

# Building a better bank for customers and shareholders

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**Core bank delivering sustainable RoEs above CoE – target 12+%**

**Leading customer franchises being re-invigorated by service-led strategy**

**Significant volume growth now being achieved; growing market shares in key segments**

**Legacy issues being progressively addressed**

**Intention to return excess capital above 13%<sup>(1)</sup>**

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<sup>(1)</sup> Subject to PRA regulatory approval at the time.

# Our business today

## Three distinctly different business needs



Core		Legacy
48% Q1 2016 RWAs	26% Q1 2016 RWAs	26% Q1 2016 RWAs
Invest to grow	Reposition for returns	Dispose or close
UK PBB	Ulster Bank	Capital Resolution
Commercial Banking	Private Banking UK	Williams & Glyn
RBS International	CIB	

# Q1 2016 results



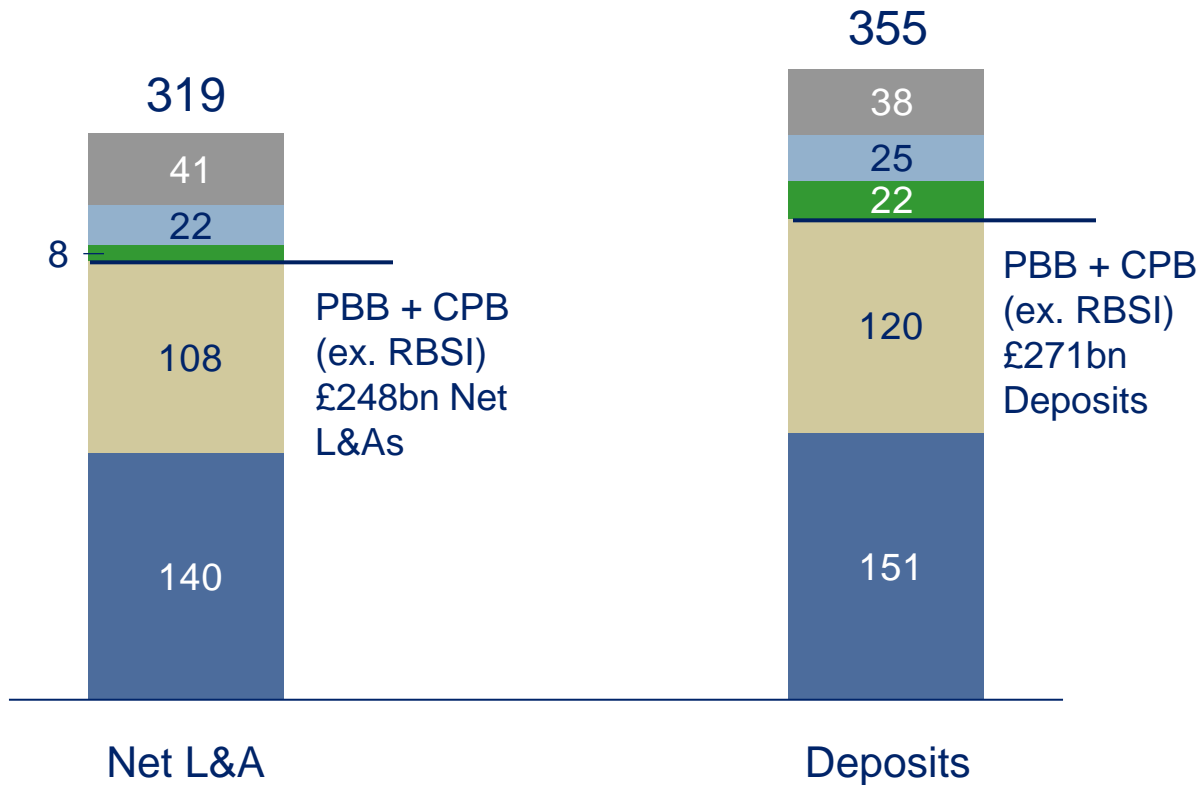
(£bn)	Core Franchises							Other				Total RBS
	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	CIB	Total Core Franchises	Capital Resolution	W&G	Central items & other <sup>(1)</sup>	Total Other	
Adj. Income <sup>(2)</sup>	1.3	0.2	0.9	0.2	0.1	0.3	2.8*	0.1	0.2	(0.3)	(0.0)	2.8
Adj. Operating expenses <sup>(3)</sup>	(0.7)	(0.1)	(0.4)	(0.1)	(0.0)	(0.3)	(1.8)*	(0.2)	(0.1)	(0.1)	(0.4)	(2.2)
Impairment (losses) / releases	-	-	-	-	-	-	-	(0.2)	-	-	(0.2)	(0.2)
Adj. operating profit <sup>(2,3)</sup>	0.5	0.1	0.4	0.0	0.1	(0.1)	1.0	(0.4)	0.1	(0.3)	(0.6)	0.4
Funded Assets	146.3	22.6	139.4	17.3	23.7	116.0	465.3	50.2	24.2	31.0	105.4	570.7
Net L&A to Customers	121.8	17.9	96.4	11.6	8.0	18.6	274.3	22.4	20.1	1.8	44.3	318.6
Customer Deposits	136.9	13.7	97.1	23.2	21.6	6.7	299.2	24.9	24.3	6.6	55.8	355.0
RWAs	34.7	20.4	75.7	8.6	9.1	36.1	184.6	47.6	9.7	7.6	64.9	249.5
Adj. RoE (%) <sup>(2,4)</sup>	27.3%	9.2%	11.2%	5.1%	16.3%	(4.4%)	10.9%	n.m	n.m	n.m	n.m	(9.4%)
Adj. Cost : Income ratio (%) <sup>(2,3)</sup>	57%	67%	51%	83%	39%	119%	63%	n.m	48%	n.m	n.m	76%

<sup>(1)</sup> Central items include unallocated costs and assets which principally comprise volatile items under IFRS and balances in relation to Citizens and international private banking. <sup>(2)</sup> Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. <sup>(3)</sup> Excluding restructuring costs and litigation and conduct costs and goodwill. <sup>(4)</sup> RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank Rol), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAs). \* Due to rounding the total does not cast.

# Balance sheet supports asset growth

## Net L&A and Deposits (Q1 2016)

(£bn)



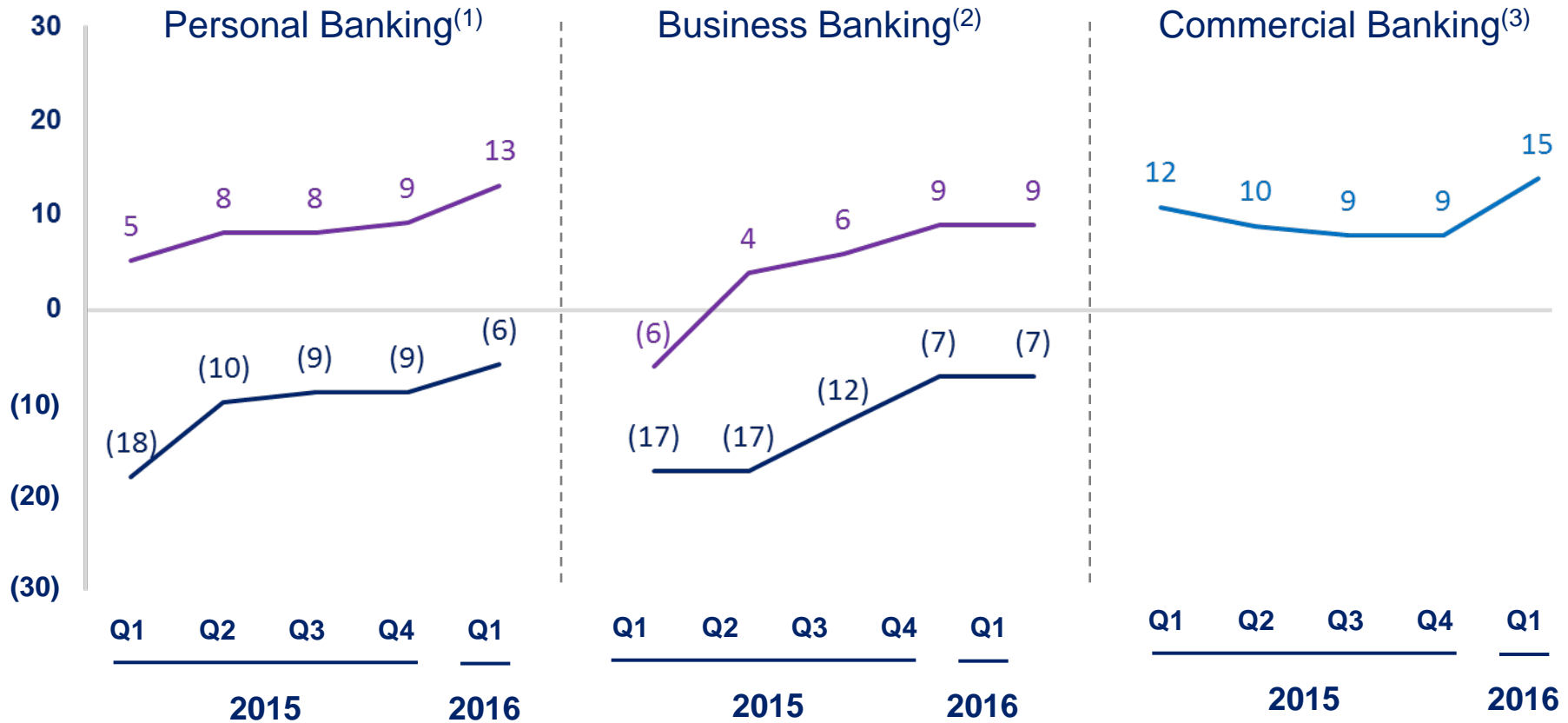
- Q1 2016 Total Bank LDR 90%
- Q1 2016 PBB + CPB (ex. RBSI) LDR 92%



# Net Promoter Scores – NatWest and Royal Bank of Scotland



- Royal Bank of Scotland (Scotland)
- NatWest (England & Wales)
- RBSG (GB)

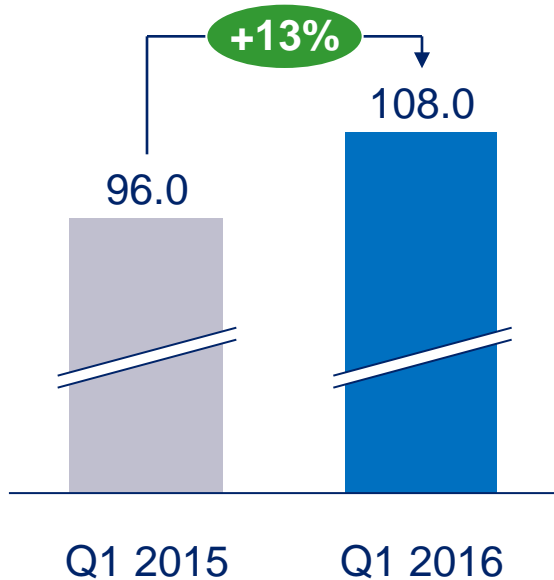


(1) Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3464) Royal Bank of Scotland (607) Question "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers. Year on year increases are significant.

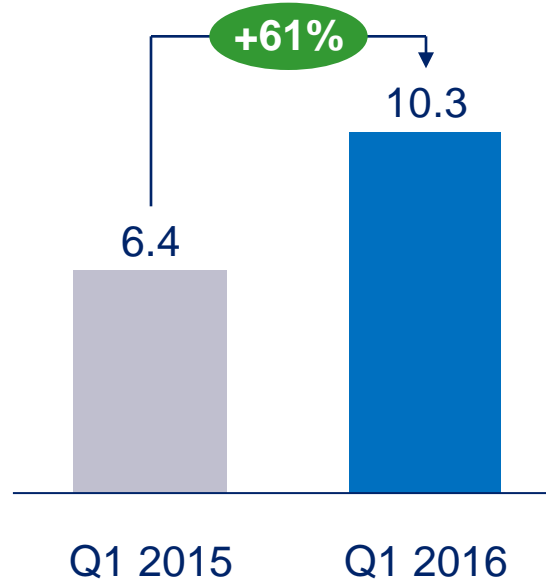
(2+3) Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1347) Royal Bank of Scotland (425) Commercial (3) £2m+ combination of NatWest & Royal Bank of Scotland in GB (888) Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain. The year on year improvement in NatWest Business Banking is significant.

## UK Personal & Business Banking – Mortgages

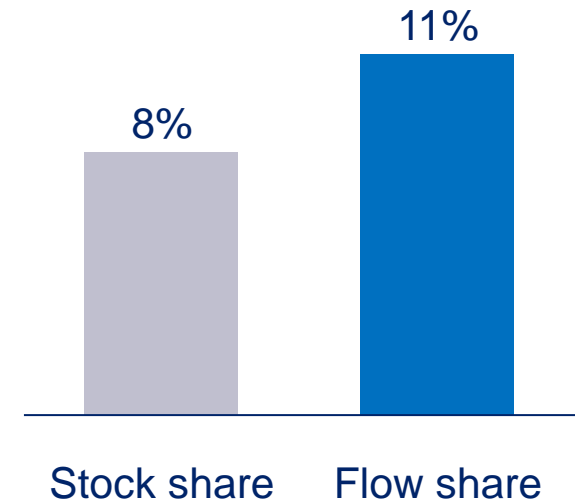
Gross mortgage lending to customers (£bn)



Applications (£bn)

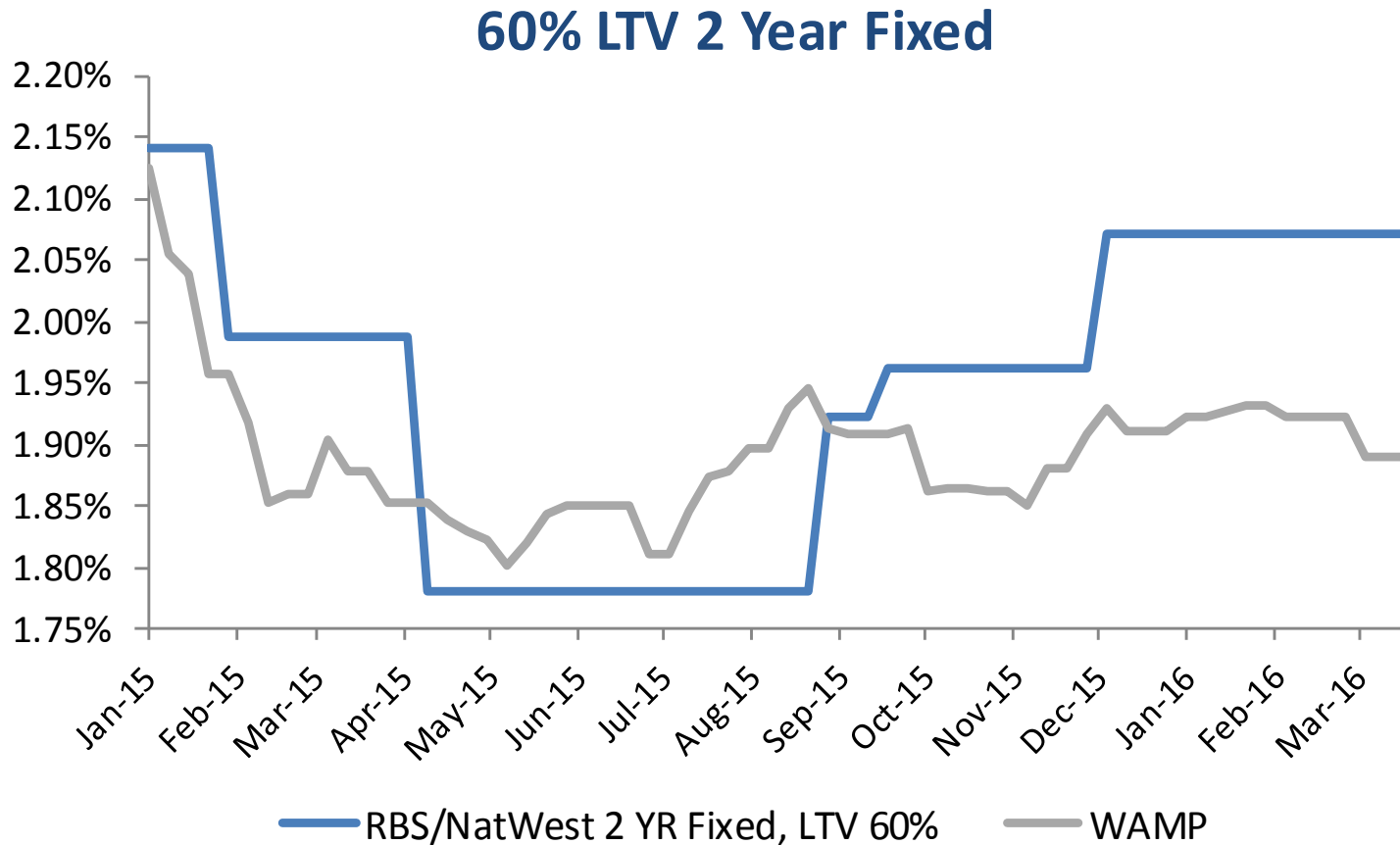


RBS Q1 2016 market share<sup>(1)</sup>



(1) Based on January and February 2016 data.

## RBS/ Natwest 60% LTV 2yr Fixed vs. Weighted Average Market Price (“WAMP”)

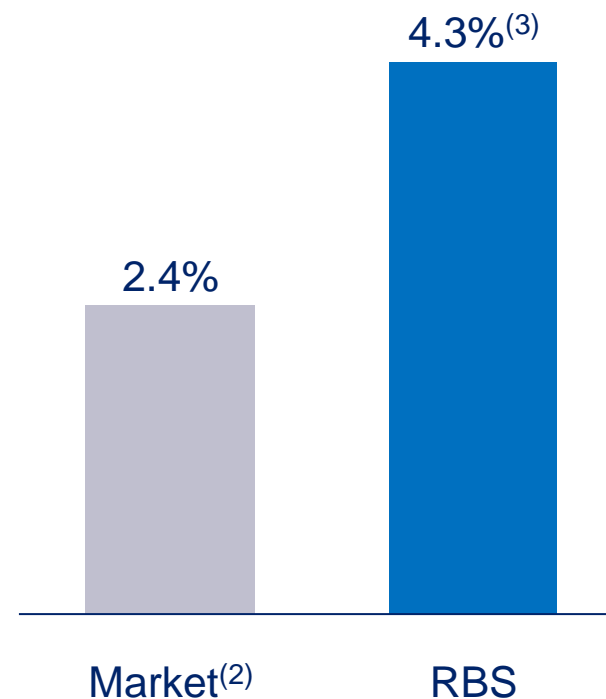
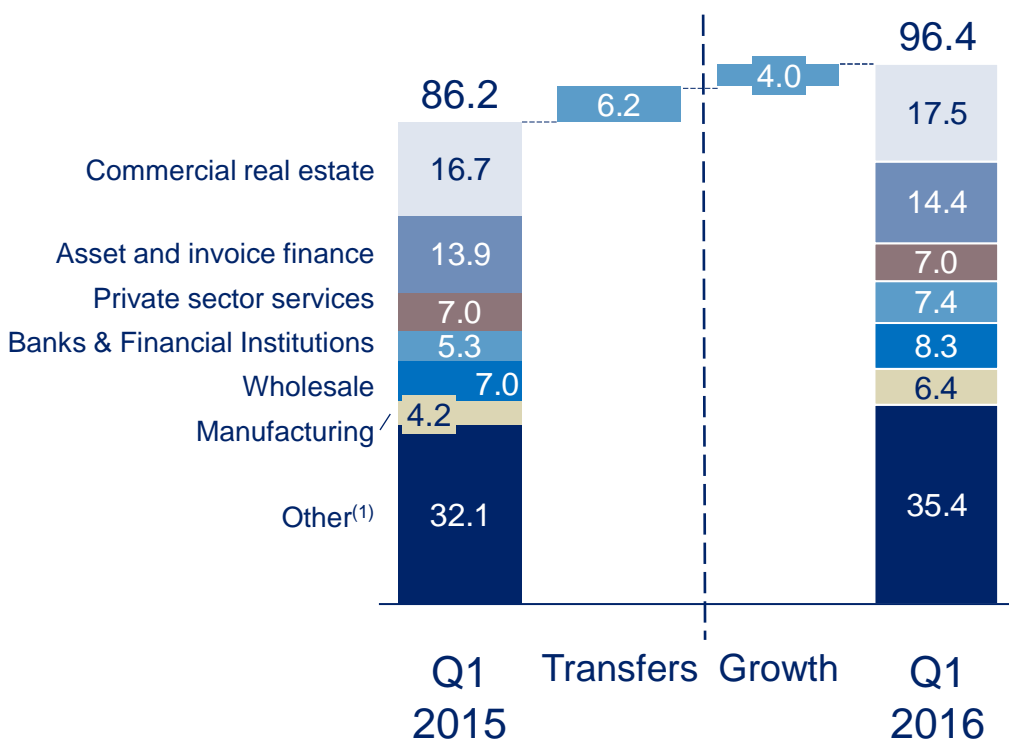




## Net UK Commercial lending growth

Net L&As to customers (£bn)<sup>(1)</sup>

Q1 2016 vs. Q1 2015 growth vs. market

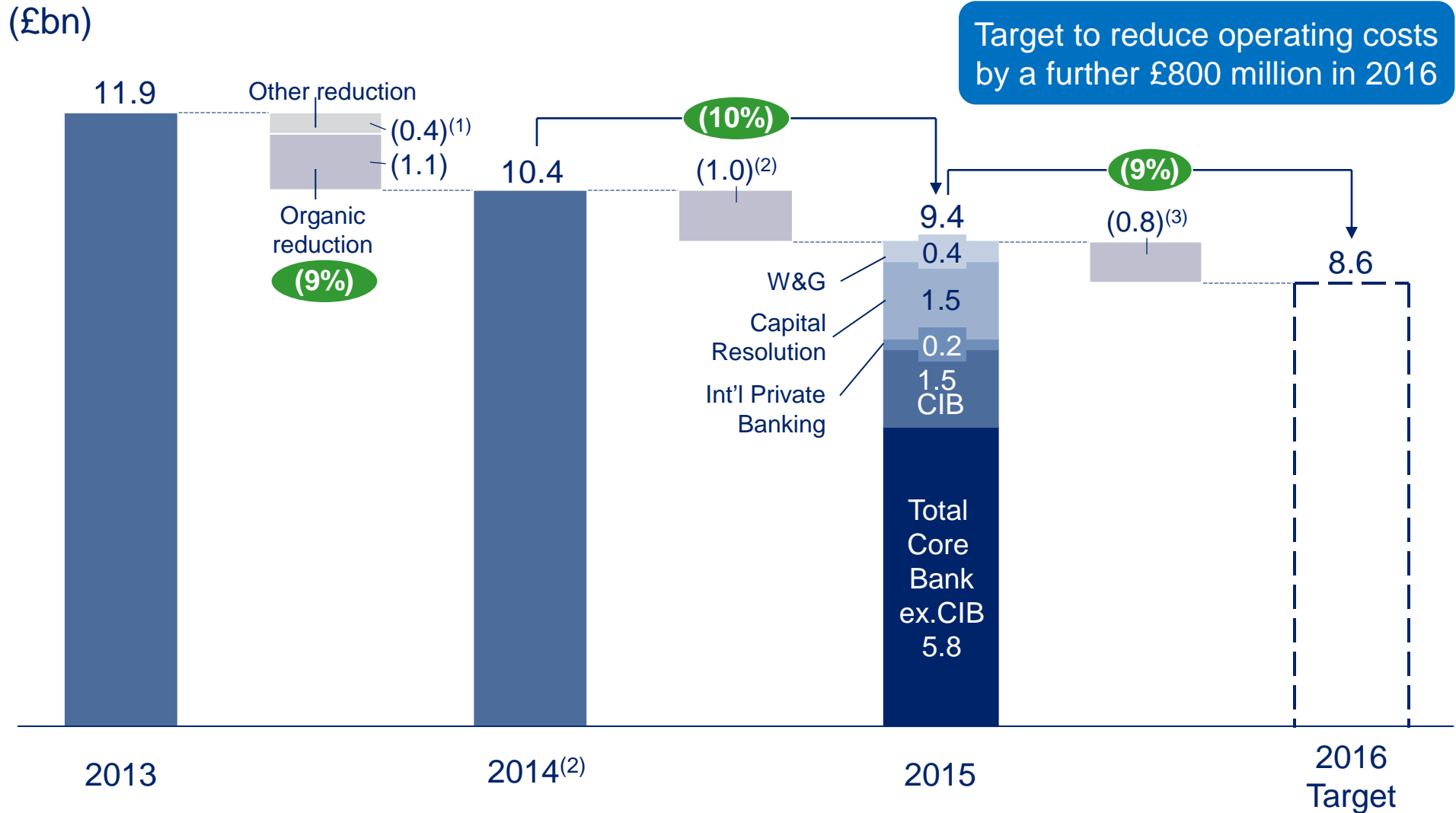


(1) Impairment provisions offset against 'Other' category.

(2) Lending to PNFCs (Private Non-Financial Corporations) Source : BoE Statistical Release Feb 2016 - Money and Credit Table M: Loans to non-financial businesses 12m %change.

(3) Excluding business transfers from CIB .

# Lowered costs by >£2bn over the last 2 years



<sup>(1)</sup> £0.4bn is made up of the benefit of lower intangible asset write-offs of 2013-£344m, 2014-£146m as well as the year on year benefit of FX. <sup>(2)</sup> This includes £71m lower intangible write offs offset by £29m growth in W&G. <sup>(3)</sup> Excludes movements in intangible write-offs and any growth in W&G.

# Balance sheet – resilience

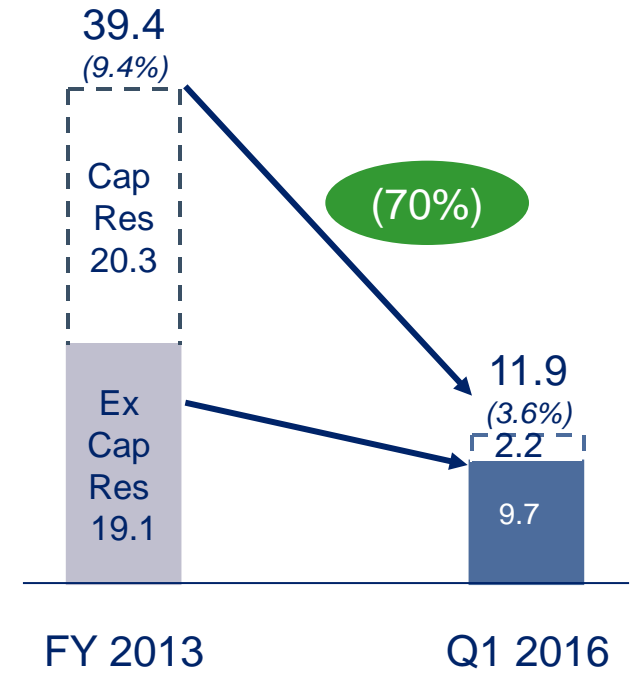
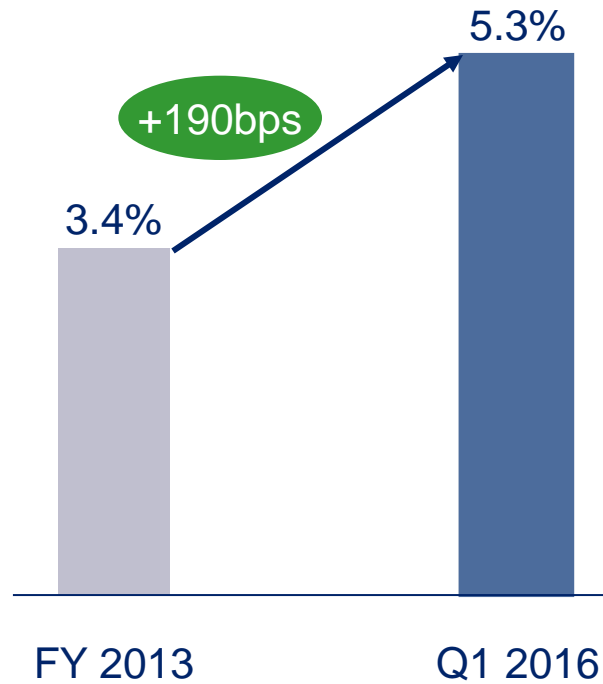
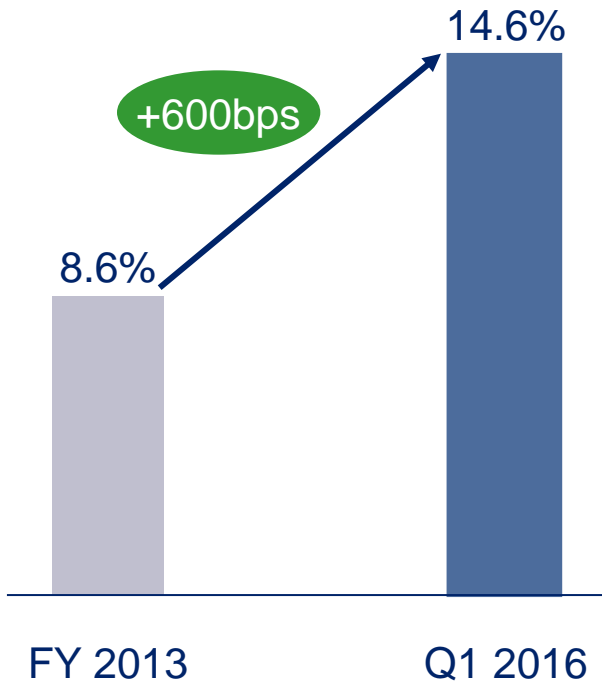


CET1 Ratio: 13% Target

Leverage Ratio

REILs (£bn)

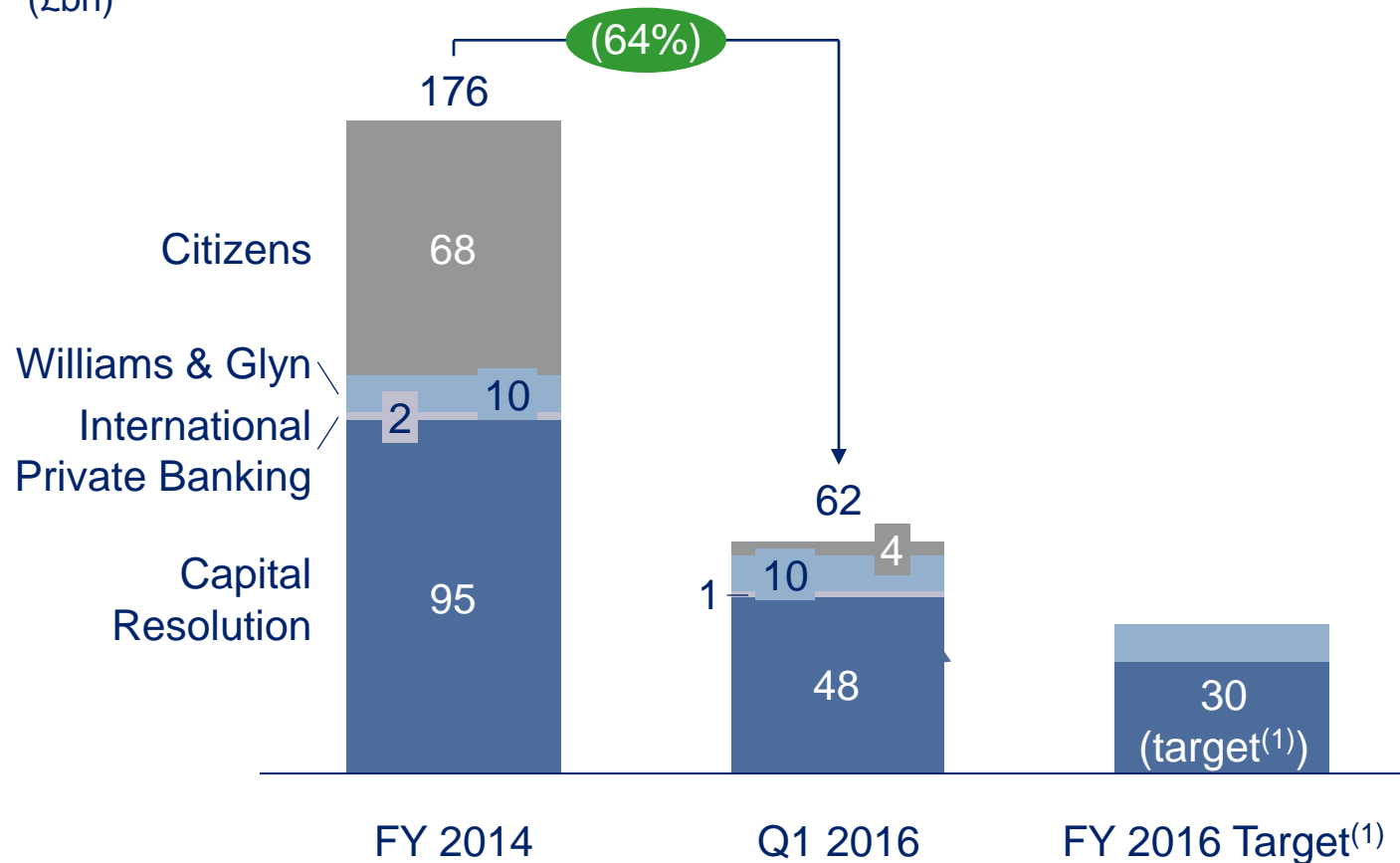
(as % of Total Gross L&As)



# Reduction of legacy businesses & portfolios

## Legacy businesses & portfolios (RWAs)

(£bn)



<sup>(1)</sup> Capital Resolution expected to reduce RWAs to around £30bn by the end of 2016, W&G RWAs expected to be broadly stable.

Standing up over 600 systems; of which ~400 completed to date including the 15 core platforms

Testing of these banking systems expected to commence in late Q3 2016

FY 2015 separation costs of £630m; Q1 2016 £156m<sup>(1)</sup>

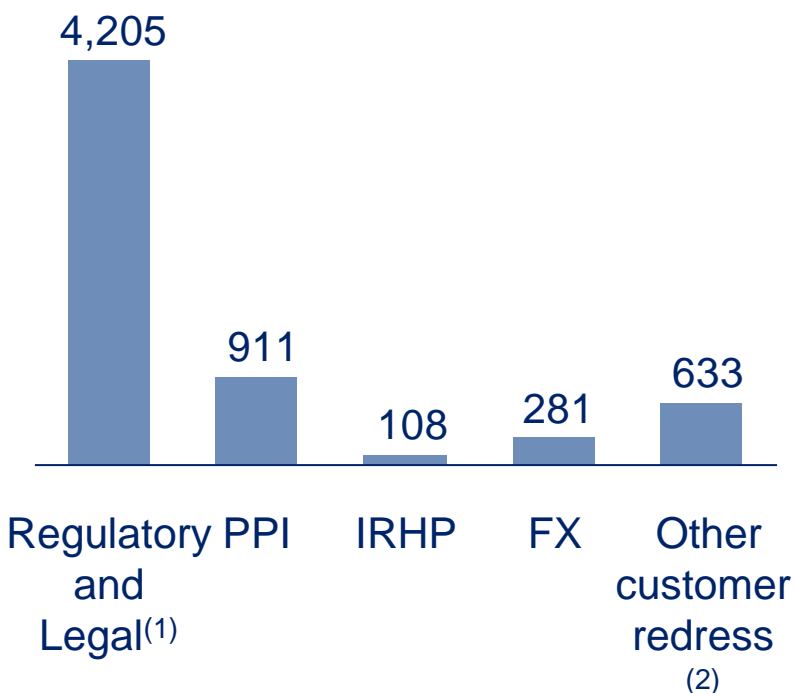
Standalone RoE in FY 2015 of 9.8%<sup>(2)</sup>

Exit deadline by end Q4 2017, or will trigger a re-negotiation with the European Commission<sup>(1)</sup>

<sup>(1)</sup> As a result of further extensive analysis on the separation and divestment of Williams & Glyn throughout Q1 2016, we have recently concluded that there is a significant risk that this will not be achieved by 31 December 2017 and alternative means to achieve this are being explored. The overall financial impact on RBS is now likely to be significantly greater than previously estimated.

<sup>(2)</sup> Based on an illustrative standalone view of agreed perimeter, including an estimate of standalone funding and capital costs with direct costs normalised to be more reflective of the standalone entity.

## End of Q1 2016 provisions (£m)



Litigation and conduct provision:  
£6.1bn, as at Q1 2016

<sup>(1)</sup> Includes Other regulatory provisions and Litigation as per Note 4 p.33 of the IMS

<sup>(2)</sup> Closing provision primarily relates to investment advice and packaged accounts

## Comments

### US RMBS litigation and investigations

- May require additional provisions in future periods that in aggregate could be materially in excess of the provisions existing as of Q1 2016
- These provisions do not include potential penalties and compensatory damages imposed by US DoJ, which may be substantial

### FX and other market related investigations and claims

- SFO investigation closed

### UK class action lawsuit over 2008 capital raising

- Trial of preliminary issues scheduled for Q1 2017

### Various UK customer redress issues, including:

- PPI: No material developments since Q4 2015

### FCA SME treatment review

- Fully co-operating with the ongoing FCA review
- FCA has skilled person final document

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# 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 plc's (RBS) restructuring (which includes, the separation and divestment of Williams & Glyn, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme), as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other capital raising plans, funding and credit risk profile; litigation, government and regulatory investigations RBS's future financial performance; the level and extent of future impairments and write-downs, including with respect to Goodwill; future pension contributions, and RBS's exposure to political risks, operational risk, conduct risk and 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 and other 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 the 2015 Annual Report and Accounts. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes (including where resolved by settlement); the uncertainty relating to the referendum on the UK's membership of the European Union and the consequences arising from it; the separation and divestment of Williams & Glyn; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme; as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from implementing its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategy to refocus on the UK, the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include: operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; 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; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to preventing a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; 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; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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