Fixed Income Investor Factbook

29/04/16

Our investment case

- Market leading positions in UK and Irish franchises with focused international capability
- Ambitious targets to reduce costs and improve efficiency
- Targeting a 12%+ Return on Tangible Equity from a lower risk franchise
- Underpinned by capital and funding strength
- Ambition to be number 1 for customer service, trust and advocacy
- Clearing the path for future capital distributions[1]

Our long-term targets

Measure	2015	Q1'16	Long-term
Adjusted cost: income ratio[2]	72%	76%	<50%
Core Franchises	**65%**	**63%**	
Return on Tangible Equity	NA	NA	12%+
Common Equity Tier 1 Ratio	15.5%	14.6%	13%[3]

RBS in 2019

No. 1 for customer service[4] with leading market positions[5]

Personal & Business Banking			Commercial & Private Banking				Corporate & Institutional Banking		
No.2 UK Personal Current Accounts	No.2 UK business bank main relationship	No.3 ROI Personal Current Accounts	UK No. 1 SME Bank	No.1 UK Commercial Bank	No.1 UK Private Bank	No. 1 UK crown dependencies	Top 3 UK rates, DCM, FX	Top 3 European Structured Finance	Top 3 Western Europe Investment Grade Corporate DCM
85% of Risk Weighted Assets							15% of Risk Weighted Assets		

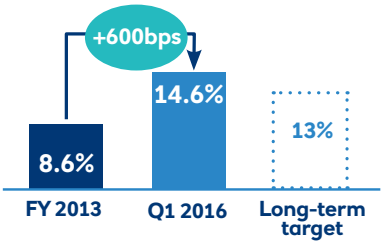
A clear record of delivering our goals

Priorities	2016 Goals	Q1 2016 Progress
Strength and sustainability	Maintain Bank CET1 ratio of 13%	✓ CET1 ratio of 14.6%
	£2 billion AT1 issuance	✓ Continue to plan to issue in 2016, subject to market conditions
	Capital Resolution RWAs around £30 billion	✓ RWAs down £1.4 billion to £47.6 billion despite adverse exchange rate and interest rate movements
Simplifying the bank	Reduce operating expenses by £800 million[6]	✓ Operating expenses down £189 million[6]; on track
Supporting growth	Net 4% growth in PBB and CPB customer loans	✓ Net lending in PBB and CPB up 15% on an annualised basis in the quarter
Customer experience	Narrow the gap to No.1 in NPS in every primary UK brand	✓ Year on year Ulster Bank Personal (NI) has narrowed the gap, and our NatWest and Royal Bank brands show improvements in NPS

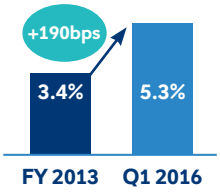
(1) Earliest possible timing is likely to be after Q1 2017, subject to Board and PRA approval. Key milestones before seeking PRA approval for capital distributions would include, among other considerations, maintaining the 13% CET1 ratio target, passing regulatory capital requirements, pass 2016 Bank of England stress test (including Individual Capital Guidance hurdle) and operating within capital risk appetite, peak of litigation and conduct costs passed including US RMBS, confidence in sustainable profitability, and Williams & Glyn exit assured. **(2)** Excluding own credit adjustments, (loss)/gain on redemption of own debt, strategic disposals, restructuring costs, litigation and conduct costs and write down of goodwill. **(3)** During the period of Corporate & Institutional Banking (CIB) restructuring. **(4)** Target No.1 for customer service, trust and advocacy by 2020. **(5)** The objectives under "RBS in 2019" are forward looking statements – see back page of this factsheet. **(6)** Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn.

Q1 2016 Improved Financial profile

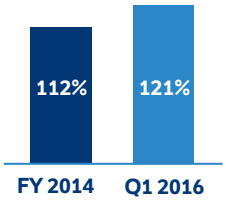
Improved capital strength
CET1 capital ratio



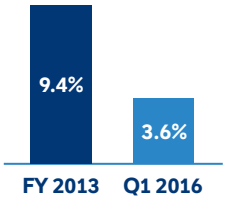
Stronger Leverage Ratio



Robust liquidity profile
Liquidity Coverage Ratio



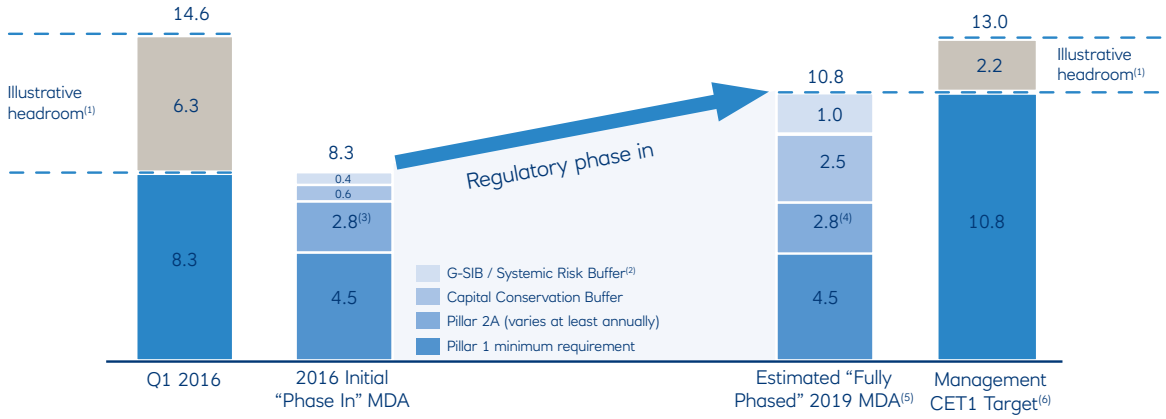
Reduced Risk
NPLs as % of L+A



Future capital requirements

Target CET1 ratio versus maximum distributable amount ("MDA"), %

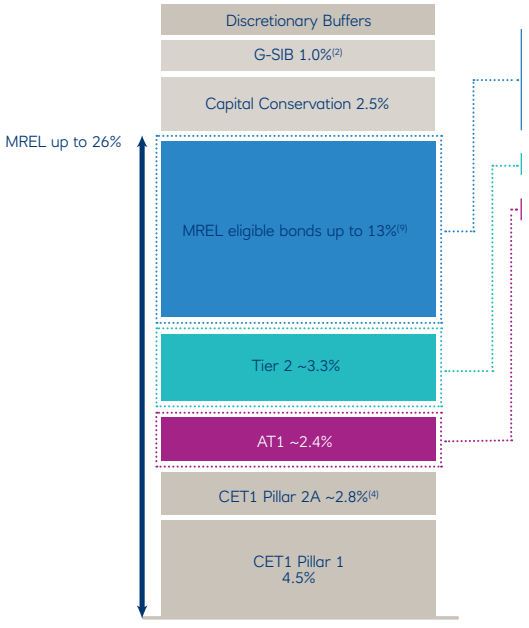
Illustration, based on assumption of static regulatory requirements[4]



Q1 2016 RBSG (HoldCo) Distributable Reserves £15.3bn vs £16.3bn at FY 2015

Illustrative future loss absorbency requirements[7]

Scaled to Minimum Requirements for Own Funds and Eligible Liabilities ("MREL") based on Bank of England Consultation[8]



- MREL expected to exceed TLAC[10], final requirements subject to regulatory finalisation and completion of resolution plans
- Target building MREL compliant Senior 'HoldCo' issuance – £3-5bn issuance targeted for 2016, subject to market conditions, £2.2 bn completed in Q1 2016
- No Tier 2 issuance plans in 2016 given outstanding pool
- £2bn AT1 issuance targeted for 2016, subject to market conditions

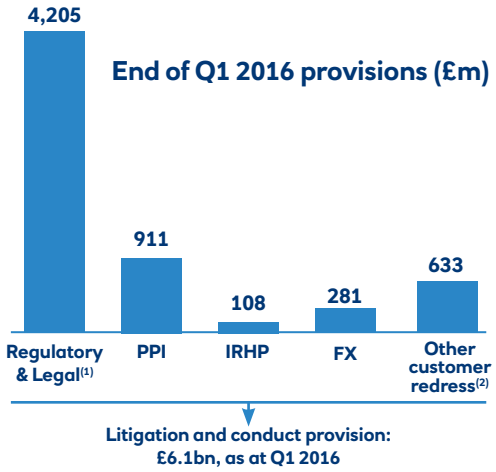
(1) Headroom may vary over time and may be less in future. **(2)** 2016 G-SIB initial phase-in based on 1.5% current requirement. RBS' G-SIB requirement will reduce to 1.0% on 1 Jan 2017. **(3)** RBS's Pillar 2A requirement was 5.0% of RWAs as at 31 December 2015. 56% of the total Pillar 2A requirement, or 2.8% of RWAs, must be met from CET1 capital. **(4)** Pillar 2A requirement held constant over the period for illustration purposes. Requirement is expected to vary over time and is subject to at least annual review. Following our announced changes to pension accounting and planned scheme contributions in response to amendments to IFRIC 14, RBS anticipates a reduction in RBS's future core capital requirements. The timing of any such core capital offsets are likely to occur at the earliest 1 January 2017 and will depend on the PRA's assessment of RBS's core capital position in future. **(5)** Assumes no material Counter Cyclical Buffer requirement. **(6)** Based on 13% CET1 target during the period of CIB restructuring. **(7)** Assumes PRA buffer (Pillar 2B) not being in excess of Systemic Risk / G-SIB & Capital Conservation Buffer and no material Counter Cyclical Buffer. Requirements expected to change over time. **(8)** Based on RBS interpretation of the BoE' consultation published on 11 December 2015. MREL policy and requirements remain subject to further consultation. RBS estimated requirements remain subject to change. **(9)** Based on twice Pillar 1 and Pillar 2A requirements at a total capital level, subject to regulatory discretion. **(10)** Total Loss Absorbing Capacity requirements for G-SIB's.

Our business profile

Q1 2016	Core franchises							Other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Total Core Franchises	Capital Resolution	W&G	Central items & other[1]	Total Other	
Adj. Income[2]	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[3]	(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. op. profit[2,3]	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 (%)[2,4]	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 (%)[2,3]	57%	67%	51%	83%	39%	119%	63%	n.m	48%	n.m	n.m	76%

(1) Central items include unallocated costs and assets which principally comprise volatile items under IFRS and balances in relation to Citizens and international private banking. **(2)** Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals **(3)** Excluding restructuring costs, litigation & conduct costs and goodwill. **(4)** 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 RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAes). *Due to rounding the total does not cast.

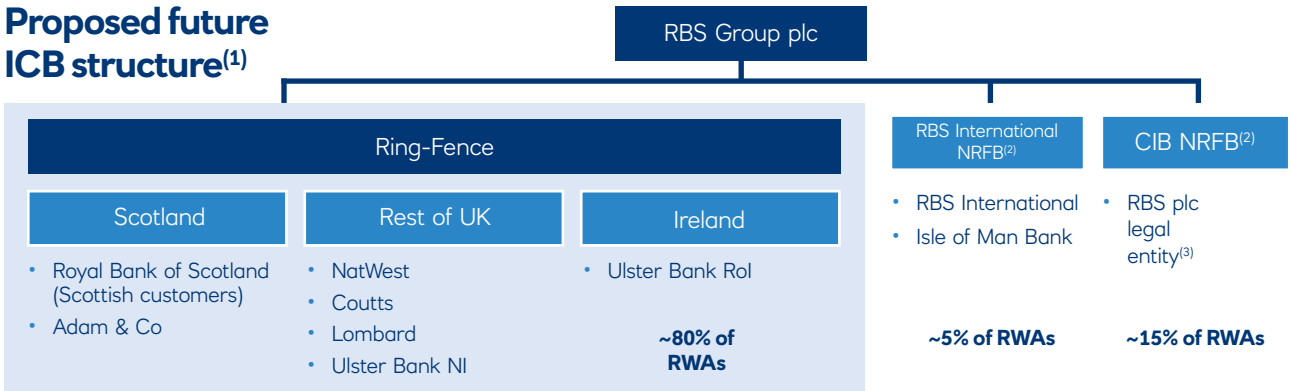
Litigation & Conduct



(1) Includes other regulatory provisions and Litigation as per note 4 p.33 of the IMS. **(2)** Closing provision primarily relates to investment advice and packaged accounts

	Comments
US RMBS	• MBS 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	On 15th March 2016, the SFO announced that it was closing its investigation, having concluded that, based on the information and material obtained, there was insufficient evidence for a realistic prospect of conviction
UK class action lawsuit over 2008 capital raising	Trial of preliminary issues scheduled to commence in Q1 2017
Various UK customer redress issues	Includes PPI: No material developments since Q4 2015 where a provision of £0.5bn taken for PPI to deal with time barring and the implications of the Plevin judgement
FCA SME treatment review	• Fully co-operating with the ongoing FCA review • FCA has promontory final document

Proposed future ICB structure[1]



(1) The proposed future ICB structure comprises part of the preliminary plan submitted to the PRA in January 2016 and is subject, amongst other matters, to (i) further analysis and possible amendment following discussions with the PRA and finalisation of the ring-fencing legislation and the PRA ring-fencing rules, (ii) all applicable regulatory and other approvals and (iii) employee consultation procedures. **(2)** Non-Ring Fenced Bank. **(3)** RBS plc will own most of our activities outside the ring-fence - primarily our Markets business (Rates, Currencies, DCM) and some corporate activity, as well as our US broker-dealer, RBSSI.

Contacts

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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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