

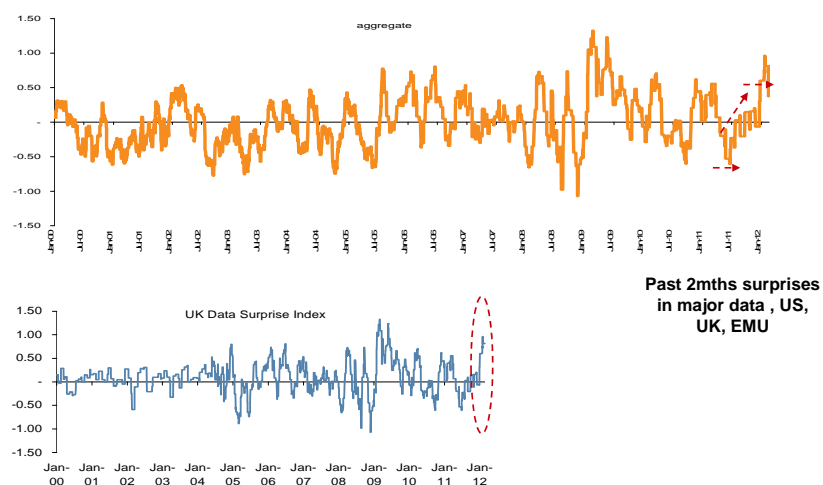
The Actuarial Profession
making financial sense of the future

Highlights of Life Conference 2011
Andrew Roberts, Head of European Rates Strategy, RBS

Interest rate strategy

© 2010 The Actuarial Profession / www.actuaries.org.uk

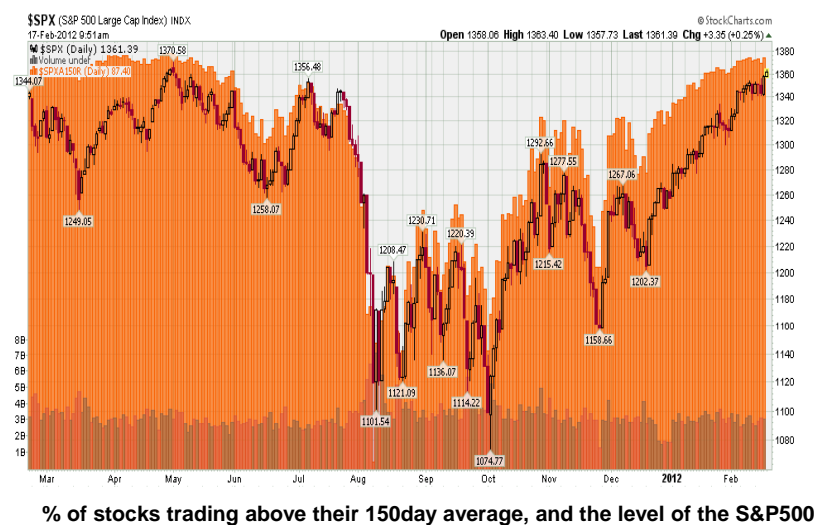
Some good economy news . . . in the price now?



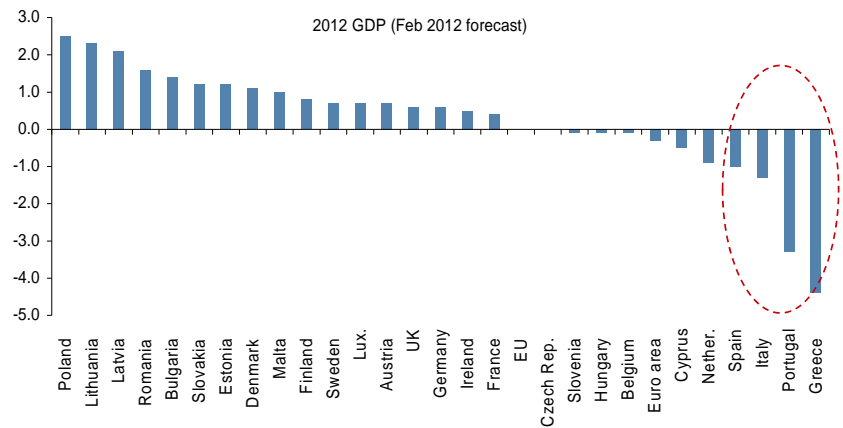
Short-term, the world is going through a liquidity flood. Central bank balance sheets



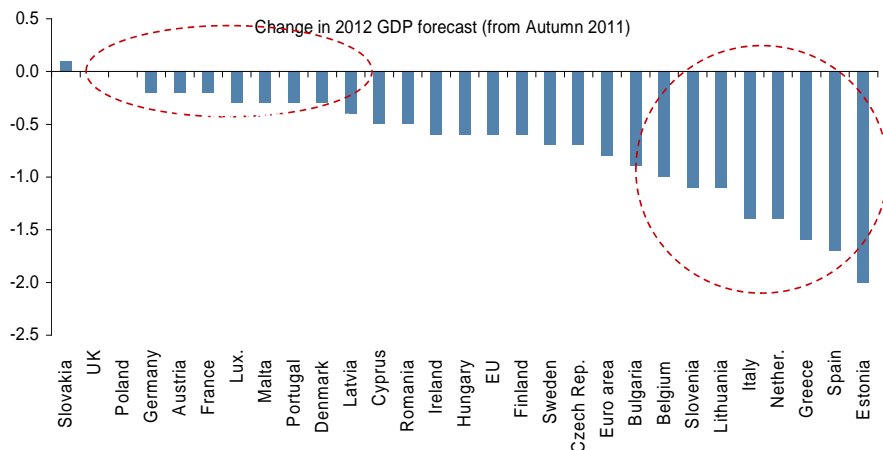
Perhaps we have reached 'enough' already?



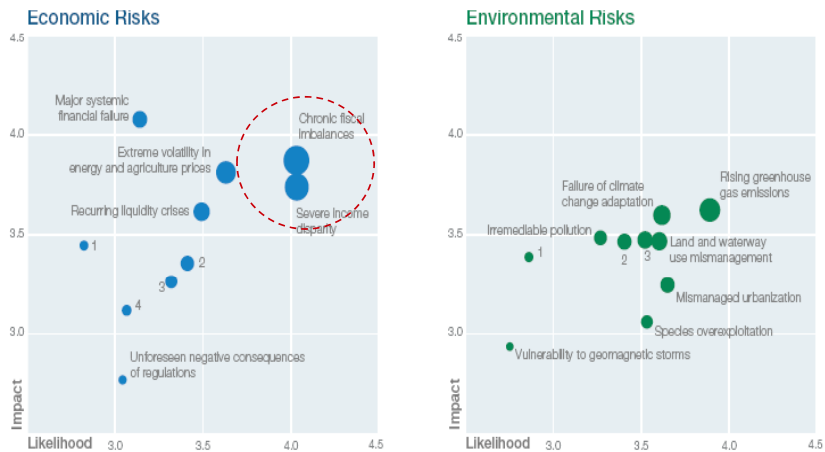
Real GDP: countries in the sweet-spot survive, some look exposed



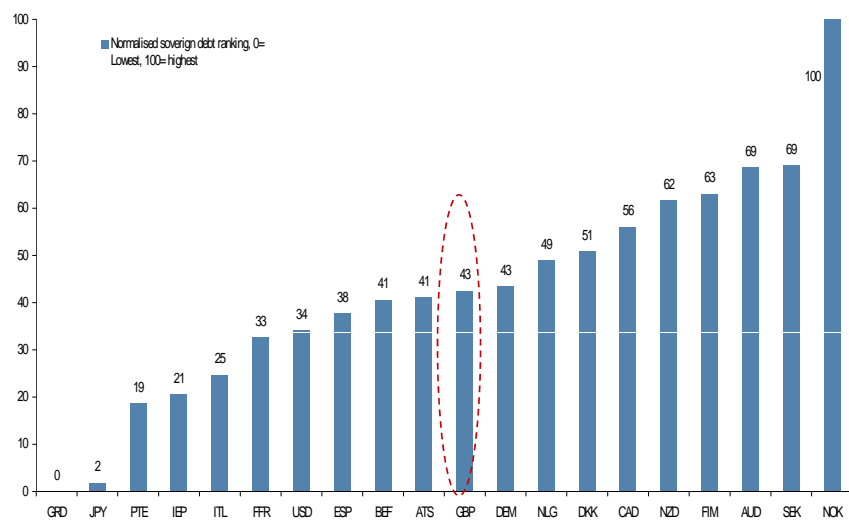
Real GDP rate counts, but so does momentum



World economic forum: fiscal policy no.1 world risk



RBS sovereign risk: periphery scores badly

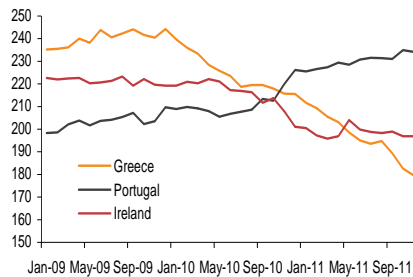


The danger: EMU banks seeing capital flight

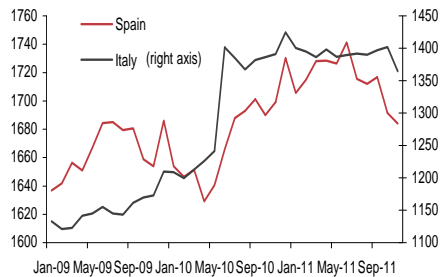
Deposit flight is a trend in Greece and now the risk across a number of countries

- Greece is seeing systematic deposit flight and we do not expect this to stop.
- Euro exit risks.
- Contagion risks to other countries is prominent and is likely to only be beginning in Italy on talk wealth taxes and general risk aversion.

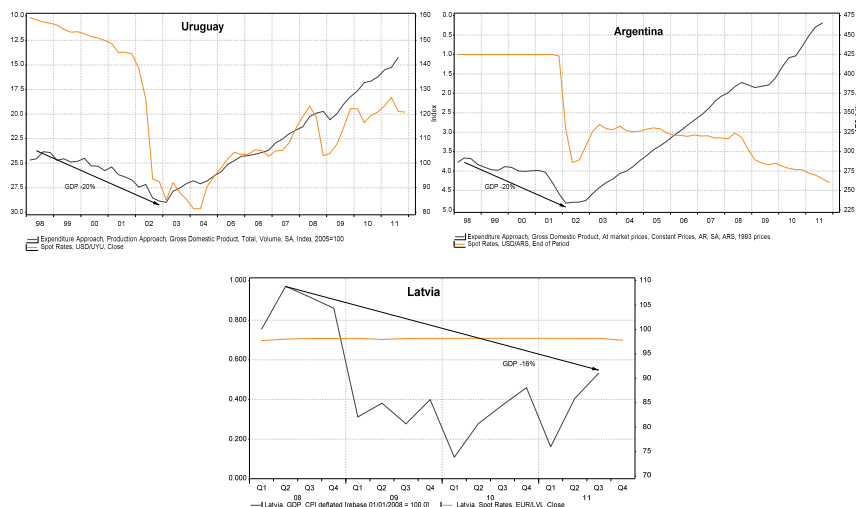
Trend in Greek deposits is worrying



Deposits only now moderating



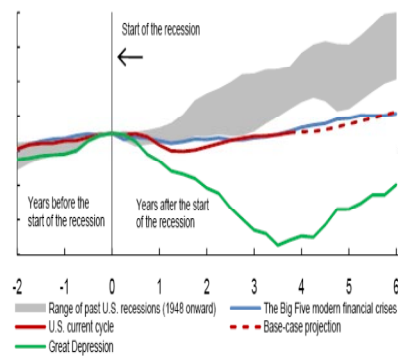
Exiting EMU is NOT necessarily a catastrophe



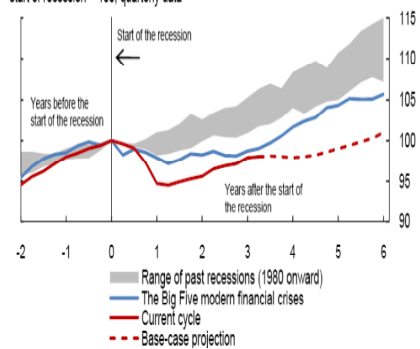
Which is why Europe is diverging from USA . . .

- EMU GDP not set to recover to pre crisis level until 2016
- Well behind other DM regions

U.S. real GDP across economic cycles; start of recession = 100, quarterly data



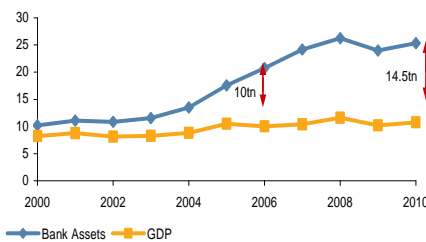
Euro-area real GDP across economic cycles; start of recession = 100, quarterly data



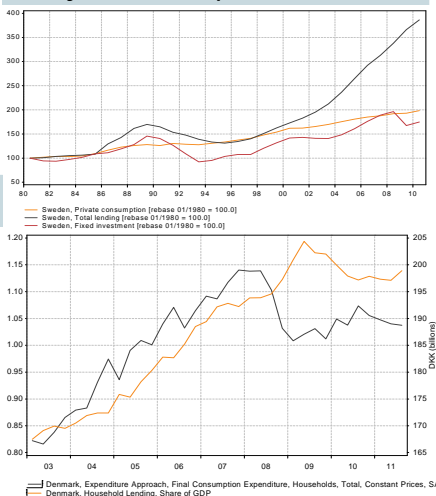
Sadly, the news is a lot worse in Europe

- Structural headwinds for growth
- More leveraged banking system, cutting E5trn

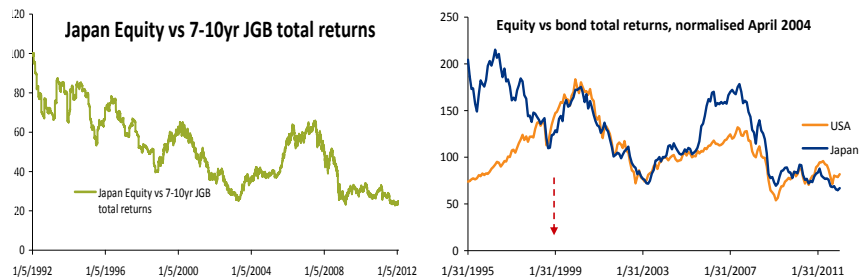
EMU+UK bank assets, shrinking back to 2006 levels is worth about E5trn deleveraging



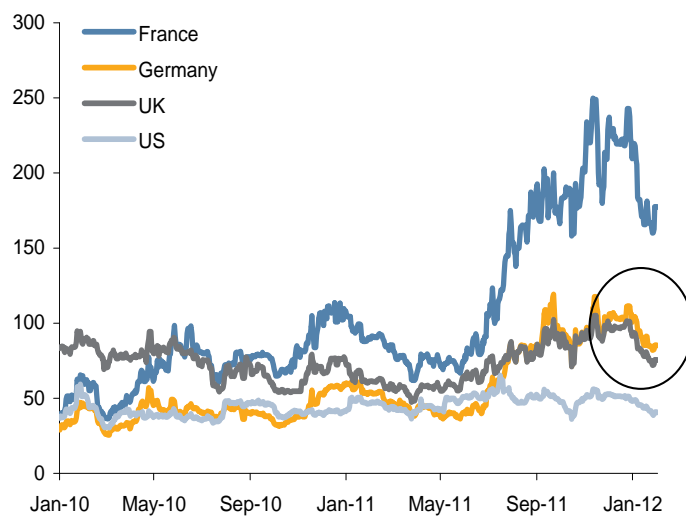
Nordics: SEK 6y to deleverage; DKK in 5th year of consumption recession



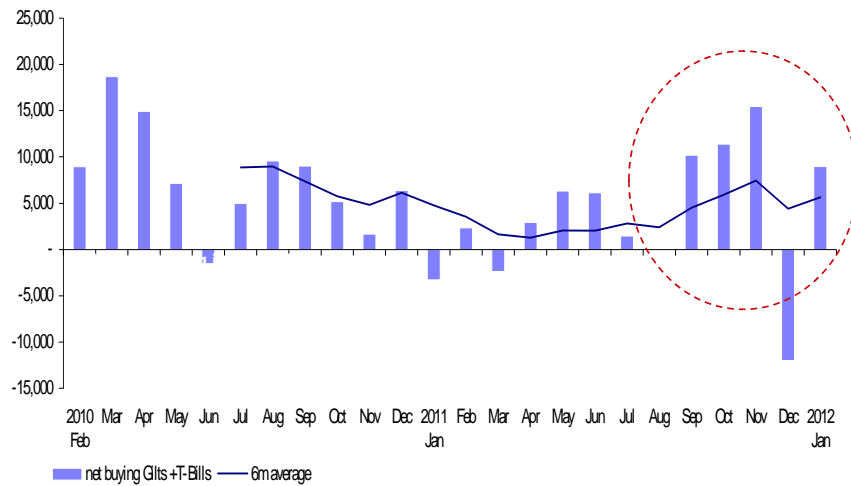
Long-term, lower trend GDPs due to deleveraging = more equity underperformance



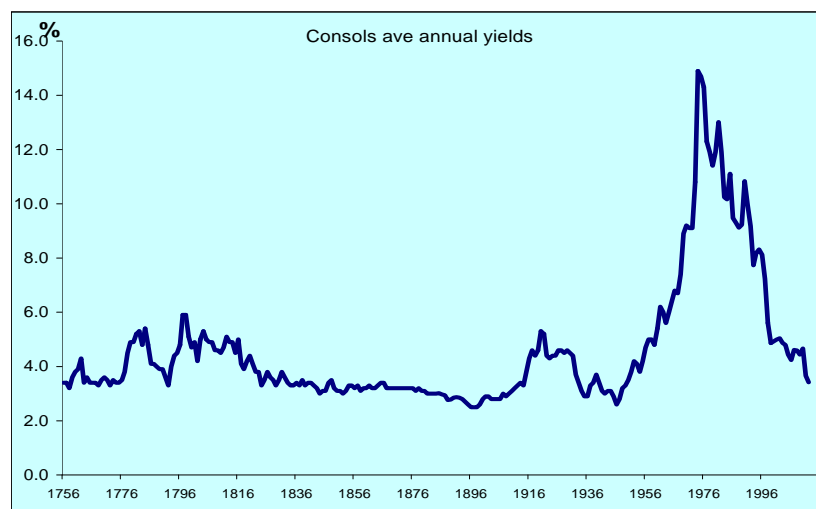
Who has a credible fiscal plan – the UK



This is not just about BoE buying. Foreigners rightly sponsor the 'UK fix-it' story



So . . . UK Gilt yields will not be rising



Disclaimer

© Copyright 2012 The Royal Bank of Scotland plc and affiliated companies ("RBS"). All rights reserved.

This Material was prepared by the legal entity named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this Material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither RBS nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this Material. This Material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without RBS' prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this Material is intended solely for distribution to professional and institutional investors.

THIS MATERIAL IS CLASSIFIED AS INVESTMENT RESEARCH AS DEFINED BY THE FINANCIAL SERVICES AUTHORITY.

Australia: This Material is issued in Australia by The Royal Bank of Scotland plc (ABN 30 101 464 528), 88 Phillip Street, Sydney NSW 2000, Australia which is authorised and regulated in Australia by the Australian Securities and Investments Commission (AFS License No. 241114) and the Australian Prudential Regulation Authority.

Canada: The securities mentioned in this Material are available only in accordance with applicable securities laws and many may not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact their own advisors.

EEA: This Material constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained in the Material. Any recommendations contained in this Material must not be relied upon as investment advice based on the recipient's personal circumstances. In the event that further clarification is required on the words or phrases used in this Material, the recipient is strongly recommended to seek independent legal or financial advice.

Denmark: Royal Bank of Scotland N.V. is authorised and regulated in the Netherlands by De Nederlandsche Bank. In addition, Royal Bank of Scotland N.V. Danish branch is subject to local supervision by Finanstilsynet, The Danish Financial Supervisory Authority.

Hong Kong: Material in connection only with equity securities is distributed in Hong Kong by, and is attributable to, RBS Asia Limited which is regulated by the Securities and Futures Commission of Hong Kong. All other material is distributed in Hong Kong by The Royal Bank of Scotland plc (Hong Kong branch), 30/F AIA Central, 1 Connaught Road Central, Hong Kong, which is regulated by the Hong Kong Monetary Authority.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non-Resident Indians ("NRIs"). Any recipient of this Material wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of RBS Equities (India) Limited. RBS Equities (India) Limited is a subsidiary of The Royal Bank of Scotland N.V..

Italy: Persons receiving this Material in Italy requiring further information should contact The Royal Bank of Scotland N.V. Milan Branch.

Japan: This report is being distributed in Japan by RBS Securities Japan Limited to institutional investors only.

South Korea: This Material is being distributed in South Korea by, and is attributable to, RBS Asia Limited (Seoul) Branch which is regulated by the Financial Supervisory Service of South Korea.

Malaysia: RBS research, except for economics and FX research, is not for distribution or transmission into Malaysia.

Netherlands: the Authority for the Financial Markets ("AFM") is the competent supervisor.

Russia: This Material is distributed in the Russian Federation by RBS and "The Royal Bank of Scotland" ZAO (general banking license No. 2594 issued by the Central Bank of the Russian Federation, registered address: building 1, 17 Bolshaya Nikitskaya str., Moscow 125009, the Russian Federation), an affiliate of RBS, for information purposes only and is not an offer to buy or subscribe or otherwise to deal in securities or other financial instruments, or to enter into any legal relations, nor as investment advice or a recommendation with respect to such securities or other financial instruments. This Material does not have regard to the specific investment purposes, financial situation and the particular business needs of any particular recipient. The investments and services contained herein may not be available to persons other than "qualified investors" as this term is defined in the Federal Law "On the Securities Market".

Singapore: Material in connection only with equity securities is distributed in Singapore by The Royal Bank of Scotland Asia Securities (Singapore) Pte Limited ("RBS Asia Securities") (RCB Regn No. 198703346M) under MICA (P) 155/08/2011. All other material is distributed in Singapore by The Royal Bank of Scotland plc (Singapore branch) ("RBS plc Singapore") under MICA (P) 156/06/2011. Both entities are regulated by the Monetary Authority of Singapore. Singapore recipients should contact RBS Asia Securities or RBS plc Singapore at +65 65 18 8888 for additional information. This material and the securities, investments or other financial instruments referred to herein are not in any way intended for, and will not be available to, investors in Singapore unless they are accredited investors, expert investors and institutional investors (as defined in Section 4A(1) of the Securities and Futures Act (Cap. 289) of Singapore ("SFA")). Further, without prejudice to any of the foregoing disclaimers, where this material is distributed to accredited investors or expert investors, RBS Asia Securities and RBS plc Singapore are exempted by Regulation 35 of the Financial Advisers Regulations from the requirements in Section 36 of the Financial Advisers Act (Cap.110) of Singapore (FAA) mandating disclosure of any interest in securities referred to in this material, or in their acquisition or disposal. Recipients who are not accredited investors, expert investors or institutional investors should seek the advice of their independent financial advisors prior to making any investment decision based on this document or for any necessary explanation of its contents.

Thailand: Pursuant to an agreement with Asia Plus Securities Public Company Limited (APS), reports on Thai securities published out of Thailand are prepared by APS but distributed outside Thailand by RBS Bank NV and affiliated companies. Responsibility for the views and accuracy expressed in such documents belongs to APS.

Turkey: The Royal Bank of Scotland N.V. is regulated by Banking Regulation and Supervision Authority (BRSA).

UAE and Qatar: This Material is produced by The Royal Bank of Scotland N.V. and is being distributed to professional and institutional investors only in the United Arab Emirates and Qatar in accordance with the regulatory requirements governing the distribution of investment research in these jurisdictions.

Dubai International Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed at "Professional Clients" as defined by the Dubai Financial Services Authority (DFSA). No other person should act upon it. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Professional Client". This Material has not been reviewed or approved by the DFSA.

Qatar Financial Centre: This Material has been prepared by The Royal Bank of Scotland N.V. and is directed solely at persons who are not "Retail Customer" as defined by the Qatar Financial Centre Regulatory Authority. The financial products and services to which the Material relates will only be made available to customers who satisfy the requirements of a "Business Customer" or "Market Counterparty".

United States of America: This Material is intended for distribution only to "major institutional investors" as defined in Rule 15a-6 under the U.S. Exchange Act of 1934 as amended (the "Exchange Act"), and may not be furnished to any other person in the United States. Each U.S. major institutional investor that receives these Materials by its acceptance hereof represents and agrees that it shall not distribute or provide these Materials to any other person. Any U.S. recipient of these Materials that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this Material, should contact and place orders solely through a registered representative of RBS Securities Inc., 600 Washington Boulevard, Stamford, CT, USA. Telephone: +1 203 897 2700. RBS Securities Inc. is an affiliated broker-dealer registered with the U.S. Securities and Exchange Commission under the Exchange Act, and a member of the Securities Investor Protection Corporation (SIPC) and the Financial Industry Regulatory Authority (FINRA).

* Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.

The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

For a discussion of the valuation methodologies used to derive our price targets and the risks that could impede their achievement, please refer to our latest published research on those stocks at research.rbs.com.

Disclosures regarding companies covered by us can be found on our research website. Please see research.rbs.com for Equity Research and <http://strategy.rbs.com/disclosures> for FICC Research.

Our policy on managing research conflicts of interest can be found at www.research.rbs.com/DislosuresDisclosure.aspx?M=2.

Should you require additional information please contact the relevant research team or the author(s) of this Material.

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.