

# Building franchise value in an uncertain world

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Bank of America Merrill Lynch - Banking & Insurance CEO Conference

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# Important Information

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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, including Non-Core and cost reduction plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; certain ring-fencing proposals; sustainability targets; the Group's future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; 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 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 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 ability to implement strategic plans on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the ability to access sufficient sources of liquidity and funding; deteriorations in borrower and counterparty credit quality; litigation and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates; 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 extent of future write-downs and impairment charges caused by depressed asset valuations; 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; 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; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the implementation of recommendations made by the Independent Commission on Banking (ICB) and their potential implications; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; insurance claims; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the participation of the Group in the APS and the effect of the APS on the Group's financial and capital position; 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.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

# Agenda

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Task 1 – RBS Recovery

Task 2 – Ensuring the recovered bank is a ‘good’ bank

Task 3 - Building our long-term vision

Conclusions

# Our objectives & strategy

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## Objectives

- To **serve customers well**
- To restore the Bank to a **sustainable and conservative risk profile**
- To **rebuild value** for all shareholders

These priorities are interconnected and mutually supporting

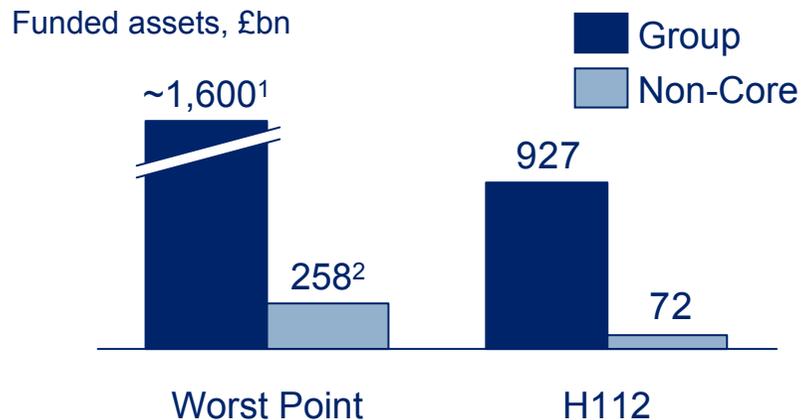
## Strategy

- The new RBS is built upon **customer-driven businesses** with substantial competitive strengths in their respective markets
- Each unit is being reshaped to provide improved and **enduring performance** and to meet new **external challenges**
- Businesses are managed to **add value in their own right** and to provide a stronger, more balanced and valuable whole through **cross-business linkages**
- In parallel, RBS **legacy risk positions are being worked down** and **risk profile transformed**, in part via Non-Core division

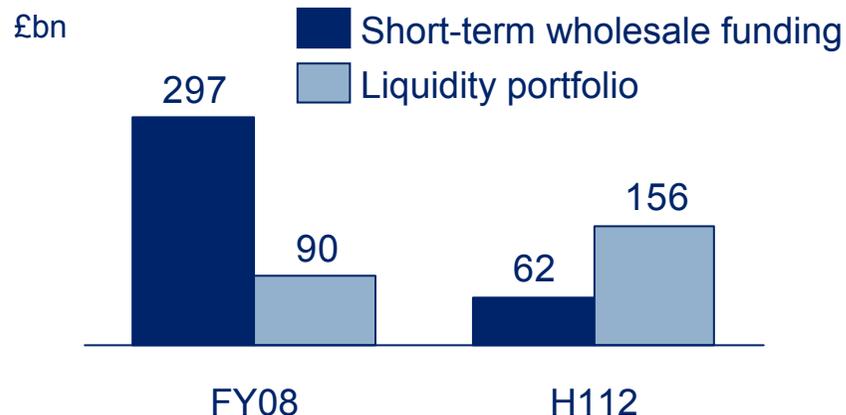
The principles of the RBS plan are working well

# Progress to date – capital, funding and liquidity

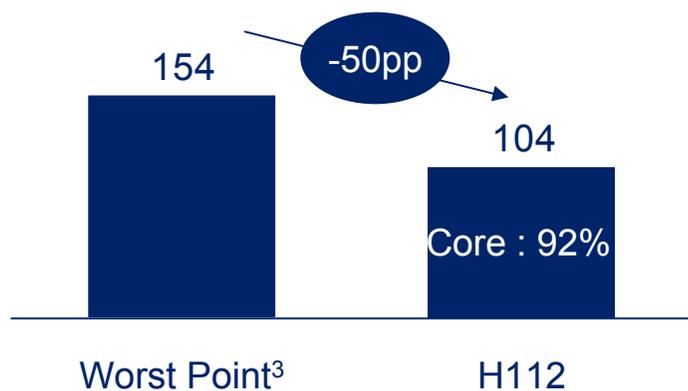
## Balance sheet managed down; Non-Core reduced



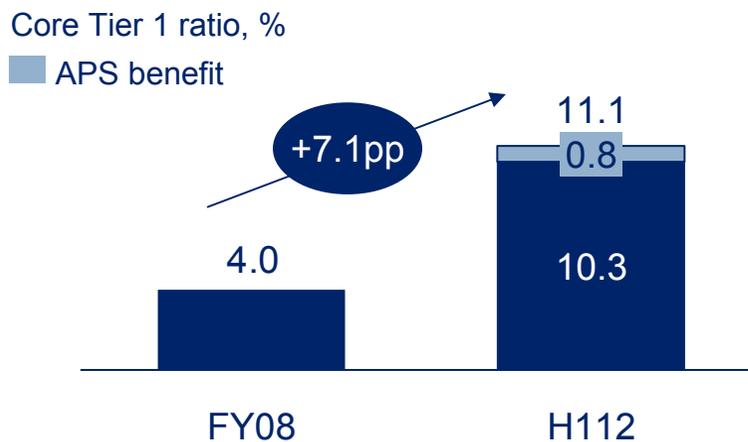
## Liquidity portfolio > Short-term wholesale funding



## Loan to deposit ratio nearing target

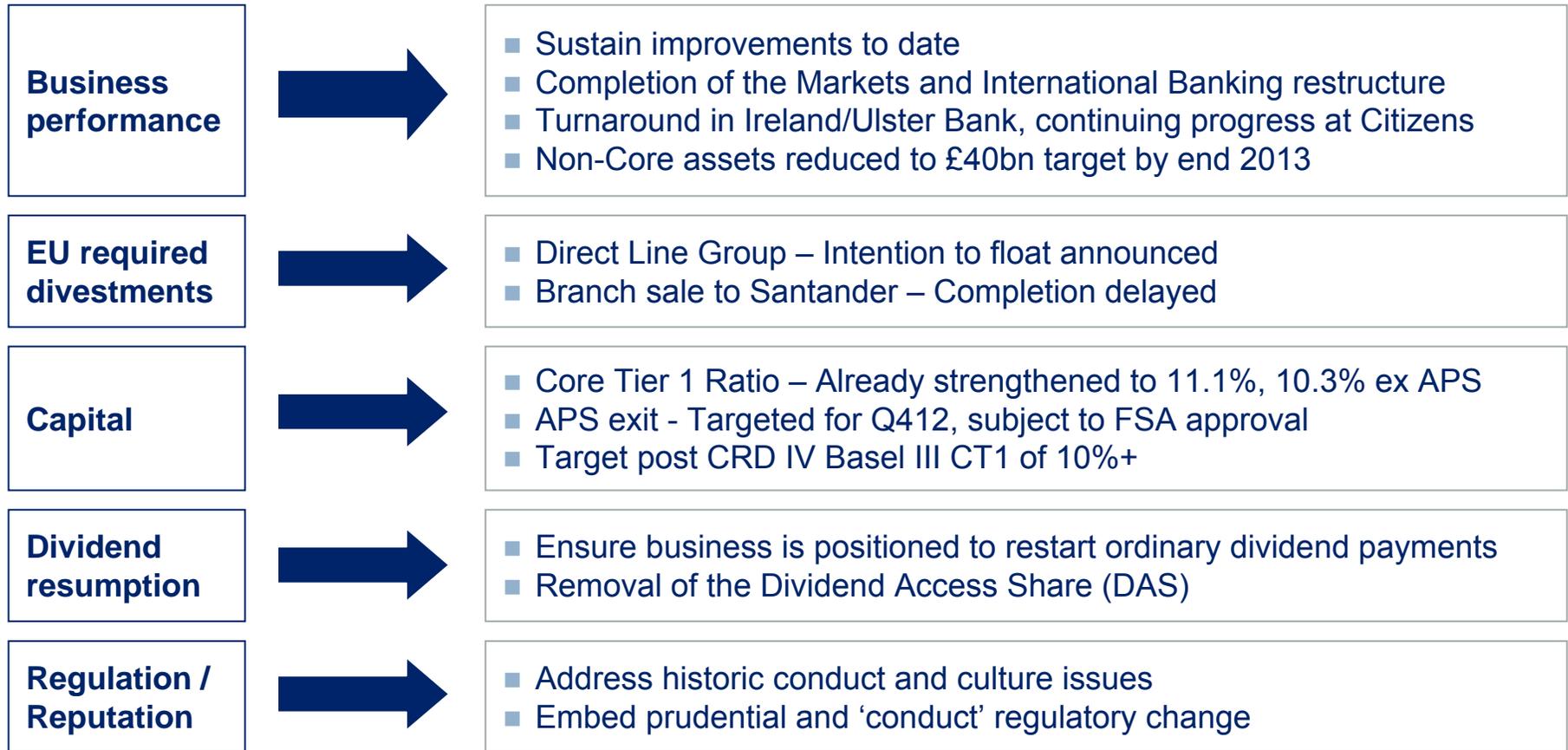


## Capital base robust



<sup>1</sup> FY07 funded assets, fully consolidated balance sheet. <sup>2</sup> Non-Core funded assets at FY08. <sup>3</sup> October 2008.

# Milestones remaining in the Recovery Plan



# End 2013 Aspiration – terrific progress, platform to build from

A fundamentally restructured group	<ul style="list-style-type: none"><li>■ A resized, restructured and de-risked balance sheet</li><li>■ Re-balance in funding, liquidity and capital achieved</li><li>■ An efficiently run, lower cost business</li></ul>
A viable, attractive, standalone business	<ul style="list-style-type: none"><li>■ Market-leading positions with customer centricity at the core</li><li>■ Complementary business proposition with appropriate capital usage</li><li>■ Generating RoE <math>\geq</math> CoE at business level</li></ul>
A rebalanced risk profile	<ul style="list-style-type: none"><li>■ Fully overhauled risk management approach</li><li>■ Appropriate risk appetite central to the business model</li></ul>
Under-investment being addressed	<ul style="list-style-type: none"><li>■ Focused on organic growth</li><li>■ Improved efficiency, customer service and staff utilisation</li><li>■ Invested for future progress</li></ul>
Support structures being addressed	<ul style="list-style-type: none"><li>■ APS exit achieved</li><li>■ Target removal of implicit and explicit Government support</li><li>■ Foundations laid to facilitate Government exit of ordinary shareholding</li></ul>

Would be one of the largest corporate turnarounds in history, but with more left to achieve

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# What is “franchise value” in an uncertain world?

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- Undoubted balance sheet strength and platform to build from
  - 10%+ Core Tier 1 ratios under Basel III
  - Loans funded by quality deposits
  - Strong liquidity ratios, limited wholesale funding reliance
- Business mix dominated by high quality, stable customer franchises
  - Strong market positions
  - Ability to compete and generate cash in tough times
  - Focus on sustainable competitive advantage
  - Well-funded, low risk concentrations, good RoE potential
  - Focus on costs and franchise investment
- Connecting with Customers and Community
  - Good customer service. Good citizens (employment, taxes, dividends, shareholder value, community engagement)

# Making the Core bank 'good' – strategic tests applied

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## 5 tests for the Group and each business

1. Top tier competitive position in enduring customer franchise
2.  $\text{RoE} \geq \text{CoE}$
3. Proportionate use of balance sheet, risk and funding
4. Capable of organic growth – but 'market limited'
5. Balanced and interconnected – customers, products, people

# Making the Core bank 'good' – progress

## 1. Top tier competitive position in enduring customer franchise

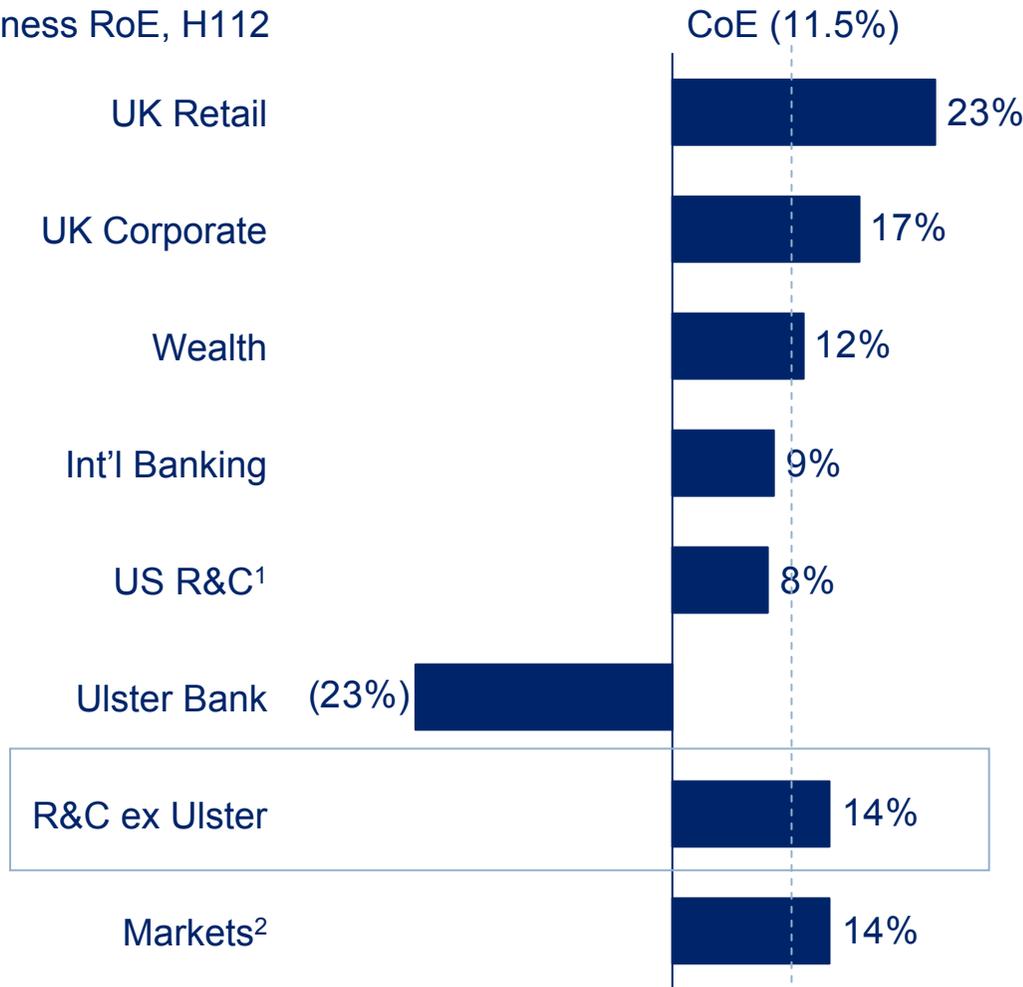
<b>UK Retail:</b>	#2 <sup>1</sup> for UK current accounts (13m); 11.7m savings accounts
<b>UK Corporate:</b>	#1 <sup>2</sup> SME Bank, #1 <sup>3</sup> Corporate Bank; c1.2m customers
<b>Wealth:</b>	#2 <sup>4</sup> UK Wealth Management Provider
<b>US R&amp;C:</b>	Top 5 <sup>5</sup> player in 8 of the top 10 markets in which we operate; 9 <sup>th</sup> largest branch distribution
<b>Ulster Bank:</b>	#1 <sup>6</sup> bank in Northern Ireland, #3 Island of Ireland; serving 2m customers
<b>International Banking:</b>	Top tier cash management provider (#1 UK <sup>7</sup> , #4 Western Europe <sup>8</sup> , #6 Global <sup>8</sup> ) Top tier book-runner of syndicated loans (#1 UK, #5 EMEA; #10 Global) <sup>9</sup>
<b>Markets:</b>	Top 5 <sup>10</sup> in FX, Rates and Asset Backed Products
<b>Direct Line Group:</b>	#1 personal lines insurer with 19% share in motor and 18% in home <sup>11</sup>

<sup>1</sup> GfK NOP Financial Research Survey (FRS) 6 months ending June 2012, market share of all current accounts, UK Retail includes RBS, NatWest and Coutts. <sup>2</sup> RBSG 26% main bank market share. Chaterhouse Business Banking Survey Q2 2012. <sup>3</sup> pH Group (Experian). <sup>4</sup> Deposits and investments excluding lending, June 2012. <sup>5</sup> Deposit market share data, FDIC. <sup>6</sup> PWC annual survey for Corporate; IPSOS MORI for Retail. <sup>7</sup> Ranked #1 for market footprint UK, 2012 Greenwich Share Leader – European Large Corporate Cash Management. <sup>8</sup> Euromoney results for Corporates, FY11. <sup>9</sup> Dealogic Loans Review H112. <sup>10</sup> Coalition and RBS estimates, FY11. <sup>11</sup> GfK NOP Financial Research Survey (FRS) 3 months ending Dec 2011. Under EU State Aid requirements, RBS Group is obliged to divest control of DLG by year end 2013 and fully divest by year end 2014.

# Making the Core bank 'good' – progress

## 2. RoE > CoE

Core business RoE, H112

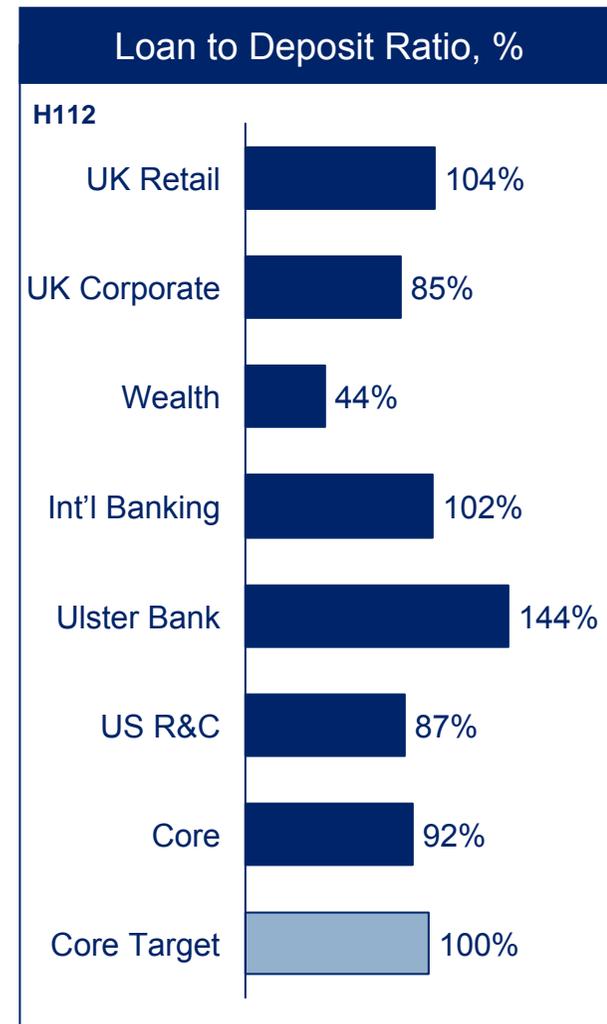
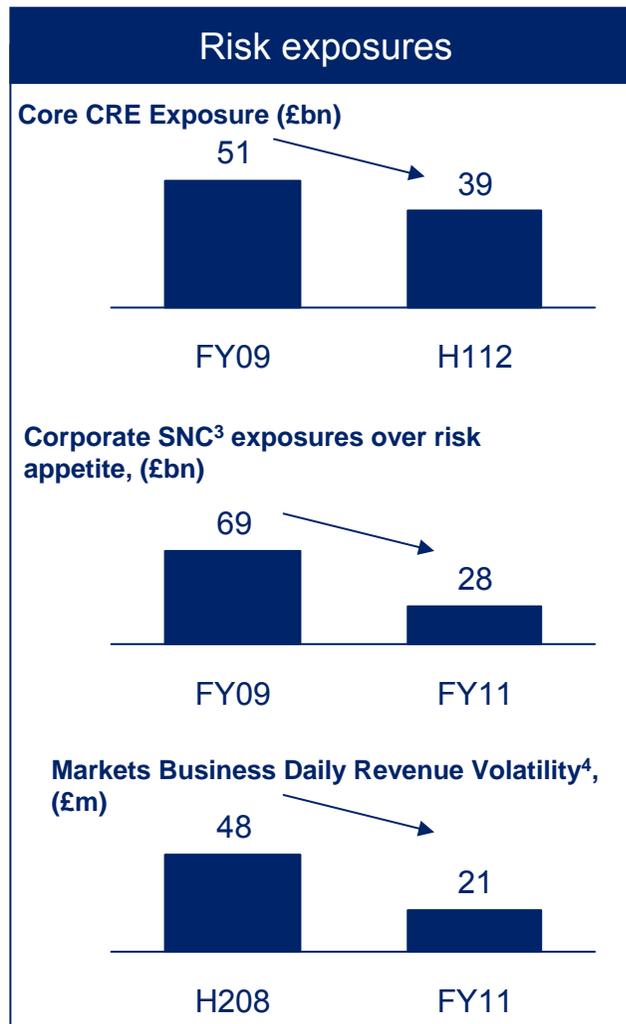
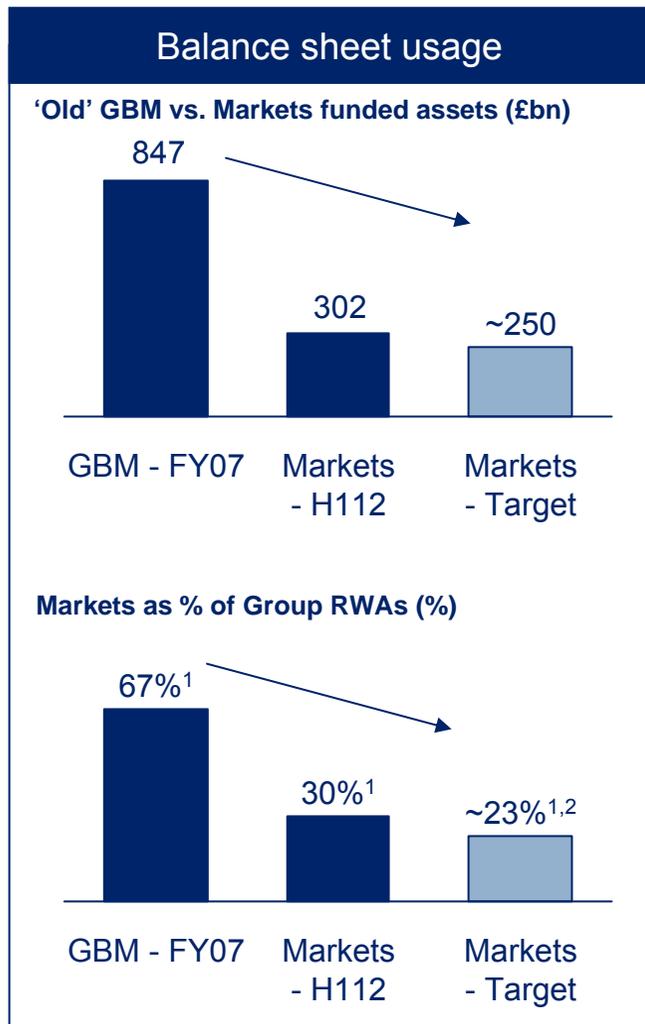


- Good progress towards achieving RoE ≥ CoE
- Core UK Retail & Corporate franchises performing well
- Further management actions to drive returns in International Banking and US R&C
- Ulster Bank turnaround offers considerable upside to the Core

<sup>1</sup> Excludes litigation settlement and net gain on the sale of Visa B shares. <sup>2</sup> Ongoing businesses.

# Making the Core bank 'good' – progress

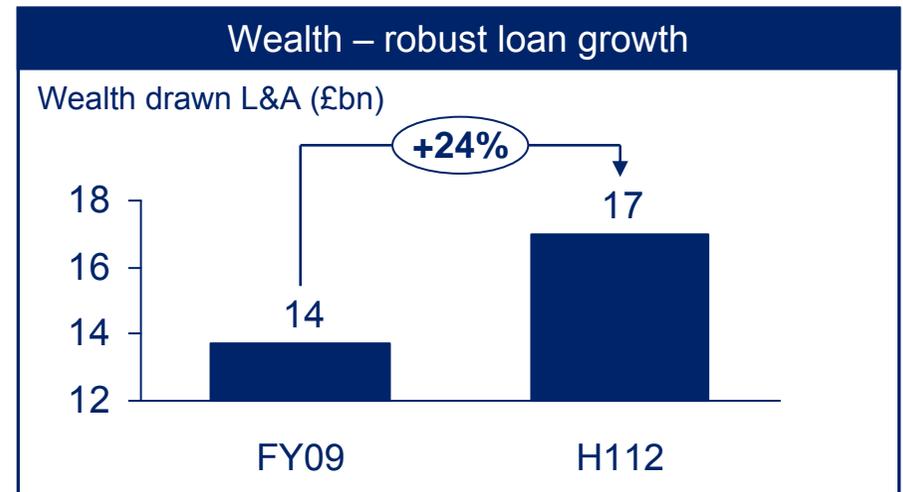
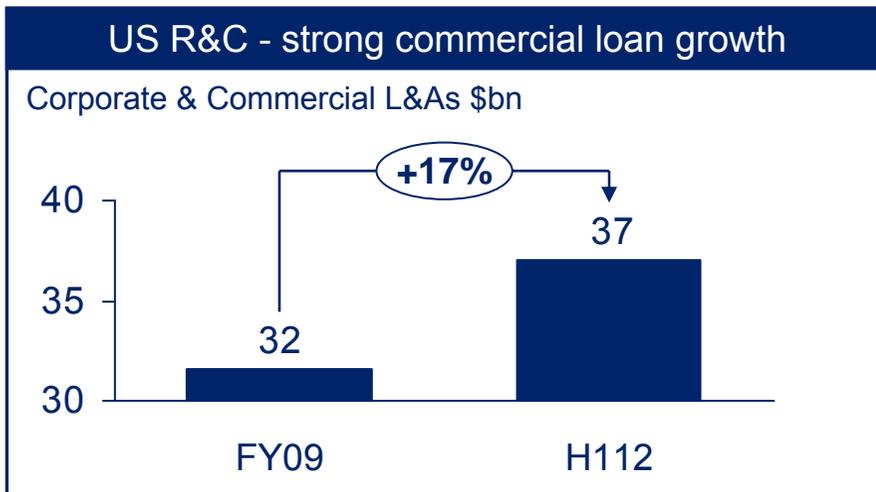
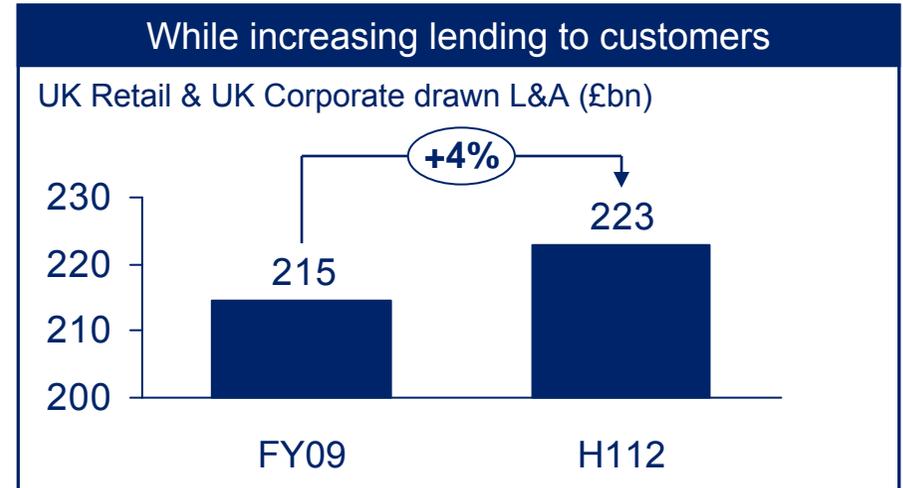
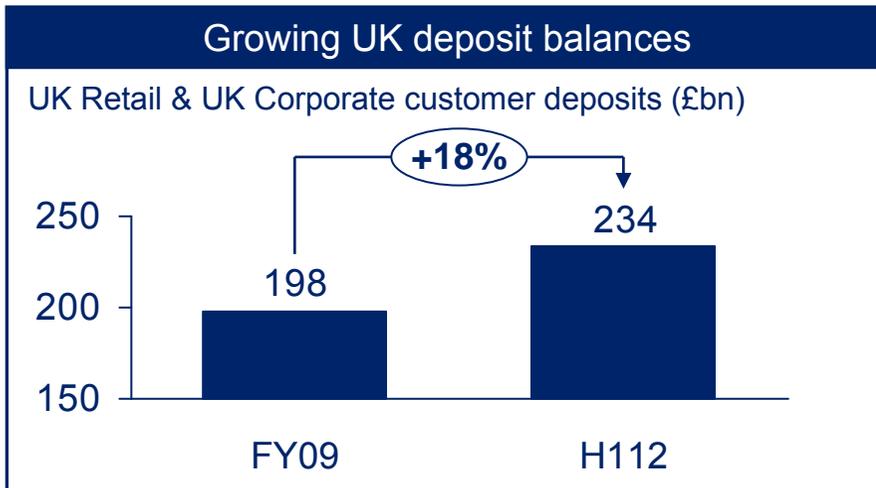
## 3. Proportionate use of balance sheet, risk and funding



<sup>1</sup> Basel III equivalent. <sup>2</sup> Target is as a percentage of Core. <sup>3</sup> Single Name Concentrations. Data collection methodology pre 2012. <sup>4</sup> Standard deviation of Markets daily revenue.

# Making the Core bank 'good' – progress

## 4. Capable of organic growth

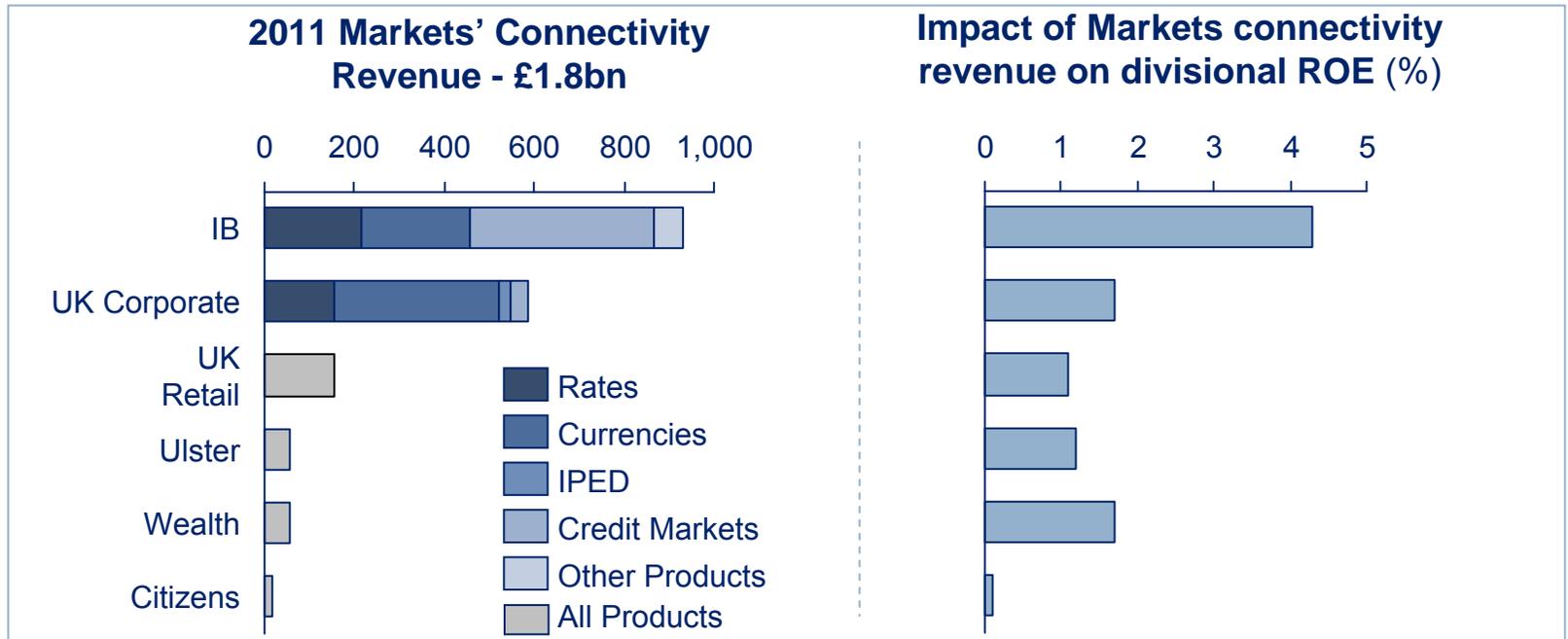


# Making the Core bank 'good' – progress

## 5. Balanced and interconnected – revenues, customers, products, people

Revenues	Revenue benefits from shared customers, cross division
Customers	Full service proposition (product/geography) important for corporate customer base
Products	Shared expertise and best practise across divisions
People	Benefits from shared Group services and infrastructure

### An example:



# Making the Core bank 'good' – key strategies

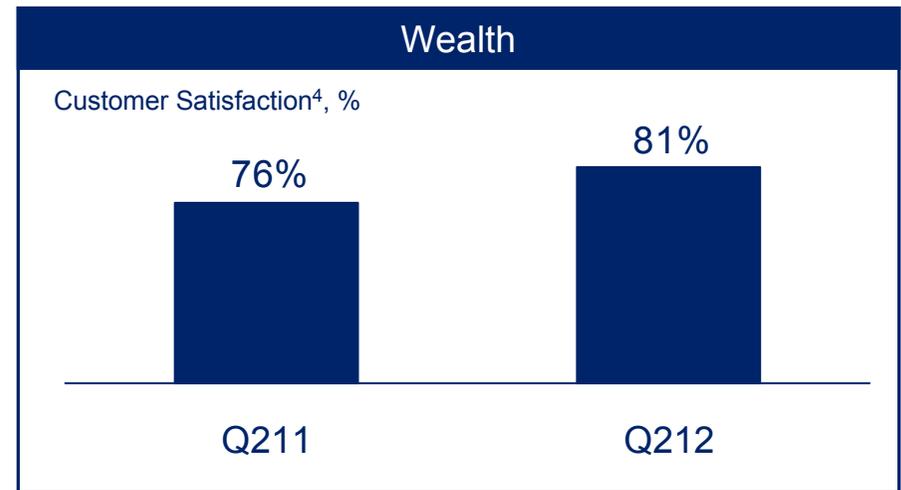
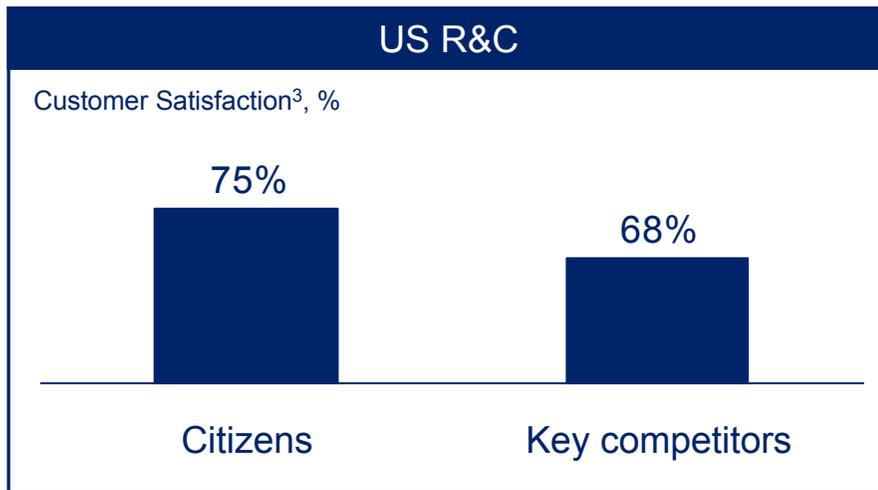
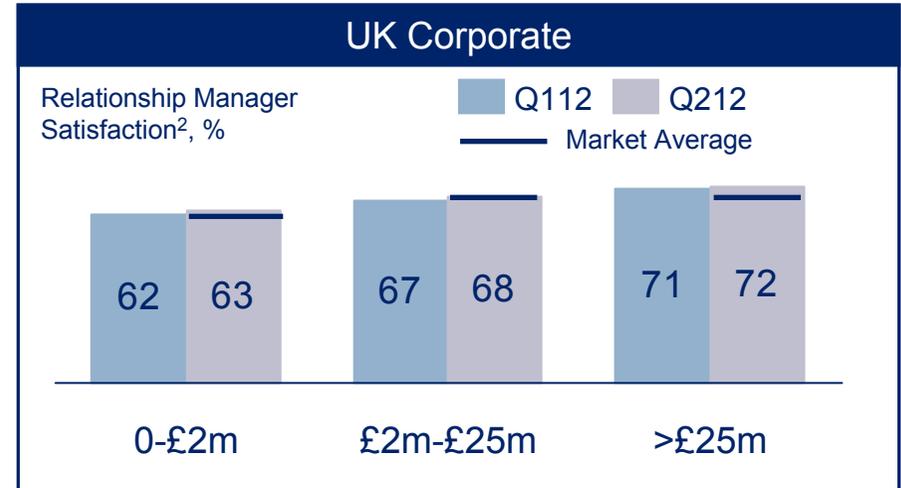
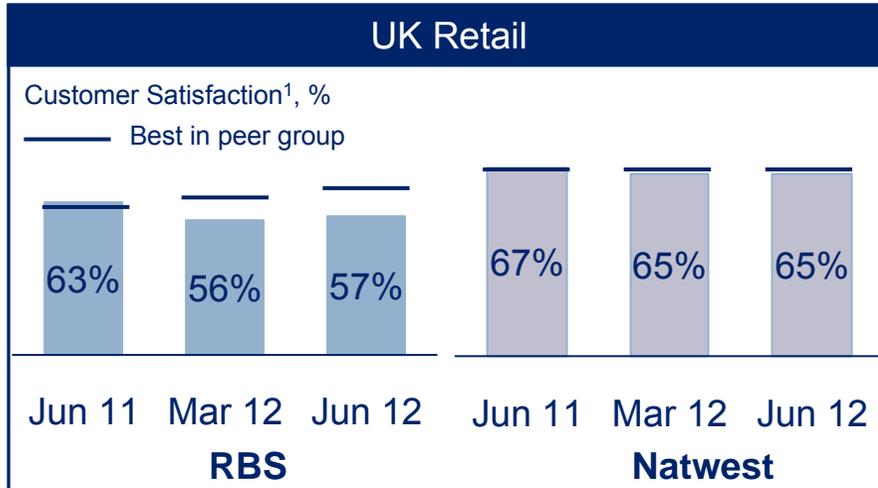
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How we're retooling the business:

- Serving customers well
- Right-sizing the cost base
- Investing for the future
- Rebalancing business mix
- Areas to address further

# Serving customers well – our purpose and future

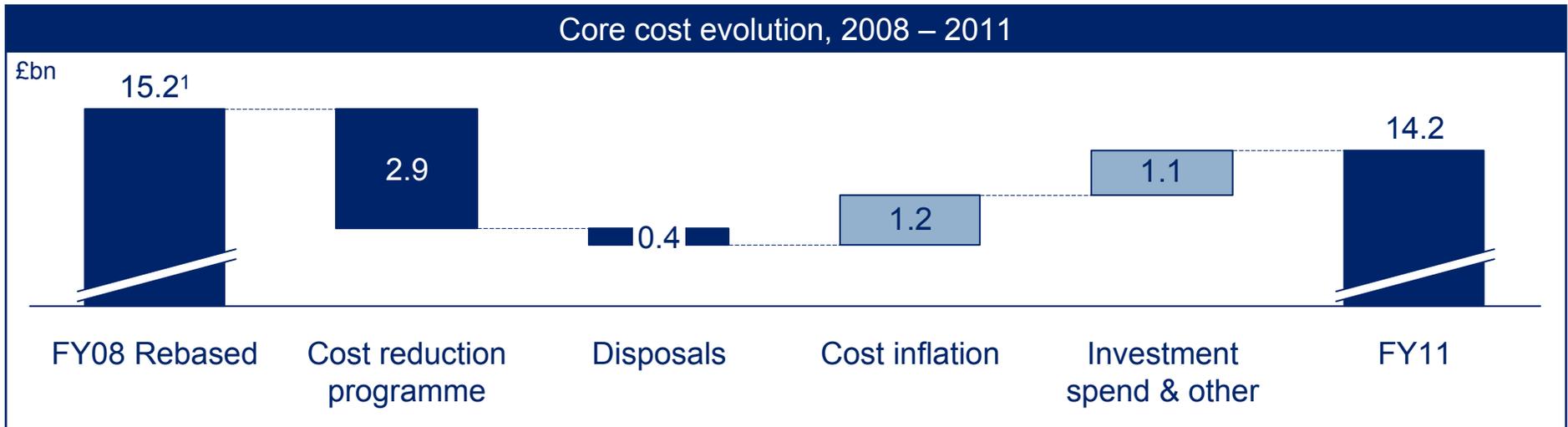
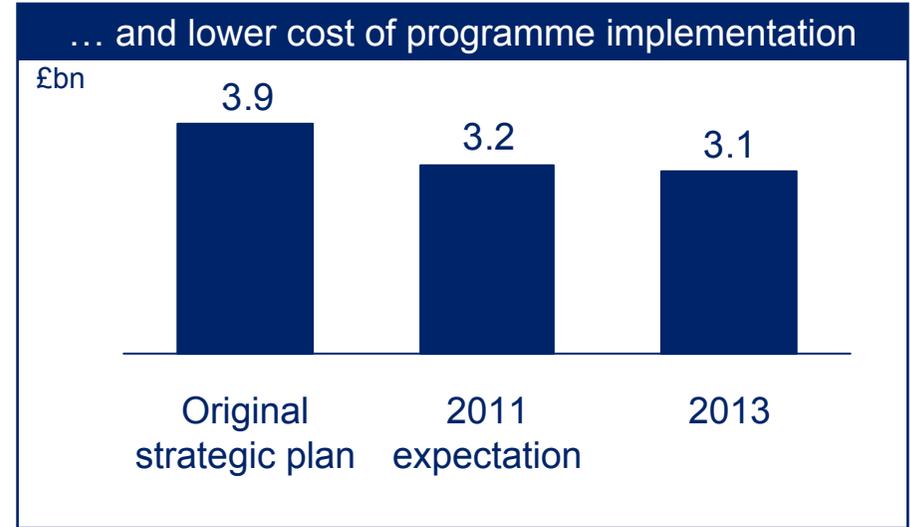
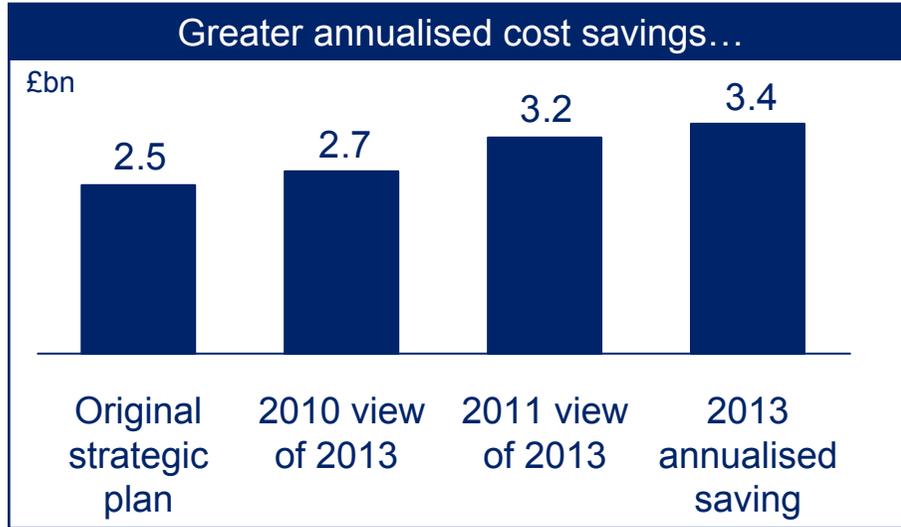
Targeting consistently high customer satisfaction levels:



<sup>1</sup>Extremely and very satisfied, NatWest in England & Wales, RBS in Scotland. Source: GfK NOP FRS, Time period 3 months ending data. Competitor list in England & Wales includes: Barclays, LTSB, Halifax, HSBC, Santander. Competitor list in Scotland includes: Bank of Scotland, Clydesdale Bank, Halifax, LTSB, Santander. <sup>2</sup> Source: Charterhouse Research Business Banking Survey. <sup>3</sup> Source: Kantum Research, Q212, represents a two quarter average. <sup>4</sup> Source: PWC International Research Unit. Based on Coutts UK only.

# Right-sizing the Core cost base

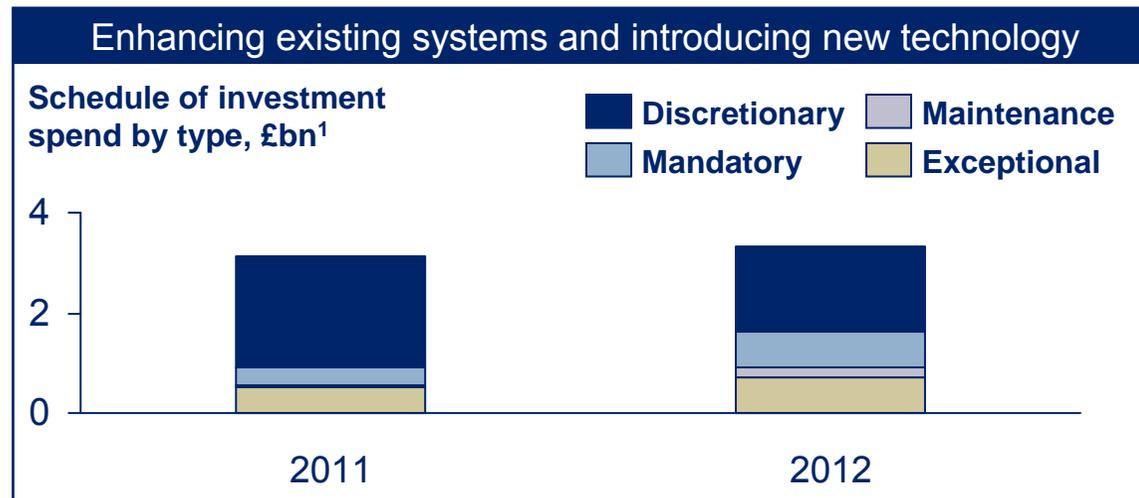
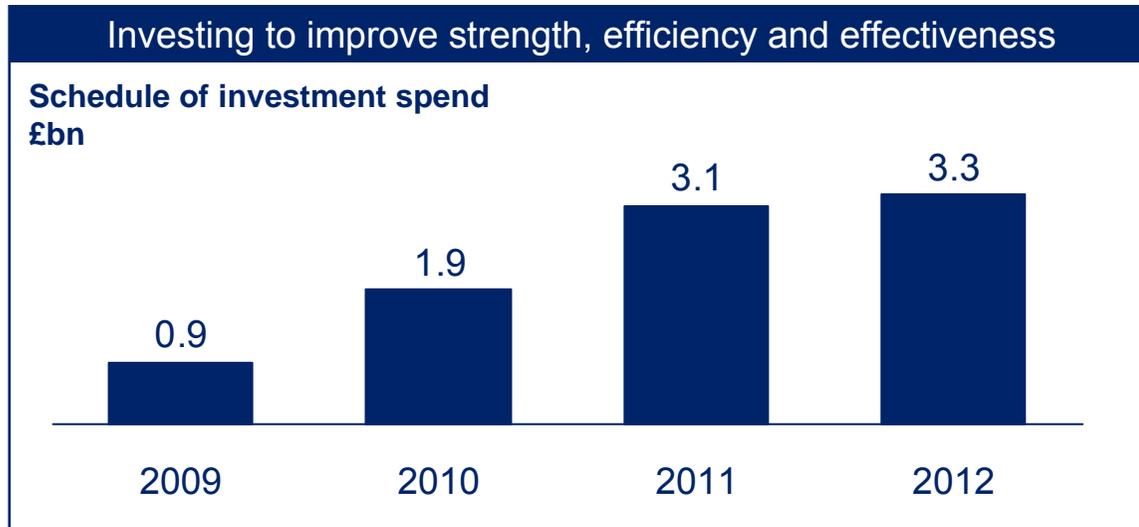
Critically evaluating the cost base:



<sup>1</sup> Excluding non-repeating credits

# Investing for the future

While ensuring the business is invested for better customer service and performance:

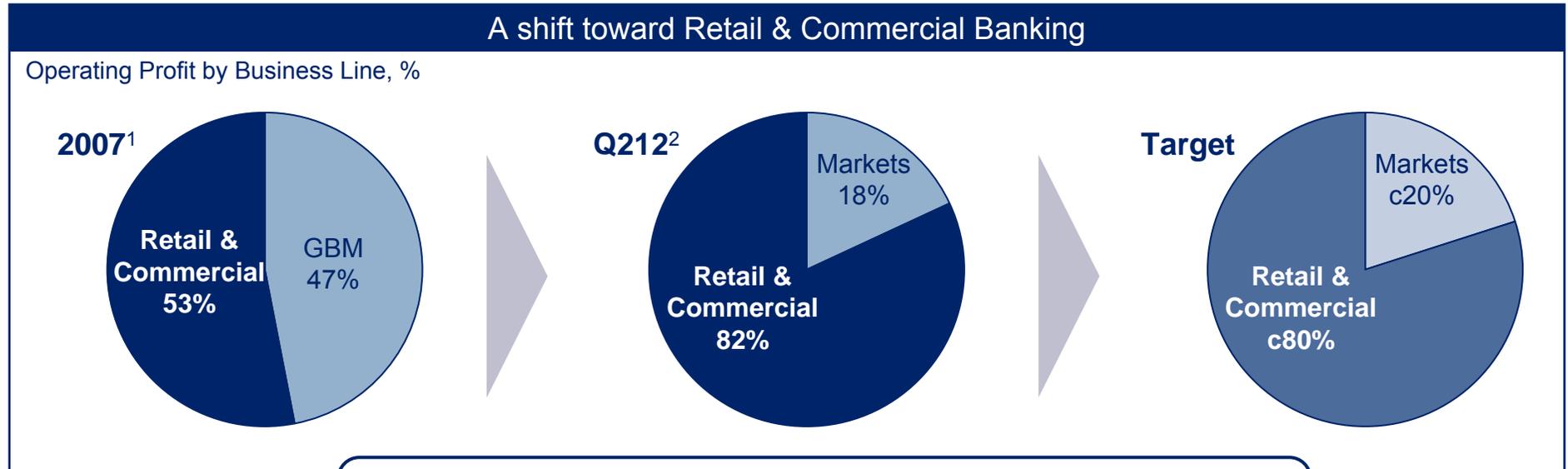


- Ongoing investment spend focused on:
  - Enhancing customer experience
  - Developing IT infrastructure
  - Transformation of front and back office functions
  - Property rationalisation

<sup>1</sup> Discretionary = new investment projects; Mandatory = required spend for example regulatory requirements; Maintenance = investment in historic systems/processes; Exceptional = project related, i.e. branch disposals.

# Rebalancing business mix

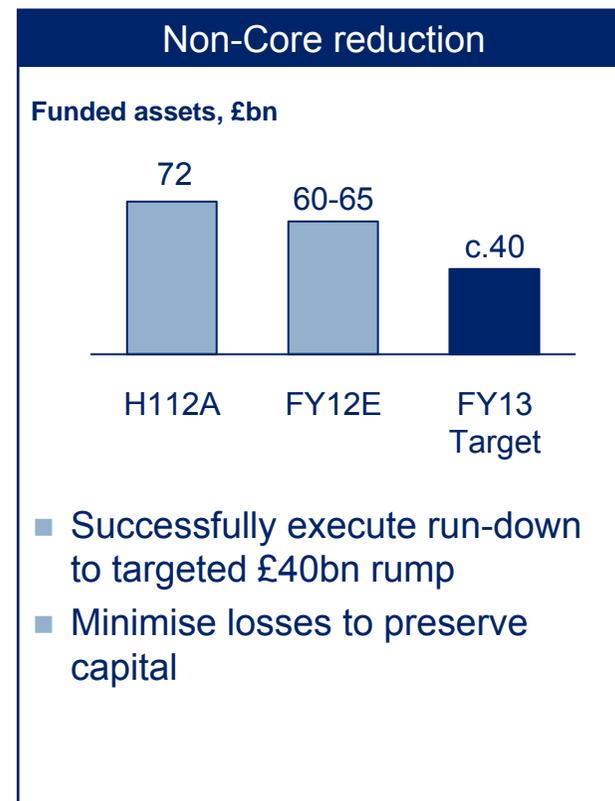
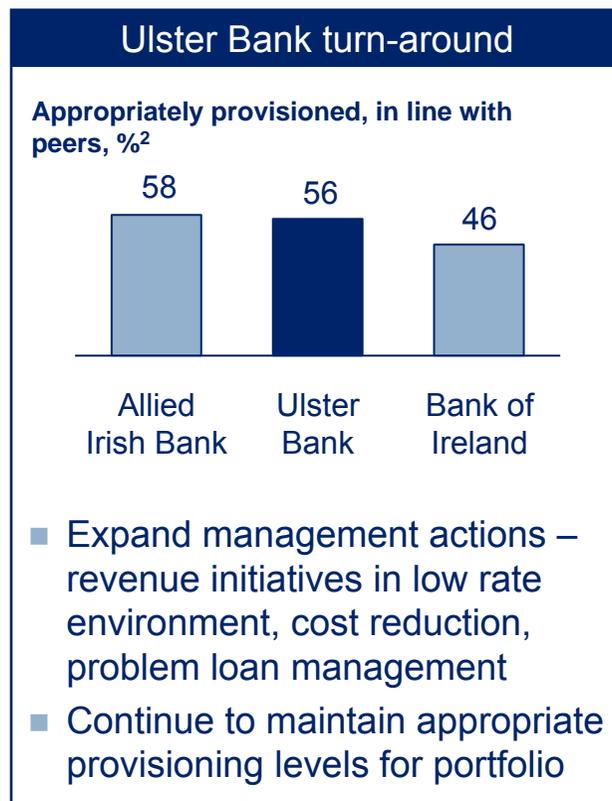
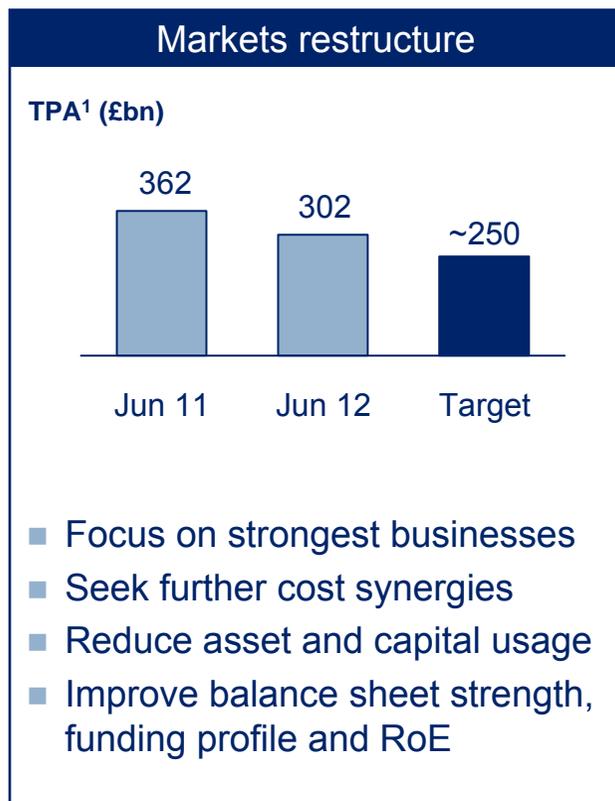
A business anchored in the UK, and in retail & commercial banking, with appropriate global opportunities:



- Attractive business make-up
- Balanced geographic mix:
  - UK 64%, US 21%, Europe 10%, RoW 5%
- Anchored in domestic market, focused international presence
- Appropriate scope of Markets revenues

<sup>1</sup> RBS Group operating profit excluding write-downs, one-off items and RBS Insurance. <sup>2</sup> Core business ex Direct Line Group.

# Areas to address further – Markets, Ulster Bank and Non-Core

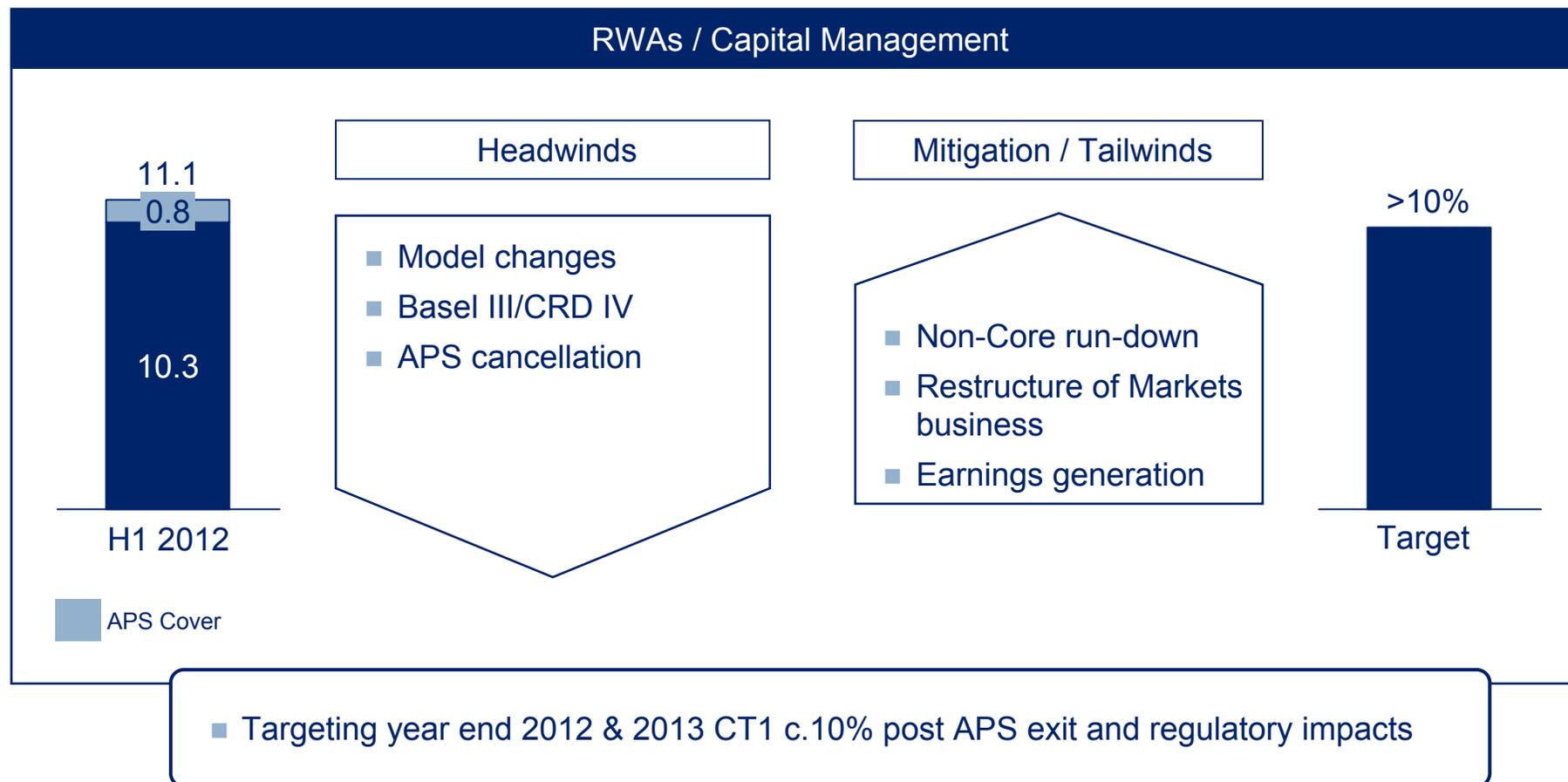


<sup>1</sup> Third party assets of ongoing businesses only. <sup>2</sup> Provision balance as a percentage of REIL; data from company disclosures as at end June 2012.

# Areas to address further – prudential and conduct regulation

Prudential Regulation:	Status
ICB/Ring-fencing	<ul style="list-style-type: none"><li>■ Strategic direction clear</li><li>■ 'Plumbing' clarity still WIP</li></ul>
Basel III / CRD IV	<ul style="list-style-type: none"><li>■ Implementation 01/01/13 may be delayed</li></ul>
RWA Intensity	<ul style="list-style-type: none"><li>■ FSA pressure on models (CRE slotting etc)</li><li>■ RWA uplift being absorbed in 2012/13</li></ul>
Conduct Regulation:	
Industry-wide Conduct Issues	<ul style="list-style-type: none"><li>■ PPI</li><li>■ SME swaps</li><li>■ LIBOR</li><li>■ Anti-money laundering</li><li>■ New landscape still developing in UK &amp; US</li></ul>

# Areas to address further – regulatory capital requirements



# Investment proposition

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- RBS is nearing the point of becoming a recovered bank and well on the way to 'good':
  - Restructuring phase should be largely complete by end 2013
  - Ongoing businesses should be retooled and performing 'in-line' with competitors with robust, enduring, valuable franchises
  - Despite headwinds from slow economies and tough but uncertain regulatory impacts
  - Next 16 months has important execution challenges
  
- Next phase (post 2013) is building our long-term vision. Founded on actions to date and resting on progress with customers.
  - Target to see Group profits  $\geq$  cost of capital, dividend resumption, remaining restructuring complete (Non-Core/below the line items)
  - Needs economic recovery
  - Platform for recovered share price performance
  - Platform for privatisation to commence (needs DAS removal)

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# Post 2013 – Growing Group profitability to full potential

## Post 2013 : The road to profit normality

### Internal levers to be utilised

- Customer centric approach:
  - Relevant products/accessibility
  - Helpful Banking
  - Supporting customers
- Ongoing tight cost management
- Good risk management
- Ongoing business review

### External supports required

- Global economic growth:
  - Positive loan demand
  - Interest rates normalising
  - Increased employment
  - Business investment
- Settled political and regulatory environment

# What will good look like



Top tier market franchises	Leading positions in all our customer focused businesses
	Strong, predictable and resilient business performance
Balanced portfolio	Complementary portfolio with clear cohesion logic and synergies
	Balanced by geography, growth, risk profile and business cycle
Solid profitability and attractive return potential	Commitment to $RoE \geq CoE$ on an expanded equity base
	Attractive and sustainable income characteristics
Low volatility underpinned by strong balance sheet	Clean balance sheet with a Basel III CT1 target 10%+
	Short-term wholesale funding <10% of funded assets
Standalone strength and solid foundations	Proven management track record, universal disciplines in place
	Roadmap to orderly UK Government stake sell down
Stakeholder friendly	Serving customers and society well, the key strategic priority
	Transparent and responsive communication

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# Conclusions

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## Rectifying the past

- Significant progress against initial 5 year strategic plan
- Creating a recovered bank, close to being achieved; Non-Core risk reduction running ahead of plan, safety and soundness restored
- Making the recovered bank a 'good' one; Ex Ulster Bank, all businesses at or on the road to recovery, generating robust RoEs
- Huge focus on customer driven performance and culture
- Period to end 2013 facilitates further rectifying of past issues; Ulster Bank turnaround, Markets restructure, addressing conduct issues

## Addressing the future

- Customers central to what we do
- Addressing the 'new world' of banking; Returning the Group to profit normality
- Ensuring a robust capital position, mindful of future regulatory developments
- Investing in the Business for sustainable growth
- Achieving plan should facilitate dividend resumption and eventual privatisation

# Questions?

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