

# Barclays Capital Financial Services Conference

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The Royal Bank of Scotland Group  
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# Important information

Certain sections in this document 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', 'could', '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, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; certain ring-fencing proposals; the Group's future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; expected benefits from partnerships; the protection provided by the Asset Protection Scheme (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. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. 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.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group's counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the EC State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain businesses, assets and liabilities from RBS Bank N.V. to RBS plc; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; HM Treasury exercising influence over the operations of the Group; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the recommendations made by the UK Independent Commission on Banking and their potential implications; the participation of the Group in the APS and the effect of the APS on the Group's financial and capital position; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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# Agenda

RBSG Vision & Strategy

Reducing risk: Non-Core, Markets, Credit, Funding

Financial performance, progress and delivery

External challenges

ICB - Initial thoughts

Summary and conclusions

# Our vision

To be among the world's most admired, valuable and stable **universal banks**, powered by **market-leading businesses** in **large customer-driven markets**

## 1. UK anchor

Sustain an attractive and highly defensible customer driven franchise in the UK:

- Build on leadership positions across our chosen segments
- Predicated on a strong belief in the long-term attractiveness of risk adjusted returns in the UK, from a leadership position

## 2. Global opportunities

Focus on select global opportunities that:

- Provide a deep local franchise, or
- Enable us to take advantage of long term globalisation trends and
  - Allow us credibly to compete
  - Are complementary to the Group
  - Deliver material synergies

## 3. Extending our Core through disciplined, consistent execution

Prioritise risk adjusted returns over growth

- Selectively grow through pursuing opportunities that are within or contiguous to our Core franchises

# Our strategy

## Core Bank

The focus for sustainable value creation

- Built around customer-driven franchises
- Comprehensive business restructuring
- Substantial efficiency and resource changes
- Adapting to future banking climate (regulation, liquidity etc)

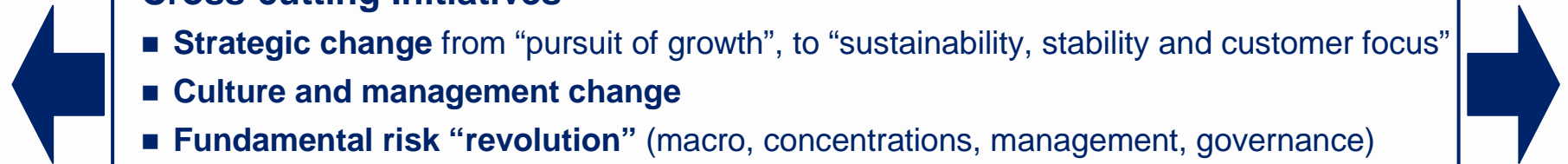
## Non-Core Bank

The primary driver of risk reduction

- Businesses that do not meet our Strategic Tests, including both stressed and non-stressed assets
- Radical financial restructuring
- Route to balance sheet and funding strength
- Reduction of management stretch

## Cross-cutting Initiatives

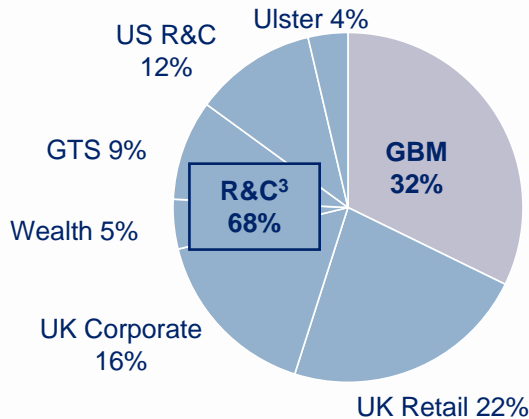
- **Strategic change** from “pursuit of growth”, to “sustainability, stability and customer focus”
- **Culture and management change**
- **Fundamental risk “revolution”** (macro, concentrations, management, governance)
- **Asset Protection Scheme** (2012 target for exit)



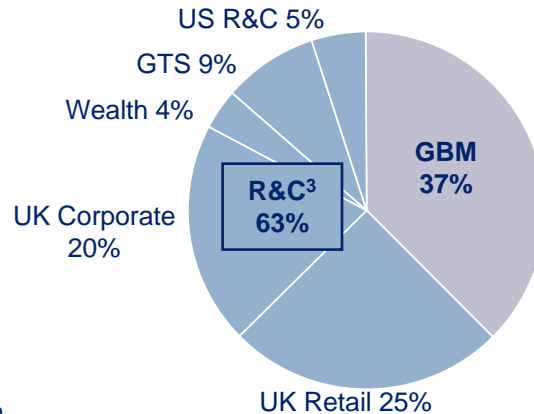
# Core Bank 2011 – A balanced business mix

## A balanced portfolio of businesses

H111 revenues<sup>1</sup> by division

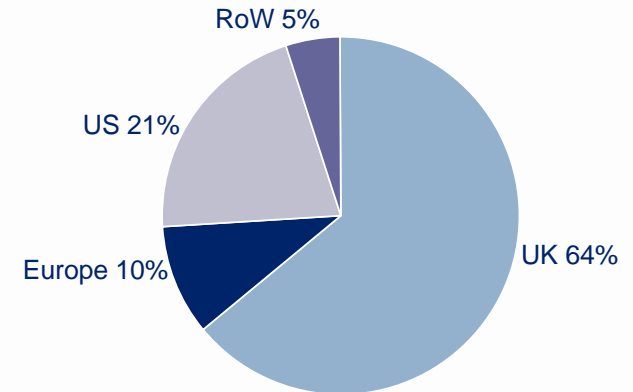


H111 operating profit<sup>1,2</sup> by division



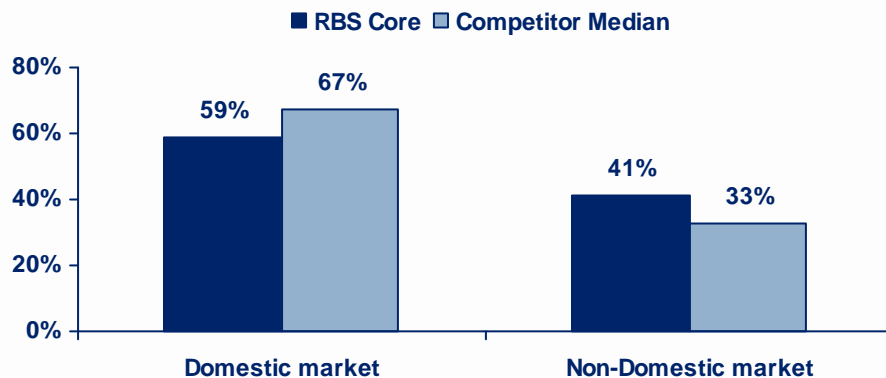
## ...with good geographic coverage

H111 revenues by geography

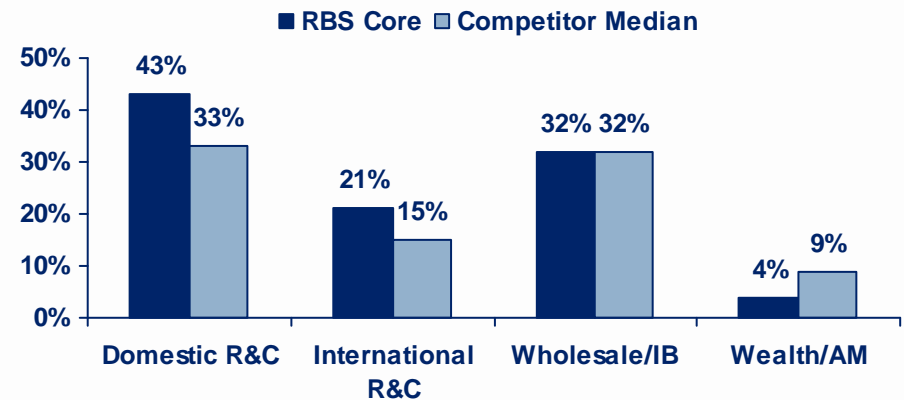


## Business mix versus peers

2010 Revenues by geography vs peer average<sup>4</sup>

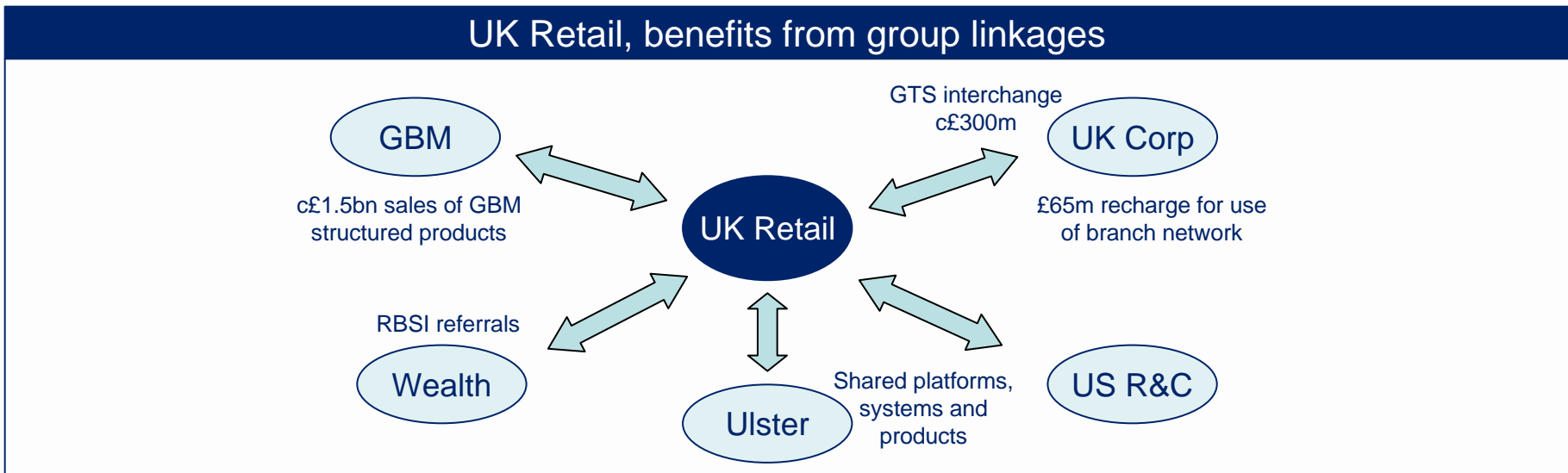
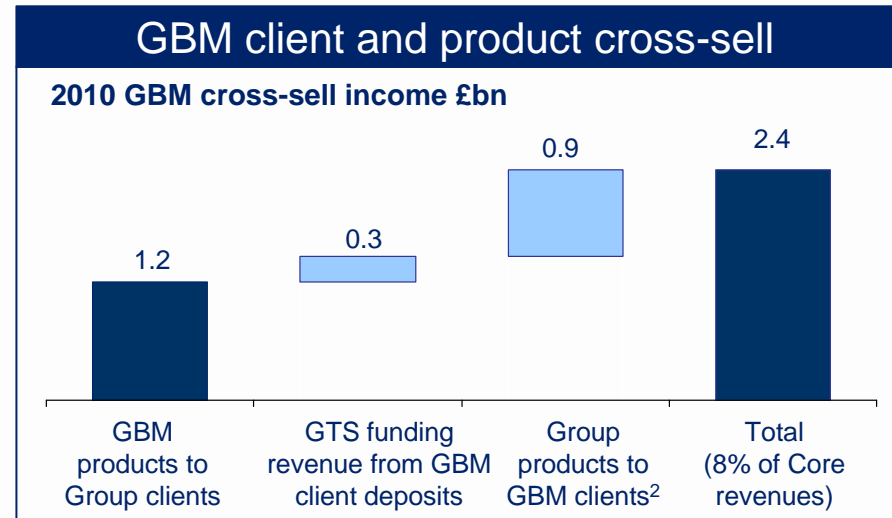
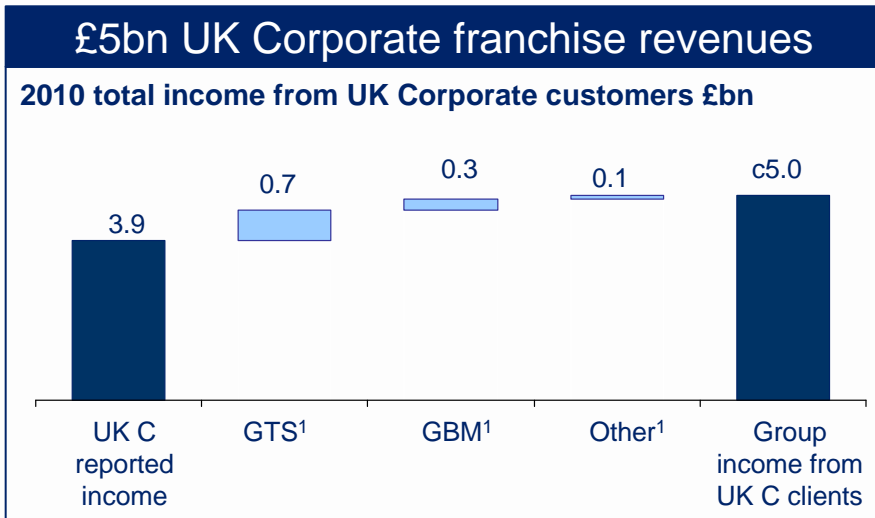


2010 Revenues by business mix vs peer average<sup>4</sup>



<sup>1</sup>RBS Core excluding RBS Insurance and Central items. <sup>2</sup>Excludes Ulster Bank. <sup>3</sup>Retail & Commercial. <sup>4</sup>Based on FY10 results, peers consist of Bank of America Merrill Lynch, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, LBG, Mitsubishi UFJ, Morgan Stanley, Nomura, Santander, Societe Generale, Sumitomo, UBS.

# Strong divisional connectivity with more potential



Source – RBS Group estimates. <sup>1</sup> Income from UK Corporate customers booked in other divisions. <sup>2</sup> Other product sales are GTS sales of Cash Management and Trade & Asset Finance from Citizens to GBM North America Clients.

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Reducing risk: Non-Core, Markets, Credit, Funding

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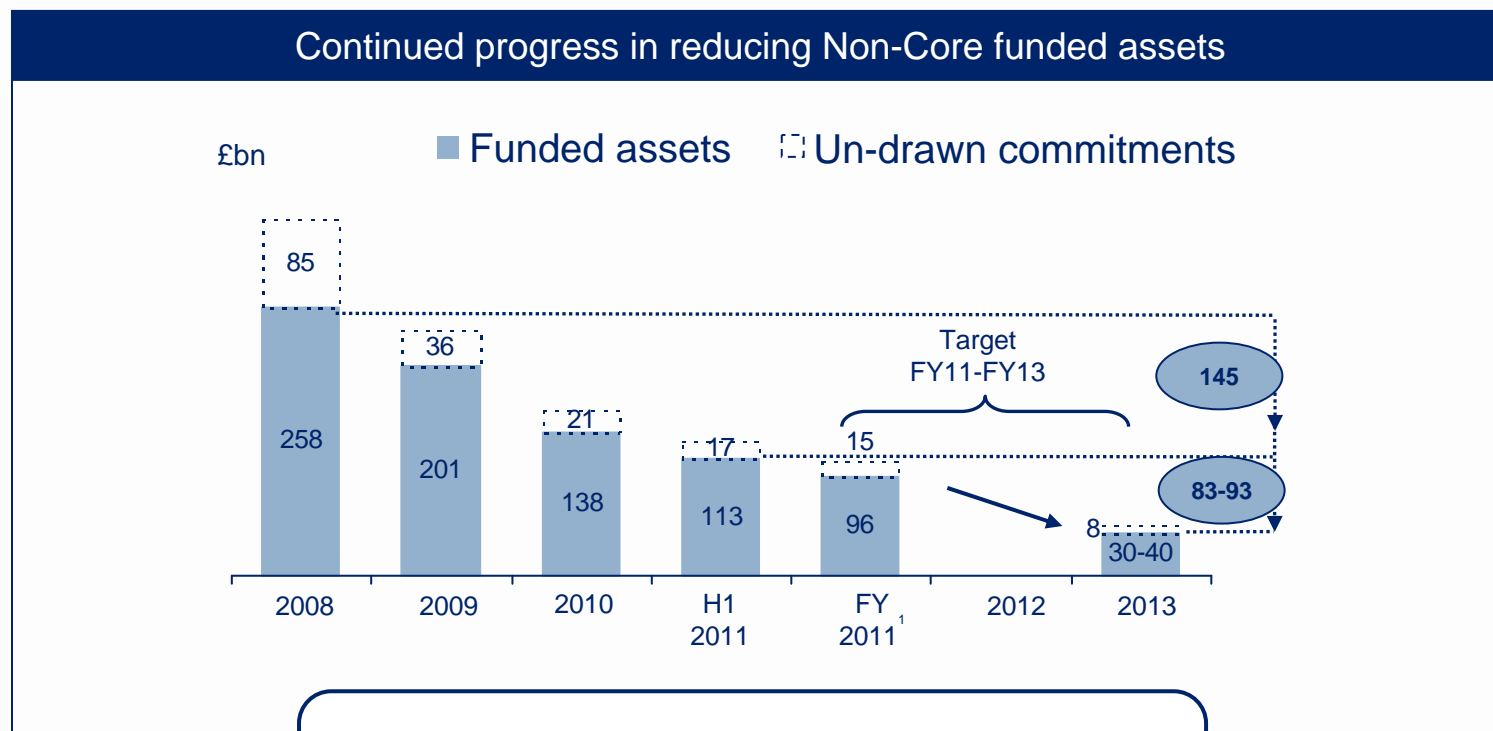
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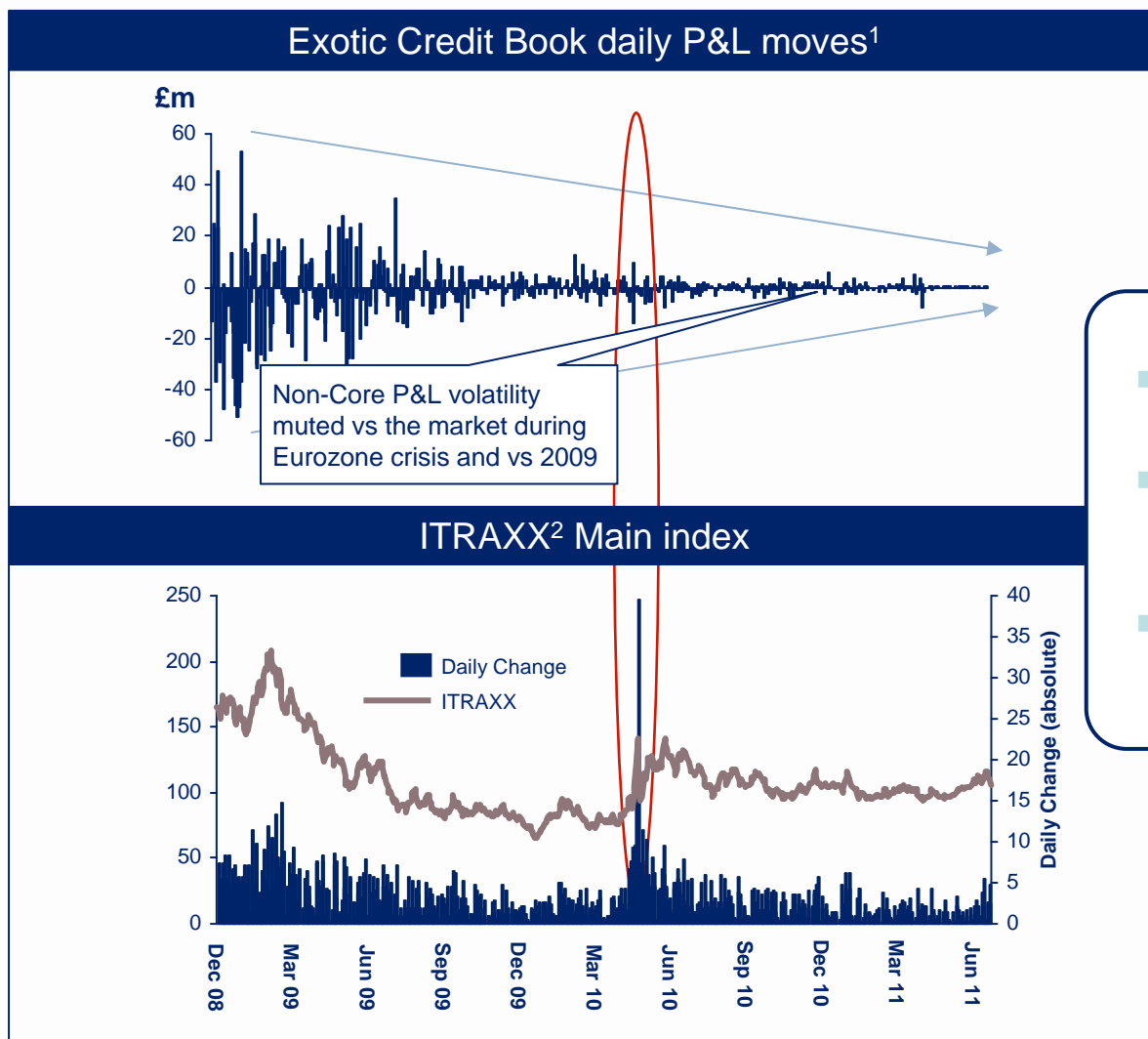
# Reducing risk – Non-Core run-down continues



- Funded assets down 56% from FY08 reflecting:
  - £62bn (55%) in Corporate
  - £34bn (72%) reduction in Markets
  - £26bn (41%)<sup>2</sup> reduction in CRE
  - £13bn (62%) reduction in Retail

<sup>1</sup> Previous target for funded assets for 2011 was £118bn. <sup>2</sup> 46% reduction on a like-for-like basis adjusting for transfer of Irish mortgages to CRE portfolio

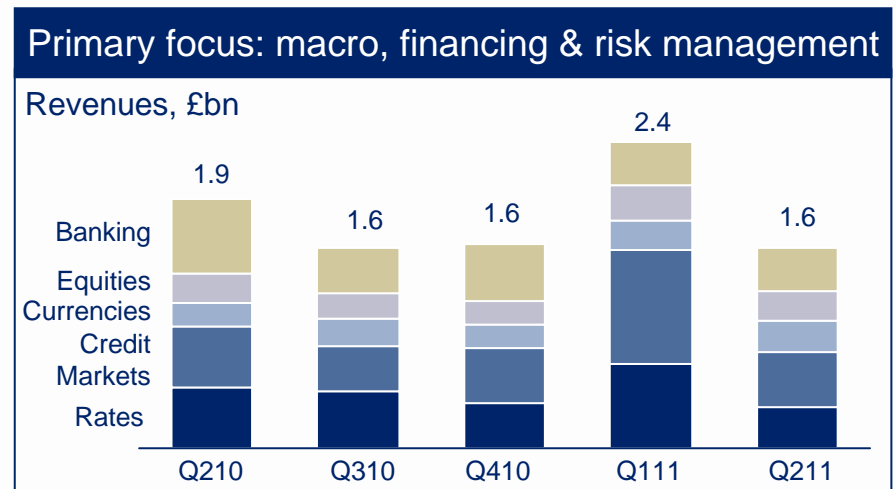
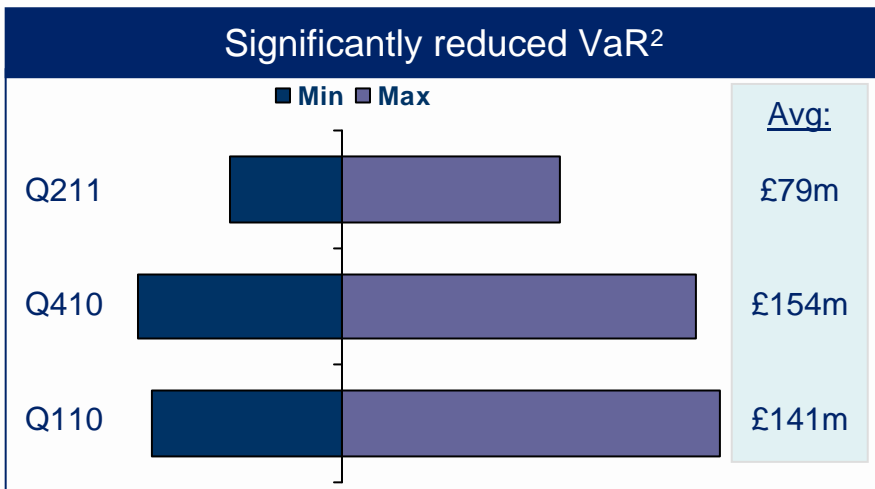
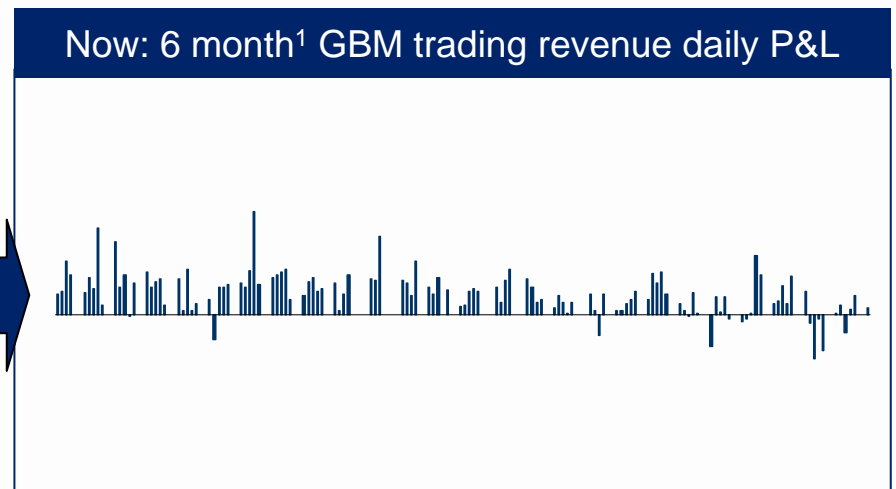
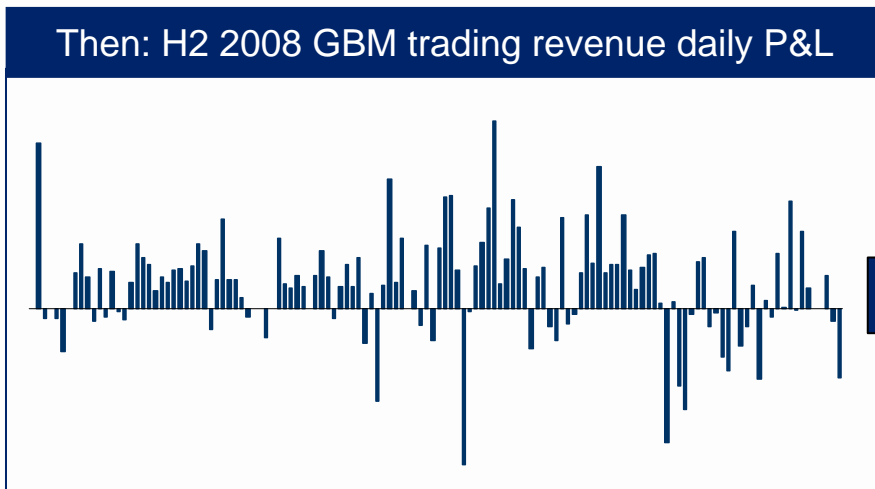
# Reducing risk – Non-Core market risk lowered



- Significant progress in reducing exotic trading risk and volatility
- Majority of market risk associated with the correlation trading portfolio exited by end Q2
- Driving a commensurate reduction in trading VaR and P&L volatility

<sup>1</sup>Excludes one-off disposal costs. <sup>2</sup>ITRAXX = Credit default swap index.

# Reducing risk - GBM market risk lowered

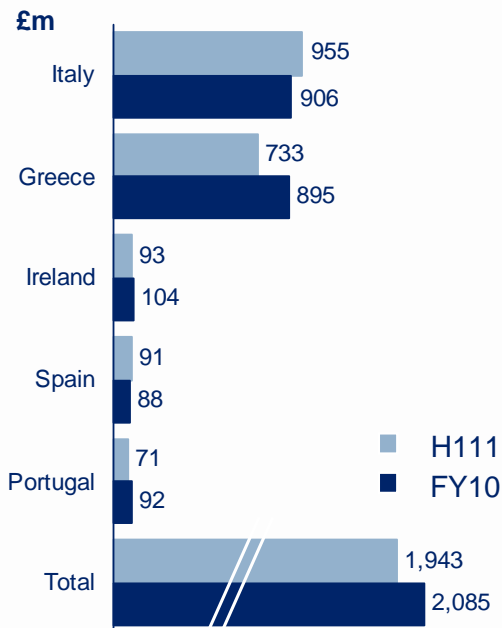


<sup>1</sup> Six months to 16/08/11. <sup>2</sup> Group VaR

# Reducing risk – Credit concentrations reduced

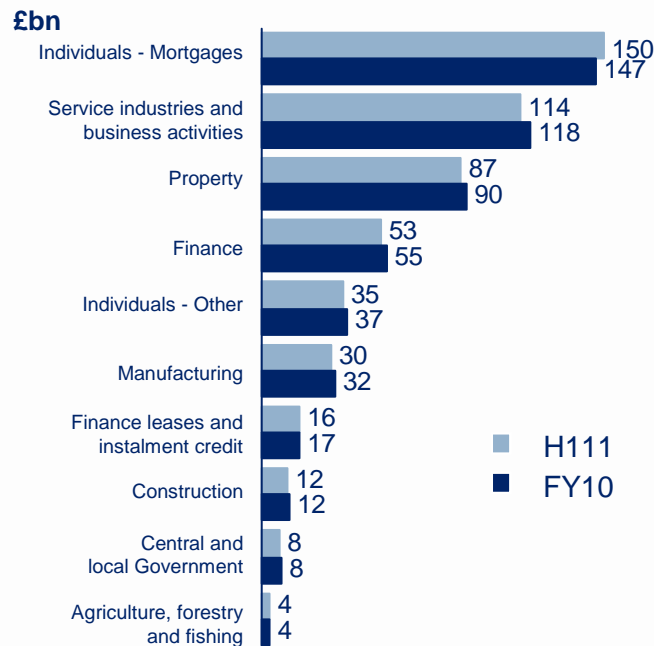
## Sovereign<sup>1</sup>

### Peripheral Euro-zone Sovereign exposures, net AFS banking book



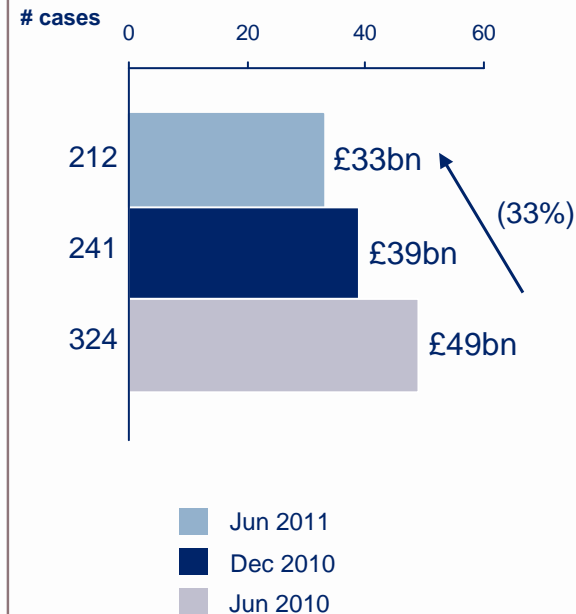
## Sector<sup>2</sup>

### Top industry sectors by loans and advances



## Single name concentrations<sup>3</sup>

### Corporate SNC exposures over risk appetite

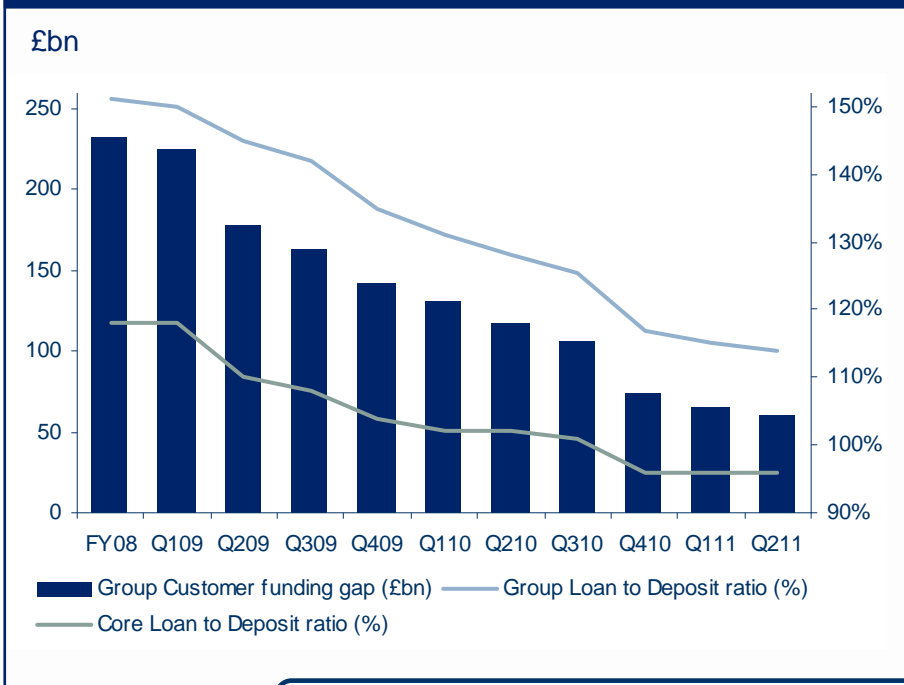


- Modest peripheral European Sovereign exposures
- Property exposure down 3% h-o-h
- Continued good progress on SNCs, exposures down 33% y-o-y

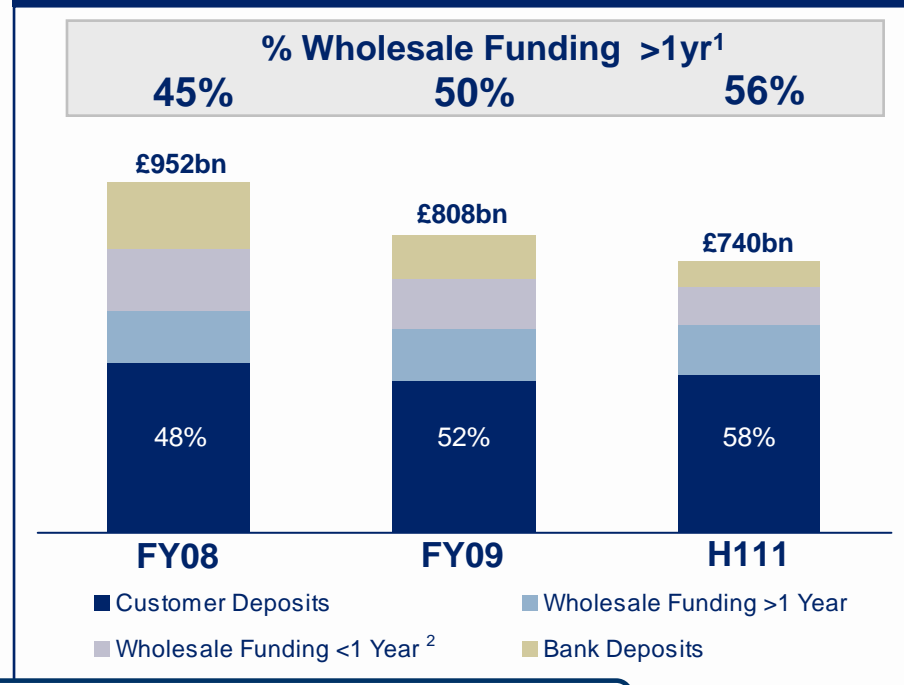
<sup>1</sup> Net AFS banking book debt securities exposure. <sup>2</sup> Loans and advances to customers ex banks excluding reverse repos and disposal groups, excluding interest accruals. <sup>3</sup> The SNC framework sets graduated appetite levels according to counterparty credit ratings. The chart shows corporate names that are in breach of the framework.

# Reducing risk - Funding position strengthened

## Funding Profile is Improving



## Actively terming out funding



- Core loan to deposit ratio remains at 96%
- NSFR improved to 97% from 96% at Q111
- Customer deposits of 58% better than European peer average (54%)<sup>3</sup>

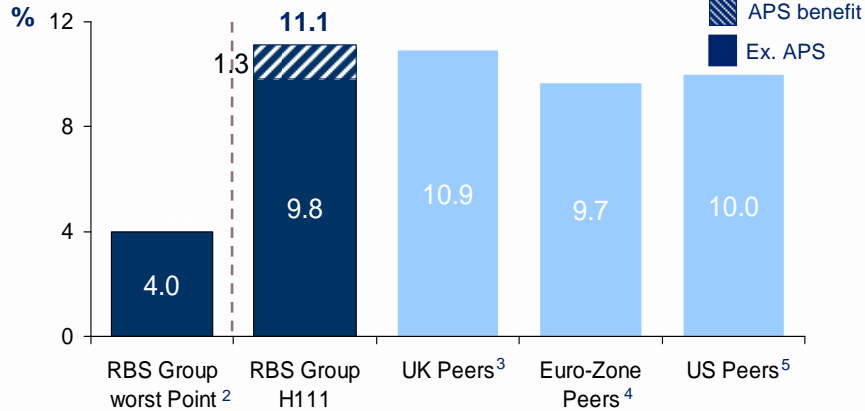
2011 term funding substantially achieved, £21bn of £23bn target raised by end August

<sup>1</sup> Excludes deposits received from customers and banks. <sup>2</sup> Excluding bank deposits. <sup>3</sup> Average of 90 European banks per EBA stress test, 2011

# Reducing risk - Balance sheet metrics increasingly strong

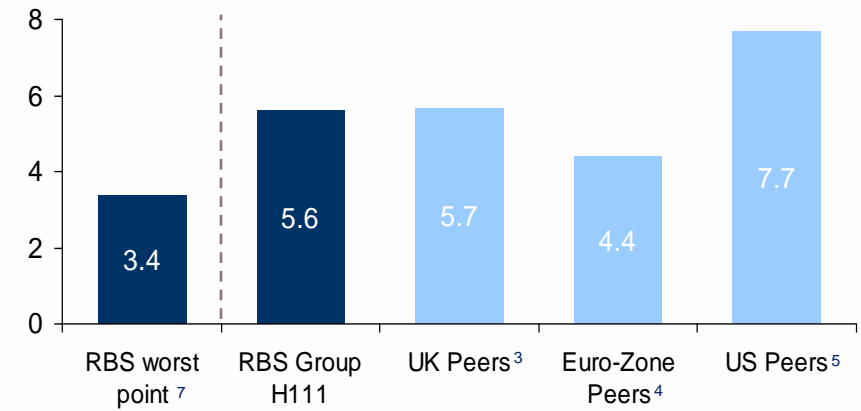
## RBS capital ratios strong

Comparative Core Tier 1 Capital Ratios<sup>1</sup>, %



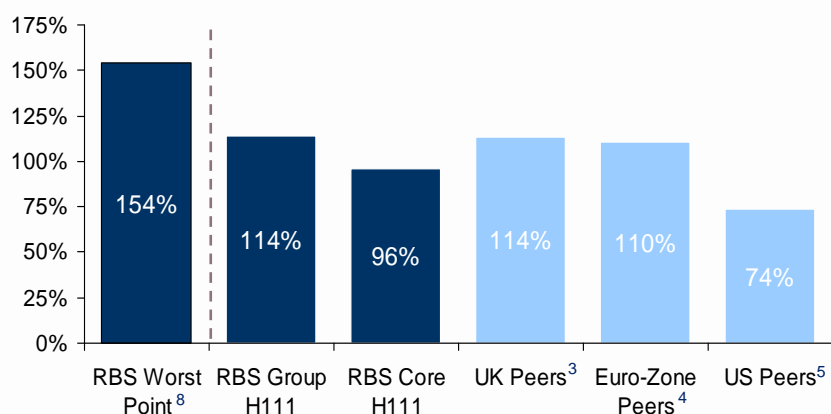
## Leverage Ratios "in the pack"

Tier 1 Leverage Ratios<sup>6</sup> vs Peer averages %



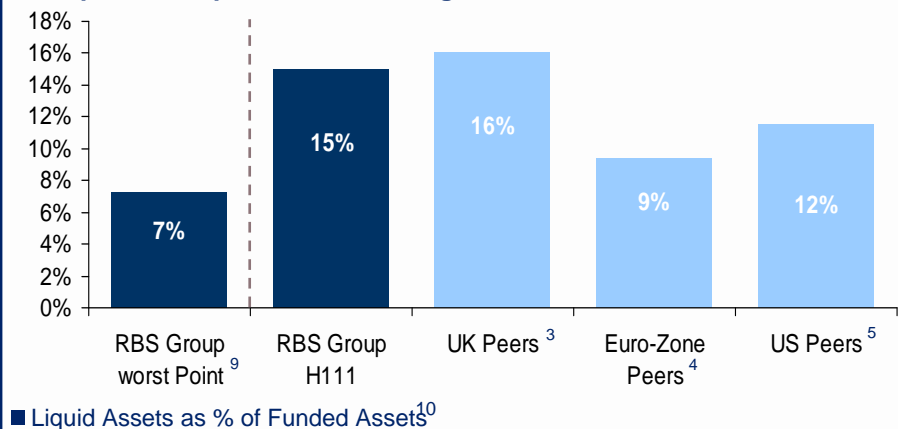
## Loan : Deposit ratio improved

Comparative loan:deposit ratios, %



## Wholesale funding & Liquidity balance achieved

Comparative liquid assets funding, %



<sup>1</sup> As at H111. <sup>2</sup> As at 1 January 2008. <sup>3</sup> UK Peers consist of Barclays, HSBC, Lloyds Banking Group and Standard Chartered at H111. <sup>4</sup> Euro-Zone Peers consist of Deutsche Bank, Santander, BNP Paribas at H111. <sup>5</sup> US Peers consist of Bank of America, Citigroup, JP Morgan and Wells Fargo at H111. <sup>6</sup> Tier 1 leverage ratio is Tier 1 Capital divided by funded tangible assets. <sup>7</sup> As at FY07. <sup>8</sup> As at October 2008. <sup>9</sup> As at FY08. <sup>10</sup> Source: Company Information & RBS Estimates: Liquid assets comprise AFS debt securities and cash, except for RBS, Lloyds & Barclays where company quoted liquidity is used.

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# Q2 11 performance review

## Core Business:

	Q211	Q210	
Operating profit <sup>1</sup>	£1.7bn	£1.6bn	+6% driven by UK Retail performance and Insurance turn-around
Return on Equity <sup>1,2</sup>	12%	12%	Momentum in UK Retail offset by subdued GBM
R&C NIM	3.22%	3.11%	+11bps due to higher asset margins, offsetting funding & liquidity costs
Cost : income ratio <sup>1,3</sup>	58%	57%	Reduction in GBM income driving increase in C:I ratio
Impairments	£0.9bn	£1.1bn	Reduction in most divisions, most notably GBM, UK Retail, US R&C
Loan : deposit ratio <sup>4</sup>	96%	102%	LDR improved, better than 2013 target of 100%

## Group Progress:

	Q211	Q210	
Operating profit	£818m	£250m	Recovery largely due to lower Non-Core losses
Non-Core funded assets	£113bn	£174bn	Reduction achieved, on target to be <10% of group assets FY11
Capital strength	11.1%	10.5%	Robust Core Tier 1 position enhanced

<sup>1</sup> Excluding Fair Value of Own Debt (FVoD). <sup>2</sup> Equity allocated based on share of Group tangible equity. <sup>3</sup> Adjusted C:I ratio net of insurance claims. <sup>4</sup> Net of provisions.

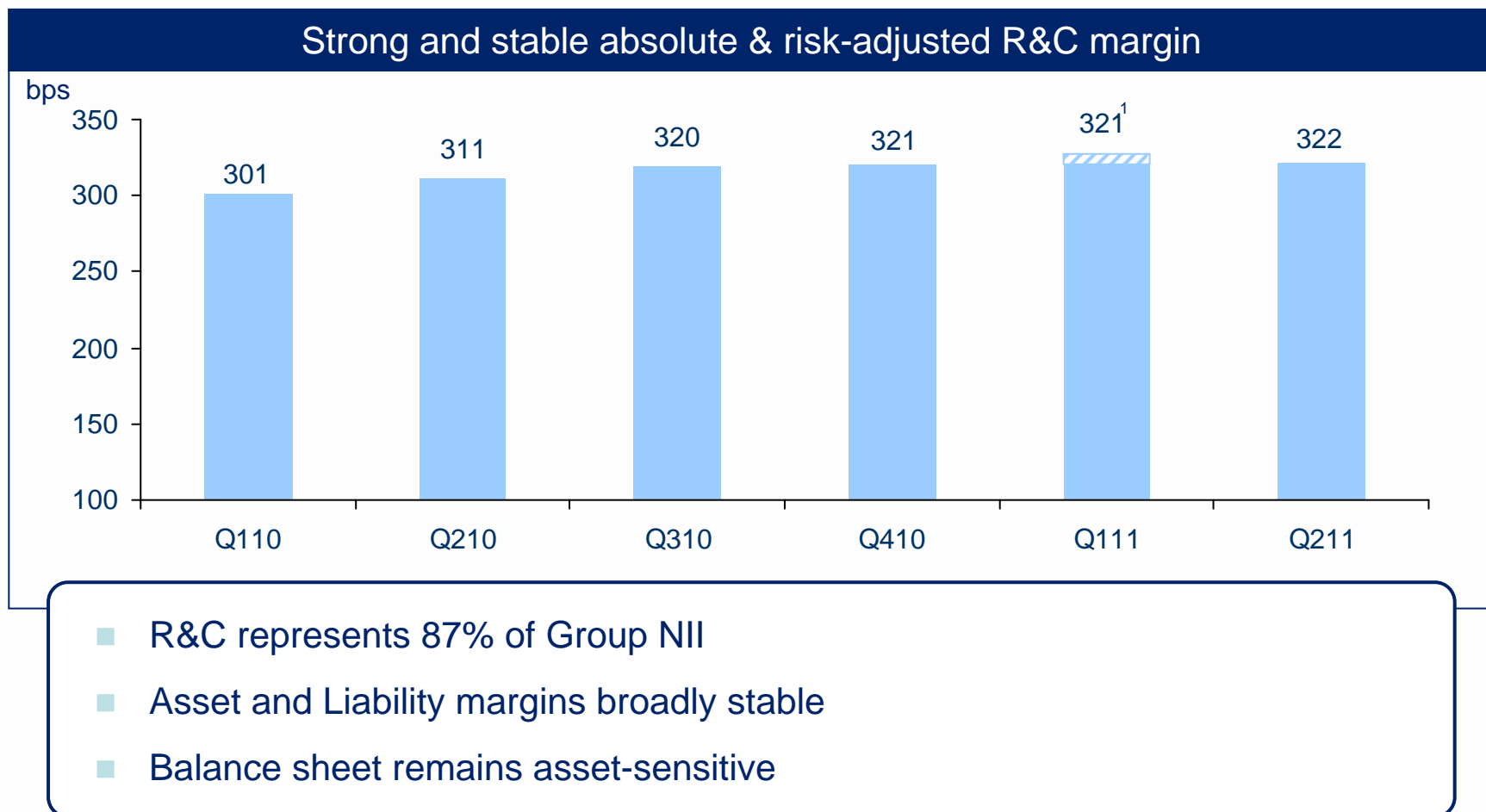


# Good progress vs 2013 targets

Group – Key performance indicators	Worst point	Q2 10 Actual	Q2 11 Actual	2013 Target
Loan : deposit ratio (net of provisions)	154% <sup>1</sup>	128%	114%	c100%
Short-term wholesale funding <sup>2</sup>	£297bn <sup>3</sup>	£163bn	£148bn	<£125bn
Liquidity portfolio <sup>4</sup>	£90bn <sup>3</sup>	£137bn	£155bn	c£150bn
Leverage ratio <sup>5</sup>	28.7x <sup>6</sup>	17.2x	17.8x	<20x
Core Tier 1 Capital ratio	4% <sup>7</sup>	10.5%	11.1%	>8% <sup>15</sup>
Return on Equity (RoE)	(31%) <sup>8</sup>	Core 12% <sup>9,10</sup>	Core 12% <sup>9,10</sup>	Core >15%
Cost : income ratio <sup>12</sup>	97% <sup>11</sup>	Core 57% <sup>10</sup>	Core 58% <sup>10</sup>	Core <50%
Divisions – Key performance indicators	Worst point	Q2 10 Actual	Q2 11 Actual	2013 Target
<b>Retail &amp; Commercial:</b>				
RoE	7% <sup>13</sup>	11%	12%	>20%
Cost : income ratio <sup>12</sup>	60% <sup>13</sup>	55%	55%	c45%
Loan : deposit ratio <sup>14</sup>	99% <sup>3</sup>	90%	87%	<90%
<b>GBM:</b>				
RoE	(9%) <sup>3</sup>	15%	9%	>15%
Cost : income ratio <sup>12</sup>	169% <sup>3</sup>	53%	69%	c.55%
<b>Non-Core:</b>				
Third Party Assets	£258bn <sup>3</sup>	£174bn	£113bn	£30-40bn

<sup>1</sup> As at October 2008 <sup>2</sup> Amount of unsecured wholesale funding under 1 year including bank deposits <1 year excluding derivatives collateral. <sup>3</sup> As of December 2008 <sup>4</sup> Eligible assets held for contingent liquidity purposes including cash, government issued securities and other securities eligible with central banks. <sup>5</sup> Funded tangible assets divided by Tier 1 Capital. <sup>6</sup> As of June 2008 <sup>7</sup> As of 1 January 2008. <sup>8</sup> Group return on tangible equity for 2008 <sup>9</sup> Indicative: Core attributable profit taxed at 28% on attributable core average tangible equity (c70% of Group tangible equity based on RWAs). <sup>10</sup> Excluding fair value of own debt (FVoD). <sup>11</sup> 2008. <sup>12</sup> Adjusted cost:income ratio net of insurance claims. <sup>13</sup> As of December 2009. <sup>14</sup> Net of provisions. <sup>15</sup> Under review.

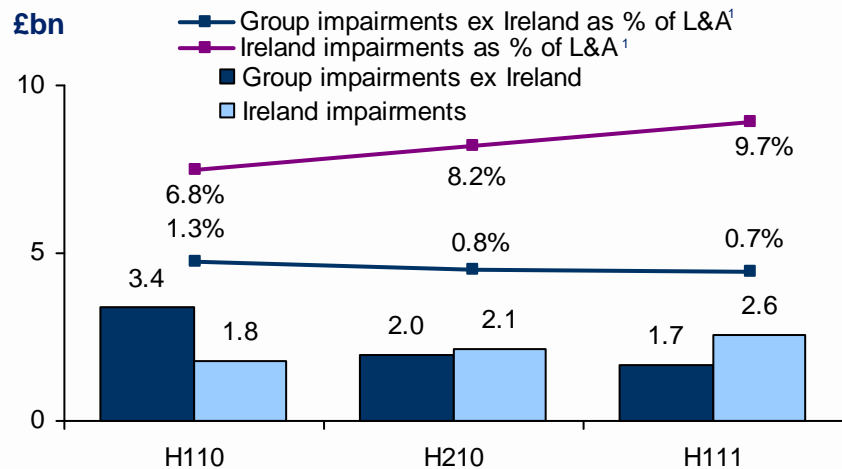
# Core Retail & Commercial Margin stable



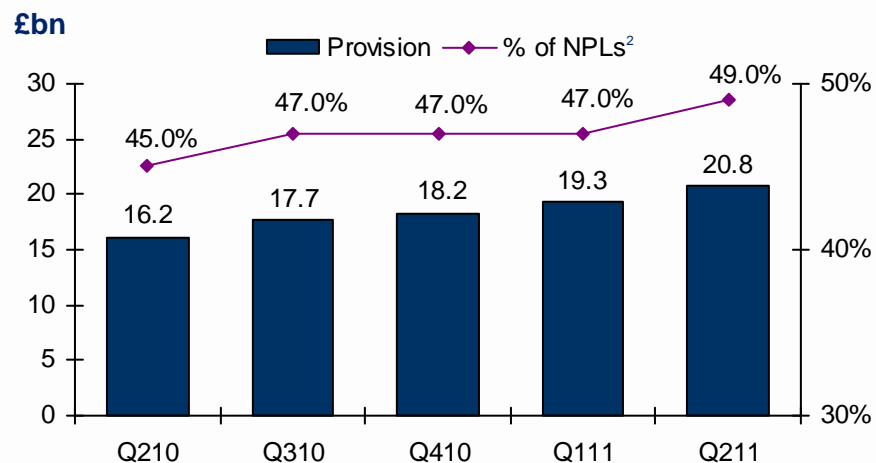
<sup>1</sup> Q111 NIM of 3.21% excludes one off income adjustment in UK Corporate. Reported NIM was 327bps.

# Impairment trends stable/improving

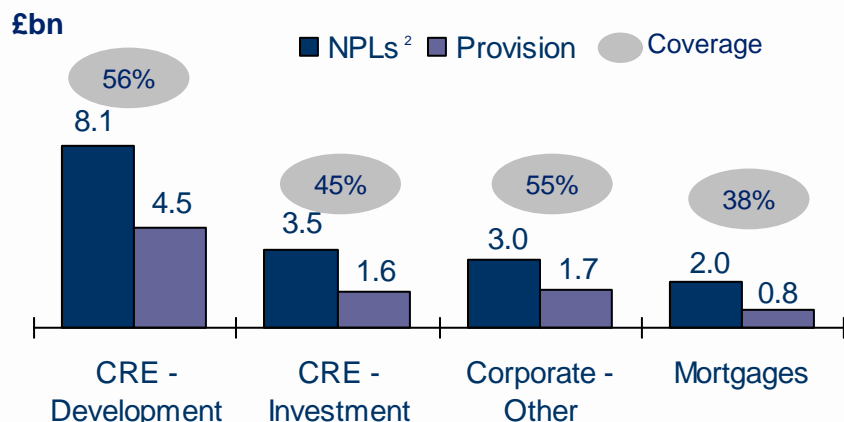
## Impairments ex Ireland down 51%



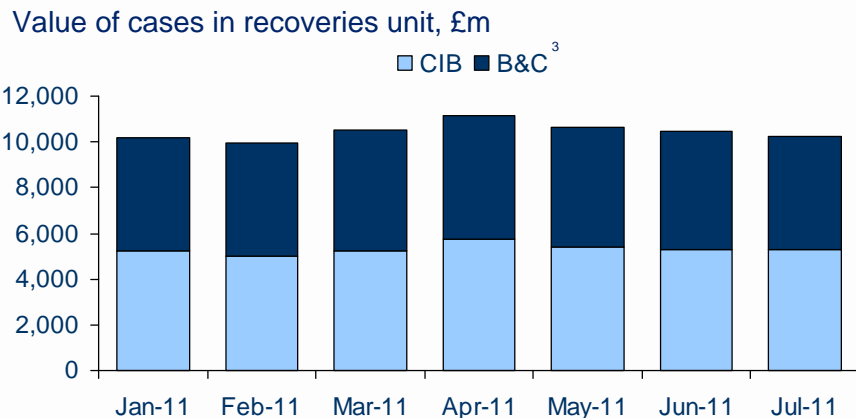
## Group coverage levels continue to increase



## Ulster Bank NPLs are well provisioned



## UK Corporate early warning indicators stable

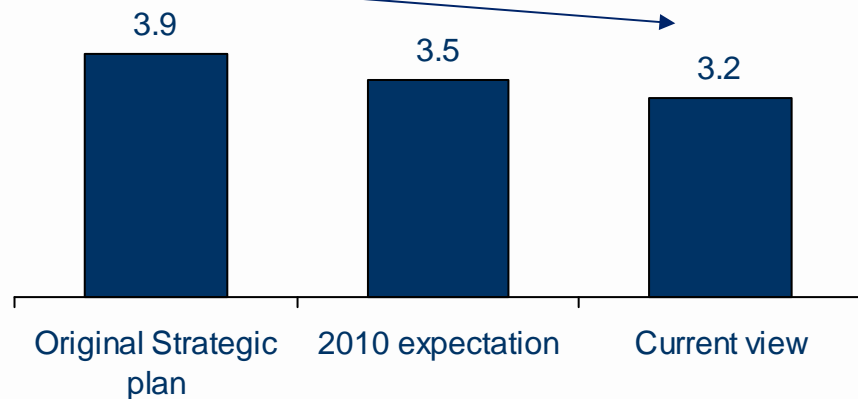


<sup>1</sup> Gross loans to customers excluding reverse repos, including disposal groups. <sup>2</sup> Risk Elements in Lending. <sup>3</sup> CIB = Corporate and Institutional Banking customers with turnover >£25m; B&C = Business and Commercial Banking customers with turnover <£25m.

# Cost reduction programme delivering ahead of expectations

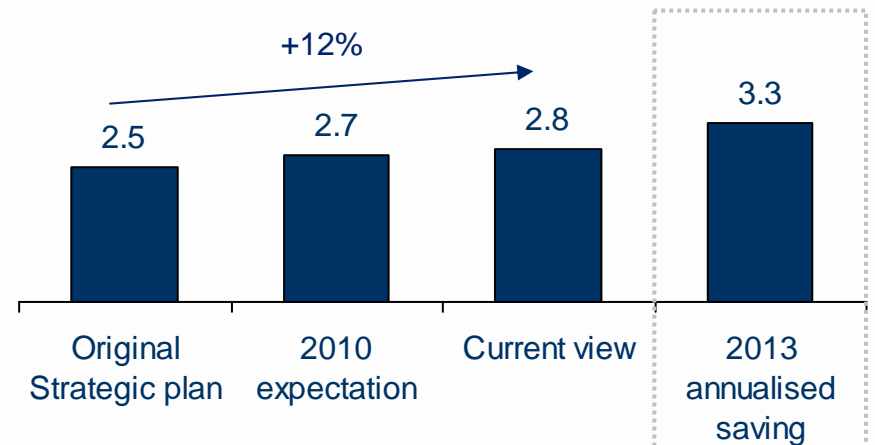
## Lower cost of programme implementation....

Evolution of 5 year cost reduction programme spend (18%)



## ...with greater annualised cost saving

Evolution of 2011 annualised cost saving expectations



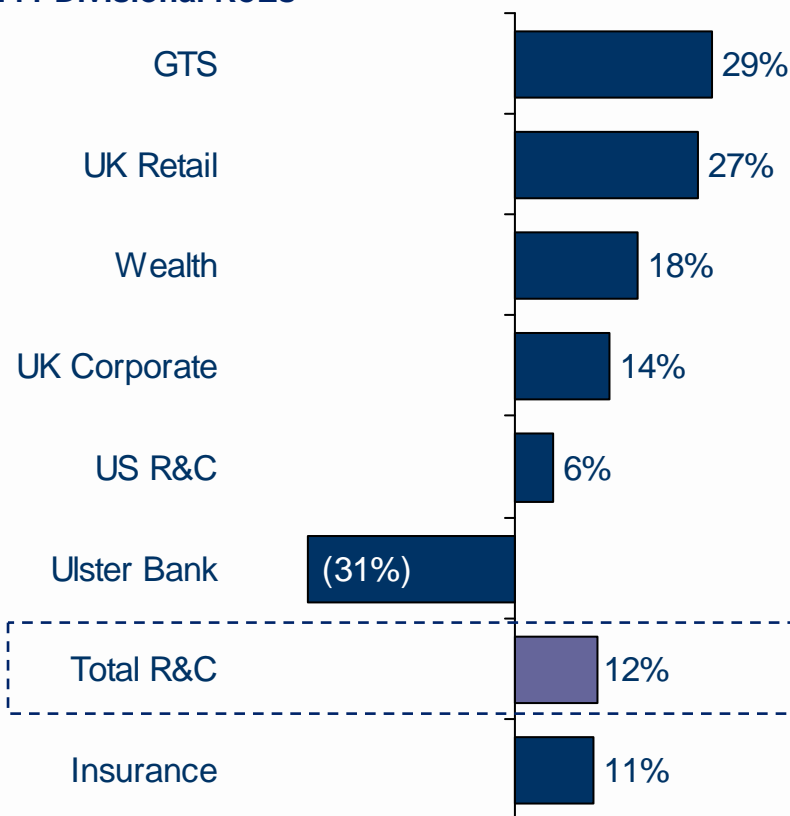
- Strong returns from cost reduction programme to date
- Ahead of expected savings of current programme with lower spend
- 1:1 annualised benefit expected by 2013

Actively working on further cost initiatives given economic outlook

# Strong base for medium-term RoE improvement

R&C continues to move toward 15%+ RoE potential

## H111 Divisional RoEs



## Leaders:

- GTS – New Management in place, franchise gaining traction
- UK Retail – Strong financial momentum, excellent customer franchise
- Wealth – Executing strategy, adjusting footprint and refining products
- UK Corporate – Customer focus is driving strong results, investment plan is delivering

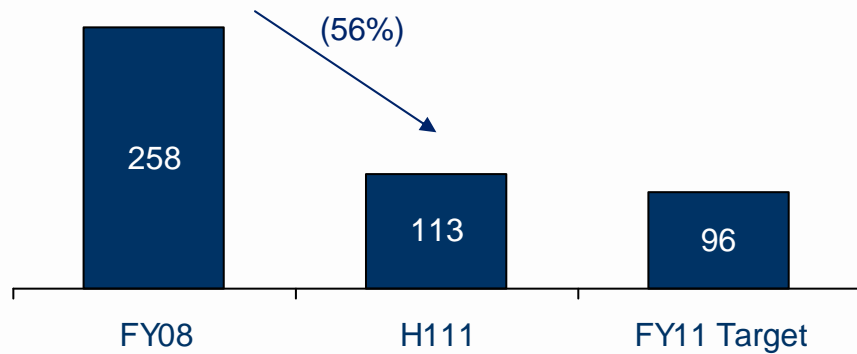
## Laggards:

- US R&C – Franchise continues to improve, early signs of asset growth
- Ulster Bank – PBIL steady, impairments starting to fall
- Insurance – Turnaround plan continues to deliver, on track for IPO

# Robust CT1 and TNAV trends despite rapid Non-Core reduction

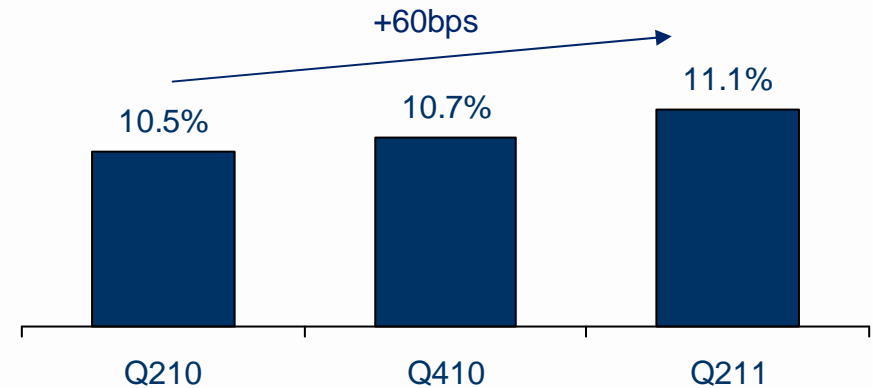
## Non-Core reduction ahead of plan

Funded assets, £bn



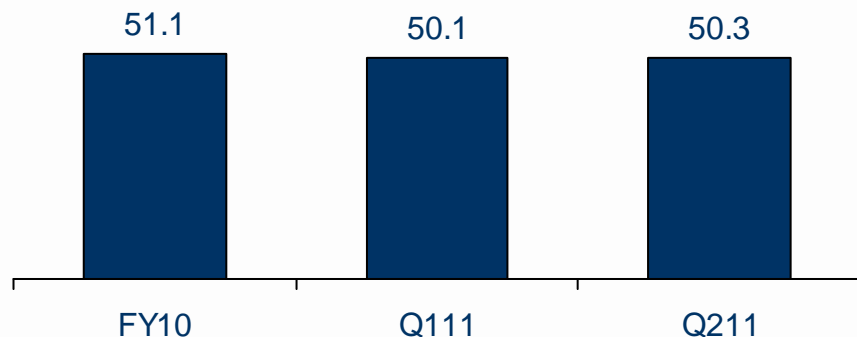
## Core Tier One improved<sup>1</sup>

Core Tier 1 ratio, %



## TNAV maintained despite significant one-offs

TNAV/Share, p



Both CT1 ratio and TNAV remain robust despite:

- Non-Core down 56% from inception
  - Asset disposals 40%<sup>2</sup> of this run-down
  - Average disposal loss of c3%
- Elevated Core and Non-Core Ulster Bank impairments
- Significant one-offs, e.g. PPI and Greek bond impairment

<sup>1</sup> Core tier 1 ratio includes APS benefit of 1.3% at Q210, 1.2% at Q410 and 1.3% at Q211. <sup>2</sup> FY09-H111.

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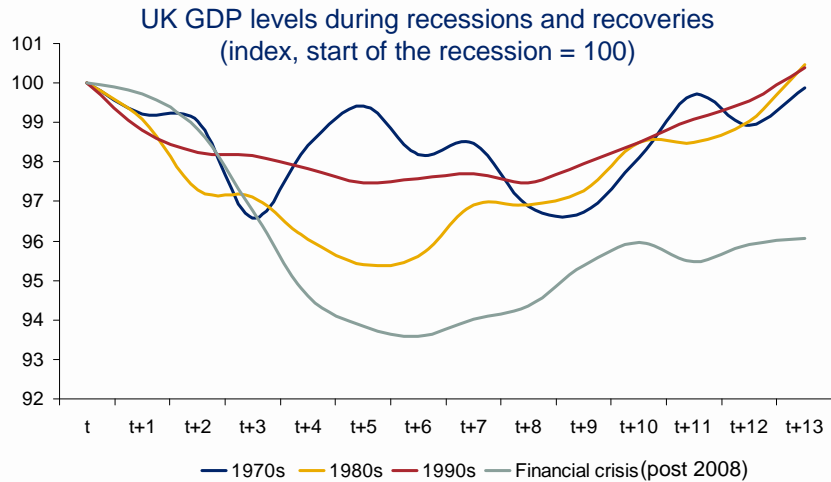
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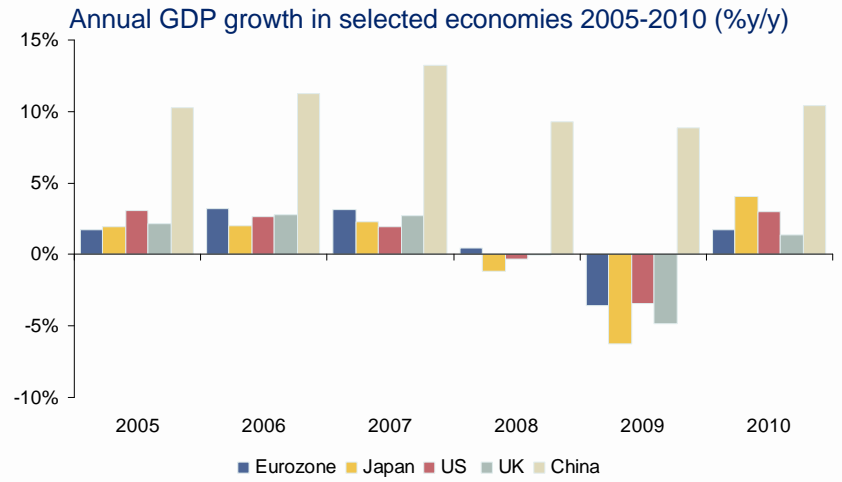
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# External challenges - Economic back-drop

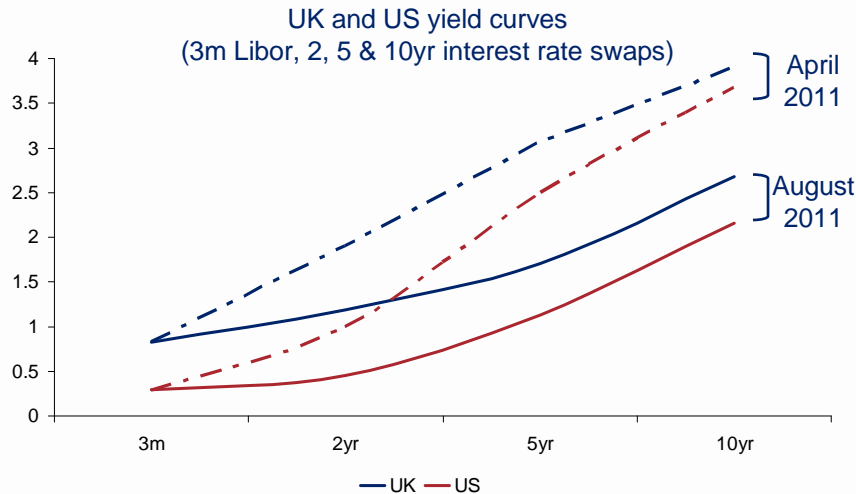
## Recovery from financial crises is typically slow



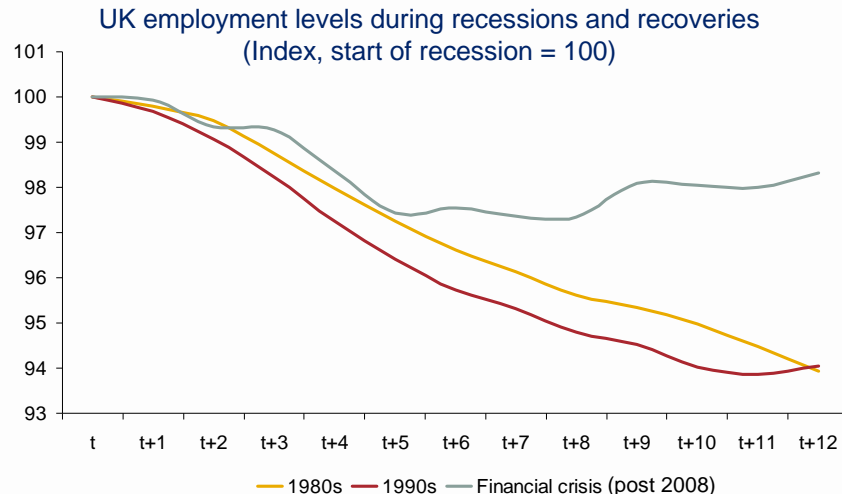
## Developed economies remain stuck in the slow lane



## Softening rate expectations have flattened curves



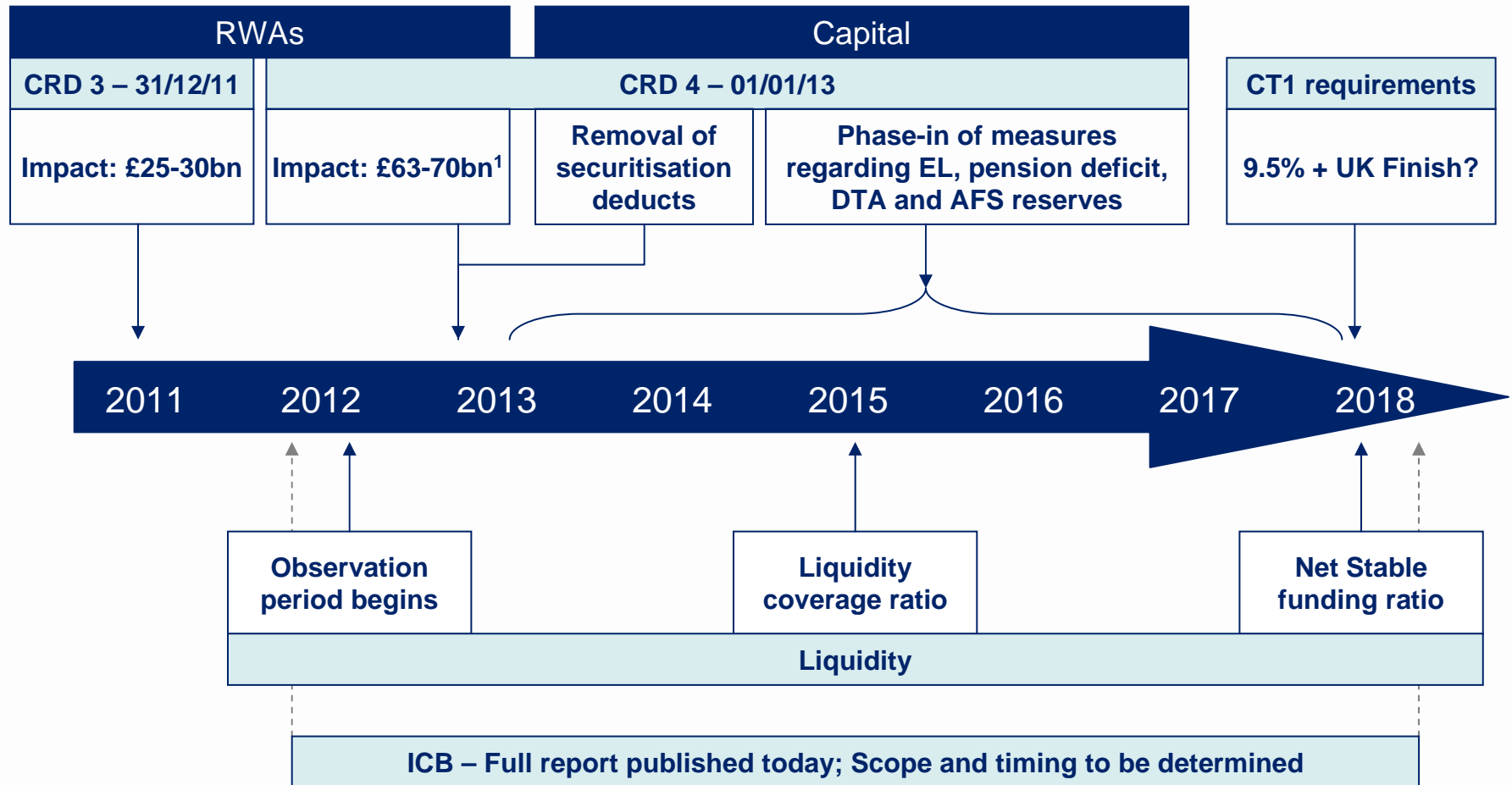
## UK labour market more resilient this time round





# External challenges – Regulatory changes

## 2011-2018 regulatory timeline



<sup>1</sup> Net equivalent change in RWAs after reflecting the impact of the current capital deduction from Core Tier 1. Gross impact of CRD 4 Deductions is forecast to be c£30-35bn; net impact included in the £63-70bn above is £18-20bn.

# External challenges - Impact and response

External factor	RBS / Industry impact	RBS response
Weak economic recovery	Lower loan growth Lower customer activity	Improve cross-sell and drive even greater efficiency
Interest Rates "lower for longer"	Absence of liability margin uplift	Optimise funding and deposit structure Continued focus on costs
Euro-zone crisis	Lower investor activity Continued market uncertainty	Continue to de-risk YTD funding ahead of plan
Lower Investment Banking activity	Lower revenues	Cost efficiency programme Re-examine optimal balance sheet size
Hostile litigation environment	Uncertainty for all stakeholders	Vigorous defence
Unprecedented regulatory / political pressure	Higher costs to customers Lower supply of credit	Consistent dialogue and engagement with relevant stakeholders

# Agenda

RBSG Vision & Strategy

Reducing risk: Non-Core, Markets, Credit, Funding

Financial performance, progress and delivery

External challenges

ICB - Initial thoughts

Summary and conclusions

# ICB - Initial thoughts

Areas for discussion:

- Summary thoughts on Final Report
- Thoughts on Ring-fencing proposal
  - Potential implications
  - Potential costs
  - Range of potential outcomes
- Process and timetable going forward
- Any other implications

# Agenda

RBSG Vision & Strategy

Reducing risk: Non-Core, Markets, Credit, Funding

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ICB - Initial thoughts

Summary and conclusions

# Summary & conclusions

- Macro uncertainties remain:
  - Subdued economic and interest rate outlook
  - Euro-zone concerns persevere
  - Clients remain risk-averse, outlook cautious
  - Irish economy showing signs of stabilisation
- But regulatory path becoming clearer:
  - ICB proposals announced today
  - Basel III framework scoped out
- Significant business progress has been made:
  - Non-Core risk reduction ahead of plan
  - Funding and liquidity significantly strengthened
  - Investing in Core franchises to improve business efficiency and customer experience
  - Most divisions generating RoE > CoE
  - “Laggard” divisions making significant progress on path to recovery

Strong Core franchises maintaining good performance despite external challenges

# Questions?