



Re-building Standalone Strength

Stephen Hester, Group Chief Executive

3 April 2009

2008 was a bad year for RBS

Net loss of £7.9bn

**Goodwill write down
of £16.2bn**

Government support

Management changes

Reputational damage

Share price fall

The impact of the global crisis was compounded by past mistakes

Leverage

ABN AMRO acquisition

Strategy

Risk controls

Profit focus

**Management &
processes**

But, beneath these weaknesses is a strong and resilient Group

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

US / Citizens

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

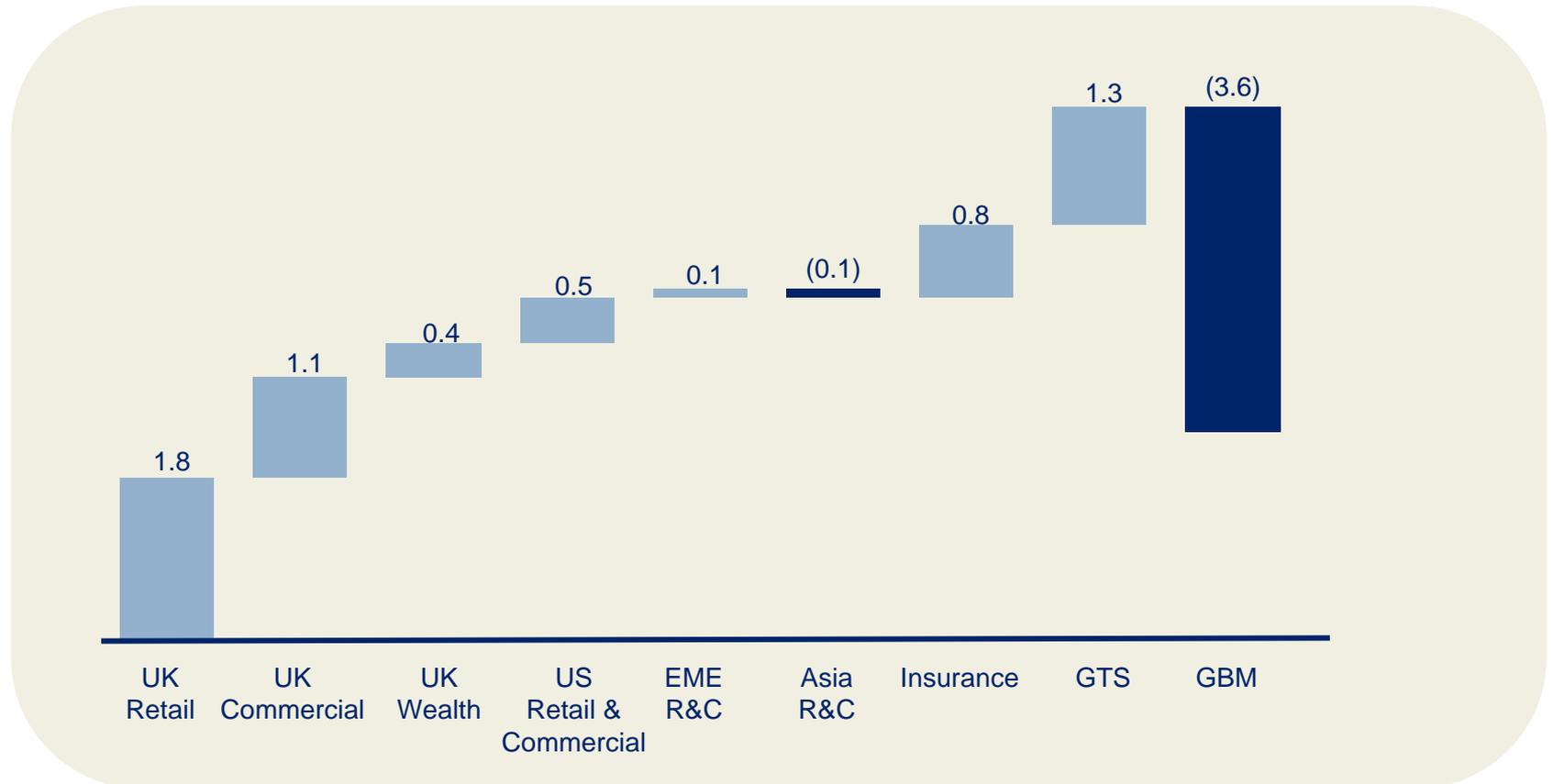
GBM / GTS

- #2 Sterling bonds
- #3 Merchant acquirer globally
- #5 Trade finance globally
- #6 Bank for foreign exchange



And, most businesses were actually profitable in 2008

£bn



So, what are we doing about it?

We seek to;

- restructure RBS as a premier financial institution, anchored in the UK, serving individual and institutional customers here and globally
- rebuild shareholder value for all and enable the UK Government to sell its shareholding profitably
- be leaders in our markets; effective and disciplined in our management
- re-commit the entire organisation to delivering for customers

Our primary task is to rebuild standalone strength and value

We owe our customers support in hard times

- **More lending to customers in 2009:**
 - £9bn of new UK mortgage lending
 - £16bn in new UK SME and Corporate lending
- **More help for customers:**
 - Delay repossessions for 6 months for those in financial hardship
 - Commitment to freeze overdraft prices for SME customers
 - Impartial advice through our “MoneySense” programme
- **Raising money for customers internationally (YTD):**
 - 133 international bond deals raising \$63bn
 - 27 syndicated loans raising \$13.4bn
 - \$1.3bn in new US mortgages

We are making strategic choices about our businesses

Top Down Tests

- Regain standalone AA ratings category – lower leverage, less reliance on unsecured wholesale funding, stronger businesses
- Sustainable rate of return on investments – necessary to cover cost of capital
- More stable business mix – focus on risk management & less leverage

Tests for each Business

- Top tier competitive positions in core markets
- Sustainable and consistent rate of return on investments
- Proportionate use of balance sheet, risk & funding
- Capable of organic growth – but “market limited”
- Connected to the Group – customers, products, people

This means deciding to concentrate on what we are best at

Core businesses

- UK Retail
- UK Corporate & Commercial
- Wealth
- Ulster
- Citizens
- Insurance
- GBM
- GTS

- All these businesses have been through a root and branch strategic review: no sacred cows
- Many will be significantly restructured
- Across all businesses we must save costs
- Over 3 – 5 years these businesses can be strong and attractive once more

Non- core

- £240bn of assets - mostly global wholesale

- Areas where we are less strong will be separately managed and wound down or sold with the proceeds reducing Group debt

A 'self help' programme

We are continuing to strengthen our capital position

- HM Treasury has agreed to replace the £5bn of preference shares it holds with new ordinary shares. This will:
 - Create £5bn of additional Core Tier 1 capital
 - Remove the £0.6bn annual cost of preference dividends
 - Improve the quality of our capital base
- Eligible shareholders may apply to subscribe for these new shares
- Fixed price 31.75p per share
- Any shares not taken up will be subscribed for by HMT
- Subject to shareholder vote at General Meeting

The Government Asset Protection Scheme (APS)

RBS strengthened and able to increase UK lending

£325bn of assets protected against further deterioration

RBS may pay by issuing £6.5bn of B shares

RBS liable for losses up to £19.5bn

Further £19bn of B shares to increase capital buffer

Government covers 90% of subsequent losses

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

- 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



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