



# Full Year 2013 Results

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27 February 2014

# Key takeaways

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FY13 operating profit pre-RCR £2.5bn, down 15% Y/Y primarily driven by lower income across divisions

NIM improved to 2.01%, up 9bps Y/Y

Further focus on cost efficiency with operating expenses down 4% Y/Y

8.6% 'fully loaded' Core capital ratio, up 90bps Y/Y, but down 50bps vs. Q313 reflecting attributable loss and certain CRDIV interpretation changes. TNAV 363p

Continued progress on risk reduction, RWAs down £74bn (16%) Y/Y to £385bn. Non-Core completed, good progress in RBS Capital Resolution (Internal Bad Bank)

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RBS Capital Resolution

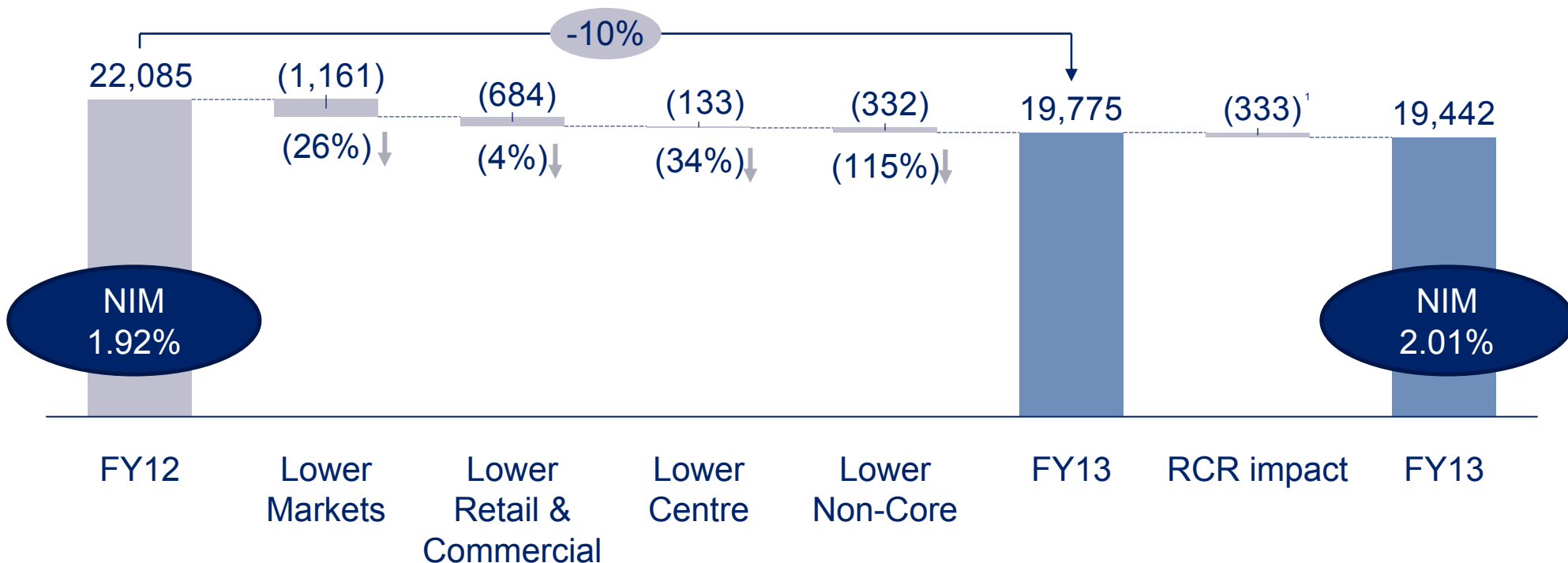
Restatement timetable

# P&L overview

£'m	2013	2012	Q4 2013	Q3 2013	
Total Income	19,442	22,085	3,940	4,894	Slide 5
<i>o/w RBS Capital Resolution</i>	(333)	-	(333)	-	
Operating expenses	(13,313)	(13,854)	(3,247)	(3,286)	Slide 6
Impairment losses	(8,432)	(5,279)	(5,112)	(1,170)	Slide 7
<i>o/w RBS Capital Resolution</i>	(4,490)	-	(4,290)	(200)	
<b>Operating (Loss) / Profit</b>	<b>(2,303)</b>	<b>2,952</b>	<b>(4,419)</b>	<b>438</b>	Slide 8
<i>Operating profit ex. RCR</i>	2,520	2,952	204	638	
Own credit adjustments	(120)	(4,649)	-	(496)	
PPI costs	(900)	(1,110)	(465)	(250)	Slide 9
IRHP redress and related costs	(550)	(700)	(500)	-	
Regulatory & legal actions	(2,394)	(381)	(1,910)	(99)	
Restructuring costs	(656)	(1,415)	(180)	(205)	
Write-down of Goodwill	(1,059)	(18)	(1,059)	-	
Other items	(261)	44	(450)	(22)	
(Loss) before tax	(8,243)	(5,277)	(8,983)	(634)	
Tax credit / (charge)	(382)	(441)	377	(81)	
<i>o/w RBS Capital Resolution</i>	306	-	306	-	
<i>o/w Deferred tax write-down</i>	(701)	-	(701)	-	
Loss from continuing operations	(8,625)	(5,718)	(8,606)	(715)	

# Income lower in most areas

Income, £m



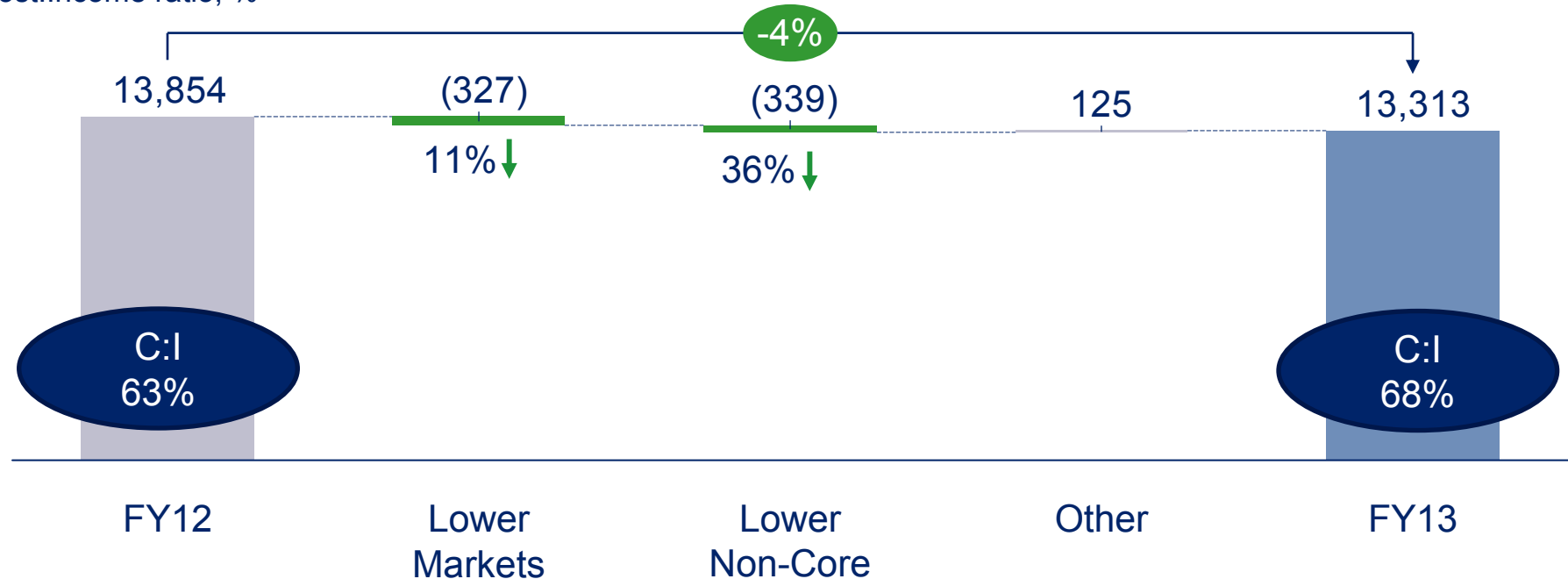
- Lower Markets reflects strategic scaling back of the balance sheet and risk reduction
- R&C reduction primarily from lower activity in UK Corporate and International Banking
- FY 2013 included £333m of other valuation adjustments relating to assets being transferred into RCR
- NIM improved 9bps to 2.01% vs. FY12 primarily supported by deposit repricing and reduction of lower yielding assets

<sup>1</sup> Of which £31m in Core, £302m in Non-Core

# Costs reduced

Expenses, £m

Cost:Income ratio, %

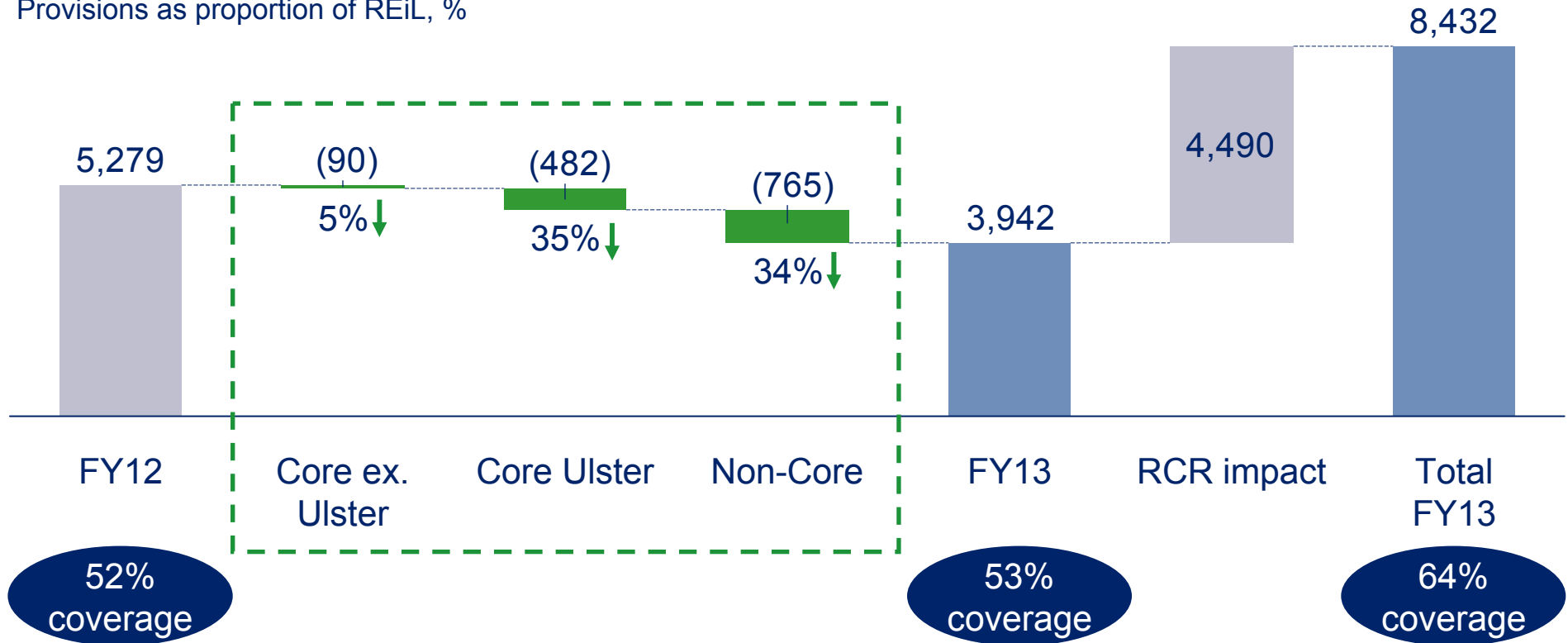


- Markets and Non-Core costs down, driven by active asset reduction
- Tight control across the Group, with staff expenses down 7% Y/Y, with headcount down 4,400
- Q4 2013 Core operating expenses included £179m provisions for various conduct related and legal expenses
- Including Bank Levy and Restructuring costs would increase FY13 cost:income ratio to 73%, FY12 to 70%

# Lower underlying impairments

Impairment charge, £m

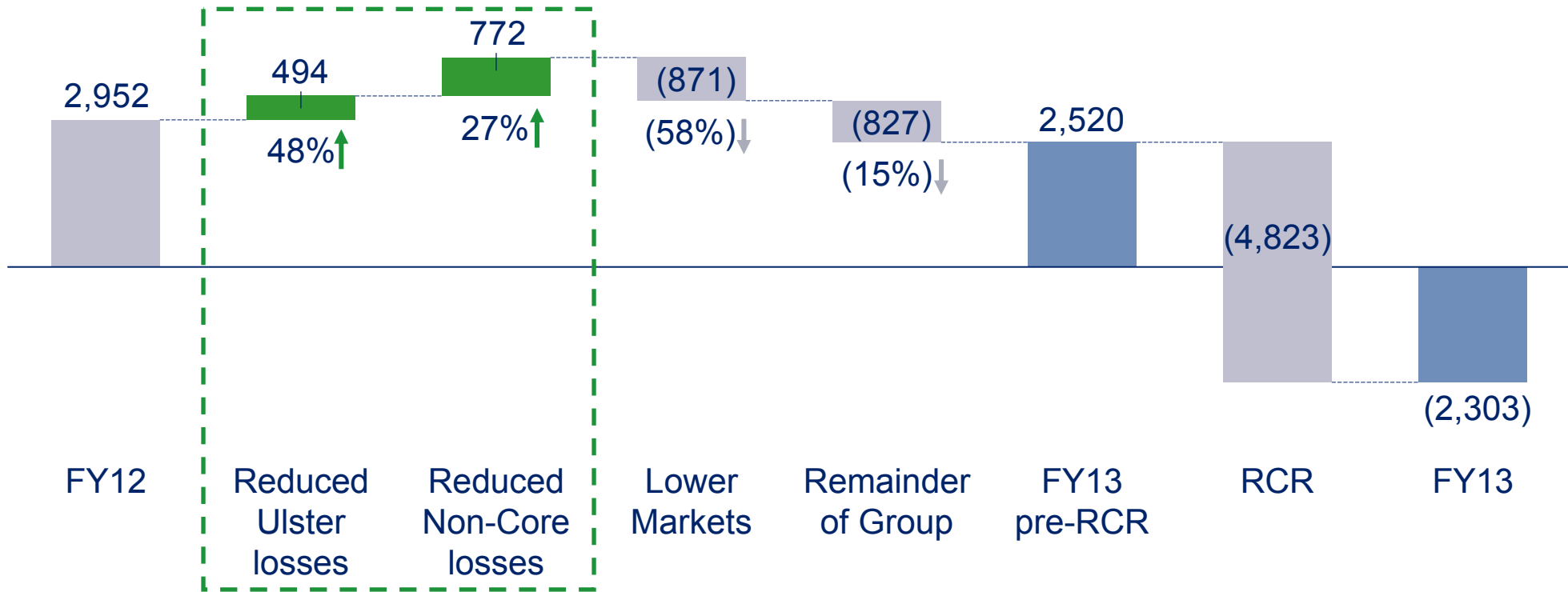
Provisions as proportion of REiL, %



- FY 2013 RBS Capital Resolution impairments of £4.5bn
- Core Ulster reduction reflecting significant improvement in retail mortgages, down £411m Y/Y
- Non-Core reduction of £765m, ex RCR, reflecting continued decline of overall portfolio

# Operating profit

Operating profit, £m



- Ulster loss ex. RCR halved Y/Y driven by significantly lower impairments
- R&C down driven by UK Corporate, International Banking and US R&C
- Early signs of momentum in UK Retail, Ulster and Citizens
- Cumulative RCR impact of £4.8bn, comprising £4.5bn impairment, £0.3bn other valuation adjustments relating to assets being transferred into RCR

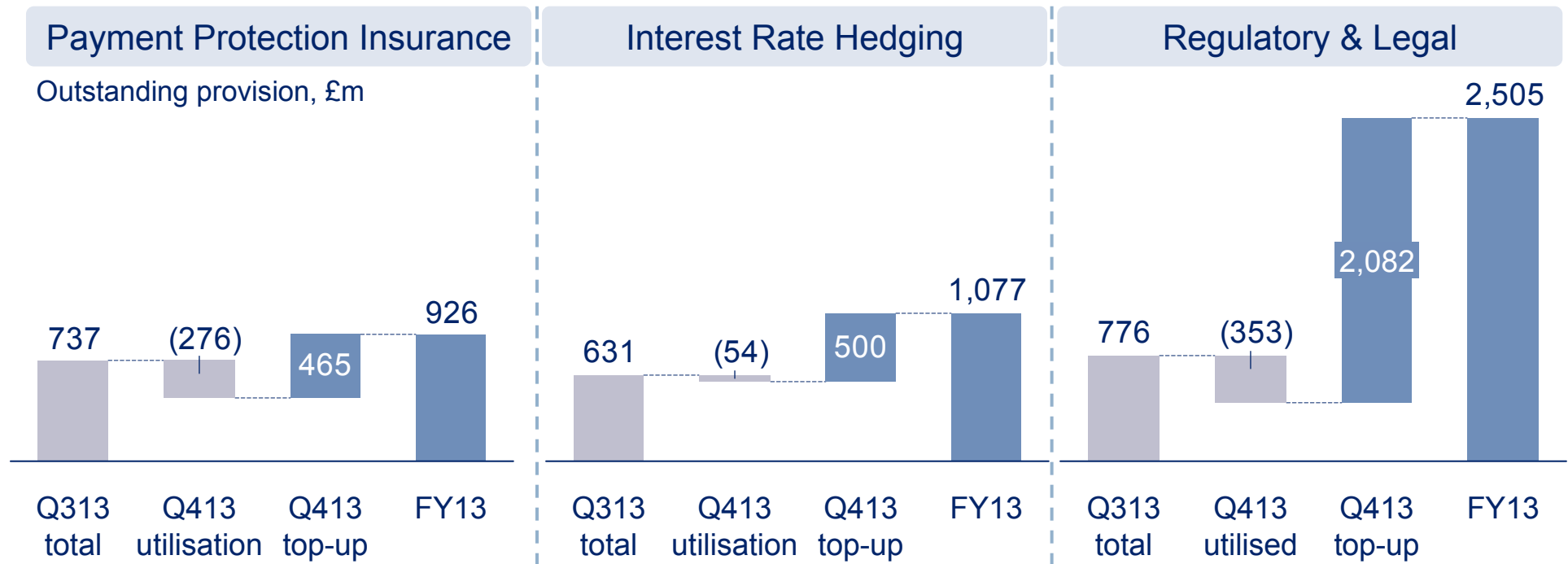


# Impact of notable items

£'m	2013	2012	Q4 2013
<b>Reported in Operating Performance</b>			
RCR impairment	(4,490)		(4,290) <sup>1</sup>
RCR negative income (Fair Value write-downs)	(333)		(333)
Non-Core disposal losses	(254)	(14)	(79)
Non-Core loss from trading activities	(654)	(148)	(218)
Core businesses redress & litigation costs	(505)	(85)	(179)
Central AFS disposal gains	724	880	114
Central Technology incident		(175)	
<b>Reported 'below the line'</b>			
Own Credit Adjustment	(120)	(4,649)	
PPI redress and related costs	(900)	(1,110)	(465)
IRHP redress and related costs	(550)	(700)	(500)
Regulatory & legal actions	(2,394)	(381)	(1,910)
Integration & restructuring costs	(656)	(1,415)	(180)
Gain on redemption of own debt	175	454	(29)
Bank Levy	(200)	(175)	(200)
Write-down of Goodwill	(1,059)	(18)	(1,059)
Write-down of other intangible assets	(344)	(106)	(344)
<b>Reported within Tax</b>			
Write-down of Deferred Tax Assets	(701)		(701)

<sup>1</sup> Q3 2013 included £200m RCR related impairments (Non-Core Ulster)

# Litigation and conduct provisions increased



- Remaining PPI provision covers approximately 12 months<sup>1</sup> of redress and admin expense
- Expect to complete IRHP sales review and provide basic redress to entitled customers by end-May 2014
- Regulatory & Legal provision build during Q4 2013 includes costs recognised within operating expenses
- Litigation provision driven both by large number of cases outstanding and precedent of recent settlements by other banks, largely in RMBS

<sup>1</sup> Based on current average monthly utilisation

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# Balance sheet: Safety & Soundness engrained

Loan : deposit ratio

**94%**

Q313: 94%  
FY12: 100%

Net Stable Funding  
Ratio

**122%**

Q313: 119%  
FY12: 117%

Liquidity Coverage  
Ratio

**102%**

Q313: >100%  
FY12: >100%

Funded balance sheet

**£740bn**

Q313: £806bn  
FY12: £870bn

Short-term wholesale  
funding

**£32bn**

Q313: £35bn  
FY12: £42bn

Liquidity portfolio

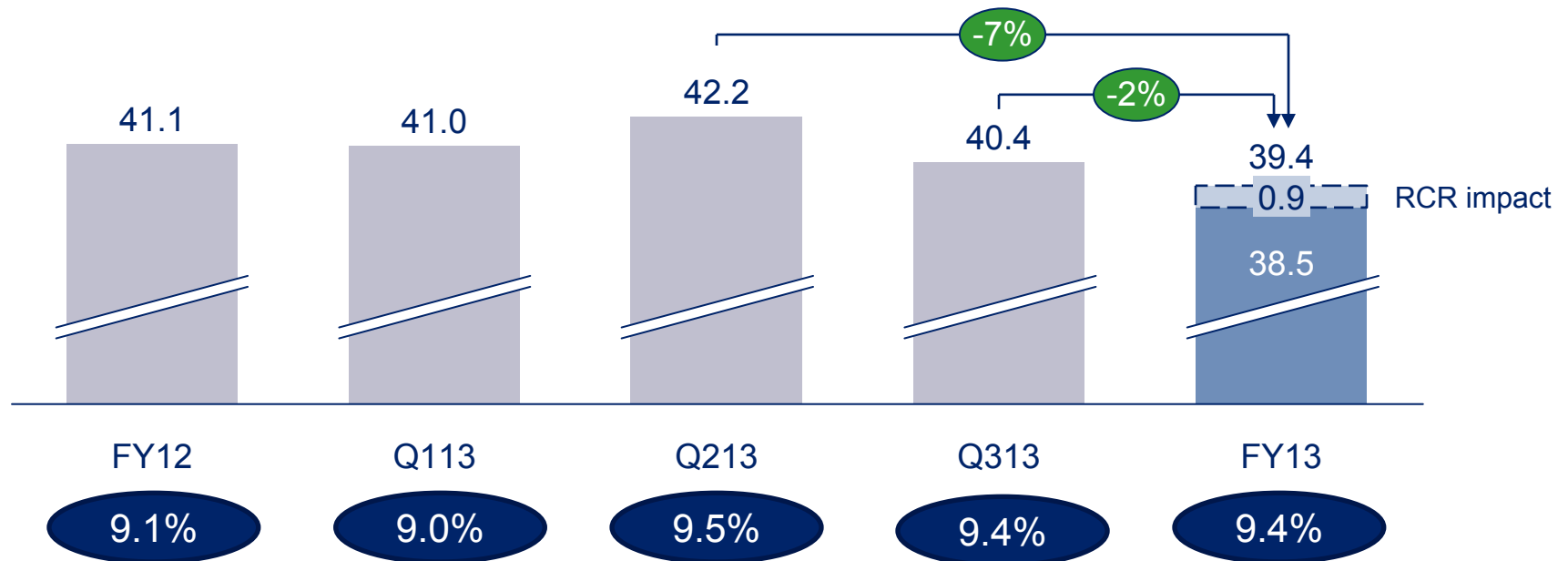
**£146bn**

Q313: £151bn  
FY12: £147bn

# Non-performing loans declining

REiL, £bn

REiL as proportion of gross customer loans, %

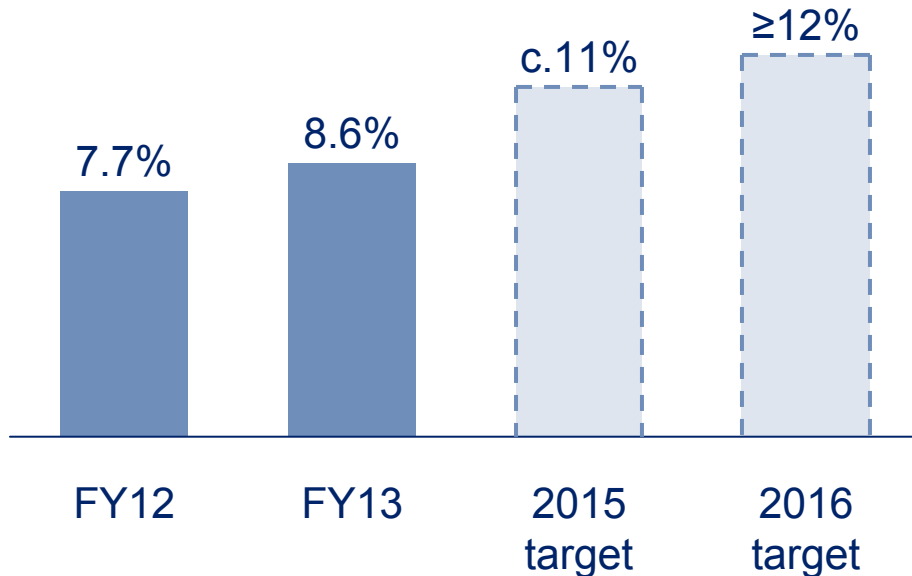


- Non-performing loans down 2% Q/Q (down 5% ex RCR impact)
- £0.9bn of Q4 2013 REiL increase relates to assets moved into RCR
- RCR will accelerate REiLs reduction going forward to 2.5-3.5% of Gross Loans & Advances

# On track to achieve CT1 and leverage ratio targets

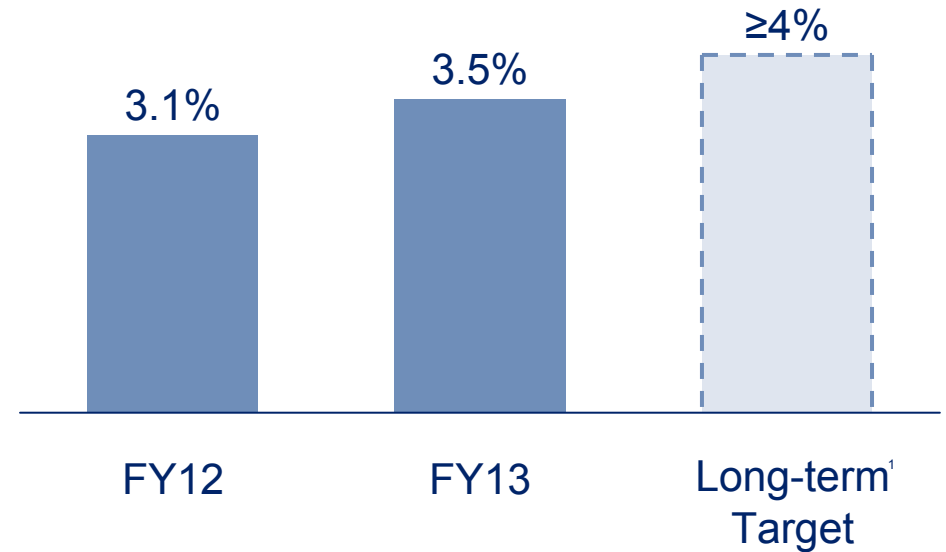
## FLB3 CT1 build progressing

'Fully loaded' Core Tier 1 ratio, %



## Leverage ratio continues to improve

CRR full end-point measure leverage ratio, %



- Target a 'fully loaded' Basel III CT1 ratio of c.11% by end-2015 and 12%, or above, by end-2016
- Impact of Q4 2013 litigation and conduct provisions was broadly reflected in our future capital plan
- Tier 1 leverage ratio 14.4x, improved from 15.0x at FY 2012
- Leverage ratio 3.4% estimated under Jan 2014 BCBS proposal

<sup>1</sup> Long-term defined as 2018 to 2020.

# Good progress on RWA reduction

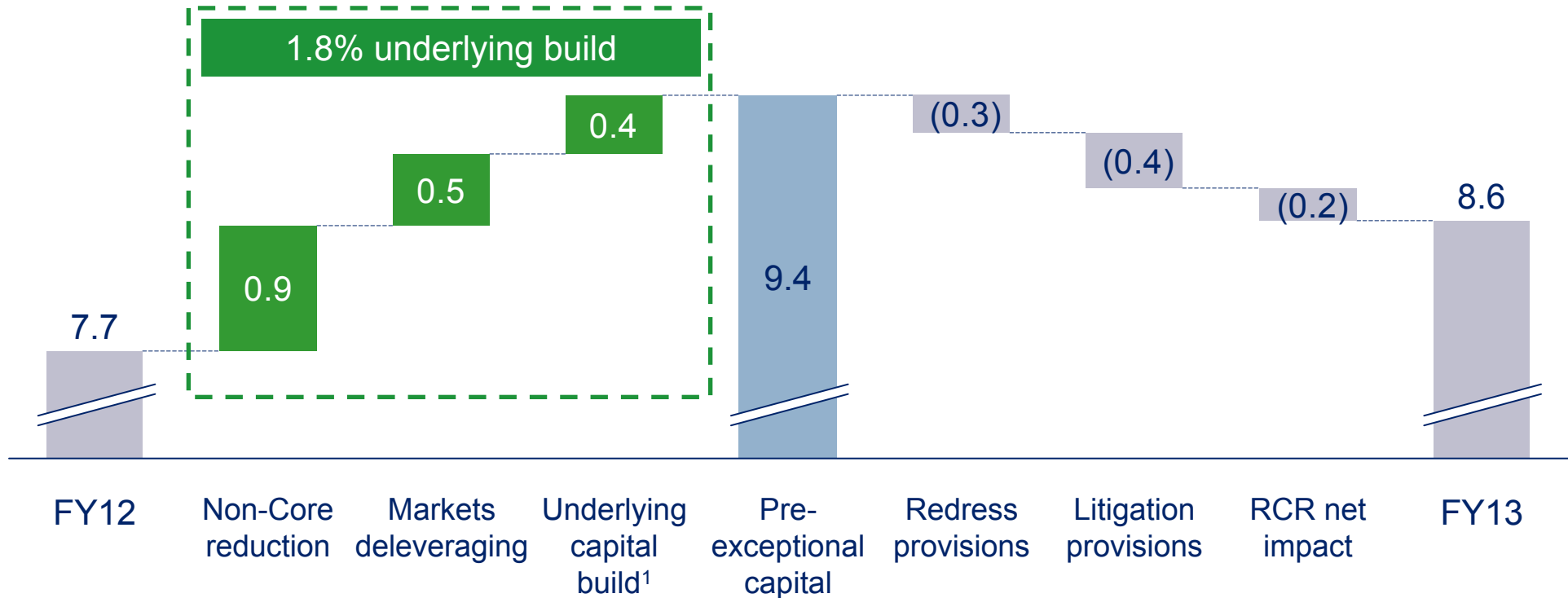
RWA progression, £bn



- Excellent progress in reducing Non-Core & Markets RWAs supported underlying Y/Y capital ratio build
- CRD IV uplift £44bn, versus £60-70bn range anticipated in 2010, reflecting benefit of mitigation, internal model implementation and strategic actions, alongside finalisation of rules

# Underlying capital generation

Key drivers of Basel III 'Fully Loaded' Core Tier 1 ratio, %



- Solid progress in reducing Non-Core & Markets RWAs supported underlying Y/Y capital ratio build
- RCR charge of £4.8bn offset in part by substantially lower Expected Loss deduction
- Expect RCR to be capital accretive from here

<sup>1</sup> Represents, pre-redress & litigation P&L, pension deficit reduction, share issuance, DTA utilisation & other

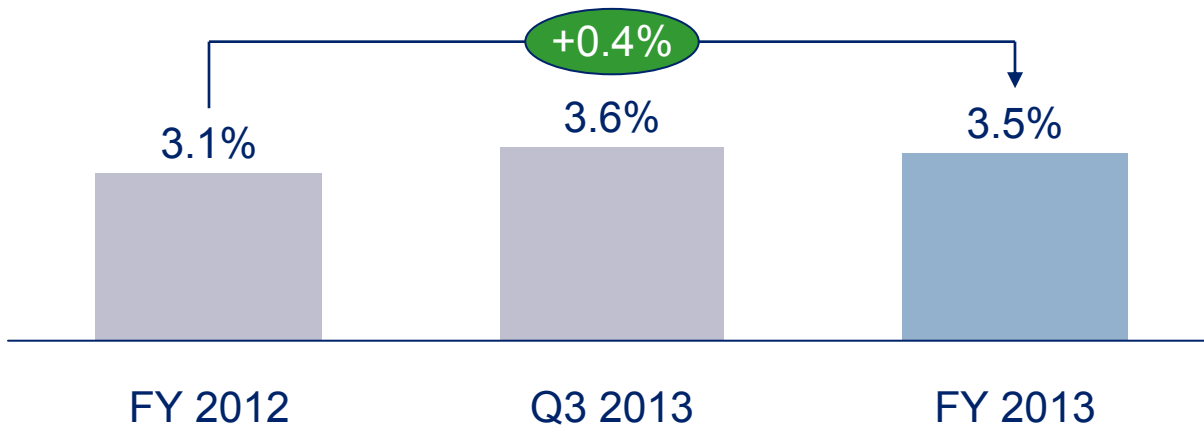


# Fully loaded Basel III capital ratio – key drivers

£bn	FY 2012	Q3 2013	FY 2013	Key drivers
CT1 Ratio (current PRA rules)	11.5%	11.6%	10.9%	
<b>Reported Tangible Equity</b>	<b>49.8</b>	<b>48.6</b>	<b>41.1</b>	
Expected loss	(6.1)	(4.1)	(1.7)	Benefit of RCR offset in part by other regulatory factors
<i>o/w EL - P</i>	(5.1)	(4.7)	(0.1)	£4.5bn RCR impairment leads to lower Expected Loss (EL) - Provisions
<i>o/w Offset / Restriction</i>	-	(0.4)	(0.6)	Legal entity restrictions on recognising provisions in excess of EL
<i>o/w CVA on EL<sup>1</sup></i>	(1.1)	-	(1.6)	Revised interpretation removes previously assumed offset to EL
<i>o/w PVA offset on EL</i>	-	1.0	0.5	Reflects lower QoQ Prudential Valuation Adjustment (PVA)
Prudential Valuation Adjustment	(0.3)	(1.1)	(0.8)	
DTAs	(3.2)	(2.3)	(2.3)	Increase in DTAs from losses offset by Q4 write-down
Own Credit Adjustments	0.5	0.6	0.6	
Pension fund assets	(0.1)	(0.1)	(0.2)	
Cash flow hedges – fair value	(1.7)	(0.5)	0.1	Benefit offset by movements in tangible equity
Other	(1.0)			
<b>Basel III CT1 capital</b>	<b>37.9</b>	<b>41.1</b>	<b>36.8</b>	
<b>RWAs (current PRA rules)</b>	<b>460</b>	<b>410</b>	<b>385</b>	
Securitisation	20	22	19	
CVA net uplift	13	17	17	
Other net uplift	3	3	8	
Net RWA uplift	36	42	44	
<b>Basel III RWA</b>	<b>495</b>	<b>452</b>	<b>429</b>	<b>£23bn reduction Q/Q from on-going deleveraging</b>
Fully loaded CET1 Ratio	7.7%	9.1%	8.6%	Target c.11% by end-2015 and 12%, or above, by end-2016

# Leverage ratio – key drivers

CRR full end-point measure leverage ratio, %



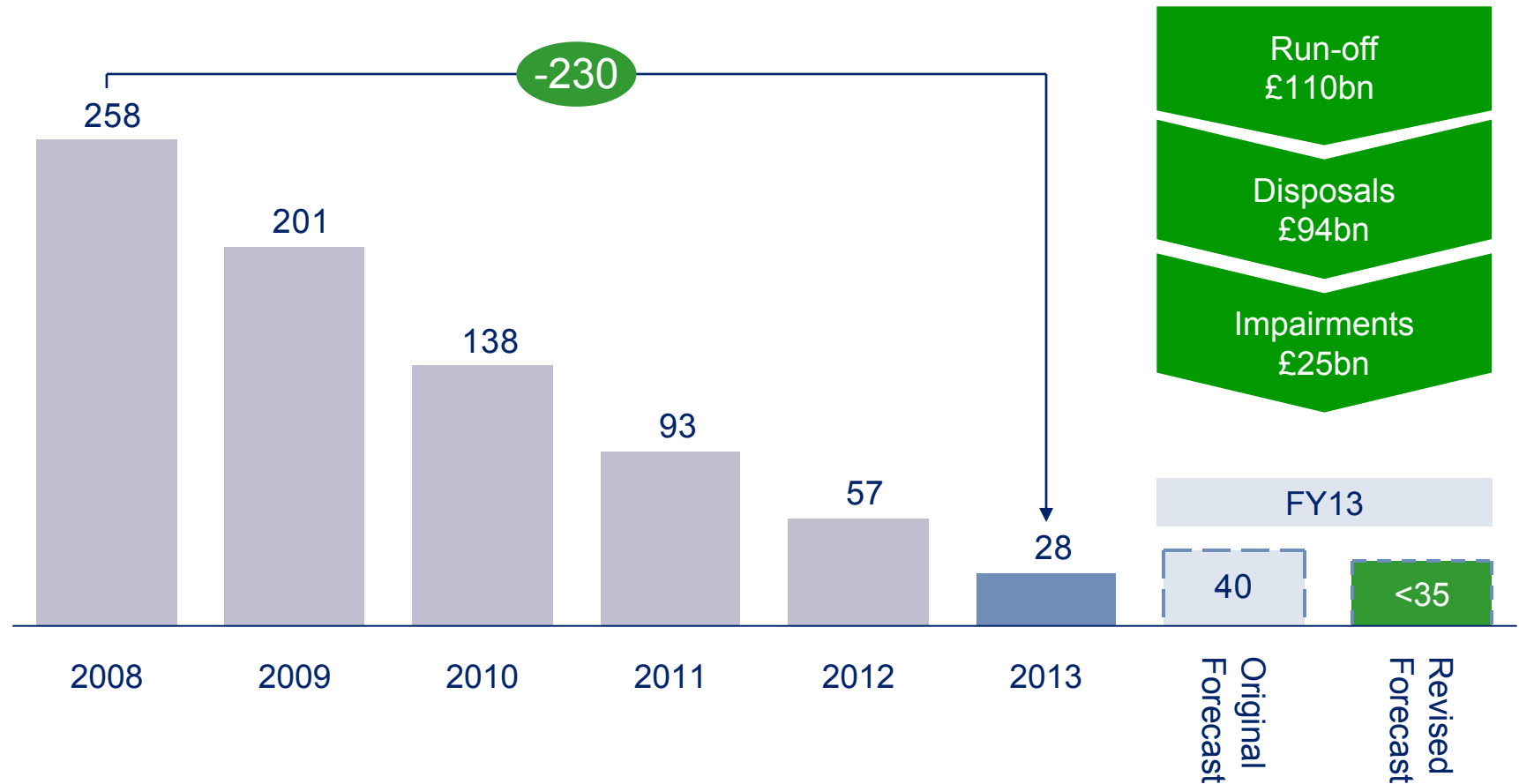
	FY 2012	Q3 2013	FY 2013
Fully loaded CET 1 capital, £bn	37.9	41.1	36.8
Total assets, £bn	1,312	1,129	1,028
Netting of derivatives	(370)	(265)	(234)
Securities financing transactions	(46)	(55)	(41)
Regulatory deductions & other adjustments	(15)	(8)	(7)
Potential future exposures on derivatives	133	143	131
Undrawn commitments	188	186	183
Exposure	1,202	1,131	1,060

- Further deleveraging reduced leverage exposure Q/Q. Ratio lower driven by Q4 2013 attributable loss
- Small, c.0.1%, negative impact of January BCBS proposals
- Target 3.5%-4% medium-term<sup>1</sup>, ≥ 4% long-term<sup>2</sup>

<sup>1</sup> Medium term defined as 2016/17. <sup>2</sup> Long-term defined as 2018 to 2020.

# Non-Core delivered ahead of plan

Third Party Assets (TPA), excl. derivatives, £bn



- Non-Core funded assets reduced by £230bn, 89%, to £28bn at FY13, well below original £40bn target
- Capital accretive 2011-2013

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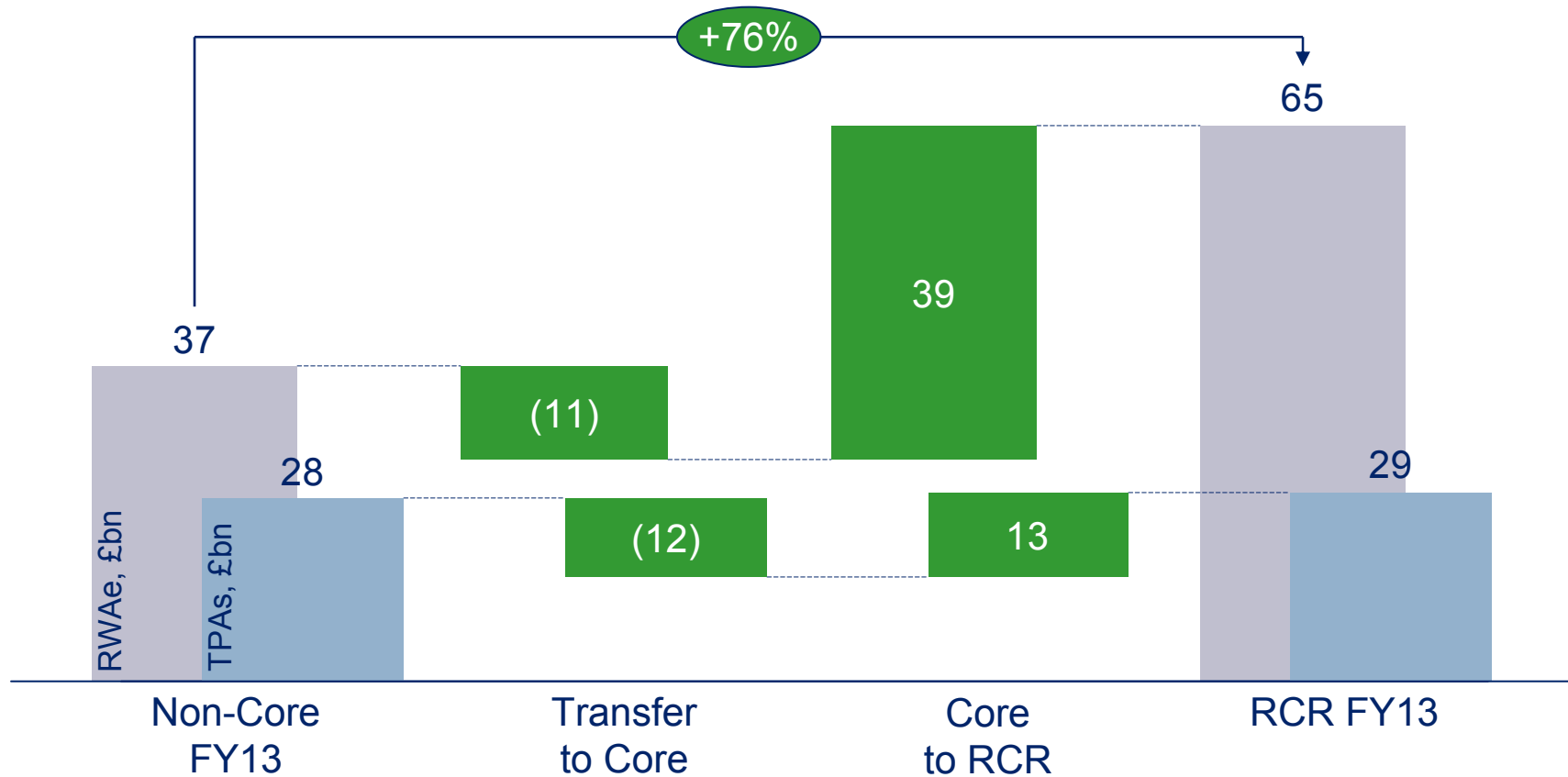
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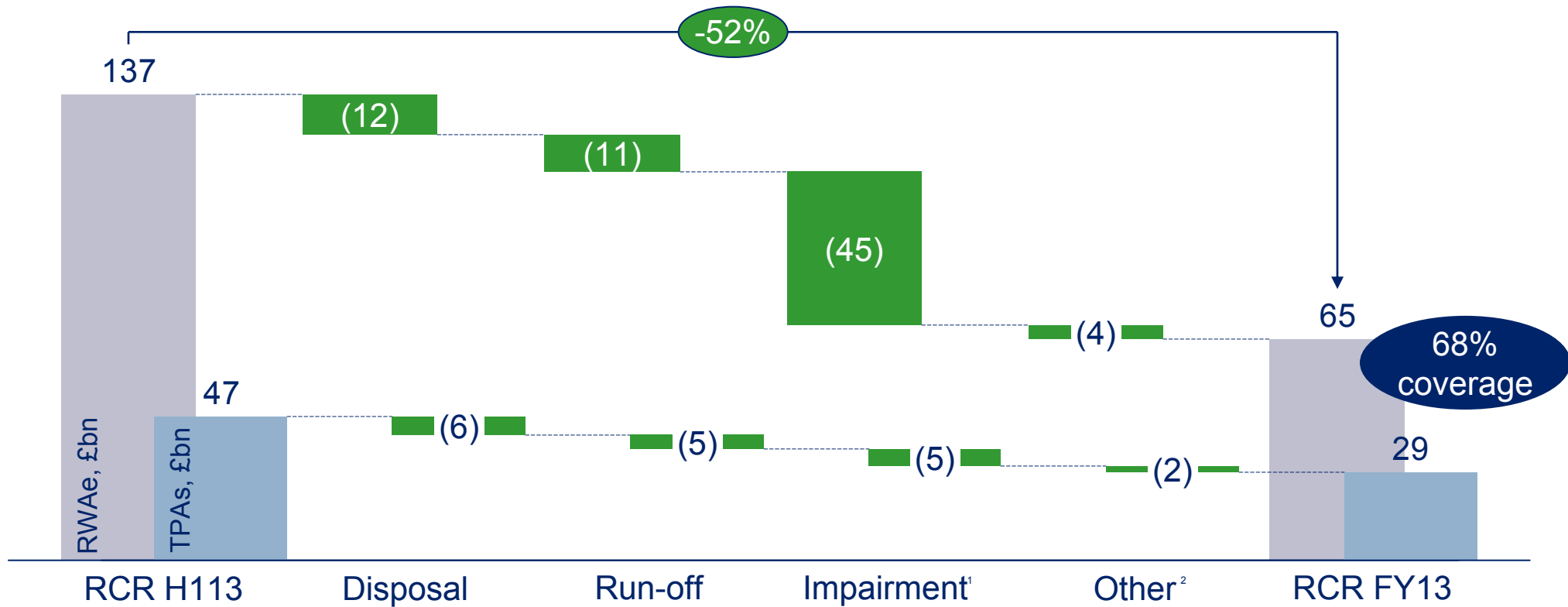
Restatement timetable

# Source of assets and capital for RBS Capital Resolution



- RCR assets selected on the basis of high capital intensity, or poor performance in stress scenarios
- These assets are disproportionate drivers of the Group's capital intensity and performance in stress scenarios

# Good progress in initial RCR run-down



- Good progress in asset reduction to date with RWA equivalents down £72bn, 52%, and funded assets down £18bn, 38%
- Firmed up future reduction targets. TPAs c£23bn FY14, £11-15bn FY15 and ≤£6bn FY2016

<sup>1</sup> RWA equivalent impairment charge (reduced capital deductions capitalised at 10%). <sup>2</sup> Other includes recoveries, fair value adjustments, FX and perimeter refinements.

# Progress made against key RCR metrics

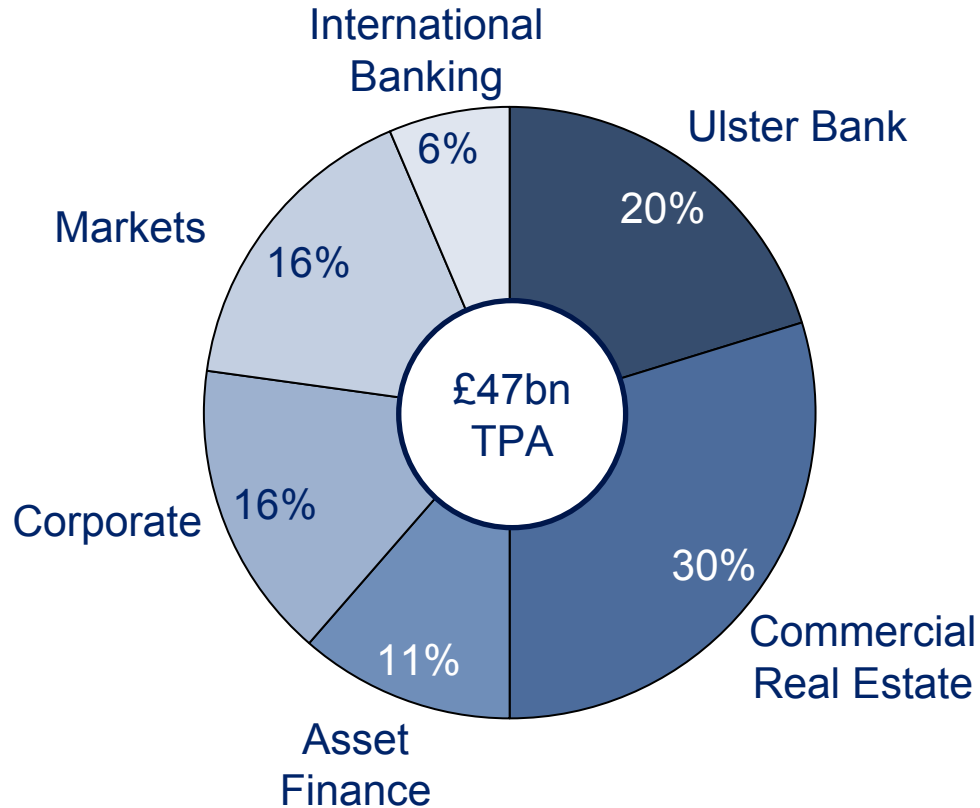
	H1 2013		FY 2013		By end-2016
Third Party Assets	£47bn		£29bn		≤£6bn
Disposal costs	-		nm		£1.5bn - £2bn
Impairments	-		£4.5bn <sup>1</sup>		£5.0bn - £5.5bn <sup>2</sup>
Operating & funding costs	-		nm		£1.5bn <sup>3</sup>
NPLs as % of Group	9.0%		9.4%		2.5% - 3.5%

- Target a net capital benefit of >£2bn, c55bps, to the Group's Basel III Common Equity Tier 1 capital ratio
- Value creation will be driven by reduction in stress buffers and de-risking

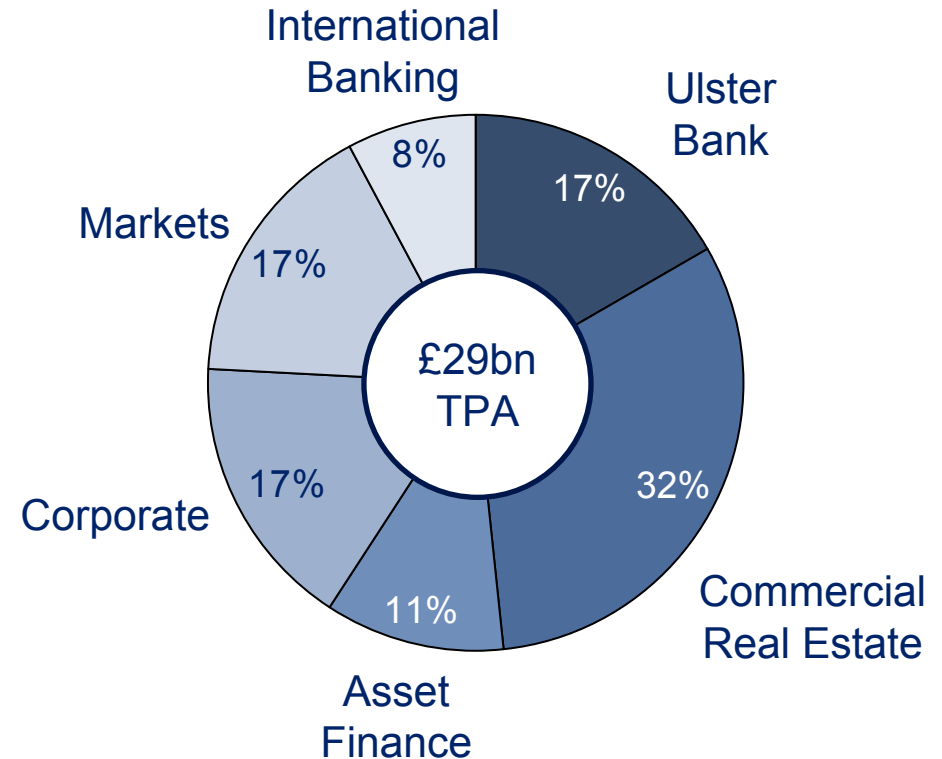
<sup>1</sup> FY 2013 RCR charge of £4.8bn charge also included £0.3bn Fair Value adjustments through income. <sup>2</sup> Cumulative 2013 to 2016. <sup>3</sup> Total from 2014 to 2016

# RCR asset composition

June 2013



December 2013





# RCR – FY 2013 financial impact

Key Group P&L lines, £m	Pre-RCR	RCR Impact	Post-RCR
Total Income	19,775	(333)	19,442
Impairment losses	(3,942)	(4,490)	(8,432)
<b>Operating Profit</b>	<b>2,520</b>	<b>(4,823)</b>	<b>(2,303)</b>
Tax	(76)	306	(382)
Attributable loss	(4,108)	(4,517)	(8,625)
<b>Income by Division</b>			
UK Corporate	4,479	(12)	4,467
Ulster Core	890	(19)	871
Core	19,819	(31)	19,788
Non-Core	(44)	(302)	(346)
<b>RBS Group</b>	<b>19,775</b>	<b>(333)</b>	<b>19,442</b>
<b>Impairments by Division</b>			
UK Corporate	(778)	(410)	(1,188)
International Banking	(177)	(52)	(229)
Markets	(74)	(18)	(92)
Ulster	(882)	(892)	(1,774)
Core	(2,484)	(1,372)	(3,856)
Non-Core	(1,458)	(3,118)	(4,576)
<b>RBS Group</b>	<b>(3,942)</b>	<b>(4,490)</b>	<b>(8,432)</b>

- RBS recognised additional impairments and asset valuation adjustments (negative income) within the RCR portfolio

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# New reporting structure

- From Q2 2014 we will move our reporting to the 3 businesses structure, RCR reported separately
- No Below-the-Line items – except Own Credit Adjustments, Goodwill and Disposals
- All costs will be allocated to businesses providing a complete picture of performance
- Expect restatements in Q2 2014. Q1 2014 divisional reporting to be on 'old' basis but with RCR reported separately
- Investor Roundtables on New Businesses in 2014. Pencil in late Q2 for Personal & Business Banking and H2 for Commercial & Private as well as Corporate & Institutional Banking



# Contacts

Our Investor Relations team is available to support your research

## **Richard O'Connor**

Head of Investor Relations  
richard.oconnor@rbs.com  
+44 20 7672 1758

### For Equity Investors & Analysts

## **Alexander Holcroft**

Head of Equity Investor Relations  
alexander.holcroft@rbs.com  
+44 20 7672 1982

## **Matthew Richardson**

Senior Manager, Investor Relations  
matthew.richardson@rbs.com  
+44 20 7672 1762

## **Michael Tylman**

Manager, Investor Relations  
michael.tylman@rbs.com  
+44 20 7672 1958

### For Debt Investors & Analysts

## **Greg Case**

Manager, Investor Relations  
greg.case@rbs.com  
+44 20 7672 1759

### For Corporate Access

## **Leah McCreanor**

Senior Manager, Investor Relations  
leah.mccreanor@rbs.com  
+44 20 7672 2351

## **Sarah Bellamy**

Manager, Investor Relations  
sarah.bellamy@rbs.com  
+44 20 7672 1760

## **Samantha Brigden-Rodgers**

Investor Relations  
samantha.brigden-rodgers@rbs.com  
+44 20 7672 1758

# Sustainability

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“The success of a bank depends on two things: a strong financial position; and a reputation for great customer service based on a deep connectivity with the society the bank supports, and is in turn supported by.”

Ross McEwan, Chief Executive

# Building a sustainable RBS

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Sustainability at RBS means building our future on long term thinking that focuses on our customers and supports the communities in which they live.

We are committed to being open and transparent regarding the challenges faced by our business, so our stakeholders can see what we are doing to become a more sustainable bank.

You can read more about our sustainability agenda at [rbs.com/sustainable](https://www.rbs.com/sustainable).

# Building a sustainable RBS

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## **Robust governance**

- RBS has a robust sustainability governance framework, ensuring our approach is managed effectively and debated at the appropriate level.
- The Sustainability Committee is a Board committee, comprising of three independent non-executive directors as well as Executive Committee members. It met six times in 2013.
- The remit of the RBS Sustainability Committee has been significantly enhanced to include broader sustainability issues including conduct, culture, reputation and how the bank serves customers.

## **Extensive stakeholder engagement**

- Listening to our key stakeholders including customers, investors, government and media plays a vital role in our decision making and helps shape the way we do business.
- In 2013, the RBS Group Sustainability Committee held seven sessions with external stakeholders to discuss issues such as fair banking, support for enterprise, safety and security and employee wellbeing.

# Building a sustainable RBS

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## Transparency and accountability

- We identify, manage and report on current and emerging issues of material importance to the business, our customers, communities and wider society.
- Our '[financing of the energy sector](#)' document contains enhanced disclosure around our lending to this sector.
- Our sustainability reporting is aligned to the Global Reporting Initiative and is independently assured.

## Our policies

- Our Environmental, Social and Ethical (ESE) risk framework gives clear guidance to staff on the procedures they must follow when dealing with clients in high risk sectors.
- We provide further detail in our sustainability reporting on the process for implementing these policies and the resulting changes to our business.
  - We now have ESE positions for six sectors.



# Sustainability performance and commitments

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- RBS is a member of the Equator Principles Association Steering Committee. We were heavily involved in the launch of 'EPIII', the latest iteration of the Principles.
- We have been members of the United Nations Global Compact since 2003 and we actively participate in the development of this initiative through representation on the Governing Committee of the UK members network.
- RBS has been included in the Dow Jones Sustainability Index (DJSI) every year since its launch in 1999.
- RBS has been included in the FTSE4Good since it was launched 10 years ago.
- In 2013 we received a CDP Disclosure score of 88% and a B for performance.
  - RBS is a signatory of the Natural Capital Declaration.



# Forward Looking Statements

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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 and new strategic 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; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, including the referendum on Scottish independence, credit rating risk and to various types of 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 simplification of the Group's structure, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the proposed EU Recovery and Resolution Directive; 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 and foreign exchange trading and rate setting activities; 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; 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; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; 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.