options to reopen in 2010.

Inflation : Asia	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10
Japan	2.00	0.40	-1.80	-1.70	-0.70
China	7.10	1.20	-1.70	1.90	2.90
India	7.69	9.70	9.29	14.97	13.73
Indonesia	11.03	11.90	3.65	2.78	5.05
S. Korea	5.55	4.14	1.99	2.80	2.58
Average	6.67	5.47	2.29	4.15	4.71

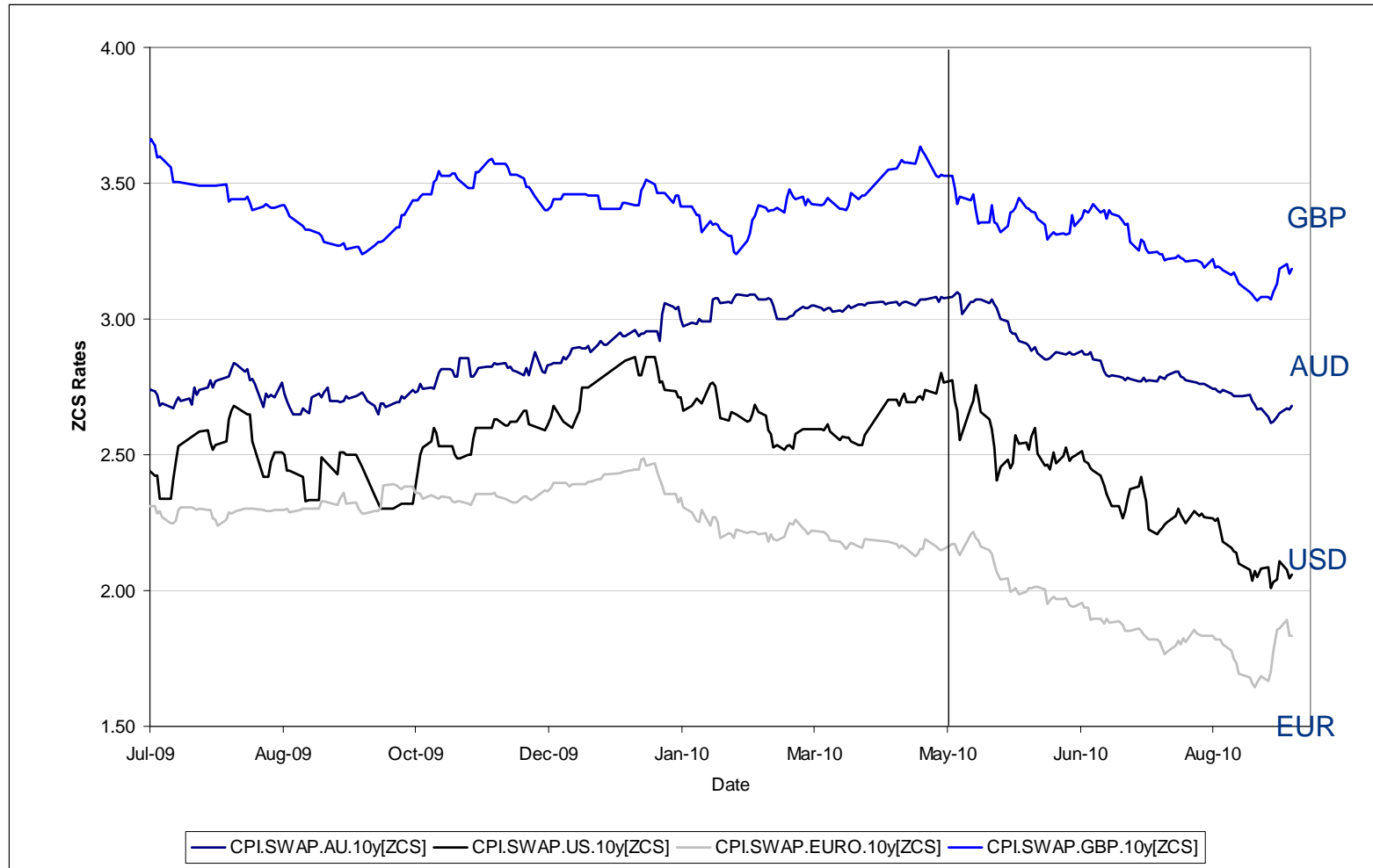
Issued Amt
(USD m)
54,372

Issued Amt
(USD m)
175

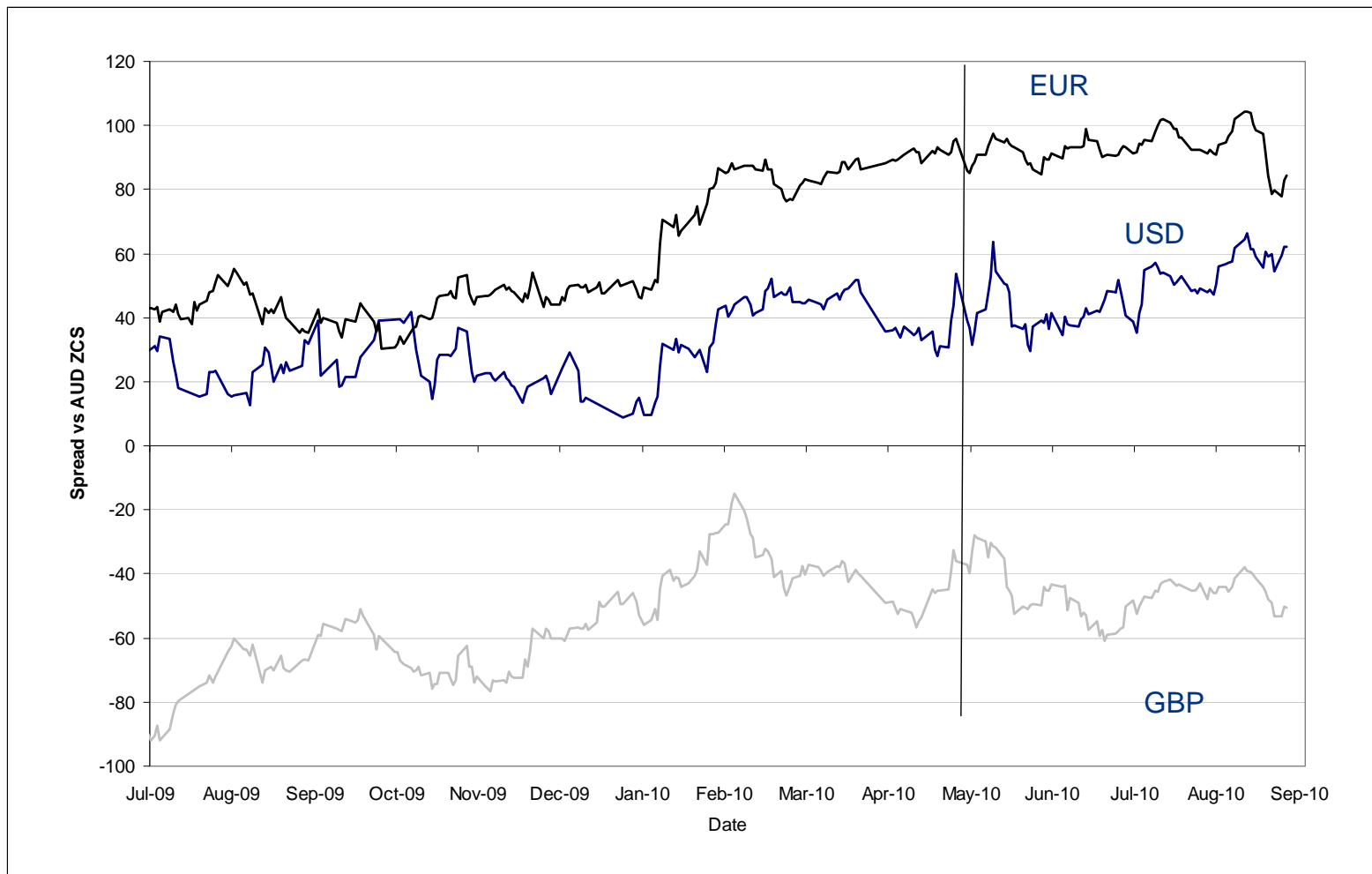
Inflation : Pacific Rim	Jun-08	Dec-08	Jun-09	Dec-09	Jun-10
New Zealand	4.00	3.40	1.90	2.00	1.80
Australia	4.50	3.70	1.50	2.10	3.10
Average	4.25	3.55	1.70	2.05	2.45

Issued Amt
(USD m)
1,404
17,706
19,110

Australia wasn't immune to the global selloff in breakevens



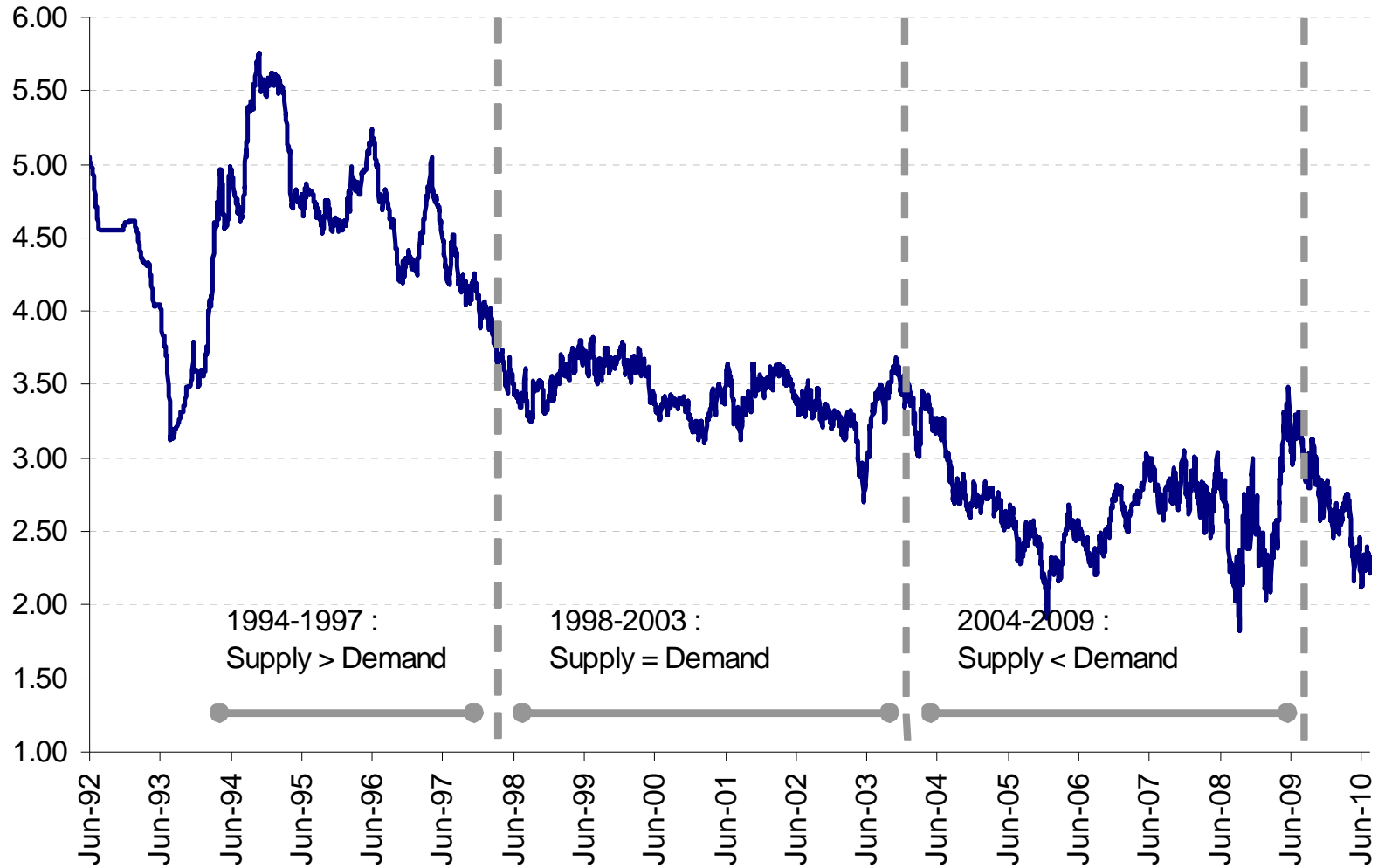
Australian breakevens have remained relatively resilient vs US and Europe





Demand and Supply Dynamics

Real Yields: A long term history



Has AOFM delivered? What does the market ask of issuers?

What have been the keys to success of the US, UK and Euro index-linked bond markets?

Regular Supply

=> Modest size issuance (~ A\$200m = GBP130m) from the AOFM monthly

Benchmark Size

=> Regular taps of each stock aided by comparatively small bond population (2015 / 2020 / 2025)

Curve Development

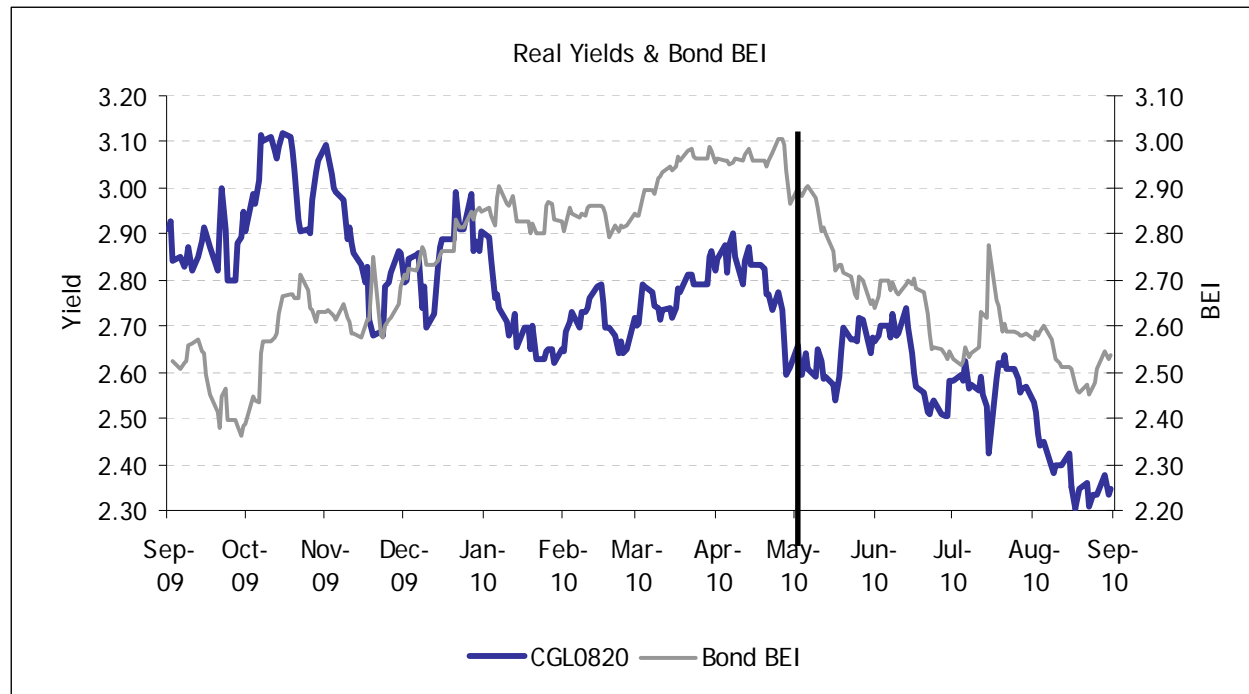
=> Plans to issue new 2030 (20yr) benchmark linker in FY2010/11 ~A\$2b to A\$2.5b

Post syndication supply

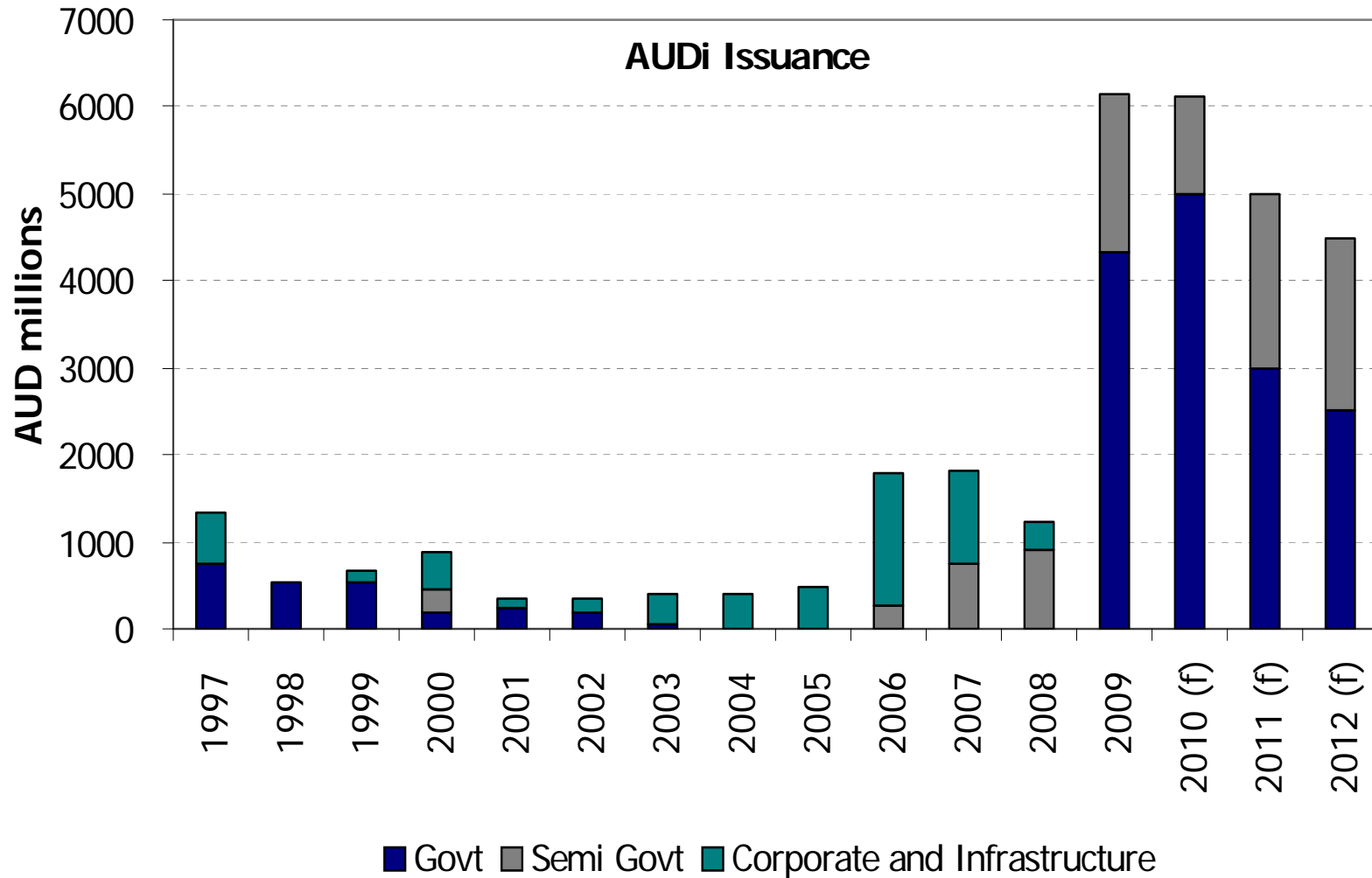
**AOFM
delivers**

Issue Date	Series Offered	Issue Size	Issue Yield (%)	Coverage Ratio
24-Aug-10	4.00% 20 Aug 2020	200	2.350	4.9
13-Jul-10	4.00% 20 Aug 2020	200	2.560	5.9
22-Jun-10	4.00% 20 Aug 2015	300	2.400	4.8
25-May-10	4.00% 20 Aug 2020	300	2.545	3.9
13-Apr-10	4.00% 20 Aug 2015	300	2.670	4.3
23-Mar-10	3.00% 20 Sep 2025	300	2.735	2.8
23-Feb-10	4.00% 20 Aug 2015	300	2.640	4.2
19-Jan-10	3.00% 20 Sep 2025	300	2.705	3.4
16-Nov-09	4.00% 20 Aug 2020	300	2.980	3.1

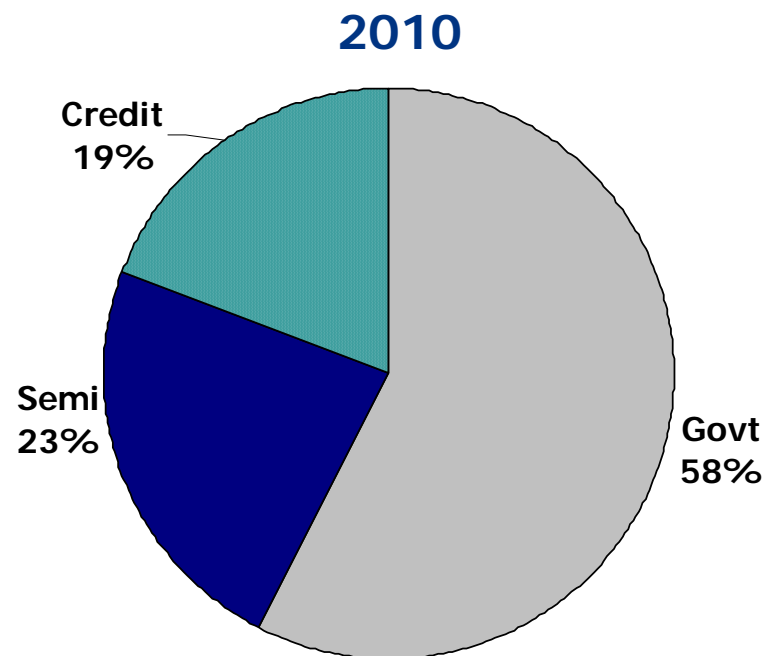
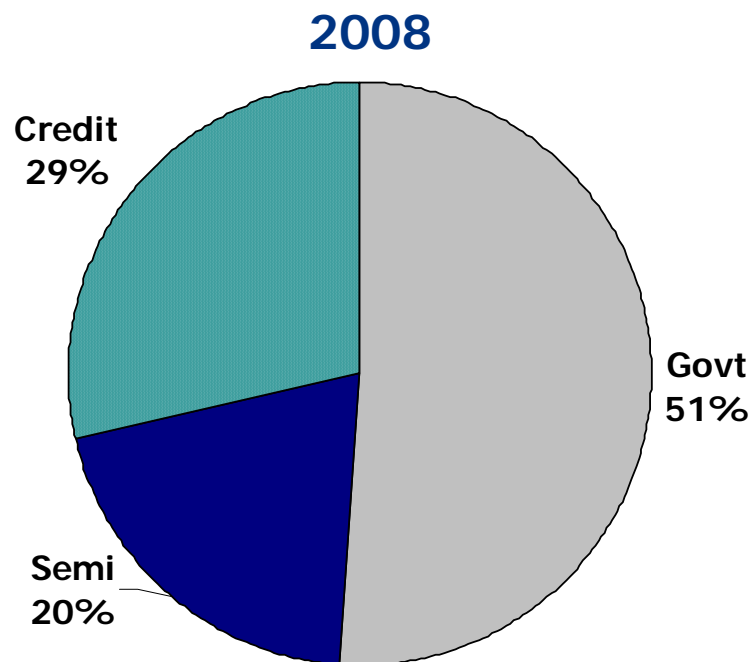
**Market
delivers**



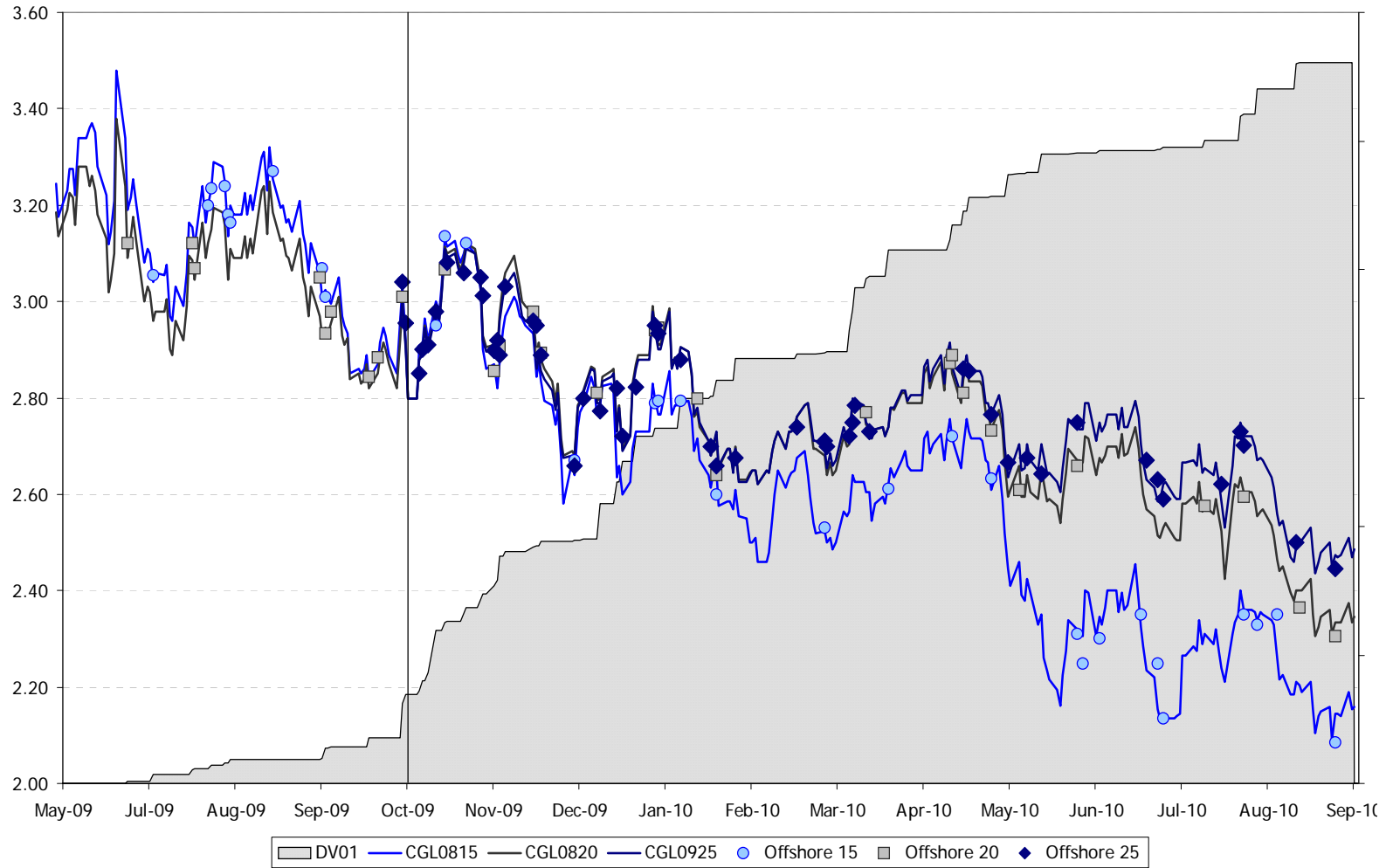
AUD CPI issuance on the rise dramatically... but issuers rotating



The demise of credit issuance



The impact of issuance on liquidity for inflation-linked bonds

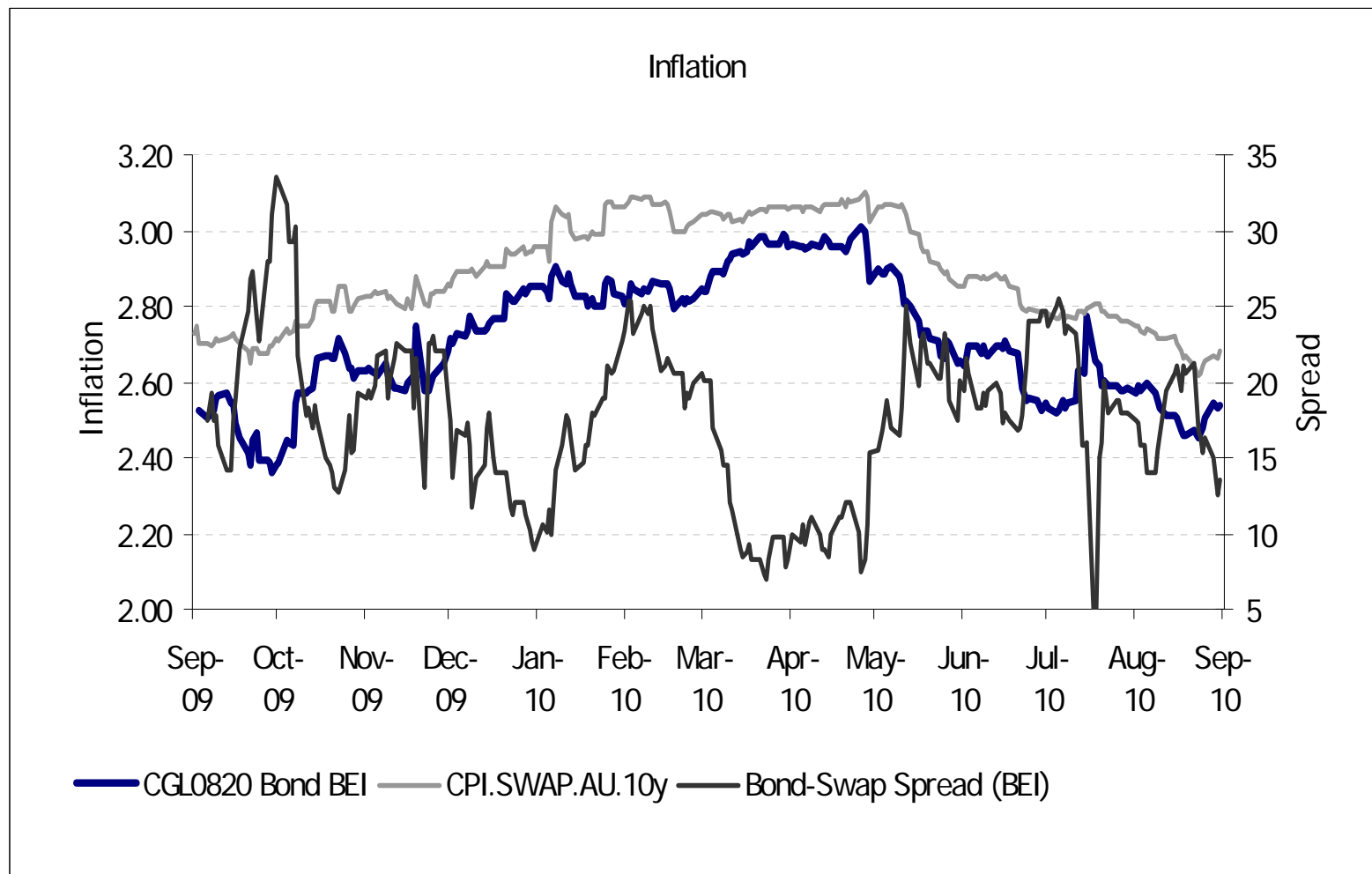


Crucial benefits for issuers and investors

The new market - impact of global Investors in AUDi CPI

- More liquidity
- Larger size transactions
- Tighter ranges –more "discipline"
- AUDi will trade with closer reference to US, UK, EUR

Growing demand for inflation swaps





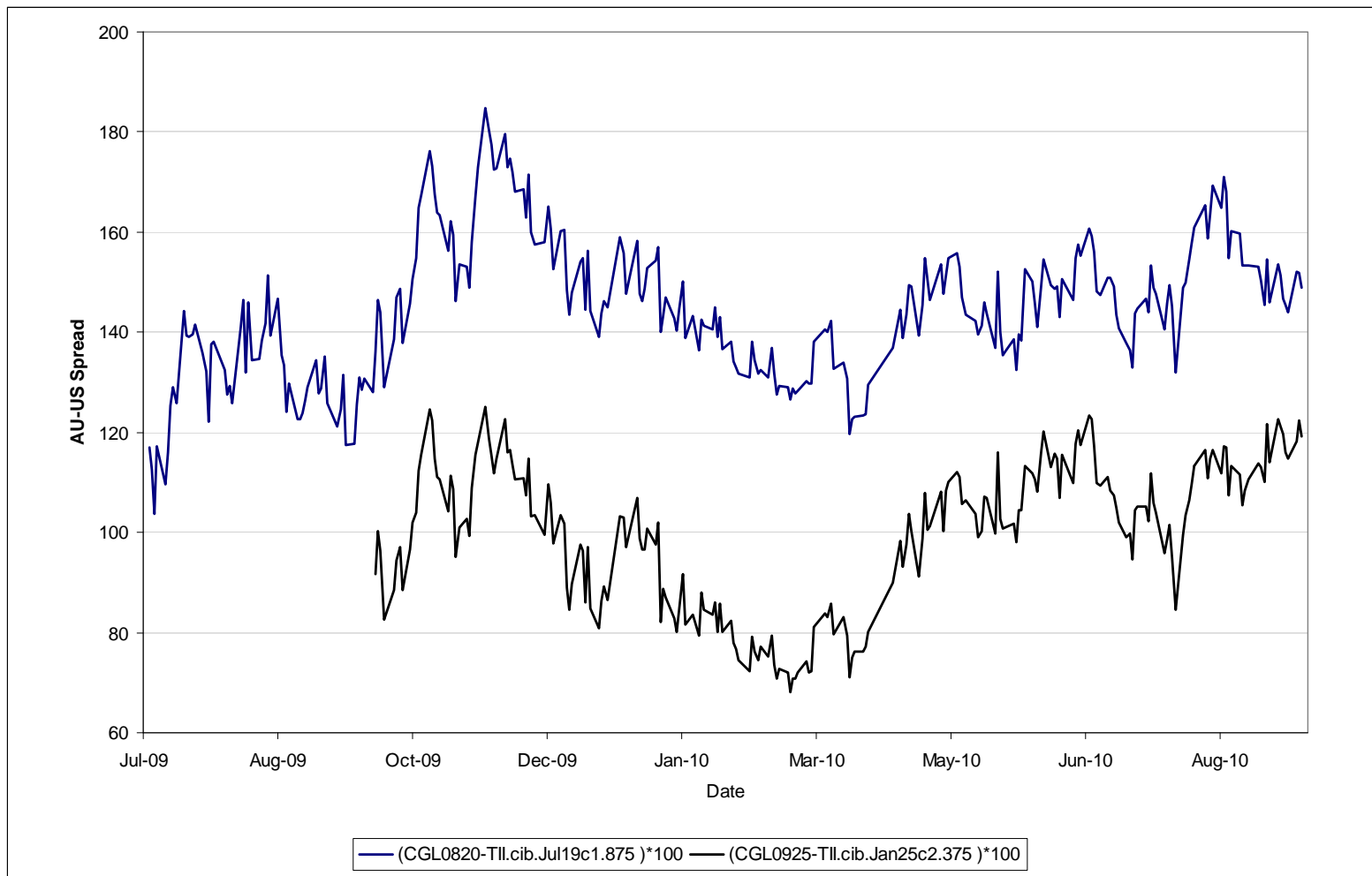
Trade Opportunities in Australian Inflation Linked Products

Short dated inflation swaps underpricing inflation

Qtr Ending	RBS CPI Estimates		
	RBS (qoq)	RBS (yoy)	RBA (yoy)
Sep-10	0.8	3.3	
Dec-10	0.7	3.4	3.25
Mar-11	0.7	3.2	
Jun-11	0.8	3.0	3.25
Sep-11	0.9	3.1	
Dec-11	1.0	3.4	2.75

IMPLIED REM CPI (RBS Estimates)		
Year	ZCS	Bond
0		
1		
2	0.72	
3	1.70	
4	2.04	
5	2.22	1.97
6	2.35	
7	2.43	
8	2.49	
9	2.53	
10	2.57	2.37
12	2.60	
15	2.62	2.45
20	2.64	
25	2.65	
30	2.66	
35	2.67	
40	2.67	

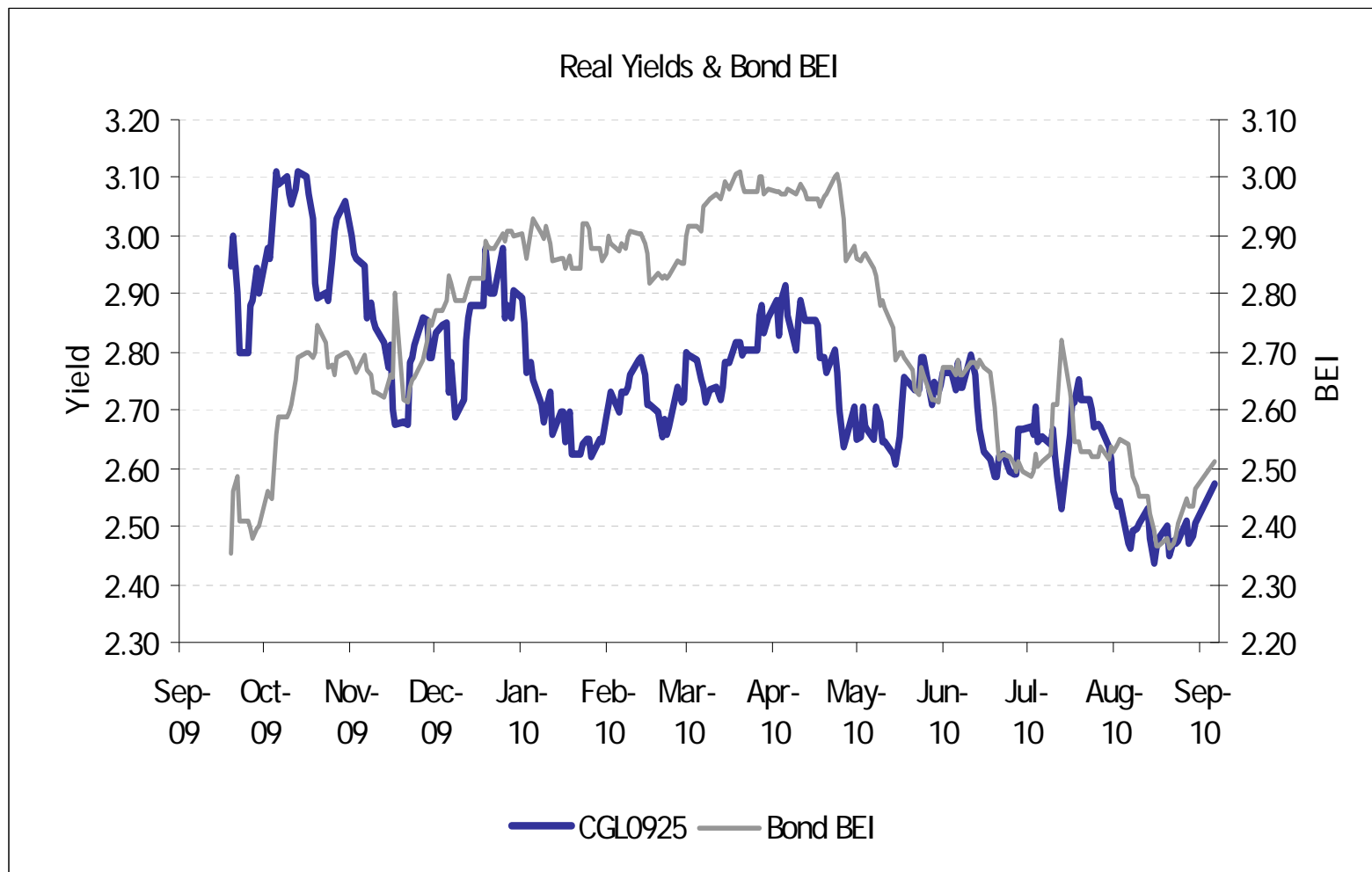
AU vs US 10y real yield spread at recent highs



Asset swaps in linkers are good value vs nominals

Security	Rating	ILB ASM	Nom Bond	Nom ASM	Diff
CGL0815	AAA	-31	CG0415	-54	23
CGL0820	AAA	-30	CG0420	-48	18
CGL0925	AAA	-28	CG0722	-45	17
CGL0930	AAA	-18	CG0722	-45	27
TCVM0812	AAA	50	TV1012	-12	61
TCV0815	AAA	26	TV1014	-11	37
TCV0820	AAA	36	TV0620	-4	39
SAF0815	AAA	32	SA0415	-1	33
NSW1120	AAA	39	TC0520	0	38
NSW1125	AAA	54	TV1022	-1	54
ACT0630	AAA	82	TV1022	-1	82
QTC0830	AA+	87	QT0333	7	80
NSW1135	AAA	106	TC0530	2	104

Breakevens are in the middle of the RBA inflation target band





Property Derivatives

Australian property derivatives – Managing real estate allocations

What are property derivatives?

A quick and efficient way to buy and sell real estate exposure based on a property index.

What is a property index?

A property index measures the return performance of unlevered physical property. The Australian commercial index has over 20 years of data and covers nearly AUD65 billion worth of property. Robust residential indices also exist in Australia.

Advantages over physical real estate

- No stamp duty, agent fees, legal fees
- No ongoing management fee
- Diversification
- Ability to hedge real estate exposure
- No lengthy due diligence

Size of market

Market in its infancy in Australia. Over £20bn traded in UK in last 5 years.

Who has traded?

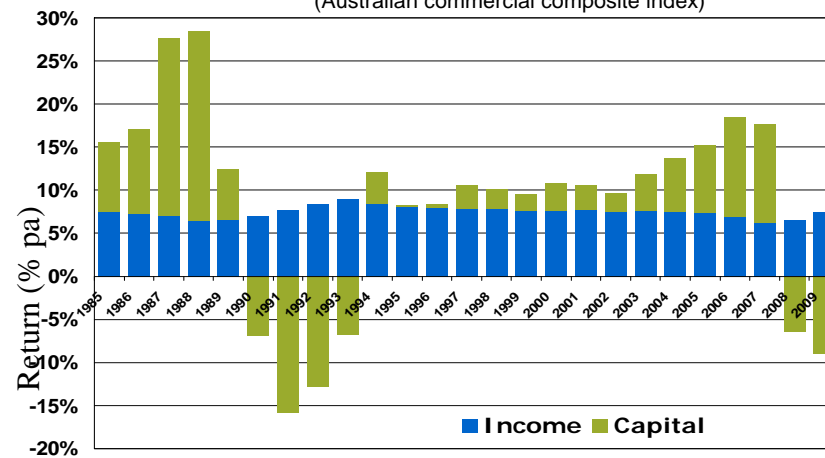
UK examples: Prudential, AVIVA, Hermes, UBS Asset Management, Schroders, Aberdeen Property Investors.

Pricing

Daily pricing available on Bloomberg for different countries. Yet to include Australia – pricing here on an ad hoc basis

Australian commercial returns

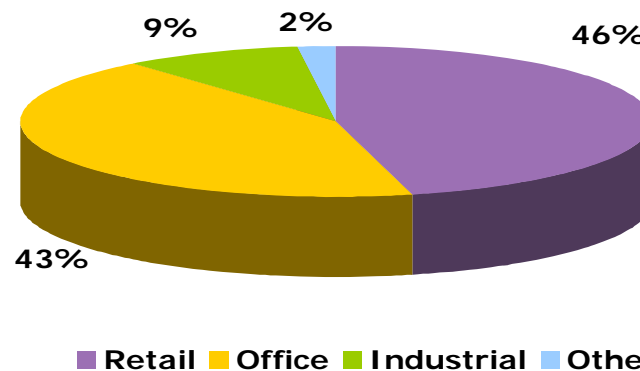
(Australian commercial composite index)



Source: IPD

Australian commercial index by sector

As at Dec-2009 (AUD64.2bn, 847 properties)



Source: IPD

Example: Australian Residential Property Linked Note

What is a Property Linked note?

This note gives investors exposure to the Australian residential property market based on an index.

Mechanics of the note

Under this note (see term sheet right) investors receives the % change in the Aussie residential index over 3 years, plus 12% at maturity. So if Aussie residential values increase by 10% over the next three years the investor receives 22% (10% in the index and 12% outperformance).

The Aussie residential index

Compiled by RP Data-Rismark, the index is a reliable and consistent benchmark of housing prices in Australia.

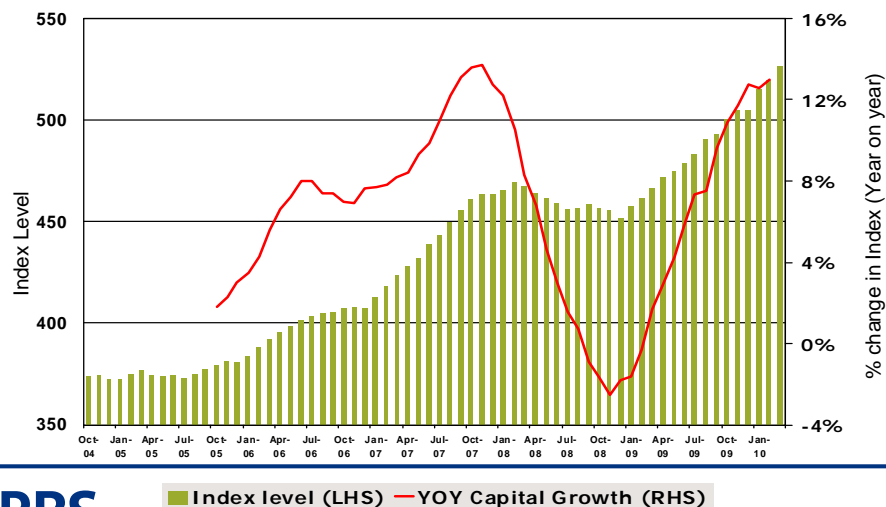
Advantages

Combined with the advantages in the previous slide, the note also **gives access to a market (residential) which institutions typically find difficult to access.**

Indicative Terms

Type	Non Listed
Form	Euro Medium Term Note
Issuer	The Royal Bank Of Scotland PLC
Ratings	Aa3/ A+/ AA- (Moody's / S&P / Fitch)
Currency	AUD
ISIN	[]
Additional notes	Na
Issue Amount	AUD100,000,000
Trade Date	[]
Issue Date	[]
Maturity Date	31 March 2013
Issue Price	[100%]
Coupon	$\left(\frac{\text{Index}_{\text{Dec-12}}}{\text{Index}_{\text{Dec-09}}} - 1 \right) + 12.0\%$, settlement on 31-March-2013
Coupon Payment Dates	Maturity Date
Redemption	100% +/- Coupon
Index	RP Data-Rismark index (Australia, Capital Value). Bloomberg ticker is: RPKFAUSH
Index Provider	RP Data-Rismark
Day Count Fraction	30/360
Business Day	Australia
Listing	Optional

Australian residential (index & returns)



Source: RP Data-Rismark



RBS and Inflation

Inflation swaps – combining comprehensive coverage and insightful intelligence

■Pioneering market coverage

- Pioneer and leader in inflation derivatives (structuring and trading) – RBS was the first bank to launch inflation swaps and options on Bloomberg
- Specialist inflation bond/derivative marketer in many countries
- Strength in trading coverage: Zero-Coupon Swaps, bonds, LPI structured and a range of derivative products across EUR HICP, UK RPI, AUD CPI, US CPI and a variety of domestic inflation indices
- Strong capabilities in risk advisory and quantitative ALM modelling

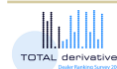
■Informing you through detailed research

- At the heart of our inflation offering is a top class research capability:
 - ◆Monthly inflation-linked publication
 - ◆In-depth research on related topics (such as pensions reform)
 - ◆Observations, opinions, technical strategy and trading ideas tailored to your requirements

■Trading on the leading platforms

- High-profile presence on Bloomberg providing liquidity and comprehensive coverage of the inflation products market

Awards and rankings



2009

- #1 GBP Inflation Products
- #3 All Inflation Products
- #4 EUR Inflation Products
- #5 JPY Inflation Products
- #6 USD Inflation Products



- #2 Overall Inflation
- #2 Inflation Swaps Sterling
- #3 Inflation Swaps Euro
- #4 Inflation Swaps US Dollar



Inflation Derivatives House of the Year



- #1 Overall Inflation
- #1 Inflation Swaps EUR & GBP
- #1 Inflation Cap/Floors GBP
- #2 Inflation Swaps USD
- #2 Inflation Cap/Floors EUR
- #3 Inflation Cap/Floors USD

Inflation trading – Global reach in Inflation Bonds & Swaps

	<ul style="list-style-type: none"> EURO HICPxt swaps and options Market maker in EURO HICPXT linked bonds 	<ul style="list-style-type: none"> No. 1 in Risk survey for Eurozone inflation swaps 2008 No. 1 dealer on MTS for French and Italian linkers Top 3 in Euro Inflation linked bond trading No. 2 in Risk survey for Eurozone inflation Caps/Floors 2008
	<ul style="list-style-type: none"> French CPI swaps and options Market maker in French CPI linked bonds SVT 	<ul style="list-style-type: none"> No. 1 dealer on MTS for OATi/OATei 2008 Joint-Lead manager for 15 year Government Inflation Linked Bond No. 1 in Agence France Trésor Rankings for IL interdealer secondary markets 2010 ytd No. 2 in primary markets 2010 ytd
	<ul style="list-style-type: none"> UK RPI and LPI swaps and options UK GEMM 	<ul style="list-style-type: none"> Leader in UK index linked bond trading No. 1 in secondary UK Corporate Bond business No. 1 in Risk survey for inflation swaps 2008 No. 1 in Risk survey for UK inflation Caps/Floors 2008
	<ul style="list-style-type: none"> Market maker in Bundei SVT 	<ul style="list-style-type: none"> No. 1 dealer on MTS
	<ul style="list-style-type: none"> Market maker in BTPSei 	<ul style="list-style-type: none"> No. 1 dealer on MTS
	<ul style="list-style-type: none"> Primary Dealer in US Treasuries and TIPS through RBS Greenwich Capital 	<ul style="list-style-type: none"> Market maker in TIPS No. 2 in Risk survey for US inflation swaps 2008 No. 3 in Risk survey for US Caps/Floors 2008
	<ul style="list-style-type: none"> Market maker in JGBI 	<ul style="list-style-type: none"> Quote Bonds and swaps electronically
	<ul style="list-style-type: none"> Nordic region: RBS active in Swedish linkers as well as in swaps and options on Swedish, Norwegian, Finnish and Danish inflation Swap and bonds: Australia and Canada Quote domestic Eurozone swaps electronically 	

International presence in Inflation

- During the financial crisis RBS was the only bank publishing real-time inflation options prices on Bloomberg
- The inflation trading desk is a leading market maker in all major markets including
 - Euro Inflation
 - French CPI
 - UK RPI
 - Bundei
 - US
 - Japan
- The desk also covers Nordics, Australia, Canada and other domestic Eurozone swaps
 - The Global Reach has shown the strength of RBS in inflation by providing clients with liquidity in non-major market inflation products






Inflation - Market Leader

- Hedge manager for UK DMO's first & second ever linker issue: £1.25bn 2055 & £5bn 2042 linker syndication
- Hedge manager for Australian Governments largest ever A\$ syndicated bond issue 2025 4bn
- Joint leads for Tesoro's €3.5bn Italy 2041 linker
- Hedge manager for Network Rail 2037 £950m issue (Largest non Sovereign deal)
- No 1 in Global Inflation structures (Bloomberg)
- Market leader in Inflation Options

This is testament to RBS' exceptional Global Inflation trading and distribution capabilities across markets

July 2009
<small>United Kingdom Debt Management Office</small>
United Kingdom GBP 5,000,000,000 0.625% Fixed Rate Notes due November 2042 Linked to UK RPI
<small>RBS Joint Bookrunner RBS sole Hedge Manager</small>

Commonwealth of Australia	
	
A\$4,000,000,000 3.0% Inflation Linked Fixed Rate Notes Due Sept 2025 <small>Joint Bookrunner</small>	
<small>Sept 2009 Australia</small>	

October 2009

Italy EUR 3,500,000,000 2.55% Fixed Rate Notes due September 2041 Linked to EU HICPxT
<small>RBS Joint Bookrunner</small>

Risk Magazine Awards

January 2008



'Inflation Derivatives House of the Year'

2008

September 2007



Inter-Dealer Rankings 2007

Inflation Swaps EUR: 1
Inflation Swaps GBP: 1
Inflation Caps/Floors GBP: 1
Inflation Caps/Floors EUR: 2
Inflation Caps/Floors USD: 5



Inflation Derivatives House of the Year

January 2008

RBS Global Banking & Markets

RBS Global Banking & Markets has been named Inflation Derivatives House of the Year, 2008, by Risk magazine. Risk awards, which are regarded as the 'Oscars of the derivatives markets', are designed to recognise client satisfaction and product innovation and are hotly contested by all market participants.

The magazine's writers praise RBS Inflation Trading for its "leading role in the wave of inflation issuance from UK utility companies over the past two years." Risk also notes how "RBS is alone in publishing real-time inflation options prices on Bloomberg, a service it launched in March 2007" and how the bank has successfully increased its international presence.

Risk Awards are decided by an expert editorial panel after an extensive judging process, which involves substantial written pitches and face to face interviews as well as detailed discussions between the magazine and bank clients. The magazine, published by Incisive Media, is a global title with a monthly readership exceeding 11,000 and is recognised as the leading authority on global derivatives markets.



Interest Awards

1st

- Forward Rate Agreements Overall
- Interest Rate Overall - Sterling
- Short-dated Interest Rate Swaps - Sterling
- Interest Rate Swaps 2-10 Years - Sterling
- Interest Rate Caps/Floors - Sterling
- Exotic Interest Rate Products
 - Inflation Swaps - Euro
 - Inflation Swaps - Sterling
 - Inflation Cap/Floors - Sterling
- Overnight Index Swaps - Sterling
- Forward Rate Agreements - US Dollar
- Forward Rate Agreements - Euro
- Forward Rate Agreements - Sterling

2nd



- Short-dated Interest Rate Swaps Overall
- Exotic Interest Rate Products Overall
- Short-dated Interest Rate Swaps - US Dollar
- Interest Rate Swaps 10+ Years - Sterling
- Interest Rate Swaptions - Sterling
- Exotic Interest Rate Products
 - Inflation Cap/Floors - Euro

September 2007

RBS/ABN AMRO – Lead manager for the worlds largest CPI syndications

RBS/ABN AMRO has unmatched experience in leading the CPI Bond syndications for the largest economies

These tombstones are only a selection of the sovereign syndications performed



Commonwealth of Australia	
	
<p>AUD 4,000,000,000 3.0% Inflation Linked Fixed Rate Notes Due September 2025</p>	
Joint Bookrunner	
September 2009 Australia	



United Kingdom DMO	
	
<p>GBP 5,000,000,000 0.625% Index-Linked Notes Due November 2042</p>	
Joint Bookrunner	
July 2009 United Kingdom	



The Republic of Italy	
	
<p>EUR 3,500,000,000 2.55% Notes Linked to the EU HICPxT Due September 2041</p>	
Joint Bookrunner	
October 2009 Italy	

United Kingdom Debt Management Office	
	
<p>GBP 1,250,000,000 1.25% Fixed Rate Notes Due November 2055 Linked to UK RPI</p>	
Joint Bookrunner & Sole Hedge Manager	
September 2009 Australia	

Agence France Trésor	
	
<p>EUR 3,000,000,000 2.10% Fixed Rate Notes Due July 2023 Linked to FR CPI</p>	
Joint Bookrunner	
February 2008 France	

Greece	
	
<p>EUR 3,500,000,000 2.30% Fixed Rate Notes Due July 2030 Linked to EU HICPxT</p>	
Joint Bookrunner	
April 2007 Greece	

Italy	
	
<p>EUR 4,000,000,000 2.10% Fixed Rate Notes Due September 2017 Linked to EU HICPxT</p>	
Joint Bookrunner	
June 2006 Italy	

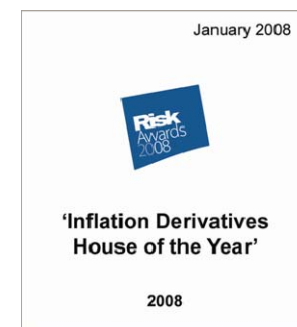
NSW Treasury Corporation	
	
<p>AUD \$220,000,000 Due Nov 2025 2.75% Inflation Linked Fixed Rate Notes SoleBookrunner</p>	
Dec 2009 Australia	

International presence in Inflation

- During the financial crisis RBS was the only bank publishing real-time inflation options prices on Bloomberg

- The inflation trading desk is a leading market maker in all major markets including

- ◆ UK RPI
- ◆ US
- ◆ Euro Inflation
- ◆ Australia
- ◆ French CPI
- ◆ Bundei
- ◆ Japan




- The desk also covers Nordics, Canada and other domestic Eurozone swaps & Emerging markets (Israel, Turkey, Lat-Am)

- The Global Reach has shown the strength of RBS in inflation by providing clients with liquidity in non-major market inflation products

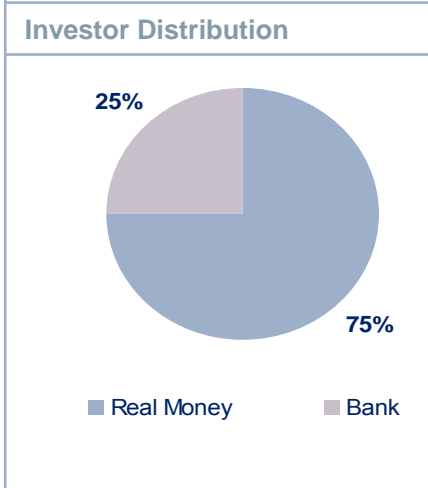
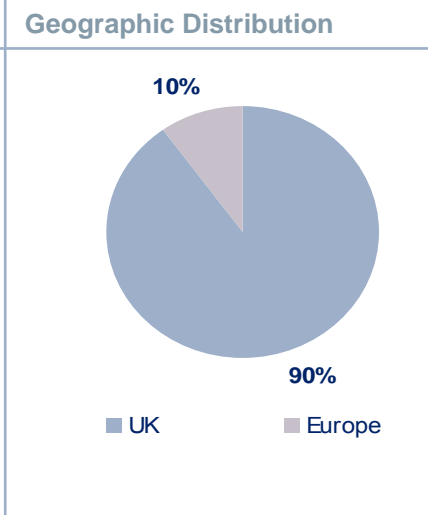
1.25% Index Linked Gilt 2055

> INFLATION LINKED NOTE

September 2005

United Kingdom GBP 1,250,000,000 1.25% Fixed Rate Notes due November 2055
Joint Bookrunner
Frequent Borrowers Group

Key Terms	
Issuer	United Kingdom
Rating	Aaa/ AAA/ AAA
Amount	£1.25 billion
Launch Date	22 September 2005
Maturity	22 November 2055
Coupon	1.25%
Spread	2% I/L 2035 - 19 bp
Issue Price	105.29
Yield	1.112%
Listing	London
RBS Role	Joint Bookrunner /Sole Hedge Manager

Deal Highlights	
<ul style="list-style-type: none"> ■ The UK Debt Management Office (DMO), was established on 1 April 1998 with the brief to carry out the Government's debt management policy in Sterling of minimising financing costs over the long term, taking account of risk, and to manage the aggregate cash needs of the Exchequer in the most cost-effective way, in both cases consistently with the objectives of monetary and any wider policy considerations. ■ The DMO chose syndication for the first time with a Gilt transaction the “best way to ensure a fair and transparent price formation process, benefiting both investors and the issuer”. ■ The deal is the first I/L Gilt to adopt the three-month indexation lag pioneered by the Canadian government real return bond market in 1991 and now adopted by all major sovereigns. ■ Orders were in excess of GBP 1bn within four hours of the book opening and the final book was in excess of 2.4bn. ■ There were 65 institutional orders in the book with a high proportion of real money accounts. ■ Yields were at a record low at the time of issue, allowing the DMO to achieve good value for the taxpayer, fulfilling a key objective for the borrower. ■ Priced at tight end of indicated range from initial talk of -14 to -19 bps to I/L '35s. ■ RBS was also chosen by the DMO for the prestigious role of sole hedge manager for this complex ultra long transaction. 	



AOFM launches largest ever A\$ syndicated bond issue

Commonwealth of Australia



A\$4,000,000,000
3.0% Inflation Linked
Fixed Rate Notes
Due Sept 2025
Joint Bookrunner

Sept 2009
Australia



Key Terms

Issuer	Commonwealth of Australia
Type	Senior Unsecured
Rating	Aaa/AAA
Amount	A\$4.0 billion
Launch Date	30 Sept 2009
Maturity	20 Sept 2025
Settle	08 Oct 2009
Coupon	3.00% qtrly
Re-Offer Spread	CIB 2020 + 1 bps
RBS Role	Joint Bookrunner

Deal Information/Deal Highlights

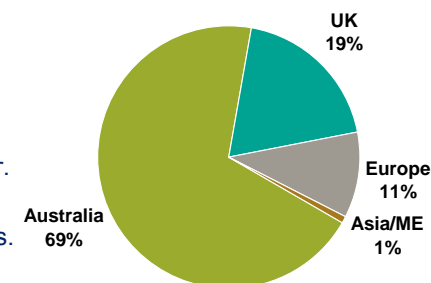
Highlights

- This is the Australian Commonwealth Government's largest ever syndicated A\$ bond issue, and the largest bond transaction in the Australian market from any issuer.
- The transaction marks the Australian Commonwealth Government's first syndicated bond issue for well over a decade.
- The new issue had been widely anticipated and follows on from a comprehensive debt investor relations exercise undertaken both domestically and throughout Europe over the month of September.
- Despite the fact that legislation to exempt offshore holders from IWT on Commonwealth Government bonds is not expected to be passed until November, there was strong appetite from offshore investors.

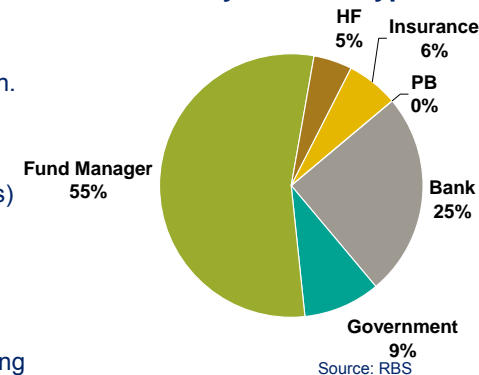
Process

- The Australian Office of Financial Management ('AOFM') which manages the Commonwealth Government's liabilities, undertook a formal 'beauty parade' in August and RBS was chosen as one of three bookrunners for the Government's inaugural syndicated financing
- The transaction was roadshowed domestically in early September, continuing with a comprehensive schedule throughout Europe at the time of the Australian Debt Forum in London last week.
- Books formally opened on Tuesday morning in Australia and were left open overnight to fully enfranchise offshore demand. The orderbook gathered early momentum with A\$2.5bn after the first day and was subsequently closed at 11:00am on Wednesday 30th, to stand in excess of A\$5.5 billion.
- The transaction had orders from approximately 60 investors encompassing a broad spectrum that included fund managers, government agencies, banks, insurance funds and private banks.
- Final pricing (Linker 2020 +1 bps) was at the tighter end of initial guidance (Linker 2020 + 0 to +5 bps) and tight end of the subsequent revised guidance (Linker 2020 +1 to +3 bps).
- Despite launching a min. A\$1 bln, the ultimate size of A\$4 bln sends strong message about the AOFM's commitment to the inflation market and in accordance, the liquidity offered by the product.
- The decision by the AOFM to mandate RBS on the largest ever syndicated government deal in Australia, highlights the Australian Commonwealth Government's view that RBS has one of the leading A\$ fixed income businesses in both nominal and inflation linked bonds

Allocation Breakdown by Geography



Allocation by Investor Type



United Kingdom (Aaa/AAA/AAA) GBP5 billion 2042 – Largest Syndicated Linker

United Kingdom DMO

United Kingdom
Debt
Management
Office

GBP 5,000,000,000
0.625% Index-Linked Notes
Due November 2042

Joint Bookrunner

July 2009
United Kingdom



Key terms

Issuer	United Kingdom
Rating	Aaa/AAA/AAA
Amount	GBP5bn
Launch date	23 July 2009
Maturity	22 Nov 2042
Coupon	0.625%
Issue price	92.482%
Listing	UKLA
RBS role	Joint Bookrunner and Hedge Manager

Deal information / Deal Highlights

■ Highlights

- This is the second offering under the UK DMO's new syndicated programme and the first linker under this programme after a successful GBP7bn conventional debut in June also lead by RBS
- The issue represents the biggest ever syndicated inflation linked bond
- The tight pricing, high quality of the order book and a size of the deal corresponding to the amount usually raised in several auctions once again demonstrated the benefits of the syndication process for the issuer
- After this offering, the UK DMO has already raised almost half of the GBP25bn syndicated programme for 2009/2010

■ Process

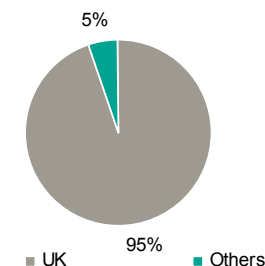
- The order book opened at 9am with indicative price guidance for investors at a spread of 4bps to 7bps below the yield on 1½% Index-linked Treasury Gilt 2037. After one hour the value of the orders amounted to over GBP6bn, allowing the syndicate to revise the price guidance to 7bps below the yield on 1½% Index-linked Treasury Gilt 2037 and accelerate the marketing process

- The book was closed shortly after at 10.45, reaching the final size in excess of GBP 8bn with orders from 61 accounts. Given the quality and strength of the orders in the book, it was decided to size of the offer at GBP5bn. The issue priced at a yield spread of 7 bps below the yield on 1½% Index-linked Treasury Gilt 2037, i.e. at the tight end of the spread range

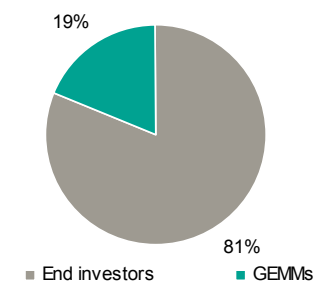
■ Distribution

- The domestic investor base provided the main support for the issue, taking around 95% of the allocation
- In terms of investor type, there was very strong direct interest, with 81% placed with end investors. Investors were primarily fund managers, pension funds and insurance companies, reflecting their structural demand for long-dated index-linked assets
- With such a heavily over subscribed book and strong placement, we fully expect this transaction to perform well in the secondary market

Allocation breakdown by geography



Investor type



The Republic of Italy (Aa2/A+/AA) EUR 3.5bn 2.55% due Sep-41

The Republic of Italy



EUR 3,500,000,000
2.55% Notes Linked to the
EU HICPxT
Due September 2041

Joint Bookrunner

October 2009
Italy



Key terms

Issuer	Republic of Italy
Rating	Aa2/A+/AA-
Type	Linked to EU HICPxT
Amount	EUR 3.5bn
Launch	21 st October 2009
Maturity	15 th September 2041
Coupon	2.55%
Pricing	BTPEi Sep-35 +13bps
RBS role	Joint Bookrunner

Highlights

- This 30Y BTPEi is the first Euro Area Sovereign syndicated inflation linked transaction for 2009 and is currently the longest outstanding Euro Area Sovereign inflation linked benchmark
- Pricing was only 1bps above fair value. This is an exceptionally strong achievement for the Republic of Italy despite the challenging market conditions and the complexity of the instrument
- In 2009, RBS has lead managed inflation linked transactions for all Sovereigns that have issued one: the UK Government (UK CPI), Commonwealth of Australia (Australian CPI) and Republic of Italy (European CPI)
- This is testament to RBS' exceptional inflation trading and distribution capabilities across markets

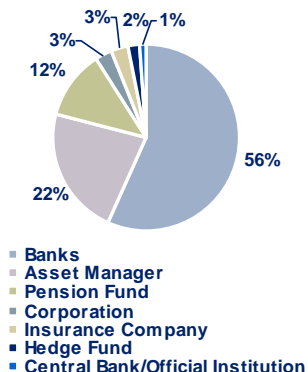
Process

- The Republic of Italy has been considering bringing a new 30Y inflation linked transaction for some time as the outstanding BTPEi Sep-35 has served its purpose of the on-the-run benchmark and was trading technical as a result
- Different pricing methodologies were used to assess fair value which was seen at +12bps over the Real Yield of the outstanding BTPEi Sep-35
- Given the complexity of the transaction, the deal was announced on Thursday 15th to allow enough time to investors to carry out their fair value considerations. Friday and Monday were also used to engage investors on fair value and to gather feedback
- Books opened on Tuesday 20th with a price talk of +11/+14bps over the real yield of the BTPEi Sep-35. The orderbook grew steadily throughout the day with very low spread sensitivity. EUR 5bn orders were gathered by close of business on Tuesday when the book closed
- Given the quality and size of interest, the deal size was set at EUR 3.5bn and the spread was fixed at +13bps. The transaction was smoothly priced on Wednesday 21st in the morning

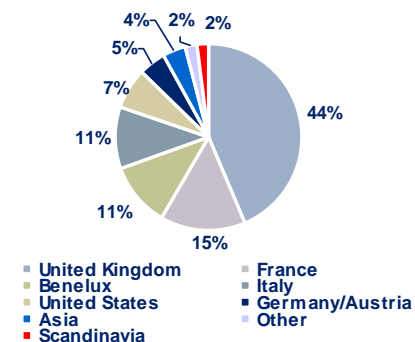
Distribution

- 76 different investors participated in the Leads book, with most of the orders on a cash basis rather than switches or asset swap
- Banks bought 56%, Asset Managers 22% and Pension Funds 12%. 89% of the bonds were sold outside Italy, testament to the Republic of Italy recognition amongst international investors

Investor type



Region



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