RBS

# Fixed Income Investor Presentation

## H1 2018 Results

3rd August 2018

# Katie Murray
# Deputy CFO

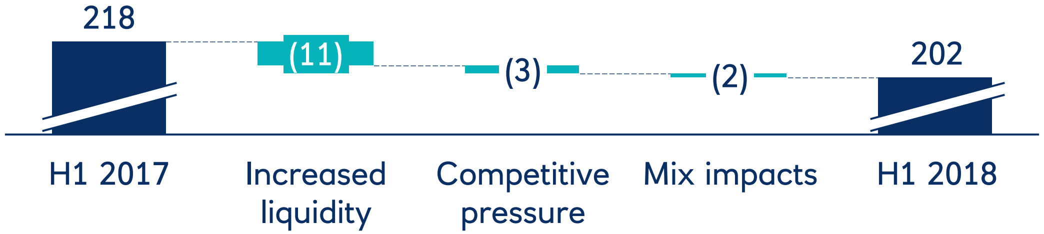
# Summary financials

*vs. H1 2017*

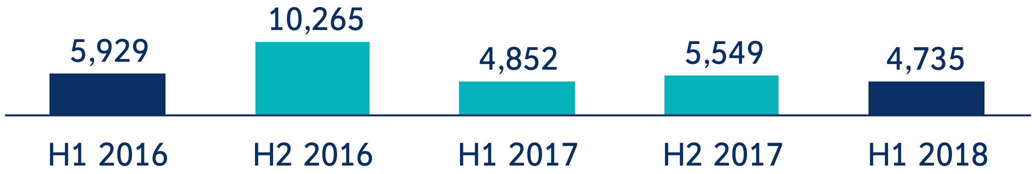
| | |
|---|---|
| Income | **£6.7bn** *(3.1%)* |
| Operating expenses | **£4.7bn** *(2.4%)* |
| Operating profit | **£1.8bn** *(6.4%)* |
| Attributable profit | **£0.9bn** *(5.4%)* |
| Net interest margin | **2.02%** *(16bps)* |
| CET1 ratio (post dividend) | **16.1%** *130bps* |
| TNAV per share [2] | **286p** *(12p)* |
| Return on tangible equity | **5.3%** *(30bps)* |
| Cost:Income ratio | **70.4%** *60bps* |

Income (£m)[1]

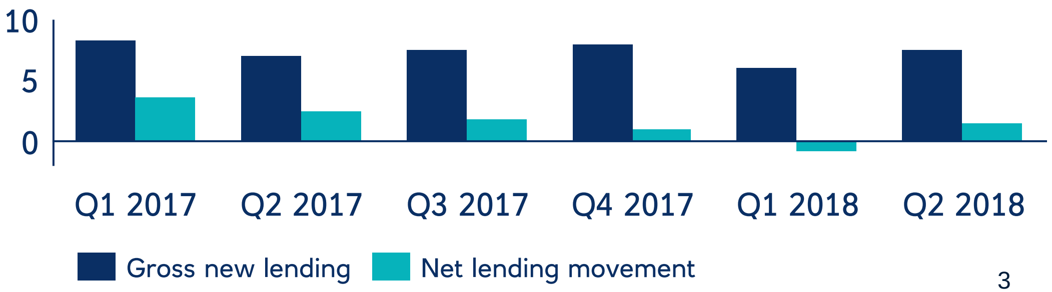

NIM (bps)




Costs (£m)




UK PBB mortgage lending (£bn)




(1) Excluding transfers (2) TNAV per ordinary share on a fully diluted basis

# Capital outlook[1]

| | |
|---|---|
| **RWA outlook** | • Expect RWAs to reduce by £5-10bn (vs. FY 2017) by FY 2018<br>• Mortgage risk weighting expected to increase RWAs by £12bn in H2 2020<br>• Basel 3 amendments currently assumed to inflate RWAs by 10%, or around £20bn in 2021/2022 |
| **CET1** | • CET1 ratio 2020 target in excess of 13%[1] |
| **Dividends** | • Announced intention to declare an interim dividend of 2p per ordinary share[2]<br>• Ordinary dividend pay-out ratio to build to around 40% of attributable profits<br>• We will consider further distributions in addition to regular dividend pay-outs[3] |

(1) The targets, expectations and trends discussed in this presentation represent management's current expectations and are subject to change, including as a result of the factors described in the "Summary Risk Factors" on pages 48 and 49 of the H1 2018 IMS and the "Risk Factors" on pages 372 to 402 of the Annual Report and Accounts 2017
(2) Declaration of the interim dividend is subject to the timing of the finalisation of the previously announced civil settlement in principle with the US Department of Justice (DOJ) in relation to the DOJ's investigation into RBS's issuance and underwriting of US RMBS.
(3) Subject to passing the 2018 Bank of England Stress Test. We would not expect any such additional distributions until 2019.

# 2020 targets[1]

## Our strategic plan targets sustainable returns based on…

12%+ ROTE

Sub-50%
Cost:Income Ratio

## This will be based off…

CET1 ratio in excess of 13%

UK income ~90%

Retail & Commercial RWAs ~85%

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# Core messages

Attributable profit ex. US RMBS £1,690m for H1 2018

Solid capital generation: CET1 up 110bps[1], RWAs down, major legacy issues largely resolved

On track to deliver our 2020 financial targets

Intention to build future capital distributions

[1] Excludes the impact of £2bn pre-tax pension contribution and the civil settlement in principle with the DOJ and the accrual of the intended interim dividend.

# Robert Begbie
# Treasurer

# Treasurer’s View

- Balance sheet strength and sustainability in an uncertain environment
- Positive momentum on ratings
- Largely completed 2018 MREL & funding requirements
- Resolution of major legacy issued reflected in credit spread performance
- H1 Ring-fencing milestones achieved, on track for 1 January 19
- Continue to manage the legacy capital stack for value

# Strong, sustainable balance sheet

| | H1 2018 | FY 2017 |
|---|---|---|
| Loan : deposit ratio | 87% | 88% |
| Short-term wholesale funding | £13bn | £18bn |
| Liquidity coverage ratio | 167% | 152% |
| Net stable funding ratio | 141% | 132% |
| Common equity Tier 1 ratio | 16.1% | 15.9% |
| CRR Leverage ratio | 5.2% | 5.3% |
| Loss absorbing capital ratio | 29.6% | 27.1% |

# Positive momentum on ratings

| | Moodys | S&P | Fitch |
|---|---|---|---|
| RBS Group | Baa2/Pos | BBB-/Pos | BBB+/Pos |
| **Inside the ring-fence** | | | |
| Natwest Bank Plc | A1*/A2/Pos | A-/Pos | A-/Pos |
| Royal Bank of Scotland plc | A1*/A2/Pos | A-/Pos | A-/Pos |
| Ulster Bank Ireland DAC | Baa1*/Baa2/ Pos | BBB+/Pos | BBB/Pos |
| Ulster Bank Ltd | A1*/A2/Pos | A-/Pos | A-/Pos |
| **Outside the ring-fence** | | | |
| NatWest Markets Plc | Baa2/Pos | BBB+/Pos | BBB+/Pos |
| NatWest Markets N.V | Baa2/Pos | BBB+/Pos | BBB+/Pos |
| NatWest Markets Securities Inc | NR | BBB+/Pos | BBB+/Pos |
| RBSI | NR | BBB+/Pos | BBB+/Pos |

## Ratings actions in H1

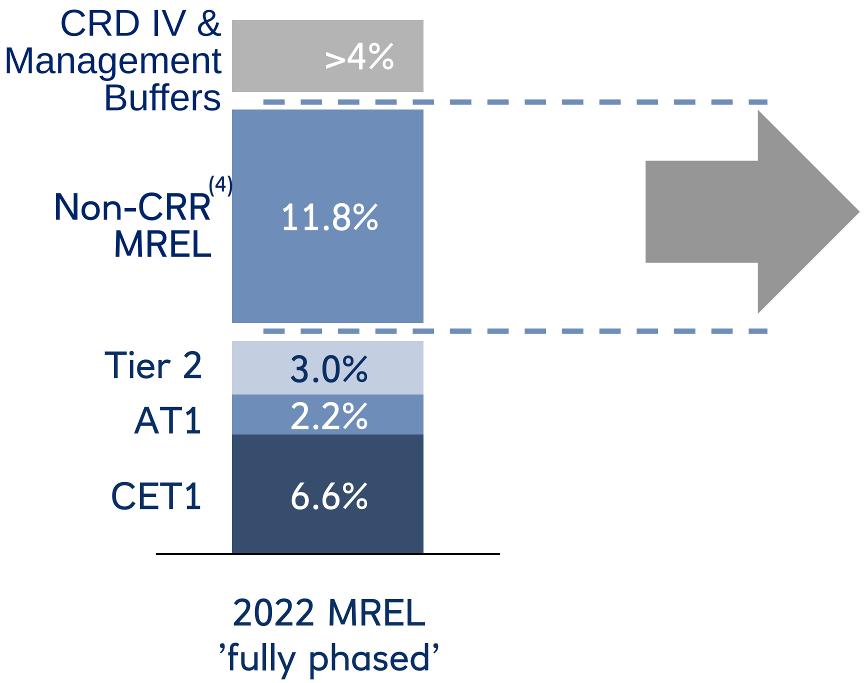
- H1 2018 saw positive action on our ratings from all three agencies
- Moody’s upgraded the senior unsecured ratings of RBSG to Baa2
- S&P upgraded the ratings of the ring-fenced OpCos and RBSI and affirmed the rating of NatWest Markets Plc
- Fitch upgraded the ratings of NatWest Bank and Ulster Bank Limited and assigned a final rating to newly renamed Royal Bank of Scotland plc
- HoldCo and the OpCos now on positive outlook across all three agencies

* Reflects the Moody’s Bank Deposits rating for NatWest Bank Plc, Royal Bank of Scotland plc, Ulster Bank DAC and Ulster Bank Ltd

# On track to meet future MREL[2] requirements

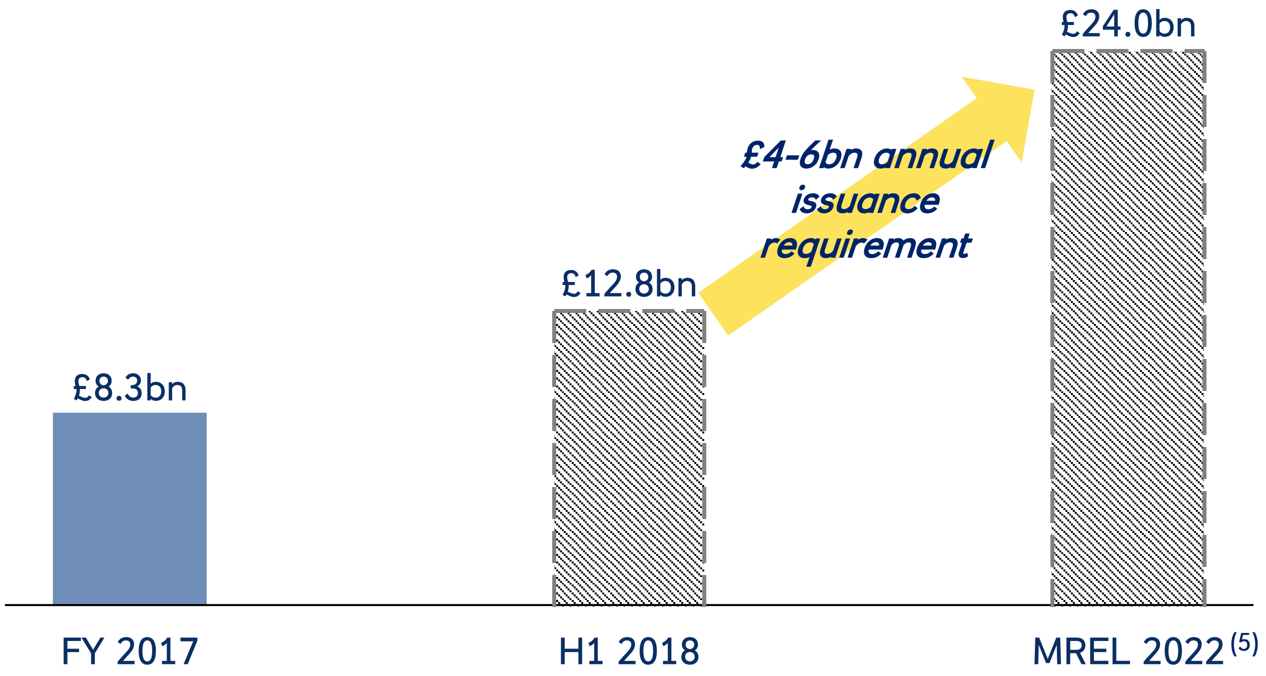
## Future LAC requirement [1]

Based on BoE June 2018 guidance




## Progress toward future non-CRR MREL[4] needs

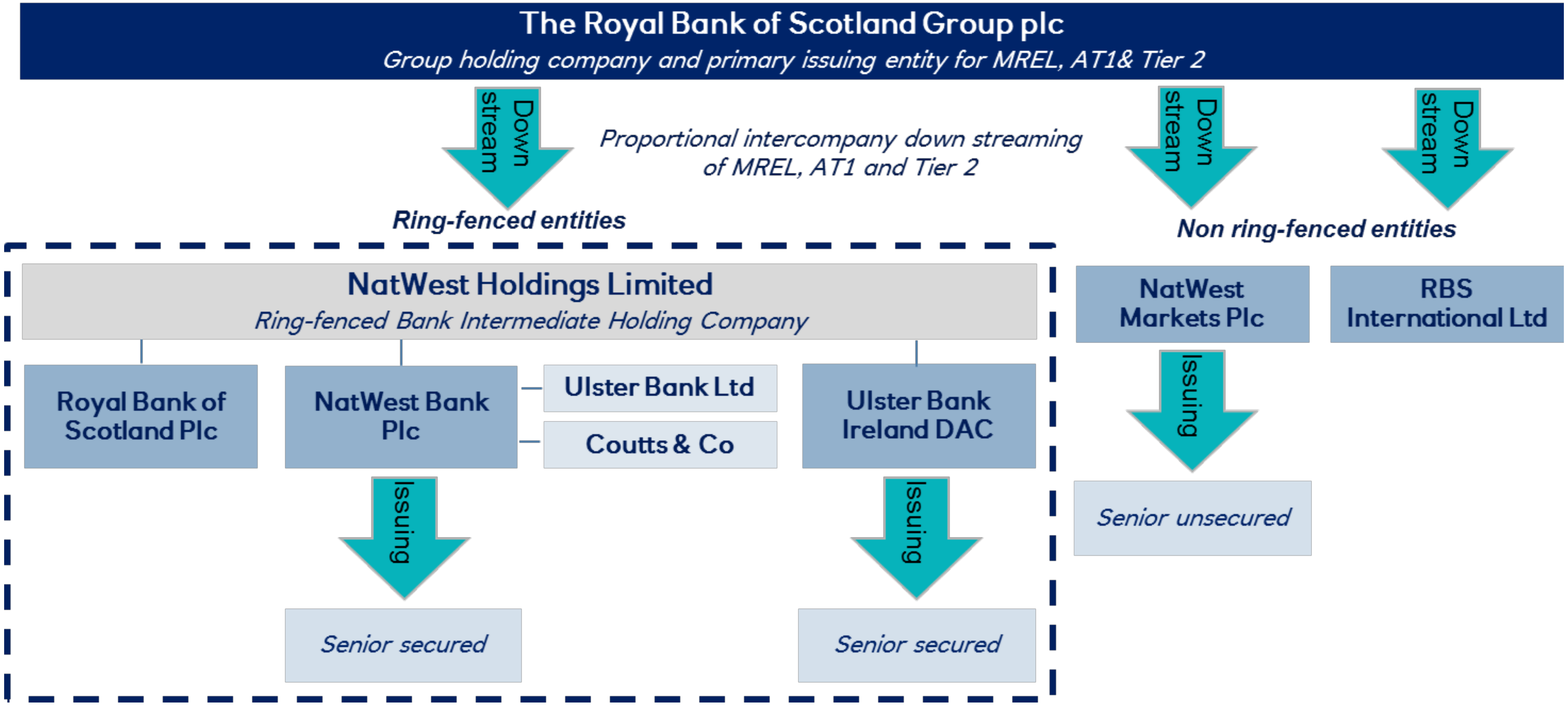
Based on current £199bn RWA and static regulatory capital requirements[3]




- H1 2018 Loss Absorbing Capital ratio 29.6%, including CET1 and other legacy securities[6], versus 28% BoE 2022 guidance

(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) 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. (6) For further information please see 'Loss Absorbing Capital' disclosure in the appendix.

# Issuance reflects post ring fencing entity structure




- Ring-fenced entity funding weighted toward deposits
- No requirement for senior unsecured issuance out of the ring-fenced bank OpCos
- Potential for secured issuance from ring-fenced bank OpCos for funding diversification purposes
- ~£1-1.5bn senior unsecured issuance in H2 for NatWest Markets Plc

# Actively managing the non-MREL Capital stack

- Continue to manage the legacy capital stack for value: current & future regulatory value; relative funding cost; and Rating Agency considerations
- ~£7bn legacy Tier 1 redeemed since FY 2014
- No need for AT1 or Tier 2 issuance, given outlook for balance sheet structure and capital requirements
- Some re-financing of inaugural AT1s from 2020
- Conservative approach to legacy securities qualifying as either CRR compliant capital or MREL

# Progress on structural reform

| | |
|---|---|
| **H1 2018** | RFTS 1 successfully completed:<br>• Retail & commercial asset transferred across the ring-fence;<br>• Major OpCos renamed; and<br>• Covered Bond programme transferred to NatWest Bank Plc |
| **H2 2018** | • Capital reduction exercise in NatWest Markets completed in July<br>• Non-permitted customer derivatives transfer from NatWest Bank to NatWest Markets in August 2018 (RFTS 2)<br>• Down streamed OpCo MREL to be finalised<br>• NWM NV repurposed to provide continuation of service to EU based customers |

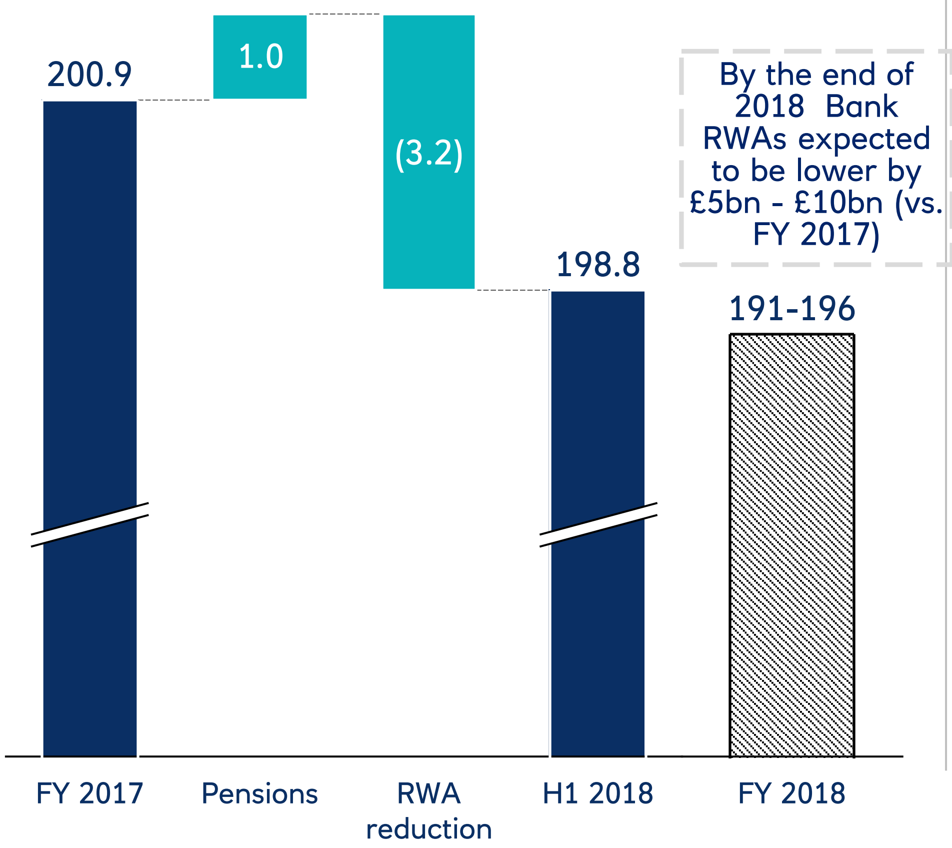
# Q&A

# Appendix

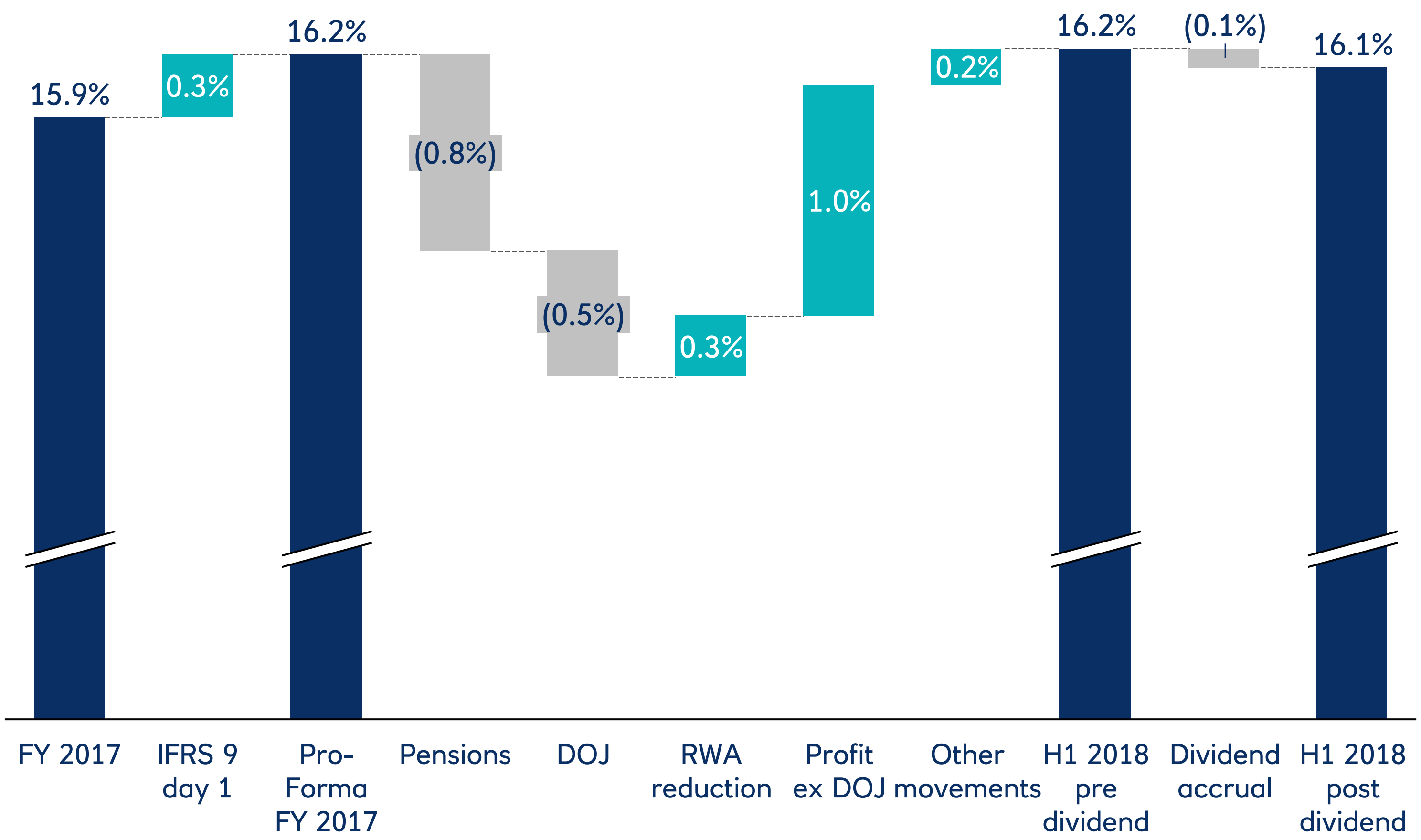
# RWAs and capital generation

## Continued RWA reductions support strong capital build

### RWAs (£bn)



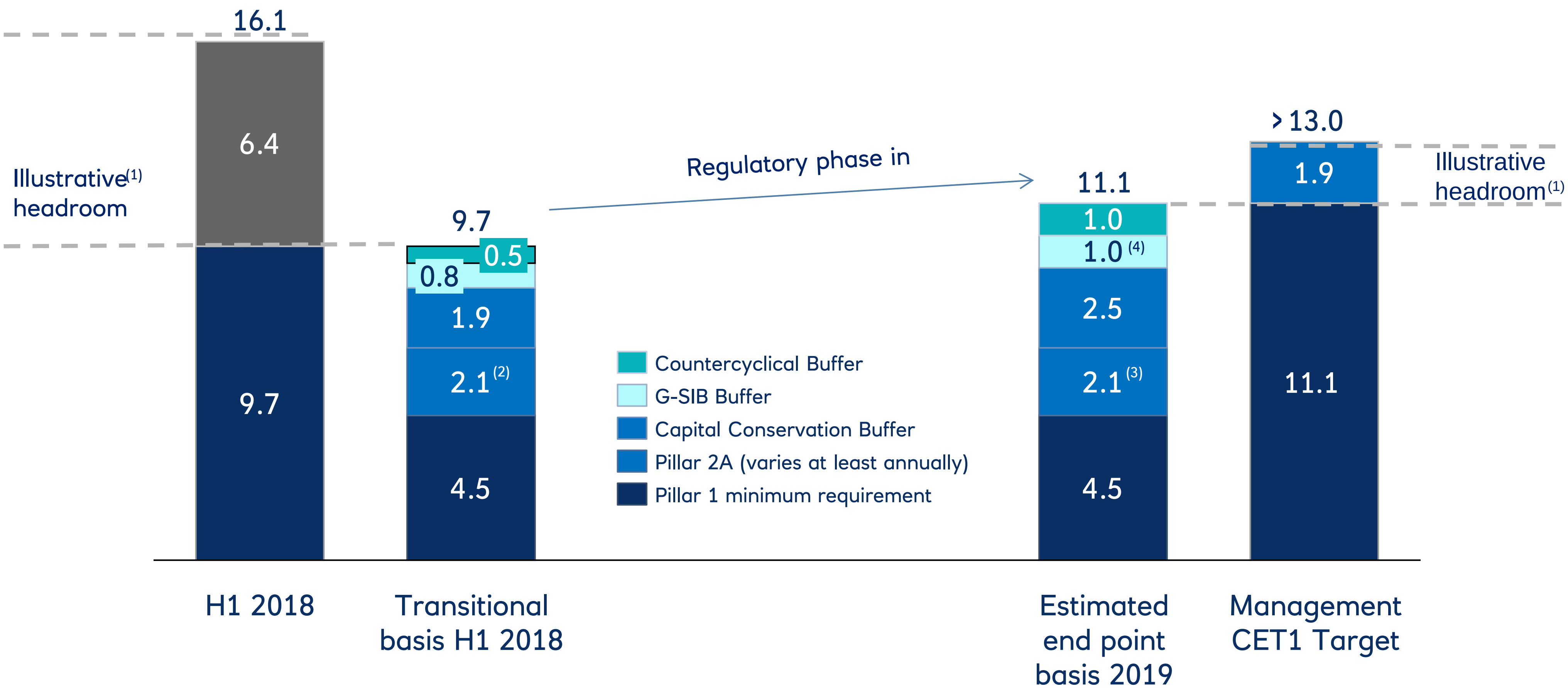

### CET1 ratio



# Strong CET1 build

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

Illustration, based on assumption of static regulatory capital requirements (3)




(1) Headroom presented on the basis of MDA, and does not reflect excess distributable capital. Headroom may vary over time and may be less in future. (2) RBS's Pillar 2A requirement was 3.9% of RWAs as at 31 December 2017. 56% of the total Pillar 2A requirement, must be met from CET1 capital. (3) 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. (4) 0.5% Countercyclical Buffer introduced from June 2018, expected to increase to 1.0% from November 2018.

# Estimated Loss Absorbing Capital ("LAC")

| H1 2018 £bn | LAC Value | Regulatory Value | Par Value |
|---|---|---|---|
| Common equity tier 1 | 32.0 | 32.0 | 32.0 |
| Tier 1 Capital: End point CRR compliant | 4.0 | 4.0 | 4.0 |
| *o/w RBS Group Plc (HoldCo)* | *4.0* | *4.0* | *4.0* |
| *o/w RBS Operating Subsidiaries (OpCos)* | - | - | - |
| Tier 1 Capital: End point CRR non-compliant | 2.8 | 3.6 | 3.7 |
| *o/w HoldCo* | *2.7* | *3.5* | *3.6* |
| *o/w OpCos* | *0.1* | *0.1* | *0.1* |
| Tier 2 Capital: End point CRR compliant | 5.3 | 6.7 | 7.1 |
| *o/w HoldCo* | *4.8* | *6.3* | *6.6* |
| *o/w OpCos* | *0.5* | *0.4* | *0.5* |
| Tier 2 Capital: End point CRR non-compliant | 1.9 | 1.4 | 2.2 |
| *o/w HoldCo* | *0.1* | *0.1* | *0.3* |
| *o/w OpCos* | *1.8* | *1.3* | *1.9* |
| Senior unsecured debt securities | 12.8 | - | 29.9 |
| *o/w HoldCo* | *12.8* | - | 14.3 |
| *o/w OpCos* | - | - | 15.6 |
| Total LAC | 58.8 | 47.7 | 78.9 |
| Total LAC (% RWA) | 29.6% | | |

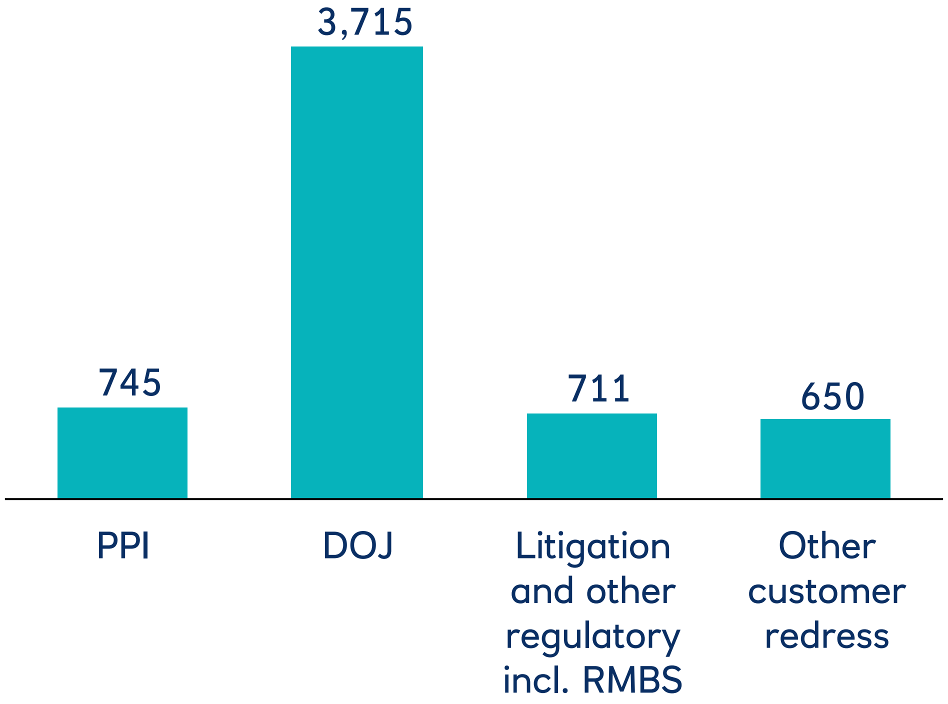
# H1 2018 results by business

| (£bn) | UK PBB | Ulster Bank RoI | Commercial Banking | Private Banking | RBS International | NatWest Markets | Central items & other[1] | Total RBS |
|---|---|---|---|---|---|---|---|---|
| **Income** | **3.2** | **0.3** | **1.8** | **0.4** | **0.3** | **0.7** | **0.1** | **6.7** |
| Operating expenses | (1.6) | (0.3) | (0.8) | (0.2) | (0.1) | (0.7) | (1.0) | **(4.7)** |
| Impairment (losses) / releases | (0.1) | 0.0 | (0.0) | (0.0) | 0.0 | (0.0) | 0.0 | **(0.1)** |
| **Operating profit** | **1.4** | **0.1** | **0.9** | **0.2** | **0.2** | **0.0** | **(1.0)** | **1.8** |
| Funded Assets | 192.3 | 24.8 | 141.8 | 20.9 | 29.8 | 134.5 | 53.1 | **597.2** |
| Net L&A to Customers | 161.9 | 19.1 | 90.7 | 13.8 | 13.0 | 21.2 | 0.3 | **320.0** |
| Customer Deposits | 182.2 | 17.6 | 96.4 | 26.4 | 28.5 | 14.8 | 0.4 | **366.3** |
| RWAs | 43.4 | 16.8 | 71.7 | 9.4 | 6.8 | 50.1 | 0.6 | **198.8** |
| LDR | 89% | 109% | 94% | 52% | 46% | 143% | n.m. | **87%** |
| **ROE (%)[2]** | **29%** | **7%** | **14%** | **16%** | **26%** | **(1%)** | **n.m.** | **5.3%** |
| Cost : Income ratio (%)[3] | 50% | 81% | 46% | 59% | 40% | 93% | n.m. | **70%** |

(1) Central items includes unallocated transactions which principally comprises RMBS charges and volatile items under IFRS
(2) RBS's CET 1 target is in excess of 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 RoI), 11% (Commercial Banking), 13.5% (Private Banking), 16% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). RBS Return on equity is calculated using profit for the period attributable to ordinary shareholders
(3) Operating lease depreciation included in income.

# Litigation and conduct

## End of H1 2018 provisions (£m)




**Total provisions for liabilities and charges: £7.0bn[(1)] as at H1 2018**

## Comments

| | |
|---|---|
| **US RMBS** | • Settlement in principle reached with DOJ for US RMBS<br>• Incremental charge of £1,040m taken in Q2 2018<br>• Nomura RMBS litigation indemnity recovery of £241m |
| **Payment Protection Insurance** | • RBS has made provisions totalling £5.1bn to date for PPI claims. £4.4 billion had been utilised by 30 June 2018<br>• £156m of provisions utilised in the quarter<br>• £745m balance sheet provisions (including Plevin) remaining |

(1) Includes ‘other’ provisions as per Note 4 of the Interim 2018 results announcement

# Disclaimers

**The targets, expectations and trends discussed in this presentation represent management's current expectations and are subject to change, including as a result of the factors described in the "Summary Risk Factors" on pages 48 and 49 of the H1 2018 IMS and the "Risk Factors" on pages 372 to 402 of the Annual Report and Accounts 2017.**

**Cautionary statement regarding forward-looking statements**

Certain sections in this presentation 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.

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