

Progress towards building a truly customer-centric bank

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Our investment case

Market leading customer-centric businesses in attractive markets

Attractive returns and distributions deliverable in the medium-term

Lower risk, sustainable retail and commercial-based earnings

Robust capital, leverage and liquidity positions

High level of transparency; will track and report progress

A UK-focused retail and commercial bank

Business mix shift towards the UK

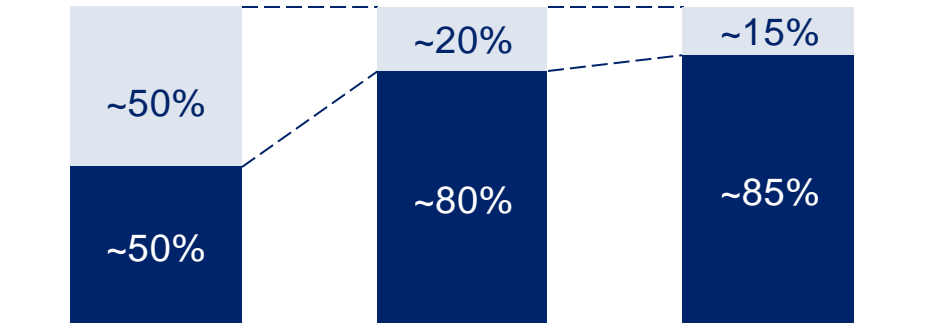
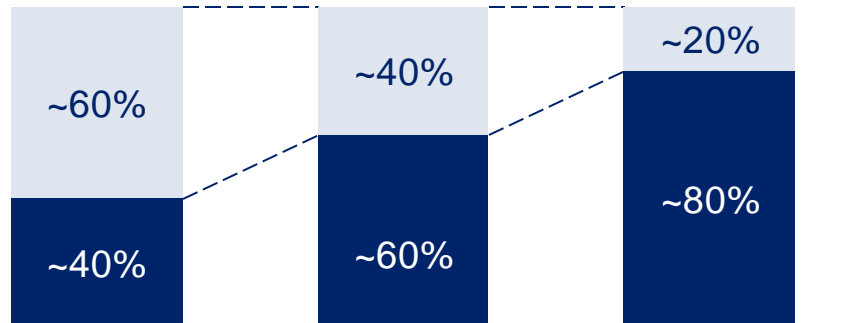
Clear emphasis on retail and commercial

Illustrative split by total income

Non-UK UK

Illustrative split by RWAs

Wholesale² R&C



2008

H114

Steady state¹

2008

H114

Steady state¹

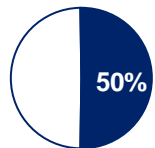
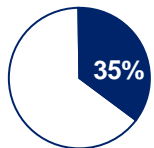
Personal & Business Banking

Indicative steady state¹ profile

RWA

Op. Profit

RoE³



15+%

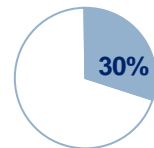
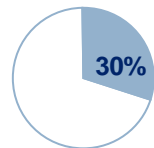
Commercial & Private Banking

Indicative steady state¹ profile

RWA

Op. Profit

RoE³



15+%

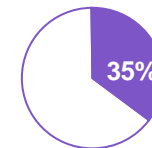
Corporate & Institutional Banking

Indicative steady state¹ profile

RWA

Op. Profit

RoE³



~10%⁴

¹ Steady state defined as 2018 to 2020. ² Wholesale defined as GBM in 2008. ³ For the purposes of computing segmental return on equity, notional equity is calculated as 12% of the monthly average of segmental RWAs. ⁴ 7-8% medium-term target (2016/17).

How we define our long-term success

		<u>FY13</u>	<u>H114</u>
Customers	<i>Service</i>		
	#1 Net Promoter Score for each of our segments	<25% ¹	<25% ¹
	<i>Trust</i>		
	#1 trusted bank in the UK	NatWest #4 RBS #11	NatWest #4 RBS #11
People	<i>Great place to work</i>		
	Engagement Index ≥ Global Financial Services norm ²	78%	67%
Investors	<i>Attractive and consistent returns</i>		
	Return on Tangible Equity 12+%	nm	7.0%
	Cost:income ratio ~50%	95%	71%
	<i>Unquestioned safety & soundness</i>		
	CET1 ratio ≥12% ³	8.6%	10.1%
	Leverage ratio ≥4% ⁴	3.4%	3.7%
	Loan:deposit ratio ~100%	94%	96%

¹ % of our Customer segment businesses at #1 for Service. NPS used for all segments except CIB where we are using the Customer Satisfaction Index. ² Global Financial Services norm currently stands at 82%. Source: Towers Watson. ³ Common Equity Tier 1 ratio. ⁴ Under review pending completion of the PRA consultation process.

Good early progress in delivering on our customer-centric ambition

- Stopped teaser rates – best rates offered to new and existing customers
- Personal account opening reduced from 5 days to 1 day for >90% of customers
- New individual customers now have access to online banking within 24 hours
- Continued to simplify the number of current accounts (27 to 7), savings (23 to 5) and credit card products (4 propositions going forward)
- Enhanced mobile and digital platforms, shift to advice-driven branches
- Ran over 1,000 events for small businesses, reaching over 52,000 people
- 2/3rds of lending decisions made locally for business customers

Our goal: #1 for customer service, trust and advocacy by 2020

Ongoing delivery of our strategic commitments

Citizens – IPO

RCR – running down, 28% TPA reduction achieved in H114

Other legacy securities / asset pools – managing down

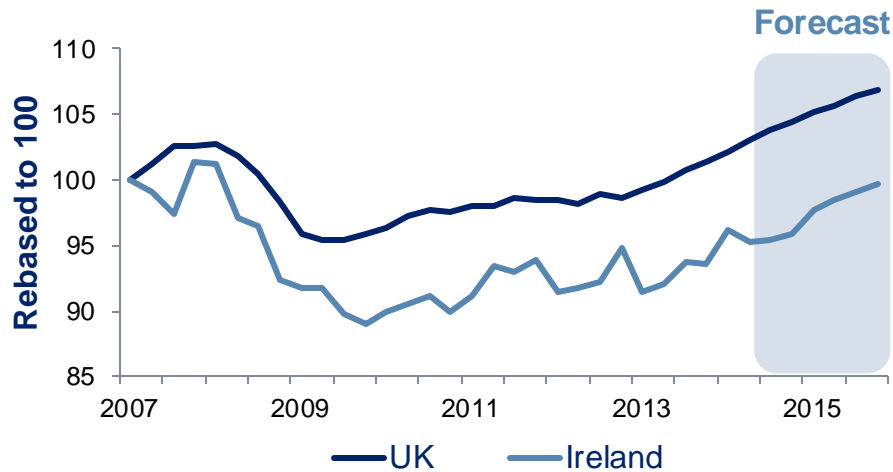
Wealth International – review completed

Dividend Access Share – first payment effected

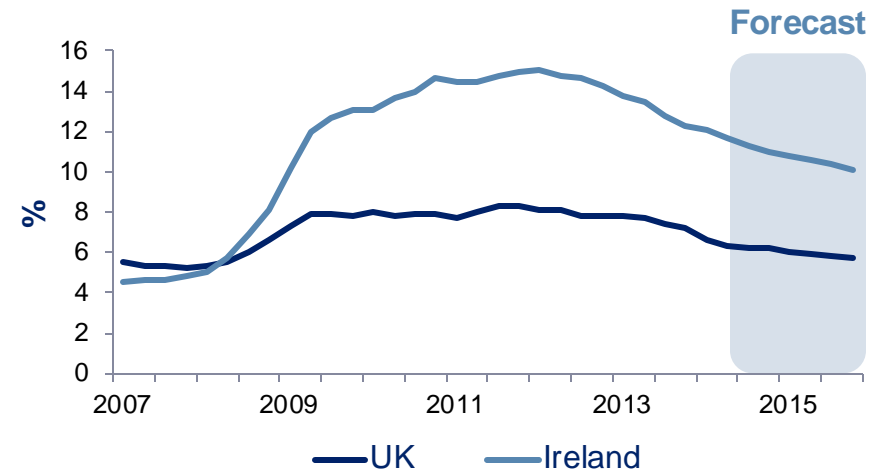
Williams & Glyn – being prepared for 2016 IPO

An upturn in both the UK and Irish economies is now evident

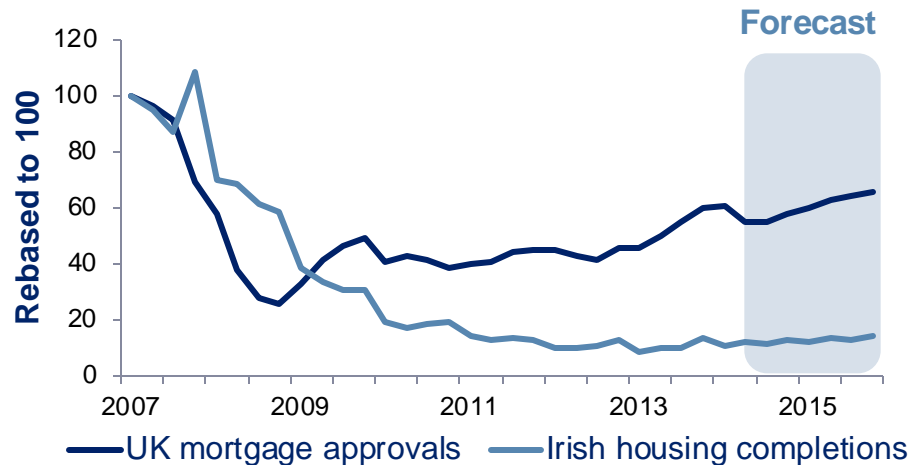
GDP growth firmly anchored



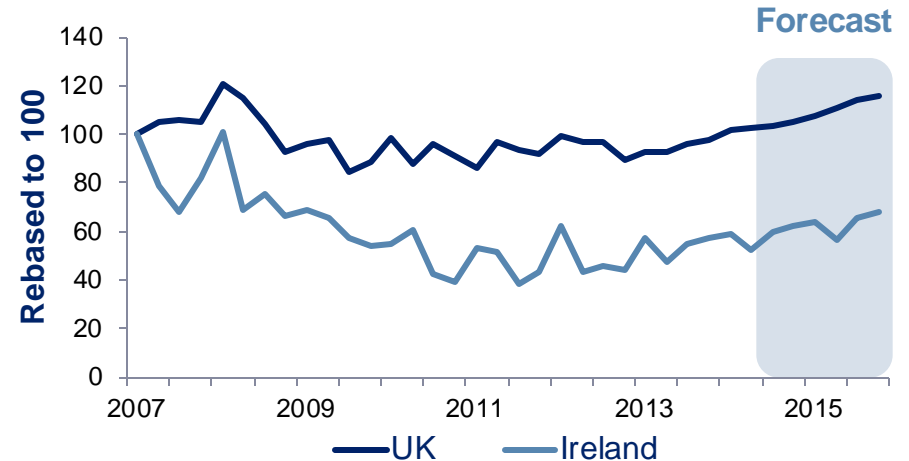
Unemployment lower



Housing market activity and HPIs increasing



Business investment is increasing



Source: Industry statistics. Forecast data from RBS economics consensus view

Well positioned to support increasing client activity and to benefit from a rising rate environment

1

Deposits

- Excellent funding profile
- Continue to attract quality deposit flow, UK demand deposits up 10% Y/Y
- Substantial volume of non-interest bearing liabilities; demand deposits £81bn¹, total 'free-funds' £141bn¹

2

Lending

- Encouraging early signs of lending demand in UK franchises
- Loan:deposit ratio 96%, geared to support balance sheet growth
- Front-book margins remain attractive, low margin legacy assets continue to run off (RCR, Irish tracker mortgages)

3

Funding

- Funds available to lend, supported by strong liquidity position
- Expensive post-Crisis funding now maturing, £21bn H214 – FY15²
- Limited issuance requirements funded at lowest spreads since the onset of the Crisis

¹ H114 reported average balance sheet. ² Debt securities and subordinated liabilities issued with original maturities of >1 year. Maturity classed as final maturity, ignoring call options.

Early signs of UK loan growth

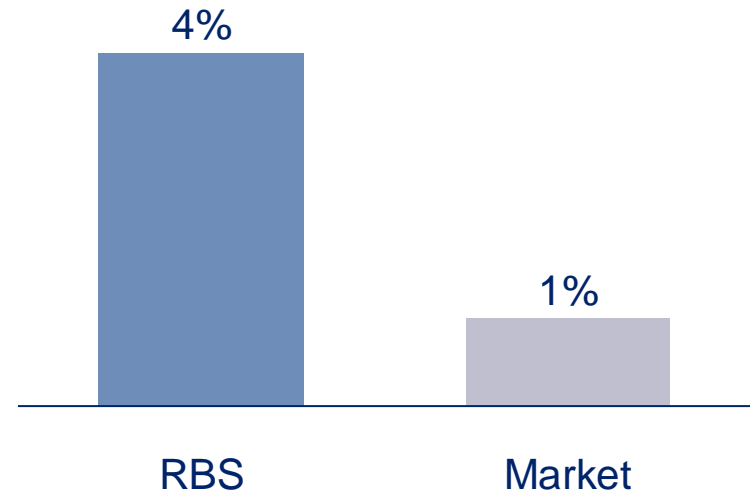
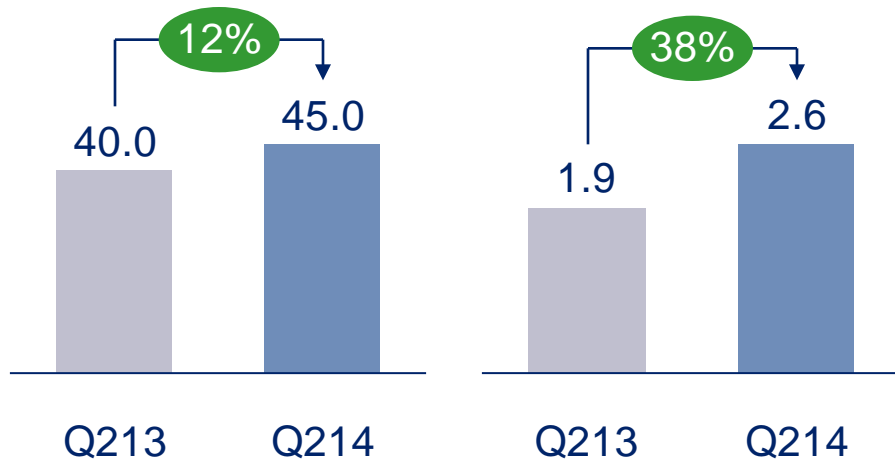
SME – continued positive trend

Mortgages – strong net lending growth with continued market share gains

Applications ('000s)

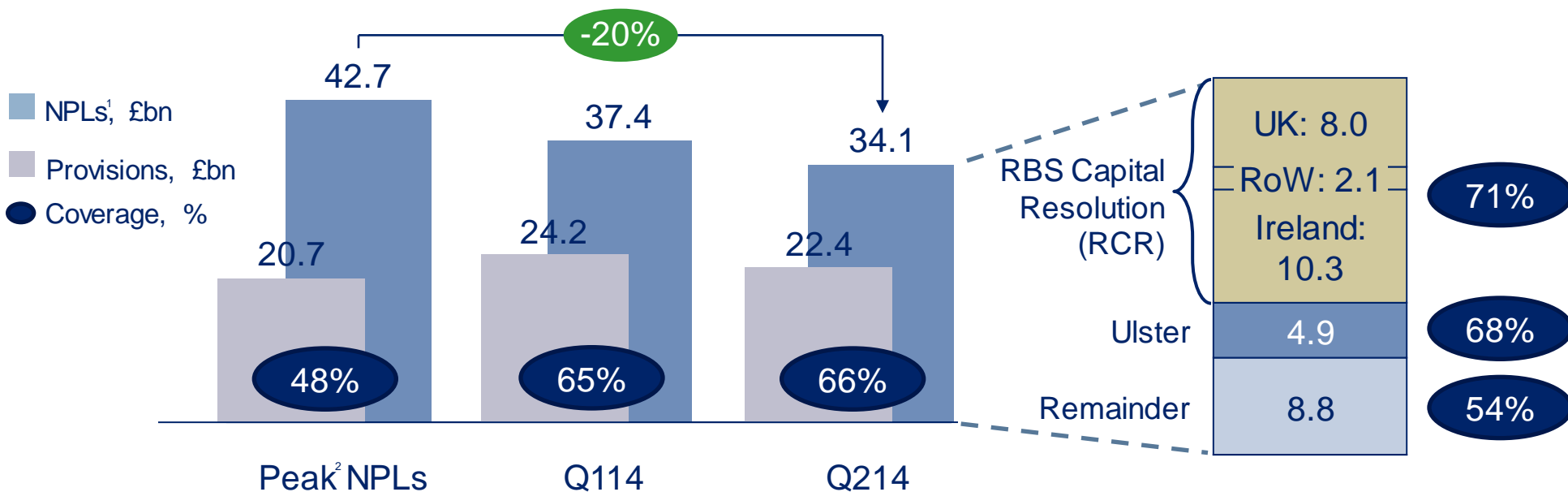
Gross new lending (£bn)

Q214 Y/Y growth in mortgage loans outstanding in PBB UK



- H114 SME gross new lending of £5bn, ahead of target. Strong application flow. Run-off remains at similar levels to previous years
- Momentum continues on mortgages with gross new business market share now up to 10.4% in Q214 driven by a 20% expansion in new business Q/Q
- Q214 performance reflecting good progress made in Mortgage Market Review implementation

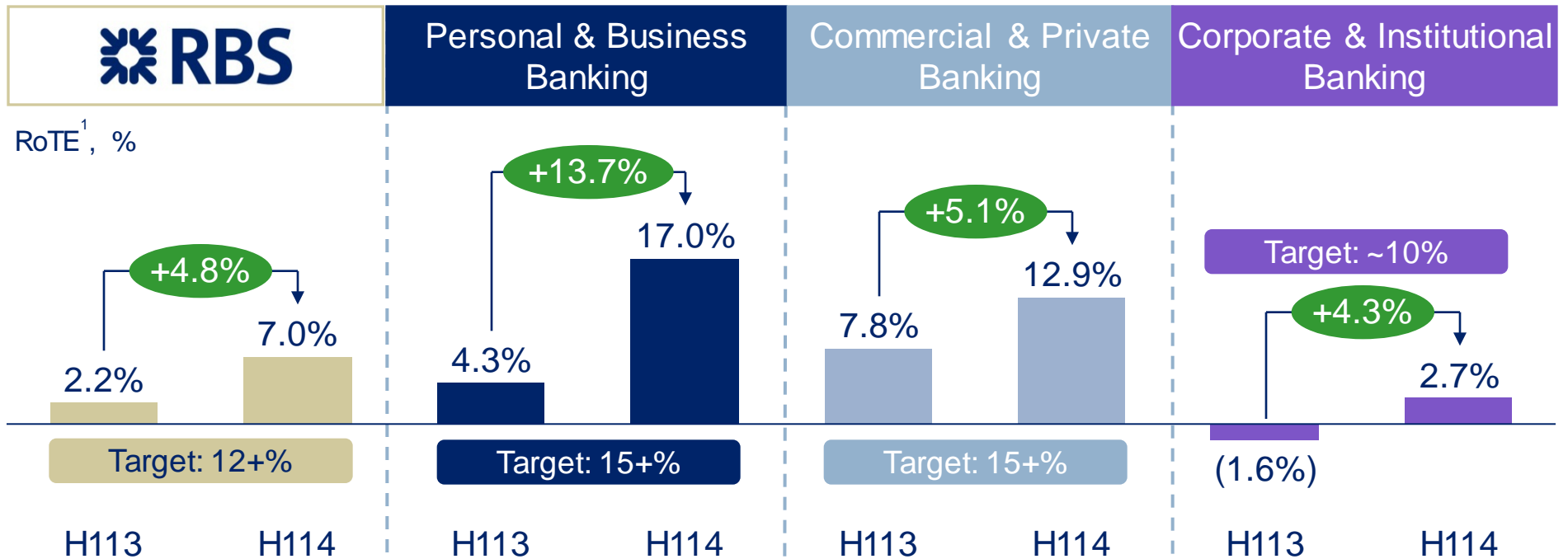
Supportive credit environment, exposure risk remains



- Good progress in reducing NPLs, down 20% from peak – run-down of RCR (60% of total NPLs) will lead to an ongoing accelerated run-down
- Recent results benefitted from no major impairments in RCR, alongside a number of provision releases
- Leading credit indicators continue to improve, with geared exposure to both Irish and UK recoveries

¹ NPLs (non-performing loans) = Risk Elements in Lending (REIL) per RBS results disclosures. ² Q311.

Returns improving, but much more to be done

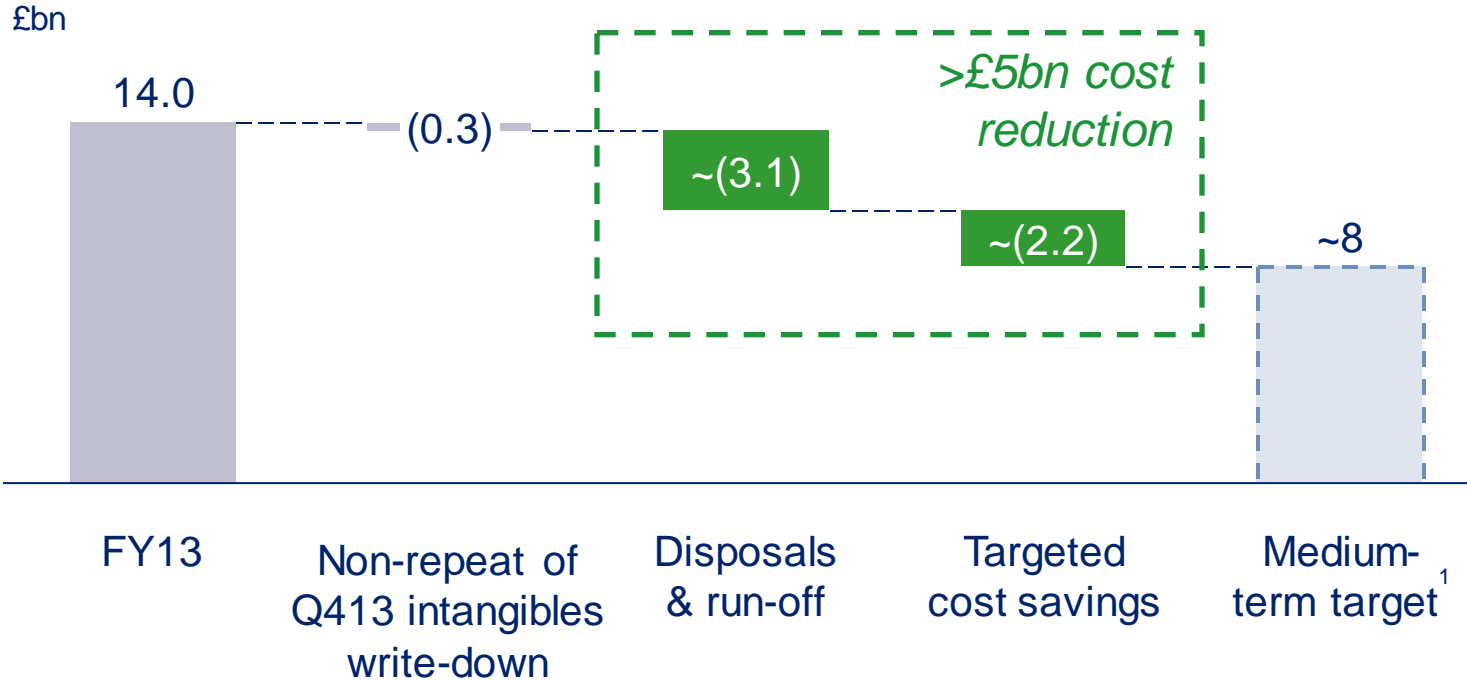


- H114 returns supported by lower impairments, notably in Ireland, and lower deleveraging losses
- Short-term performance will remain sensitive to delivery of RCR and CIB de-risking, restructuring charges and conduct & litigation headwinds
- Delivery of cost reductions fundamental to achieving 12+% RoTE target. CIB costs down 20% Y/Y

¹ For the purposes of computing segmental return on equity, notional equity is calculated as 12% of the monthly average of segmental RWAs.

Good start in making our cost base fitter for purpose

Operating expenses including bank levy and excluding restructuring and conduct & litigation costs



Long-term cost:income ratio target: ~50%

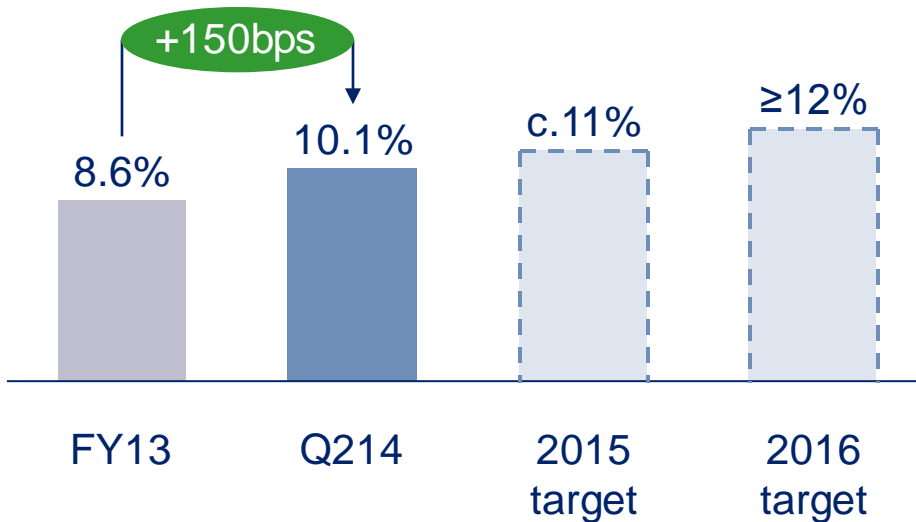
- Our historic scale and complexity left us inefficient; we are aligning our cost base to our new more focused and smaller operating model
- Reductions to be delivered over a 4-year period; targeting £1bn reduction in 2014, £0.5bn already achieved in H1

On track to meet £1bn cost reduction target for 2014

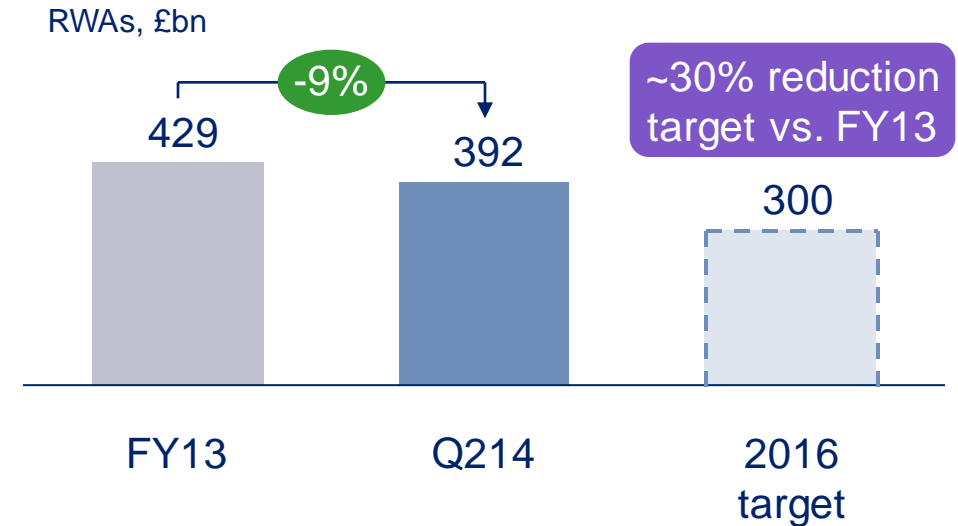
¹ Medium-term defined as 2017.

CET1 target $\geq 12\%$, well on track

CET1 build progressing



Excellent progress in de-risking

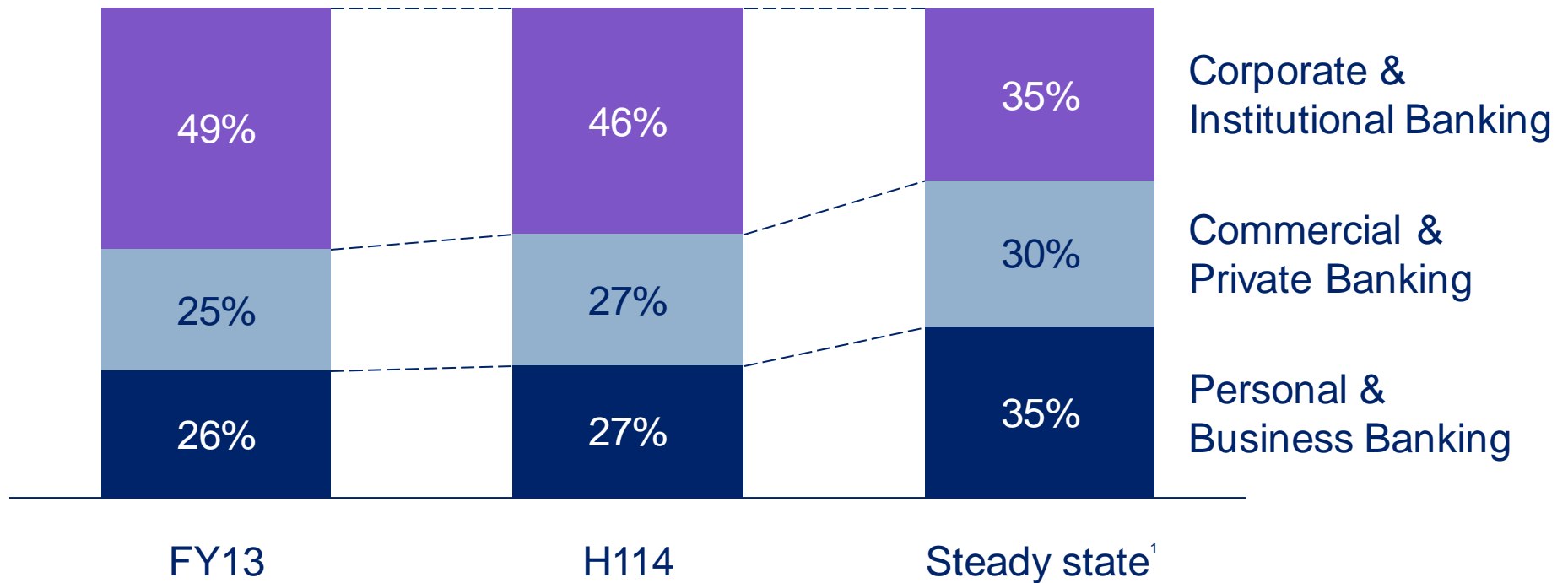


- £1.4bn H114 attributable profit contributed 0.4% to capital build
- Excellent progress in reducing RWAs in both CIB and RCR – RWAs down 9% in H114
- Leverage ratio at 3.7%, up 30bps in H1, believe to be well positioned due to balanced UK business mix for potential higher leverage ratios
- Significant potential future conduct and litigation costs remain a headwind to CET1 ratio and TNAV improvement

CET1 ratio up 150bps in H1 2014

Efficient capital reallocation will underpin returns

Proportion of RWAs committed to each business, %

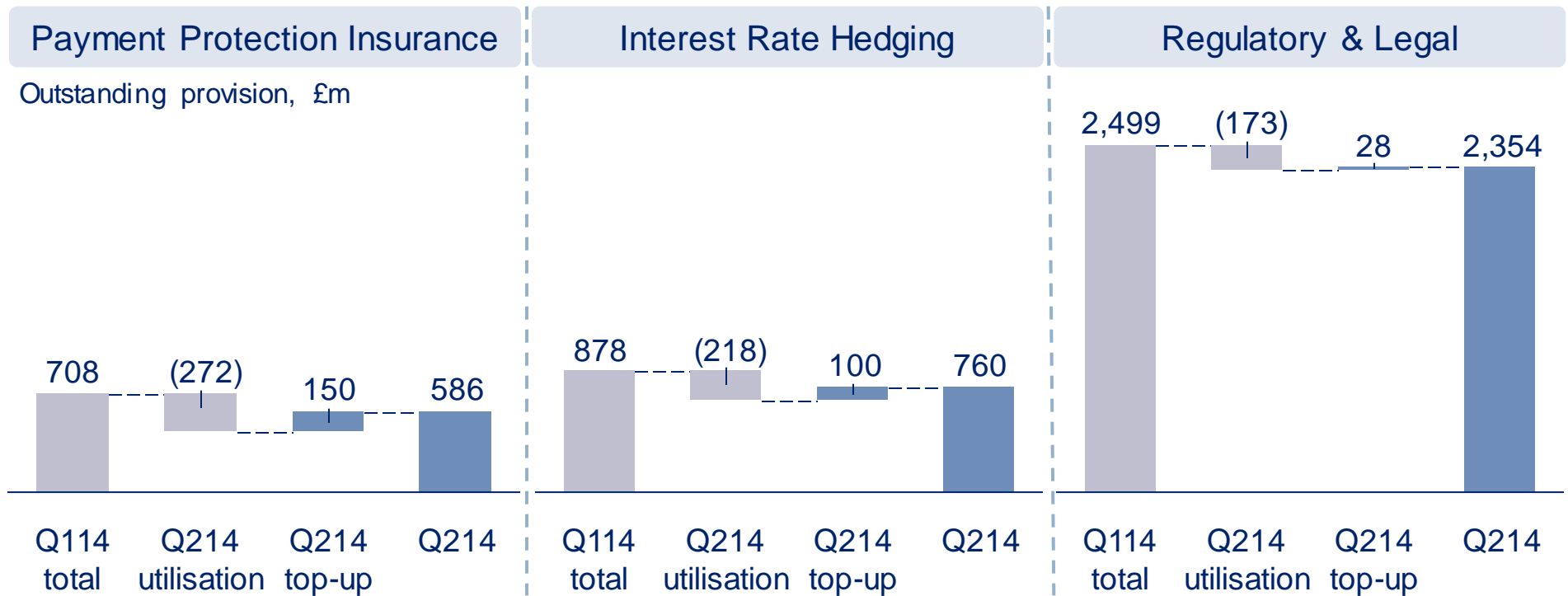


- CIB RWAs down £19bn (13%) in H114; targeting >£100bn steady state
- Ready to support increasing customer activity in PBB and CPB

Strategic plan redeploys capital to high return businesses

¹ Steady state defined as 2018 to 2020.

Litigation and conduct provisions



- Further top-up to PPI primarily as a result of higher customer response rates on a single premium proactive mailing
- Swap mis-selling top-up reflects the marginal increase in our redress experience compared to expectations; we have now agreed outcomes with the independent reviewer relating to over 95% of cases
- Significant risks and uncertainty remains around the scale and timing of future specific conduct and litigation costs

Summary

Early progress encouraging

- Early progress in making our bank simpler, clearer and fairer for customers
- Macro upturn now evident – UK and Ireland showing growth
- Impairments lower, supportive credit environment
- Geared to a rising rate environment and well positioned for increased activity
- Costs consistently reduced
- On track to achieve CET1 ratio targets

But significant headwinds remain

- Significant restructuring and simplification on-going, with associated costs
- Significant potential future conduct and litigation costs

Q&A

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