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# Q1 2017 Results

28 April 2017

Q1 2017 update on progress

The bank we will become

Additional materials



# Q1 2017 results by business



(£bn)	Core Franchises								Other				Total RBS	
	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Y/Y%	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	Y/Y%	
<b>Adj. Income<sup>(3)</sup></b>	<b>1.4</b>	<b>0.1</b>	<b>0.9</b>	<b>0.2</b>	<b>0.1</b>	<b>0.5</b>	<b>3.2</b>	12%	<b>(0.1)</b>	<b>0.2</b>	<b>(0.1)</b>	<b>0.1</b>	<b>3.2</b>	15%
Adj. Operating expenses <sup>(4)</sup>	(0.7)	(0.1)	(0.4)	(0.1)	(0.0)	(0.3)	(1.7)	(1%)	(0.1)	(0.1)	0.1	(0.1)	(1.8)	(15%)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	(0.0)	(0.0)	-	(0.1)	n.m.	0.0	(0.0)	(0.0)	0.0	(0.0)	(79%)
<b>Adj. operating profit<sup>(3,4)</sup></b>	<b>0.6</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>1.3</b>	<b>30%</b>	<b>(0.1)</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>1.4</b>	212%
Funded Assets <sup>(5)</sup>	159.1	24.6	153.3	18.1	25.1	113.9	494.1	6%	29.2	25.8	30.1	85.1	579.2	1%
Net L&A to Customers	135.8	19.0	99.7	12.5	8.9	17.9	293.8	7%	12.3	20.6	-	32.9	326.7	3%
Customer Deposits	146.3	16.6	97.2	25.7	25.3	8.0	319.1	7%	7.6	24.0	0.8	32.4	351.5	(1%)
RWAs	32.7	17.7	77.8	8.7	9.5	34.1	180.5	(2%)	30.5	9.7	1.0	41.2	221.7	(11%)
LDR	93%	114%	103%	49%	35%	n.m.	92%	-	162%	86%	n.m.	102%	93%	+3ppts
<b>Adj. RoE (%)<sup>(3,4,5)</sup></b>	<b>32%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>13%</b>	<b>8%</b>	<b>13.8%</b>	<b>+3ppts</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>9.7%</b>	<b>n.m.</b>
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	52%	74%	50%	71%	44%	63%	55%	(8ppts)	n.m.	41%	n.m.	n.m.	56%	(20ppts)

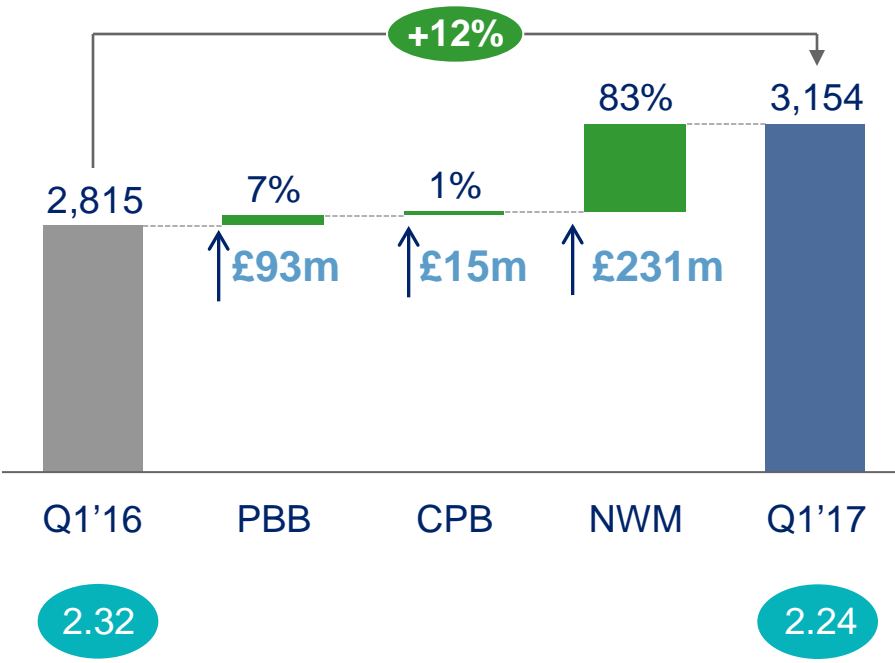
<sup>(1)</sup>Williams and Glyn<sup>1</sup> refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK <sup>(2)</sup>Central items include unallocated costs and assets which principally comprise volatile items under IFRS <sup>(3)</sup>Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals <sup>(4)</sup>Excluding restructuring costs and litigation and conduct costs and goodwill <sup>(5)</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 14% (Ulster Bank Rol - 11% prior to Q1 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to Q1 2017), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAs) \*Totals may not cast due to rounding

# Q1 2017 update on progress

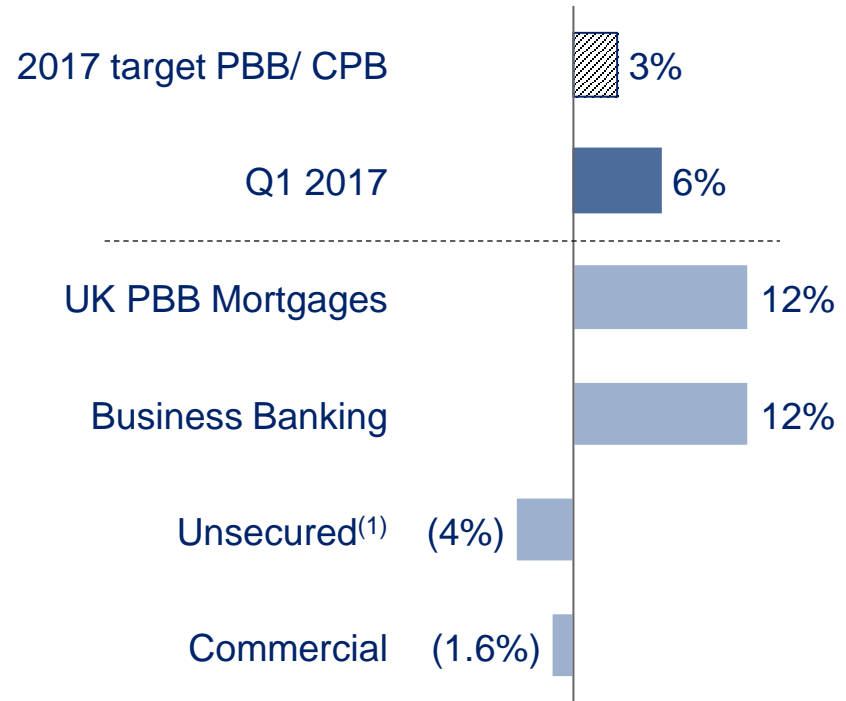
Core Bank		Progress	
a	Grow income	<ul style="list-style-type: none"> <li>Core income up 12% Y/Y</li> <li>On track to meet 3% lending growth FY 2017 target supported by mortgages</li> </ul>	
b	Cut costs	<ul style="list-style-type: none"> <li>£278m additional costs out in Q1 2017; excluding £51m VAT recovery</li> <li>On track to meet £750m reduction target for 2017</li> </ul>	
c	Reduce RWAs	<ul style="list-style-type: none"> <li>Reduced RWAs by £2.1bn in the Core bank, despite further growth in our core loan books</li> <li>On track to remove £20bn of gross RWA from the Core bank through FY 2018</li> <li>CET1 ratio up 70bps to 14.1% vs. 13% target</li> </ul>	
Legacy			
d	Close Capital Resolution	<ul style="list-style-type: none"> <li>Further £4.0bn RWA reduction in Q1 2017; £30.5bn remaining including £14.0bn in Markets RWAs and £7.8bn in Alawwal stake</li> <li>Capital Resolution quarterly cost run rate of £69m, is £107m lower than Q4 2016 and £163m lower than Q1 2016</li> </ul>	
e	Conduct & Litigation	<ul style="list-style-type: none"> <li>US RMBS: in discussions with FHFA; no developments with DOJ</li> <li>Potential for further material potential settlement costs for RMBS this year, above and beyond existing provisions of £6.6bn</li> </ul>	
f	Williams & Glyn	<ul style="list-style-type: none"> <li>On 4 April 2017, the European Commission announced that it had opened an in-depth investigation into whether this alternative plan was an appropriate replacement for the existing requirement</li> <li>HM Treasury is also market testing the proposed remedy package</li> <li>Target signing a revised term sheet during 2017</li> </ul>	

# a Core income growth Q1 2017 vs. Q1 2016

Adjusted income (£m)



Q1 annualised balance sheet growth (%)



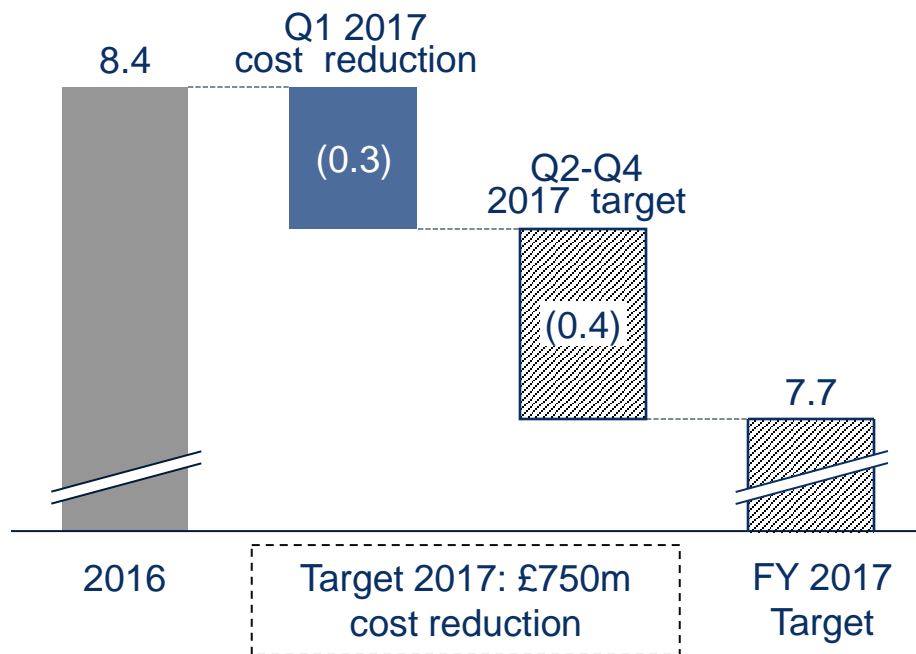
**Income on track:** in 2017 will continue to be supported by balance sheet growth across PBB and CPB

- PBB: anticipate that income will increase in FY 2017 compared with FY 2016, maintain guidance
- CPB: expect income to be broadly stable

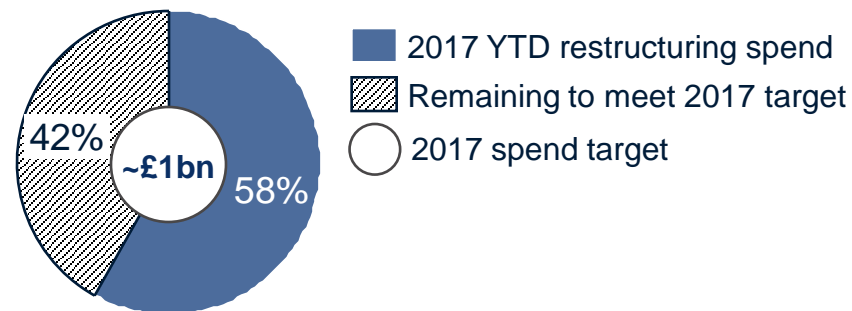
<sup>(1)</sup>Unsecured consists of personal advances and cards

# b Adjusted operating costs progress to 2017 target

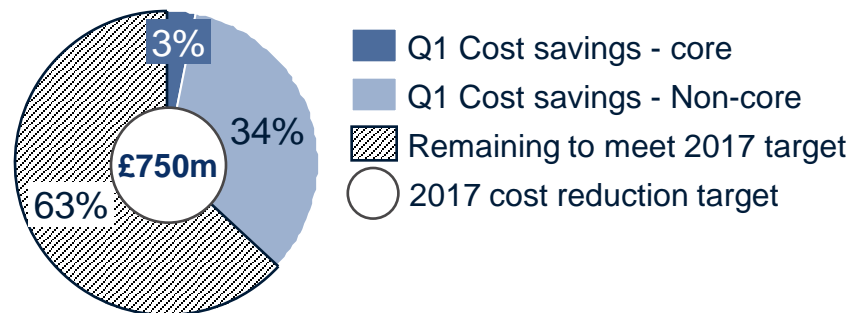
Adjusted Operating Costs<sup>(1)</sup> (£bn)



Spend vs. restructuring cost guidance (£bn)



Source of adjusted cost reductions to date (£bn)



- On track to meet £750m reduction for 2017, and all-in £6.4bn<sup>(2,3)</sup> cost base in FY 2020
- £278m cost saving for Q1 2017 excluding £51m VAT recovery
- Expect Core cost savings to be roughly half of total during FY 2017
- £577m restructuring costs in Q1 2017, over half of the £1bn anticipated spend for FY 2017

<sup>(1)</sup> Excluding VAT recoveries <sup>(2)</sup> The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" on pages 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements on pages 32+33 of the company announcement <sup>(3)</sup> £6.4bn 2020 target is unadjusted total costs, this includes conduct and litigation and restructuring costs.

# Progress made on £20bn RWA reduction across PBB, CPB and NWM

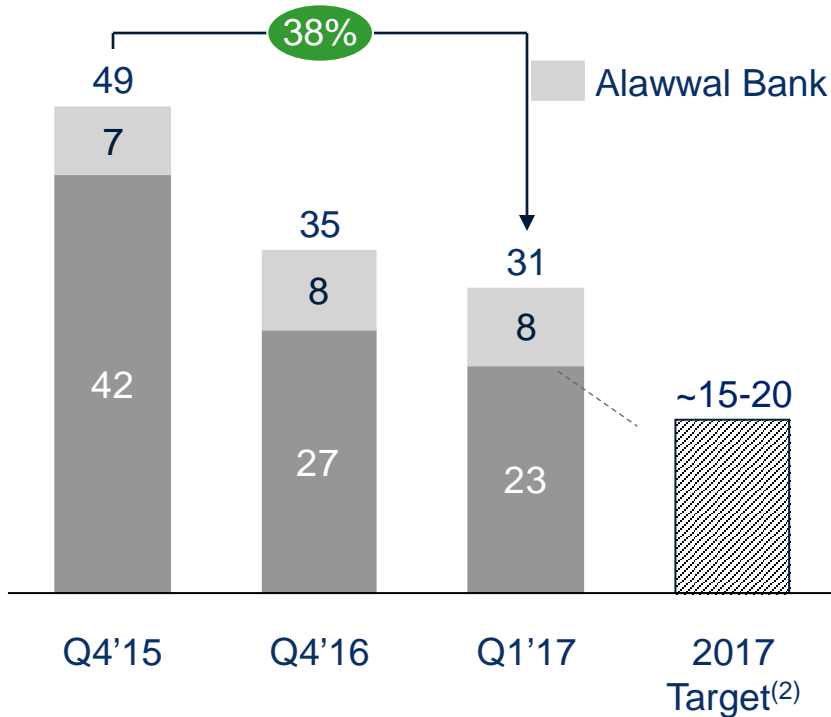
## Q1 2017 change in RWA (£bn)

<b>Group RWAs FY 2016</b>	<b>£228.2bn</b>
Core gross RWA reduction	(£3.2bn)
<i>o/w PBB</i>	<i>(£0.7bn)</i>
<i>o/w CPB</i>	<i>(£1.4bn)</i>
<i>o/w NWM</i>	<i>(£1.1bn)</i>
Core volume growth	£1.1bn
Core net RWA reduction	(£2.1bn)
Capital Resolution	(£4.0bn)
Other	(£0.4bn)
<b>Group RWAs Q1 2017</b>	<b>£221.7bn</b>

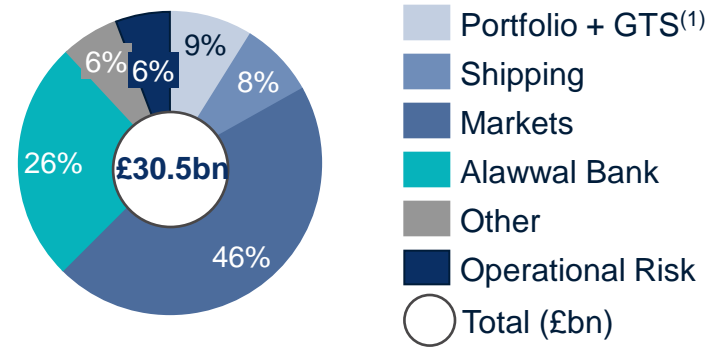
- Gross RWAs reduction driven by a number of initiatives including:
  - The exiting of low ROE lending pools
  - Improving risk metrics in certain portfolios including Ireland
  - Continuing benefits from data clean-up
- Capital Resolution RWAs down £4.0bn vs. Q4 2016 reflecting disposal and run-offs in line with exit strategy

# d Continued reduction of Capital Resolution RWAs

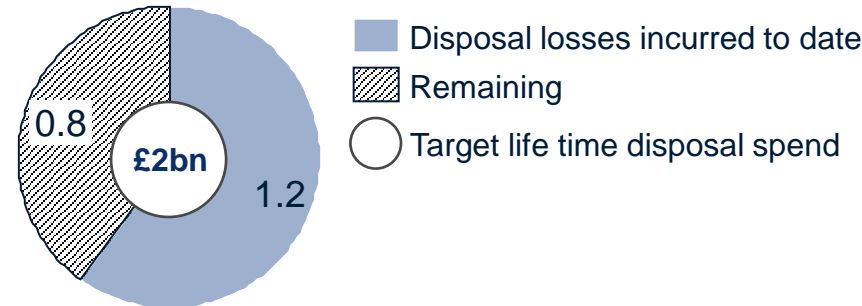
RWAs (£bn)



Q1 2017 split of RWAs (%)



Disposal spend vs. target (£bn)



- On track to meet FY 2017 RWA reduction target and wind up Capital Resolution at FY 2017
- Continue to anticipate £2bn lifetime disposal losses; £1.2bn incurred to date, majority of the remaining £0.8bn will be incurred in 2017

<sup>(1)</sup> Loan portfolios include APAC, EMEA, Americas and Legacy <sup>(2)</sup> 2017 target excludes the disposal of Alawwal Bank, £7.8bn RWAs at Q1 2017



End of Q1 2017 provisions (£m)		Comments
<p>6,638 984 1,175 1,003</p> <p>RMBS      Litigation and other regulatory      PPI      Other customer redress</p>	<p>US RMBS</p>	<ul style="list-style-type: none"> <li>US RMBS: in discussions with FHFA; no developments with DOJ</li> <li>In Q4 2016, a further £3.1bn provision was taken, the total aggregate of provisions is £6.6bn.</li> <li>The duration and outcome of these investigations and litigation matters remain uncertain</li> </ul>
<p>Litigation and conduct provision: £11.6bn<sup>(1)</sup> as at Q1 2017</p>	<p>UK 2008 rights issue shareholder litigation</p>	<ul style="list-style-type: none"> <li>Further to settlement reached with 4 shareholder groups in December 2016, RBS has now concluded a full and final settlement, without any admission of liability, with shareholders representing 40% by value of the remaining claimant group</li> <li>As a result of these settlements, RBS has now reached a resolution with shareholders representing 87% of the original claims by value in the litigation</li> <li>If settlement is not reached with all remaining group, trial process starts 22 May 2017</li> </ul>
	<p>Various UK and Ireland customer redress issues</p>	<ul style="list-style-type: none"> <li>PPI: On 2 March 2017, the FCA published Policy Statement 17/3 containing its final rules and guidance on PPI complaint handling, to bring an end to new PPI complaints in August 2019. RBS does not currently consider that an additional provision will be required absent any successful challenge to the Policy Statement</li> </ul>

<sup>(1)</sup> Includes 'Other' provisions as per Note 2 of the Q1 2017 IMS



	Comments
Proposal	<ul style="list-style-type: none"><li>▪ The proposal set out at the 17 February 2017 update on RBS's remaining State Aid obligation envisages that RBS would deliver a revised package of remedies to promote competition in the market for banking services to SME's in the UK<sup>(1)</sup></li><li>▪ £750m restructuring provision taken at FY 2016 in respect of the proposal</li></ul>
Progress	<ul style="list-style-type: none"><li>▪ On 4 April 2017, the European Commission announced that it had opened an in-depth investigation into whether this alternative plan was an appropriate replacement for the existing requirements</li><li>▪ Alongside this HM Treasury is also market testing the proposed remedy package</li></ul>
Next steps	<ul style="list-style-type: none"><li>▪ Target signing a revised term sheet during 2017</li></ul>

<sup>(1)</sup> Refer to RBS RNS released 20th February 2017, available at <http://www.investors.rbs.com/regulatory-news/company-announcements>

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- **On track to meet all 2020 and 2017 targets outlined at FY 2016**

Subject to providing fully for remaining significant legacy issues in 2017, we retain our expectation that we will be profitable in 2018<sup>(1)</sup>

- Income: In 2017 will continue to be supported by balance sheet growth across PBB and CPB
- Costs: Plan to reduce operating costs by a further £750m in FY 2017
- Capital: Targeting a gross RWA reduction across 3 core businesses of at least £20bn by Q4 2018 with some off-setting volume growth

- **Expect that adjusted operating profit will be lower in Q2 2017 compared with Q1 2017<sup>(1)</sup>**

- reflecting reduced income in NatWest Markets, which has had a softer start to the second quarter, coupled with increased adjusted operating expenses, in part due to the Q1 2017 VAT recovery
- Additionally, we expect to recognise a gain on the sale of RBS's stake in Vocalink of approximately £160 million during the quarter

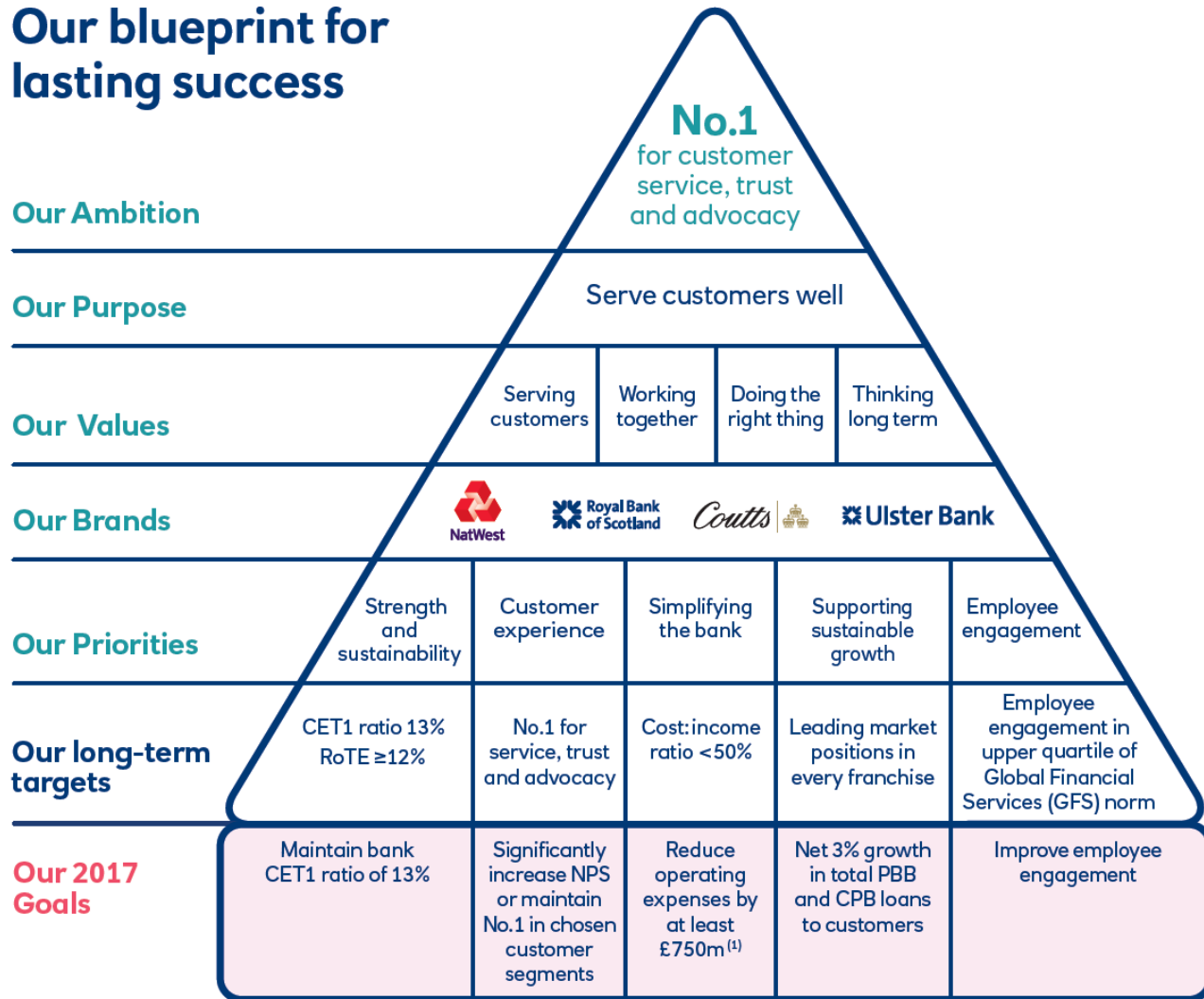
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# Committed to being the No. 1 bank for customers

## Our blueprint for lasting success



<sup>(1)</sup> Excluding litigation and conduct costs, restructuring costs, write down of goodwill, and the 2016 VAT release of £227m.

# Financial Targets – FY 2020<sup>(1)</sup>

Our strategic plan targets sustainable returns based on...

12%+  
ROTE<sup>(2)</sup>

Sub-50%  
Cost:Income  
Ratio

£6.4bn all-in  
cost base<sup>(3)</sup>

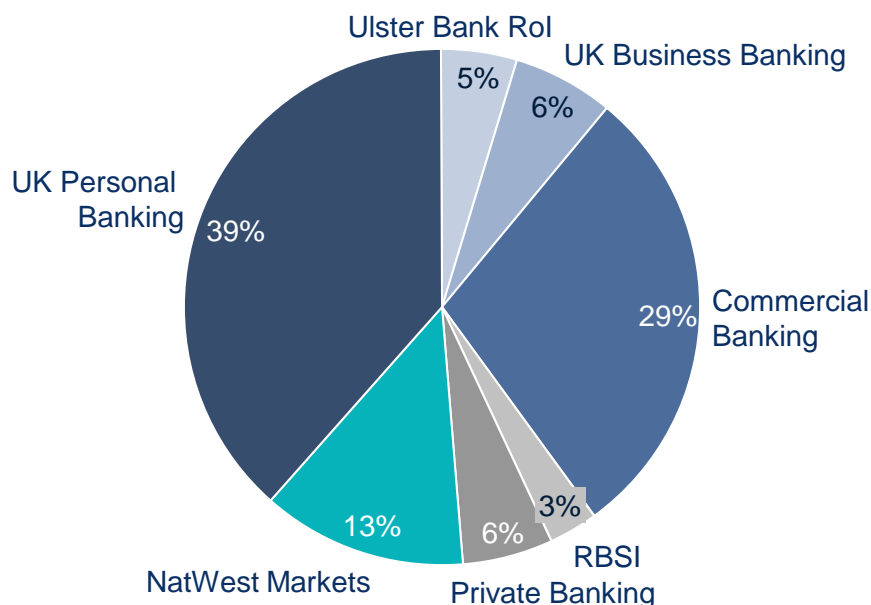
This will be based off...

CET1 ratio  
13%

UK income  
~90%

Retail &  
Commercial  
RWAs ~85%

## FY 2016 Adjusted Income split by Core Franchise (%)



## Strategic plan targets higher quality of earnings in future

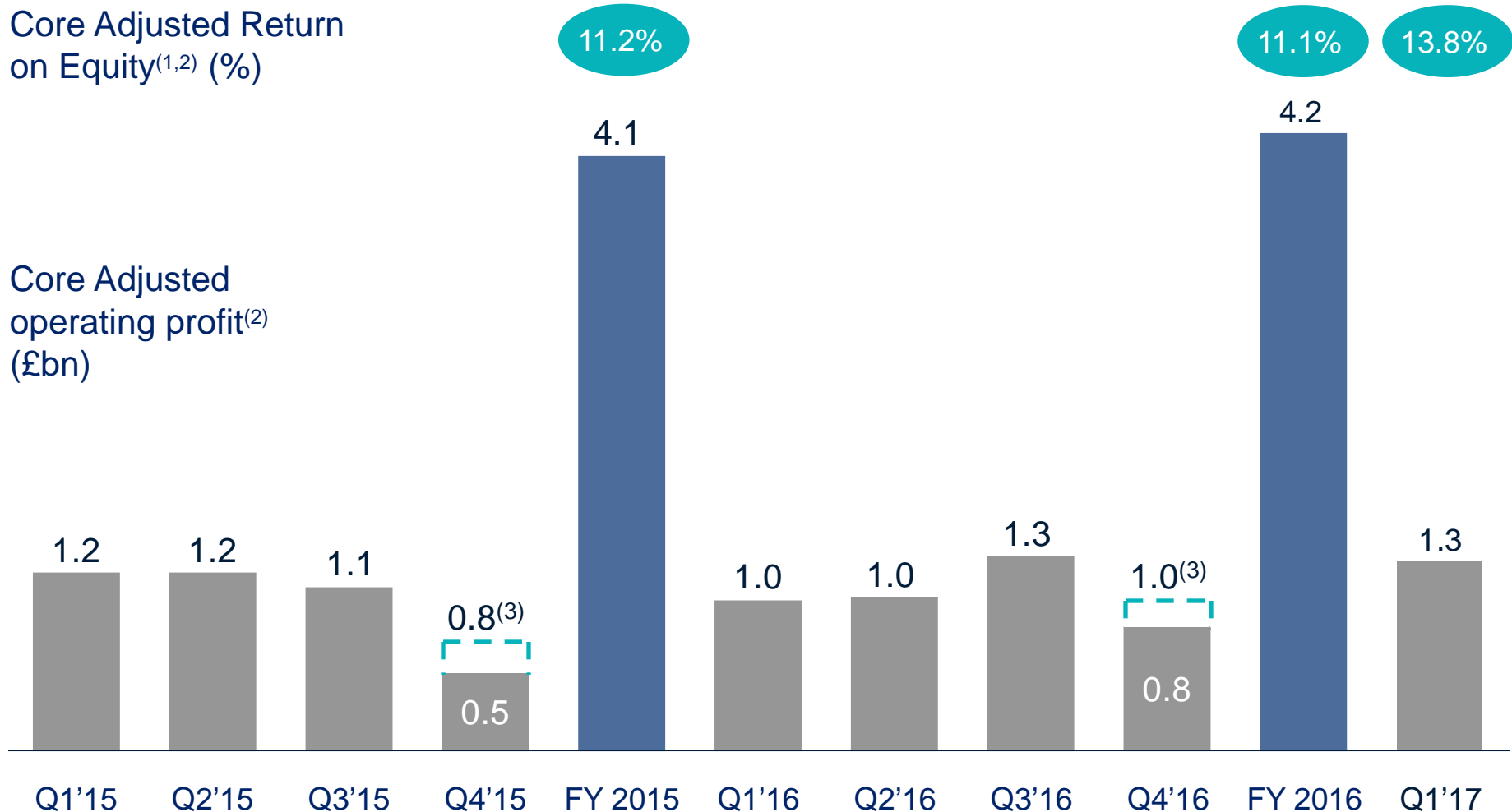
- Focus on customer loyalty, conducting more business with our most valuable customers
- Targeted growth in areas of opportunity
- Simplification and digital driving a better customer experience at a lower cost
- Low-risk profile and actions to improve capital efficiency



# Three core businesses averaging over £1bn per quarter

Core Adjusted Return on Equity<sup>(1,2)</sup> (%)

Core Adjusted operating profit<sup>(2)</sup> (£bn)



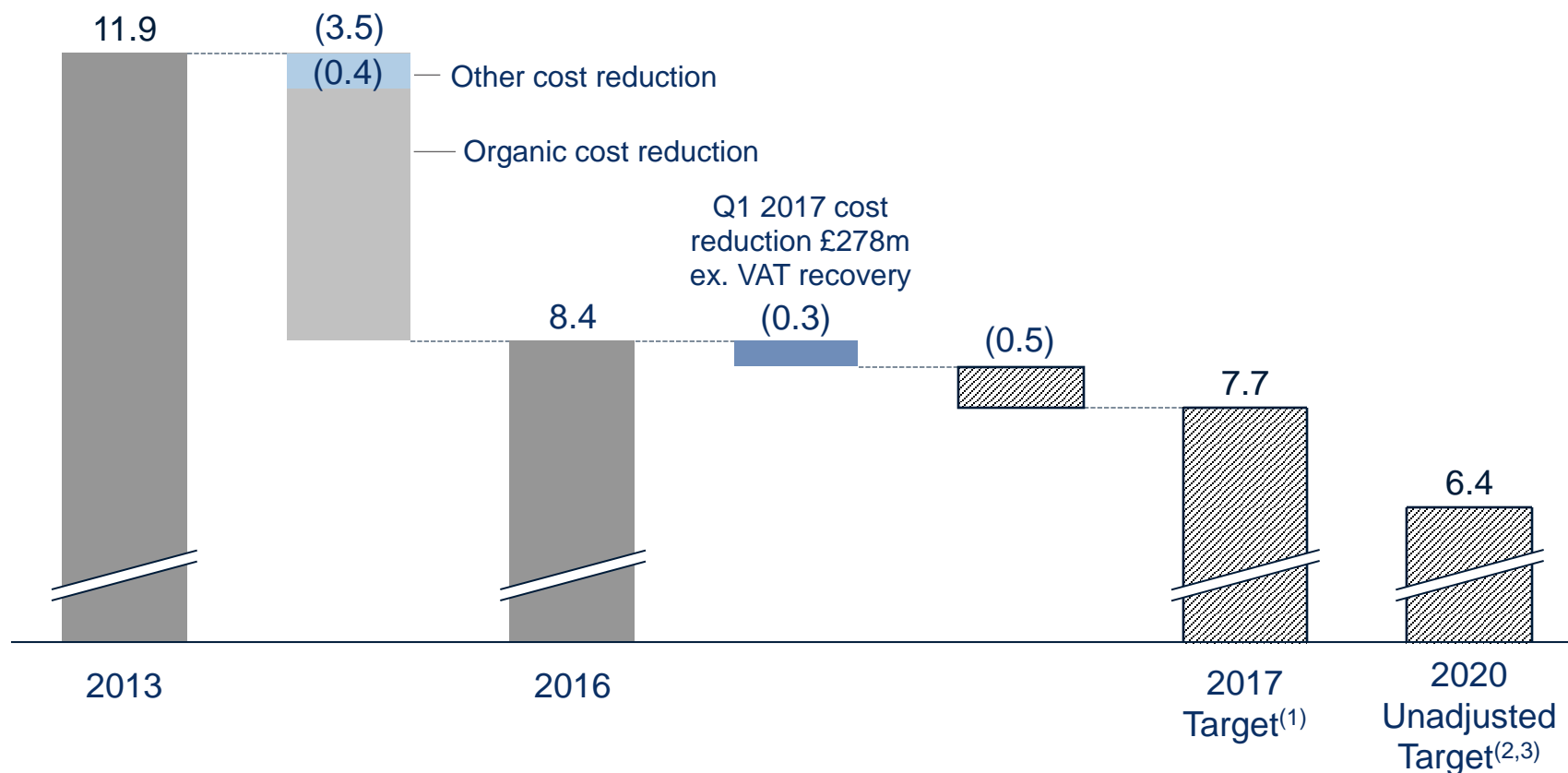
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<sup>(2)</sup> Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. Excluding restructuring costs and litigation and conduct costs and goodwill. <sup>(3)</sup> Excluding the impact of the Bank Levy. Note: totals may not cast due to rounding.



# Adjusted operating costs down £3.4bn since 2013

## Reduction in Adjusted Operating Costs<sup>(1)</sup> (£bn)



- To achieve a cost:income ratio of <50% by 2020, RBS targets achieving all-in £6.4bn<sup>(2,3)</sup> cost base in FY 2020
- £750m adjusted operating costs targeted to be removed during 2017

<sup>(1)</sup> Excluding VAT recoveries <sup>(2)</sup> The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" on pages 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements on pages 32+33 of the IMS <sup>(3)</sup> £6.4bn 2020 target is unadjusted total costs, this includes conduct and litigation and restructuring costs.

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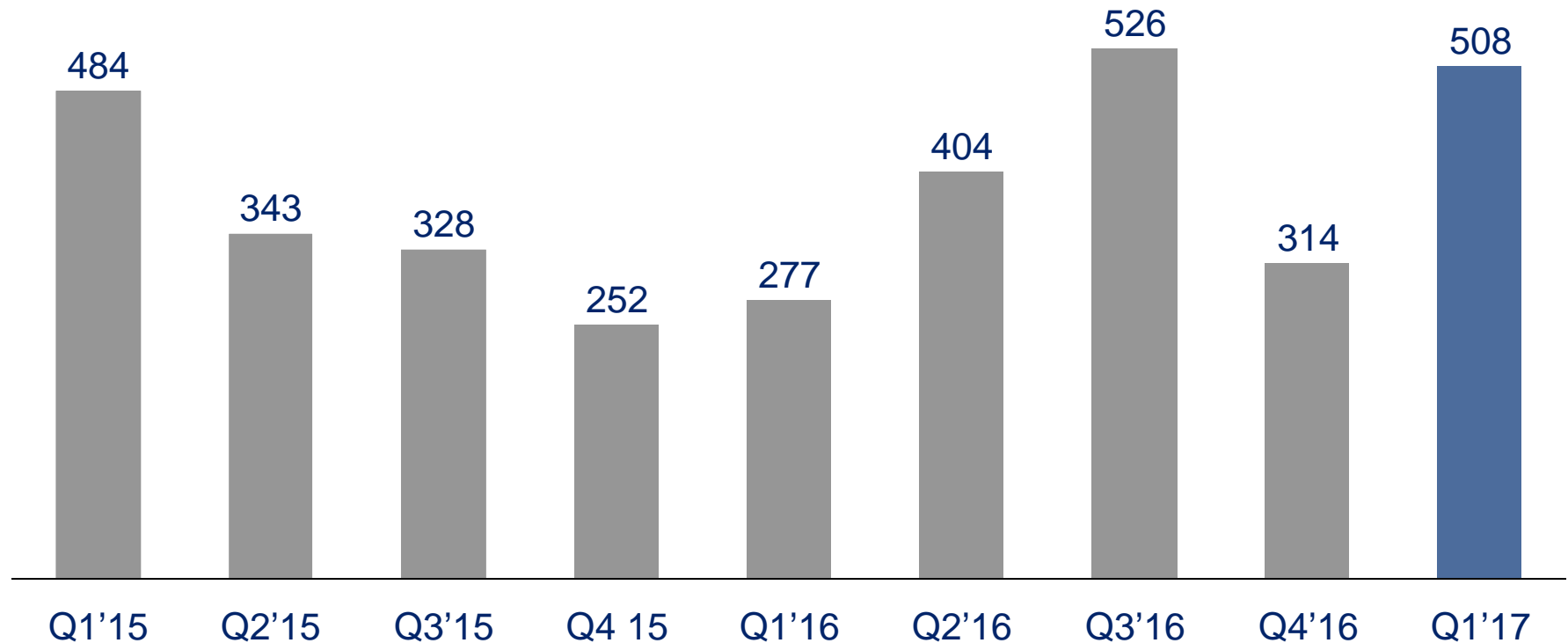
Additional materials

# Notable items

(£m)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
<b>Total Income</b>	<b>3,212</b>	<b>3,216</b>	<b>3,310</b>	<b>3,000</b>	<b>3,064</b>
Own Credit Adjustments	(29)	(114)	(156)	194	256
Gain/(Loss) on redemption of own debt	2	1	3	(130)	-
Strategic disposals	-	-	(31)	201	(6)
o/w Visa Gain	-	-	-	246	-
o/w Cap Res	-	-	(30)	(45)	(6)
<b>Adjusted Income</b>	<b>3,239</b>	<b>3,329</b>	<b>3,494</b>	<b>2,735</b>	<b>2,814</b>
IFRS volatility in Central items	(18)	308	(150)	(312)	(356)
Unwind of property securitisations	(105)	-	-	-	-
Funding value adjustments in Capital Resolution	-	-	160	(220)	(110)
Madoff recovery in Capital Resolution	-	-	-	-	109
FX gain/(loss) in Central items	(52)	140	(44)	201	52
FX reserve gain in Central items	-	-	97	-	-
Capital Resolution Disposal gain/(losses) in adjusted income	(50)	(325)	(113)	(57)	4
<b>Total Expenses</b>	<b>(2,453)</b>	<b>(7,354)</b>	<b>(2,911)</b>	<b>(3,509)</b>	<b>(2,420)</b>
Restructuring	(577)	(1,007)	(469)	(392)	(238)
o/w Williams & Glyn	(12)	(810)	(301)	(187)	(158)
o/w NV pension settlement	(73)	-	-	-	-
o/w Property exit costs	(235)	-	-	-	-
Litigation & Conduct	(54)	(4,128)	(425)	(1,284)	(31)
o/w US RMBS	-	(3,051)	(249)	-	-
o/w GRG	-	(400)	-	-	-
o/w PPI	-	(201)	-	(400)	-
o/w Ulster mortgage tracker	-	(77)	-	(96)	-
<b>Adjusted Expenses</b>	<b>(1,822)</b>	<b>(2,219)</b>	<b>(2,017)</b>	<b>(1,833)</b>	<b>(2,151)</b>
o/w VAT recovery in Centre	51	-	-	227	-
Bank Levy	-	(190)	-	-	-
<b>Impairments</b>	<b>(46)</b>	<b>75</b>	<b>(144)</b>	<b>(186)</b>	<b>(223)</b>
Capital Resolution (considered as part of disposal losses)	45	130	(120)	(67)	(196)
o/w Shipping Portfolio	4	30	(190)	(38)	(226)
Ulster Bank Rol	24	47	39	14	13
Commercial	(61)	(83)	(20)	(89)	(14)

# Income - NatWest Markets Q1 2015 - Q1 2017

## Adjusted income (£m)



- NatWest Markets - 2017 income expected above previously indicated target of £1.3 - £1.4bn

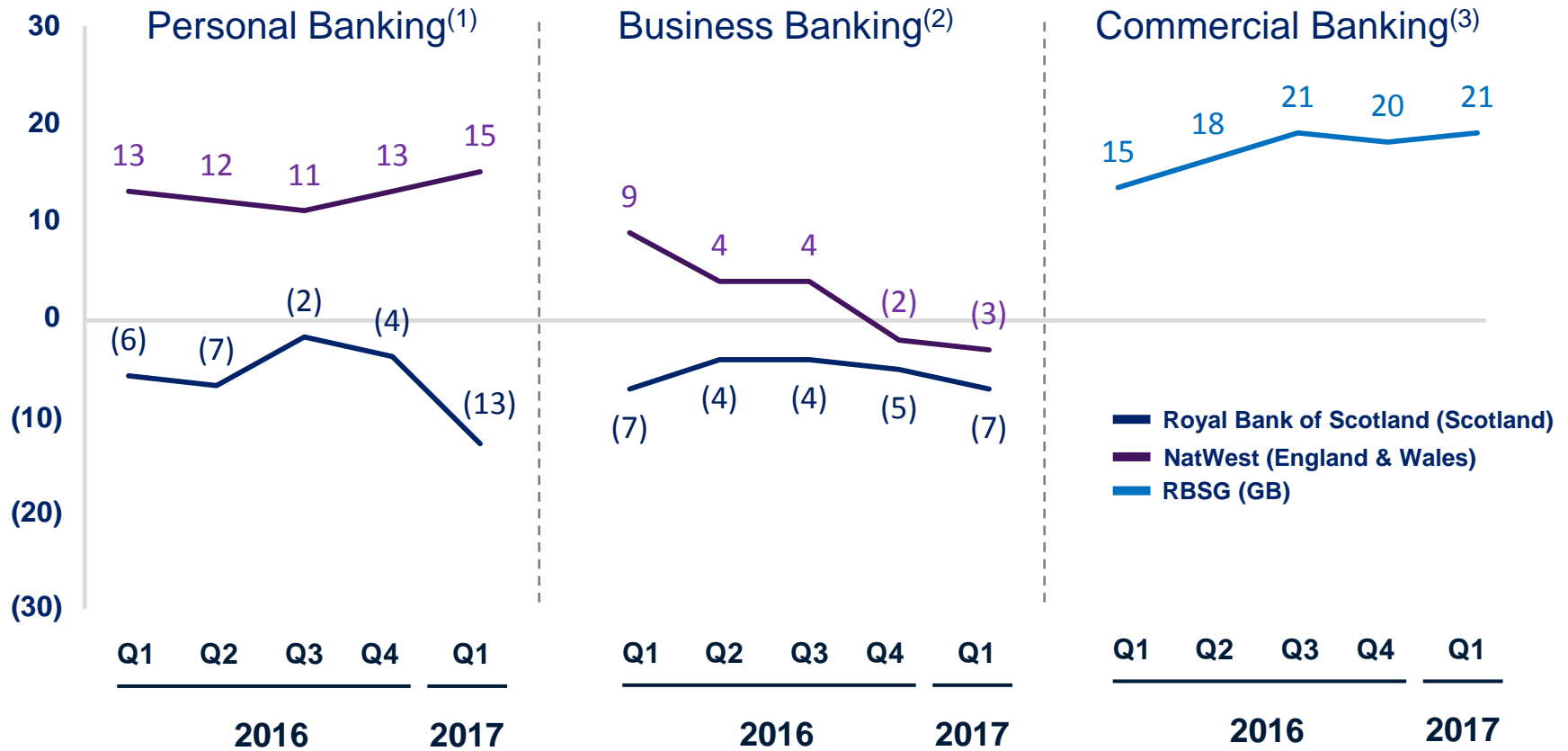
# Tangible Net Asset Value (TNAV) movements



	£m	Shares in issue (m)	TNAV per share
<b>Q4 2016 TNAV</b>	34,982	11,823	296p
Profit for the period post tax <sup>(1)</sup>	386		3p
Less: profit to NCI / other owners	(127)		(1p)
Other comprehensive Income	(159)		(1p)
<i>o/w AFS</i>	60		1p
<i>o/w Cashflow hedging gross of tax</i>	(189)		(2p)
<i>o/w FX</i>	(6)		-
<i>o/w Remeasurement of net defined pension liability</i>	(21)		-
<i>o/w OCA</i>	(20)		-
<i>o/w Tax</i>	17		-
Less: OCI attributable to NCI / other owners	1		-
Proceeds of share issuance	69	19	-
Other movements <sup>(2)</sup>	34	-	-
<b>Q1 2017 TNAV</b>	35,186	11,842	297p

<sup>(1)</sup> Profit for the period is pre non controlling interests and other owners dividends and excludes write-down of goodwill and other intangible assets. <sup>(2)</sup> Other reserve movements including intangibles

## Net Promoter Scores across our core businesses



<sup>(1)</sup> Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (England & Wales) (3297), Royal Bank of Scotland (Scotland) (508) 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.

<sup>(2+3)</sup> Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1239) Royal Bank of Scotland (409) Commercial (3) £2m+ combination of NatWest & Royal Bank of Scotland in GB (918) 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.

# Forward Looking Statements



## **Cautionary statement regarding 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', 'commit', '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: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS's transformation programme, including the further restructuring of the NatWest Markets business; the satisfaction of the Group's residual EU State Aid obligations; the continuation of RBS's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAE), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; future pension contributions; RBS's exposure to political risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promoter Score (NPS); employee engagement and gender balance in leadership positions.

## ***Limitations inherent to forward-looking statements***

These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group's strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

## ***Important factors that could affect the actual outcome of the forward-looking statements***

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group's 2016 Annual Report on Form 20-F and other materials filed with, or furnished to, the US Securities and Exchange Commission, and other uncertainties discussed in this document. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); economic, regulatory and political risks, including as may result from the uncertainty arising from the EU Referendum; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its transformation programme, particularly the proposed further restructuring of the NatWest Markets business, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital and leverage requirements or targets which will depend in part on RBS's success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, additional pension contributions, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS's ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.