

# Investor Factbook



23/02/2018

## Key messages

- Strategic plan is working – £2.2bn operating profit before tax and first full year attributable profit in ten years
- Costs down, income up, capital position stronger, growing in target markets and colleague engagement is highest in ten years
- Responding to industry change, investing to be less complex, more automated and innovative
- Costs will reduce versus 2017, but the rate of cost reduction will be materially lower than in 2017 due to investment and innovation spend
- Reaffirming 2020 targets 12%+ RoE and <50% cost:income
- Investment case is clearer and the prospect of shareholder returns is getting closer

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

Our strategic plan targets sustainable returns based on...

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

Sub-50%  
Cost: Income  
Ratio

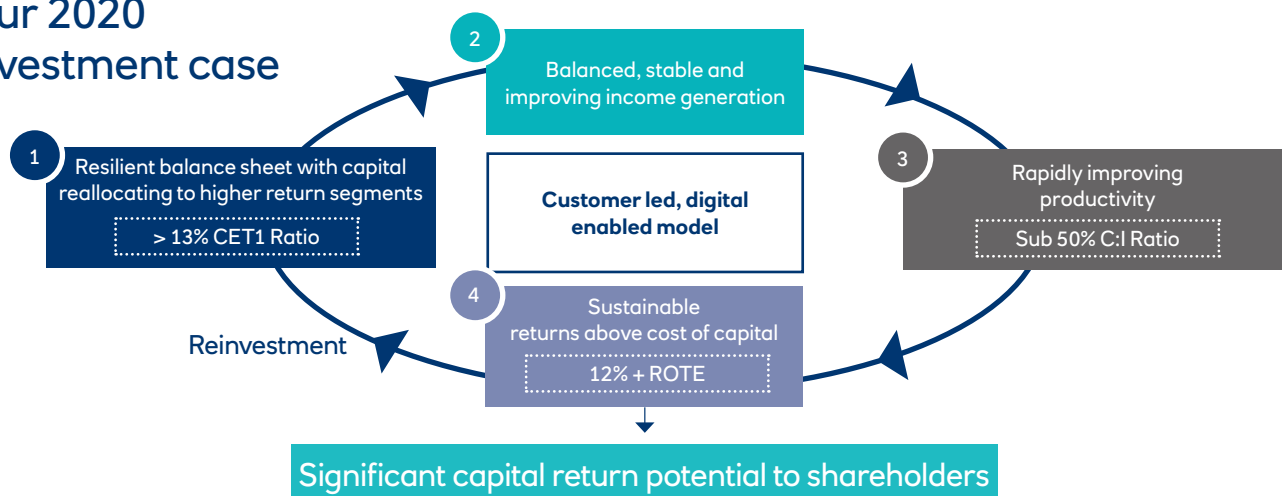
This will be based off...

CET1 ratio  
above 13%

UK income  
~90%

Retail &  
Commercial  
RWAs ~85%

## Our 2020 investment case



## Foundations to achieve our targets – 2017 progress

- |   |  |   |  |
|---|--|---|--|
| <b>1 Grow income</b> <ul style="list-style-type: none"> <li>■ Adjusted income growth of 4.0%</li> <li>■ 2.2% net lending growth across PBB, CPB and RBSI<sup>(3)</sup> primarily driven by mortgage growth</li> </ul> | <b>2 Cut costs</b> <ul style="list-style-type: none"> <li>■ £810m adjusted operating expenses reduction (-8% nominal)</li> </ul> | <b>3 Reduce RWAs</b> <ul style="list-style-type: none"> <li>■ Reduced RWAs by £27.3bn (12%) to £201bn</li> <li>■ CET1 ratio +250bps Y/Y to 15.9%; IFRS 9 pro forma Day 1 impact +30bps</li> </ul> | <b>4 Resolve legacy issues</b> <ul style="list-style-type: none"> <li>■ Wound up former Capital Resolution; remaining assets transferred largely into NWM</li> <li>■ Alternative remedy package approval from the EC for the business previously described as Williams &amp; Glyn</li> <li>■ Reached settlements with FHFA and the California State Attorney General in the US; resolved 2008 rights issue litigation</li> <li>■ RMBS – substantial additional charges and costs may be recognised in the coming quarters</li> </ul> |
|---|--|---|--|

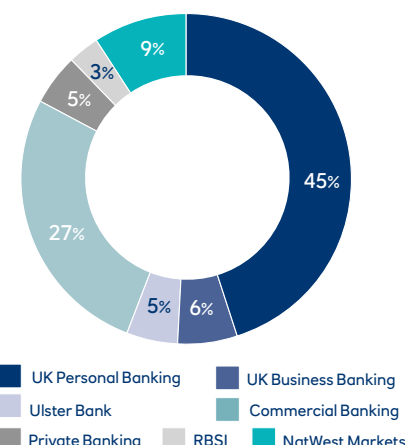
**First attributable profit in 10 years. Adjusted operating profit up 31%**

(1) Forward-looking statements This document contains targets, expectations and trends which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and are subject to inherent risks, uncertainties and other factors which are further discussed in RBS's most recent Annual Report, also on Form 20-F and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and RBS does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required. (2) 12%+ is the non adjusted and 'as reported' target. The targets, expectations and trends in this document represent management's current expectations and are subject to change, including as a result of the factors described in the 'Risk Factors' on p. 372-402 of the Annual Report and Accounts 2017. (3) Adjusting for transfers

# FY 2017 results by business

(£bn)	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	NatWest Markets	Central items & other <sup>(1)</sup>	Total RBS
Adj. Income <sup>(2)</sup>	6.5	0.6	3.5	0.7	0.4	1.1	0.1	12.9
Adj. Operating expenses <sup>(4)</sup>	(3.2)	(0.5)	(1.8)	(0.4)	(0.2)	(1.5)	0.0	(7.6)
Impairment (losses)/releases	(0.2)	(0.1)	(0.4)	(0.0)	(0.0)	0.2	(0.0)	(0.5)
Adj. operating profit <sup>(2,4)</sup>	3.1	0.1	1.3	0.2	0.2	(0.3)	0.2	4.8
Funded Assets <sup>(6)</sup>	190.6	24.5	149.5	20.3	25.9	118.7	47.7	577.2
Net L&A to Customers	161.7	19.5	97.0	13.5	8.7	22.7	0.1	323.2
Customer Deposits	180.6	17.5	98.0	26.9	29.0	14.8	0.2	367.0
RWAs	43.0	18.0	71.8	9.1	5.1	52.9	1.0	200.9
LDR	90%	111%	99%	50%	30%	153%	n.m.	88%
Adj. RoE (%) <sup>(2,4,5)</sup>	31%	4%	8%	11%	13%	(4%)	n.m.	9%
Adj. Cost: Income ratio (%) <sup>(2,3,4)</sup>	49%	74%	50%	66%	52%	140%	n.m.	58%

## FY 2017 adjusted income contribution (%)

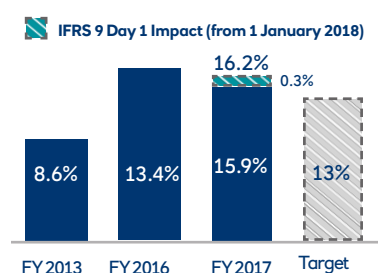


(1) Central items include unallocated transactions which principally comprise volatile items under IFRS and balances in relation to international private banking for Q1 2016. (2) Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals. (3) Operating lease depreciation included in income (year ended December 2017 – £142 million; Q4 2017 – £35 million; year ended 31 December 2016 – £152 million, Q3 2017 – £35 million and Q4 2016 – £37 million). (4) Excluding restructuring costs and litigation and conduct costs. (5) 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 average 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), 16% (RBS International – 12% prior to November 2017) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAs). RBS's Return on equity is calculated using profit/(loss) for the period attributable to ordinary shareholders. (6) Funded assets exclude derivative assets.

## Strategic plan continues to deliver a better financial performance

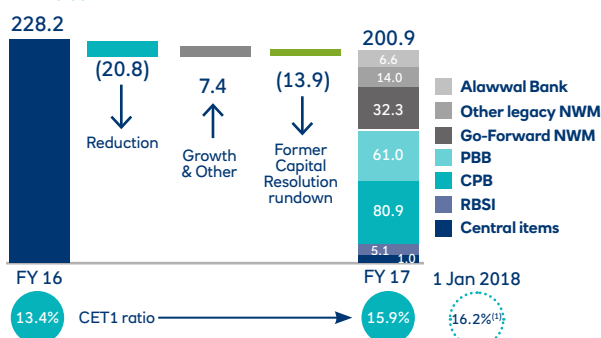
### Robust capital strength

#### Common Equity Tier 1 Ratio

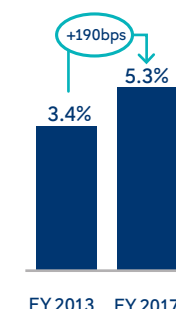


### RWA reduction and capital generation

#### RWAs £bn

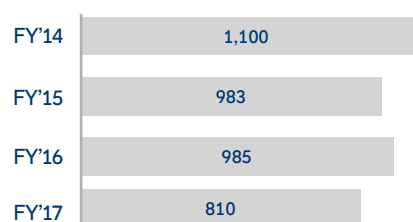


### CRR Leverage Ratio



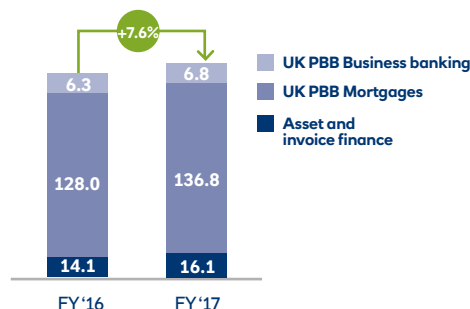
### Strong record on cost reduction

#### FY cost reduction (£m)

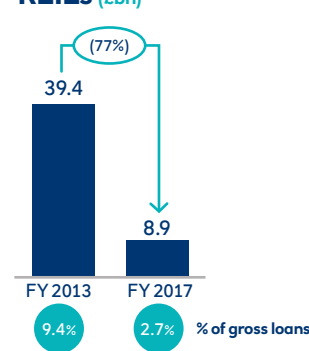


### Growth in key markets

#### Loans and advances to customers by segment (£bn)

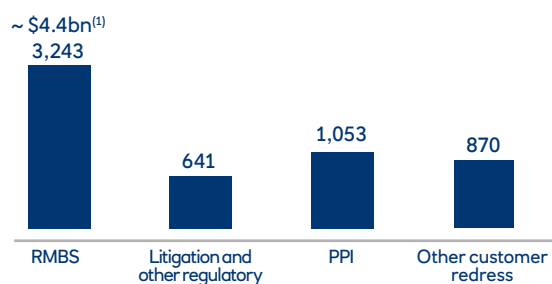


### REILs (£bn)



### Litigation and conduct

#### End of FY 2017 provisions (£m)



### Comments

US RMBS	<ul style="list-style-type: none"> <li>RBS is involved in investigations by the US DOJ and several state attorneys general</li> <li>In December 2017, RBS Financial Products Inc. agreed to pay US\$125 million to settle the RMBS investigation of the California attorney general</li> <li>Substantial additional charges and costs may be recognised in the coming quarters</li> </ul>
Various UK and Ireland customer redress issues	<ul style="list-style-type: none"> <li>RBS took an additional £175m PPI provision</li> <li>£1.05bn balance sheet provisions (including Plevin) remaining, around 8 quarters coverage based on Q4 run rate</li> </ul>
Ulster Bank	<ul style="list-style-type: none"> <li>£135m Q4 provision in Ulster Bank Rol for remediation and project costs relating to tracker mortgages and other legacy business issues</li> </ul>

Total provisions for liabilities and charges: £7.8bn<sup>(2)</sup> as at FY 2017

(1) Includes Nomura \$318m (2) Includes 'Other' provisions as per Note 3 of the FY 2017 Company Announcement

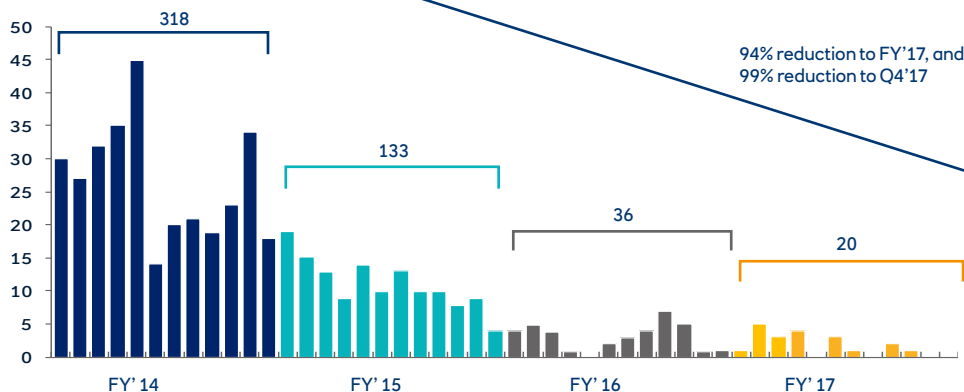
# Three pillars of our digital and innovation strategy

Customer led and digitally enabled

Safe  
Secure

## Safe and Secure: we've significantly improved our IT resilience

### Number of 'Crit 1' incidents<sup>(1)</sup>

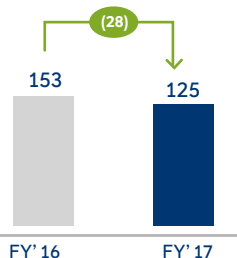


(1) Criticality 1 incidents are defined as having an adverse impact on a division's customers, employees, or 3rd parties

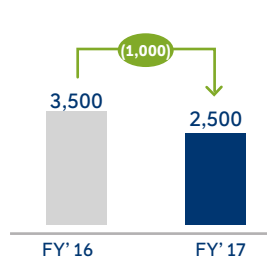
Simplified  
Automated

## We want to make it simple and easy for our customers to do their banking

### Non-branch property footprint



### Systems & applications



### Paperless mortgages

- First UK bank to offer paperless mortgages
- Average offer in 11 days

### Self-service account opening

- Available to >90% of new commercial customers
- 30 minutes faster than phone application

Innovative

## Mobile is becoming a key channel for business and personal customers

- >5m Active mobile users, up 20% on December 2016
- Partnering to build market leading digital solutions such as Cora, our new AI colleague

- 68% of active everyday banking tasks available on our app, up from 50% in 2016
- Automated business loans pre-approved up to £50k and auto decision on 70% of enquiries

**A market leading Mobile app Net Promoter Score: +51**

## Outlook<sup>1</sup>

### Costs

- Costs, ex. restructuring and litigation and conduct costs, will reduce vs 2017, but the rate of cost reduction will be materially lower than in 2017

### Restructuring

- Expect to spend c.£1.5bn more than prior guidance (which was £1bn ex Williams & Glyn; W&G now estimated at around £0.3bn)

### Capital

- We expect to hold in excess of 13% CET1 in the short to medium term as we work through the impacts under both base and stress of IFRS 9 volatility, RWA inflation and our defined benefit pension schemes
- End 2018 RWAs to be £5-10bn lower than end 2017, despite some model uplifts in Commercial Banking

### 2020 Targets

- Expect to achieve sub 50% cost:income ratio and above 12% return on equity
- We no longer guide to an absolute 2020 cost base

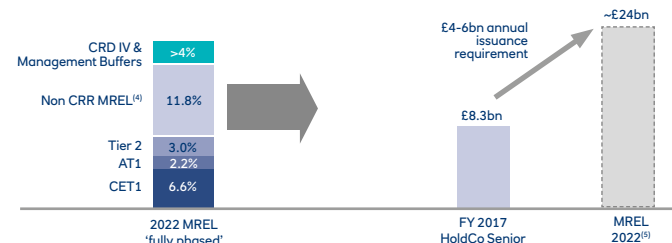
(1) See notes on page 1

# Future issuance requirements and legal entity structure

## On track to meet future MREL<sup>(2)</sup> requirements

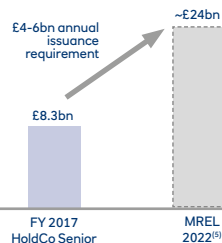
### Future LAC requirement<sup>(1)</sup>

Based on BoE May 2017 guidance



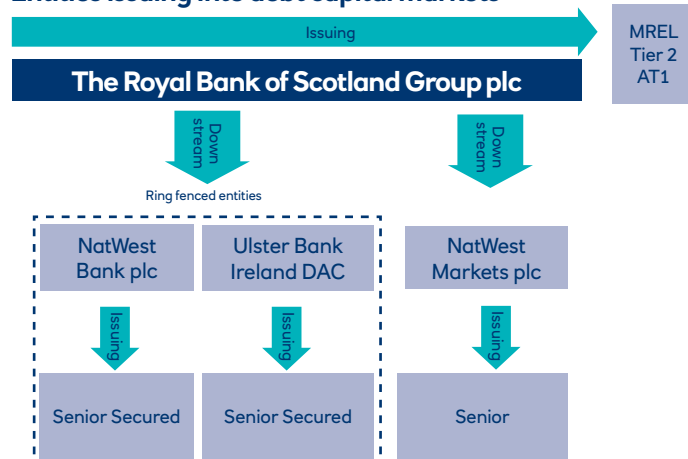
### Progress toward future non-CRR MREL<sup>(4)</sup> needs

Based on current £201bn RWA and static regulatory capital requirements<sup>(3)</sup>



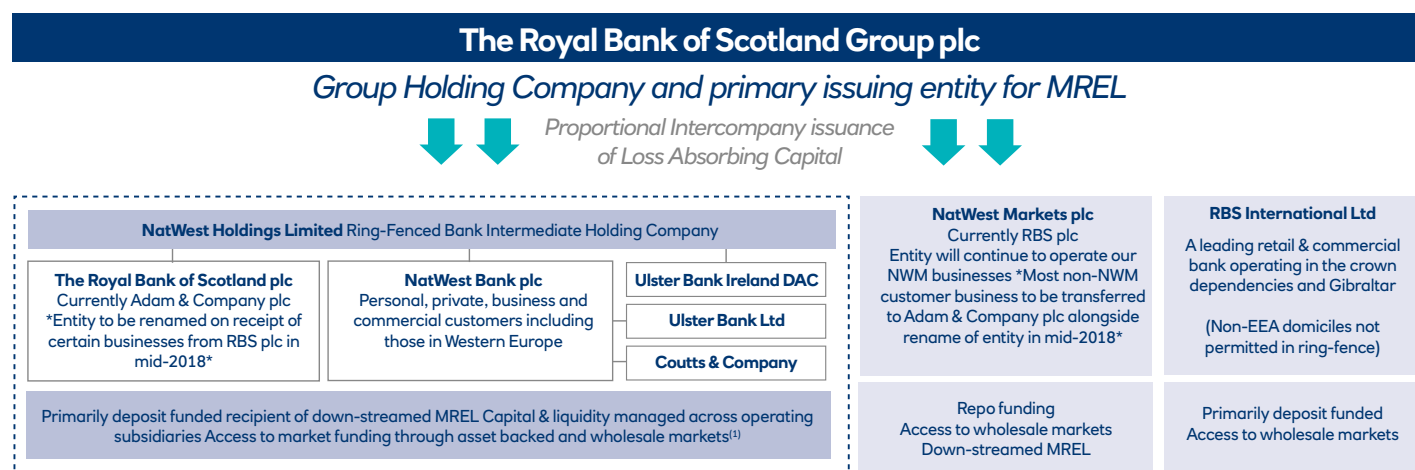
(1) LAC: Loss Absorbing Capital, comprising total MREL and CRDIV buffers. (2) Minimum requirement for own funds and eligible liabilities. (3) Illustrative only, both RWA and future capital requirements subject to change. (4) Non-CRR MREL = Loss Absorbing Capital not required to be met by CRDIV compliant regulatory capital. (5) Based on TLAC 1 Jan 2019 = 16% RWA; MREL 1 Jan 2020 = 2x Pillar 1 and 1x Pillar 2A, MREL 1 Jan 2022 = 2x Pillar 1 and 2x Pillar 2A. Pillar 2A requirement held constant over the period for illustration purposes. For further information on TLAC and MREL, including associated leverage requirements, please refer to 'Capital sufficiency' disclosure in the 2017 Annual Report & Accounts.

## Entities issuing into debt capital markets



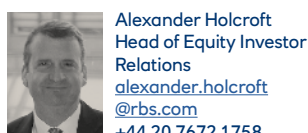
- Issuance requirements take into account ring fencing and future balance sheet composition
- HoldCo sole issuing entity for MREL under single point of entry model

## Illustrative future ringfenced structure



(1) The four licensed deposit taking UK banks: National Westminster Bank Plc, Adam & Company PLC/The Royal Bank of Scotland plc, Ulster Bank Limited, and Coutts & Co will continue to be party to a Capital Support Deed (CSD). Under the terms of the CSD the banks commit to making surplus capital available to one another.

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