

Q2 2014 Results

1 August 2014

We are 5 months into our journey to create a bank that earns your trust

Early progress encouraging

UK franchises showing signs of growth

Costs consistently reduced

Impairments lower, supportive credit environment

RCR run-down exceeding expectations

On track to achieve CET1 ratio target

Early progress in making the Bank simpler, clearer and fairer

But significant headwinds remain

Significant potential future conduct and litigation costs

Significant restructuring effort on-going

Q214 results highlights

2nd consecutive quarter of attributable profit (Q214: £230m¹; Q114: £1,195m)

Q214 adjusted operating profit² of £2.0bn, up 38% vs. Q114, driven by lower impairments and lower costs

NIM improved to 2.22%, up 10bps Q/Q, 22bps Y/Y, driven by repricing initiatives, RCR run-down and a small number of recoveries

Good initial progress with cost reduction programme; on track to deliver £1bn of cost reductions in 2014

Strong progress in RCR – RWAs down £5bn in Q214. Improved guidance for lifetime cost

10.1% CET1 ratio, up 70bps Q/Q and 150bps YTD

Continued progress on risk reduction, RWAs down £22bn (5%) Q/Q to £392bn

Q214 TNAV 376p, up 13p from 363p at FY13, after accrual of the £320m initial DAS payment

Signs of early progress, improving guidance

¹ After charging the initial £320m Dividend Access Share retirement dividend and the £130m goodwill write-down. ² Excluding restructuring costs and litigation and conduct costs.

Results at a glance

Summary of results (£m)	Q214	Q114	Q213	Q214 vs. Q114	Q214 vs. Q213
Income	4,925	5,053	5,447	(3%)	(10%)
Operating expenses	(3,700)	(3,408)	(4,156)	9%	(11%)
o/w Restructuring, Conduct and Litigation	(635)	(129)	(719)	392%	(12%)
Adjusted operating expenses ¹	(3,065)	(3,279)	(3,437)	(7%)	(11%)
Profit before impairment losses	1,225	1,645	1,291	(26%)	(5%)
Impairment losses	93	(362)	(1,117)	(126%)	(108%)
Operating profit	1,318	1,283	174	3%	657%
Adjusted operating profit/(loss) ¹	1,953	1,412	893	38%	119%
Profit before tax	1,010	1,642	548	(38%)	84%
Attributable Profit	230²	1,195	142	(81%)	62%
Net interest margin	2.22%	2.12%	2.00%	10bps	22bps
Cost : income ratio	75%	67%	76%	8%	(1%)
Adjusted cost : income ratio ¹	62%	65%	63%	(3%)	(1%)
Capital & Balance Sheet	Q214	Q114	FY13	Q214 vs. Q114	Q214 vs. FY13
Funded balance sheet (£bn)	736	746	740	(10)	(4)
Risk-weighted assets (£bn)	392	414	429	(22)	(37)
Common Equity Tier 1 ratio	10.1%	9.4%	8.6%	70bps	150bps
BCBS leverage ratio	3.7%	3.6%	3.4%	10bps	30bps
Net tangible equity per share (p)	376p	376p	363p	-	13p

¹ Excluding restructuring costs and litigation and conduct costs. ² After charging the initial £320m Dividend Access Share retirement dividend and the £130m goodwill write-down.

Contents

1

P&L explained

2

Update on restructuring progress

3

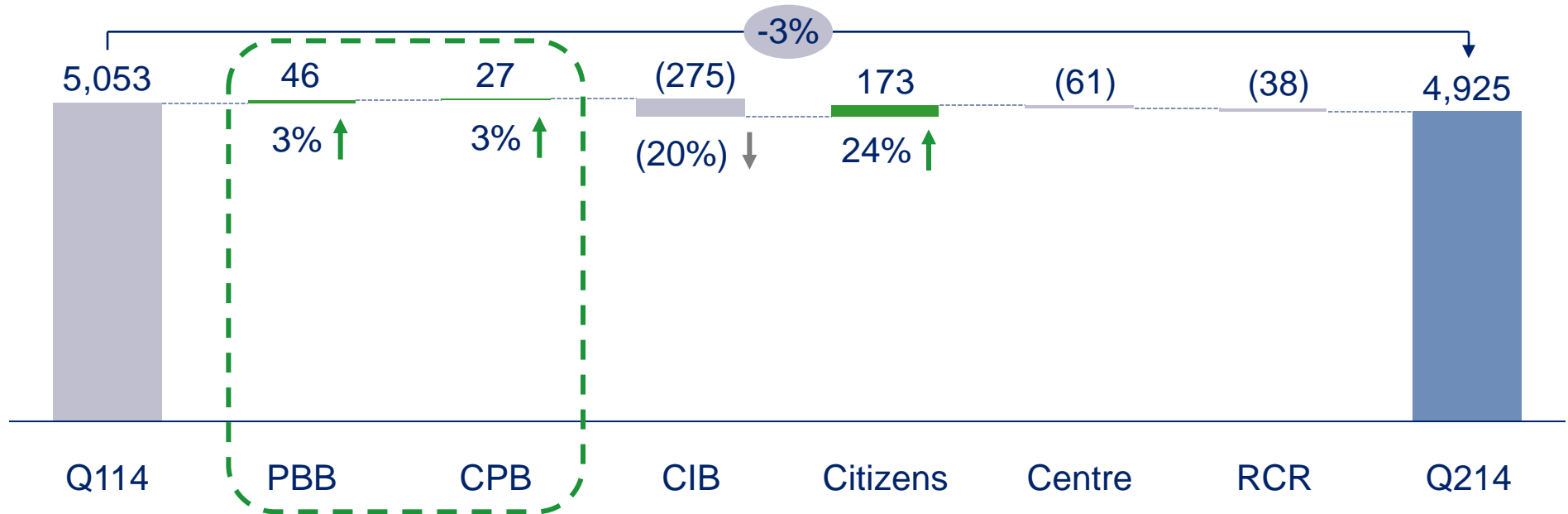
Balance sheet, Capital & Funding

4

RBS Capital Resolution

Income – UK franchises showing signs of improvement

Total Income, £m



- Deposit repricing, improving macro and consumer confidence supporting the UK franchises
- CIB impacted by seasonally lower revenues and scaling back of the balance sheet
- Citizens reported income includes a ~£170m gain on disposal of Illinois branches
- Centre lower due to lower of Q114 AFS gains (Q214: £13m vs. Q114: £203m)

NIM continues to improve

	Net Interest Income (£m)	NIM				
		Q214 (%)	Q114 (%)	Q213 (%)	Q214 vs. Q114	Q214 vs. Q213
Personal & Business Banking	1,321	3.40	3.37	3.20	3bps	20bps
Commercial & Private Banking	685	2.91	2.89	2.77	2bps	14bps
Corporate & Institutional Banking	186	0.90	0.85	0.67	5bps	23bps
Citizens Financial Group	499	2.93	2.94	2.89	(1bps)	4bps
RCR	7	0.08	(0.08)	n/a	16bps	n/a
RBS NIM	2,798¹	2.22	2.12	2.00	10bps	22bps

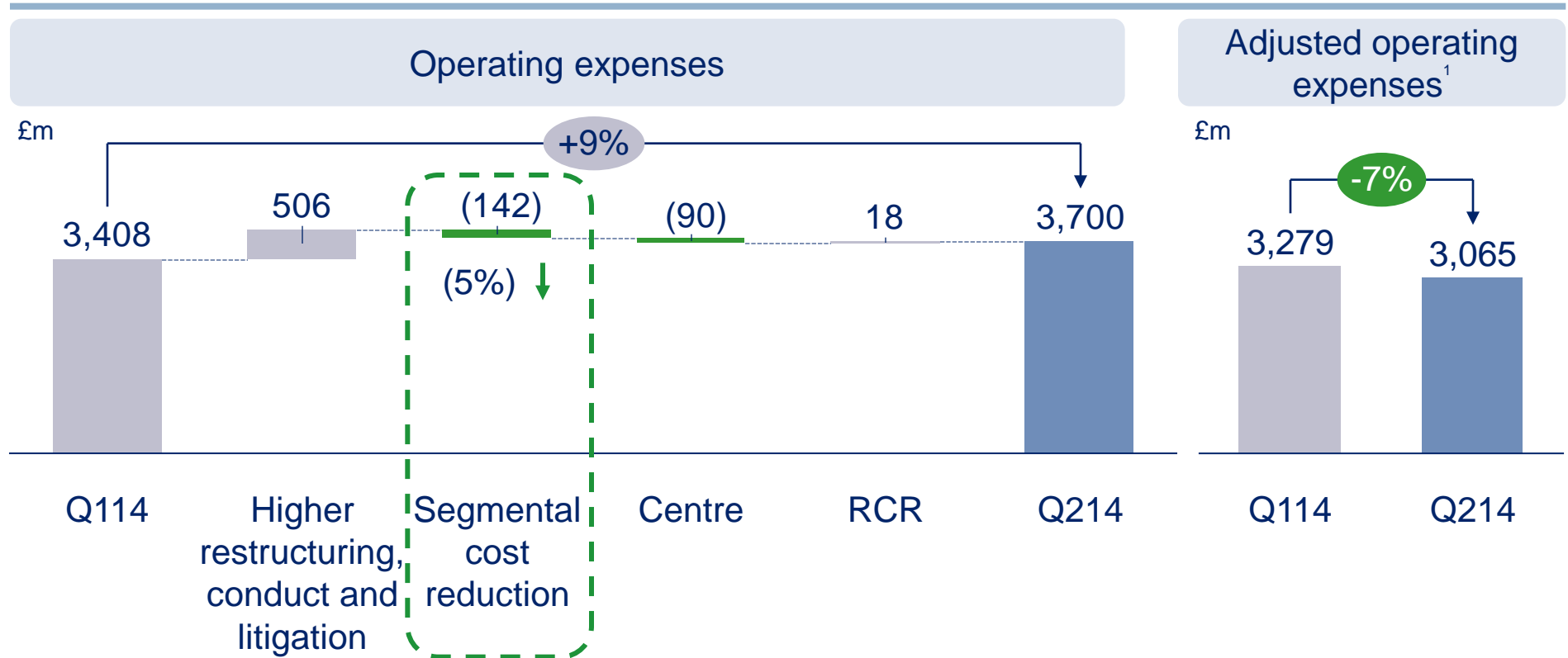
RBS NIM benefits from:

- Gently rising NIMs in PBB and CPB
- Mix, as RCR assets are run-off
- Improved liability margins and the benefit from free funds account for 6 out of the 10 basis point increase seen in Q214
- A small number of one-off recoveries in Q214²

NIM is expected to remain close to H1 levels (2.17%), with the majority of deposit re-pricing benefits having now taken place, and some modest asset margin pressure on new business

¹ Net Interest Income for NIM calculation purposes is £2,784m. The £2,798m shown above includes £100m of Net Interest Income in Central Items. See notes on p.74 of the H114 Interim Results document. ² Unwind of interest in suspense.

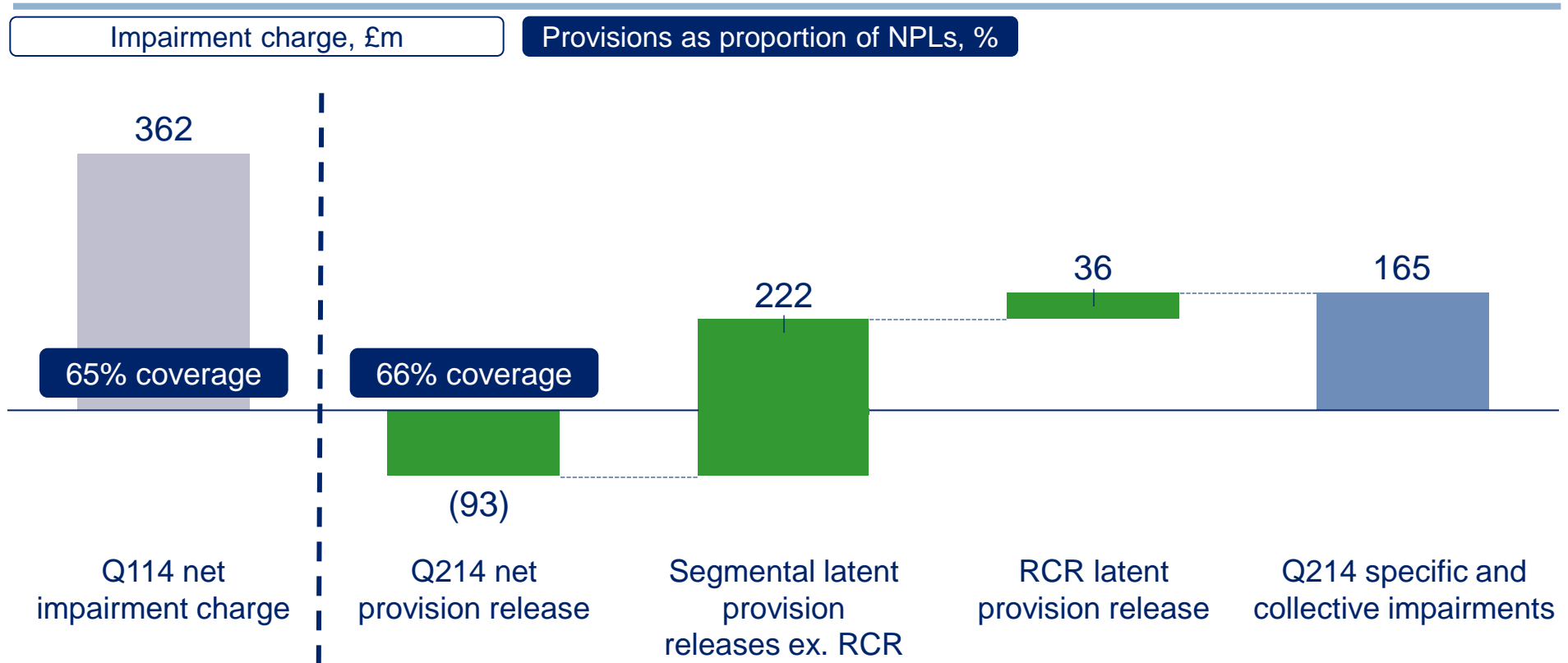
Operating expenses down across all 3 businesses



- Strategic actions beginning to be implemented – benefits will take time to realise
- Retain target of ~£1bn absolute cost reduction for 2014
- Restructuring costs expected to increase in H214. FY14 guidance improved to ~£1.5bn vs. ~£2bn previously expected

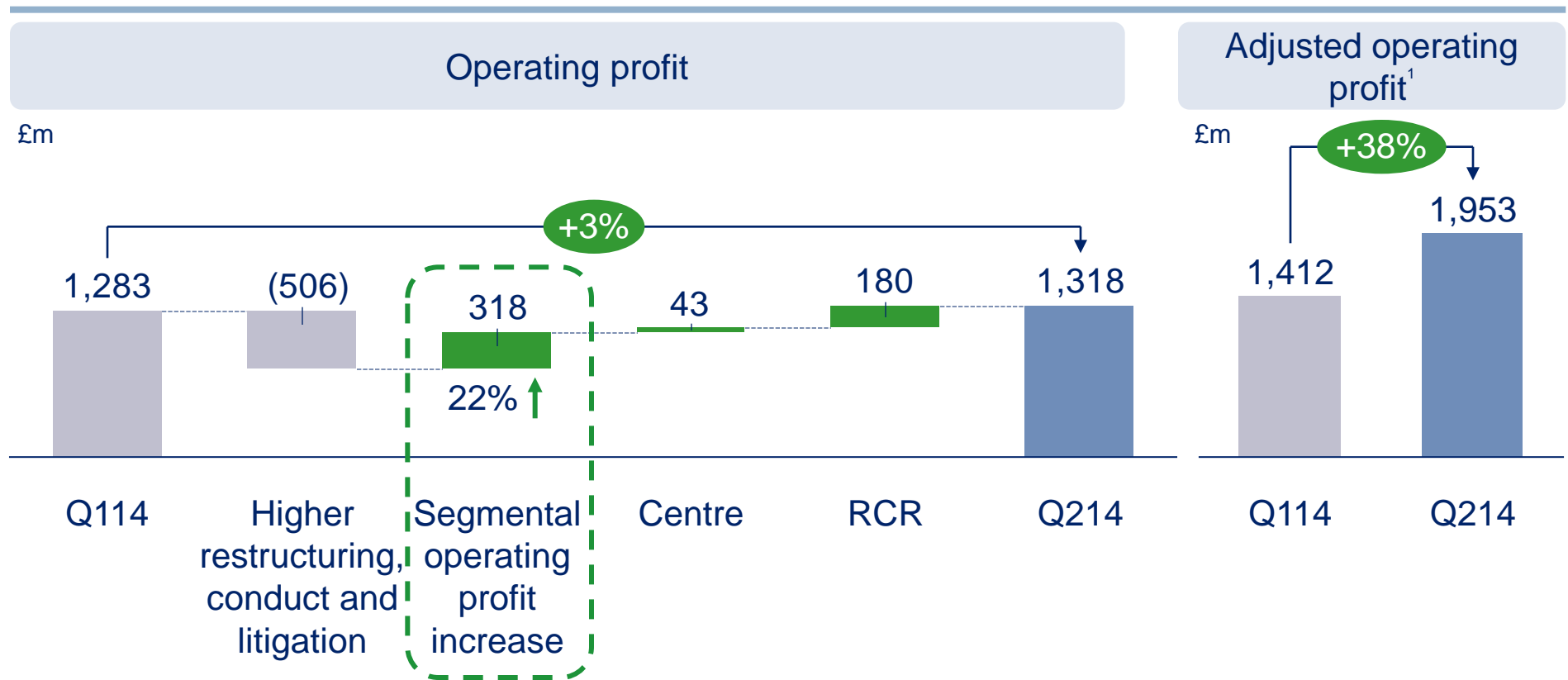
¹ Excluding restructuring costs and litigation and conduct costs.

Improving impairment trends supported by releases



- Supportive credit environment leading to lower impairments and reserve releases
- CPB and CIB supported by latent provision releases, with absence of large individual cases
- No major impairments in RCR alongside a number of provision releases. Significant RCR exposure risks remain

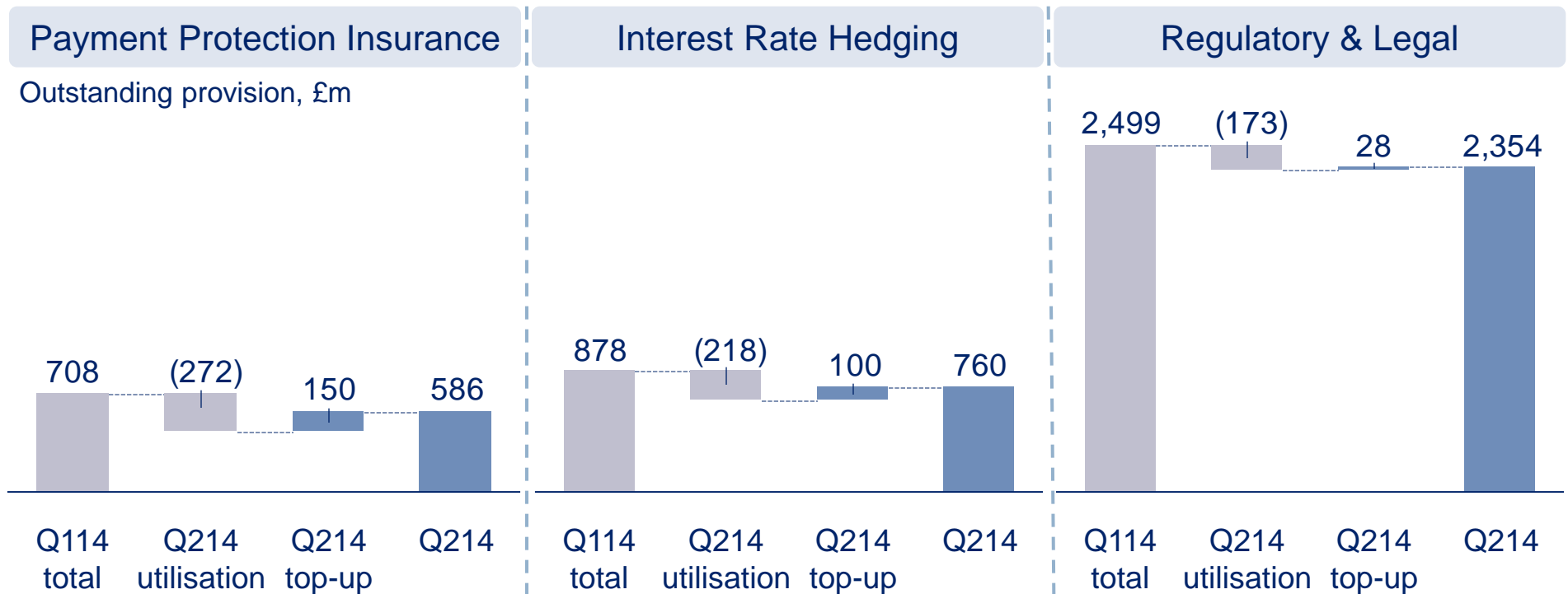
Operating profit improvement driven by lower impairments and costs



- Businesses capable of strong underlying operating profit generation
- Adjusted operating expenses reduction more than offsets lower income
- Core Ulster reported a 2nd consecutive quarter of operating profit
- RCR made a Q214 profit, outlook sensitive to economic and market conditions

¹ Excluding restructuring costs and litigation and conduct costs.

Litigation and conduct provisions



- Further top-up to PPI primarily as a result of higher customer response rates on a single premium proactive mailing
- Swap mis-selling top-up reflects the marginal increase in our redress experience compared to expectations; we have now agreed outcomes with the independent reviewer relating to over 95% of cases
- Significant risks and uncertainty remains around the scale and timing of future specific conduct and litigation costs

Contents

1 P&L explained

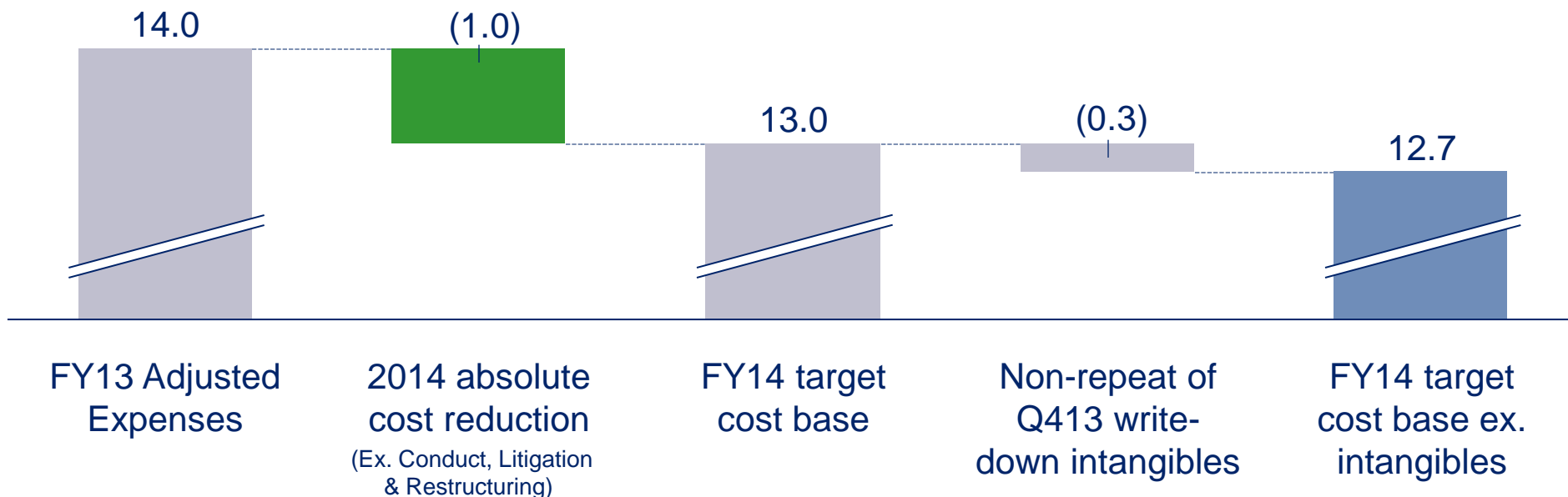
2 Update on restructuring progress

3 Balance sheet, Capital & Funding

4 RBS Capital Resolution

On target to achieve £1bn cost reduction in 2014

Cost reduction target, £bn



- Strong start to cost reduction programme, £0.5bn cost reduction Y/Y, on track for £1bn by FY14
- Reductions delivered from:
 - Overall headcount has fallen by 8,000 over the past 12 months
 - 10% reduction in contractor rates, rationalising use of consultancy
 - Two large London Office exits completed
- FY14 restructuring charge now expected to be ~£1.5bn for FY14, versus original £2bn expectations. Continue to anticipate £5bn total restructuring 2014-17

Contents

1

P&L explained

2

Update on restructuring progress

3


Balance sheet, Capital & Funding


4

RBS Capital Resolution

Early signs of loan growth

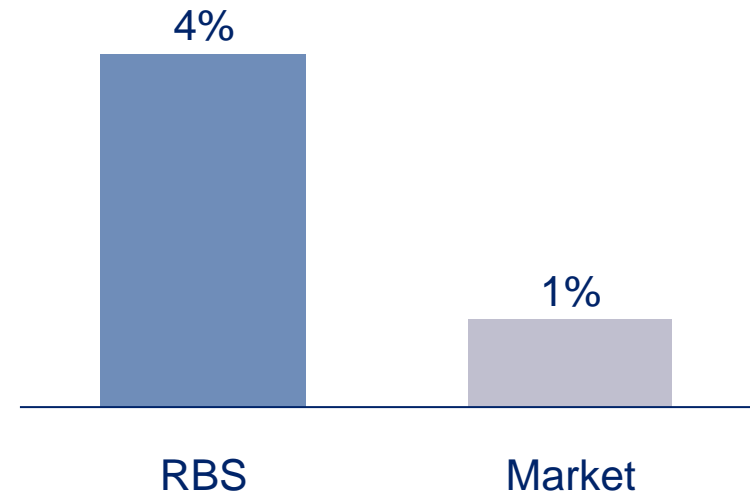
SME – continued positive trend

Applications
 **+12%**
vs. Q213

Gross new lending
 **+38%**
vs. Q213

Mortgages – strong net lending growth with continued market share gains

Q214 Y/Y growth in mortgage loans outstanding in PBB UK

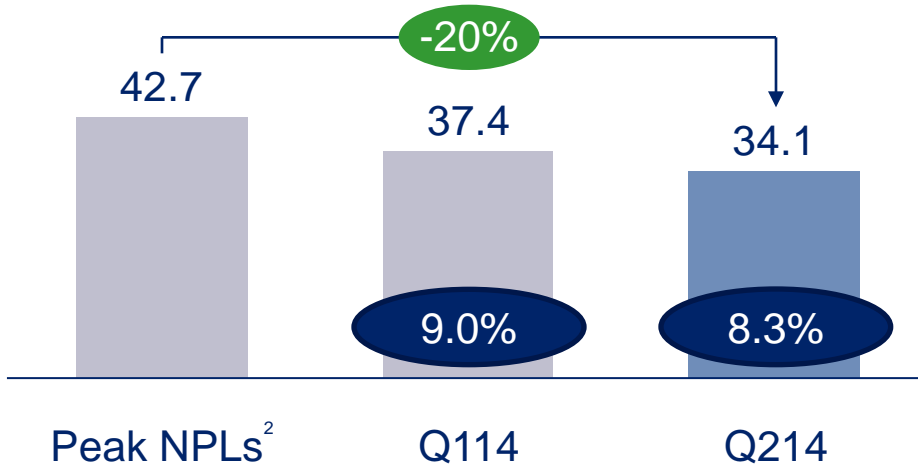


- H114 SME gross new lending of £5bn, ahead of target. Strong application flow. Run-off remains at similar levels to previous years
- Momentum continues on mortgages with gross new business market share now up to 10.4% in Q214 driven by a 20% expansion in new business Q/Q
- Q214 performance reflecting good progress made in Mortgage Market Review implementation

Non-performing loans declining

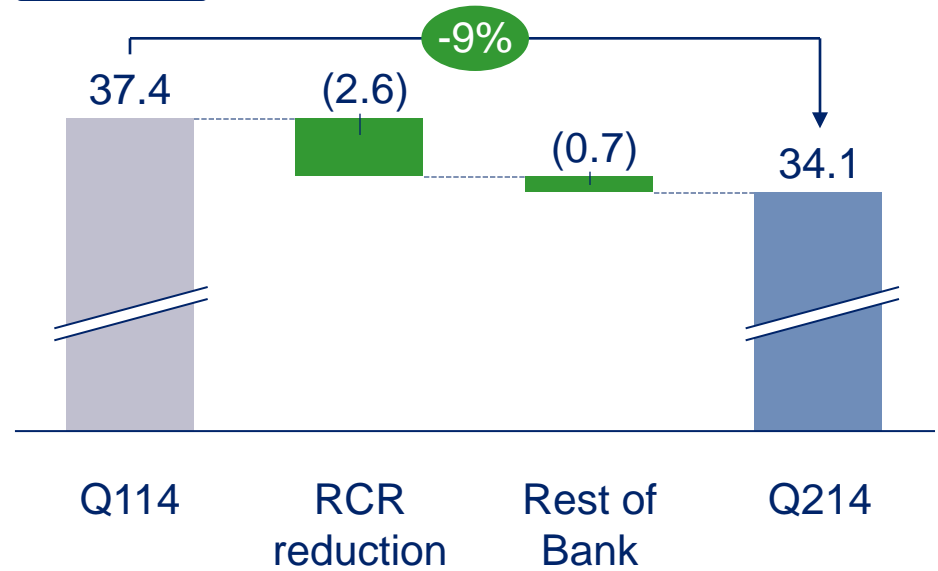
NPLs¹ coming down

NPLs, £bn NPLs as proportion of gross customer loans, %



RCR delivered most of the reduction

NPLs, £bn



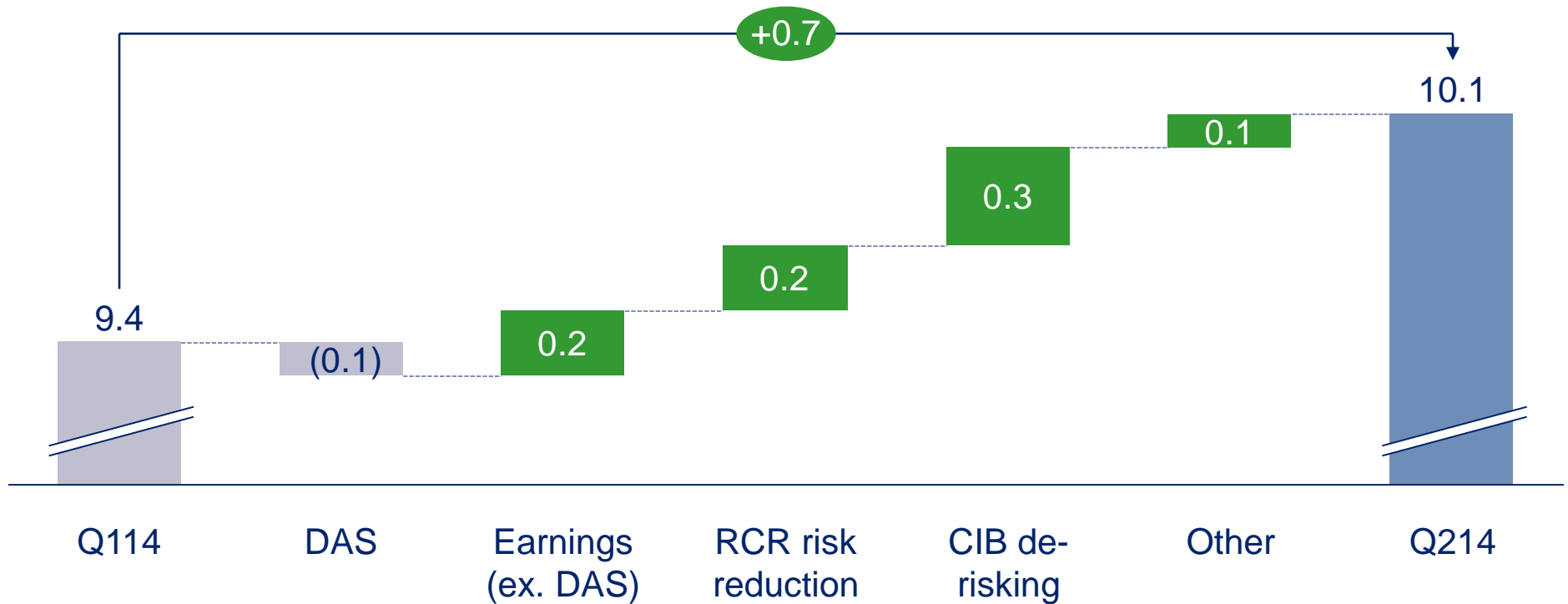
- Non-performing loans down £3.3bn in Q214, down 20% from peak
- RCR continues to make strong progress, supported by favourable market conditions
- Leading indicators continue to improve

Encouraging signs seen in most areas

¹ NPLs = REiLs in the Company Announcement. ² Peak is Q311.

Capital generation

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

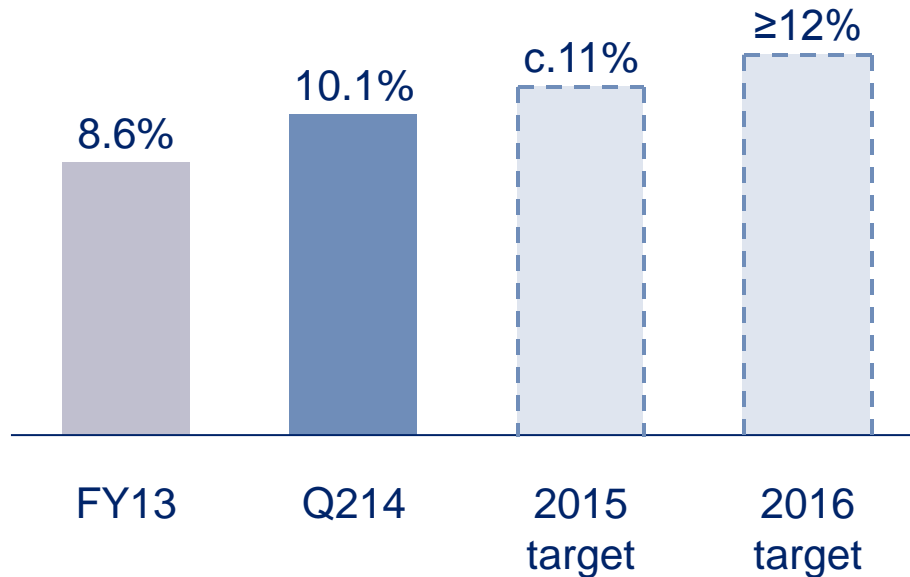


- Solid progress in capital ratio build, RWAs down £22bn (5%) Q/Q. RCR down £5bn, CIB down £12bn
- RCR achieved £2bn net CET1 capital accretion YTD

On track to achieve CET1 and leverage ratio targets

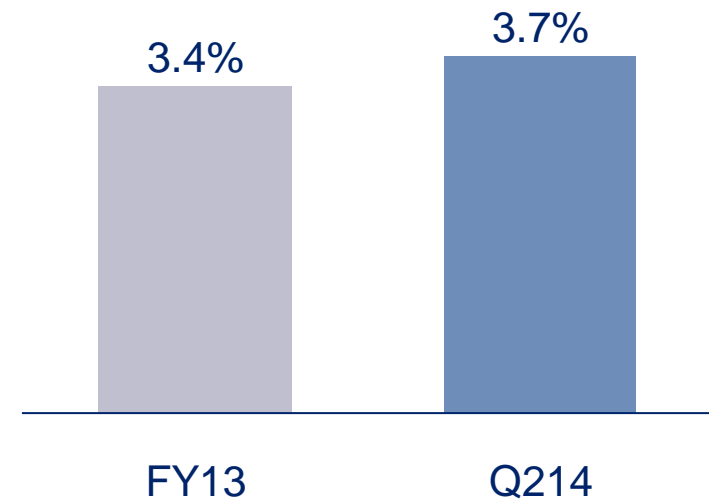
CET1 build progressing

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
- Leverage ratio at 3.7%, up 30bps in H114

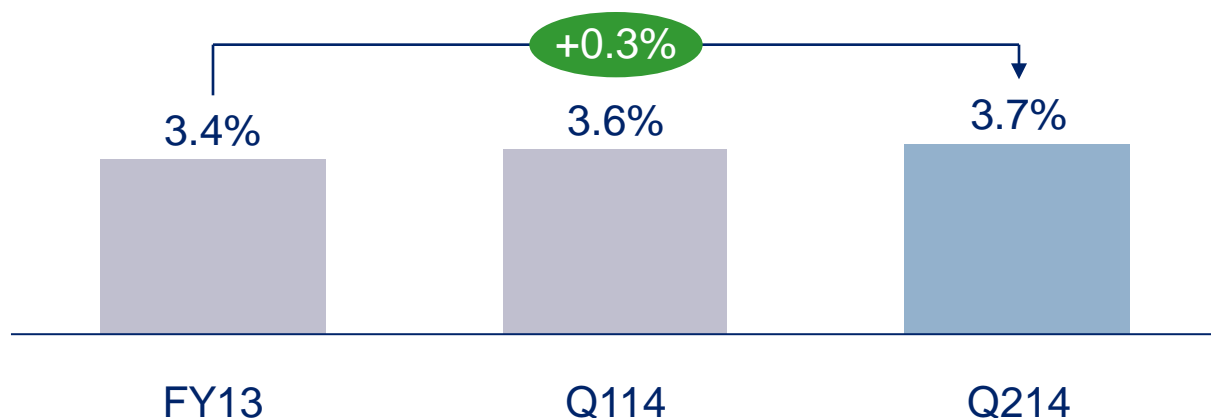
Fully loaded Common Equity Tier 1 – key drivers

£bn	Q214	Q114	FY13
Reported Tangible Equity	42.9	42.6	41.1
Expected loss	(1.3)	(1.1)	(1.7)
<i>o/w PVA offset</i>	<i>0.3</i>	<i>0.6</i>	<i>0.5</i>
Prudential Valuation Adjustment	(0.5)	(0.8)	(0.8)
DTAs	(1.7)	(1.8)	(2.3)
Own Credit Adjustments	0.6	0.5	0.6
Pension fund assets	(0.2)	(0.2)	(0.2)
Cash flow hedges – fair value	(0.1)	(0.1)	0.1
Total deductions	(3.2)	(3.5)	(4.3)
Basel III CET1 capital	39.7	39.1	36.8
Basel III RWA	392	414	429
Fully loaded CET1 Ratio	10.1%	9.4%	8.6%

- Target c.11% by end-2015 and 12%, or above, by end-2016

Leverage ratio – key drivers

BCBS leverage ratio, %



	FY13	Q114	Q214
Fully loaded CET 1 capital, £bn	36.8	39.1	39.7
Total assets, £bn	1,028	1,024	1,011
Netting of derivatives	(227)	(219)	(217)
Securities financing transactions	60	70	77
Regulatory deductions & other adjustments	(7)	(2)	(1)
Potential future exposures on derivatives	128	114	102
Undrawn commitments	100	97	98
Exposure	1,082	1,083	1,070

- Further deleveraging reduced leverage exposure
- Ratio higher 30bps vs. FY13 driven by CET1 improvement

TNAV: Profit offset by negative FX movements

	£m	Shares in issue	TNAV per share
Q114 TNAV	42,604	11,341	376p
+ Reported attributable profit	230 ¹		+2p
+ Add back Q2 goodwill write-down	130		+1p
+ Positive AFS movement	200		+2p
+ Proceeds of share issuance	184	59	-1p
- FX reserve movement	(588)		-5p
- Other ²	120		+1p
Q214 TNAV	42,880	11,400	376p

¹ After charging the initial £320m Dividend Access Share retirement dividend and the £130m goodwill write-down. ² Includes adjustment for employee share based remuneration and cash flow hedging reserve movements and other intangible movements.

Contents

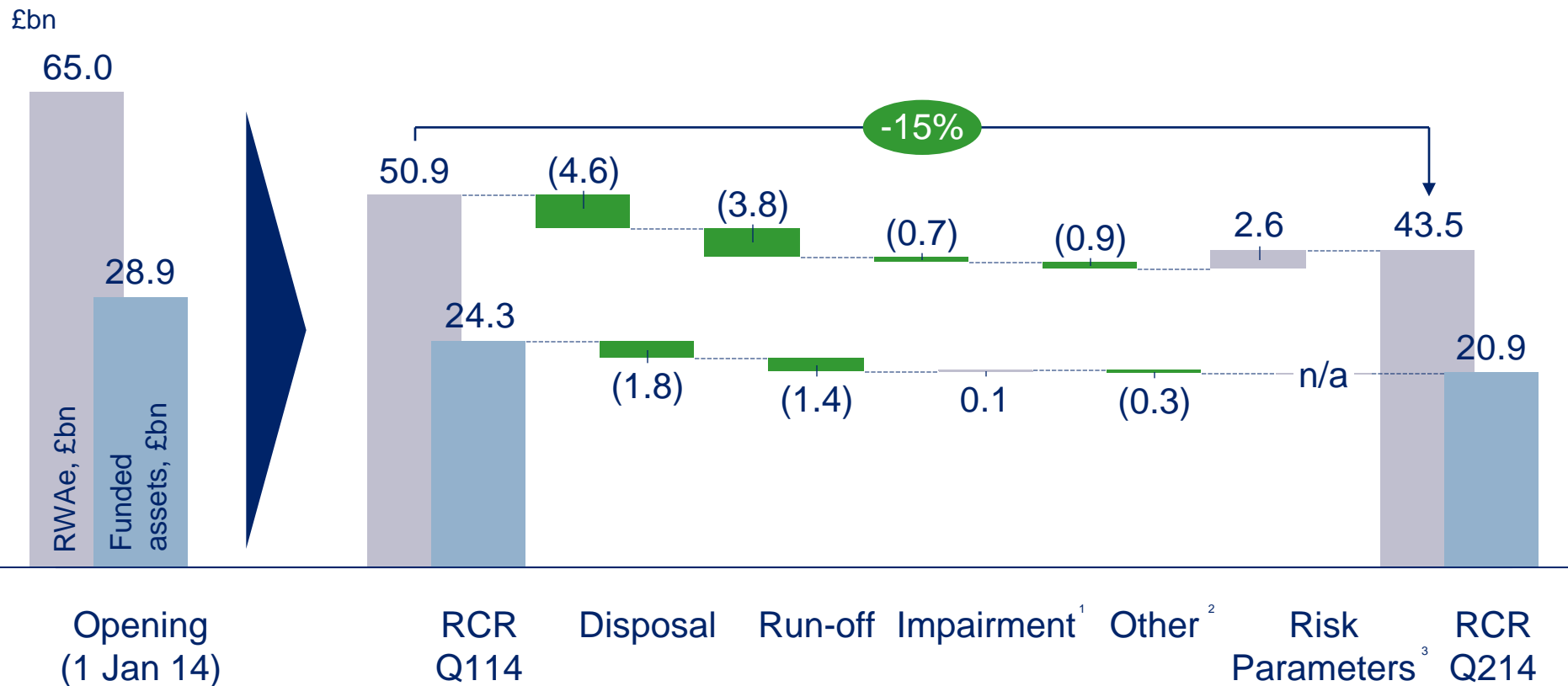
1 P&L explained

2 Update on restructuring progress

3 Balance sheet, Capital & Funding

4 RBS Capital Resolution

Continued good progress in RCR run-down



- Q2 asset reduction in RWA equivalents down £7bn (15%), and funded assets down £3bn (14%) Q/Q
- RCR capital accretive during 2014, ~£2bn
- Strong execution in favourable markets during quarter

¹ RWA equivalent impairment charge (reduced capital deductions capitalised at 10%). Impairments exclude the impact of any disposal gains or losses which are captured in the disposal category. ² Other includes recoveries, fair value adjustments, FX and perimeter refinements. ³ Principally reflects credit migration and other technical adjustments.

Updated RCR guidance

	Original guidance	Latest view
Lifetime cost ¹	£4.0 – 4.5bn	£2.5 – 3.0bn
Lifetime capital release	~£2bn	~£3.5bn ²
2014 TPA run-down profile	~£23bn	~£15-18bn

- RCR already achieved £2bn net CET1 capital accretion since creation

¹ Comprises impairments, disposal losses and running expenses. ² c.£2bn 2014-16 CET1 impact as disclosed at Q313 plus £1.5bn improved P&L guidance.

RCR asset composition and provisions overview

Asset composition at 30 June 2014

Markets

Securitised Products: £2.7bn

Emerging Markets: £0.6bn

Total: £3.3bn

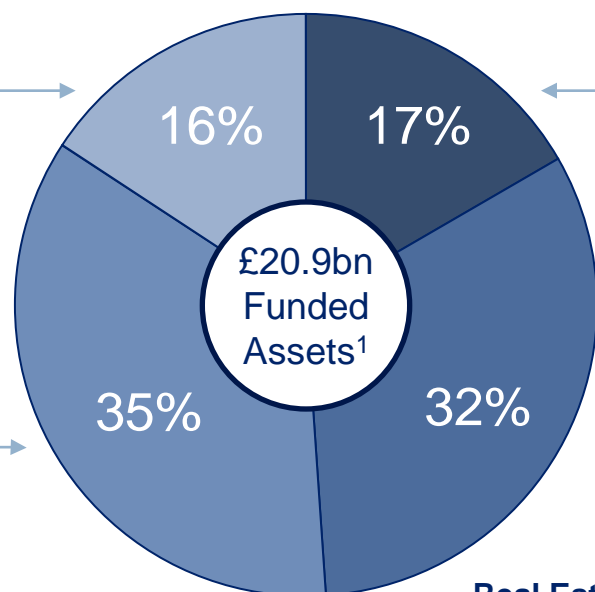
Ulster

CRE Investment £1.9bn

CRE Development: £0.7bn

Other Corporate: £0.9bn

Total: £3.5bn



Corporate

Structured Finance: £2.0bn

Shipping: £1.9bn

Other Corporate: £3.5bn

Total: £7.4bn

Real Estate Finance

UK: £4.4bn

Germany: £1.0bn

Spain: £0.5bn

Other: £0.8bn

Total: £6.7bn

CRE Total (REF and Ulster): £9.3bn²

Overview of provisions by sector

	Gross loans	Provisions	Provisions as a % of REIL	Provisions as a % of gross loans
30 June 2014	£bn	£bn	%	%
By sector:				
Commercial real estate				
- Investment	10.7	4.4	54	41
- Development	7.6	6.1	87	80
Asset finance	2.5	0.4	44	16
Other corporate	9.1	3.5	81	38
Other	0.1	-	-	-
Total RCR	30.0	14.4	71	48

¹ Funded Assets – excluding derivatives, net of balance sheet provisions. ² Includes £1.5bn of investment property and other assets.

Outlook

NIM is expected to remain close to H114 levels, with the majority of deposit re-pricing benefits now realised

Continue to target ~£1bn absolute cost reduction in 2014

Higher restructuring charge expected in H214, building to ~£1.5bn for 2014. We retain our £5bn total restructuring costs guidance to end-2017

Expect RCR funded assets to be ~£15-18bn at year-end, overall 2014 operating loss of ~£0.8bn. Overall cost of RCR down £1.5bn to £2.5-3.0bn²

~£1bn total 2014 loan impairment charge expected for 2014, ~0.2-0.3% of loans & advances¹

Significant risks remain around the scale and timing of potential future conduct and litigation costs

¹ Based on Q214 Loans & Advances. ² 2014 to 2016.

Contacts

Our Investor Relations team is available to support your research

Richard O'Connor

Head of Investor Relations
richard.oconnor@rbs.com
+44 20 7672 1758

For Equity Investors & Analysts

Alexander Holcroft

Head of Equity Investor Relations
alexander.holcroft@rbs.com
+44 20 7672 1982

Matthew Richardson

Senior Manager, Investor Relations
matthew.richardson@rbs.com
+44 20 7672 1762

Michael Tylman

Manager, Investor Relations
michael.tylman@rbs.com
+44 20 7672 1958

For Debt Investors & Analysts

Greg Case

Manager, Investor Relations
greg.case@rbs.com
+44 20 7672 1759

For Corporate Access

Leah McCreanor

Senior Manager, Investor Relations
leah.mccreanor@rbs.com
+44 20 7672 2351

Sarah Bellamy

Manager, Investor Relations
sarah.bellamy@rbs.com
+44 20 7672 1760

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', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this presentation includes forward-looking statements relating, but not limited to: the Group's restructuring and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, including the referendum on Scottish independence, 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 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 about 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 cause actual results to differ materially from those estimated by the forward-looking statements contained in this presentation include, but are not limited to: UK and global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the Group's structure, rationalisation of and investment in its IT systems, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the reliability and resilience of its IT system, the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this presentation speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.