

# Where have we got to? What next?

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Morgan Stanley Financial Services Conference – London

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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, 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; regulatory investigations; the Group's future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; and the Group's potential exposures to various types of political and 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: 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 of certain assets and businesses required as part of the State Aid restructuring plan; organisational restructuring in response to legislative and regulatory proposals in the United Kingdom (UK), European Union (EU) and United States (US); the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government 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 US; 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 UK, the US and other countries in which the Group operates or a change in UK 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 and their potential implications and equivalent EU legislation; 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 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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This is what we are trying to accomplish

RBS – Journey was conceived as having the following key elements

Where are we on that journey

Restructuring – Nearing successful conclusion

Core businesses – Retooling well underway, performance improved to ‘in-line’

Milestones

‘Really good bank’

# This is what we are trying to accomplish



Enduring customer franchises

- A leading UK bank anchored in Retail & Commercial business lines
- Sustain strong capabilities internationally and in financial markets to support the needs of our customers and shareholders
- Top tier competitor in our chosen fields

Safer and more focused

- Businesses with disciplined focus on what we do well
- Profit earned by serving our customers well
- Strong risk management processes
- Only lending as much as we raise from deposits
- Capital and liquidity strength meeting the highest international standards

A valuable, private sector bank

- Consistently profitable, with sustainable shareholder returns above cost of capital
- 'Standalone strength' regained, no longer needing Government support
- The Government will have sold or at least begun to sell its shares
- A leader in transparency and 'investor friendly' orientation

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# RBS journey – key elements

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- Clear strategy set in 2009
- Clear structure and Road Map for implementation
- Two parallel tasks
  - Huge restructuring: risk reduction, implementation of strategic target for size & shape
  - Core businesses – liberated to support customers. Retooling to correct underperformance
- Staged success measures in both tasks with milestones passing on road to ‘normal bank’
- Time, energy, resources & confidence liberated from progress in twin tasks can be redeployed to help move RBS from ‘normal bank’ to ‘really good bank’

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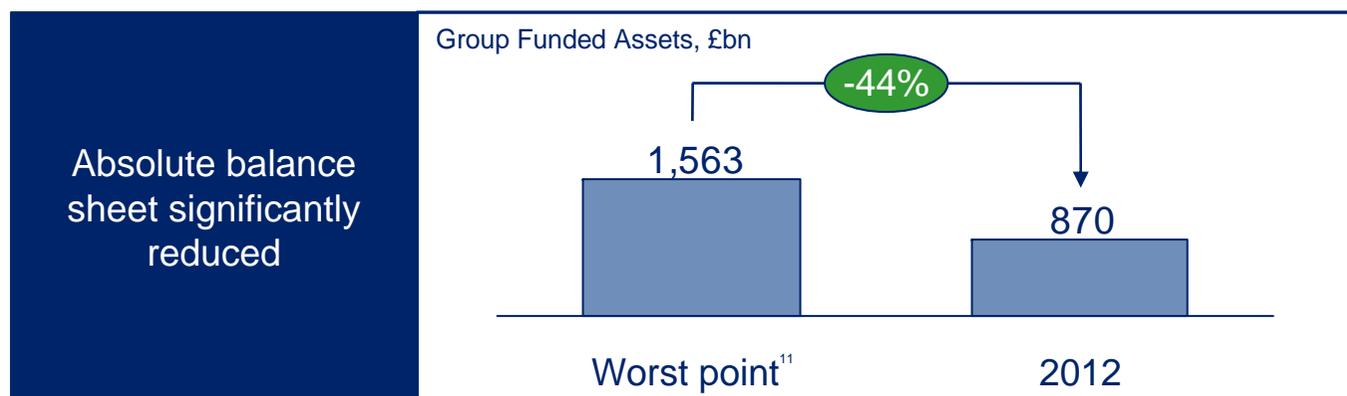
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# Huge progress in Safety & Soundness agenda

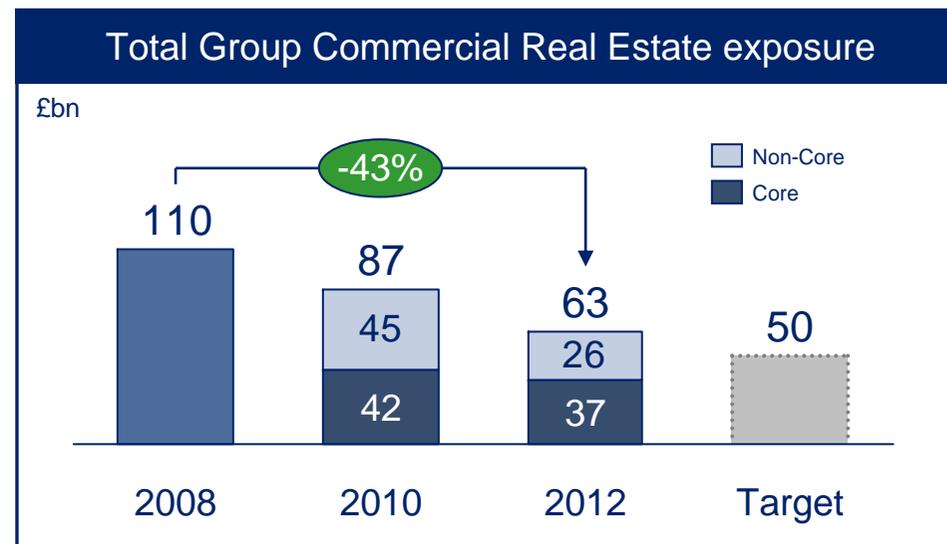
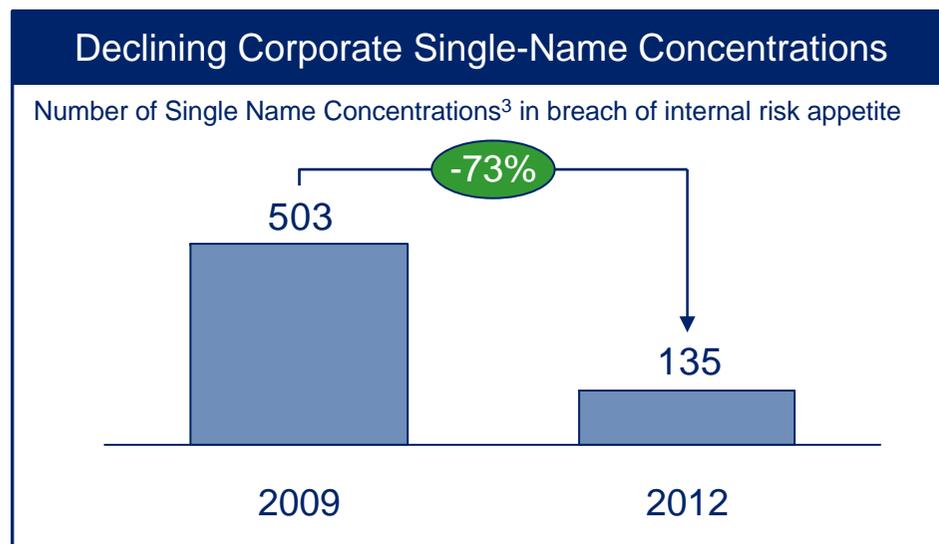
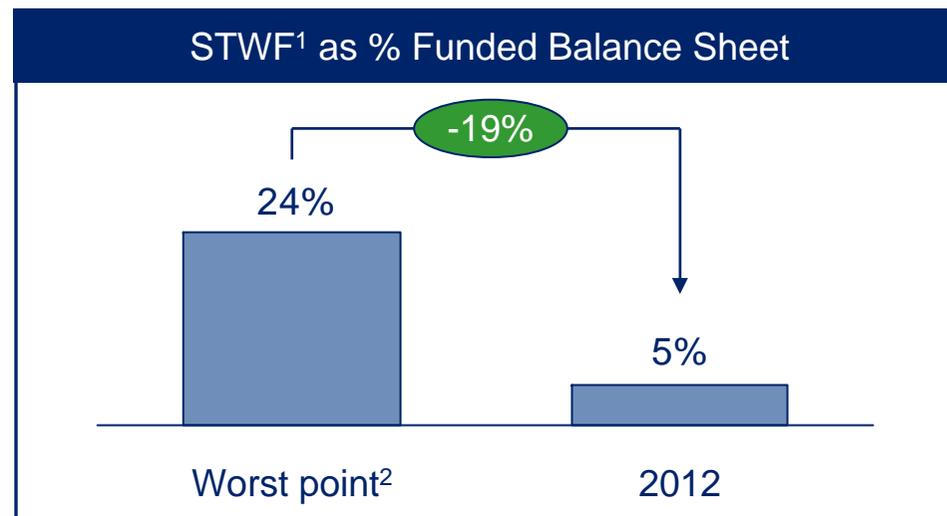
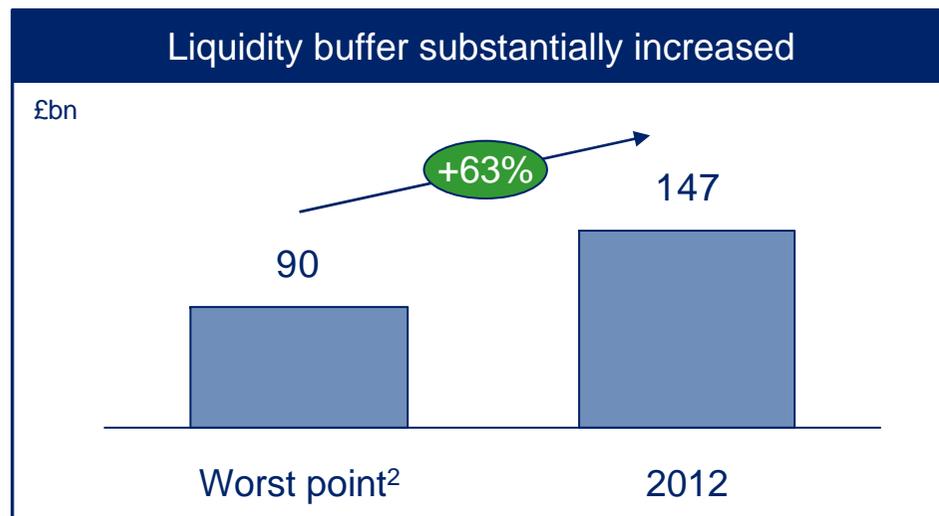
Group – Key performance indicators	Worst point	FY12	Medium-term target
Loan : deposit ratio (net of provisions)	154% <sup>1</sup>	100%	<b>c.100%</b>
Short-term wholesale funding <sup>2</sup>	£297bn <sup>3</sup>	£42bn	<b>&lt;10% TPAs</b>
Liquidity portfolio <sup>4</sup>	£90bn <sup>3</sup>	£147bn	<b>&gt;1.5x STWF</b>
Leverage ratio <sup>5</sup>	28.7x <sup>6</sup>	15.0x	<b>&lt;18x</b>
Core Tier 1 Capital ratio	4% <sup>7</sup> B2 <sup>8</sup>	10.3% B2.5 <sup>9</sup>	<b>&gt;10% BIII<sup>10</sup></b>

} Achieved



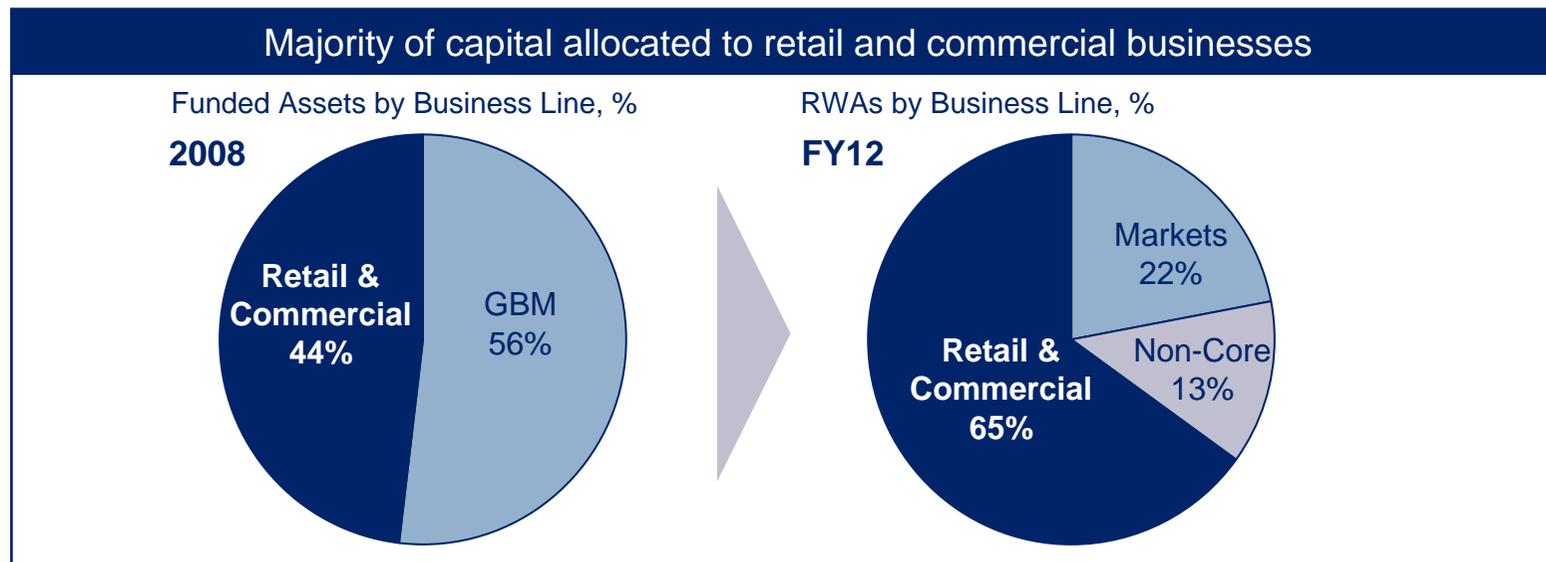
<sup>1</sup> As at October 2008. <sup>2</sup> Unsecured wholesale funding <1 year to maturity. Including bank deposits <1 year. Excluding derivatives collateral. <sup>3</sup> As of December 2008. <sup>4</sup> Eligible assets held for contingent liquidity purposes including cash, government issued securities 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> Based on Basel II Regulatory Requirements. <sup>9</sup> Includes impact of CRD3 Regulatory Requirements. <sup>10</sup> Fully compliant under Basel III Regulatory Requirements. <sup>11</sup> Statutory funded assets at 31 December 2007

# Our funding and liquidity positions are robust and risk much reduced



<sup>1</sup> Short-term Wholesale Funding; comprises the sum of all the Group's outstanding debt securities, subordinated liabilities and wholesale bank deposits with a residual maturity of less than one year, excluding derivative collateral. <sup>2</sup> Worst point taken as at FY08 except Loan : Deposit Ratio (October 2008). <sup>3</sup> 2009 methodology includes all counterparties graded AQ1 - AQ8. 2012 methodology includes AQ9-AQ10 in the population but excludes counterparties in Global Restructuring Group which have an exit strategy, counterparties with known technical and systems issues and undrawn, uncommitted exposures. The 2012 methodology also applies certain product scalars and includes banking book issuer risk.

# Scale and scope of Group has reduced to regain strategic coherence



## Geographic presence rationalised

- Wholesale:
  - Exited 18 countries
  - Target client universe from 26,000 to 5,000
- Retail:
  - Exited 8 countries
  - Now 3 key markets: UK, US and Ireland

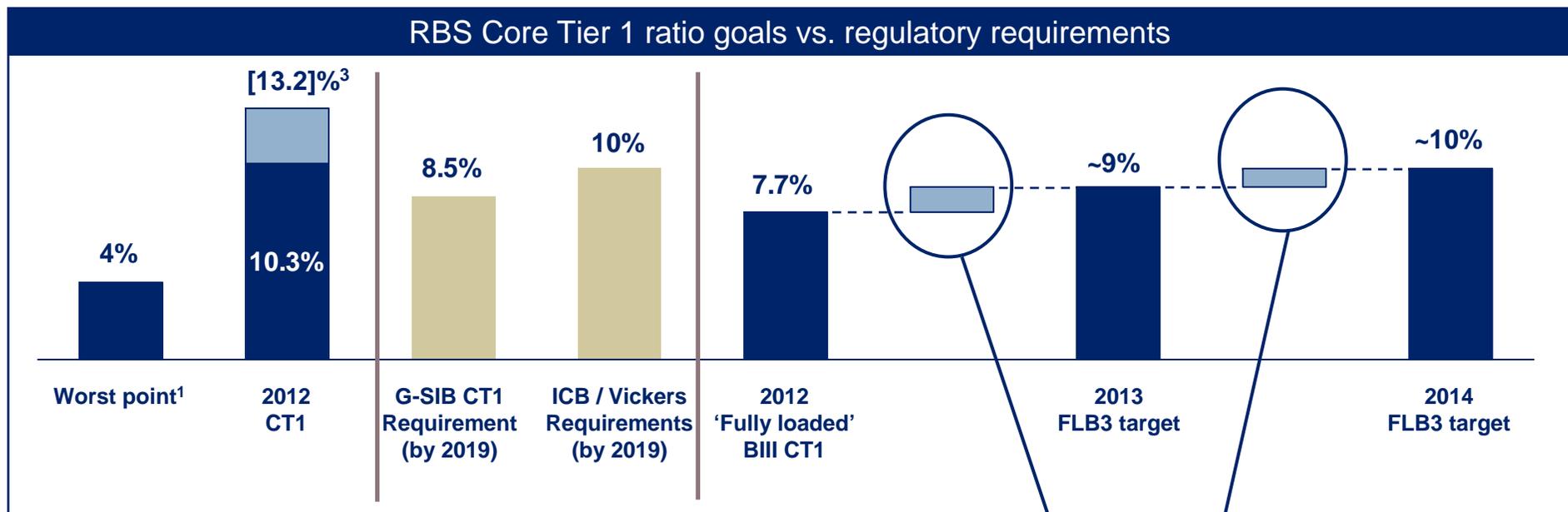
## Products exited

- Project financing
- Asset Management
- Structured Asset Finance
- Non-Conforming ABS
- Equities, ECM, Corporate Broking
- M&A

## Businesses exited

- We have exited or will exit:
- Commodities business – Sempra
  - World Pay
  - DLG (sold to below 50%)
  - Asian, EME and LatAm Retail
  - Aviation Capital
  - Wealth in Africa, LatAm & Carribean

# We are working to fulfil Basel and ICB capital requirements c.5 years early



- We expect to be above the G-SIB 2019 requirement by end 2013
- We are on a clear path towards an even stronger >10% CT1<sup>2</sup> ratio as we return to profitability

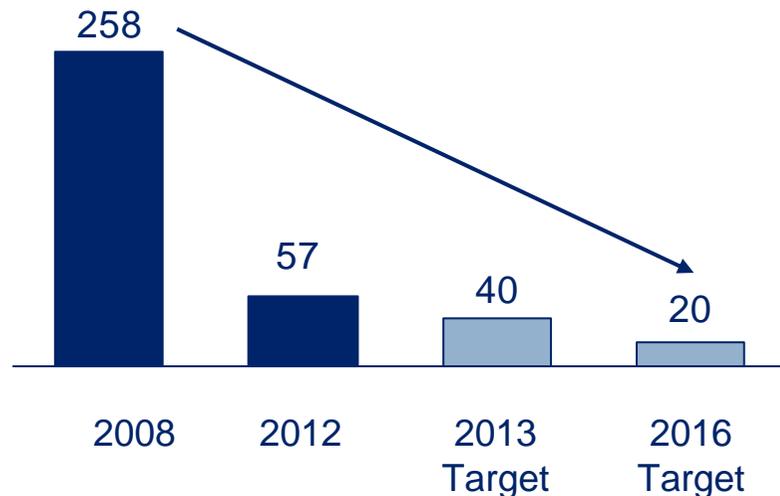
- Key contributors to capital build**
- Markets and Non-Core shrinkage
  - CRDIV mitigation
  - Lower expected loss and DTAs
  - Attributable profit starting to come through

<sup>1</sup> As of 1 January 2008. <sup>2</sup> Fully-loaded Basel III. <sup>3</sup> 10.3% excluding c.290bps of regulatory uplifts impacting reported CT1 ratio over the past few years.

# And to finish the job in Non-Core and see a marked turn in Ireland

## Progress in Non-Core run-down

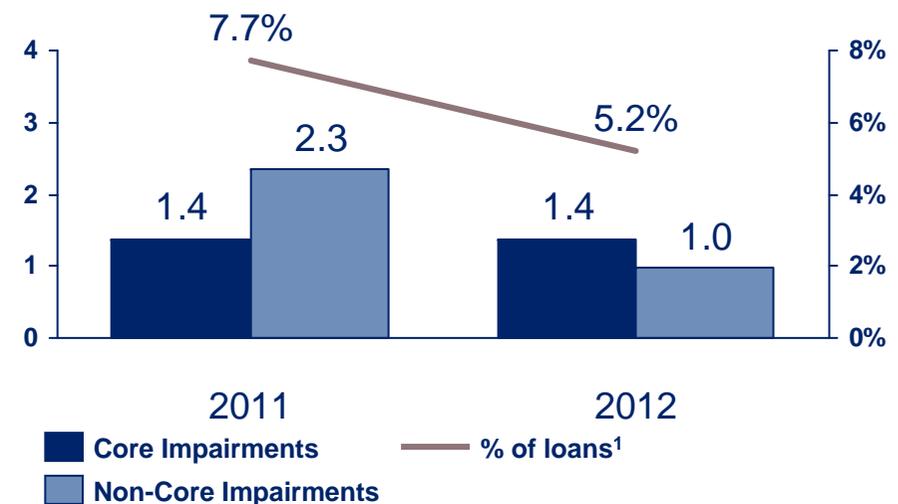
Funded Assets, £bn



- Non-Core assets reduced by over £200bn
- Move toward more passive management from 2014
- Global Restructuring Group (GRG) will continue to actively manage down stressed assets. Focus on optimising recovery rates and releasing capital
- 50% expected to run-off by end 2016
- Balance is long maturity assets and GRG workouts

## Ulster Bank: "green shoots"?

Impairments, £bn



- Recovery supported by the stabilising Irish economy
- Current Account positive
- GDP growth of 1.3% forecasted in 2013
- Unemployment stabilising
- Property prices stabilising
- Government finances recovering – successful re-entry to the bond markets

<sup>1</sup> Total Core and Non-Core Ulster impairments as a % gross loans and advances.

# Work continues on putting past conduct issues behind us

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Issue	Status
LIBOR	<ul style="list-style-type: none"><li>■ Resolution with FSA and US regulators agreed. Others to come</li><li>■ Those responsible held to account</li><li>■ New and enhanced controls now in place</li></ul>
SME swaps	<ul style="list-style-type: none"><li>■ Provision taken. Claims processing during 2013</li></ul>
PPI	<ul style="list-style-type: none"><li>■ Continue to provide to best estimates, closely monitoring claims</li></ul>
Other	<ul style="list-style-type: none"><li>■ Includes US sanctions, litigation and other regulatory risks - status ongoing and being monitored</li></ul>

- Increasing clarity on resolution of largest legacy issues
- Continue to work towards constructive outcomes with authorities
- But still quite uncertain environment

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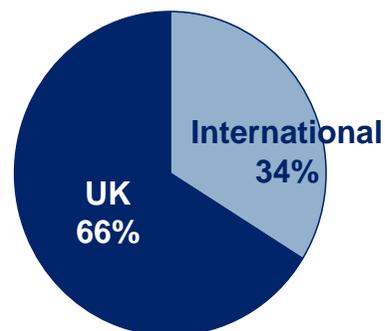
# RBS Core business – where do we stand now

## RBS Core financial performance

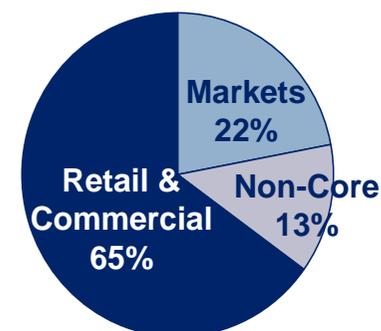
- £7.4bn operating profit in 2012 (£6.3bn incl. Ulster)
- 13% Return on Equity (10% incl. Ulster)
- Group loan:deposit ratio at 'gold standard' target of 100%
- Cost: income ratio of 59% with costs down 4% YoY
- All despite a flat operating environment

## Business Mix

### Geography



### Business Lines



## Leading market positions and strong connectivity between Core businesses

- Top 5 in over 90%<sup>1</sup> of our key product markets
- Strong connectivity

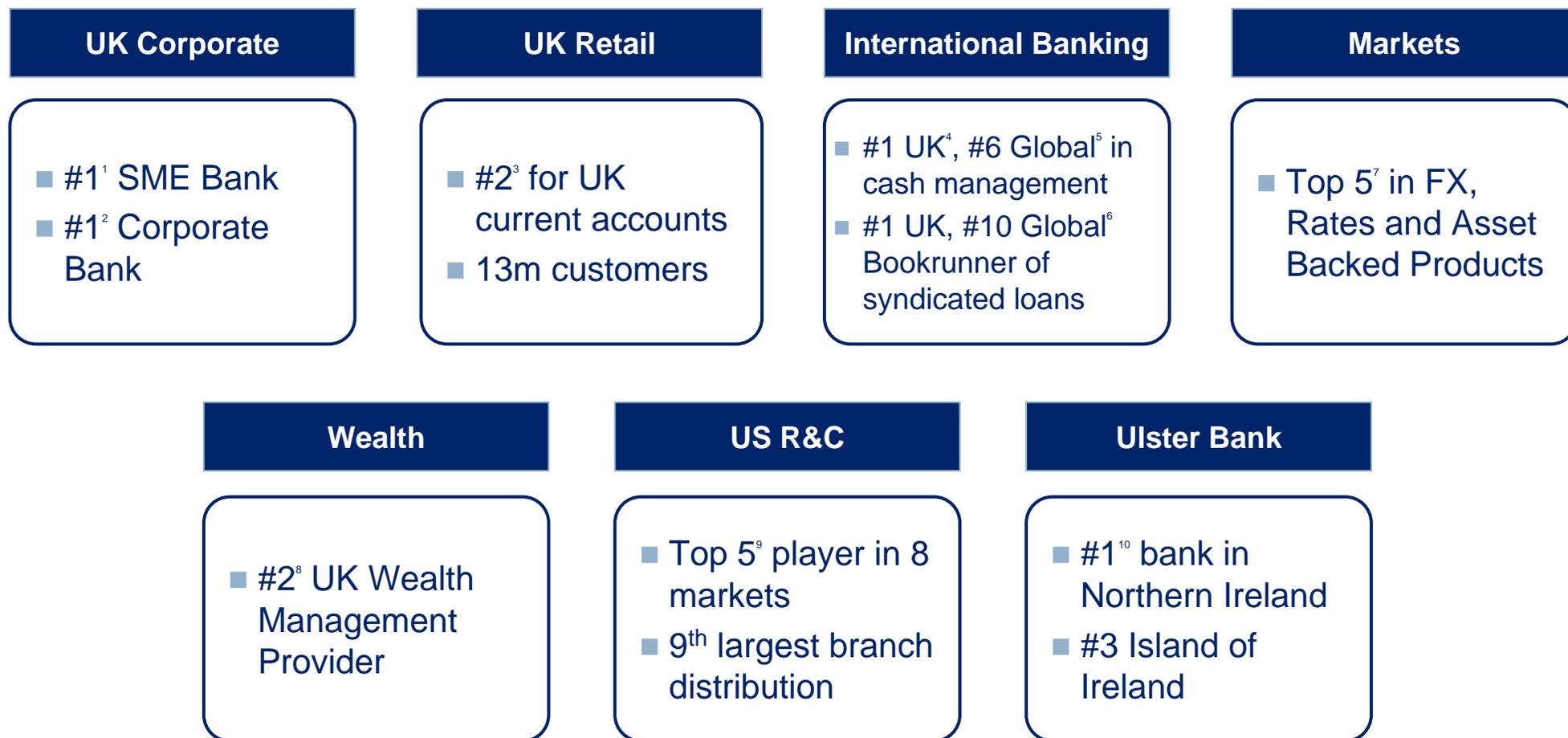
### Connectivity example – Impact of Markets on divisional RoE (%)



- Shared infrastructure, IT, operations
- Business Services and Group Centre (costs c.£5bn)
- Shared revenues of c.£2bn
- Sharing of best practice, product platforms
- Strong customer referral network

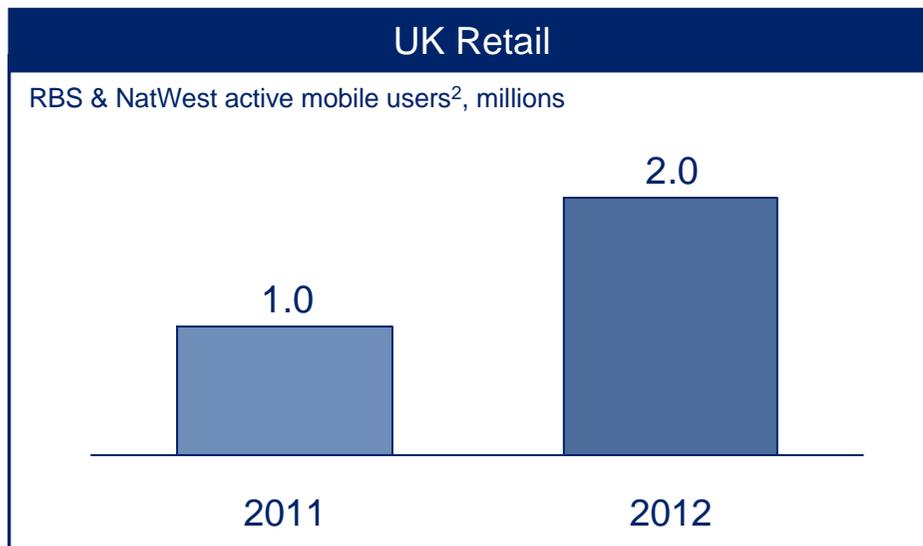
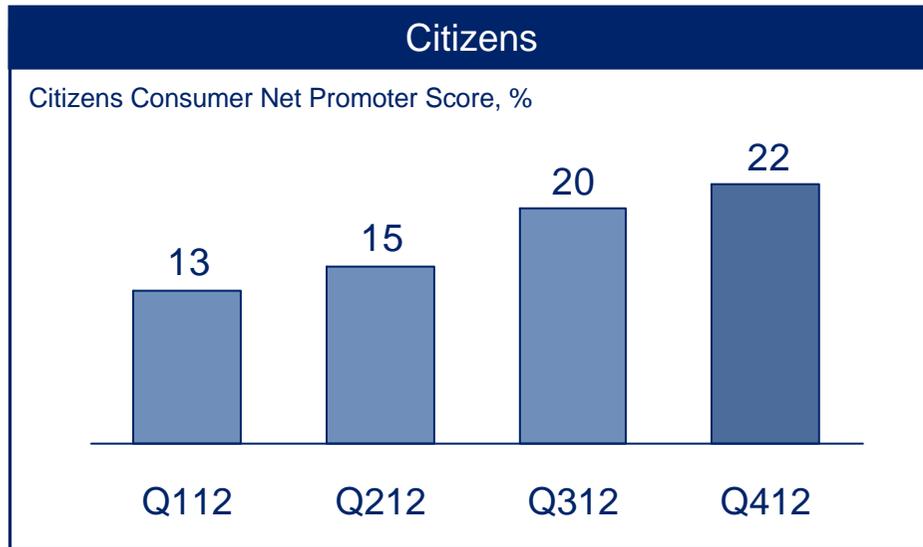
<sup>1</sup> Top 5 across all products in UK Retail, UK Corporate and Ulster. Top 5 in UK operations within Wealth and International Banking. Citizens top 5 in 8 out of 10 major operating operating markets. Markets top 5 in 3 out of 5 core products (based on data provided by Coalition using the following peer set - JPM, BOA, GS, Barclays, Citi, CS, DB, MS, UBS and RBS)

# To get here we have sustained Core customer market positions



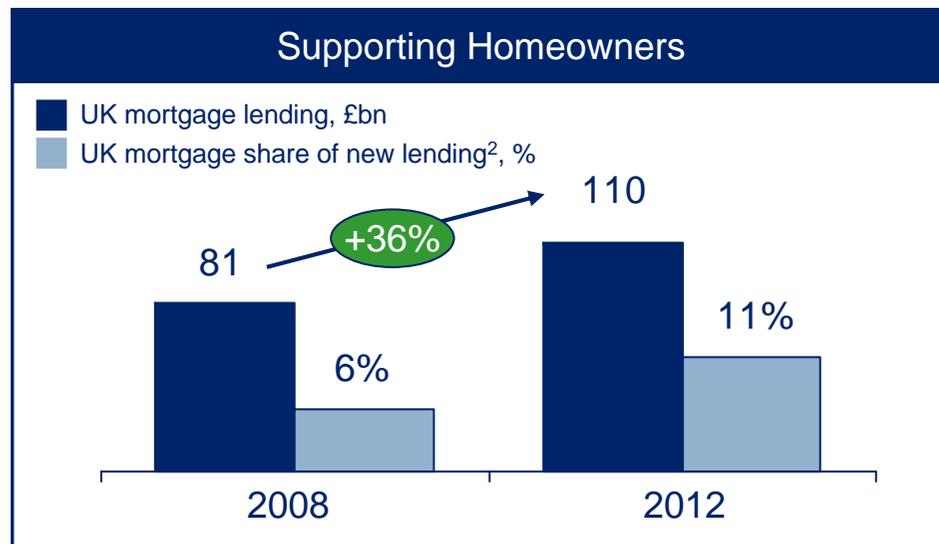
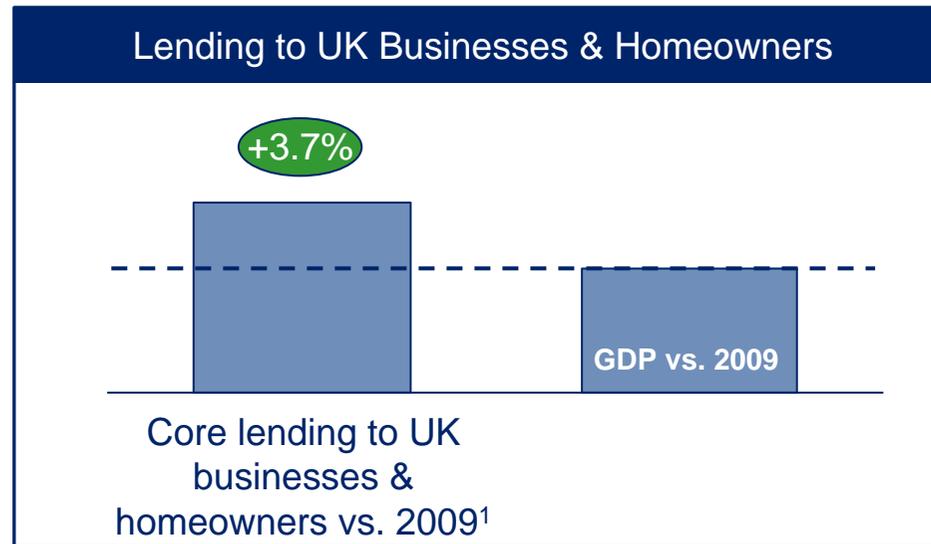
<sup>1</sup> RBSG 26% main bank market share. Chaterhouse Business Banking Survey Q2 2012. <sup>2</sup> pH Group (Experian). <sup>3</sup> GfK NOP Financial Research Survey (FRS) 6 months ending June 2012, market share of all current accounts, UK Retail includes RBS, NatWest and Coutts. <sup>4</sup> Ranked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

# Focused on serving customers well but can do much better



<sup>1</sup> Latest result = Q312, Prior Year Q311. <sup>2</sup> Represents customers actively using mobile services for transactions or alerts. <sup>3</sup> Cash Management Survey Greenwich data.

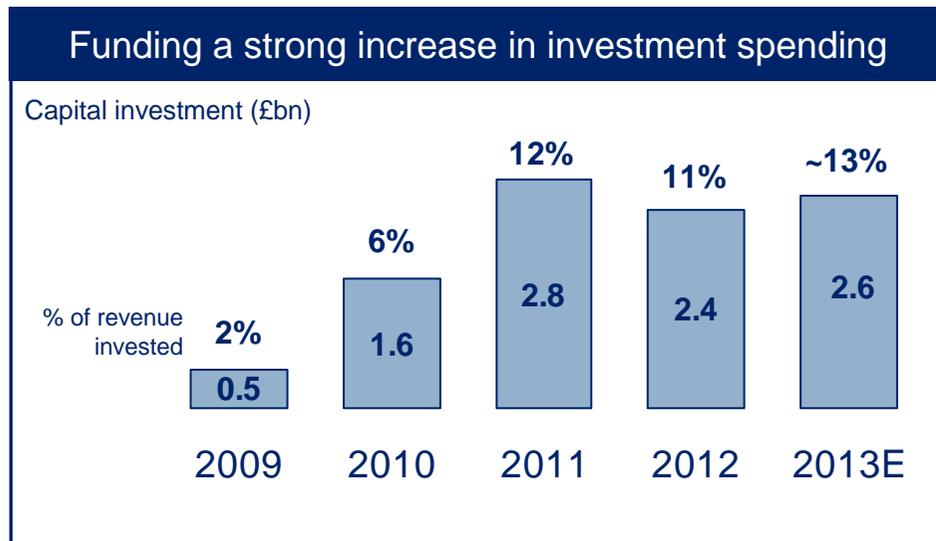
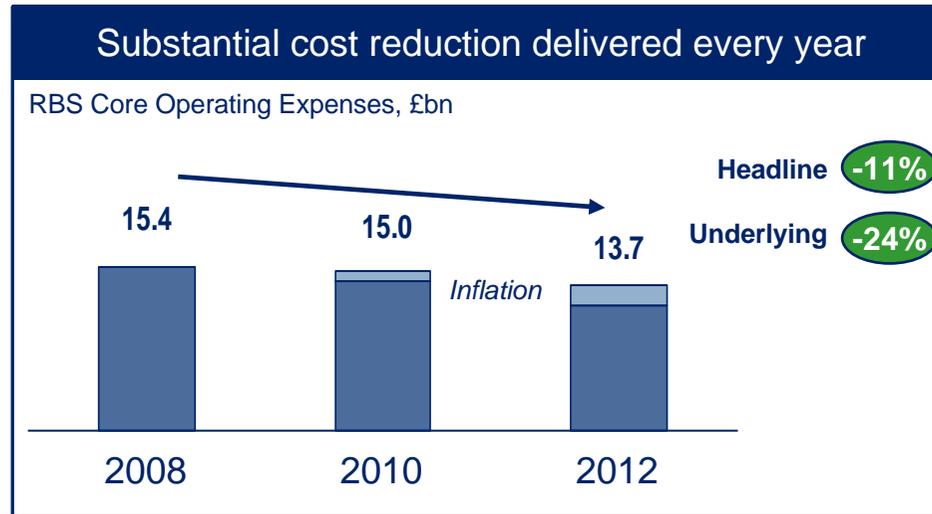
# Sustained strong financial support to customers



- Supporting Businesses
- Offered more than £58 billion of loans and facilities to UK businesses in 2012, of which more than £30 billion was to SMEs
  - Accounted for 35% of all SME lending, compared with 24% relationship share
  - Over 90% acceptance rate on all SME applications
  - Accounted for only 6% of industry credit decision appeals and only 20% of these were overturned versus the 40% industry average

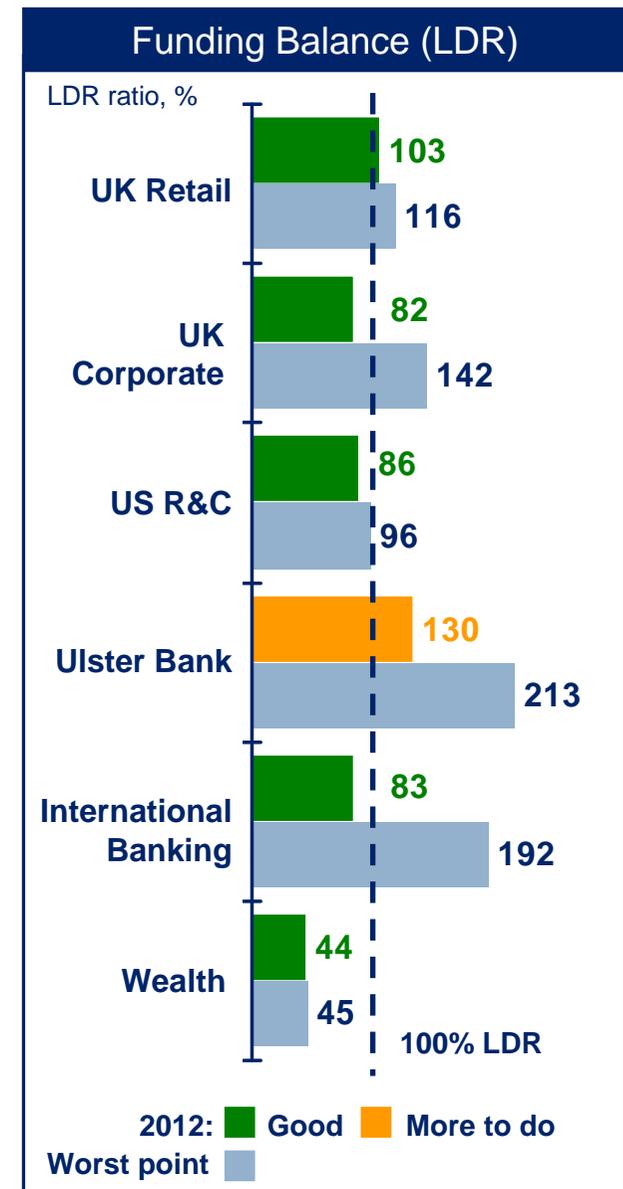
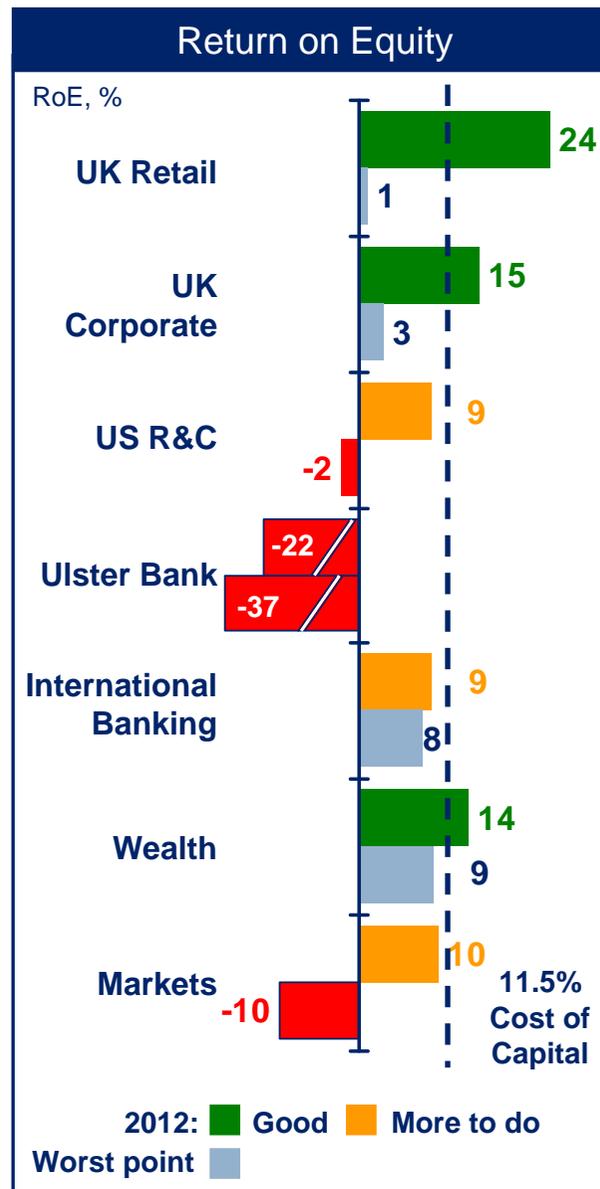
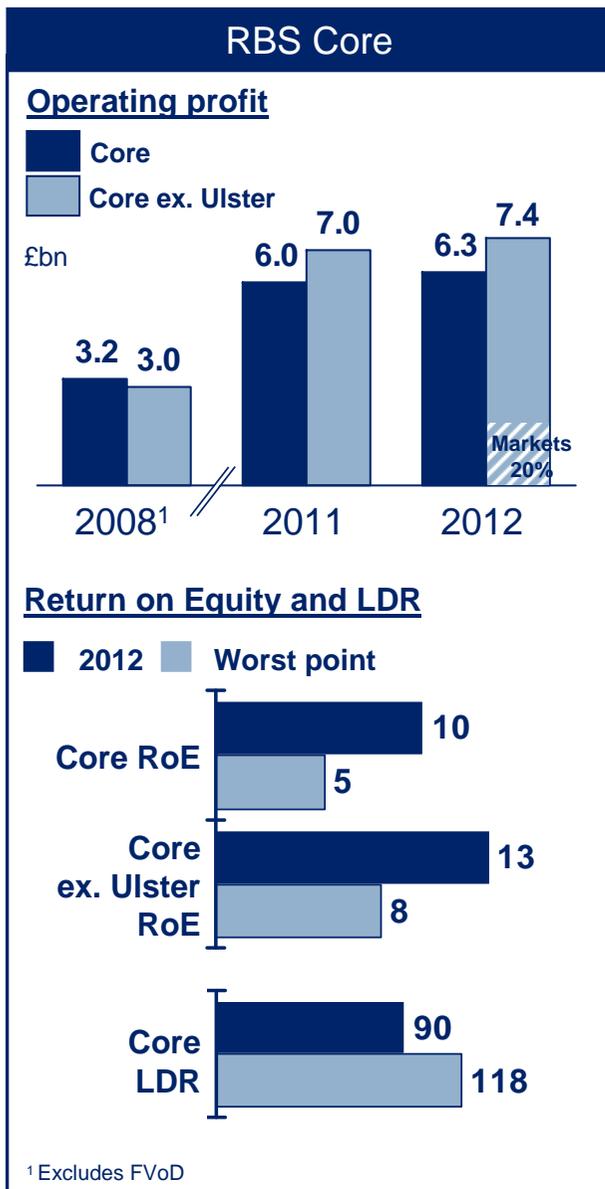
<sup>1</sup> Excludes Commercial Real Estate. <sup>2</sup> Source: Source: GfK FRS: Base: All mortgages opened in the last 12 months: Time period: 6 months ending December 2008, 2012.

# Whilst retooling the business



<sup>1</sup> RBS Executive population (currently 286).

# And this has allowed us to generate good Core earnings and improve RoE and LDR



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# We have hit most key milestones

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	Milestones	Outcome
1	Preference share coupons	Discretionary coupons paid in 2012
2	APS	Scheme exited in October 2012 with no claim
3	Repaying government funding & liquidity support	CGS and SLS schemes fully repaid in 2012
4	EC mandated sales	World pay - Completed Sempra - Completed DLG - Successfully sold below 50% Branch sale - process re-launched
5	EC mandated behaviours	In compliance with all balance sheet & business activity requirements

# Path to 2015

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	Milestones	Outcome
1	Capital Ratios	Fulfil Basel (8.5%) and ICB (10%) requirements
2	Non-Core	Achieve £40bn TPA target by end 2013
3	Markets	Further reduce RWAs to £80bn by end-2014, versus previous target of £100-110bn
4	Dividend Block	Aspire to repurchase Dividend Access Share and establish dividend policy
5	Privatisation	Aspire to make government share sale possible

# Challenges

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- Finish the job on restructuring
- Conduct regulation – reach a better place
- Achieve “public policy” requirements whilst sustaining customer and shareholder appeal
- Sustain energy, focus, commitment and pace of change from our people
- Growth hard to find until Customers growing too

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# Whatever else RBS does, we are striving to this end

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Our purpose	To <b>serve our customers well</b>
Our vision	To be <b>trusted, respected</b> and <b>valued</b> by our customers, shareholders and communities
Our values	Serving Customers Working together Doing the right thing Thinking long-term

This is not the position we started from in 2009

We have a clear ambition to serve customers well and **build a really good bank.**

# And this is what we aim to look like



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- A leading UK bank anchored in Retail & Commercial business lines
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