

Q1 2014 Results

2 May 2014

Key takeaways

Net attributable profit of £1.2bn vs. £0.4bn in Q113. Q114 benefited from £203m of AFS gains and £191m gain on the remaining DLG stake sale

Q114 operating profit of £1.5bn vs. £0.7bn in Q113, primarily driven by lower costs (down 6% Y/Y) and lower impairments (down 65% Y/Y)

NIM improved to 2.12%, up 18bps Y/Y, 4bps Q/Q

9.4%¹ CET1 ratio, up 80bps Q/Q. Continued progress on risk reduction, FLB3 RWAs down £15bn (3%) Q/Q to £414bn

Strong early progress in RCR. Outlook sensitive to market conditions

Q114 TNAV 376p, up 13p Q/Q from 363p at FY13

Good start to the year, however headwinds remain

¹ The disclosed Common Equity Tier 1 (CET1) ratio as at 31 March 2014 is calculated using capital which is not the actual regulatory capital, as it does not allow for the initial Dividend Access Share ('DAS') dividend which the PRA regards as foreseeable under Article 26 of the Capital Requirements Regulation. As set out on page 72 of the Q1 IMS, the Group will put a resolution to the independent shareholders at the Annual General Meeting on 25 June 2014 to approve the DAS Agreement; the initial dividend can only be paid if such approval is obtained. Adjusting for this contemplated dividend would reduce the disclosed CET1 Ratio by 8 basis points; this remains 9.4%.

Financial highlights

Summary of results (£m)	Q114	Q413	Q113	Q114 vs. Q413	Q114 vs. Q113
Income	5,053	3,940	5,161	28%	(2%)
Operating Expenses	(3,190)	(3,247)	(3,381)	(2%)	(6%)
Profit before impairment losses	1,863	693	1,780	169%	5%
Impairment losses	(362)	(5,112)	(1,033)	(93%)	(65%)
Operating profit/(loss)	1,501	(4,419)	747	nm	101%
One-off and other items	141	(4,564)	79	nm	78%
Profit/(Loss) Before Tax	1,642	(8,983)	826	nm	99%
Attributable Profit/(Loss)	1,195	(8,702)	393	nm	204%
Net interest margin	2.12%	2.08%	1.94%	4bps	18bps
Cost : income ratio ¹	66%	92%	68%	(26%)	(2%)
Capital & Balance Sheet	Q114	Q413	Q113	Q114 vs. Q413	Q114 vs. Q113
Funded balance sheet (£bn)	746	740	876	6	(130)
FLB3 ² Risk-weighted assets (£bn)	414	429	428	(15)	(14)
Common Equity Tier 1 ratio (%)	9.4% ³	8.6%	8.2%	80bps	120bps
CRR full end-point leverage ratio (%)	3.7%	3.5%	-	20bps	-
Net tangible equity per share (p)	376p	363p	459p	13p	(83p)

¹ Cost:income ratio including bank levy, integration and restructuring charges. ² Fully-loaded Basel 3 basis. ³ The disclosed Common Equity Tier 1 (CET1) ratio as at 31 March 2014 is calculated using capital which is not the actual regulatory capital, as it does not allow for the initial Dividend Access Share ('DAS') dividend which the PRA regards as foreseeable under Article 26 of the Capital Requirements Regulation. As set out on page 72 of the Q1 IMS, the Group will put a resolution to the independent shareholders at the Annual General Meeting on 25 June 2014 to approve the DAS Agreement; the initial dividend can only be paid if such approval is obtained. Adjusting for this contemplated dividend would reduce the disclosed CET1 Ratio by 8 basis points; this remains 9.4%.

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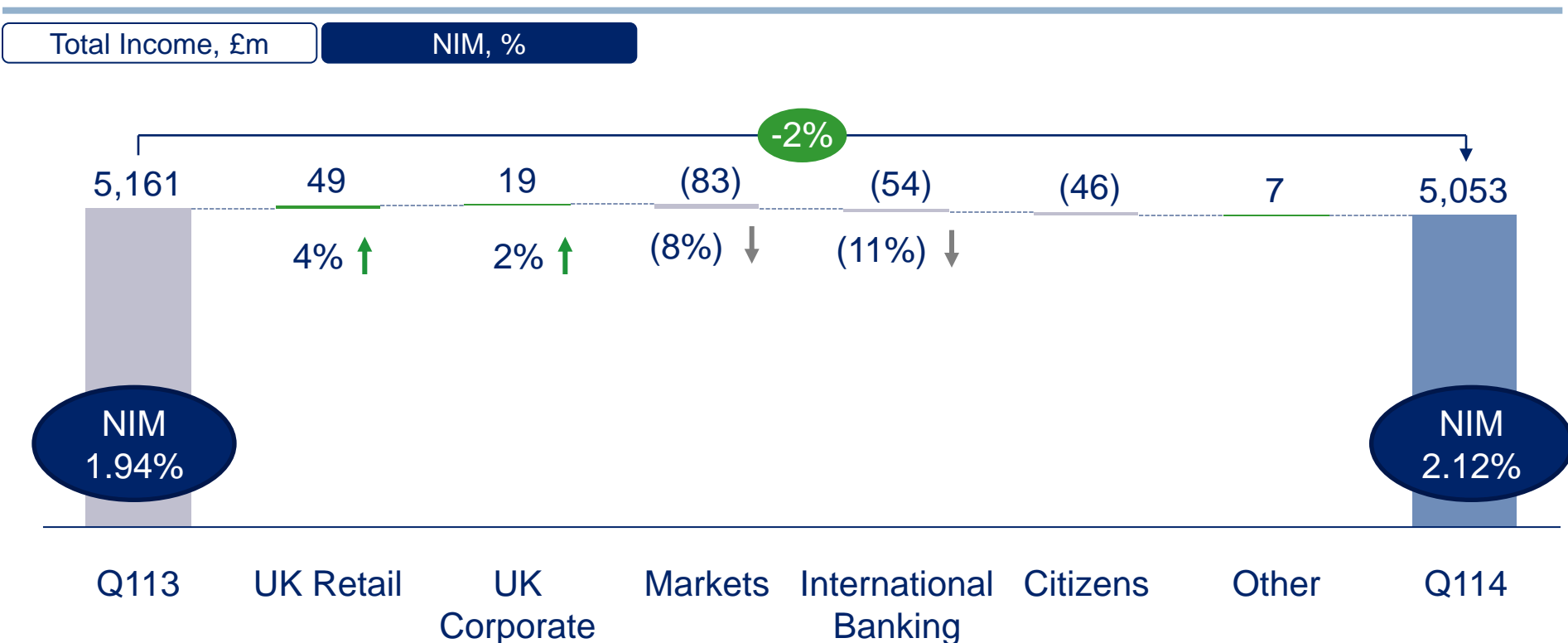
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RBS Capital Resolution

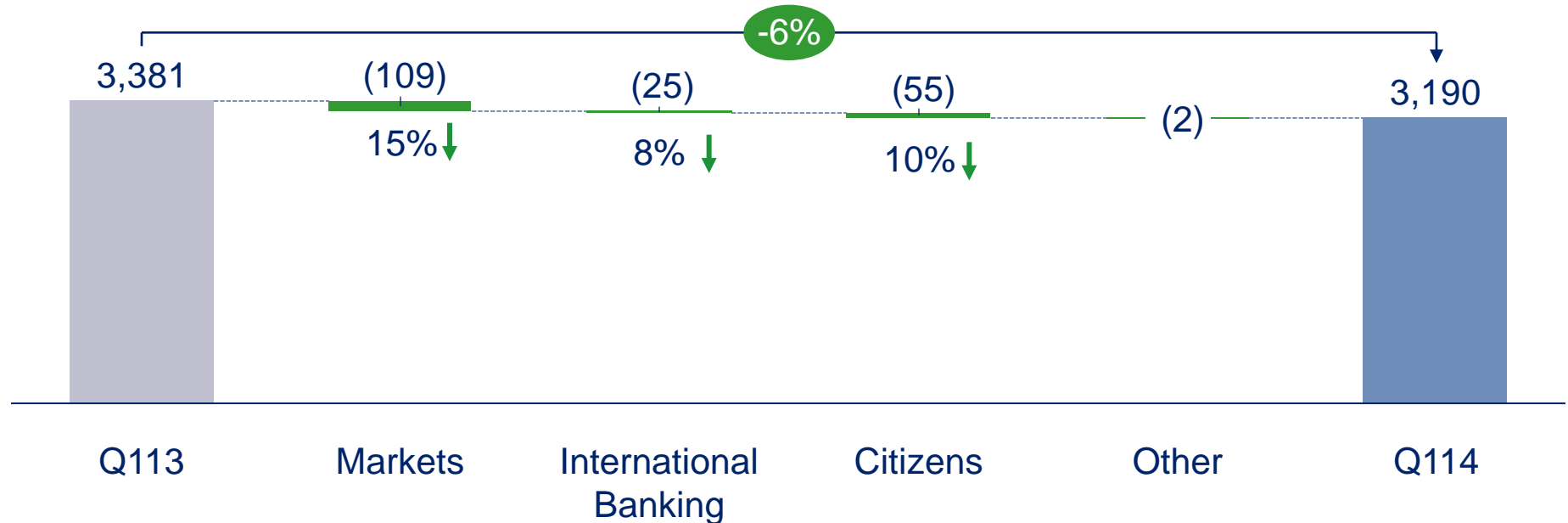
Income – UK showing early signs of growth



- Improving macro and consumer confidence supporting the UK franchises
- Lower Markets and International Banking reflects strategic scaling back of the balance sheet and risk reduction. Markets benefited from some gains and recoveries on deleveraging
- Citizens reported income impacted by GBP strengthening. Up 0.3% Y/Y in USD terms
- NIM continues to improve, up 4bps Q/Q, supported by deposit repricing and reduction of lower yielding excess liquidity assets
- Central items benefited from £203m of AFS gains in Q114, not expected going forward

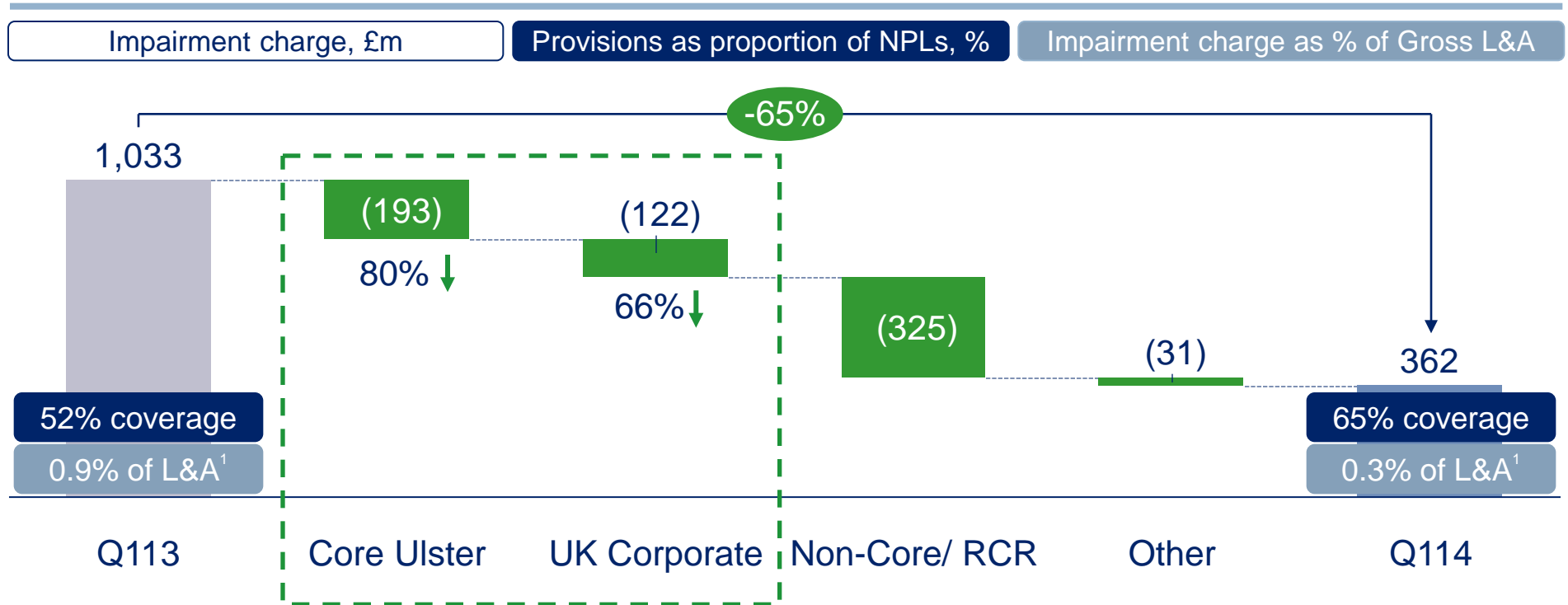
Continued cost reduction

Operating Expenses, £m



- Tight cost control across the Bank, with staff costs down 10% and headcount down >6,000 Y/Y
- Markets and International Banking costs down as reshaping progresses
- Citizens costs down 4% Y/Y in USD terms
- Strategic actions beginning to be implemented – benefits will take time to be realised
- Retain target of ~£1bn ongoing cost reduction for 2014
- Restructuring costs set to increase from here as we implement the updated strategic plan

Improving impairment trends

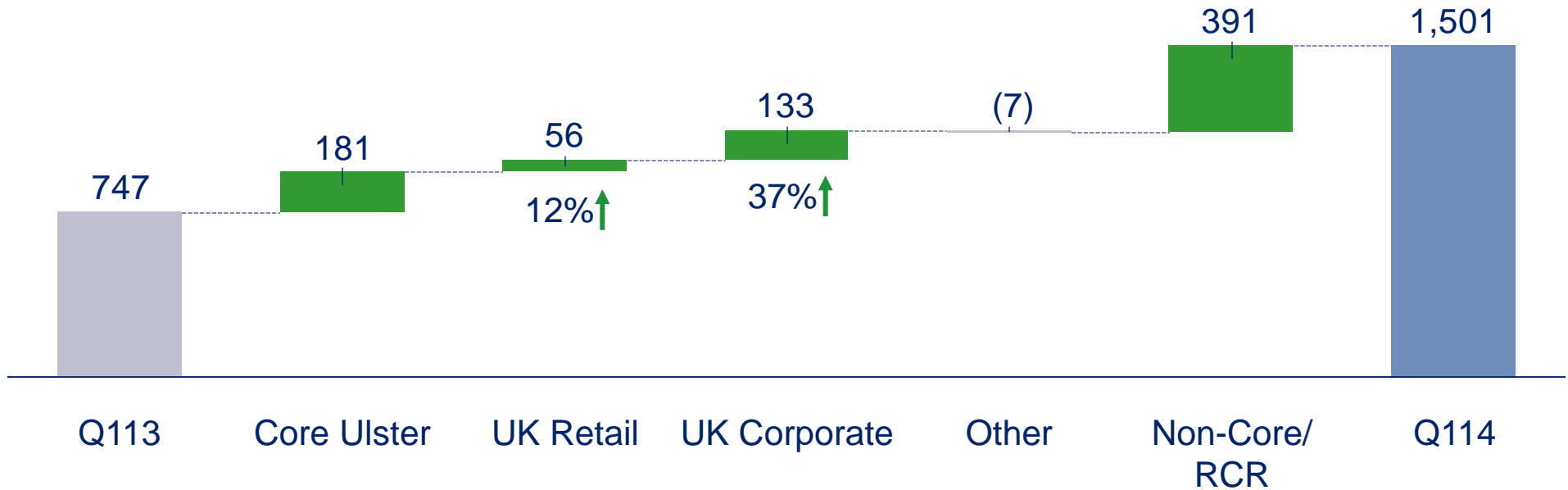


- Core Ulster supported by significant improvement in retail mortgage arrears and rising house prices
- Corporate impairments benefited from the absence of significant individual cases in Q114
- RCR Q114 impairment was low at £108m. Remain cautious on outlook for the remainder of the year

¹ Annualised.

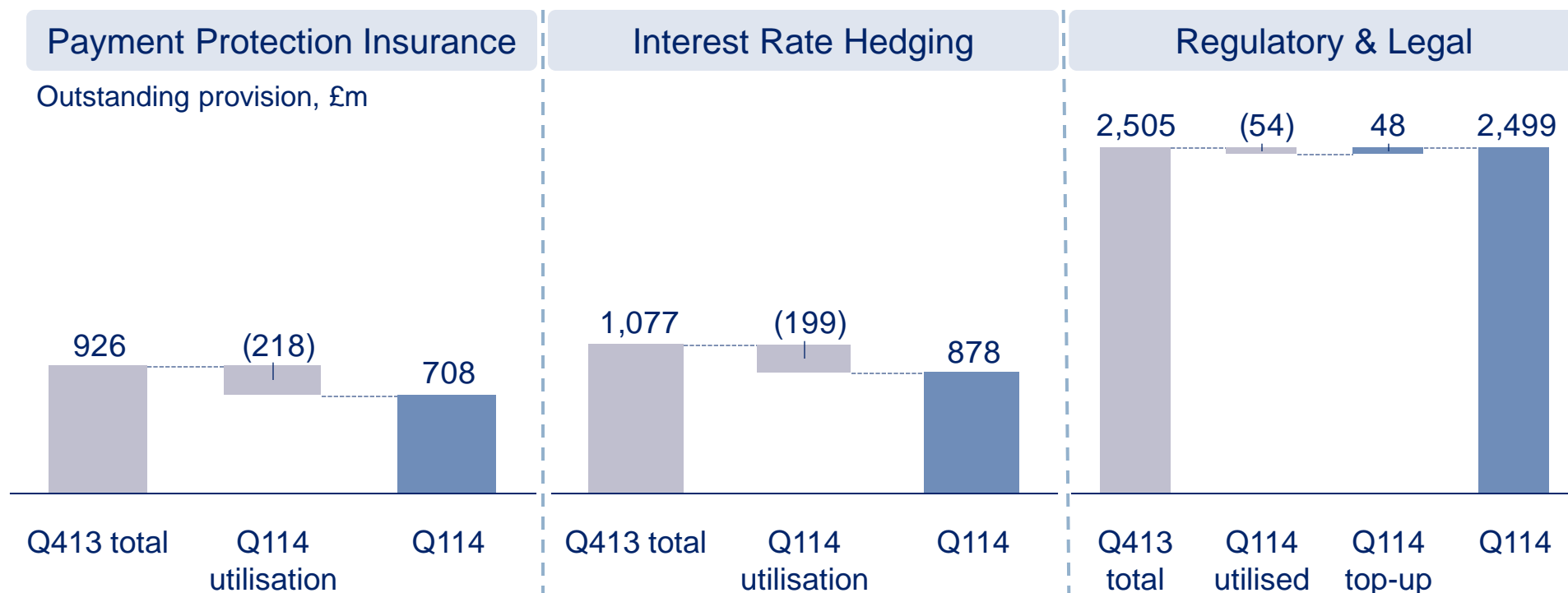
Operating profit improving

Operating profit, £m



- Operating profit improvement driven primarily by lower impairments
- Cost reduction more than offsets lower income
- Core Ulster reported a small profit in Q114
- RCR loss low, outlook sensitive to economic and market conditions
- All divisions, except Citizens, delivered a Y/Y Operating profit improvement (Citizens up Q/Q in USD terms)

Litigation and conduct provisions



- Remaining PPI provision covers approximately 10 months¹ of redress and admin expense
- Uncertainty remains around the scale of future specific conduct and litigation costs

¹ Based on current average monthly utilisation.

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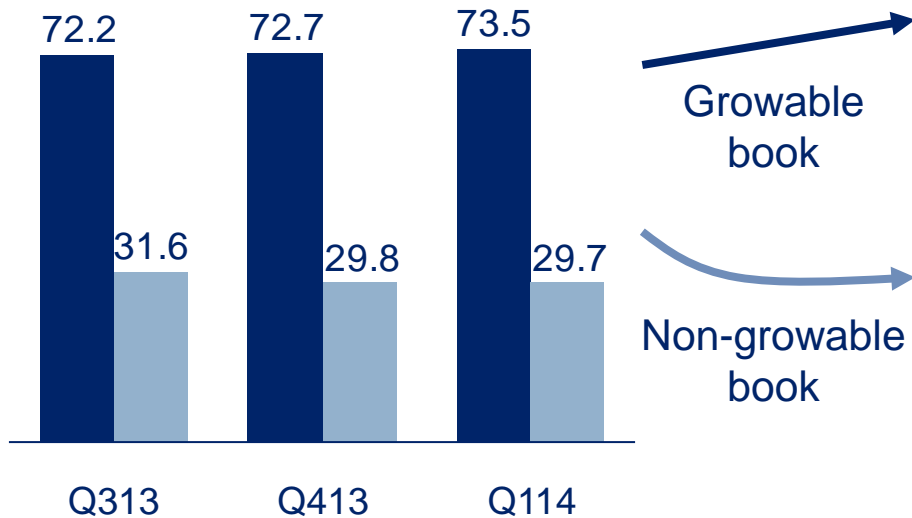
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RBS Capital Resolution

Early signs of loan growth visible

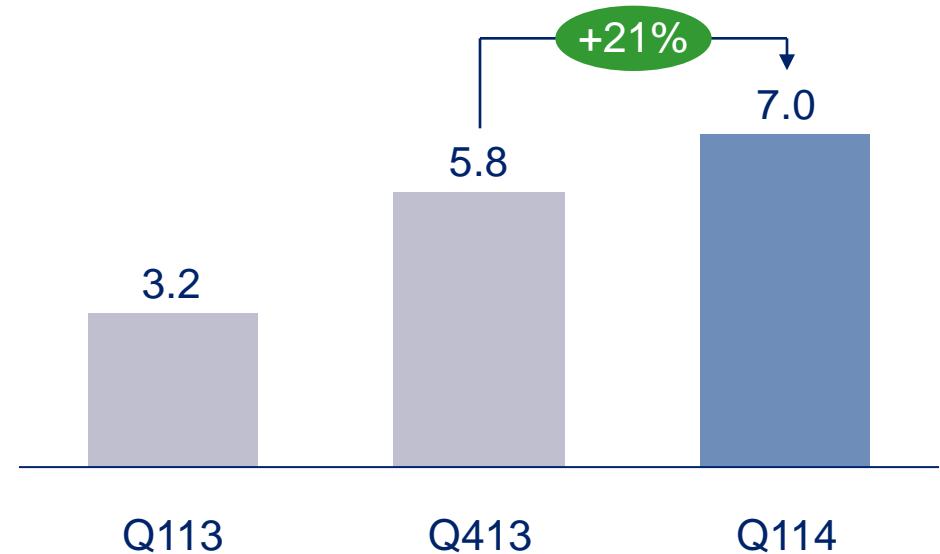
UK Corporate showing early signs of growth

Growable and Non-growable book², £bn



Strong application flow in UK Retail mortgages

Front-book application value, £bn



- New lending trends improving
- 3rd consecutive quarter of growth in UK Corporate growable book, close to 'hitting the floor' on non-growable book. Highest level of new and increased business applications in 4 years¹
- UK Retail Q114 net mortgage lending higher than whole of H213; UK Retail mortgages balance sheet now >£100bn

¹ March 2014. Corporates with turnover >£25m. ² Non-growable book - book of loans in areas of concentration such as Commercial Real Estate being run-down to more sustainable levels.

Balance sheet: Safety & Soundness ingrained

Loan : deposit ratio

97%

Q413: 94%
Q113: 99%

Leverage ratio

3.7%

Q413: 3.5%
Q113: -

Funded balance sheet

£746bn

Q413: £740bn
Q113: £876bn

Short-term wholesale
funding

£31bn

Q413: £32bn
Q113: £43bn

Liquidity portfolio

£131bn

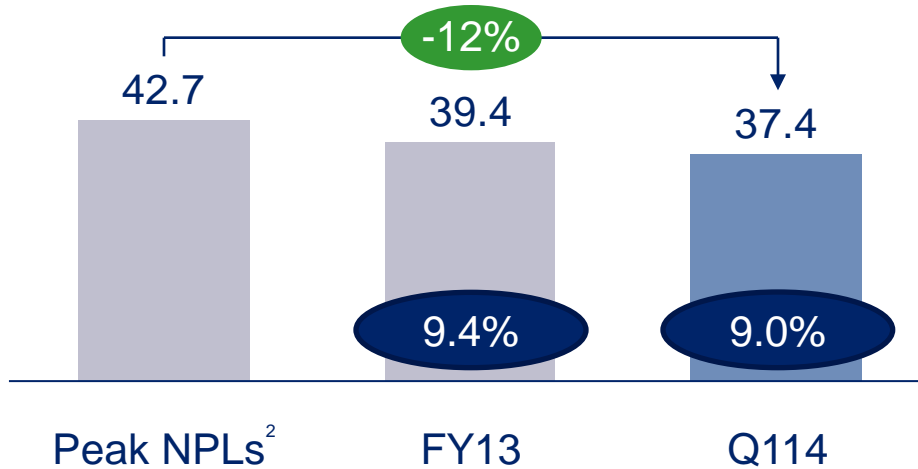
Q413: £146bn
Q113: £158bn

Non-performing loans declining

NPLs¹ coming down

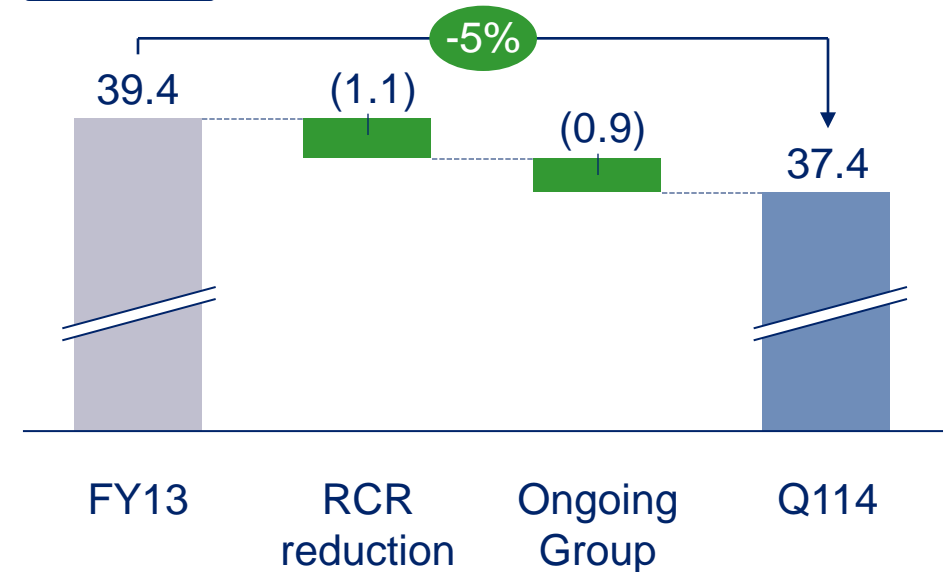
NPLs, £bn

NPL as proportion of gross customer loans, %



RCR delivers over half of the reduction

NPLs, £bn



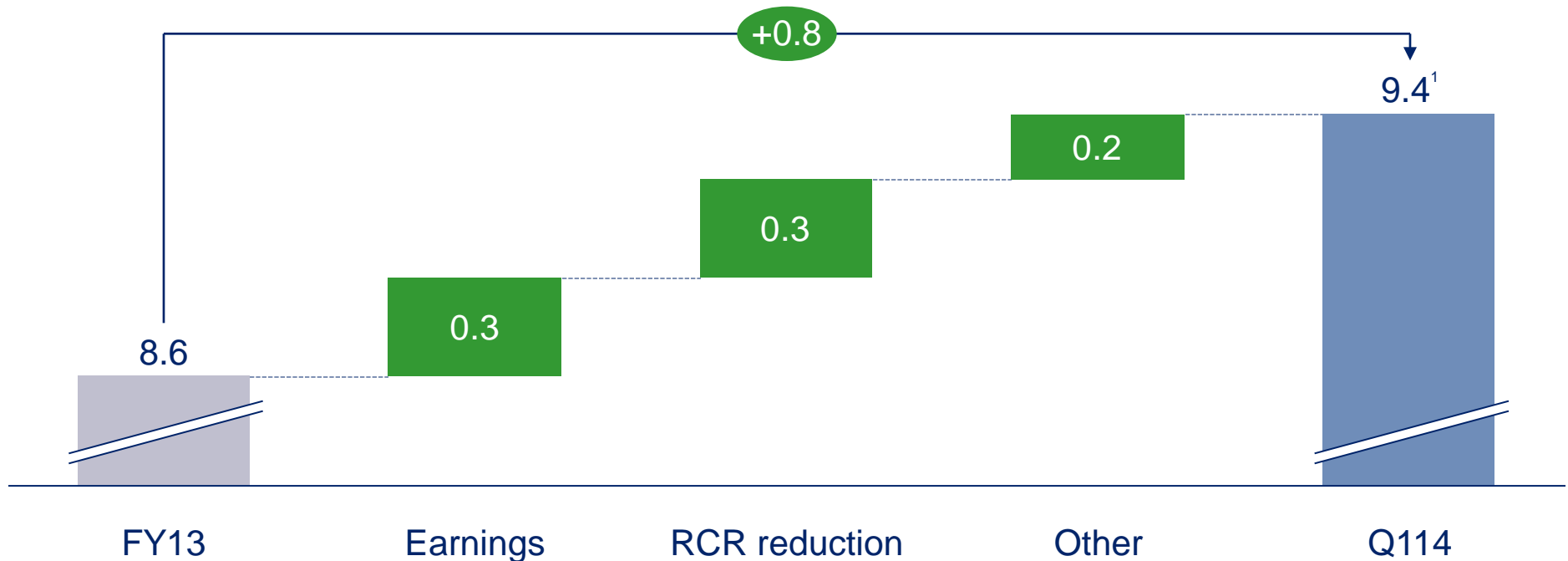
- Non-performing loans down £2bn in Q114, over £5bn from peak
- RCR made a good start benefiting from favourable market conditions
- Leading indicators continue to improve

Early signs are encouraging in most areas

¹ NPLs = REiLs in the Company Announcement. ² Peak is Q311.

Capital generation

Key drivers of the Common Equity Tier 1 ratio, %



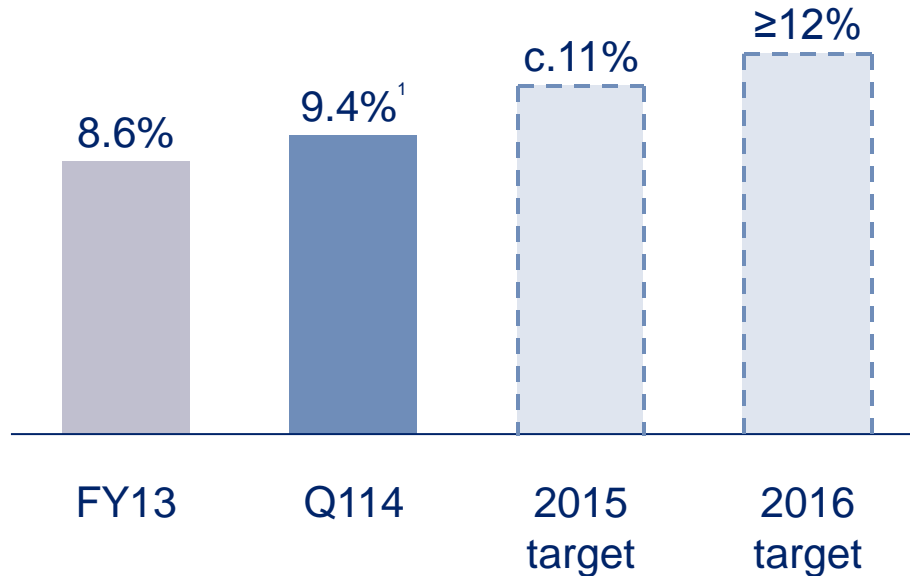
- Solid progress in capital ratio build, FLB3 RWAs down £15bn in Q114
- RCR capital accretive to date
- £1.2bn of attributable profit = 30bps of CET1 ratio build

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On track to achieve CET1 and leverage ratio targets

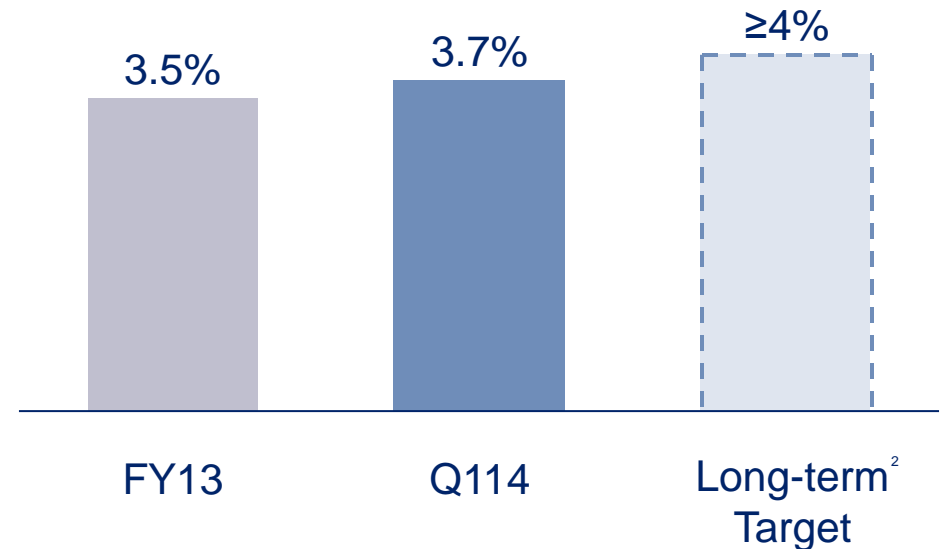
CET1 build progressing

Common Equity Tier 1 ratio, %



Leverage ratio continues to improve

CRR full end-point measure leverage ratio, %



- Maintain guidance of a CET1 ratio of c.11% by end-2015 and 12%, or above, by end-2016
- Leverage ratio up by 20bps to 3.7% in Q114

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Fully loaded Common Equity Tier 1 – key drivers

£bn	FY 2013	Q1 2014
Reported Tangible Equity	41.1	42.6
Expected loss	(1.7)	(1.1)
<i>o/w PVA offset</i>	<i>0.5</i>	<i>0.6</i>
Prudential Valuation Adjustment	(0.8)	(0.8)
DTAs	(2.3)	(1.8)
Own Credit Adjustments	0.6	0.5
Pension fund assets	(0.2)	(0.2)
Cash flow hedges – fair value	0.1	(0.1)
Basel III CET1 capital	36.8	39.1
Basel III RWA	429	414
Fully loaded CET1 Ratio	8.6%	9.4%¹

- Target c.11% by end-2015 and 12%, or above, by end-2016

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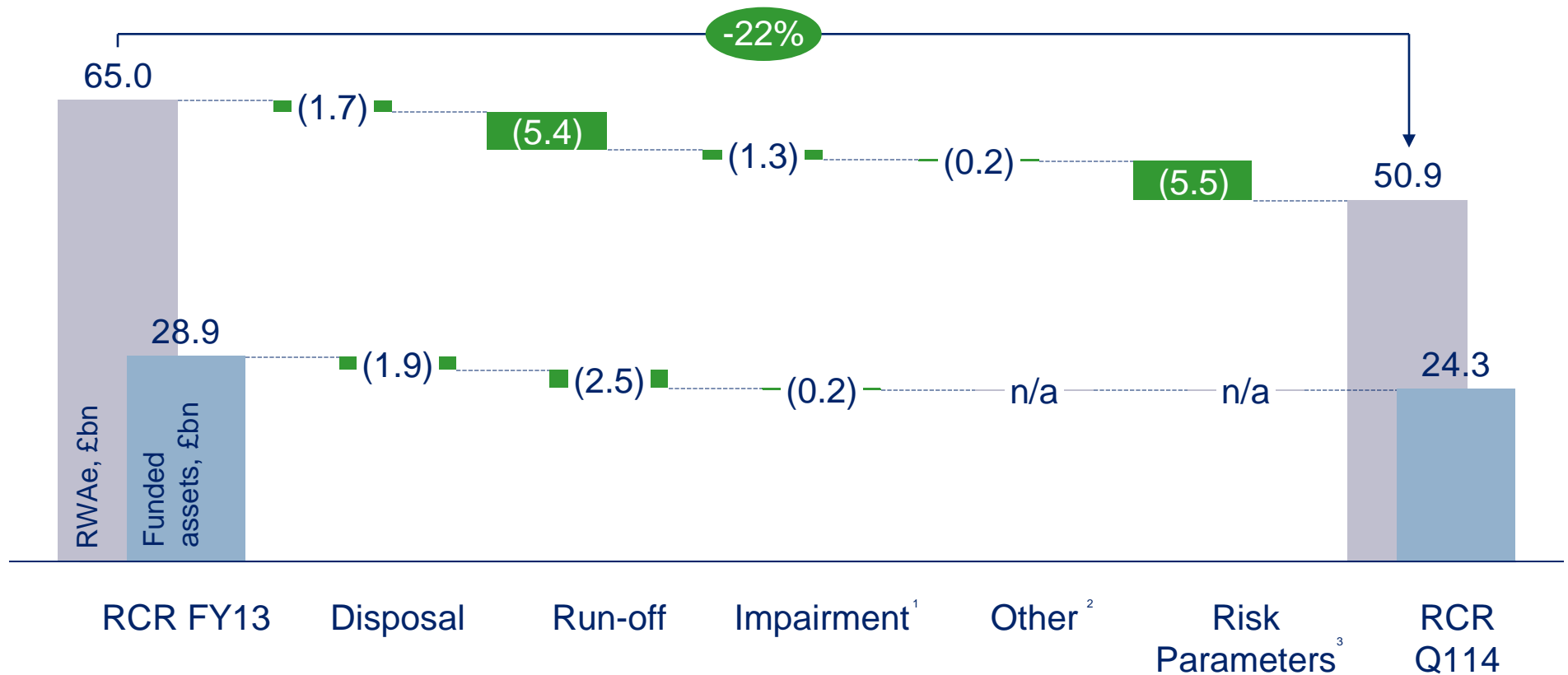
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Good progress in initial RCR run-down

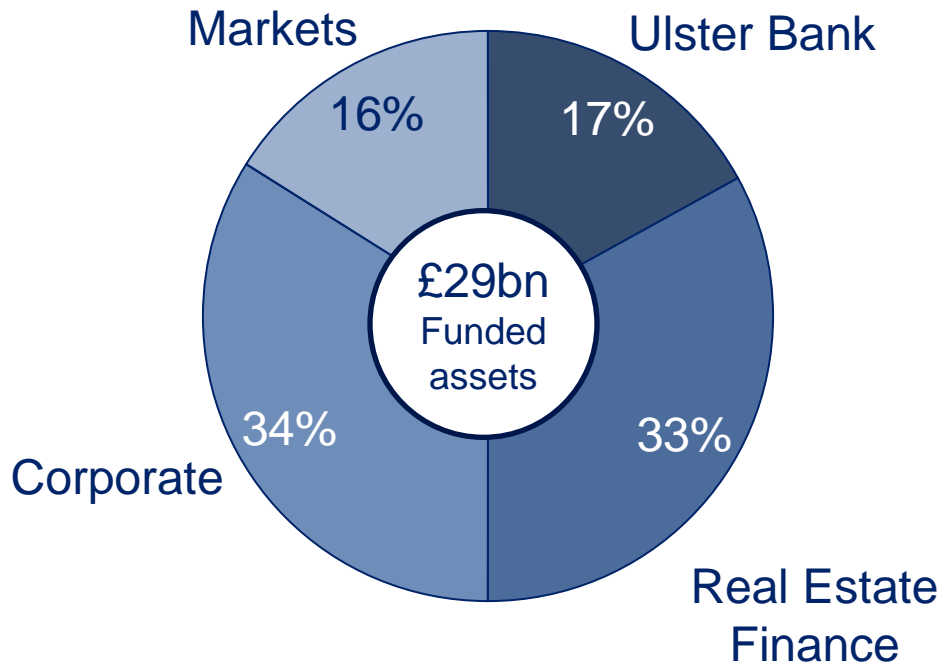


- Good progress in Q1 asset reduction with RWA equivalents down £14bn (22%), and funded assets down £5bn (16%) Q/Q. Since H113, RWAes are down £86bn, funded assets down £23bn
- RCR capital accretive to date
- Strong quarterly performance helped by favourable market conditions

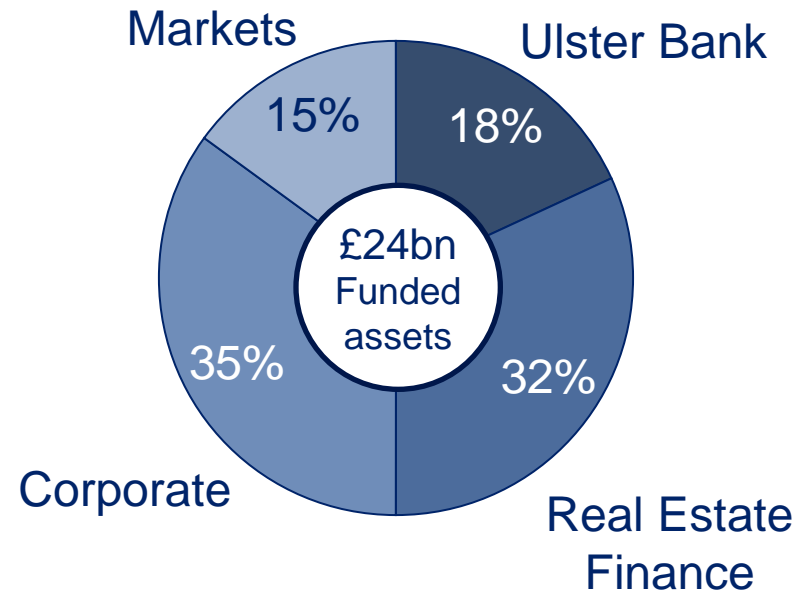
¹ RWA equivalent impairment charge (reduced capital deductions capitalised at 10%). Impairments exclude the impact of any disposal gains or losses which are captured in the disposal category. ² Other includes recoveries, fair value adjustments, FX and perimeter refinements. ³ Reflects credit migration, the implementation of methodology changes and lower operational and market risk RWAs.

RCR asset composition

December 2013



March 2014



Outlook: good start to the year, but headwinds remain

- Continue to expect total impairment charge of ~0.4-0.6% of L&A in FY2014
- Expect RCR to exceed 2014 balance sheet reduction targets, overall operating loss expected in line with previous guidance
- Continue to expect material restructuring costs as we implement our strategy
- Uncertainty remains around the scale of potential future conduct and litigation costs
- Continue to target ~£1bn ongoing cost reduction in 2014

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