Royal Bank of Scotland Group PLC - Annual General Meeting/General Meeting

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The Royal Bank of Scotland Group plc

Annual General Meeting/General Meeting

3 April 2009

The Royal Bank of Scotland Group plc will hold its Annual General Meeting at 1.00 pm today followed by a General Meeting. The meetings will deal with the proposed resolutions as set out in the Notice of Meetings issued to shareholders on 9 March 2009 and 16 March 2009 respectively. The following is an extract from the speech to be made by Philip Hampton, Chairman, at the meetings.

"I want to begin by offering my own perspective on where the Company is and what we must try to do now. The past is done, we cannot change it. We must recognise what has happened and why, identify lessons and learn them. But most of all, right now, we must focus on our potential and deliver it. RBS has excellent businesses at our core which can be the foundation of future success.

Since I and, in particular Stephen Hester, joined the Board I don't think we would describe any of our experiences as a 'honeymoon period'. But we have joined recently enough, I hope, to remain objective about the past while focussed firmly - as we must be - on the future.

2008 was almost certainly the most difficult year in the Group's long history. Our financial results were very poor, with a post tax loss of £7.9bn on a pro forma basis. On top of that, we also wrote off £16.2bn of goodwill relating to previous acquisitions, most notably ABN AMRO. Stephen Hester will review our performance shortly along with an outline of the Placing and Open Offer we will vote on at the General Meeting, the initial results of the Strategic Review he is leading and the implications of the UK Government's Asset Protection Scheme.

I know you will understand that, in the light of our 2008 results and our capital position, it would not be appropriate to pay any dividend on the ordinary shares. However, I would like to assure you that the Board is very aware of how important dividends are for our shareholders. It is our intention to return to paying dividends as soon as practicable, taking account of the Group's financial position and prospects and all other relevant constraints.

My predecessor, Sir Tom McKillop, spoke at the General Meeting in November and apologised to you very sincerely on behalf of the Board for the situation the Company was in. He was the first bank leader to do so and although many banks have performed badly, it is important that RBS as an institution accepts full responsibility for our part in the current financial crisis. We do.

Accountability has been allocated and accepted and there is a new leadership for this Group. We have a clear and agreed roadmap to return the Company to standalone strength in the next three to five years.

I know that many shareholders are quite shocked at the performance of the business and in many cases the losses have had a marked impact on people's lives.

Many of our employees are shareholders, and our people are, of course, the heart of our Group. They share the financial pain while also having to face a difficult period in their working lives. Like too many people right now, they are worried for their jobs and have seen the reputation of their industry and profession attacked.

The majority of RBS staff in the UK earn less than 21 thousand pounds a year. They are not fat-cats or City Slickers, they work in branches, call-centres and offices in every community in the country serving our customers to a standard of service that is amongst the best in the industry.

They deserve better from their top management, and they do not deserve to share the worst of the criticisms being laid at the door of their employer and their industry.

Only a tiny minority of staff in RBS were in any way responsible for the major credit market losses we suffered in 2008. It is remarkable that there were only a few hundred people responsible in the relevant segments of our businesses chiefly in the financial centres of London, Amsterdam and New York, most of whom have now left the Group. And this is out of a global population of around 180,000 employees.

The following observation should also be striking for those who are as yet unaware of it:

Given the complexity of the Group and the progress of integrating the ABN AMRO businesses, it is impossible to unpick the ABN AMRO and RBS results with complete accuracy. However, that said, our estimation is that even after including the impact of credit market write-downs and other asset impairments, RBS excluding our share of ABN AMRO would have made an operating profit before tax and goodwill impairment in 2008.

In other words I don't think there can be any doubt that the key decision that led RBS to its difficulties was the acquisition of ABN AMRO. That is the painful reality that we can now do nothing to change. With the benefit of hindsight it can now be seen as the wrong price, the wrong way to pay, at the wrong time and the wrong deal.

It also highlights, however, that there is enduring quality, strength and potential within the core businesses of RBS. And while the deal was clearly bad for RBS there are a number of attractive assets and businesses in ABN AMRO which are being integrated into the Group. It is important we do not allow any of this to be obscured.

We are, however, in a privileged position being able to restructure the Company with the support of the UK taxpayer behind us. We only enjoy that support because of our central role in the UK economy and society, serving our 25 million customers the length and breadth of the country. With that privilege and support comes our responsibility to repay the support of the taxpayer and in doing so, return the Group to full private ownership.

We need to concentrate on those core businesses, both in the UK and internationally, where we have the potential to make sustainable returns for all our shareholders. We can generate returns from strong customer businesses as an internationally important bank. That is critical to all our shareholders and is the focus of the Strategic Review which Stephen will summarise shortly.

The advantage we have is that the Strategic Review does not have to invent good businesses but we do have to allow them to re-emerge and assert themselves:

- We have over 15 million UK retail customers and are the number 1 bank for small business and corporates.
- In GBM we are top six in the world for Foreign Exchange, top ten for International Bonds.
- We are a top five global transactions services provider
- Ulster and Citizens are top three and top 10 in Ireland and the US respectively.
- We are number one in the UK for Private Banking and are well positioned in wealth management in international markets.
- Our general insurance businesses just had a record year and retain some of the strongest brands in their market.

We need to have a complete focus on executing a careful, sensible plan to allow these core businesses to get us back on track to full standalone strength in public markets. That is the imperative that now over-rides all others.

Most of the key aspects of our strategy are, rightly, sharply defined. The major decisions have already been taken and we must execute them purposefully.

But of course the way we do business, as well as the business we do, is vital. Our reform of pay and bonuses policy is a substantial example of this.

It was as clear to the Board, as it was to everyone else, that a fundamental reform was needed to reflect the reality of the situation the industry is in.

Reforms have been made and more will follow as we undertake a comprehensive review of all remuneration policies in 2009. The new approach we announced in February and which has been outlined in the Remuneration Report, will I think be seen by most reasonable observers to have balanced the difficult conflicting issues we face.

We need to retain, motivate and attract talented people to restore the fortunes of the Company. We will try to do that whilst being amongst those banks leading the industry in changing the way we operate.

Reward will be longer term and more directly aligned to shareholder interest rather than short-term return. In addition our new Chief Executive has, at his own insistence, a clause in his contract ensuring that he will receive no reward if he leaves the company for reasons of his own failure.

I do understand that many shareholders will wish to vote against or abstain on the advisory vote on the Remuneration Report to register their strong disapproval of the pension arrangements of our former Chief Executive.

I think there is little more that can be said here that isn't already in the public domain. Clearly, this is an issue of significant political and public concern and we all fully understand that.

Legal advice is being taken about whether the decision that was reached can be revisited. Whatever the outcome of that advice, it is in no-one's interest, least of all RBS Group's, for this issue to go on and on. The current Board are doing all that we can to bring this subject to a conclusion.

We must make other changes. In particular our risk processes and aspects of our management culture must change and will.

Key lessons have been identified and will be learned. Stephen will talk more about this shortly.

And in a more symbolic way some of the practices that were accepted at the height of a boom when the Bank was recording £10bn profits, cannot be acceptable now if indeed they ever really were.

Stories have emerged that are embarrassing for this Company. Some have substance, some have none, but all are distracting us from our core mission and we must put them behind us.

Stephen and his team are moving quickly to do what we can to demonstrate that the Company recognises its position and is changing.

Would we choose Formula 1 sponsorship if we were starting from here? No.

Should we retain a corporate jet? Of course not and Stephen Hester put it up for sale immediately on taking up his post.

When Margo MacDonald MSP wrote asking the Company to handover our sponsored scanner in full to the NHS in Edinburgh, rather than retain part of its use for RBS staff as originally announced, Stephen decided immediately to do so. A small gesture, but an important one nonetheless.

We do accept the rightful scrutiny of shareholders, the media and of politicians held accountable by the voters for the massive taxpayer support for banks in the UK and elsewhere.

However, too much is at stake to allow today's storms to restrain tomorrow's potential. This is a business with a long and successful past and I believe we have the potential for a very successful future.

However, I believe we should bring an end to the public flogging and focus on the good and enduring people and businesses of RBS and allow them to earn our way back to success.

The Chancellor recognised this in his public statements recently and the Business Secretary has made the same point.

We have suffered a major financial hit and continued collateral damage from public criticism will compound the problem not resolve it.

The operating environment is as tough as any of us have ever known and we are asking our staff to knuckle down for a three to five year project. We can only ask you, our shareholders, for the same perseverance. Many difficult decisions lie ahead. Chief among these will be the need to achieve the annual cost reduction targets of £2.5bn that we have set within the next three years. All costs will be scrutinised from our back offices to our highest offices.

Clearly this will mean that some of our people will lose their jobs. As so many of our customers make tough decisions in the face of the worst global recession in decades we have no option but to do the same.

We can't yet know how many will lose their jobs or where. This is for two main reasons.

The first is that every business has been empowered to determine how it will meet its own cost target.

The second is that when any of our businesses have decided how many roles will go they will communicate this first to their staff and their representatives. Where possible they will then offer their employees the chance to be redeployed to a new job elsewhere in the Group or to choose voluntary redundancy. Moreover, a significant portion of staff leave every year by natural turnover as they do in any business. It is therefore only when this process ends that we will know the actual number of redundancies involved. And of course we agree with the Unite union that we will do all we can to keep Compulsory Redundancies to an absolute minimum.

In the UK this year so far we have announced around 2,700 posts will go. We can only be honest and say that this will not be the end of the story and more are expected in the UK and internationally in the period ahead. We will, however, remain one of the largest employers in the country.

I would repeat however that we cannot know the detail of where and how many redundancies there will be until the process is worked through fully.

All of the difficult decisions we take will be underpinned by our imperative to get the Company into a position of strength again so the support of taxpayers and shareholders can be repaid.

The UK Government has made clear that it means to ensure its investment in us is managed at arm's length by UKFI. The intention is to ensure that the taxpayers' long-term interest is held paramount which means the Group will continue to be run on commercial grounds and therefore private and public shareholders' interests will be aligned.

We have nevertheless agreed lending commitments in common with banks elsewhere in the world as a result of the capital support we have received and under the proposed Asset Protection Scheme. The intent is to produce a clear and definable benefit to the UK economy from the risk the UK taxpayer is taking by standing behind us.

It is plainly in our own commercial interests to support our customers on commercial terms. Un-commercial lending is both unsound and a breach of duty and we clearly cannot do it. Where the demand exists and the risks are appropriate we will be able to help fill the gap left in the UK market by the exit of international banks.

The task before us is therefore one that should unite the Company and all of our shareholders; government, institutions and individuals.

We all have a huge challenge here but one I believe we have the capability to meet if we focus on the future and pull together towards our common goals.

The past is done but this company is not. The legacy of the last year will stay with us but now is the time to look forward. We have the foundations in place to rebuild the Group to standalone strength and everyone at RBS is committed now to doing just that."

At the invitation of the Chairman, Stephen Hester, Group Chief Executive, will comment on the 2008 Results, the Strategic Review, the Placing and Open Offer and Preference Share Redemption, and the Asset Protection Scheme.

Copies of the slides used by Stephen Hester in support of his comments will be available on www.rbs.com following the meeting.

ENDS

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In particular, this document includes forward-looking statements relating, but not limited, to 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. Such statements are subject to risks and uncertainties. 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: general economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes; changes in competition and pricing environments; natural and other disasters; the inability to hedge certain risks economically; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; 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 report, 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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