Bruce Van Saun Goldman Sachs presentation – 13 June 2013

Slide 1: Title Slide

Good morning, it is a pleasure to be here with you today.

Slide 2: Important information slide

First let me flash our cautionary language which you should read at your convenience.

Slide 3: Agenda - Slide

Today, I will open up by recapping our vision and strategy, before giving a progress report on our restructuring plan as we near its end.

I will update you on our stable performance in Core, with upside to an improving environment.

I'll then conclude with our equity story and the milestones we need to achieve.

Slide 4: We are striving to this end…

As we near the completion of the restructuring phase and become a "normal" bank – our ambition is to progress from there and build a really good bank.

This all starts with serving our customers well … understanding their needs and ambitions and consistently delivering high quality service and solutions.

If we are able to do this we will achieve our vision of being trusted, respected and valued by our customers and other stakeholders.

Our Group values, summarized here, will help us deliver the best of RBS and achieve our ambition.

Slide 5: "Really Good" Bank viewed through various stakeholder lenses

Moving from "Normal" bank to "Really Good" bank represents an exciting new phase for RBS that will re-energize and galvanise our staff.

We are working on building out the specs for "Really Good".

To get there, we clearly need to deliver a better bank as seen through various stakeholder lenses.

These include customers, investors, employees, regulators and community & society.

While we have made progress to date … the bar is higher, and we have more to do.

Slide 6 : End state destination increasingly clear…

Our vision for where we want to be positioned is increasingly clear.

We will have enduring customer franchises as a leading UK bank anchored in Retail & Commercial businesses, along with a strong international offering of top tier capabilities.

Our businesses will have a sustained focus on what we do well and will derive sustainable profits by serving our customers well. Our risk management and balance sheet structure will meet the highest international standards.

We will emerge as a valuable, standalone, private sector bank that will deliver sustainable and attractive shareholder returns.

This will provide the government with a path for selling down its shares.

Slide 7: Agenda slide – Restructuring nearing the finishing line

Let's shift gears to cover off what's been done on the restructuring story and what's left.

Slide 8: A quick reminder – Implementing our strategy

To give you a quick reminder of our strategy, we separated the Group into Core and Non-Core segments, with our Core franchise focused on value creation and Non-Core focused on risk reduction.

Importantly we have had several initiatives around culture and risk which extend across the whole Group.

Slide 9: Huge progress in safety & soundness agenda

We have made excellent progress on our safety & soundness agenda. We have already met our balance sheet targets ahead of the 2013 year end target. Our Group funded assets have fallen 44% to £880 billion in the last four years.

Our Group loan:deposit ratio has fallen to 99%, with Core at 90%.

Our short-term funding requirement has been reduced by over £250 billion pounds, and our liquidity portfolio covers short-term borrowings by 3.5 times, and more than covers total wholesale funding.

We've brought our leverage ratio down by almost half over the last 4 years… now comfortably below our medium-term goal of 18x.

And our Core Tier 1 capital ratio remains strong and building.

Slide 10: Funding and liquidity position robust, risk much reduced

Digging a little deeper, we've significantly increased the liquidity portfolio to £160 billion, providing ample liquidity to fund future loan growth without additional borrowing.

Our short-term funding has been substantially reduced and now represents only 5% of our funded balanced sheet, down from 24% at the worst point.

Beyond these improvements to funding & liquidity we've also made significant strides in reducing risk in our asset books.

One example is lowering concentrations in Corporate loans. Single name credit concentrations are now down 73% from the worst point.

Another key area is commercial real estate, where we've brought down exposure by 45% since 2008 to £60 billion today, positioning us well to achieve our £50 billion medium-term target.

Slide 11: Aim to fulfil Basel and ICB capital requirement c.5 years early

We were pleased to announce agreement on our capital plan with the PRA.

Our focus remains on achieving a FLB3 CT1 ratio of around 9% by the end of 2013 and 10% at the end of '14.

The major driver of this build in 2013 will be the final leg of the bank's balance sheet restructuring, while 2014 will be supported by greater earnings.

We aim to have our capital position above our 2018 GSIB requirement this year and to meet the proposed ICB requirement next year, both around 5 years ahead of the deadlines.

Slide 12 : Non-Core will move to more passive management after 2013

We continue to maintain good progress in the run-down of Non-Core.

In the first quarter funded assets were down to £53 billion, which is 80% from our starting point. We remain comfortable with our full year 2013 target of £40 billion.

Looking beyond 2013 – we expect the Non-Core rump to consist largely of longer-term Corporate assets and CRE exposures.

Our approach from 2014 onward will be to move to a more passive management of these assets while still providing good disclosure to the market.

Core divisions will manage their geographic legacy assets – while our experts in Global Restructuring Group will continue to actively manage down problem assets.

The rump will include good quality credit assets of around £20 billion that run-off by 2016. The balance will be made up of stressed assets and long maturity, lower yielding assets.

Slide 13: Agenda – Core businesses – retooling well underway, performance stable

Slide 14: RBS business – where down stand now

We have restructured the Group to fashion our **Retail & Commercial** businesses as the major driver of our earnings.

We have exited products lines, geographies and whole business lines to achieve this. Our target is broadly a 80/20 R&C vs. Market split of operating profit.

We believe this will result in a more stable and sustainable business performance, which will be more highly valued by investors and ratings agencies over time.

We also feel that our balance of UK/Non UK revenue sources is about right, offering good diversification to a strong local market position.

Slide 15: We have sustained Core customer market positions

Our Core businesses are built on strong customer franchises.
This is the key to our stable performance through turbulent times, and to our optimism for the future.

This slide shows attractive market shares in each of our Core activities.

- Our UK Retail & Commercial businesses remain the cornerstone of the Group.
- Wealth is working on leveraging its strong market position to capture a bigger share of client assets.
- International Banking's customer franchises are market leading in the UK and top tier in Europe.
- And Markets is well placed in its core products to serve our Corporate franchise.

And while we've retained solid market shares, we feel we can capture even more revenue as we bring up our service levels and capabilities.

Slide 16: Our record on UK lending is strong

One question that comes up often with UK Banks, and RBS in particular, is whether we are willing and capable of lending.

The answer is "yes". We have liquidity and capital to lend, and are trying to do our best in support of the UK economy.

For example, looking at mortgage loans, we have grown our book by 33%, to £100bn, since 2008 versus market growth of 3%. Our market share of new mortgage lending is 11% versus a stock number of 8%.

In our Corporate book we have seen sizable de-leveraging over the past couple of years but have recently seen our core SME balances starting to grow.

In Q1'13 we accounted for 35% of the SME lending market versus a natural market share of 24%.

Slide 17: Focused on serving customers we, can do much better

We continue to track key metrics on how we are doing in serving our customers.

You can see some good traction on this slide across our UK Retail & Commercial, Citizens and International Banking franchises.

However, there remains a lot more to do to differentiate ourselves as a really good bank.

Slide 18: Underlying Core earnings power has been rebuilt

Throughout the restructuring phase of our plan we have focused on progressing the earnings power of our core businesses.

The environment has been a challenge, leading us to feel like we are “running hard to stand still”.

Nonetheless, Core profit has doubled since 2008 despite headwinds from Ulster and the realignment of some businesses.

We are hopeful that the Ulster losses are on their way down.

This is important, as getting back to break-even will help offset dilution from divestitures and the Markets re-shaping.

Clearly any strengthening of economic growth in our Core geographies will drive growth in profits given the positioning of our business mix.

Slide 19: Consistently reduced costs, with plans to go further

One of the keys to our performance has been strong expense control. In the last five years the Group’s expenses have been managed down by 18%.

In fact, Group expenses are down in absolute terms every year of the Strategic Plan. In 2012 costs were down 6% year over year.

We believe, there are further meaningful savings that we can realise without impacting the service we provide to our customers.

We are actively scoping these further cost savings opportunities and will report more at the H1 results.

For 2013 we are aiming for a Group cost base of £13.2 billion with further significant cost reduction in 2014 and 2015.

Slide 20: Below the line items drag at highwater mark in 2012

Next, let’s take a look at the so-called “below the line items”.

2012 saw a total charge of £8.8 billion pounds and a high water mark, we believe, for these items.

Leading the way in 2012 was the £4.6bn charge for Own Credit Adjustment. Worth remembering is that this charge indicates the debt markets’ recognition of our balance sheet progress.

Note that at the end of Q1 the net OCA left on the balance sheet is a small debit of £309 million.

In 2012 large charges were taken for conduct related redress and regulatory fines.

During 2012 we raised a PPI provision of £1.1 billion and on swap redress, we took a provision of £700 million and paid a Libor fine of around £400 million.

In Q1’13 conduct provisions were negligible. We expect future provisions of this nature to be substantially lower in 2013.

The other item which has consistently been significant is restructuring costs, which will remain elevated in 2013 and 2014 as the restructuring of the Group is completed.

We expect this will decline meaningfully in 2015.

Slide 21: Markets – We’ve set out a clear strategy and delivered

It is worth a deeper look at the progress we have so made far with our Markets business.

The business is in the process of being re-sized and re-shaped towards a leaner business that will support our position as a leading corporate bank.

This includes . . . assets down by 67% since 2008, RWAs down 68% over the same period despite significant regulatory uplifts.

Expenses are down 33% from 2008 – with 9,000 fewer heads in the business.

Throughout this restructuring process Markets has continued to deliver acceptable returns.

In 2012 Markets generated a standalone ROE of 10%, or a “connectivity” ROE of 13%.

Slide 22: Markets – An appropriate future size and shape

We announced in February our aim to complete the re-sizing of our Markets business to an RWA base of £80bn.

We are close to finalising the details of this plan, and I will flesh out here some of the key elements.

We will maintain a focus on our market leading fixed income products where we are highly competitive.

FX, Rates, DCM/Credit and Asset backed products will be our key offerings.

We will streamline our footprint to be hubbed in four major centres, while maintaining capabilities elsewhere that align with the International Bank's needs.

We target an ROE of more than 10% on £80bn of FLB3 RWAs, with connected revenues to the Group boosting that to nearer 14%.

This return target implies a billion of pretax, and £800m of bottom line profit. To deliver this the future P&L shape will settle in with low three billion of revenues and the low two billion of costs.

The key to deliver this will be to meaningfully reduce the costs in the business by 25-33%.

We set a two year timeline to achieve this new financial profile. In the short-term the cost decline will lag the retrenchment in revenues, adversely impacting return somewhat.

Finally, we anticipate that over 2013-14 the restructuring charges for this effort should be approximately £800m.

Slide 23: Next phase of delivery at Citizens

It's also worth a quick update on Citizens. While Citizens is an attractive franchise with good long-term potential, the challenge has been to generate better returns.

This has been hampered somewhat by the sluggish US economy and low rate environment.

That said, we have made steady improvement in profitability, with returns getting closer to our cost of equity.

However, there is more work to do to bring our performance in line with peers. We've listed some of the causes of the gap and some of our plans to deliver improvement on the right side of this slide.

We are working through this and expect to see progress in 2014 and 2015, paving the way for a partial IPO in late 2014 or early 2015.

Slide 24: Ulster Bank – cautiously optimistic as trends improve

Ulster is also worth an update.

The underlying macro trends in Ireland are continuing to show signs of improvement. We note that Ulster Core and Non-Core impairments moved down in Q1.

Looking at the top right of the slide, the combined stock of Ulster Bank REiLs, or NPLs, also declined in Q1 in constant currency terms.

Against this we maintain NPL provisioning levels towards the top end of our in-market Irish peer Group.

The bottom left quadrant here shows that mortgage delinquency trends have shown improvement in Q1'13.

We are now becoming more optimistic on the outlook for Ireland and see a more sustainable path to improvement.

Slide 25: Agenda – The RBS equity story & milestones

Slide 26: We have hit most key milestones

Up to this point in the plan we have achieved almost all of our key milestones.

These include reducing government support for the Group, such as funding and liquidity support as well as the APS.

We have turned back on our preference share coupons and have complied with all the EC mandated behaviours.

We have completed 2 out of the 4 EC mandated sales, and feel confident of completing the Direct Line sell down by end of '14.

On the branch divestiture we are now targeting an IPO of the business in 2015 as our baseline, with several alternative approaches under consideration.

Slide 27: Path to 2015

There are several remaining milestones on the path ahead to 2015.

Foremost in 2013 and 2014 we must meet our FLB3 CT1 targets of roughly 9% and 10%, respectively.

At the same time we focus on completing the active run-down of Non-Core, while reducing the capital intensity of our Markets business.

We aspire to repurchase the DAS, simplify the government B shareholding structure, and establish our dividend policy.

Achievement of these tangible deliverables will facilitate the government's ability to sell down its shareholding.

Slide 28: Agenda – Recap

So let me end with this recap

Slide 29: Restructuring well-advanced… path ahead clear

What I've covered off today was a look back at what has been accomplished … what remains of the restructuring work … and where we want to take the Group prospectively.

Clearly much has been done … lots more to do … but we have good visibility of the path ahead.

With that let me take a few questions …

Slide 30: Questions