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# Q3 2016 Results

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# Ewen Stevenson

Chief Financial Officer

# Q3 2016 Financial Results highlights



**Attributable loss<sup>(1)</sup> of £469m; Operating profit of £255m**

**Adjusted return on equity across our PBB, CPB and CIB franchises of 14% in Q3 2016**

**PBB and CPB net lending up 13% annualised YTD**

**Positive adjusted operating income across the core franchises of 2% 9M/9M**

**Operating cost savings of £695m achieved YTD, on track to meet 2016 target**

**Capital Resolution RWAs reduced by £3.7bn to £38.6bn during Q3 2016**

**Q3 2016 TNAV down 7p Q/Q to 338p**

<sup>(1)</sup> Attributable loss to ordinary shareholders

# Q3 2016 results by franchise



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	CIB	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
Adj. Income <sup>(3)</sup>	1.3	0.1	0.8	0.2	0.1	0.5	3.1	0.2	0.2	(0.0)	0.4	3.5
Adj. Operating expenses <sup>(4)</sup>	(0.7)	(0.1)	(0.4)	(0.1)	(0.0)	(0.3)	(1.8)	(0.2)	(0.1)	0.0	(0.2)	(2.0)
Impairment (losses) / releases	(0.0)	0.0	(0.0)	(0.0)	-	-	(0.0)	(0.1)	(0.0)	0.0	(0.1)	(0.1)
Adj. operating profit <sup>(3,4)</sup>	0.6	0.1	0.4	0.1	0.1	0.2	1.3	(0.1)	0.1	0.0	0.0	1.3
Funded Assets <sup>(5)</sup>	155.4	25.2	152.6	18.1	26.9	112.5	490.7	34.9	25.7	18.0	78.6	569.3
Net L&A to Customers	129.6	19.5	99.8	11.8	8.7	19.9	289.3	16.7	20.6	0.1	37.4	326.7
Customer Deposits	143.7	15.1	98.1	25.3	25.5	9.7	317.4	16.8	24.0	0.6	41.4	358.8
RWAs	31.9	21.4	77.6	8.2	9.6	36.6	185.3	38.6	9.7	1.6	49.9	235.2
LDR	90%	129%	102%	47%	34%	n.m.	91%	99%	86%	n.m.	90%	91%
Adj. RoE (%) <sup>(3,4,5)</sup>	28%	10%	10%	12%	15%	8%	14%	n.m.	n.m.	n.m.	n.m.	4.6%
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	54%	80%	53%	66%	43%	65%	57%	99%	47%	n.m.	n.m.	58%

<sup>(1)</sup>Williams and Glyn' 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 CET1 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) \*Totals may not cast due to rounding

# Q3 2016 P&L

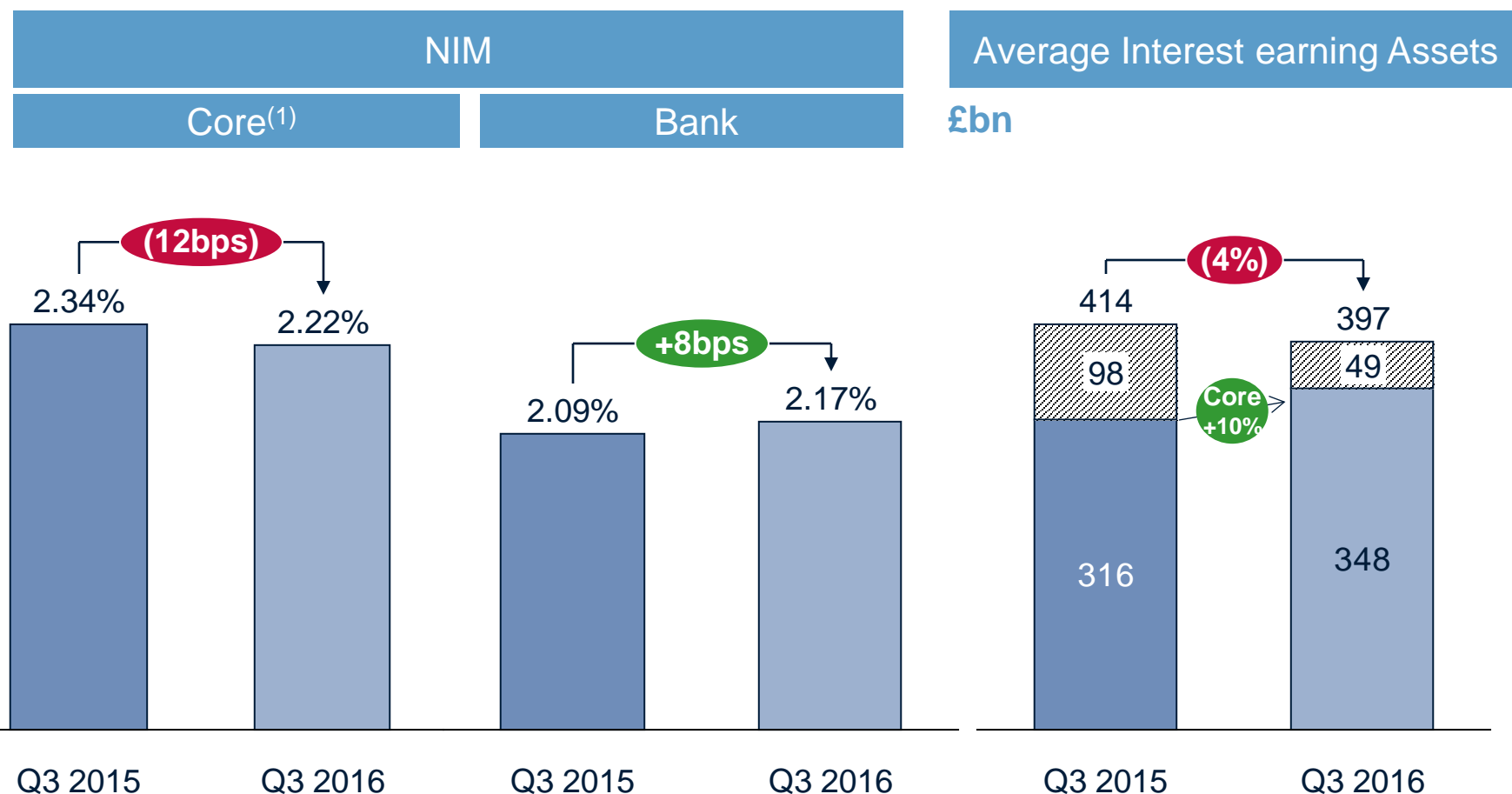
(£m)	Q3 2016	Q2 2016	vs. Q2 2016	Q3 2015	vs. Q3 2015
Adjusted income <sup>(1)</sup>	3,494	2,735	+28%	3,047	+15%
<b>Total income</b>	<b>3,310</b>	<b>3,000</b>	<b>+10%</b>	<b>3,183</b>	<b>+4%</b>
<b>Adj. operating expenses<sup>(2)</sup></b>	<b>(2,017)</b>	<b>(1,833)</b>	<b>+10%</b>	<b>(2,300)</b>	<b>(12%)</b>
Restructuring costs	(469)	(392)	+20%	(847)	(45%)
Litigation & conduct costs	(425)	(1,284)	(67%)	(129)	+229%
<b>Operating expenses</b>	<b>(2,911)</b>	<b>(3,509)</b>	<b>(17%)</b>	<b>(3,276)</b>	<b>(11%)</b>
Impairment (losses) / releases	(144)	(186)	(23%)	79	n.m
<b>Operating profit / (loss)</b>	<b>255</b>	<b>(695)</b>	<b>n.m</b>	<b>(14)</b>	<b>n.m</b>
Other items	(724)	(382)	n.m	954	n.m
<b>Attributable profit / (loss)</b>	<b>(469)</b>	<b>(1,077)</b>	<b>(56%)</b>	<b>940</b>	<b>(150%)</b>
<b>Key metrics</b>					
Net interest margin	2.17%	2.21%	(4bps)	2.09%	+8bps
Return on tangible equity	(4.8%)	(11.0%)	+6ppts	9.0%	(14ppts)
Adj. return on tangible equity <sup>(1,2)</sup>	4.6%	3.2%	+1ppts	16.3%	(12ppts)
Cost-income ratio	88%	117%	(29ppts)	103%	(15ppts)
Adj. cost-income ratio <sup>(1,2)</sup>	58%	67%	(9ppts)	75%	(17ppts)

## Q3 2016 vs. Q3 2015

- Attributable loss of £469m; operating profit of £255m
- Adjusted income up 15% principally driven by CIB
- NIM of 2.17%, up 8bps Y/Y
- Adj. operating expenses down 12% Y/Y
- Impairment charge of £144m

<sup>(1)</sup> Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals <sup>(2)</sup> Excluding restructuring costs, litigation and conduct costs and write-down of goodwill

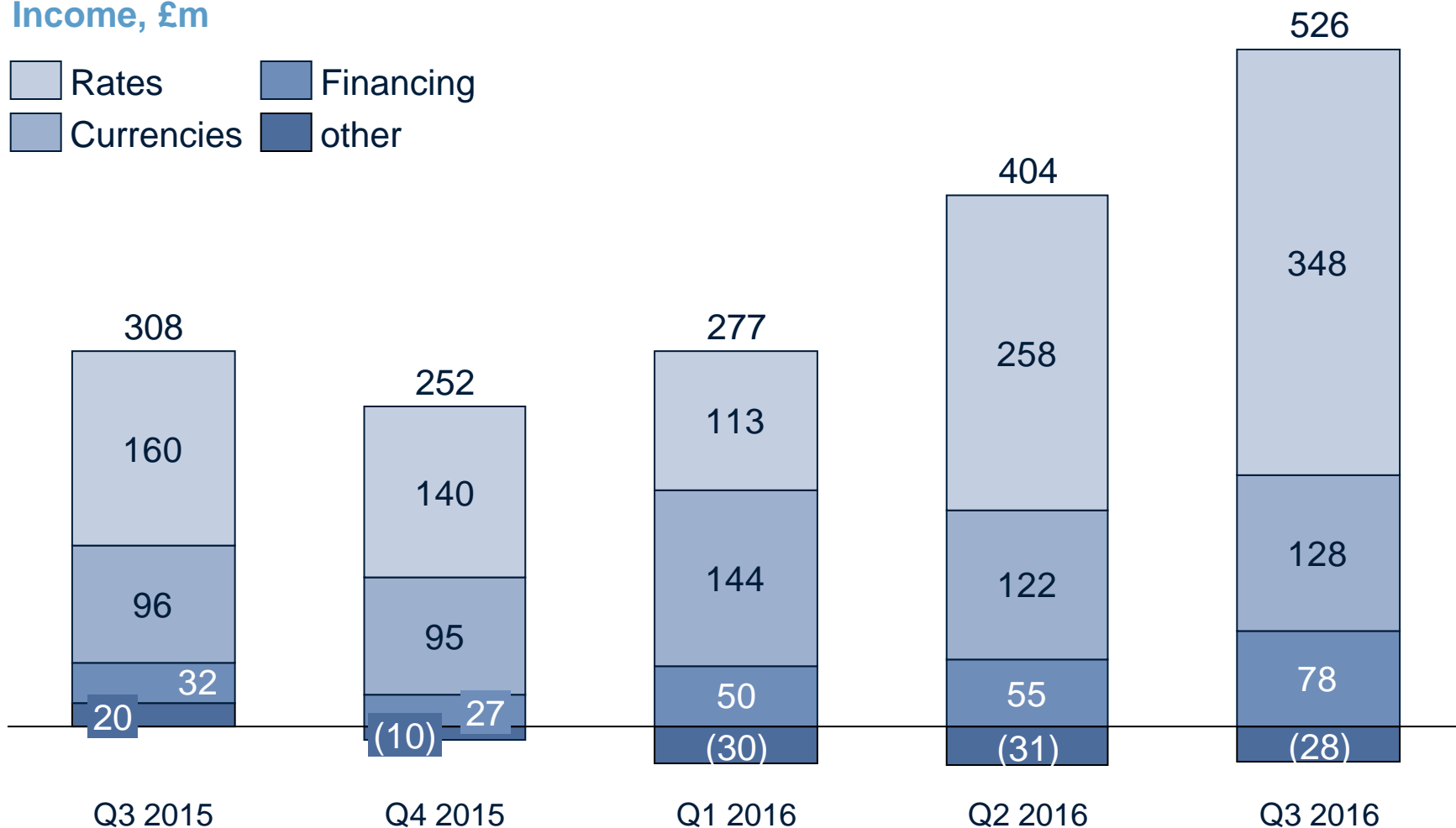
# NIM analysis Q3 2016 vs. Q3 2015



<sup>(1)</sup> Core bank comprises the PBB, CPB and CIB franchises

# Q3 2016 CIB income

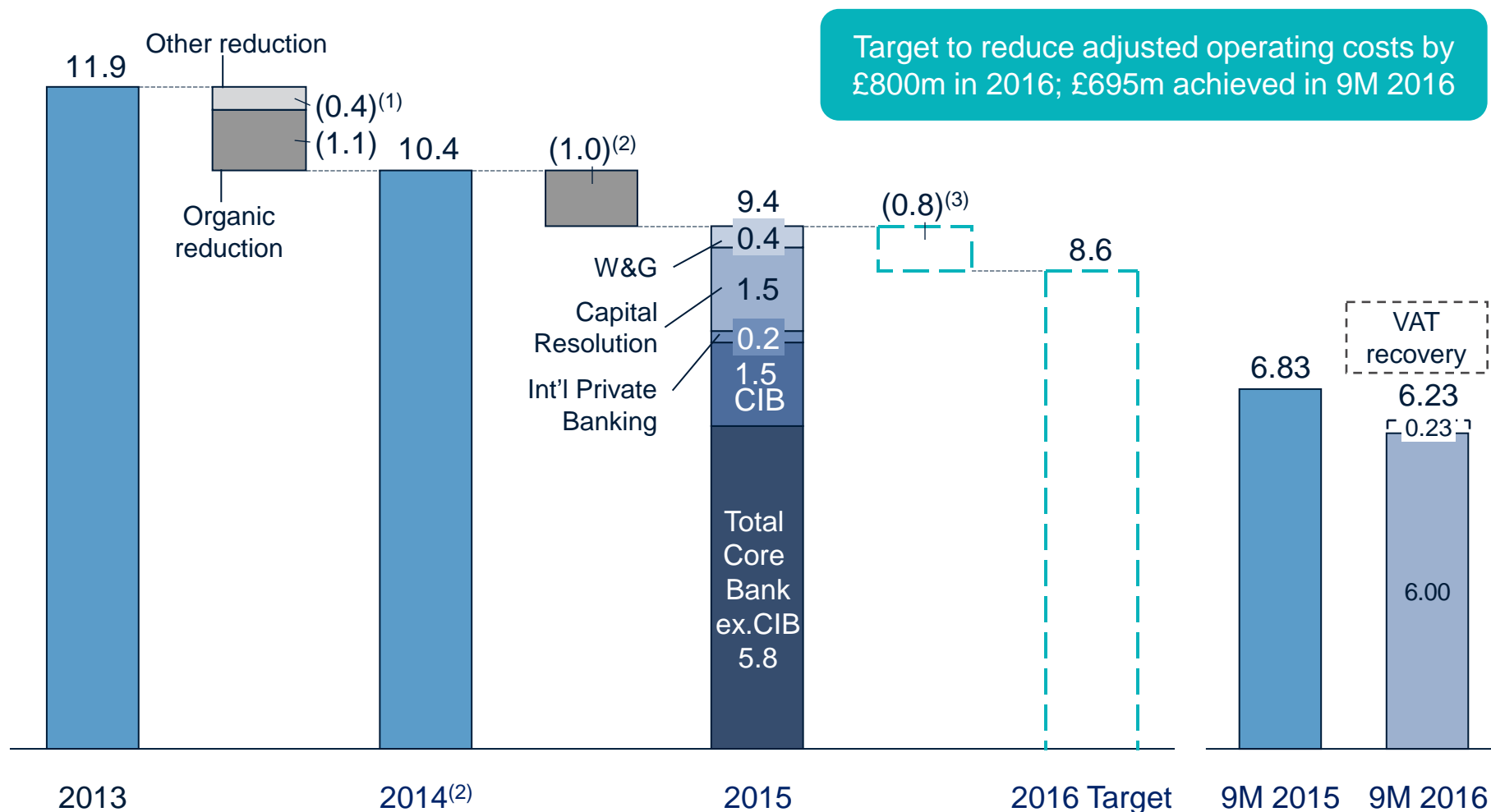
## Income, £m



- Now expecting modest income increase over FY 2015

# Lowered costs by £2.8bn over the last 11 quarters

## Reduction in Adjusted Operating Costs, £bn



<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> Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn



# Q3 2016 Balance sheet

Customer balances (£bn)	Q3 2016	Q2 2016	vs. Q2 2016	FY 2015	vs. FY 2015
Funded assets	569	576	(1%)	553	+3%
Net loans & advances to customers	327	327	(0%)	306	+7%
Customer deposits	359	356	+1%	343	+5%
<b>Liquidity and funding</b>					
Loan-to-deposit ratio (%)	91%	92%	(1ppts)	89%	+2ppts
Liquidity coverage ratio (%)	112%	116%	(4ppts)	136%	(24ppts)
Liquidity portfolio (£bn)	149	153	(3%)	156	(4%)
<b>Capital &amp; leverage</b>					
Leverage exposure (£bn)	703	721	(2%)	703	+0%
Leverage ratio (%)	5.6%	5.2%	+0ppts	5.6%	+0ppts
CET1 capital (£bn)	35.2	35.7	(1%)	37.6	(6%)
CET1 ratio (%)	15.0%	14.5%	+1ppts	15.5%	(1ppts)
RWAs (£bn)	235.2	245.2	(4%)	242.6	(3%)
<b>TNAV</b>					
TNAV per share (p)	338p	345p	(7p)	352p	(14p)
Tangible equity (£bn)	39.8	40.5	(2%)	40.9	(3%)

## Q3 2016 vs. FY 2015

- Funded assets up 3% to £569bn
- Leverage exposure flat at £703bn
- RWAs down £10bn Q/Q reflecting a £5.1bn reduction in UK PBB, largely due to the unwind of mortgage risk parameter model uplifts taken in H1 2016, and £3.7bn of disposals and run-off in Capital Resolution
- LDR ratio – 91%, down 1ppts Q/Q and up 2ppts vs. FY 2015
- LCR ratio – 112%
- TNAV per share at 338p

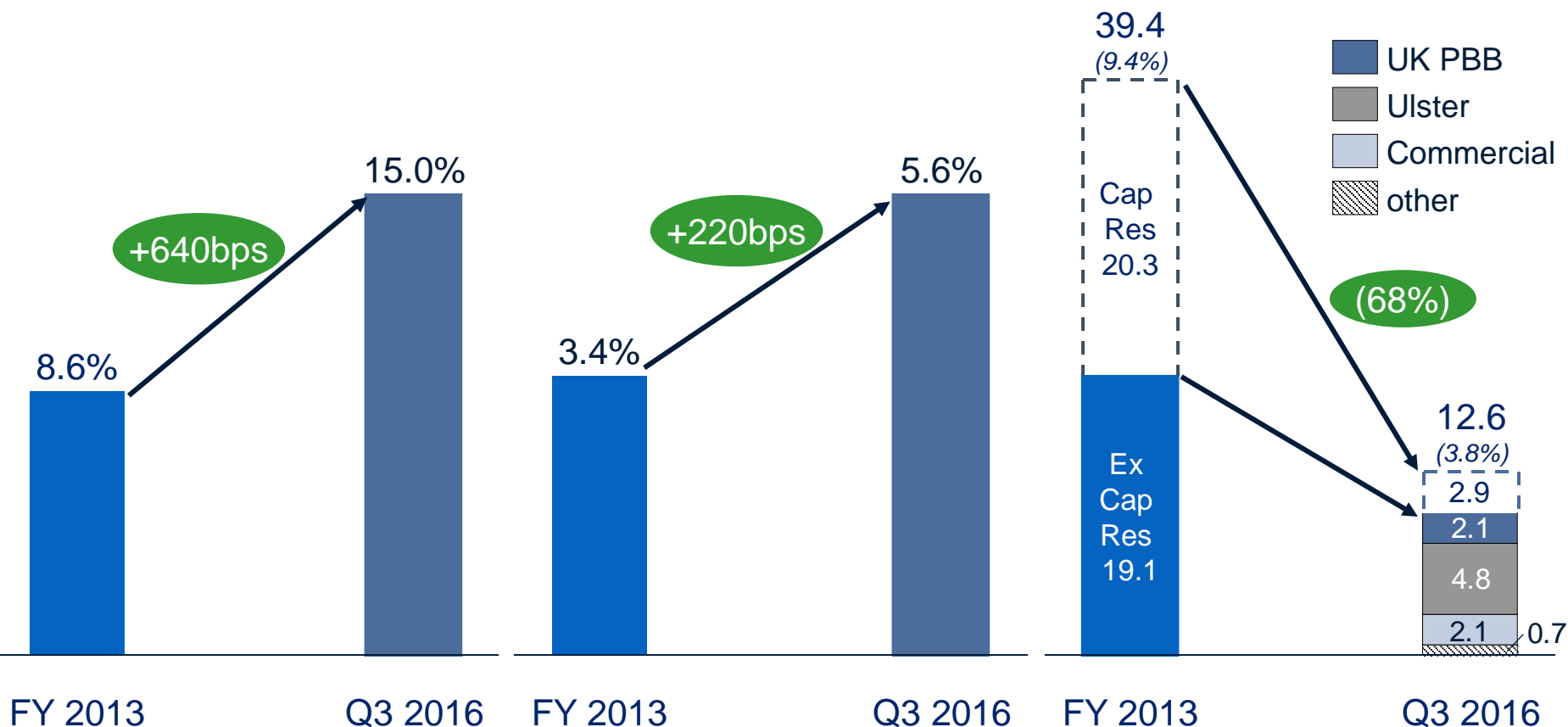
# Q3 2016 Balance sheet

CET1 Ratio: 13% Target

Leverage Ratio

REILs (£bn)

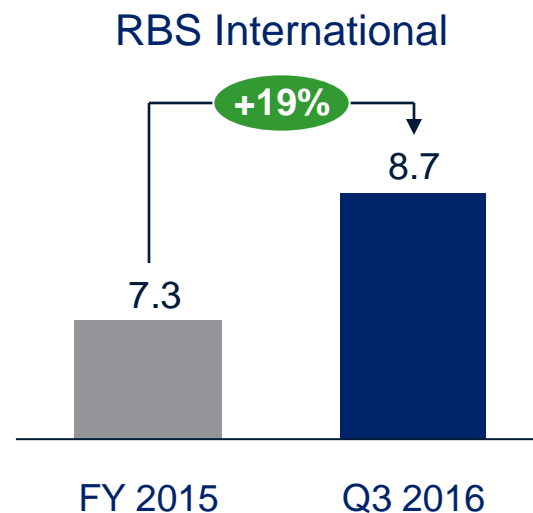
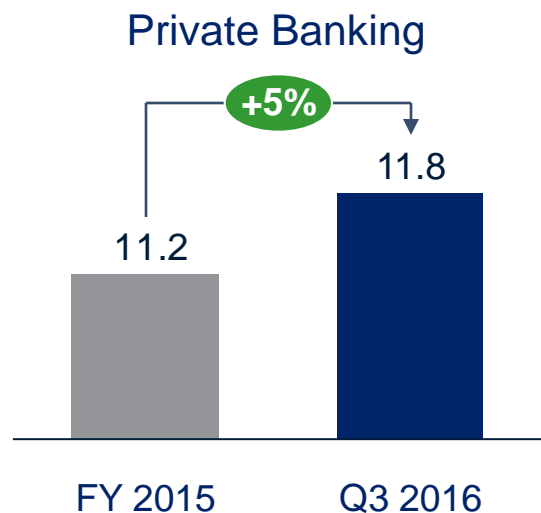
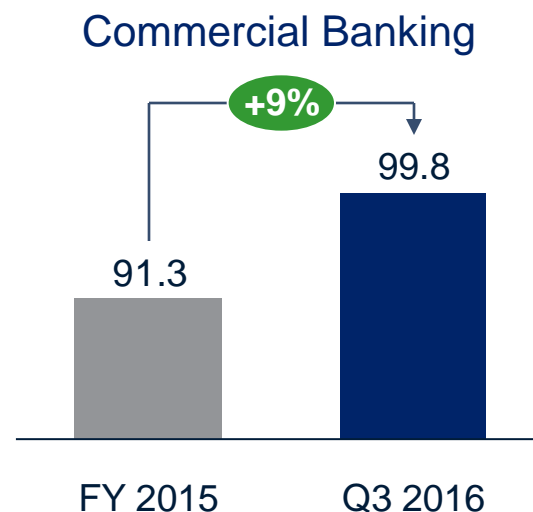
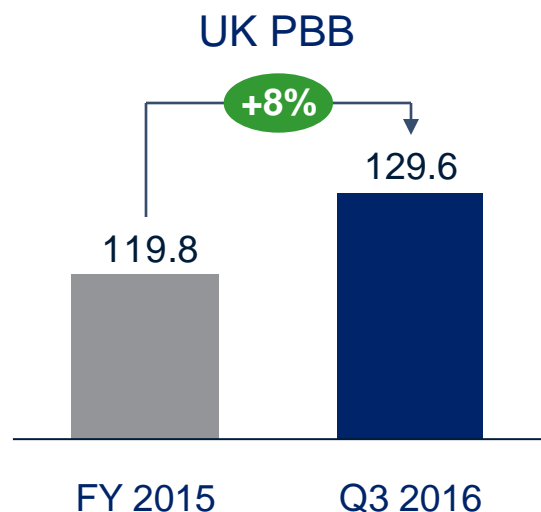
(as % of Total Gross L&As)



- Excluding Ulster Bank Rol and Capital Resolution REILs were 1.7% of Total Gross L&As as at Q3 2016, flat vs. Q2 2016

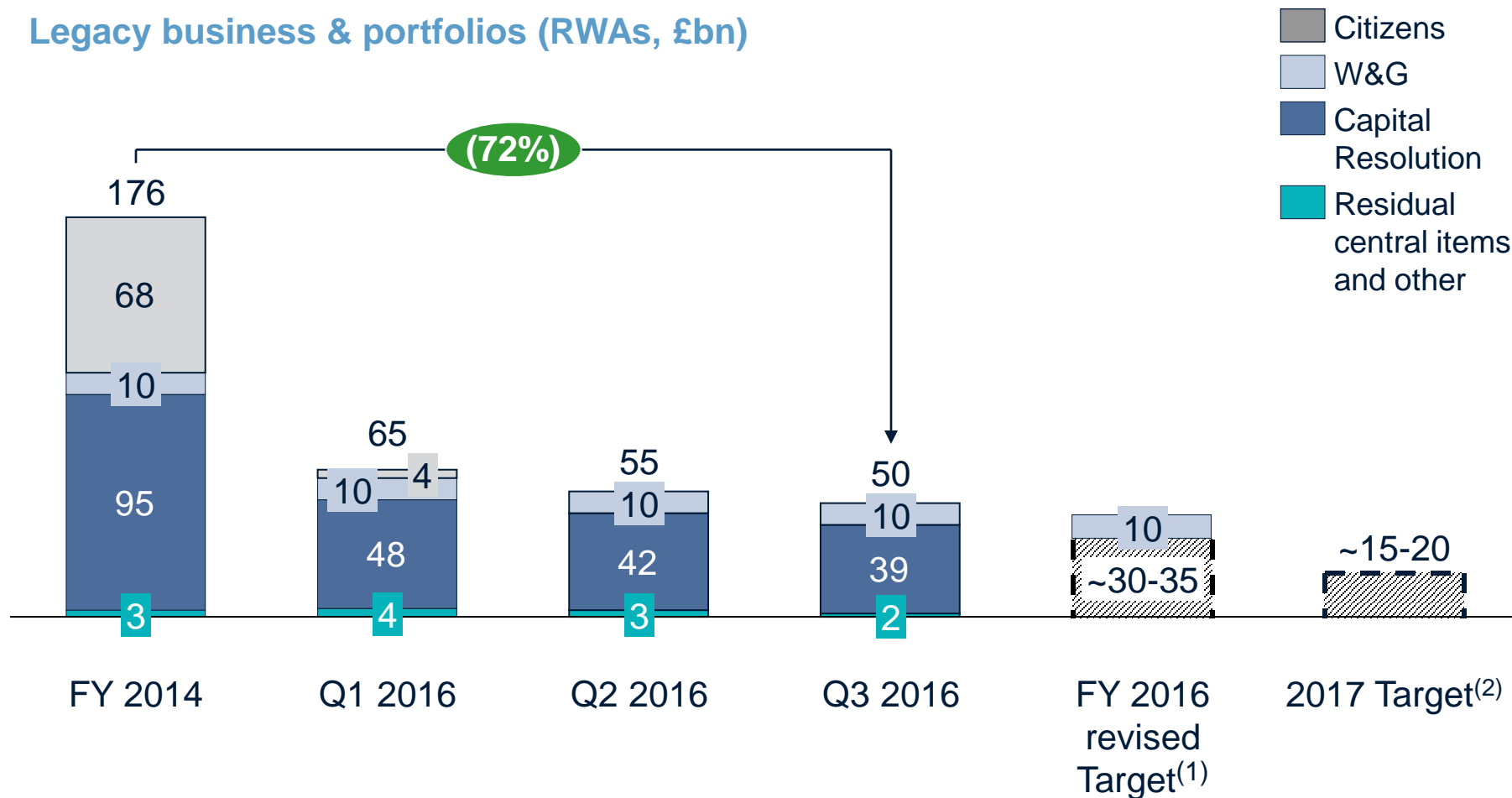
# Continued growth across Core businesses

## Net loans & advances to customers, £bn



# Reduction of legacy businesses & portfolios

## Legacy business & portfolios (RWAs, £bn)



- Total Capital Resolution disposal losses guidance increased to ~£2bn over the period 2015-19 vs. previous guidance of £1.5bn

**Committed to long-term targets of 12+% RoTE and a cost:income ratio below 50% - but do not expect to achieve these by 2019**

**PBB and CPB income to be broadly stable in 2016 vs. 2015; CIB modestly up**

**On track to achieve an £800m cost reduction in 2016; £695m reduction in 9M 2016. Further cost guidance at FY 2016 results**

**Cost:income ratio across our PBB, CPB and CIB businesses will improve 2016 vs. 2015**

**Anticipate increased restructuring cost charge of around £1.5bn in 2016**

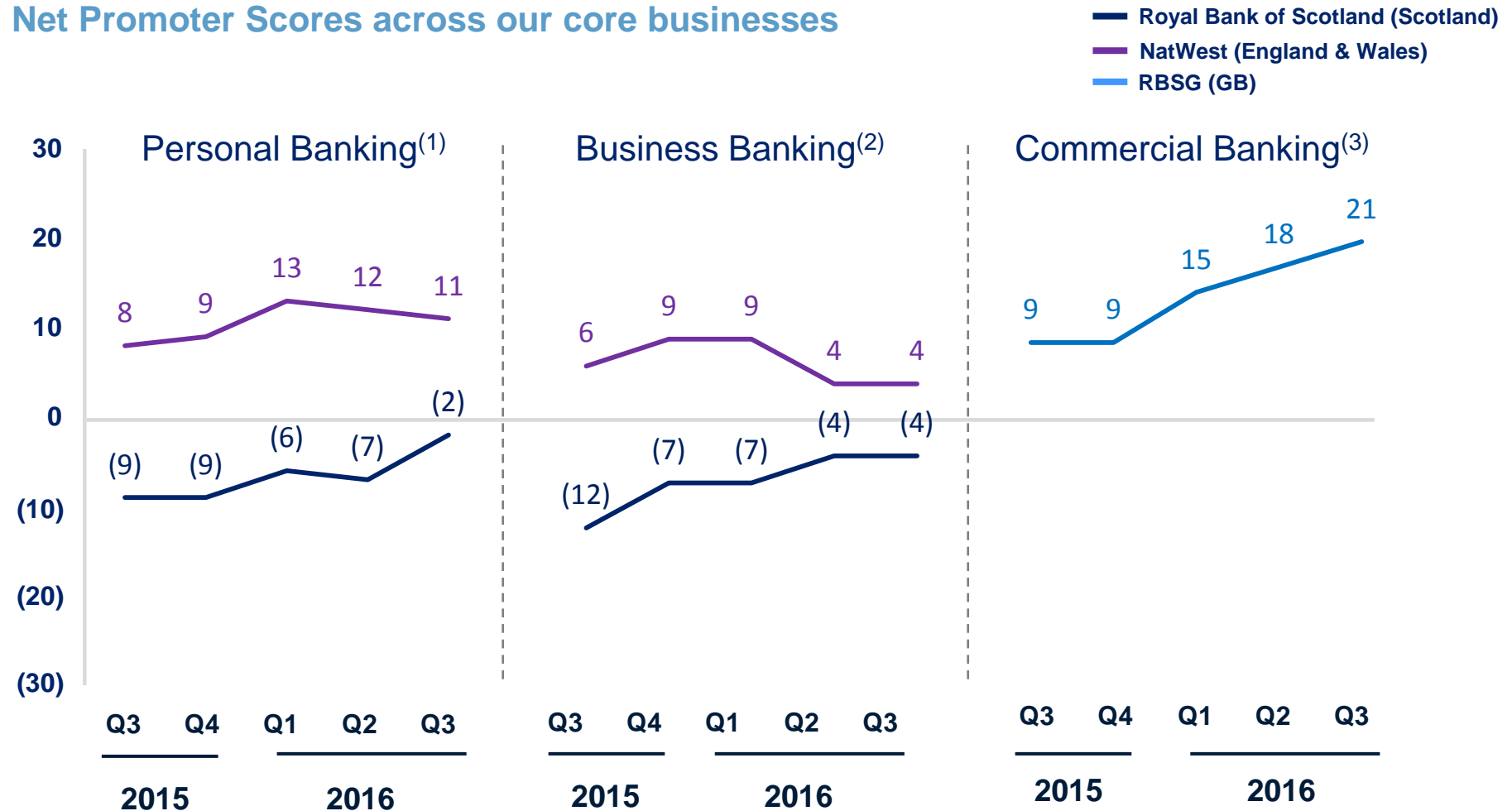
**Substantial additional charges and costs, including those related to RMBS, may be recognised in the coming quarters which would have an impact on the Group's level of capital**

**The timing of returning excess capital to shareholders through dividends or buybacks remains uncertain**

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# Appendix

## Net Promoter Scores across our core businesses



<sup>(1)</sup> Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3397) Royal Bank of Scotland (537) 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 (1265) Royal Bank of Scotland (406) Commercial <sup>(3)</sup> £2m+ combination of NatWest & Royal Bank of Scotland in GB (954) Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of 15 businesses in Great Britain. The year on year improvement in RBSG Commercial Banking is significant.

# Notable items

(£m)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
<b>Total Income</b>	<b>3,310</b>	<b>3,000</b>	<b>3,064</b>	<b>2,484</b>	<b>3,183</b>
Own Credit Adjustments	(156)	194	256	(115)	136
Gain/ loss on redemption of own debt	3	(130)	-	(263)	-
Strategic disposals	(31)	201	(6)	(22)	-
o/w Visa Gain	-	246	-	-	-
<b>Adjusted Income</b>	<b>3,494</b>	<b>2,735</b>	<b>2,814</b>	<b>2,884</b>	<b>3,047</b>
IFRS volatility in Central items	(150)	(312)	(356)	59	(125)
Fair value adjustments in Capital Resolution	160	(220)	(110)	-	-
Madoff recovery in Capital Resolution	-	-	109	-	-
FX gain in Central items	97	201	52	-	-
Capital Resolution Disposal gain/(losses)	(143)	(57)	4	(156)	(89)
<b>Total Expenses</b>	<b>(2,911)</b>	<b>(3,509)</b>	<b>(2,420)</b>	<b>(5,761)</b>	<b>(3,276)</b>
Restructuring	(469)	(392)	(238)	(614)	(847)
o/w Williams & Glyn	(301)	(187)	(158)	(181)	(190)
Litigation & Conduct	(425)	(1,284)	(31)	(2,124)	(129)
o/w PPI <sup>(1)</sup>	-	(400)	-	(500)	-
o/w Ulster mortgage tracker	-	(96)	-	-	-
<b>Adjusted Expenses</b>	<b>(2,017)</b>	<b>(1,833)</b>	<b>(2,151)</b>	<b>(2,525)</b>	<b>(2,300)</b>
o/w VAT recovery	13	227	-	-	-
<b>Impairments</b>	<b>(144)</b>	<b>(186)</b>	<b>(223)</b>	<b>327</b>	<b>79</b>
Capital Resolution	(120)	(67)	(196)	356	50
o/w Shipping Portfolio (treated as part of disposal losses)	(190)	(38)	(226)	(83)	-
Ulster Bank RoI	39	14	13	10	54
Commercial (primarily single name Oil & Gas exposure in Q2 2016)	(20)	(89)	(14)	(27)	(16)

<sup>(1)</sup> Q2 excludes £50m transfer. Note: "-" Denotes zero or not material



# Litigation and conduct

End of Q3 2016 provisions (£m)		Comments
<p>5,599</p> <p>1,145</p> <p>68</p> <p>309</p> <p>623</p> <p>Regulatory and Legal<sup>(1)</sup></p> <p>PPI</p> <p>IRHP</p> <p>FX</p> <p>Other customer redress</p> <p>Litigation and conduct provision: £7.7bn, as at Q3 2016</p>	US RMBS	<ul style="list-style-type: none"> <li>Two significant settlements reached this year</li> <li>Remaining MBS litigation and investigations may require additional provisions in future periods that, in aggregate, could be materially in excess of the provisions remaining</li> <li>In particular, any potential penalties and compensatory damages imposed by US DoJ may be substantial</li> </ul>
	UK 2008 rights issue shareholder litigation	<ul style="list-style-type: none"> <li>In order to facilitate any potential early resolution of the litigation, RBS attended a mediation with the claimants in July 2016. This did not lead to any settlement of the claims. Further attempts by the parties to resolve the claims are possible but absent any final agreement, these will not impact the court timetable. A provision has been recognised in relation to this matter</li> </ul>
	Various UK and Ireland customer redress issues	<p>Includes:</p> <ul style="list-style-type: none"> <li>PPI: £450m uplift in the provision in Q2 2016, following the 2/8/16 FCA Consultation Paper, largely driven by the delay to the proposed time-bar on claims</li> <li>£92m charge in Ulster Bank ROI in Q2 2016 principally in respect of an industry-wide examination of tracker mortgages</li> </ul>
	FCA SME treatment review	<ul style="list-style-type: none"> <li>The Skilled Person has submitted its final report to the FCA. The FCA is considering next steps</li> </ul>

<sup>(1)</sup> Includes Other regulatory provisions and Litigation as per Note 3 of the Q3 2016 results

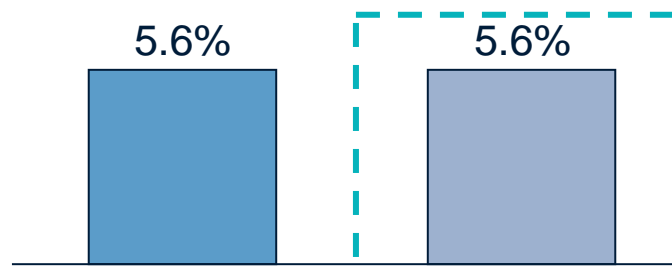
# Tangible Net Asset Value (TNAV) movements

	£m	Shares in issue (m)	TNAV per share
<b>Q2 2016 TNAV</b>	40,541	11,755	345p
Profit for the period post tax <sup>(1)</sup>	(327)		(3p)
Less: profit to NCI / other owners	(142)		(1p)
Other comprehensive Income	95		1p
<i>o/w AFS</i>	(67)		(1p)
<i>o/w Cashflow hedging gross of tax</i>	(66)		(1p)
<i>o/w FX</i>	205		2p
<i>o/w Remeasurement of net defined pension liability</i>	(52)		-
<i>o/w Tax</i>	75		1p
Less: OCI attributable to NCI / other owners	(25)		-
Redemption of preference shares	(420)		(4p)
Proceeds of share issuance	71	37	-
Other movements <sup>(2)</sup>	29		-
<b>Q3 2016 TNAV</b>	<b>39,822</b>	<b>11,792</b>	<b>338p</b>

<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

# Leverage ratio – key drivers

## Leverage ratio (%)

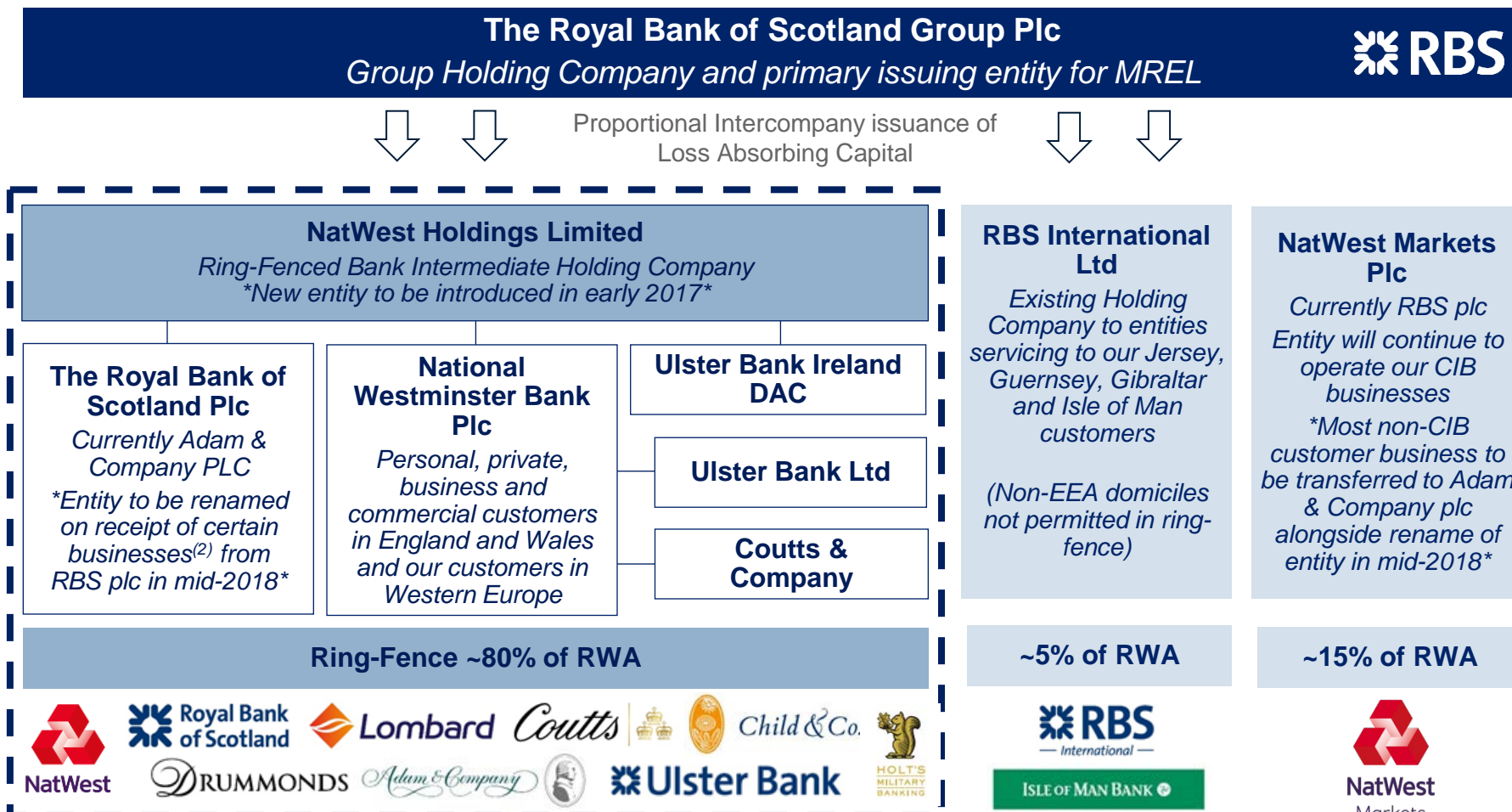


(£bn)	Q4 2015	Q3 2016	% change
CET 1 capital	37.6	35.2	(6%)
AT1 capital	2.0	4.0	100%
<b>Tier 1 Capital</b>	<b>39.6</b>	<b>39.2</b>	<b>(1%)</b>
Total assets	815.4	852.4	5%
Netting and variation margin	(258.6)	(281.7)	9%
Securities financing transactions gross up	5.1	2.2	(57%)
Regulatory deductions & other adjustments	1.5	4.1	n.m
Potential future exposures on derivatives	75.6	64.1	(15%)
Undrawn commitments	63.5	62.1	(2%)
<b>Leverage exposure</b>	<b>702.5</b>	<b>703.2</b>	<b>0%</b>

# Progression toward Ring-Fencing



## Proposed Future Ring-Fenced Legal Entity Structure <sup>(1)</sup>



<sup>(1)</sup> Our final ring-fenced legal structure and the actions taken to achieve it, remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. All such actions and their respective timings may be subject to change, or additional actions may be required, including as a result of external and internal factors including further regulatory, corporate or other developments. <sup>(2)</sup> Most of our existing personal, private, business and commercial customers from The Royal Bank of Scotland plc. Note, RWA allocation based on RBS target future profile, excludes Capital Resolution. 20

# 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's (RBS) restructuring which includes the divestment of Williams & Glyn, litigation, government and regulatory investigations, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, cost-reduction targets and progress relating thereto, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme, the impact of the UK's referendum on its membership of the European Union and impact thereof on the RBS's markets, prospects, financial and capital position and strategy, 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), Pillar 2A, return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other funding plans, funding and credit risk profile; 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 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 RBS's 2015 Annual Report and Accounts, RBS's 2016 Interim Results and in this report under "Risk Factors". 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 economic, regulatory and political uncertainty arising from the majority vote to leave in the referendum on the UK's membership in the European Union and the revived political uncertainty regarding Scottish independence; the 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 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 strategic 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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