

Q3 2014 Results

31 October 2014

Q314 results highlights

3rd consecutive quarter of attributable profit, Q314 RoTE: 8%

Q314 adjusted operating profit of £2.2bn, up 15% vs. Q214; credit conditions benign

Costs consistently reduced; on track to deliver £1bn of cost reductions in 2014

Another quarter of strong progress in RCR

Strong capital build – 10.8% CET1 ratio, up 70bps Q/Q and 220bps YTD

Q314 TNAV 388p, up 25p from 363p at FY13

Citizens – the largest ever IPO of a US bank successfully completed

Progress encouraging, continue to work through legacy issues

Results at a glance

P&L summary (£m)	Q314	Q214	Q313	Q314 vs. Q214	Q314 vs. Q313
Income	4,359	4,925	4,894	(11%)	(11%)
Operating expenses	(3,883)	(3,700)	(3,879)	5%	0.1%
o/w Restructuring, Conduct and Litigation	(960)	(635)	(554)	51%	73%
Adjusted operating expenses ¹	(2,923)	(3,065)	(3,325)	(5%)	(12%)
Profit before impairment losses	476	1,225	1,015	(61%)	(53%)
Impairment losses	801	93	(1,170)	761%	<i>nm</i>
Operating profit	1,277	1,318	(155)	(3%)	<i>nm</i>
Adjusted operating profit/(loss) ¹	2,237	1,953	399	15%	461%
Profit before tax	1,270	1,010	(634)	26%	<i>nm</i>
Attributable Profit	896	230	(828)	290%	<i>nm</i>
Net interest margin	2.26%	2.22%	2.01%	4bps	25bps
Cost : income ratio	89%	75%	79%	14%	10%
Adjusted cost : income ratio ¹	67%	62%	68%	5%	(1%)
Capital & Balance Sheet summary	Q314	Q214	FY13	Q314 vs. Q214	Q314 vs. FY13
Funded balance sheet (£bn)	732	736	740	(4)	(8)
Risk-weighted assets (£bn)	382	392	429	(10)	(47)
Common Equity Tier 1 ratio	10.8%	10.1%	8.6%	70bps	220bps
BCBS Leverage Ratio	3.9%	3.7%	3.4%	20bps	50bps
Net tangible equity per share	388p	376p	363p	12p	25p

¹ Excluding restructuring costs and litigation and conduct costs.

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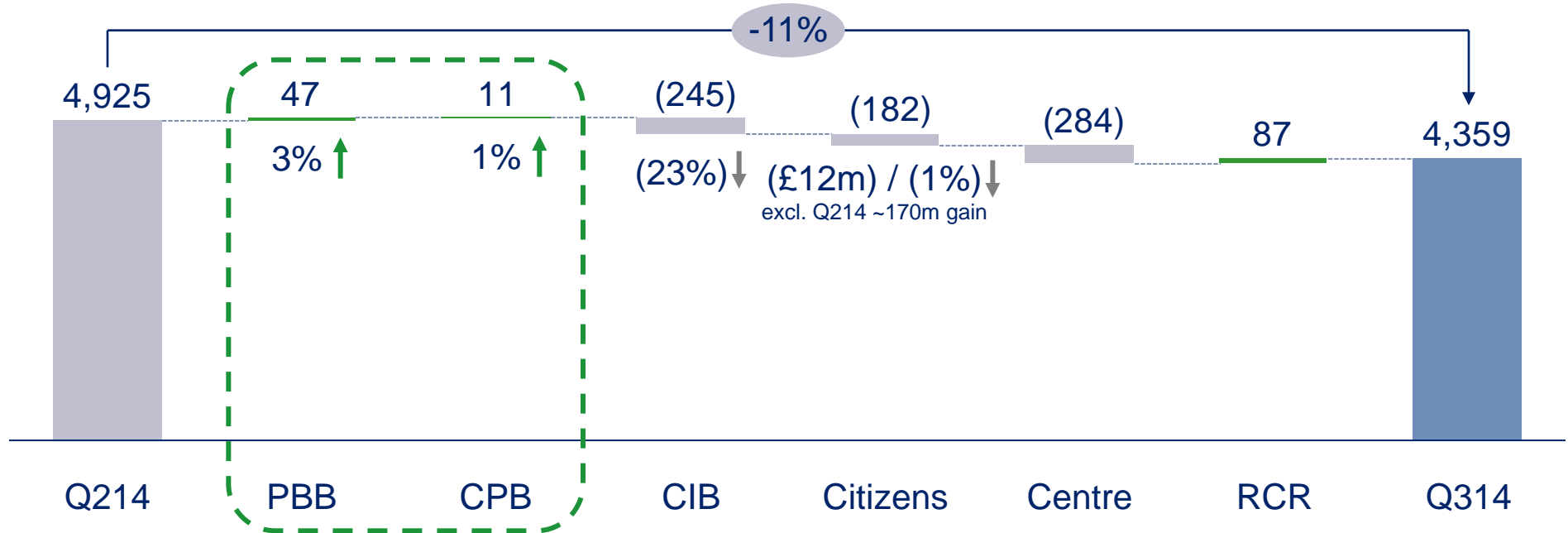
Balance sheet, Capital & Funding

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RBS Capital Resolution

Income – UK franchises growing

Total Income, £m

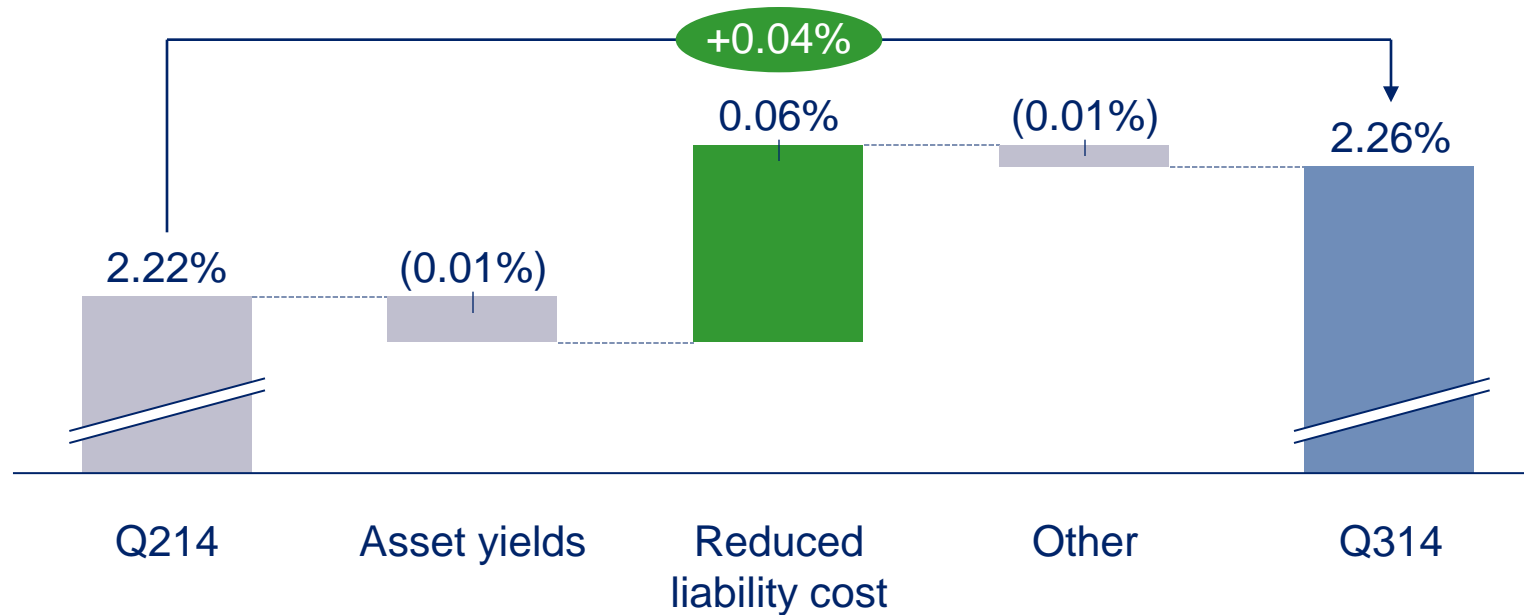


- Deposit repricing, improving macro and consumer confidence supporting the UK franchises
- CIB impacted by scaling back of the balance sheet and business mix
- Underlying Citizens income flat excluding gain on sale of, and income from, Illinois franchise
- Centre lower¹ due to AFS disposal losses and IFRS volatility

¹ Q314 loss of £140m vs. Q214 income of £144m.

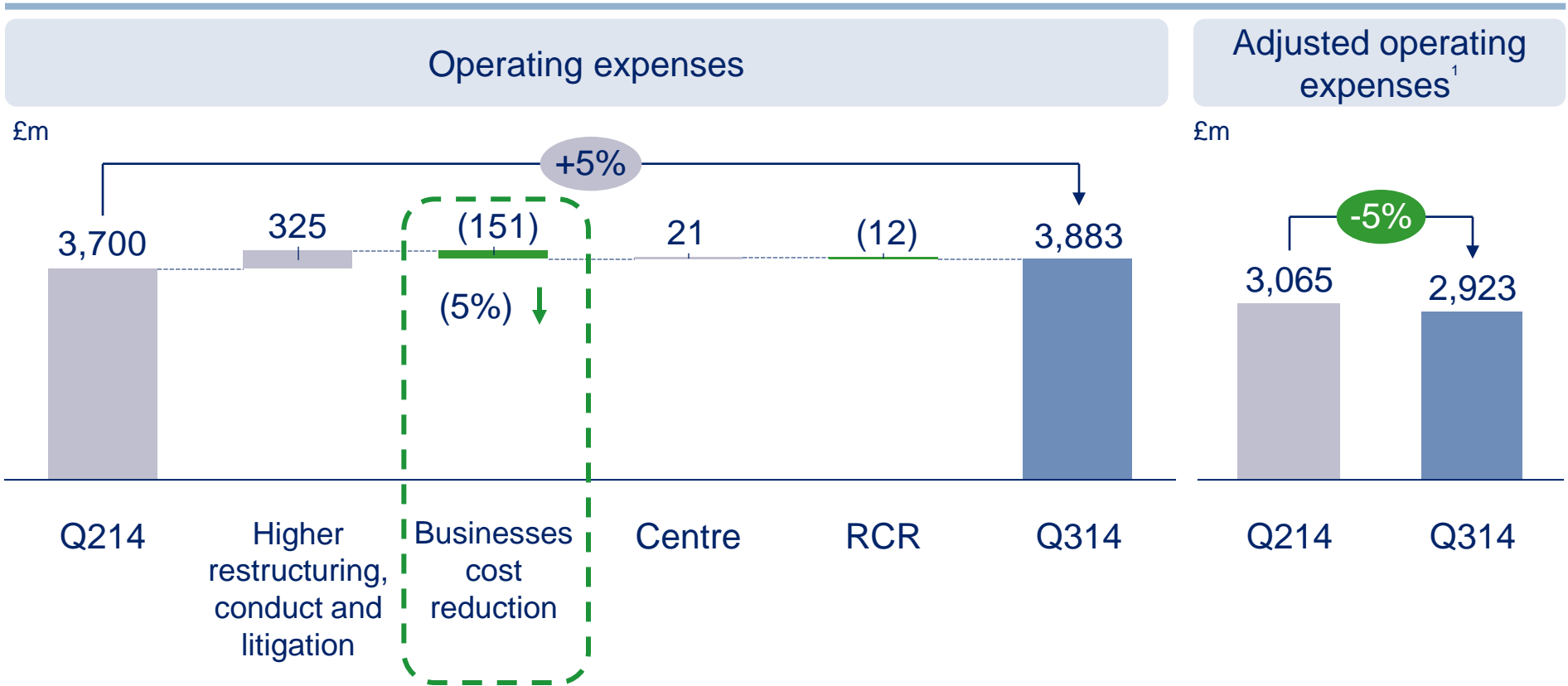
NIM continues to improve

Net Interest Margin, %



- Gently rising NIMs in PBB and CPB as continued deposit repricing reduced the cost of interest bearing liabilities
- Q4 NIM is expected to remain at around Q3 2014 levels, with modest asset margin pressure balanced by lower funding costs

Adjusted operating expenses down 5%



- Adjusted expense reduction driven primarily by CIB (-13% Q/Q)
- Retain target of £1bn absolute cost reduction for 2014²

¹ Excluding restructuring costs and litigation and conduct costs. ² On a constant currency basis.

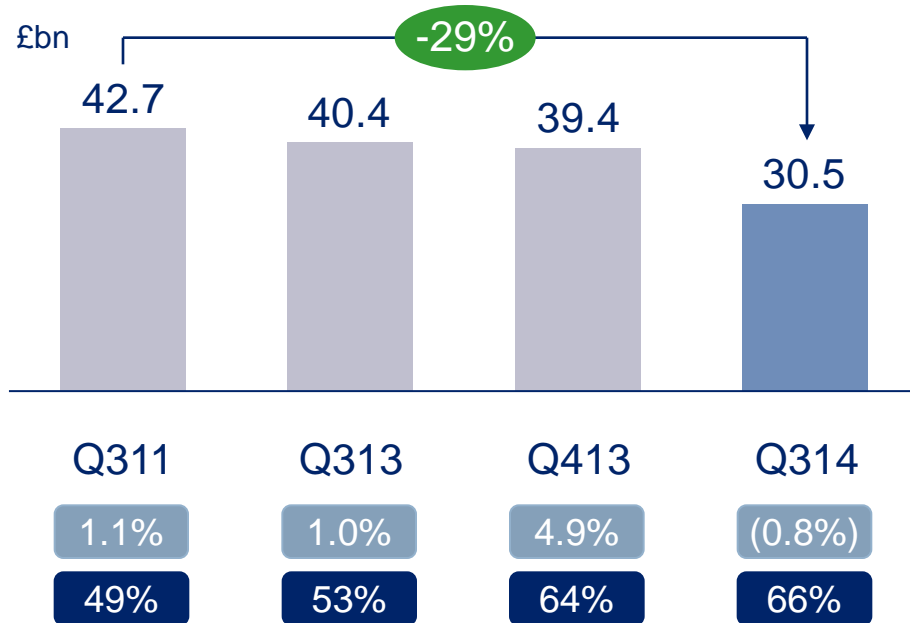
Improving impairment trends supported by releases

NPL trends

NPLs¹, £bn

Provisions coverage, %

Impairments as % of Gross L&A



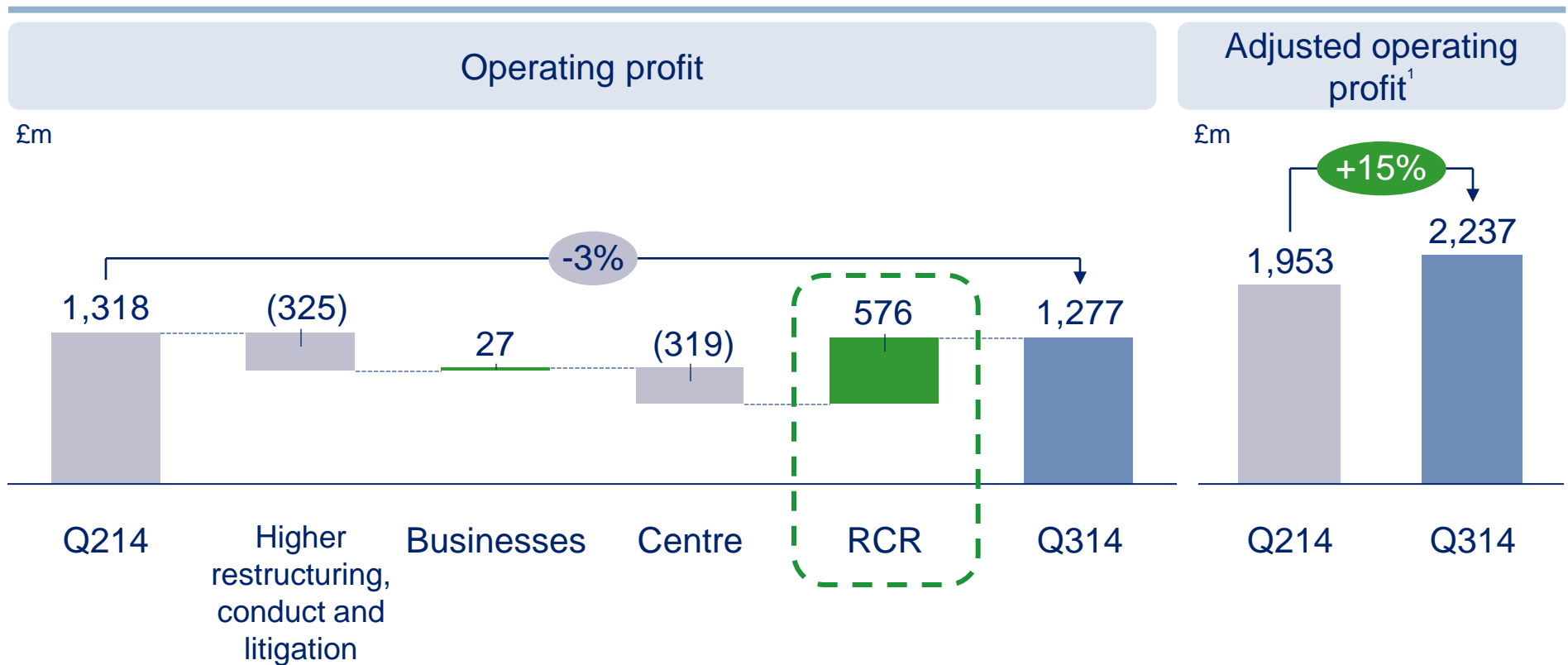
Impairment recoveries / (losses)

£m	Q314	9M14
Reported	801	532
o/w RCR	605	625
o/w Ulster	318	261
RBS ex. RCR & Ulster	(122)	(354)

- Good progress in reducing NPLs, down 29% from peak (Q311) and 24% Y/Y – RCR (57% of total NPLs) key driver of accelerated run-down

¹ NPLs (non-performing loans) = Risk Elements in Lending (REIL) per RBS results disclosures.

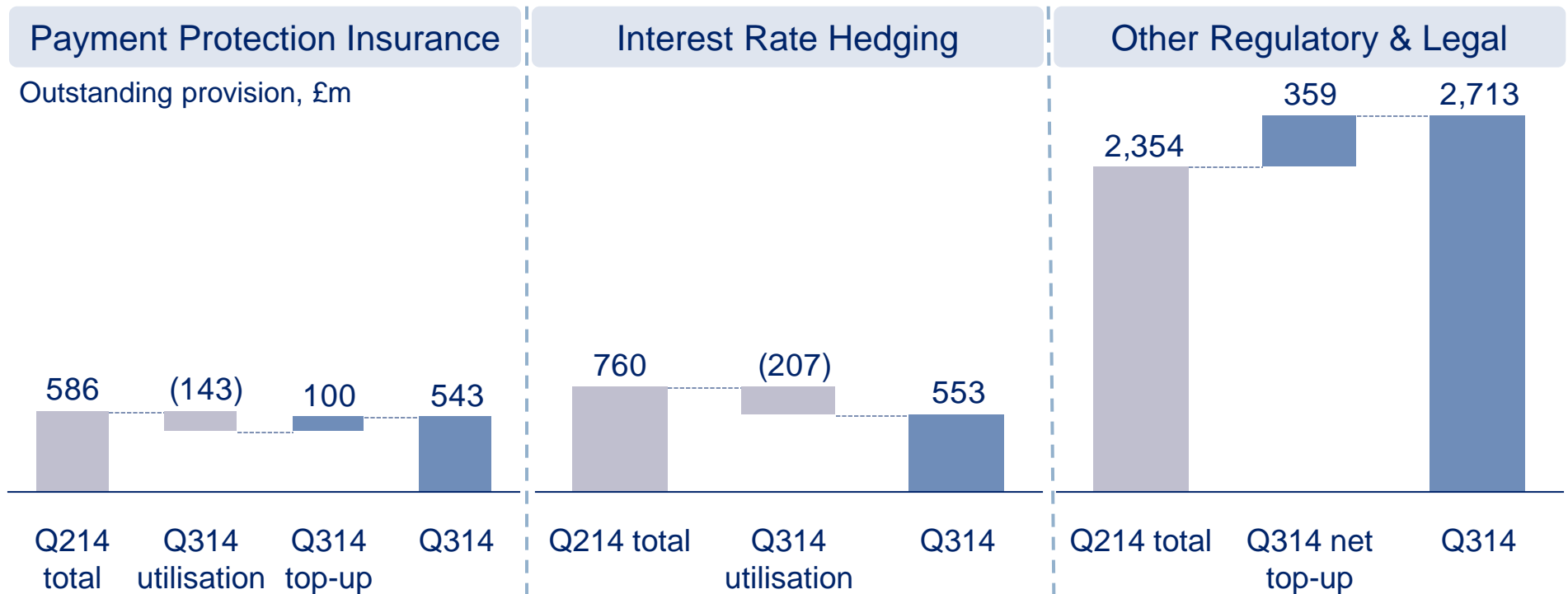
Adjusted operating profit up 15%



- Net provision releases in RCR and Ulster (ex RCR) key driver of improvement. No large cases across the Bank
- Lower Centre impacted by losses on AFS disposals and IFRS volatility
- Excluding Citizens ~£170m gain in Q2, adjusted operating profit in Businesses is up 13% Q/Q

¹ Excluding restructuring costs and litigation and conduct costs.

Litigation and conduct provisions



- Additional £780m of litigation and conduct costs including £400m for potential FX conduct costs and an additional £100m PPI provision
- Risks and uncertainty remain around the scale and timing of future specific conduct and litigation costs which could be a significant drag on earnings and capital generation

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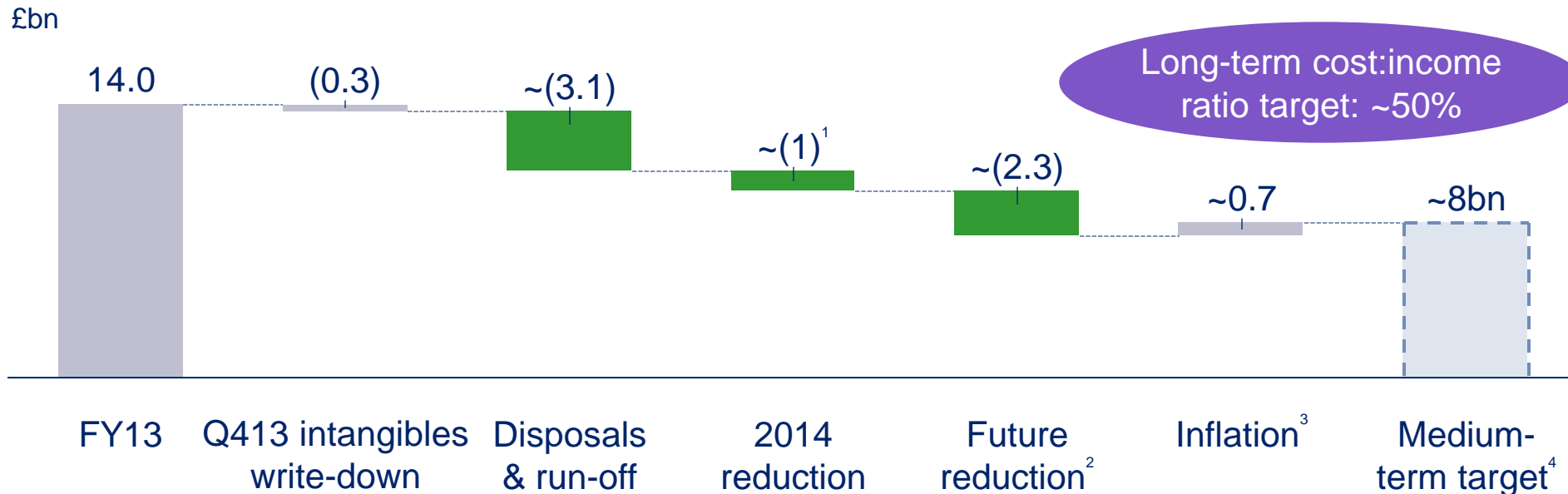
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Cost reduction plan on track

Operating expenses including bank levy and excluding restructuring and conduct & litigation costs



- Our historic scale and complexity left us inefficient; we are aligning our cost base to our new more focused and smaller operating model
- Reductions to be delivered over a 4-year period
- Continue to anticipate £5bn overall restructuring costs 2014-17

On track to meet £1bn cost reduction target in 2014

¹ On a constant currency basis. ² 2015-17. ³ Including bank levy. ⁴ Medium-term defined as 2017.

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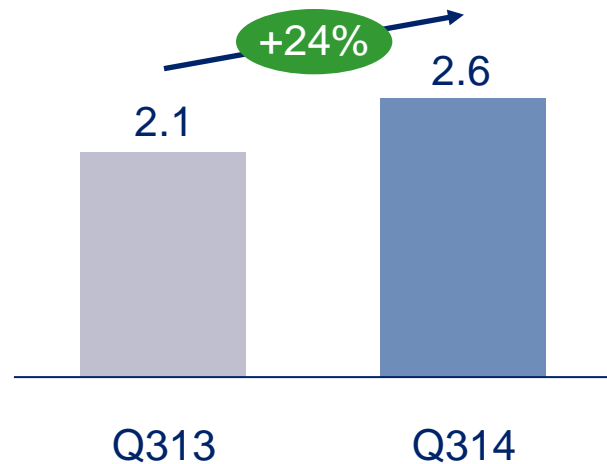
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Early signs of loan growth

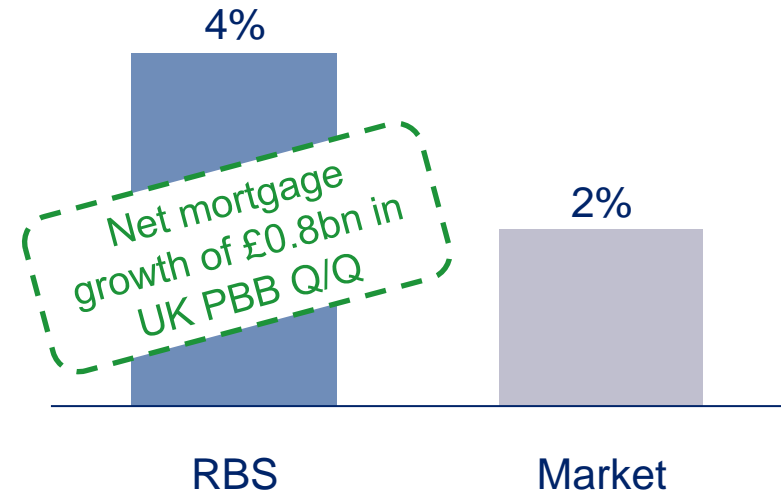
Seeing increasing SME client activity

Gross new lending, £bn¹



Mortgages – strong net lending growth with continued market share gains

Q314 Y/Y growth in mortgage loans outstanding in PBB UK

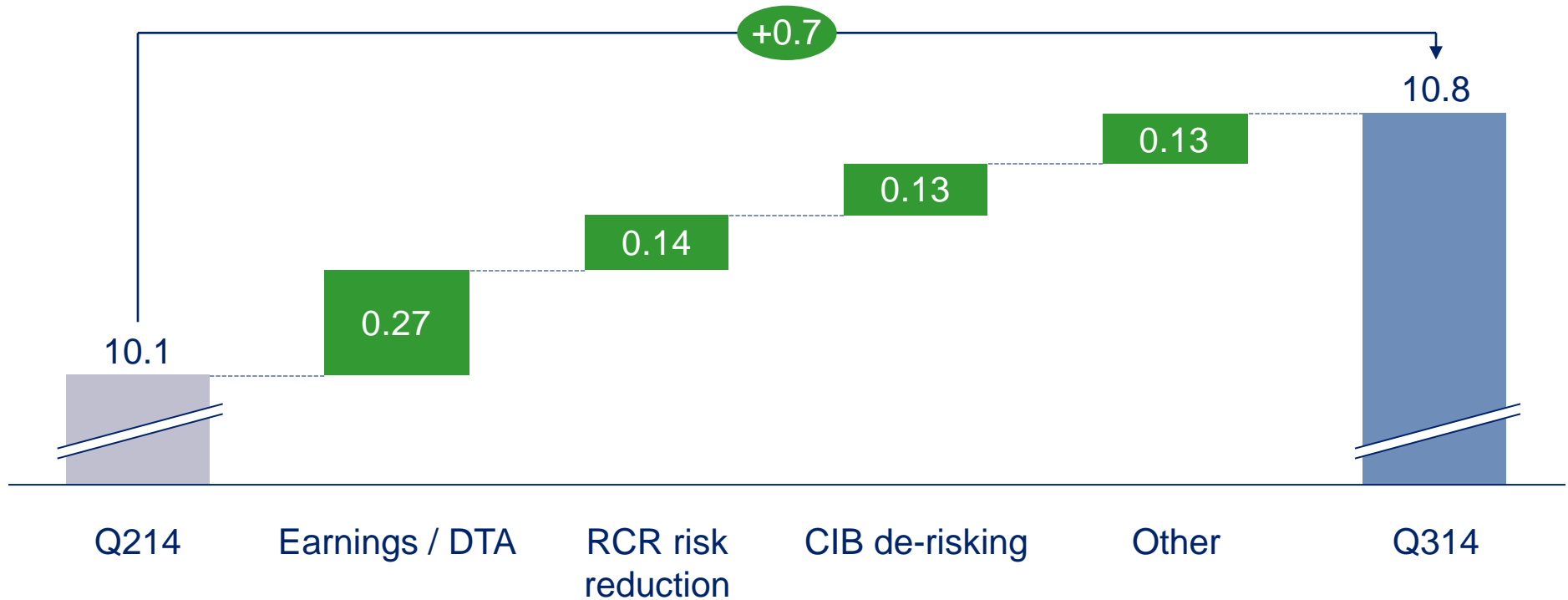


- Momentum continues on mortgages with gross new business market share above stock
- Business Banking gross new lending increased 44% YTD vs. same period in 2013

¹ Includes customers in both PBB and CPB.

Capital generation

Key drivers of the improvement in Common Equity Tier 1 ratio, %

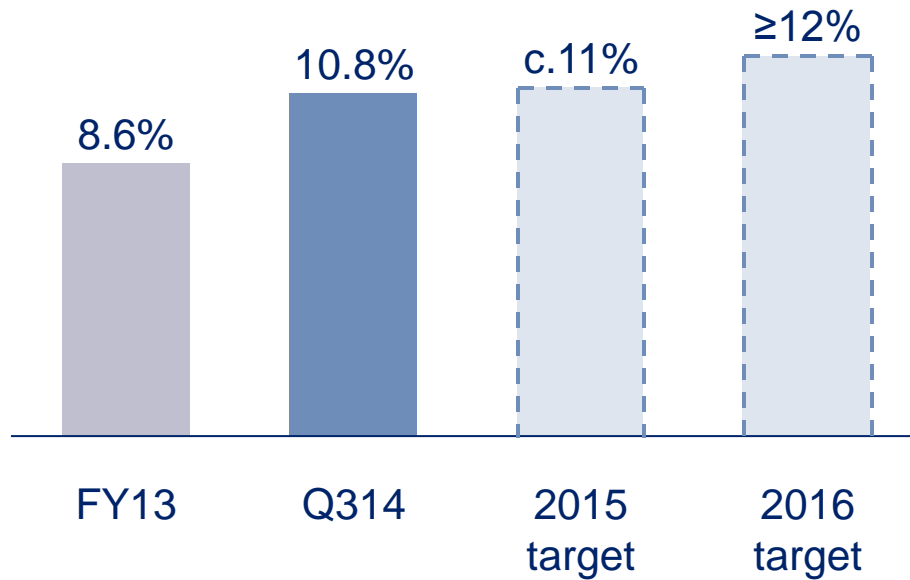


- Solid progress in capital ratio build, CET1 ratio up 220bps YTD
- RWAs down £10.4bn (3%) Q/Q, of which RCR down £4.5bn, CIB down £4.6bn

On track to achieve CET1 and leverage ratio targets

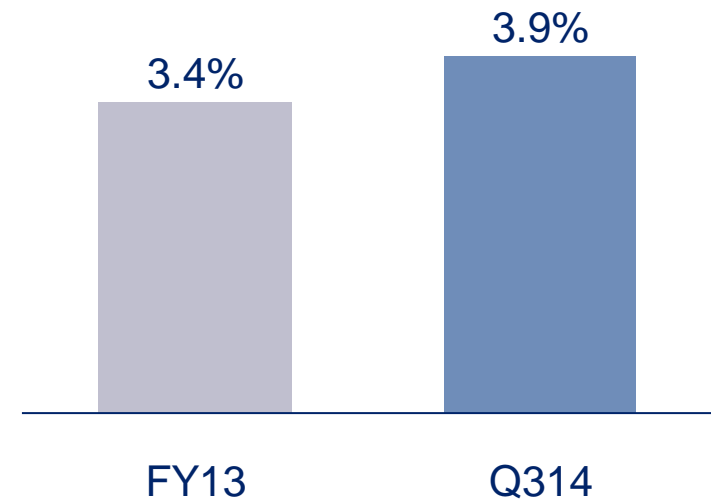
CET1 build progressing

Common Equity Tier 1 ratio, %



Leverage ratio continues to improve

BCBS leverage ratio, %



- Maintain guidance of a CET1 ratio of c.11% by end-2015 and 12%, or above, by end-2016
- CET1 Leverage ratio at 3.9%, up 50bps YTD

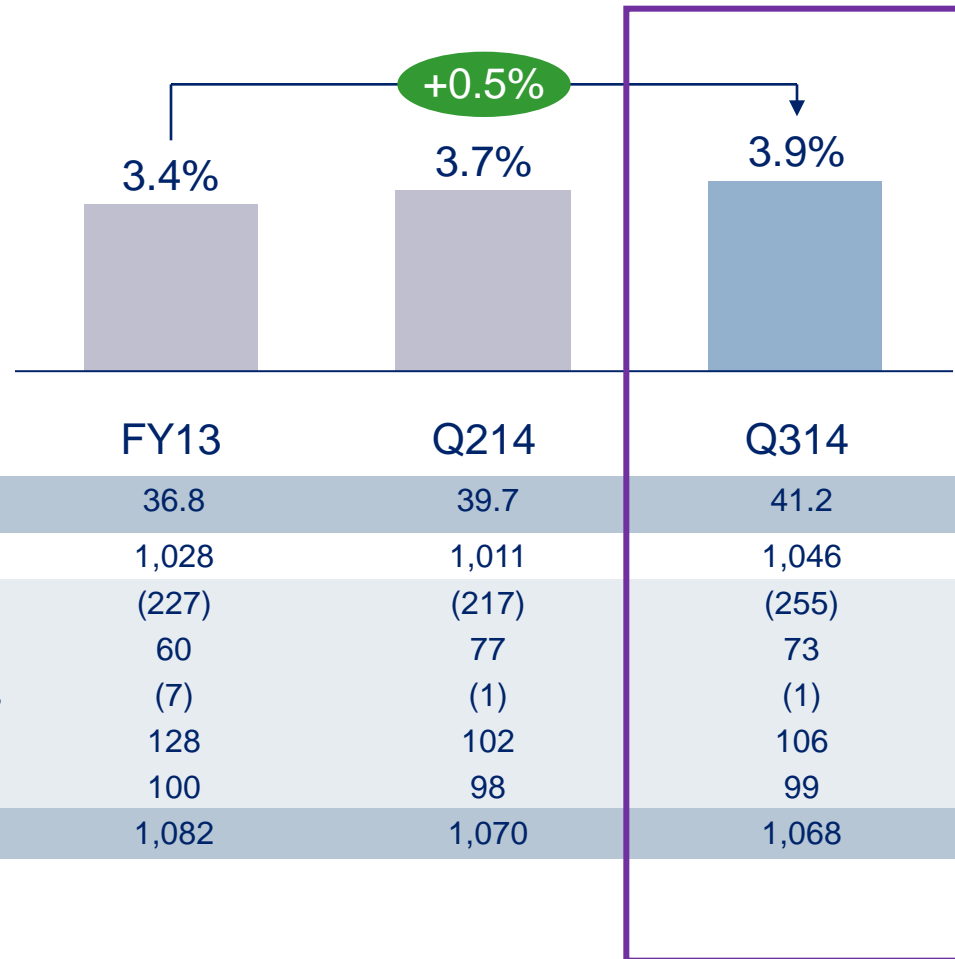
Fully loaded Common Equity Tier 1 – key drivers

£bn	FY13	Q214	Q314
Reported Tangible Equity	41.1	42.9	44.3
Expected loss less impairments	(1.7)	(1.3)	(1.6)
Prudential valuation adjustment	(0.8)	(0.5)	(0.4)
DTAs	(2.3)	(1.7)	(1.6)
Own credit adjustments	0.6	0.6	0.6
Pension fund assets	(0.2)	(0.2)	(0.2)
Other deductions	0.1	(0.1)	0.1
Total deductions	(4.3)	(3.2)	(3.1)
Basel III CET1 capital	36.8	39.7	41.2
Basel III RWA	429	392	382
Fully loaded CET1 Ratio	8.6%	10.1%	10.8%

- Continue to target c.11% by end-2015 and 12%, or above, by end-2016

Leverage ratio – key drivers

BCBS leverage ratio, %



- Ratio higher 50bps vs. FY13 driven by CET1 improvement

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RCR asset composition and provisions overview

Asset composition at 30 September 2014

Markets

Securitised Products: £2.3bn

Emerging Markets: £0.6bn

Total: £2.9bn

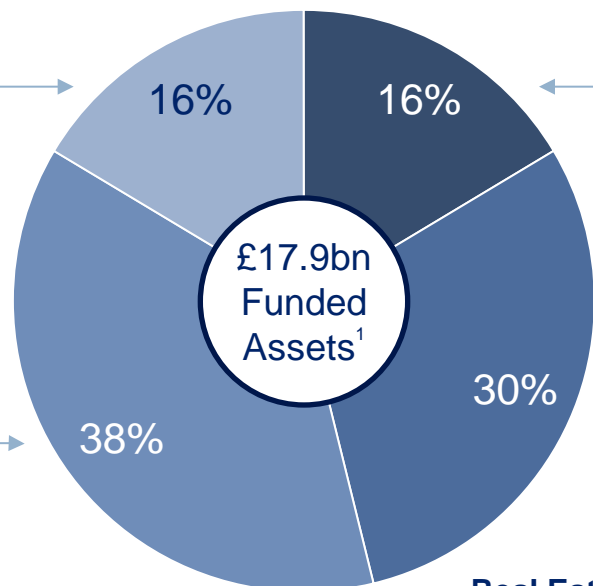
Ulster

CRE Investment £1.5bn

CRE Development: £0.7bn

Other Corporate: £0.7bn

Total: £2.9bn



Corporate

Structured Finance: £1.7bn

Shipping: £1.9bn

Other Corporate: £3.1bn

Total: £6.7bn

Real Estate Finance

UK: £3.2bn

Germany: £0.8bn

Spain: £0.5bn

Other: £0.9bn

Total: £5.4bn

CRE Total (REF and Ulster): £7.6bn²

Overview of provisions by sector

	Gross loans	Provisions	Provisions as a % of REIL	Provisions as a % of gross loans
30 September 2014	£bn	£bn	%	%
By sector:				
Commercial real estate				
- Investment	8.4	3.5	58	42
- Development	7.1	5.9	88	83
Asset finance	2.4	0.4	50	17
Other corporate	7.8	2.8	72	36
Other	0.1	-	-	-
Total RCR	25.8	12.6	72	49

¹ Funded Assets – excluding derivatives, net of balance sheet provisions

² Includes £1.5bn of investment property and other assets.

Outlook

Q4 NIM expected to remain around Q3 2014 levels, with modest asset margin pressure balanced by lower funding costs

Remain on track to deliver £1bn cost reductions in 2014¹

Retain our £5bn overall restructuring costs guidance 2014 – 2017

RCR guidance remains unchanged since Trading Statement. Expect continuing strong progress in balance sheet and risk reduction

Anticipate further impairment releases in Q4 2014 offset by modest new impairments

Conduct and litigation expected to be a material drag on both earnings and capital generation but timing uncertain

¹ On a constant currency basis.

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