

# Accelerated delivery to our Go-Forward Bank

Richard O'Connor  
Head of Investor Relations

## **Targeting a materially cleaner equity story by end 2016**

- Accelerating Exit Bank wind-down while preserving value
- Progressing our restructuring and investment plans
- Focused on addressing our conduct and litigation overhang

## **Capital distribution targeted Q1 2017**

- Capital resilience materially improving – clear path to resuming dividends / buybacks
- Targeting Q1 2017 to re-start capital distributions through a combination of dividends and buybacks<sup>(1)</sup>

## **Strong Go-Forward Bank**

- Strong UK/Irish customer franchises capable of generating attractive risk adjusted returns above the cost of equity
- Building value through a focus on improved customer service and enhanced growth

<sup>(1)</sup>Subject to PRA approval.

# Our Exit Bank

## Illustrative Q2 2015 summary financials



(£bn)	Citizens	CIB Capital Resolution <sup>(1)</sup>	RCR	W&G <sup>(2)</sup>	Int'l Private Banking	Other Investments	Total Exit Group
Income	0.8	0.1	0.1	0.2	0.1	-	1.3
Adj. costs <sup>(3)</sup>	(0.5)	(0.3)	(0.1)	(0.1)	-	-	(1.0)
Impairment releases/ Provisions	(0.1)	-	0.2	-	-	-	0.1
Adj. op. profit <sup>(3)</sup>	0.2	(0.2)	0.2	0.1	0.1	-	0.4
Funded Assets	83	62	8	20	5	1	179
L&A to customers	61	31	6	20	3	-	121
Customer deposits	64	27	1	23	7	-	122
RWAs	70	45	14	11	2	6	148
Adj. RoE (%) (3,4)	7%	nm	nm	nm	9%	10%	5%

<sup>(1)</sup> The CIB results split into go-forward and capital resolution elements are based on a modelled approach pending outcomes of ongoing implementation planning and therefore is subject to change. <sup>(2)</sup> Does not reflect the cost base, funding and capital profile of a standalone bank. <sup>(3)</sup> Excludes restructuring and litigation and conduct costs. <sup>(4)</sup> Segmental ROE is calculated using operating profit after tax on a non-statutory basis adjusted for preference share dividends divided by average notional equity (based on 13% of average RWAs). Total RBS ROE is calculated using operating profit after tax on a non-statutory basis less preference dividends divided by average RBS tangible equity.

# Our Exit Bank

## Run-down / exit plans



£bn	RWAs Q2 2015	2015	2016
Citizens	70	<ul style="list-style-type: none"> <li>Further sell-down priced in late July 2015</li> <li>Targeting full exit by year end</li> </ul>	
CIB Capital Resolution	45	<ul style="list-style-type: none"> <li>≥£25bn target RWA reduction for CIB in 2015</li> </ul>	<ul style="list-style-type: none"> <li>Targeting further material RWA reduction by end 2016</li> </ul>
RCR	14	<ul style="list-style-type: none"> <li>Wind-down to ≤ 15% of initial funded assets (£5.7bn)</li> </ul>	<ul style="list-style-type: none"> <li>Stub merged into CIB Capital Resolution from Q1 2016</li> </ul>
Williams & Glyn	11		<ul style="list-style-type: none"> <li>Targeting IPO by year end 2016</li> </ul>
International Private Banking	2	<ul style="list-style-type: none"> <li>Sale announced Q1 2015</li> <li>Partial completion in Q4 2015</li> </ul>	<ul style="list-style-type: none"> <li>Full exit during H1 2016</li> </ul>
Other Investments	6	<ul style="list-style-type: none"> <li>Planned exit. Timing to be confirmed</li> </ul>	

# Our Exit Bank CIB Capital Resolution



(£bn)	Financials			
	Q4 2014		Q2 2015	
	TPAs <sup>(1)</sup>	RWAs	TPAs <sup>(1)</sup>	RWAs
<i>APAC Portfolio</i>	7.7	4.2	6.1	3.4
<i>Americas Portfolio</i>	4.6	7.8	3.4	4.3
<i>EMEA Portfolio</i>	9.9	6.8	5.9	4.3
<i>Shipping</i>	5.7	4.4	5.3	4.5
<i>Markets</i>	54.2	28.6	34.1	20.0
<i>GTS</i>	11.3	11.2	6.3	8.0
<i>Other</i>	1.6	0.8	1.2	0.7
<b>Total</b>	<b>95.0</b>	<b>63.8</b>	<b>62.3</b>	<b>45.2</b>

## Comments

- Expect to be substantially out of our North Americas exit portfolio by year-end 2015
- US asset-backed product exit
- Announced the sale of substantially all of our Australian and Hong Kong business
- Commenced sales processes for China, India and Malaysia businesses
- RWAs down £18.6bn in the first half, showing strong early progress

(£m)	Q2 2015
Total Gross Income	221
Asset Disposals	(113)
Total Income	108

<sup>(1)</sup> TPAs stands Third Party Assets which are Funded Assets.

# Conduct and Litigation - key issues

	Comments
US RMBS litigation, governmental and regulatory investigations	<ul style="list-style-type: none"><li>■ Continue to work through RMBS litigation (both FHFA and other claimants) and other material RMBS related matters remain outstanding (DoJ, State Attorneys General)</li></ul>
On-going FX investigations	<ul style="list-style-type: none"><li>■ Remain in discussions with various governmental and regulatory authorities</li></ul>
UK class action lawsuit over 2008 capital raising	<ul style="list-style-type: none"><li>■ Trial of preliminary issue to commence in Dec 2016</li></ul>
Various UK customer redress issues	<ul style="list-style-type: none"><li>■ PPI: no additional provision taken in Q2 2015; provision now covers c.23 months of the currently monthly utilisation</li><li>■ IRHP: outcomes agreed with an independent reviewer on almost all cases</li><li>■ Packaged accounts: dedicated resources put in place in 2013 to investigate and resolve complaints on an individual basis</li></ul>
On-going FCA review of RBS's treatment of SME customers	<ul style="list-style-type: none"><li>■ Fully co-operating with the FCA review</li><li>■ Timing of delivery of initial findings not finally determined but may be during Q4 2015</li><li>■ Clifford Chance review concluded that there was no evidence to support the principal allegation</li></ul>

# Our Go-Forward Bank Customer Franchises

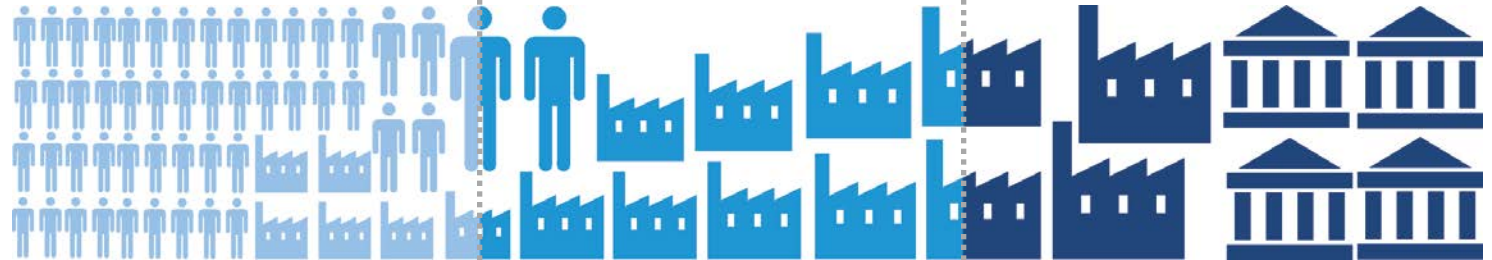


Personal & Business

Commercial & Private

Corporate & Institutional

Our Customers



Our Primary Brands

NatWest Ulster

Royal Bank of Scotland

RBS

*Coutts* NatWest

*Adam & Company* Lombard

Our Market Positions

- #2 UK Personal Current Accounts
- #3 Ireland<sup>(1)</sup> Personal Current Accounts

- #1 SME Bank
- #1 UK Commercial Bank
- #1 UK Private Bank

- Top 3 UK Rates, FX and DCM
- Top 3 European Structured Finance
- Top 3 Western Europe Investment Grade Corporate DCM

<sup>(1)</sup> Republic of Ireland.

# Our Go-Forward Bank

## Illustrative Q2 2015 summary financials



(£bn)	UK PBB <sup>(1)</sup>	Ulster Bank	Commercial Banking <sup>(2)</sup>	Private Banking <sup>(2)</sup>	CIB Go-Forward <sup>(3)</sup>	Other Go-Forward <sup>(4)</sup>	Total Go-Forward
Income	1.3	0.2	0.9	0.2	0.4	0.1	3.1
Adj. costs <sup>(5)</sup>	(0.7)	(0.2)	(0.4)	(0.1)	(0.4)	0.1	(1.7)
Impairment releases	-	-	-	-	-	-	-
Adj. op. profit <sup>(5)</sup>	0.6	-	0.5	0.1	-	0.2	1.4
Funded assets	116	26	95	12	149	105	503
L&A to customers	109	20	90	11	27	2	259
Customer deposits	128	19	97	23	22	2	291
LDR ratio	85%	105%	93%	48%	123%	100%	89%
RWAs	31	21	67	8	43	8	178
Adj. RoE <sup>(5,6)</sup>	36%	11%	14%	5%	nm	nm	16%

<sup>(1)</sup> Excludes Williams & Glyn. <sup>(2)</sup> Excludes international private banking. <sup>(3)</sup> The CIB results split into go-forward and capital resolution elements are based on a modelled approach pending outcomes of ongoing implementation planning and therefore is subject to change. <sup>(4)</sup> Other go-forward is primarily Centre, including the liquidity portfolio <sup>(5)</sup> Excludes restructuring and litigation and conduct costs. <sup>(6)</sup> Segmental ROE is calculated using operating profit after tax on a non-statutory basis adjusted for preference share dividends divided by average notional equity (based on 13% of average RWAs). Total RBS ROE is calculated using operating profit after tax on a non-statutory basis less preference dividends divided by average RBS tangible equity.



# Our Go-Forward Bank

## UK Personal & Business Banking

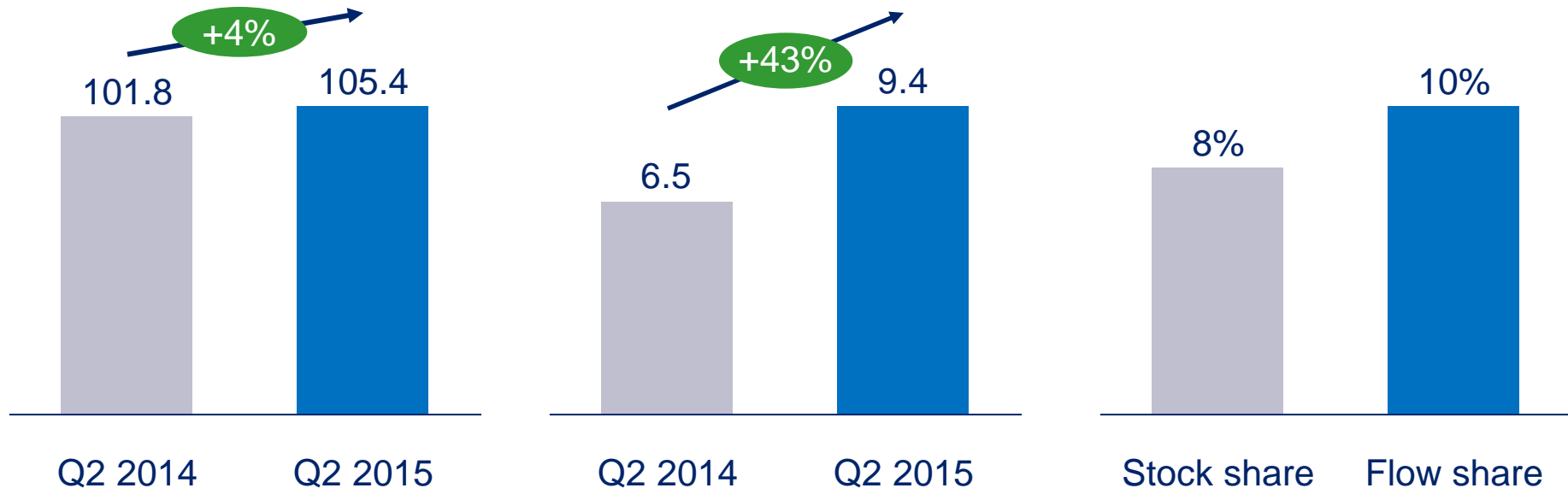


### UK Personal & Business Banking – Mortgages

Balances (£bn)

Applications (£bn)

RBS Q2 2015 market share

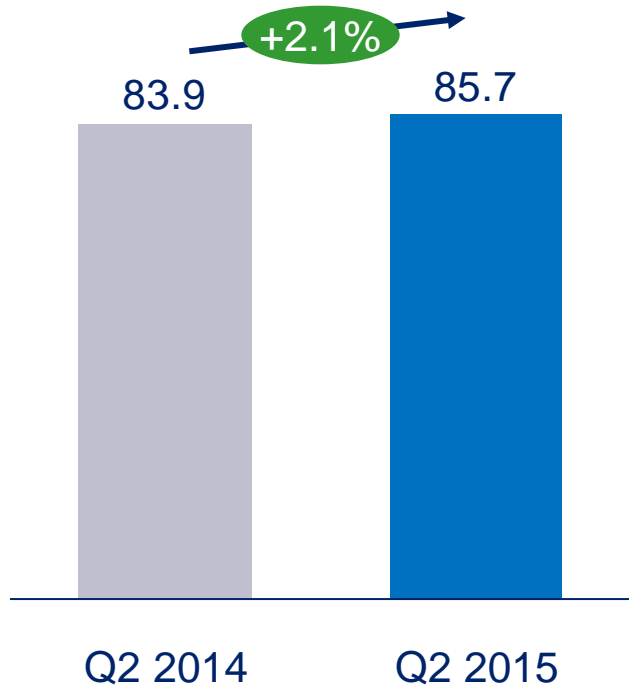


# Our Go-Forward Bank Commercial Banking



## Net lending growth

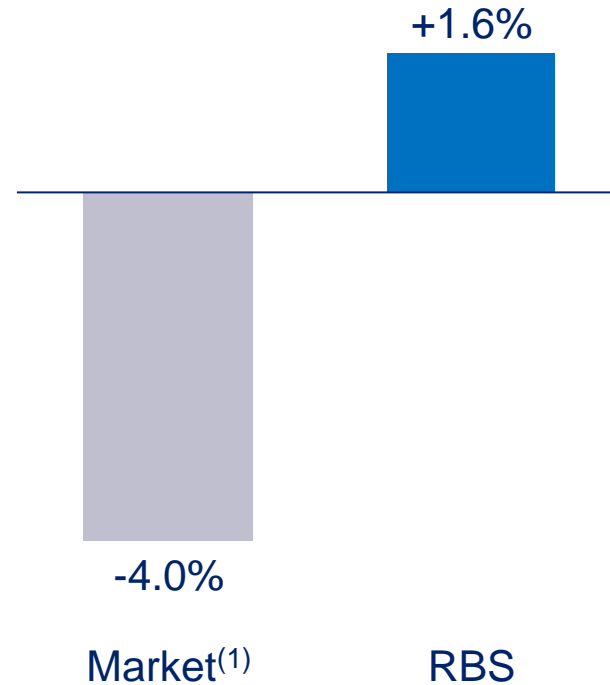
£bn



Note : Excluding RBSI and CIB transfers.

## Gross UK Commercial lending growth

Q2 2015 / Q2 2014



<sup>(1)</sup>Lending to PNFCs (Private Non-Financial Corporations).

# Our Go-Forward Bank

## Ulster Bank, Private Banking and CIB Go-Forward



Ulster Bank	Private Banking	CIB Go-Forward
Q2 2015 Adjusted cost:income ratio: 78% <sup>(1)</sup>	Q2 2015 Adjusted cost:income ratio: 86% <sup>(1)</sup>	Illustrative cost:income ratio: ~100% <sup>(1)</sup>
<ul style="list-style-type: none"> <li>■ Returns benefiting from ongoing Irish macro recovery triggering further write-backs</li> <li>■ Cost:income ratio is unacceptably high – aim to materially reduce</li> <li>■ Accelerated reduction of tracker portfolio continues to reduce return drag</li> </ul>	<ul style="list-style-type: none"> <li>■ Great Private Banking brands, but returns are too low</li> <li>■ Targeting material productivity improvements, both on revenues and costs in the coming years</li> <li>■ Excellent opportunities to leverage off Commercial customer base</li> </ul>	<ul style="list-style-type: none"> <li>■ CIB Go-Forward is undergoing a multi-year transformation</li> <li>■ Income is broadly in line with expectations given the reduction in scale and scope</li> <li>■ CIB Go-Forward will require re-platforming of a substantial part of its IT infrastructure in order to operate the franchise at a materially lower cost structure</li> </ul>

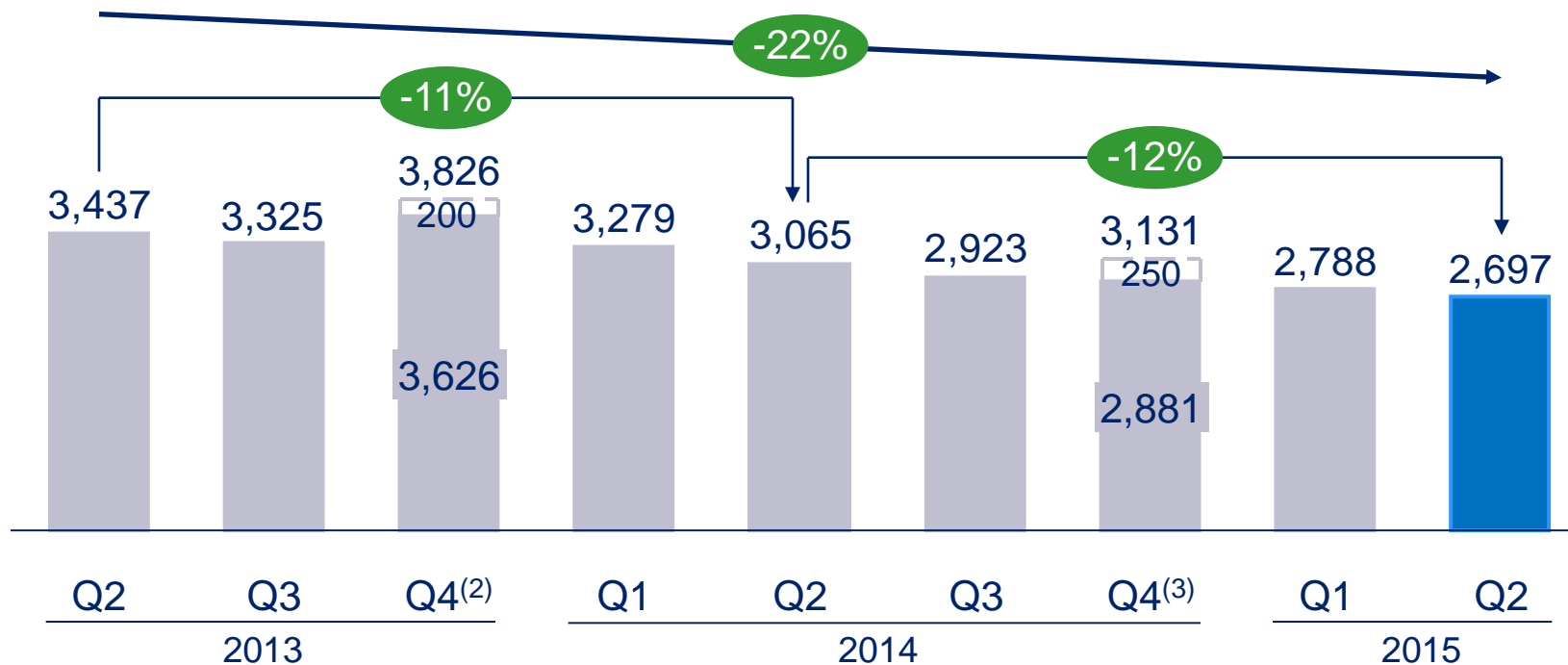
<sup>(1)</sup> Adjusted costs excluding restructuring and litigation and conduct costs.

# Our Go-Forward Bank Operating costs



Quarterly adjusted cost reduction progression (£m) <sup>(1)</sup>

Bank levy



<sup>(1)</sup> Adjusted costs excluding restructuring and conduct and litigation. <sup>(2)</sup> Q4 2013 includes bank levy charge of £200m. Additionally, Q4 2013 was adversely affected by intangible asset write-offs of £344m.

<sup>(3)</sup> Q4 2014 includes bank levy charge of £250m.

# Our Go-Forward Bank

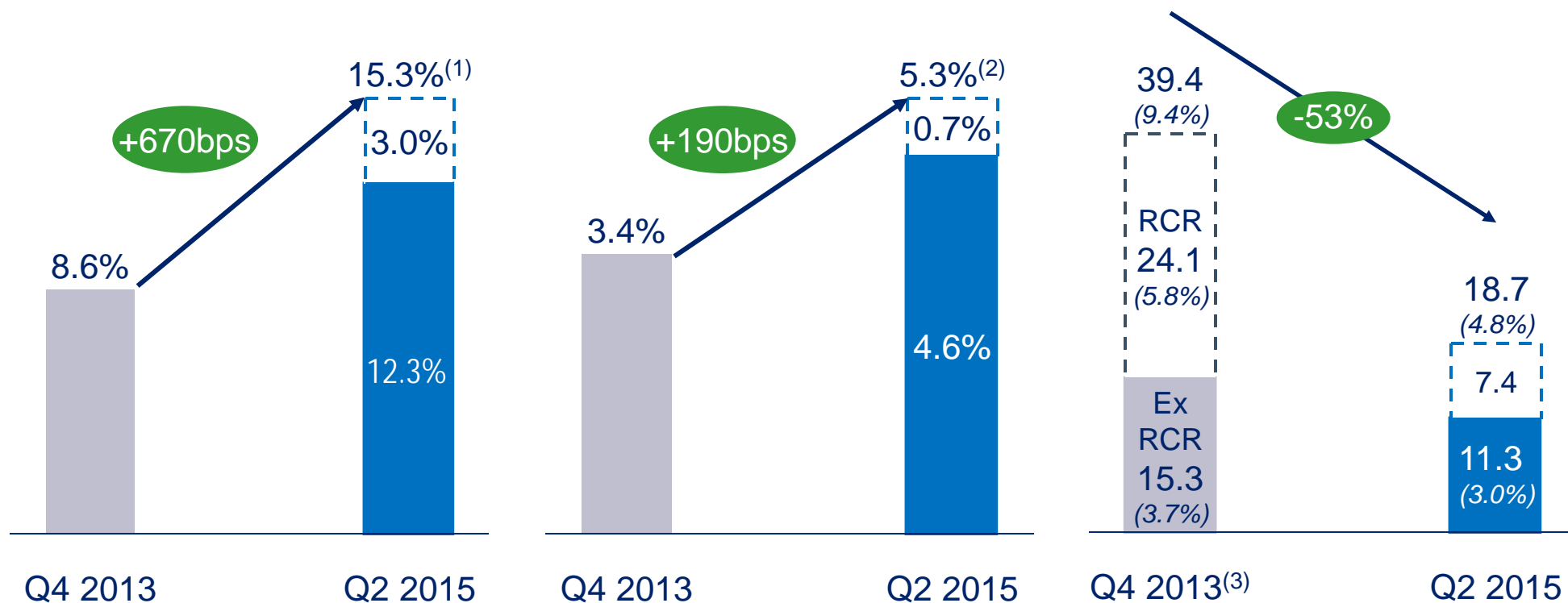
## Capital and balance sheet resilience



CET1 Ratio: 13% Target

Leverage Ratio

Non-Performing Loans £bn  
(Risk Elements in Lending)  
(as % of Gross L&As)



<sup>(1)</sup> Pro-forma impact of the full disposal of Citizens at 30 June 2015. Assumes full removal of RWAs excluding operational risk and, for simplicity, no capital gains or losses assumed. <sup>(2)</sup> Pro-forma basis, assuming the divestment of Citizens and including the benefit of AT1 issuance. <sup>(3)</sup> RCR was created on 1<sup>st</sup> January 2014. Q4 2013 assumes the numbers have not moved between the 31<sup>st</sup> December 2013 and 1<sup>st</sup> January 2014.

# Forecast financial impacts of our plan



Cost structure	<ul style="list-style-type: none"><li>▪ Target cost: income ratio &lt;50% by 2019</li><li>▪ Achieved by a combination of CIB restructuring, substantial reduction in RCR / CIB Capital Resolution running costs and core bank cost efficiencies</li></ul>
CIB	<ul style="list-style-type: none"><li>▪ Targeting cost-of-equity or above returns in the medium-term</li><li>▪ Circa £30bn of end-state RWAs</li><li>▪ £1.3bn 2015 run-rate revenues (ex. £400m revenues and £9bn of RWAs in process of transferring to Commercial Banking)</li></ul>
Restructuring costs	<ul style="list-style-type: none"><li>▪ £5bn pre-tax from 2015-2018, of which £1.5bn incurred in H1 2015<ul style="list-style-type: none"><li>- &lt;£2bn for Williams &amp; Glyn and ring-fencing</li><li>- &gt;£3bn for CIB restructuring and core bank transformation</li></ul></li><li>▪ Planning for higher restructuring costs over next 4 quarters</li></ul>
Losses-on-disposal from RCR / CIB Capital Resolution	<ul style="list-style-type: none"><li>▪ RCR: minimal remaining losses expected to achieve target 15% of starting funded assets</li><li>▪ CIB Capital Resolution: £1.5bn of disposal losses; of which £141m incurred in H1 2015 (Q2: £113m)</li></ul>

## **Targeting a materially cleaner equity story by end 2016**

- Accelerating Exit Bank wind-down while preserving value
- Progressing our restructuring and investment plans
- Focused on addressing our conduct and litigation overhang

## **Capital distribution targeted Q1 2017**

- Capital resilience materially improving – clear path to resuming dividends / buybacks
- Targeting Q1 2017 to re-start capital distributions through a combination of dividends and buybacks<sup>(1)</sup>

## **Strong Go-Forward Bank**

- Strong UK/Irish customer franchises capable of generating attractive risk adjusted returns above the cost of equity
- Building value through a focus on improved customer service and enhanced growth

<sup>(1)</sup>Subject to PRA approval.

# Q&A



# 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) transformation plan (which includes RBS's 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of Citizens Financial Group, Inc. ("CFG") and Williams & Glyn, RBS's information technology and operational investment plan, the proposed restructuring of RBS's CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime, together the "Transformation Plan"), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capital (TLAC), minimum requirements for eligible liabilities (MREL), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, anticipated AT1 and other capital raising plans, funding and risk profile; 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 RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; investigations relating to business conduct and the costs of resulting customer redress and legal proceedings; RBS's future financial performance; the level and extent of future impairments and write-downs; and RBS's exposure to political risks, 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 2014 Annual Report and Accounts and the 2015 Interim Results. These include the significant risks for RBS presented by the execution of the Transformation Plan; RBS's ability to successfully implement the various initiatives that are comprised in the Transformation Plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the Transformation Plan as a viable, competitive, customer-focused and profitable bank; RBS's ability to achieve its capital targets which depend on RBS's success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the Transformation Plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of 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; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact RBS including a possible referendum on the UK's membership of the EU and the consequences arising from it; operational risks that are inherent in RBS's business and that could increase as RBS implements its Transformation Plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default or exit by certain countries in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain 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 regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; 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; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies and continued prolonged periods of low interest rates; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets; 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; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and RBS 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 document 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.