# Re-building and Recovery

Q1 2010 Results

7th May 2010

# Important Information

Certain sections in this presentation 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’, ‘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, capitalisation, portfolios, capital ratios, liquidity, risk weighted assets, return on equity, cost-to-income ratios, leverage and loan-to-deposit ratios, funding and risk profile; the Group’s future financial performance; the level and extent of future impairments and write-downs; the protection provided by the APS; 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. Such statements are subject to risks and uncertainties. For example, certain of the 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.

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# Contents

# Key Business Highlights

**Ongoing business performance improvements**
- Group operating profit of £713m vs loss of £1.4bn Q409
- Net attributable loss of £248m vs loss of £765m Q409

**Core Bank operating profit up 92% to £2.3bn vs Q409**
- Driven by seasonally strong results in GBM and improving Retail & Commercial trends

**Customer franchises remain strong**
- UK Retail now serves >12.8m current account customers

**Progress on Strategic Plan**
– Good progress made against our published key metrics

**Non-Core run off progressing to plan**
- 4% reduction in TPAs

# Key Financial Highlights

## Core Business

- Operating profit: £2.3bn, +92% vs Q409
- ROE: 15%, in line with long run targets
- NIM: 2.11%, +5bps vs Q409 driven by GBM
- Costs: flat q-o-q, -5% y-o-y
- C:I ratio improved 400bps to 47%
- Credit profile: ongoing improvement, impairment losses reduced 25% q-o-q to £971m
- LDR: further improvements made; 102% vs 104% in Q409
- RWAs: £421bn, +7%, driven by ABN AMRO migration

## Group Risk Profile

- Impairments: £2.7bn, -14% q-o-q driven by improvements in Core and Non-Core
- LDR: 131%, 400bps improvement q-o-q
- Non-Core run off: tracking to plan, a further 4% (£8bn) reduction in TPAs in Q1, (7% at CFX)
- Core Tier 1 ratio 10.6%, RBS remains a highly capitalised bank
- Tangible NAV 51.5p/share[1], a small increase q-o-q

[1] Fully diluted for 51bn B Shares

# Corporate actions - Disposals & LME[1]

## EU Disposals:

**Sempra (£14.2bn assets, £52m RBS 2009 operating profit)**
Announced partial sale[2], balance work in progress

**UK SME / Branches (£23.5bn assets, £18.2bn RWAs, operating loss of £146m, 2009)**
Sale process progressing, working through separation issues. Target agreement 2010, completion 2011

**Merchant Acquiring (£527m income, £249m operating profit 2009)**
Sale process progressing. Target agreement and close H2 2010

**Insurance (£4,460m income, £58m operating profit 2009)**
Set timing to maximise value.  H2 2012 current target for IPO.  May dual track IPO / trade sale

## Liability Management Exercise:

**Successful completion of Liability Management Exercise**
- Strengthened Core Tier One ratio by c30bps, enhancing the quality of our capital structure
- Generated gain to equity of c£1.25bn
- Reduced the cost of funding by replacing Tier 1 and Tier 2 securities with lower cost senior debt

[1] Liability Management Exercise
[2] Sale of Metals, Oil and European Energy business lines agreed on 16th February 2010; operating profit stated post MI

# Group financial highlights

| | Q110 £m | Q409 £m | Q110 vs Q409 % | Q109 £m | Q110 vs Q109 % |
|---|---|---|---|---|---|
| Income | 8,954 | 7,540 | 19% | 8,670 | 3% |
| **Operating Expenses** | **(4,430)** | **(4,473)** | **(1%)** | **(4,667)** | **(5%)** |
| **Claims** | **(1,136)** | **(1,321)** | **(14%)** | **(966)** | **18%** |
| Profit before Impairment Losses | 3,388 | 1,746 | 94% | 3,037 | 12% |
| **Impairment Losses** | **(2,675)** | **(3,099)** | **(14%)** | **(2,858)** | **(6%)** |
| Operating Profit/(Loss) | 713 | (1,353) | n.m. | 179 | 298% |
| **Other[1]** | **(734)** | **1,487** | **(149%)** | **(223)** | **n.m.** |
| Profit/(Loss) Before Tax | (21) | 134 | (116%) | (44) | (52%) |
| Attributable Loss | (248) | (765) | (68%) | (902) | (73%) |
| **Net interest margin** | **1.92%** | **1.83%** | **9bps** | **1.78%** | **14bps** |
| **Cost:income ratio** | **49%** | **59%** | **(1,000bps)** | **54%** | **(500bps)** |

| **Capital & Balance Sheet** | 31 Mar 10 | 31 Dec 09 | Change |
|---|---|---|---|
| Funded balance sheet | £1,120.6bn | £1,084.3bn | 3.3% |
| Risk-weighted assets (pre APS) | £585.5bn | £565.8bn | 3.5% |
| **Risk-weighted assets (post APS)** | £460.7bn | £438.2bn | 5.2% |
| **Core tier 1 ratio (post APS)** | 10.6% | 11.0% | (40bps) |
| Net tangible equity per share | 51.5p | 51.3p | 0.2p |

[1] Includes restructuring & integration costs, amortisation, bonus tax, APS CDS fair value changes and strategic disposals

# Core & Non-Core performance

RBS

## Core Division Q1 2010[1]

| | Q1 10 £m | Q409 £m | Q110 vs 4Q09 % | Q110 vs Q109 % |
|---|---|---|---|---|
| Net Interest Income | 3,035 | 2,935 | 3% | (6%) |
| Non Interest Income | 4,985 | 4,497 | 11% | (31%) |
| **Income** | **8,020** | **7,432** | **8%** | **(23%)** |
| Operating Expenses | (3,774) | (3,788) | (0%) | (5%) |
| Claims | (1,003) | (1,173) | (14%) | 27% |
| **Profit before Impairment Losses** | **3,243** | **2,471** | **31%** | **(43%)** |
| Impairment Losses | (971) | (1,288) | (25%) | (6%) |
| **Operating Profit/(Loss)** | **2,272** | **1,183** | **92%** | **(51%)** |

- GBM income up £723m in seasonally stronger Q1
- R&C income broadly stable, normally seasonally weaker in Q1 and lower number of days
- Costs well controlled
- Claims high but down from Q4
- Impairment losses reflect stable trends & no large individual cases

## Non-Core Division Q1 2010

| | Q1 10 £m | Q409 £m | Q110 vs 4Q09 £m | Q110 vs Q109 £m |
|---|---|---|---|---|
| Net Interest Income | 499 | 511 | (12) | 177 |
| Non Interest Income | 435 | (403) | 838 | 2,533 |
| **Income** | **934** | **108** | **826** | **2,710** |
| Operating Expenses | (656) | (685) | 29 | 43 |
| Claims | (133) | (148) | 15 | 44 |
| **Profit before Impairment Losses** | **145** | **(725)** | **870** | **2,797** |
| Impairment Losses | (1,704) | (1,811) | 107 | 124 |
| **Operating Profit/(Loss)** | **(1,559)** | **(2,536)** | **977** | **2,921** |

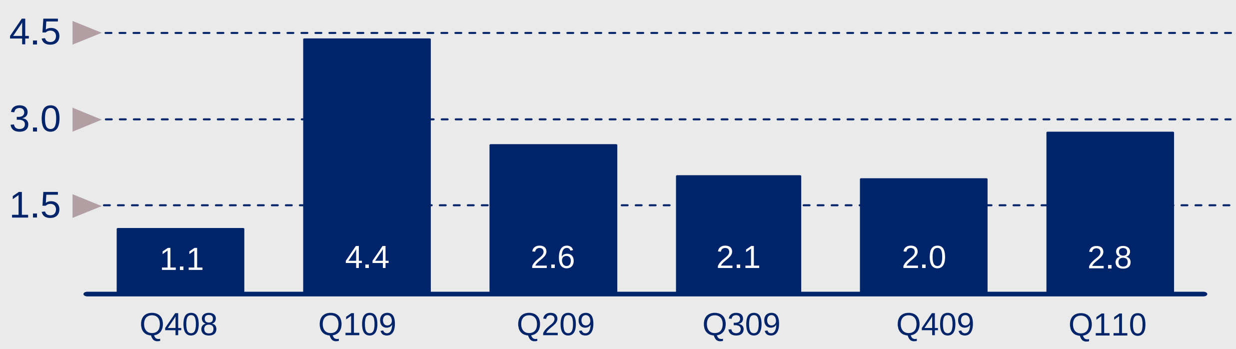
- Interest income benefits from full quarter of full capitalisation, plus further credit related recoveries
- Absence of Credit Market write-downs in Q1
- Impairment losses high in Ulster and CRE but few large individual cases elsewhere



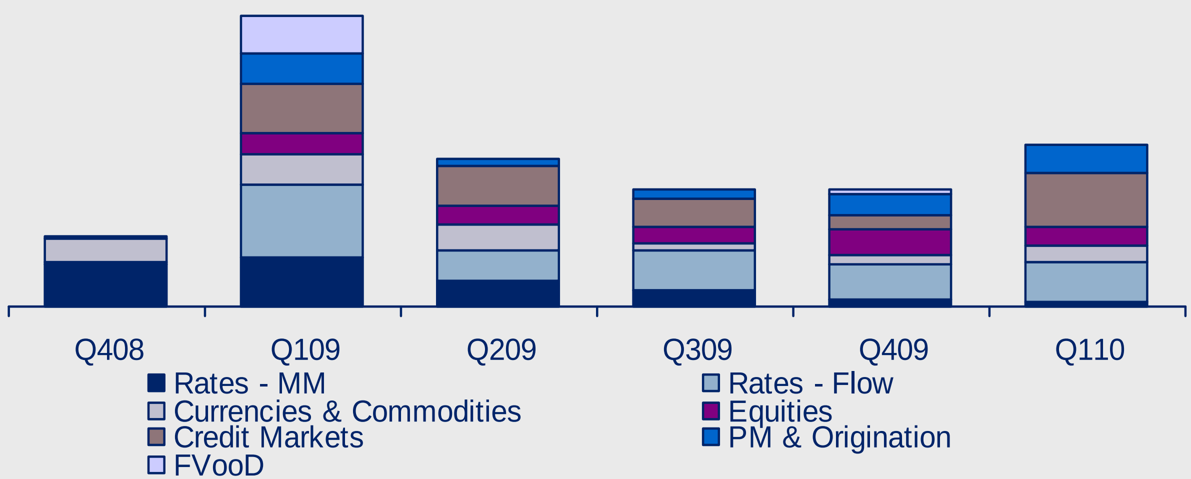
[1] Includes fair value of own debt impact: (£169m) Q110; £270m Q409; £1,031m Q109

# GBM performance

## Underlying quarterly income, £bn



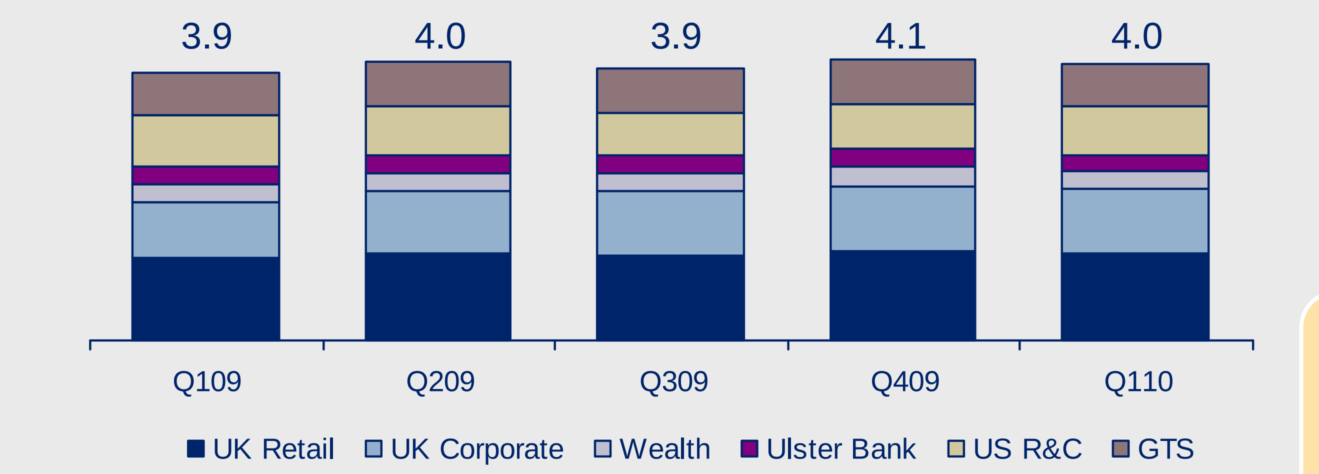

## Quarterly income by product, £bn



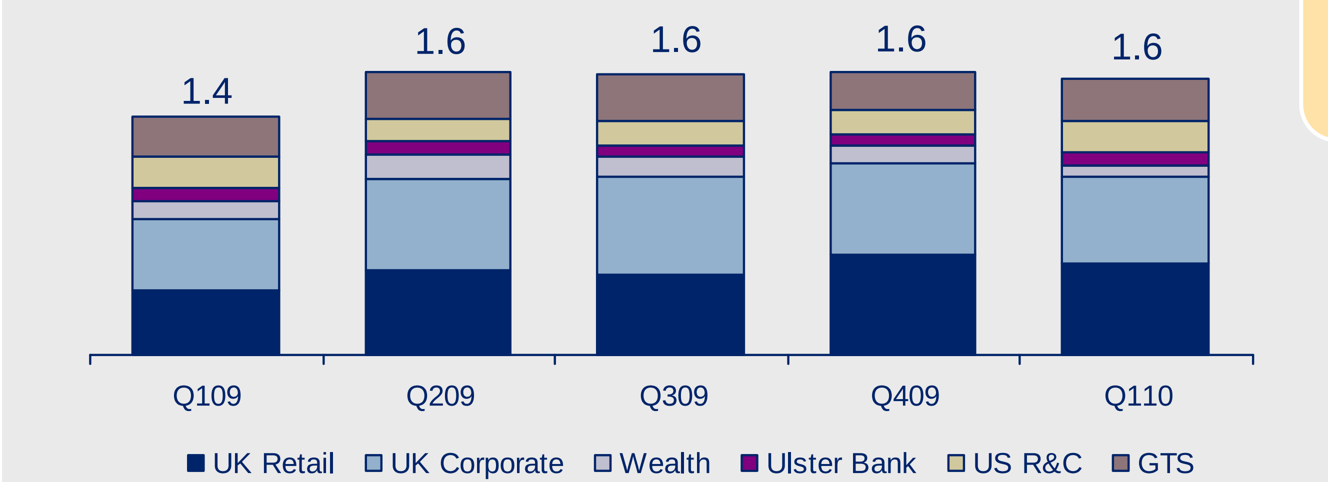

- GBM accounted for 35% of Core income Q110
- Credit Market performance boosted by strong US mortgage trading
- Good levels of market volatility and customer activity in Currencies and Rates
- Good equities performance albeit continued absence of capital raising versus previous year revenues

# Retail & Commercial[1] performance

## Quarterly income by division, £bn




## Quarterly operating profit before impairment losses by division, £bn



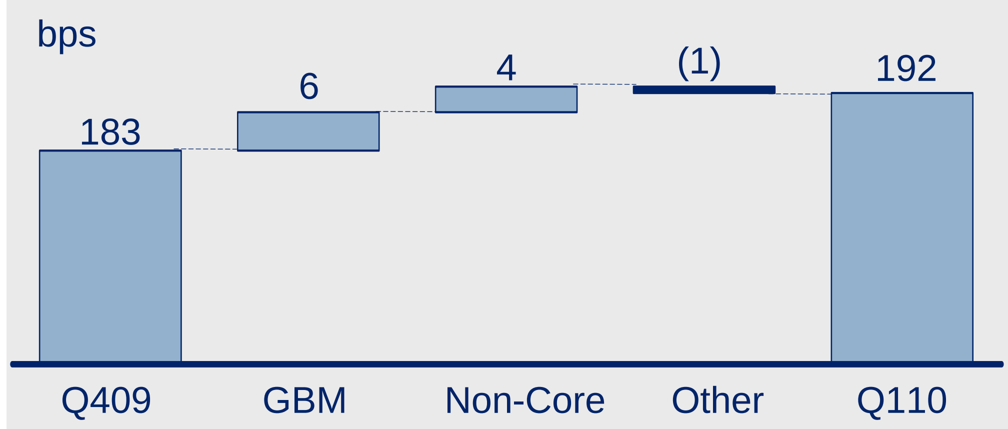

- R&C accounted for 50% of Core income Q110
- Robust, stable customer franchises and business performance
- UK Retail and US R&C demonstrating improving impairments trends

[1] Includes UK Retail, UK Corporate, Wealth, Ulster Bank, US Retail & Commercial and GTS

# NIM & Future Outlook

| Margin progression | FY09 | Q3 09 | Q4 09 | Q110 |
|---|---|---|---|---|
| Group NIM | 1.76 | 1.75 | 1.83 | 1.92 |
| R&C NIM | 2.89 | 2.91 | 3.04 | 2.97 |
| GBM | 1.38 | 1.08 | 0.89 | 1.11 |
| Non-Core | 0.69 | 0.55 | 1.17 | 1.25 |

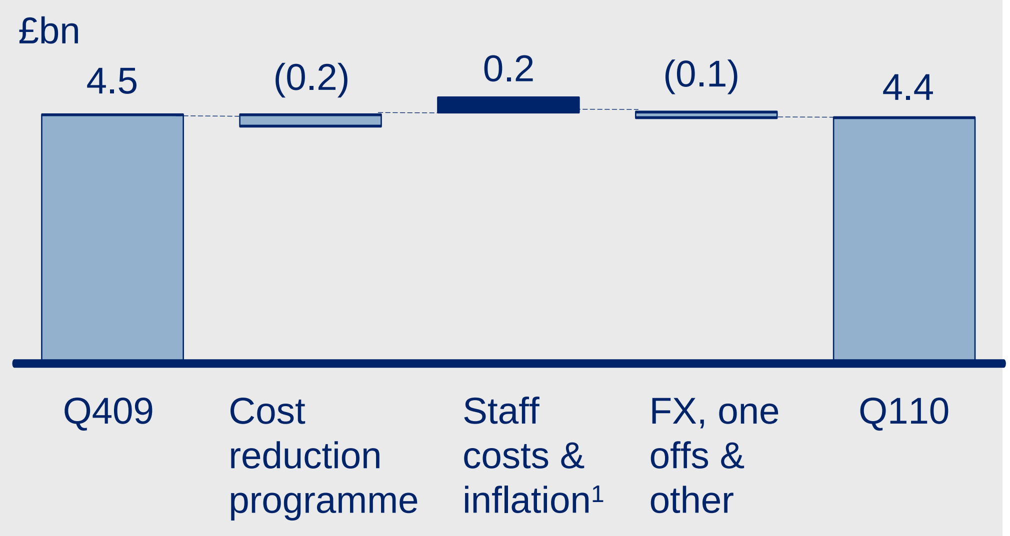
Group NIM – Q110 vs Q409




- GBM improvement driven by stronger money markets performance
- Non-Core benefits from full quarter impact of Q4 capital injection as well as further income associated with restructurings
- R&C trends remained intact, asset margins continued to widen, partially offset by further compression on liability margins
  - Net benefit more than offset by days in month variance
- Net cost of balance sheet improvement plan embedded in divisional movements
- Outlook remains positive

# Group operating expenses

## Q109 roadmap




## Operating expenses by quarter

| | Q1 10 £m | Q409 £m | Q110 vs 4Q09 % | Q110 vs Q109 % |
|---|---|---|---|---|
| Staff costs | 2,553 | 2,246 | 14% | 2% |
| Premises & equipment | 528 | 618 | (15%) | (18%) |
| Other | 935 | 1,075 | (13%) | (11%) |
| **Administrative expenses** | **4,016** | **3,939** | **2%** | **(4%)** |
| Depreciation & amortisation | 414 | 534 | (23%) | (11%) |
| **Operating expenses** | **4,430** | **4,473** | **(1%)** | **(5%)** |

- Cost plan remains firmly on track, a further £163m of savings achieved at CFX in Q1
- Group operating expenses declined 1%, driven primarily by Business Services
- GBM compensation ratio was 32% in line with guidance

[1] Includes incentive payments, staff related inflation and non-staff inflation

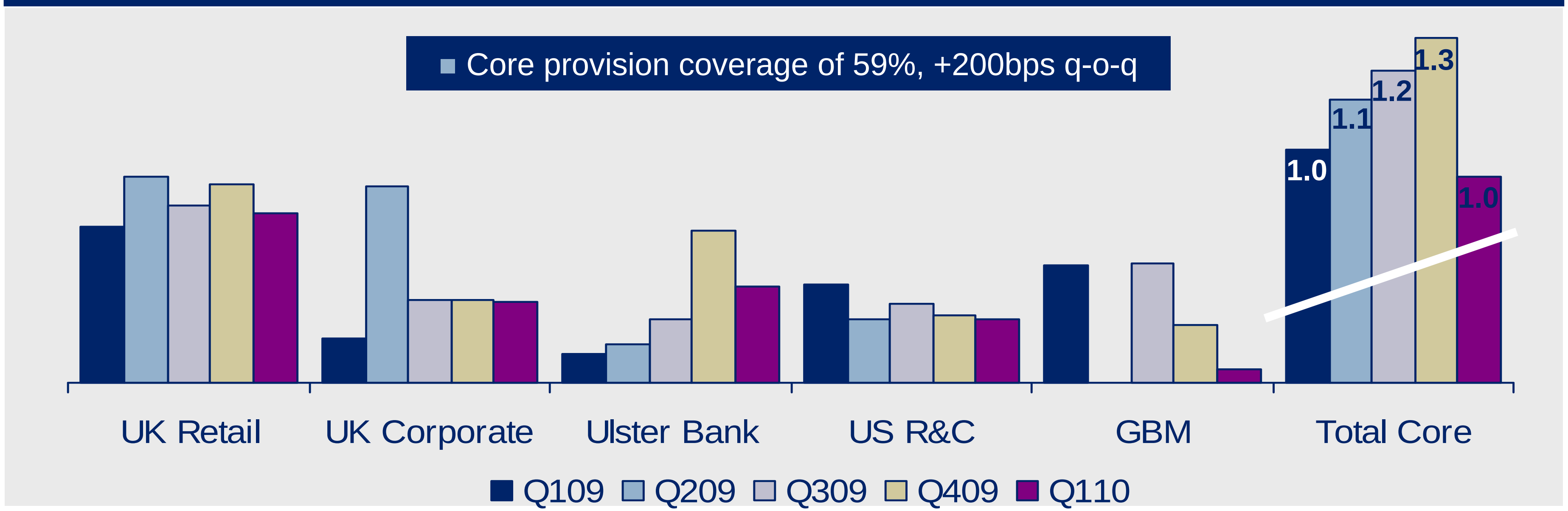
# Re-building and Recovery

## Credit quality & outlook

# Core impairments

| | Q110 £m | Q110 % L&A[1] | Q409 % L&A[1] | FY09 % L&A[1] | Q110 Key Sector Impairments: |
|---|---|---|---|---|---|
| UK Retail | 387 | 1.5 | 1.8 | 1.6 | A reduction in unsecured charges; mortgage growth reflects increased provisions |
| UK Corporate | 186 | 0.7 | 0.7 | 0.8 | Broadly spread, but property related sectors most prominent |
| Ulster Bank | 218 | 2.3 | 3.5 | 1.6 | Lower, primarily as a result of a Q409 non recurring latent provision |
| US R&C | 143 | 1.0 | 1.3 | 1.4 | Broadly stable performance; good improvement in Corporate & Commercial |
| GBM | 32 | 0.1 | 0.6 | 0.6 | Minimal charge reflecting absence of large single name provisions |
| Other[2] | 5 | n.m. | 0.2 | 0.3 | Small charge in Wealth |
| **Total Core** | **971** | **0.9** | **1.2** | **1.1** | **25% decline sequentially driven by improving trends in UK & US Retail** |

## Core impairments by division Q109 – Q110[3], £bn



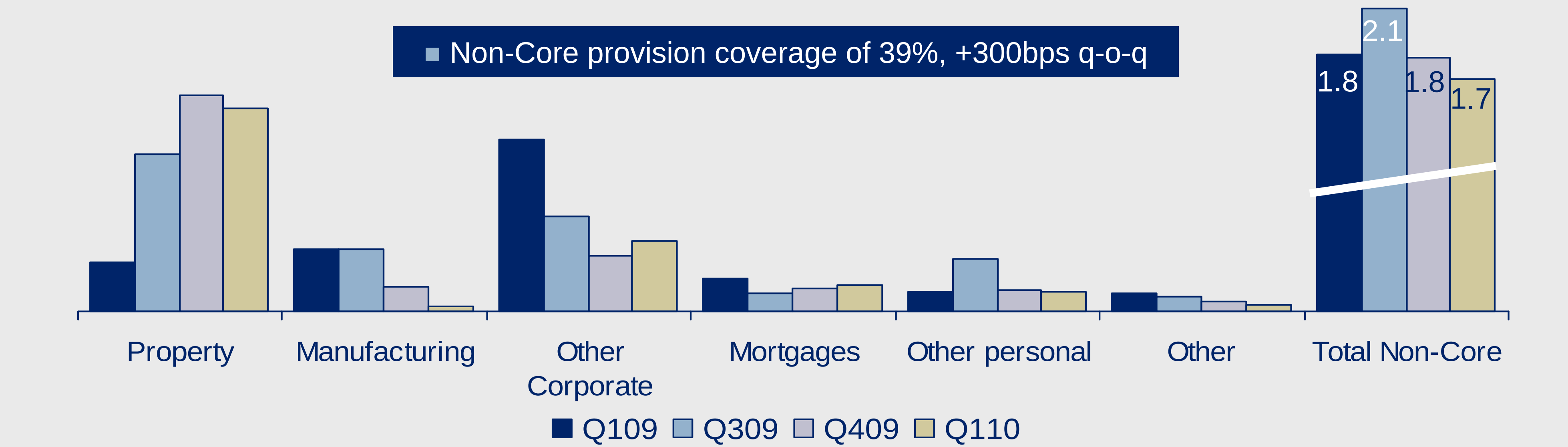



[1] Impairments as a % of L&A excludes Available for Sale [2] Includes Wealth, GTS, RBS Insurance and Central Items.

# Non-Core impairments

|  | Q110 £m | Q110 % L&A[1] | Q409 % L&A[1] | FY09 % L&A[1] | Q1 10 Key Sector Impairments: |
|---|---|---|---|---|---|
| UK Retail | **5** | **0.8** | 1.1 | 2.1 | Mortgage & Personal lending |
| UK Corporate | **155** | **1.9** | 3.9 | 4.8 | Property & construction 34% of total |
| Ulster Bank[2] | **552** | **13.0** | 7.0 | 8.3 | Property £461m, 84% of total |
| US R&C | **208** | **7.4** | 7.6 | 9.7 | SBO/Home Equity £102m, and CRE £63m - 80% of total |
| GBM | **753** | **3.6** | 4.1 | 4.9 | Property £472m, 62% of total |
| Other | **31** | **3.7** | 6.5 | 9.3 | Mainly Wealth |
| **Total** | **1,704** | **4.6** | **4.6** | **5.7** | **Absence of large individual cases but with Ulster Bank remaining at elevated levels** |

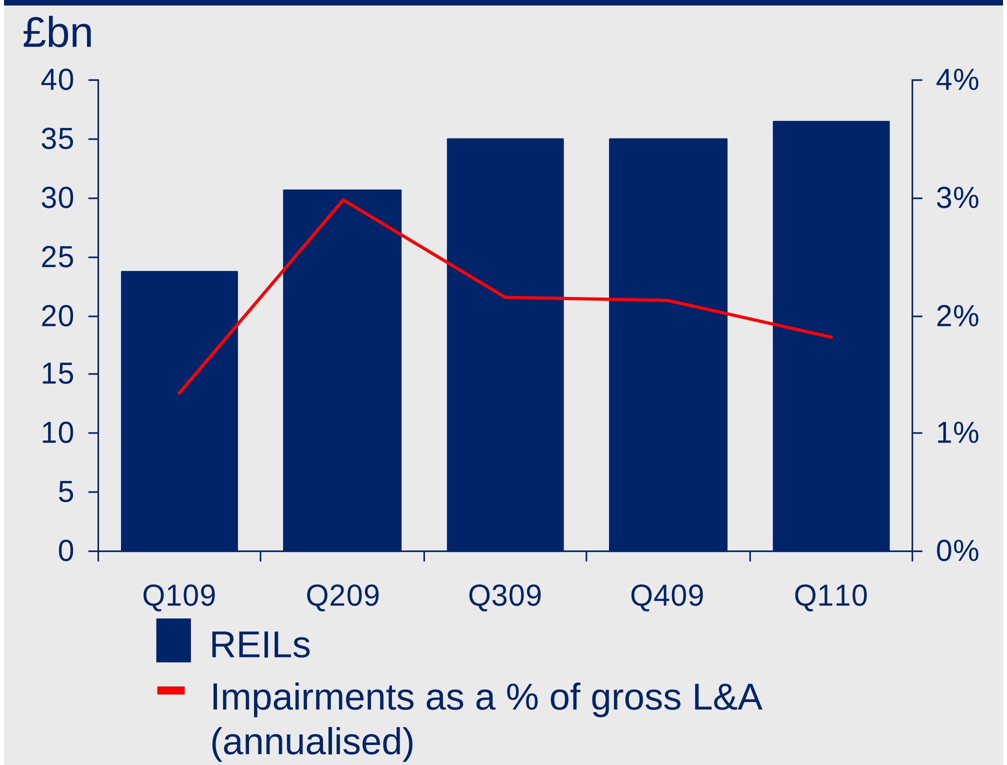
## Non-Core impairments by asset type Q109, Q409 & Q110[2], £bn



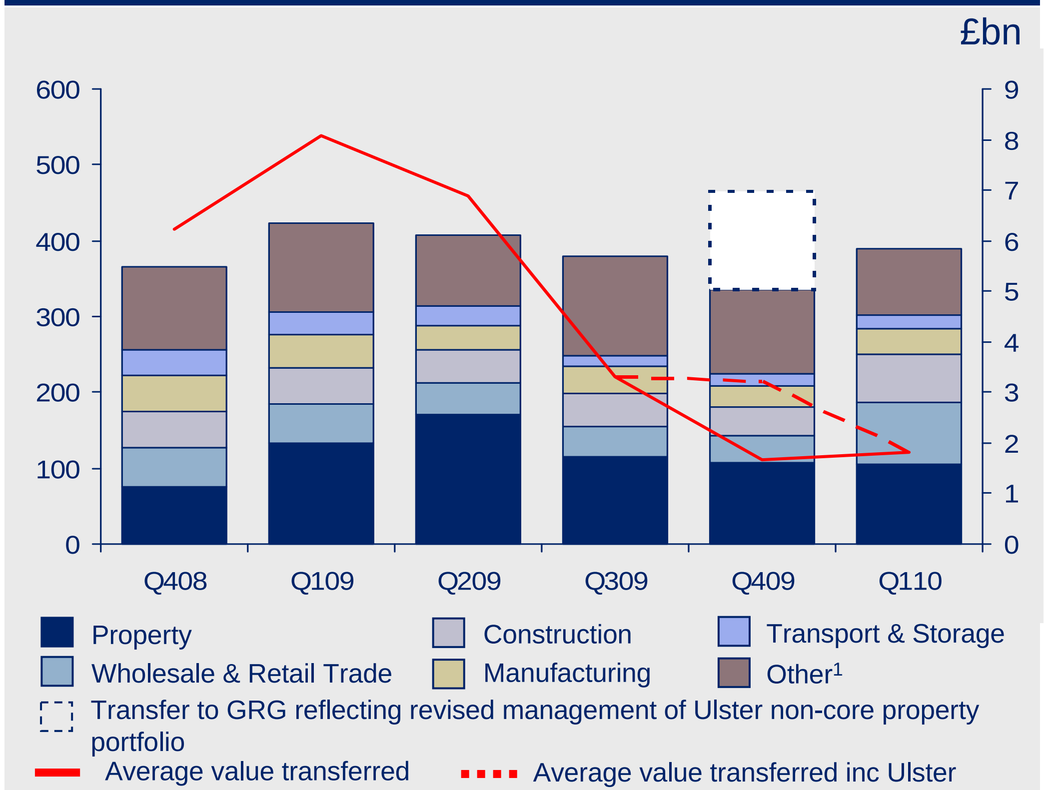

[1] Excludes Available for sale impairments. [2] Includes EMEA.

# Impairments outlook

## Group credit trends, Q109 – Q110




## No. & value of wholesale cases transferred to Recoveries Units globally, Q408-Q110 (monthly average)




- NPLs increased by 4%
- No individual large names in Q1
- Ulster Bank Core & Non-Core drove Q1 growth

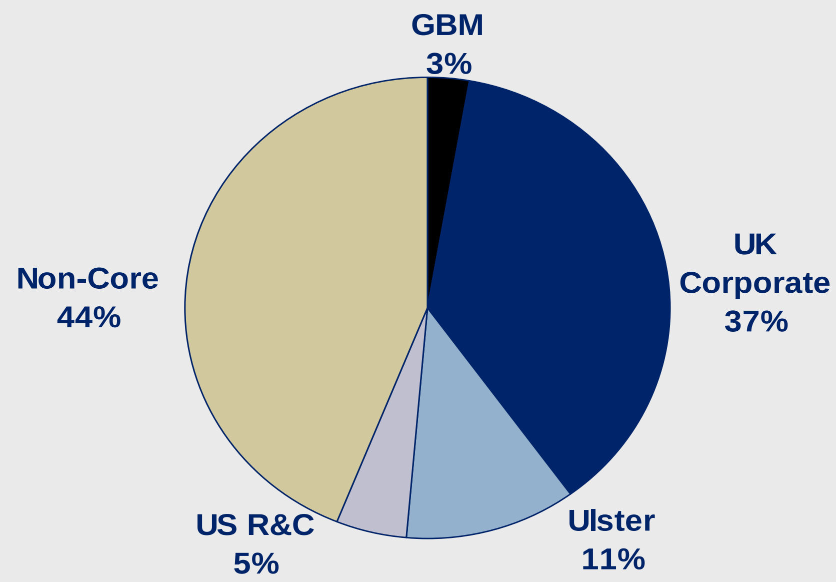
- Q1 continues previous trends seen in 2009
- No large individual cases
- Uptick in commercial customers having problems – classic late cycle phenomenon

[1] Other is spread across a large number of sectors and includes TMT, Tourism & Leisure and Business Services

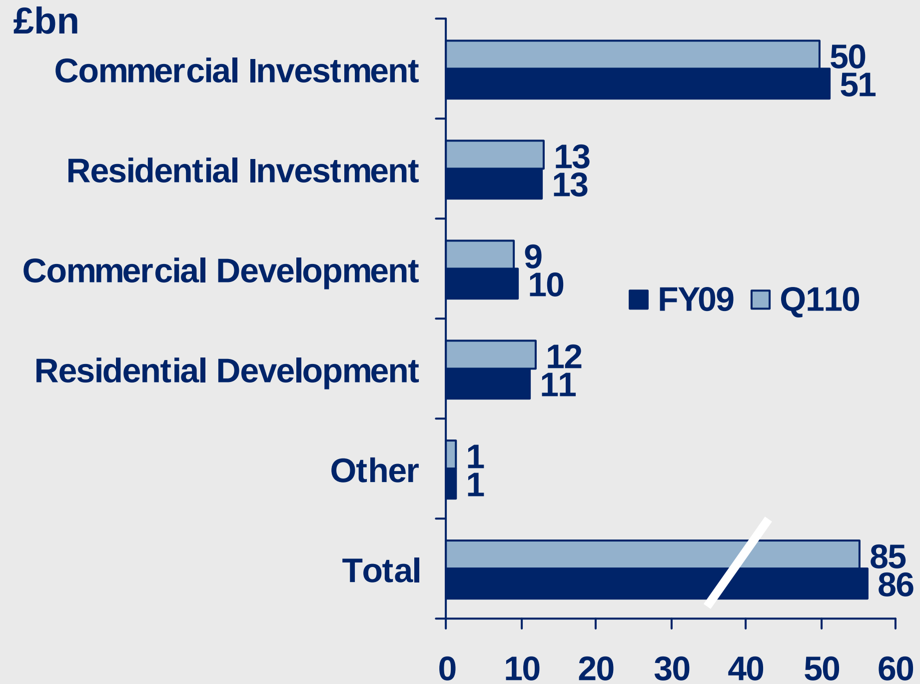
# Group CRE exposure

Global portfolio as at 31/03/10: £85.2bn, (£86.3bn FY09[1,2])

By Division:




By sector:



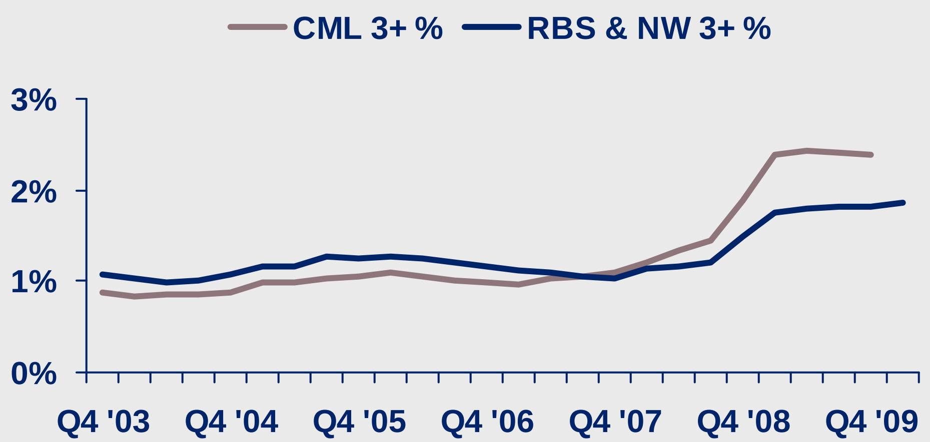

- Global exposure is broadly stable
- Investor appetite is returning for prime properties, with values beginning to recover
- Credit quality remains under pressure but no major shift from year-end

[1] Includes Core and Non-Core portfolios

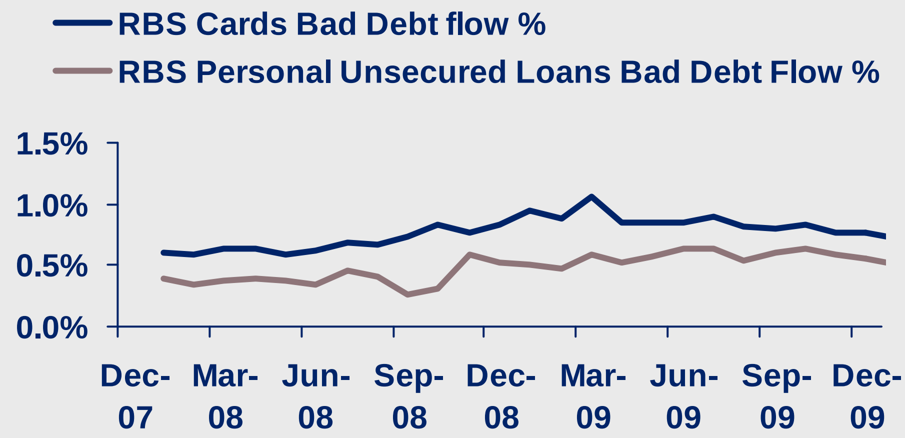
[2] 2009 restated on a comparable basis

# UK Retail & Business Banking Credit Indicators

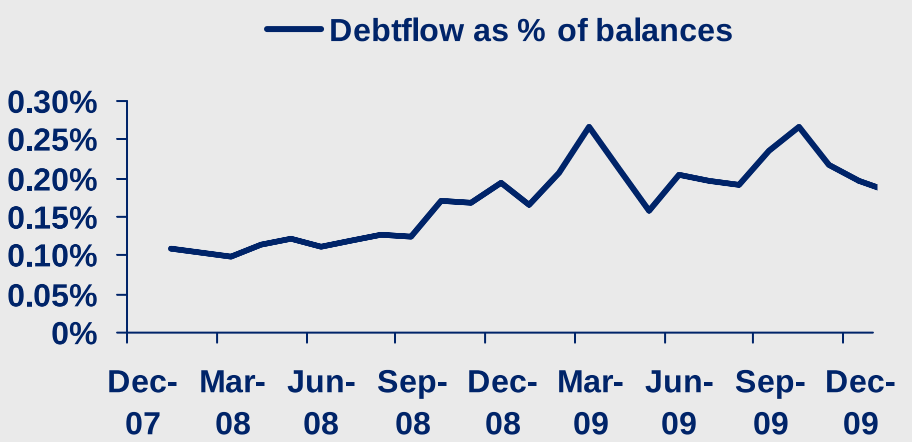
## Mortgages – Arrears vs. CML[1]




## Personal and Cards – Bad debt flows[2]




## Business Banking – Debtflows[2]




- Overall, showing stability in the portfolios
- Low interest rates are assisting performance
- However, recovery is somewhat fragile & our outlook remains appropriately cautious

[1]Council of Mortgage Lenders

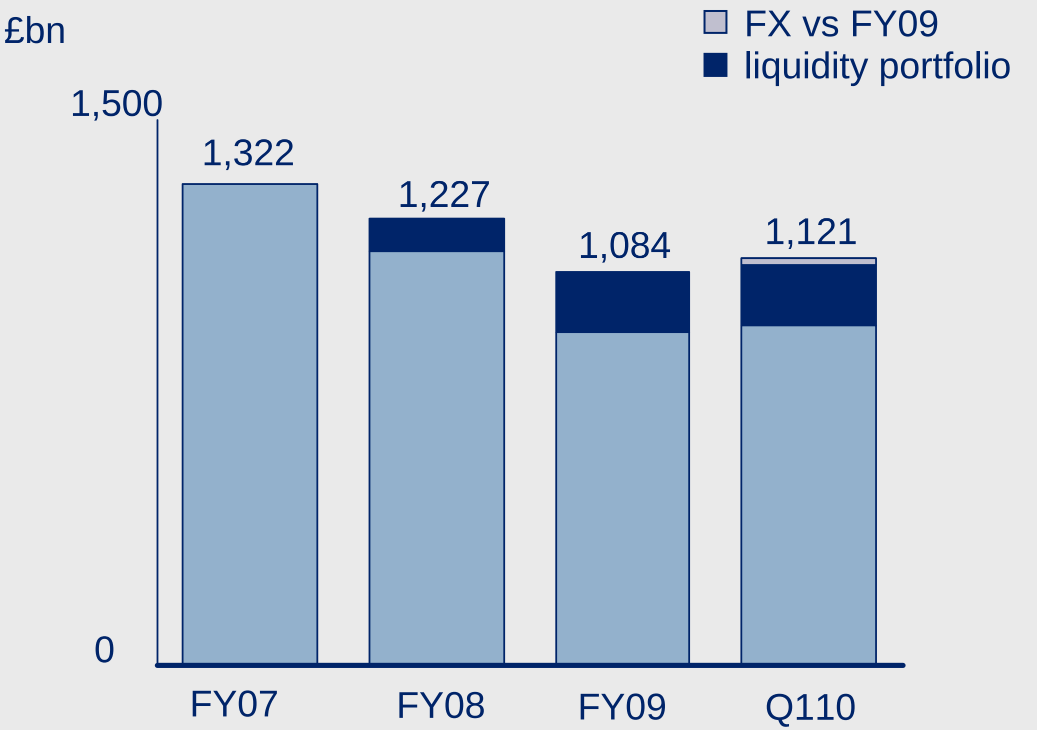
[2] Debt flow rate is calculated by looking at the monthly default balances (also known as transfer into recoveries or debt flow) as a % of total Loans & Receivables in that month

# Re-building and Recovery

## Balance sheet, funding & capital

# Ongoing de-leveraging

## Funded balance sheet road map FY07 – Q110




## Key Ratios

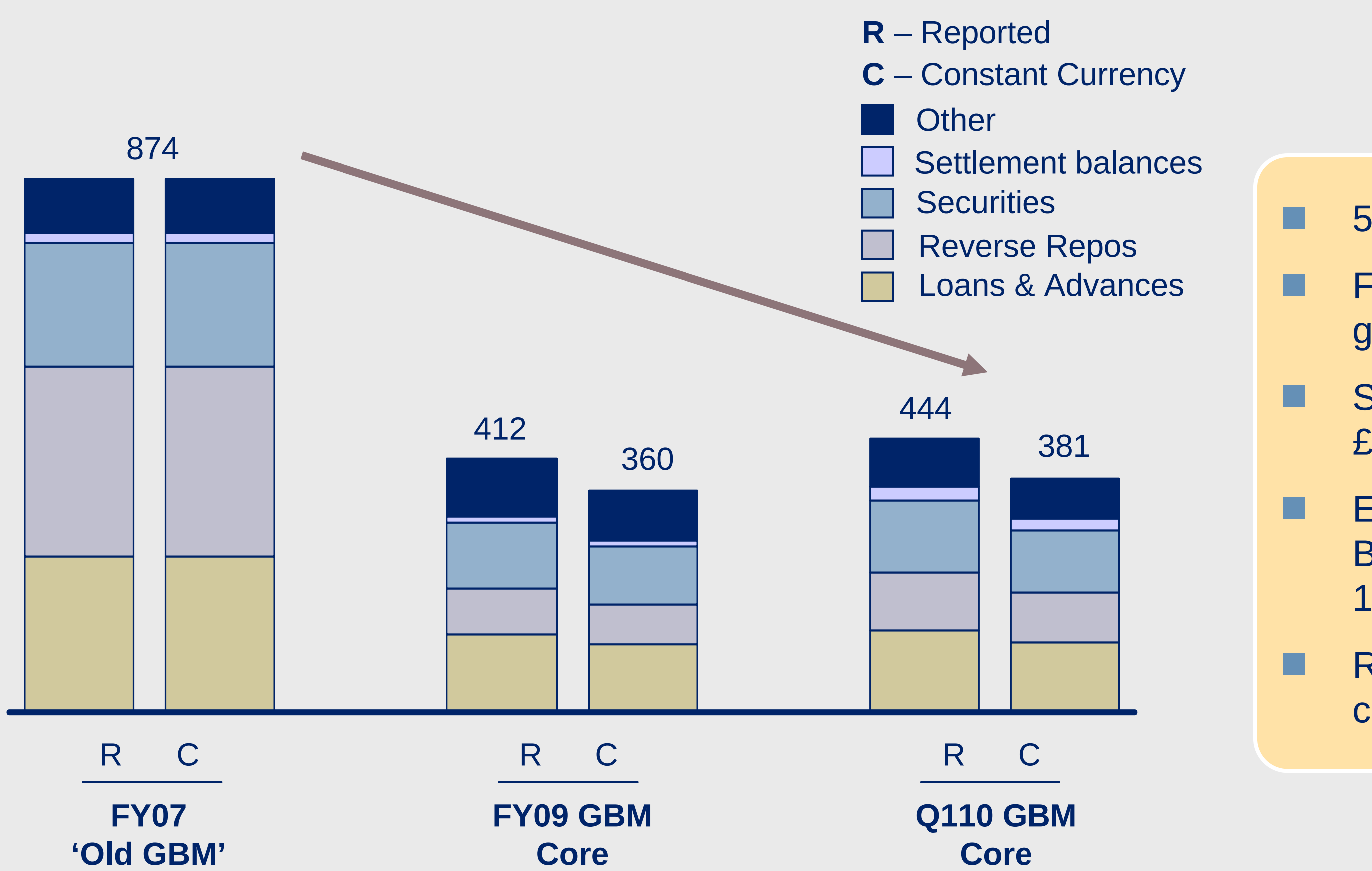
| | FY 2009 | Q1 2010 |
|---|---|---|
| Leverage ratio[1] | 17.0x | 17.6x |
| Tangible common equity ratio[2] | 5.2% | 5.1% |
| Tangible equity per share | 51.3p | 51.5p |
| Core Tier 1 Ratio | 11.0% | 10.6% |

- TPAs increased £36bn, c50% attributable to weakening sterling
- GBM balance sheet up £32bn from Q4 seasonal low, to more normal levels (£444bn)
- Non-Core TPAs[3] reduced 4% to £179bn
- Balance sheet ratios continue to be strong

[1] Tier 1 leverage ratio is based on total tangible assets (after netting derivatives) divided by Tier 1 capital
[2] Tangible equity leverage ratio is based on total tangible equity divided by total tangible assets (after netting derivatives)
[3] Excluding Sempra

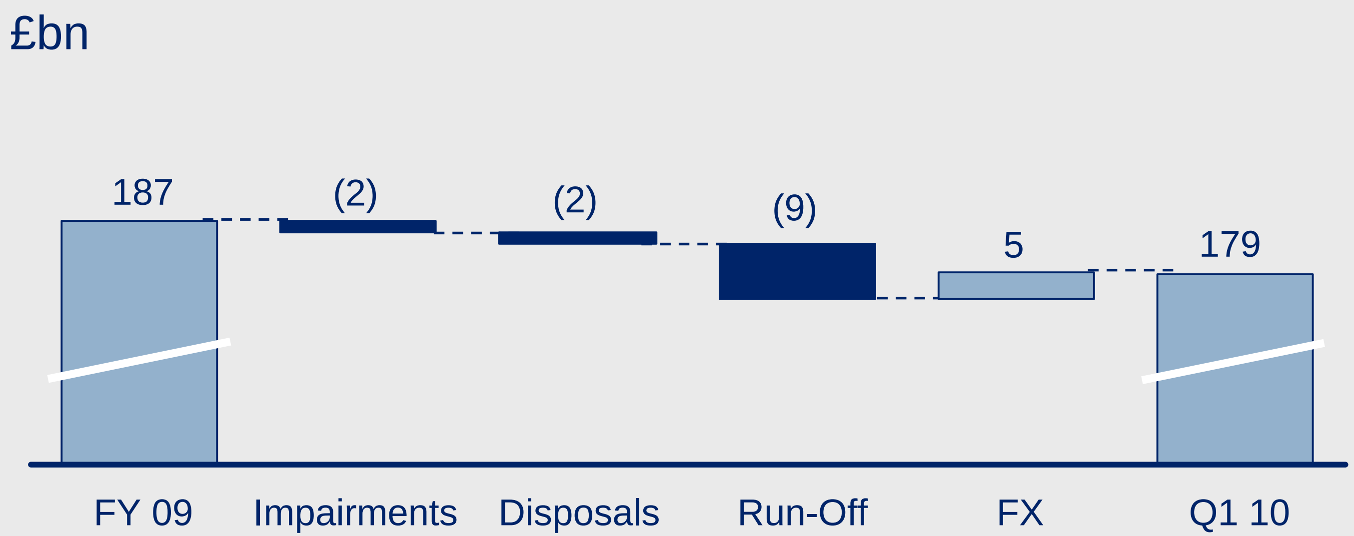
# GBM Balance Sheet

GBM balance sheet – Continued focus on de-leveraging, £bn




- 56% reduction from FY07 CFX
- FX driving £11bn (33%) of Q110 growth
- Settlement Balances driving £12bn (37%) of Q110 growth
- Excluding FX and Settlement Balances, total assets declined 1% q-o-q
- Remaining within target range of c£400-450bn

# Non-Core run-off[1]

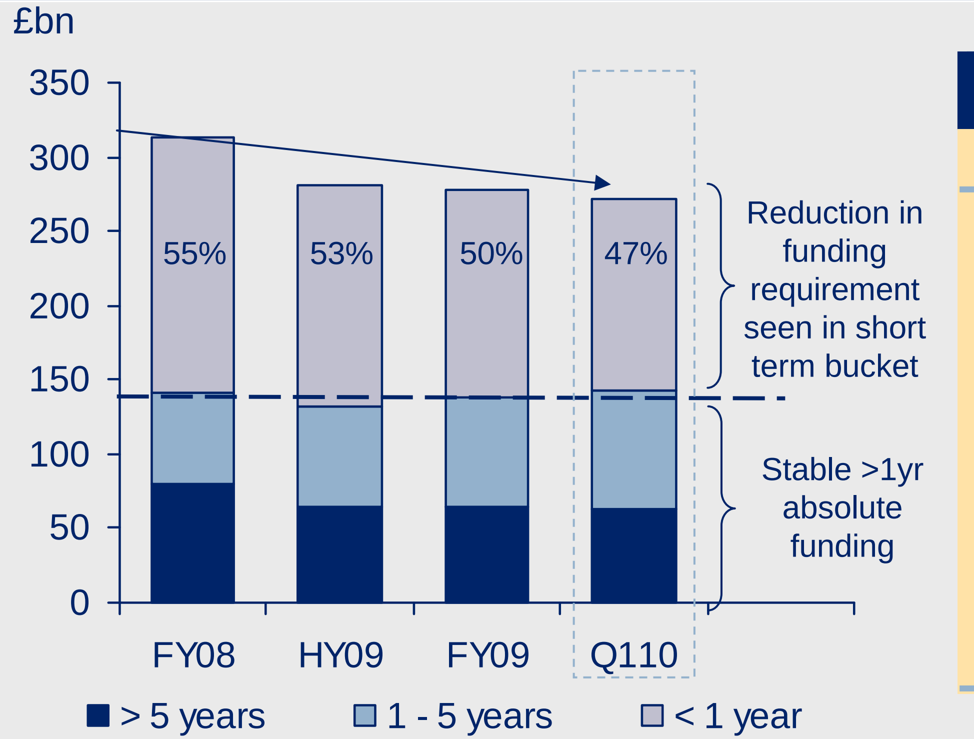



- Non-Core assets reduced 4% (£8bn) during Q1 2010 on a reported basis
- Excluding negative FX moves (£5bn), TPAs reduced 7% (£13bn)
- Run-off driven by CRE, Corporate and Markets
- Asset sales primarily Corporate

[1] Third party assets excluding Sempra, excluding mark to market derivatives

# Funding and Liquidity

## Wholesale funding maturity




## Key Funding Metrics

| | H109 | FY09 | Q110 |
|---|---|---|---|
| Loan:deposit ratio (Group)[1] | 143% | 135% | 131% |
| Core | 110% | 104% | 102% |
| Loan:deposit gap (Group)[2] | £180bn | £142bn | £131bn |
| Core | £41bn | £16bn | £10bn |
| Liquidity reserves | £121bn | £171bn | £165bn |
| Of which central govt bond portfolio: | £7bn | £20bn | £25bn |
| Net Stable Funding Ratio[3] | 83% | 90% | 90% |
| Wholesale funding > 1 year[4] | 47% | 50% | 53% |

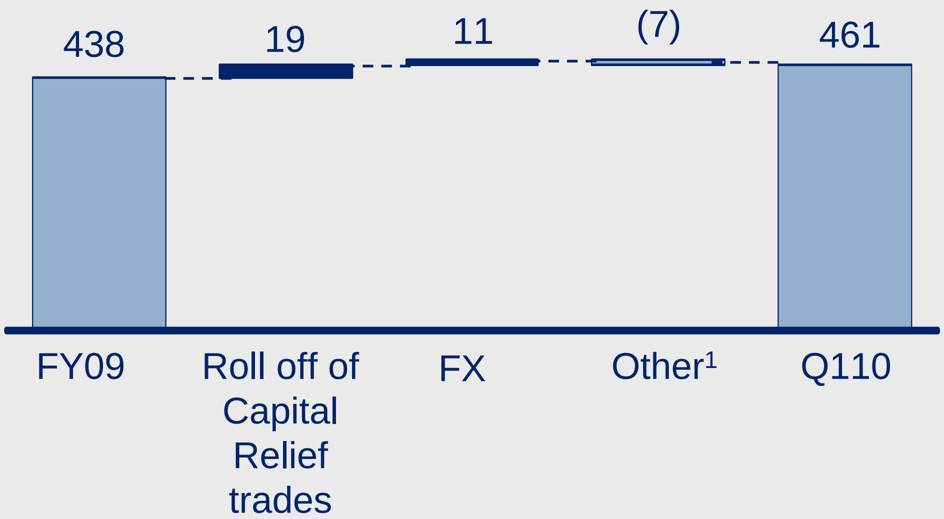
- Reduction of £42bn in overall wholesale funding requirements between FY08 and Q110
- Absolute wholesale funding greater than 1 year remains stable despite total wholesale funding requirement declining. Mix of wholesale funding greater than 1 year increases to 53%, +3% from FY09
- Strong term issuance programme with over £8bn of public and private unguaranteed issuance in Q110
- €15bn covered bond programme registered with the FSA on 01 April 2010



[1] Net of provisions
[2] Net loans & advances to customers less customer deposits (excluding repos)
[3] Net Stable Funding Ratio measures the level of net stable funding divided by long-term assets
[4] Excluding bank deposits

# RWA & Capital progression

## RWAs £bn




- Roll off of ABN AMRO Basel I capital relief trades of £19bn
- FX impact of £11bn, c50%
- APS RWA relief -£3bn to £125bn

## Core Tier One Ratio %


- Reduction in CT1 driven by ABN AMRO related RWA growth and FX
- Core Tier One pro forma for Liability Management Exercise, c10.9%

[1] Includes underlying loan reduction, default assets and APS relief reduction
[2] Includes Q1 loss, deductions movement and other

# Concluding comments

- Strength of Core franchise delivers solid quarterly performance, led by GBM
- Growth in NIM continues, outlook remains positive
- Positive impairment trends continue, both Core and Non-Core contributing to improved performance. Risk of setbacks remain.
- Capital ratios remain robust at 10.6%. Regulatory changes still quite uncertain on timing and quantum.
- Non-Core reduction continues as planned
- Rebound in Retail & Commercial business, along with lower Non-Core losses is expected to benefit performance in 2010 and beyond
- Overall 2013 Group targets remain achievable; 2010 outlook in line with our existing guidance with possible upside on impairments