

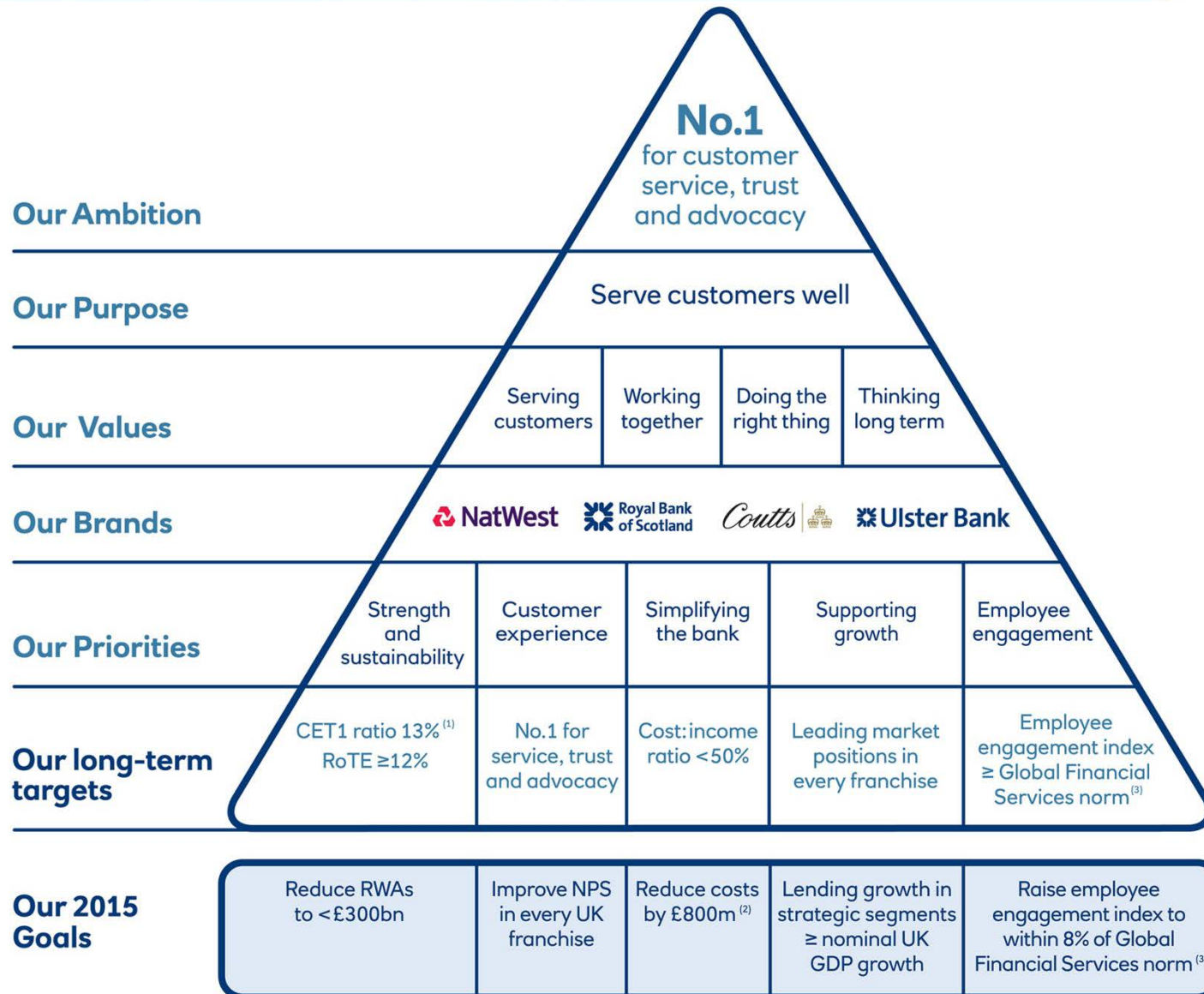
# Delivering value growth at RBS

Ross McEwan, Chief Executive

Morgan Stanley Financial Services Conference – London

24 March 2015

# Our blueprint for lasting success



<sup>(1)</sup> During the period of CIB restructuring. <sup>(2)</sup> Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn. <sup>(3)</sup> Global Financial Services (GFS) norm currently stands at 83%.

2014: a year of delivery

2015 – 2019: driving value and performance

Concluding remarks

# Strong execution against 2014 strategic targets



Strategy Goal	2014 Target	2014 Delivery
<b>Unquestioned capital strength</b>	CET1 >11% by end 2015	CET1 +260bps to 11.2%
<b>Overhaul of costs</b>	£1bn cost reduction in 2014	£1.1bn <sup>(1)</sup>
<b>Resilient customer systems</b>	Improve the resilience of our customer systems	Key services available 99.96% of time
<b>Simplify the bank for customers and colleagues</b>	Simplified organisational design	7 divisions streamlined to 3, back-office functionalised
<b>2015 - 2019 plan</b>	Priorities for accelerated delivery of the strategy	Outlined at the Full Year 2014 results announcement

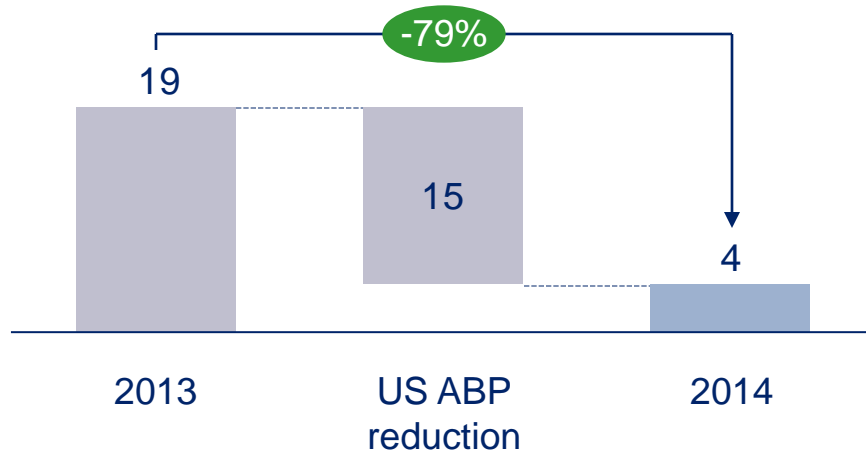
<sup>(1)</sup> Excluding restructuring costs, litigation and conduct costs, currency movements and intangible write-offs.

# 2014 – continued progress in reducing our stress profile



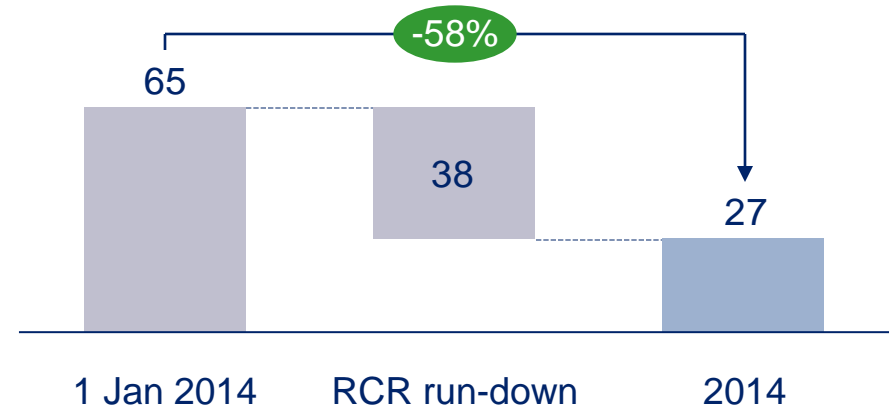
## Strong progress in reducing US ABP<sup>(1)</sup>

Risk-Weighted Assets, £bn



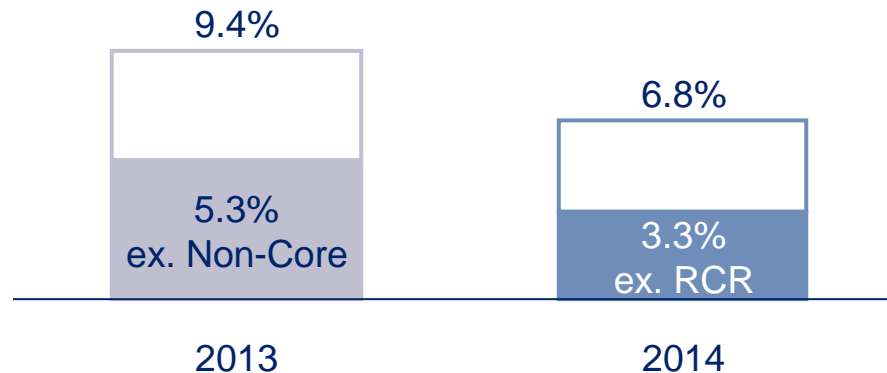
## RCR<sup>(2)</sup> assets significantly reduced

RWAes<sup>(3)</sup>



## Non Performing Loans significantly lower

NPLs as a proportion of gross customer loans, %



<sup>(1)</sup> Asset Backed Products <sup>(2)</sup> RCR – RBS Capital Resolution. <sup>(3)</sup> RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier.

# 2014 strategic milestones



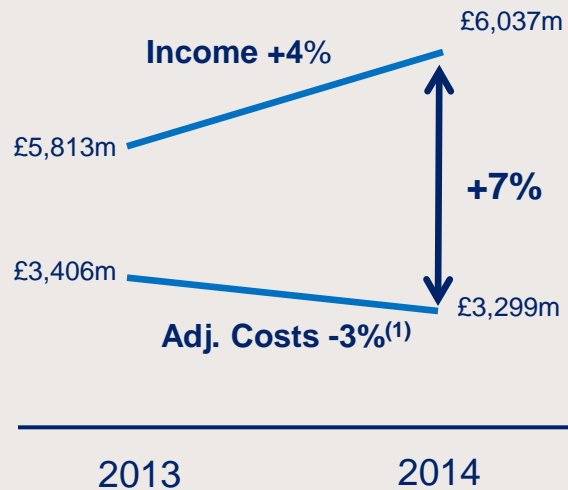
<b>RCR</b>	RWAes down 58%, run-down targets achieved 1 year ahead of original plan
<b>Citizens</b>	Successful IPO, deconsolidation now targeted by end 2015 <sup>(1)</sup>
<b>US ABP business</b>	Exit of business, run-down 79% complete
<b>Ulster Bank</b>	Review completed, retained with new plan
<b>Coutts</b>	Review completed, International Private Banking <sup>(2)</sup> to be exited
<b>Dividend Access Share</b>	Reached agreement on resolution, 1 <sup>st</sup> payment made

<sup>(1)</sup> Citizens is held by RBS at a carrying value of \$23.37. <sup>(2)</sup> International Private Banking comprises private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

# Improving our business for shareholders



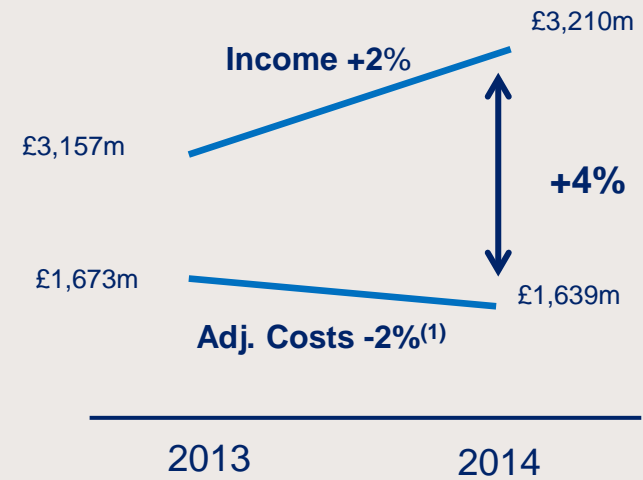
## UK PBB



**RoE 19.4%**

**Cost:income 55%<sup>(1)</sup>**

## Commercial



**RoE 12.6%**

**Cost:income 51%<sup>(1)</sup>**

<sup>(1)</sup> Adjusted: excluding restructuring costs, and litigation and conduct costs.

# Improving our business for customers



Over 1000% growth in mobile usage since 2010

~3m active mobile customers



16 branch transformations per week

93% of branches re-branded by end of 2016

End of 2013

447

3,973

0

6,106

Our expanding presence



communities served by mobile bank vans



self service points



banking points available via Post Office



Total points of presence

End of 2015

639

5,544

11,500

18,971

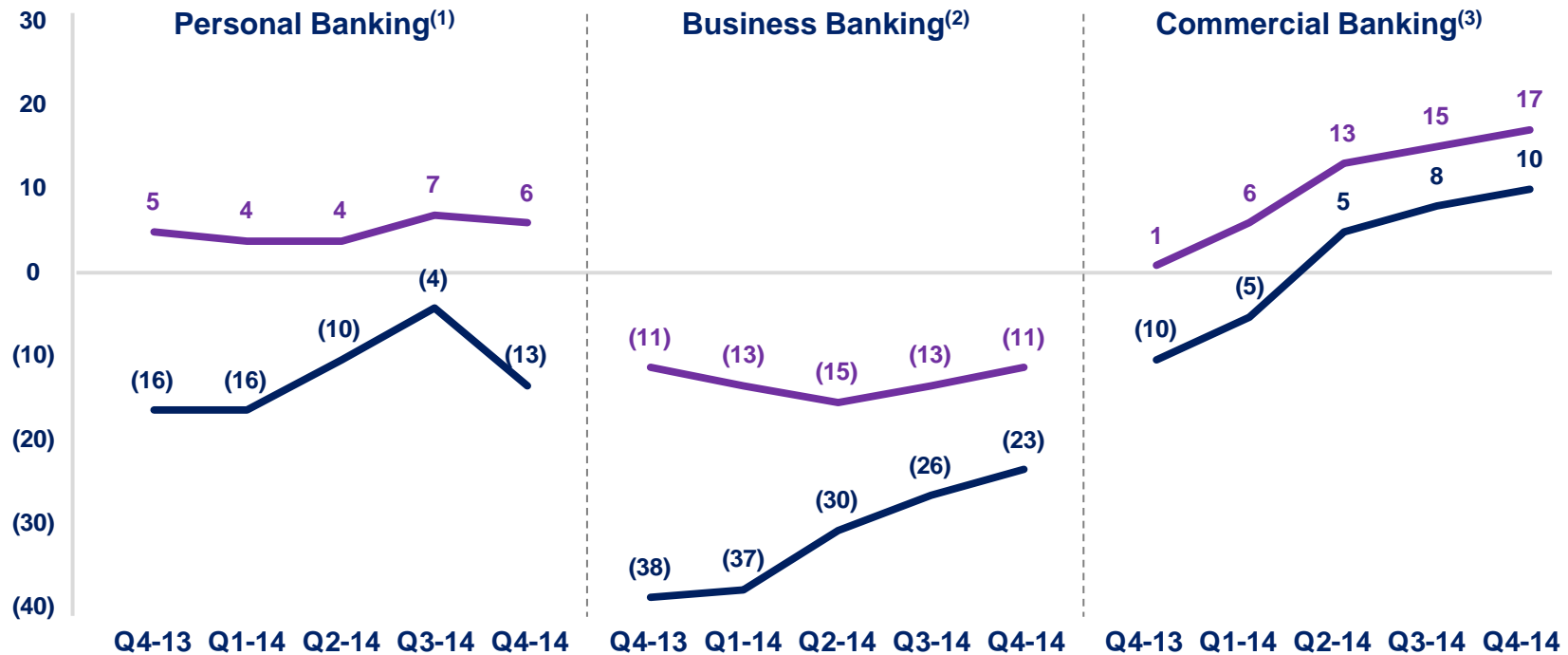


# Progress is being made towards our target of becoming #1



## Net Promoter Scores across our core franchises

— Royal Bank of Scotland (Scotland)  
— NatWest (England & Wales)

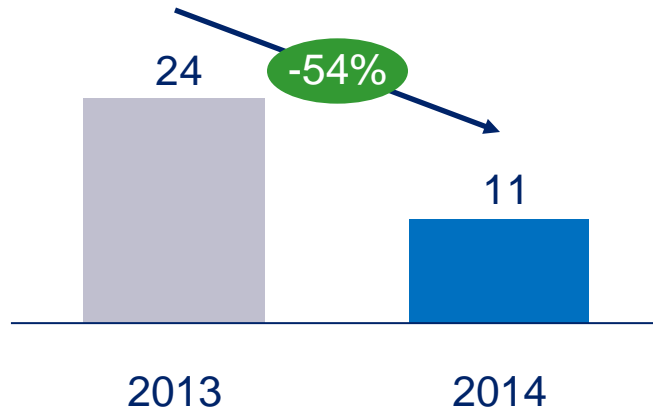


- Early signs that customer trust in RBS is stabilising and starting to improve: net trust to do the right thing amongst customers<sup>(4)</sup>, Q4 14: NatWest 41% and RBS 2% (up from 35% and -16% in Q4 13)

<sup>(1)</sup> Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3511) RBS (547) Question "How likely is it that you would to recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers. No improvement on year on year scores in Personal as movement not significant. <sup>(2+3)</sup> Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1267) RBS (399) Commercial £2m-1bn NatWest (630) RBS (95) Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain. Improvements from YE Q4 13 to YE Q4 14 are statistically significant except in NatWest (England & Wales) Business £0 -£2m where there has been no significant movement. <sup>(4)</sup> Source: Populus (2014) and PSB (2013) RBS reputation tracker Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest England & Wales (927), RBS Scotland (206).

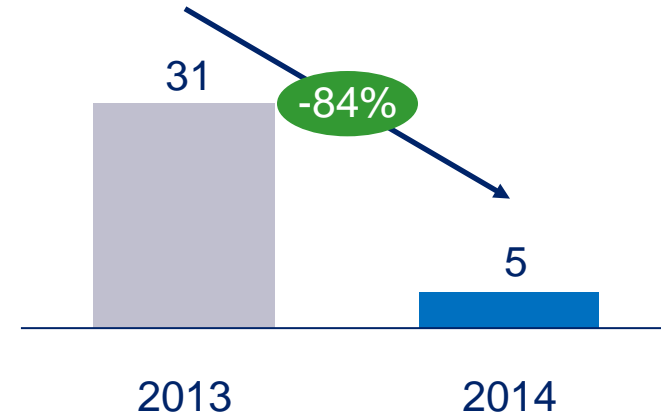
# We are making our business simpler

## We have simplified our current account....



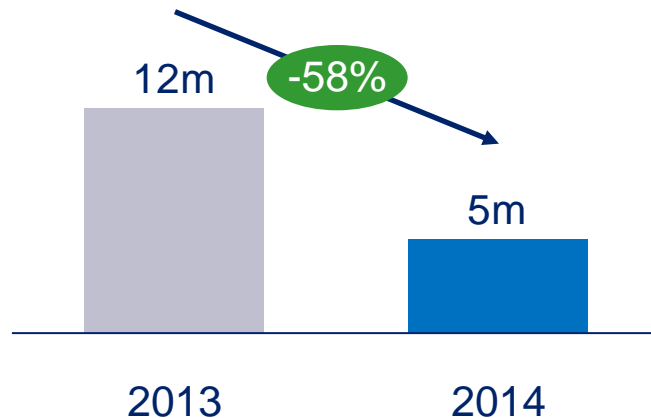
# of offsale<sup>(1)</sup> Personal current account products

## ... and savings product ranges



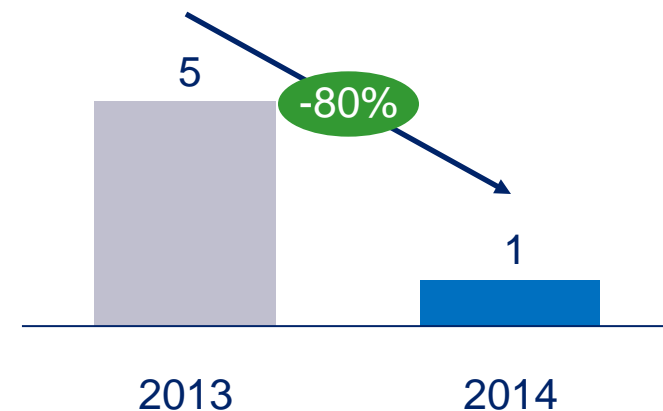
# of offsale<sup>(1)</sup> Personal Savings products

## We have moved customers to on sale products...



# of Personal customers on offsale<sup>(1)</sup> products

## ...and improved account opening processes



# of days to open a Personal current account

<sup>(1)</sup> Offsale products are products which are no longer offered by RBS.

# Building on our innovative mobile and channel offering



We're starting from a **strong base...**



And we have a **clear plan** to build on it...

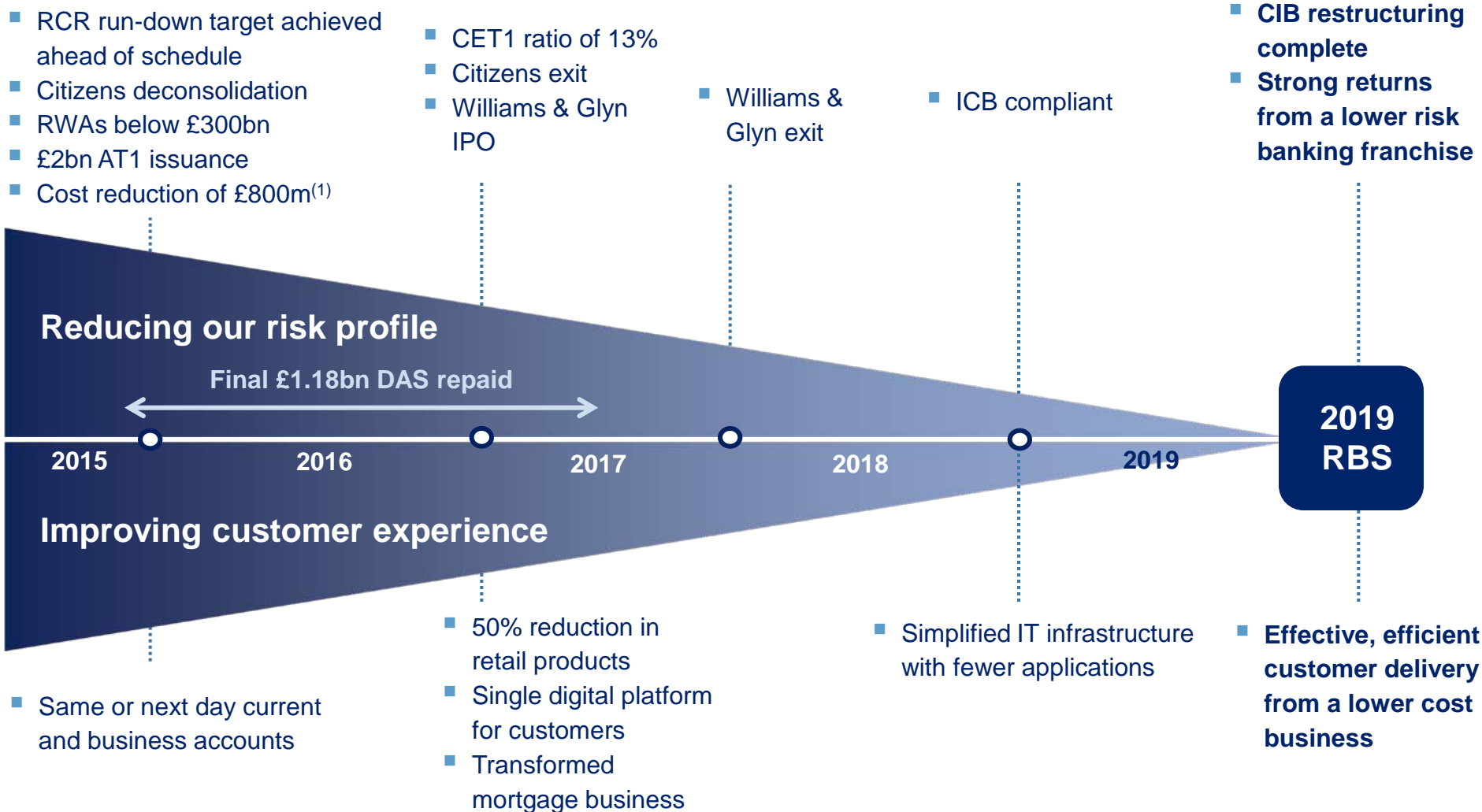
- Integrate our online channels for seamless customer support
- Digital experts in our branches
- Connecting our personal and business customers online
- Connecting services for our customers around key life events, such as buying a house

2014: a year of delivery

2015 – 2019: driving value and performance

Concluding remarks

# 2015-2019 – Targeted outcomes



<sup>(1)</sup> Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

# 2015 delivery targets



Strategy goal	2015 delivery target
<b>Strength and sustainability</b>	RWAs reduced to below £300bn; RCR exit substantially completed and CFG deconsolidated; £2bn of AT1 raised
<b>Customer experience</b>	NPS improvement in every UK customer franchise
<b>Simplifying the bank</b>	Cost reduction of £800m <sup>(1)</sup>
<b>Supporting growth</b>	Lending growth in strategic segments in line with UK GDP growth <sup>(2)</sup>
<b>Employee engagement</b>	Raise employee engagement index to within 8% of Global Financial Services (GFS) norm <sup>(3)</sup>

<sup>(1)</sup> Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn. <sup>(2)</sup> Nominal UK GDP growth. <sup>(3)</sup> GFS norm currently stands at 83%.

# Our go-forward business profile



(£bn)	Go-forward businesses profile (pro-forma 2014)					Exit group overview (pro-forma 2014)							Total RBS
	PBB <sup>(1)</sup>	CPB <sup>(2)</sup>	CIB go-forward	Other go-forward <sup>(3)</sup>	Total go-forward	CIB Legacy	Int'l Private Banking	W&G <sup>(4)</sup>	Citizens	RCR	Other Investments	Total Exit Group	
Income	6.0	4.1	2.0	-	12.1	1.9	0.2	0.9	3.1	-	-	6.1	<b>18.2</b>
Adj. costs <sup>(5)</sup>	(3.5)	(2.2)	(1.8)	(0.1)	(7.6)	(1.8)	(0.2)	(0.4)	(2.0)	(0.4)	-	(4.8)	<b>(12.4)</b>
Impairments	0.2	(0.1)	-	0.1	0.2	-	-	(0.1)	(0.2)	1.3	-	1.0	<b>1.2</b>
Adj. op. profit <sup>(5)</sup>	2.7	1.8	0.3	(0.2)	4.6	0.1	-	0.4	0.9	1.0	-	2.4	<b>7.0</b>
TPAs	142	104	169	87	502	72	6	20	81	15	1	195	<b>697</b>
RWAs	56	74	46	10	186	61	2	11	68	22	6	170	<b>356</b>
Adj. RoE (%) <sup>(5)(6)</sup>	28%	15%	nm	nm	13%	nm	(5%)	nm	8%	nm	nm	8%	<b>10%</b>

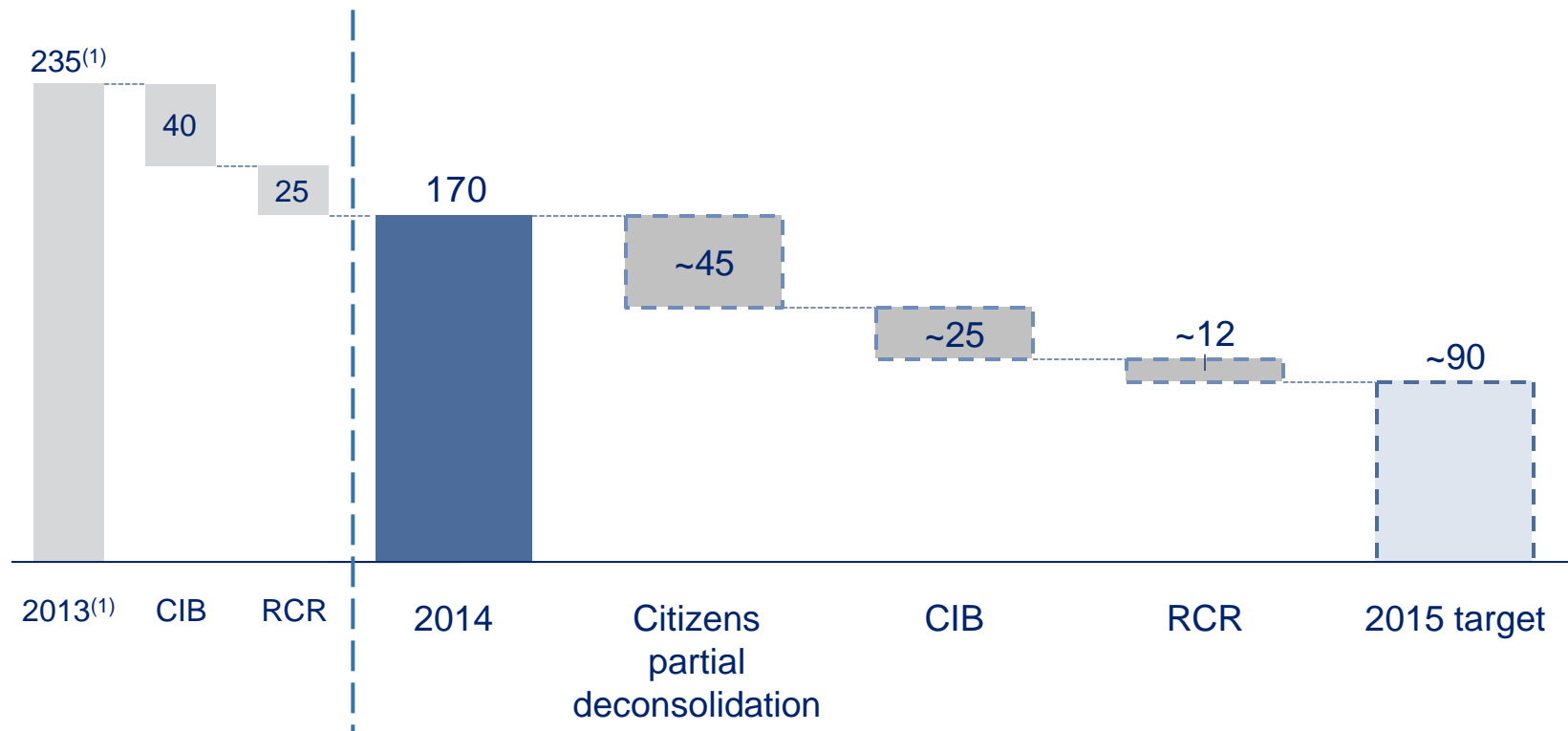
- Long-term cost:income ratio target <50%
- Target 2015 lending growth in strategic segments in line with UK GDP growth<sup>(7)</sup>

<sup>(1)</sup> Total PBB excluding Williams & Glyn. <sup>(2)</sup> Total CPB excluding International Private Banking. <sup>(3)</sup> Other go-forward is primarily centre, which includes the liquidity portfolio. <sup>(4)</sup> Does not reflect the cost base, funding and capital profile of a standalone bank. <sup>(5)</sup> Excluding restructuring and conduct charges. <sup>(6)</sup> Segmental Adjusted RoE excludes restructuring and conduct and litigation costs and is calculated using a 25% notional tax rate and equity equivalent to 12% of average segmental RWAs. Total RBS Adjusted RoE excludes restructuring, conduct and litigation costs, own credit adjustments, gain on own debt, write down of goodwill, strategic disposals, discontinued operations and RFS minority interest but includes charges for preference dividends and a notional 25% tax rate. It is calculated using RBS tangible equity. <sup>(7)</sup> Nominal UK GDP growth.

# Rapid reduction in Exit Group RWAs expected



## Illustrative run-down of RBS Exit Group RWA, £bn



<sup>(1)</sup> Illustrative figure showing the CIB and RCR movements in 2014, not including other 2014 RWA movements.



# We intend to distribute excess capital



- At or above 13% CET1 ratio target
- PRA approval required
- Milestones before seeking approval include:
  - Confidence in sustainable profitability
  - Improved stress-testing results – operating within risk appetite
  - Peak of litigation and conduct costs passed
  - At least £2bn of AT1 raised
- Final DAS payment (£1.18bn) made

# CIB – go-forward business profile



Drivers of changes

Returns are too low  
Costs are too high

Capital usage  
is too high

Operating risks are outside of  
our go-forward risk appetite

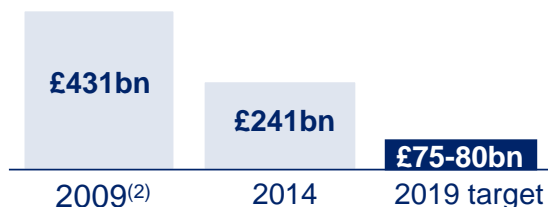
Creating a more focused corporate and institutional bank  
built on existing product/service strengths

CIB  
RWAs



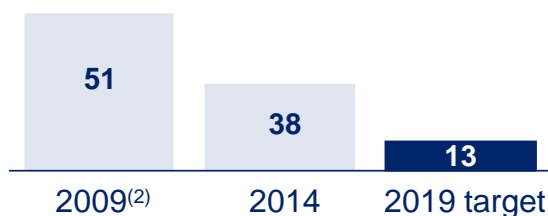
- RWAs reduced substantially over recent years with pace of reduction to be maintained. Intend to reduce by around 2/3rds by 2019
- Targeting >£25bn reduction in 2015

CIB  
Funded  
Assets



- Funded Assets down 44% since 2009  
Intend to reduce by a further ~70% by 2019

CIB  
country  
footprint



- Selling or running off operations in 25 countries

<sup>(1)</sup> CRDIV basis as at 1 Jan 2014. <sup>(2)</sup> 2009 refers to the Global Banking and Markets (GBM) division.

# Reshaping our CIB business



Drivers of changes

Returns are too low  
Costs are too high

Capital usage  
is too high

Operating risks are outside of  
our go-forward risk appetite

Creating a more focused corporate and institutional bank  
built on existing product/service strengths

## Strong focused product offering

**Risk management:**  
FX, Rates  
(USD, GBP and EUR)

**Debt Financing:**  
DCM, Structured Finance, Loans  
(USD, GBP and EUR)

**Transaction Services:**  
UK-focused Cash, Payments & Trade

## International capability

Full service to UK and Western European clients/counterparts (9 European offices)  
Distribution and trading hubs in UK, US and Singapore

# We have market leading Retail and Commercial franchises in the UK and Ireland



## Personal & Business Banking

- #2 GB Personal current accounts<sup>(1)</sup>
- 22% share of GB Business Banking main bank relationships<sup>(2)</sup>
  - ~800k customers
  - 24%<sup>(2)</sup> share of business start-ups
- #1 Northern Ireland
- #3 Republic of Ireland

## Commercial & Private Banking

- #1 UK Commercial bank<sup>(3)</sup>
  - 69,000 customers
- Market-leading share of relationships (29%)<sup>(3)</sup>
- #1 UK Asset Finance (Lombard) and Invoice Finance
- Local presence in over 100+ UK locations
- #1 UK Private Bank

<sup>(1)</sup> GfK FRS, RBS and NatWest market share, 6 months ending Dec ember 2014. <sup>(2)</sup> Charterhouse Research GB Business Banking Survey, 12 months ending December 2014, based on 12,329 businesses with annual turnover of £0 - £2m (3,091 start-ups), weighted by region and turnover to be representative of businesses in GB (GB – UK excluding Northern Ireland). <sup>(3)</sup> Charterhouse Research GB Business Banking Survey, 12 months ending December 2014, RBS and NatWest market share based on 2,381 businesses with annual turnover of £2 - £25m.

# Focusing on growth in the UK strategic segments



	UK Mortgages	UK Commercial
Progress in 2014	#4 in GB mortgages <sup>(1)</sup> £103bn in balances <sup>(2)</sup> (+4%)	#1 UK Commercial Bank <sup>(3)</sup> £86bn in balances (+1%)

## Grow our large, successful UK retail and commercial franchises

Intention to 2019	Above market net balance growth with strong returns	Loan balance growth $\geq$ UK GDP growth <sup>(4)</sup>
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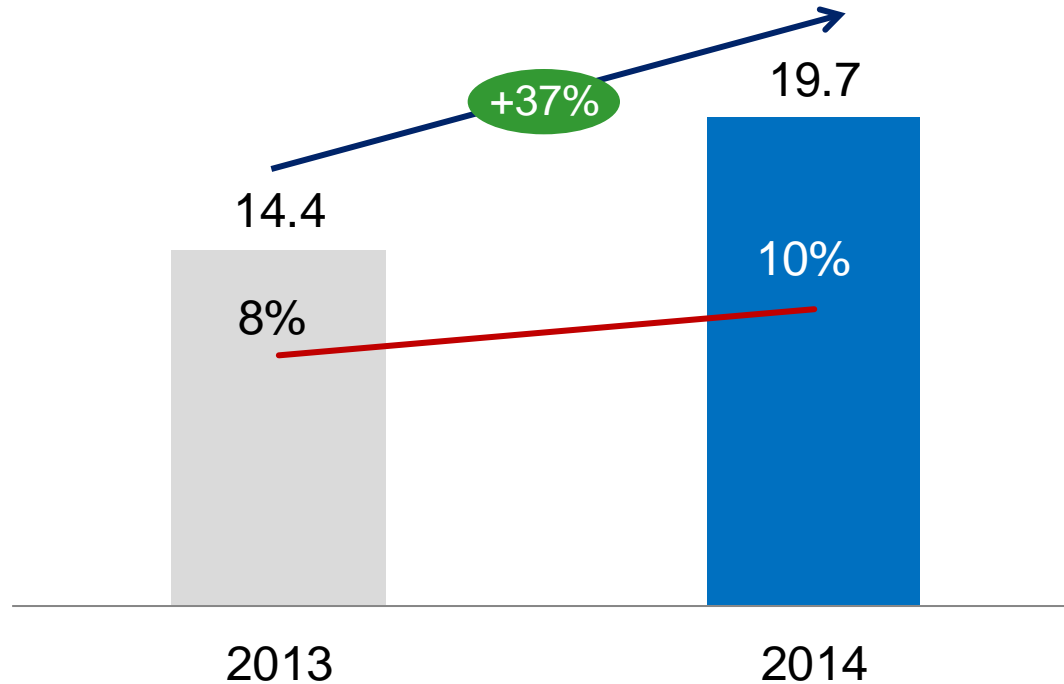
## Capital and risk appetite in place to support growth

<sup>(1)</sup> Source: GfK FRS, RBSG market share, 6 months ending Dec 2014. <sup>(2)</sup> Excludes c£10bn of mortgages lent through Private Banking and Ulster (Northern Ireland). <sup>(3)</sup> Source: Charterhouse Research Business Banking Survey, Year End 2014. Latest base size, Businesses £2m - £25m 2381/ Businesses £2m - £1b 3227. Based on main bank relationships. Data weighted by region and turnover to be representative of businesses in Great Britain. <sup>(4)</sup> Nominal UK GDP growth.

# UK Mortgages – 2014 was our strongest year since 2008, with a 37% increase in new business lending



■ Gross new mortgage lending (£bn) — New business market share (%)



- 41% increase in mortgage advisers in the last 2 years (from 526 to 744)

# Supporting UK entrepreneurs and SME's

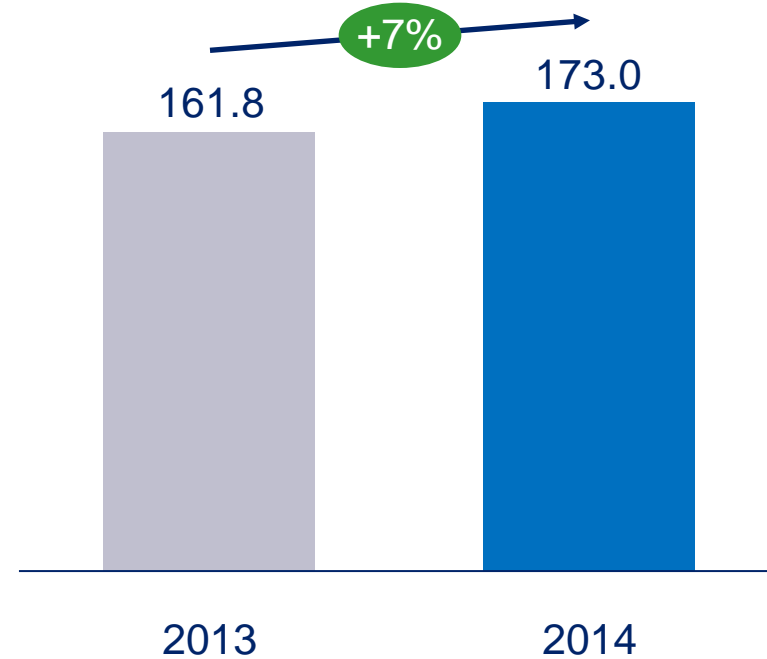
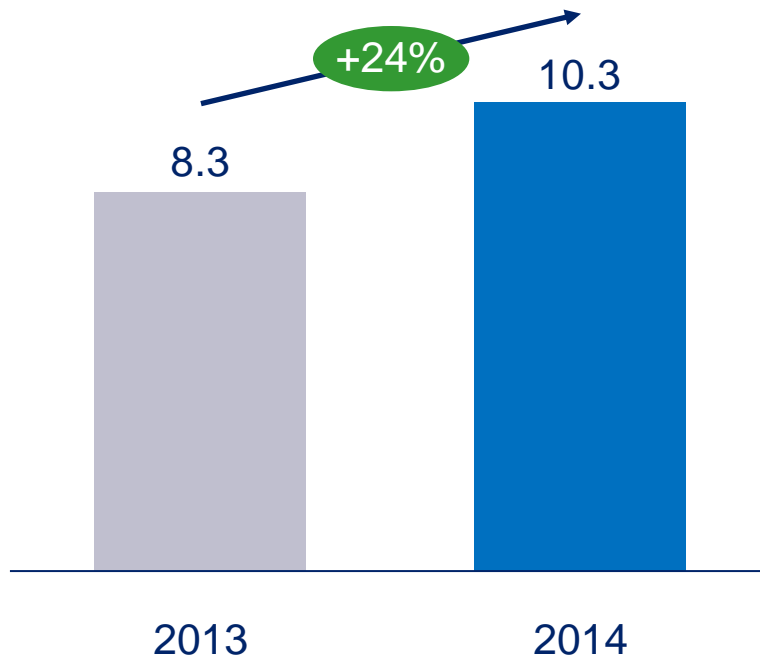


SME gross lending up 24%

SME applications up 7%

£bn

'000



# The bank RBS intends to become



	RBS in 2019		
# 1 Service	Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking
Leading market positions	#2 UK Personal Current Accounts #3 ROI Personal Current Accounts #2 UK business bank main relationship	#1 SME Bank #1 UK Commercial Bank #1 UK Private Bank #1 UK crown dependencies	Top 3 UK Rates, DCM, FX Top 3 European Structured Finance Top 3 Western Europe Investment Grade Corporate DCM
Attractive returns and business mix	UK centred bank with focused international capability 85% of RWAs in retail and commercial/15% in corporate and institutional Cost:income ratio <50% 12+% RoTE from a lower risk franchise		



2014: a year of delivery

2015 – 2019: driving value and performance

Concluding remarks

Strong performance against 2014 targets

We now have a platform to accelerate strategy for 2015 – 2019 with clear milestones in place

Better placed to weather outstanding litigation and conduct issues

Confident in our ability to execute our restructuring plan – accelerates path to a leaner, stronger and better bank

Clear intent on shareholder distributions once 13% CET1 ratio and other milestones achieved<sup>(1)</sup>

# Q&A

# Forward Looking Statements



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', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group's (RBS) transformation plan (which includes RBS's 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of Williams & Glyn and Citizens, RBS's information technology and operational investment plan, the proposed restructuring of RBS's CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capital (TLAC), minimum requirements for eligible liabilities (MREL), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS's future financial performance; the level and extent of future impairments and write-downs; and RBS's exposure to political risks, 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, targets 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 relying on 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 adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in Appendix 5 to the Company Announcement. These include the significant risks for RBS presented by the execution of the transformation plan; RBS's ability to successfully implement the various initiatives that are comprised in the transformation plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the transformation plan as a viable, competitive, customer-focused and profitable bank; RBS's ability to achieve its capital targets which depend on RBS's success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the transformation plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that RBS is subject to and any resulting material adverse effect on RBS of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact RBS including a possible referendum on the UK's membership of the EU; operational risks that are inherent in RBS's business and that could increase as RBS implements its transformation plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default by certain countries in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain 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 regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); 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; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets by the Group; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS 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 RBS 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.