

# 2015 Annual Results Fixed Income Investor Presentation

26 February 2016



# Ewen Stevenson

Chief Financial Officer

**Determined to build a great customer bank**

**Strong performance against 2015 targets**

**In 2016, targeting stabilising revenues and positive jaws – in core franchises**

**Continue to address key issues to be able to return to shareholder distributions<sup>(1)</sup>**

# FY 2015 results



(£bn)	Core businesses							Other				Total RBS
	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	CIB	Total Franchises	Capital Resolution	W&G	Central items & other <sup>(4)</sup>	Total Other	
Adj. Income <sup>(2)</sup>	5.2	0.6	3.3	0.6	0.4	1.4	11.4	0.4	0.8	0.4	1.6	13.0
Adj. Operating expenses <sup>(3)</sup>	(3.0)	(0.4)	(1.8)	(0.5)	(0.2)	(1.5)	(7.4)	(1.5)	(0.4)	(0.1)	(1.9)	(9.4)
Impairment (losses) / releases	0.0	0.1	(0.1)	(0.0)	0.0	0.0	0.1	0.7	(0.0)	(0.1)	0.7	0.7
Adj. operating profit <sup>(2,3)</sup>	2.2	0.3	1.4	0.1	0.2	(0.1)	4.1	(0.4)	0.5	0.3	0.3	4.4
Funded Assets	143.9	21.2	133.5	17.0	23.1	103.3	442.0	53.4	24.1	33.4	110.9	552.9
Net L&A to Customers	119.8	16.7	91.3	11.2	7.3	16.1	262.4	23.6	20.0	2.0	45.6	308.0
Customer Deposits	137.8	13.1	88.9	23.1	21.3	5.7	289.9	26.0	24.1	6.0	56.1	346.0
RWAs	33.3	19.4	72.3	8.7	8.3	33.1	175.1	49.0	9.9	8.6	67.5	242.6
Adj. RoE (%) <sup>(2,3,5)</sup>	26.2%	10.6%	10.9%	4.9%	18.9%	(2.0%)	11.2%	n.m.	n.m.	n.m.	n.m.	11.0%
Adj. Cost : Income ratio (%) <sup>(2,3)</sup>	58%	78%	55%	80%	43%	104%	65%	n.m.	43%	n.m.	n.m.	72%

# Balance sheet – resilience

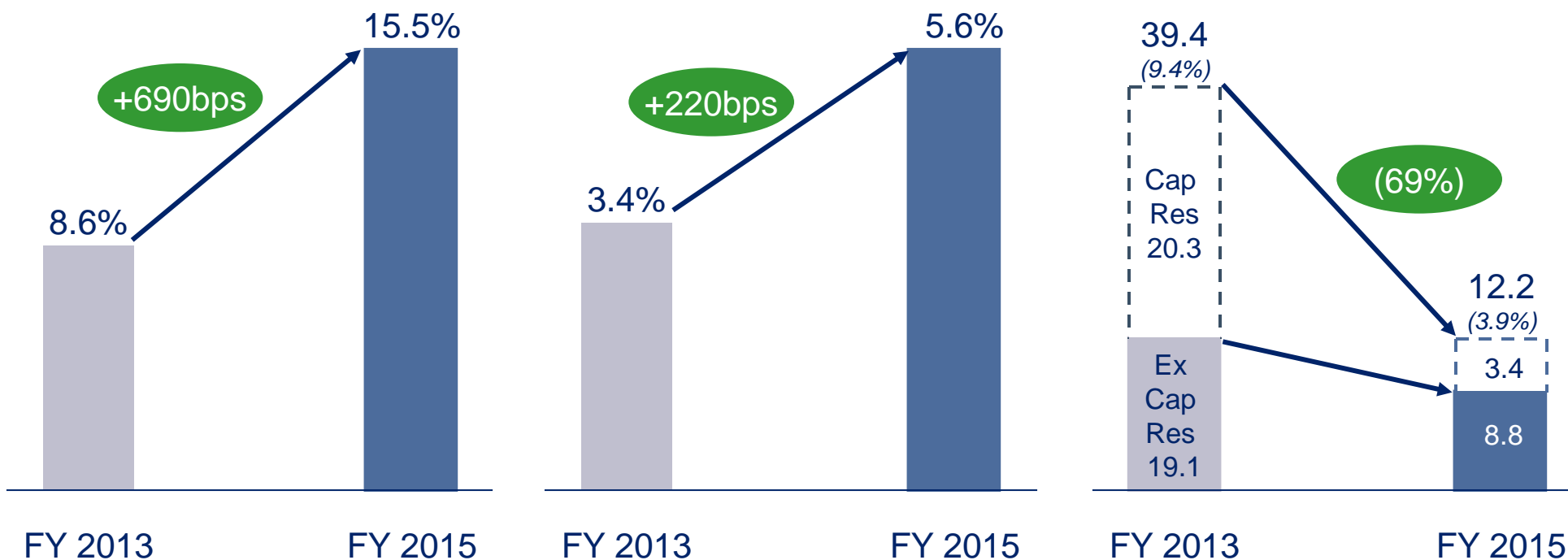


CET1 Ratio: 13% Target

Leverage Ratio

REILs (£bn)

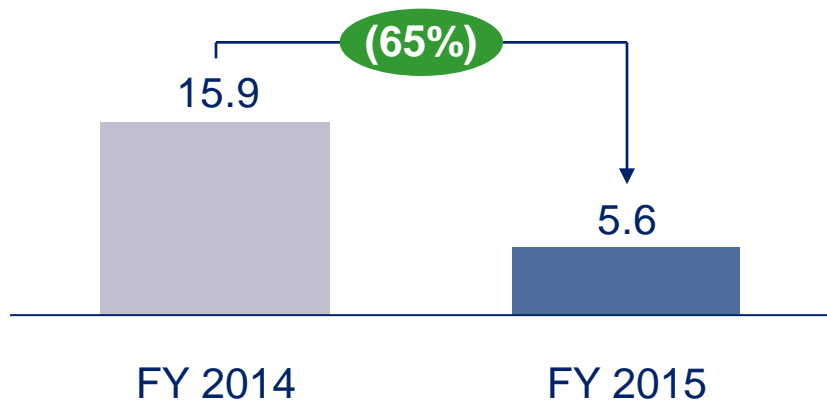
(as % of Total Gross L&As)



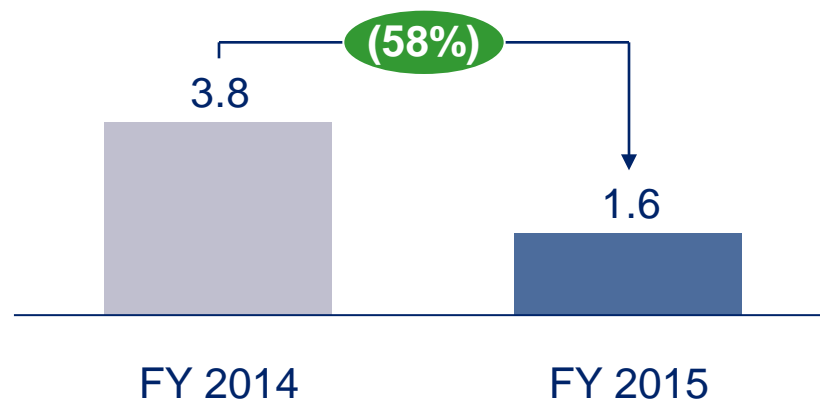
- Excluding Capital Resolution REILs were 3.0% of Total Gross L&As (Ex Capital Resolution) at FY 2015

# Balance sheet – selected exposures

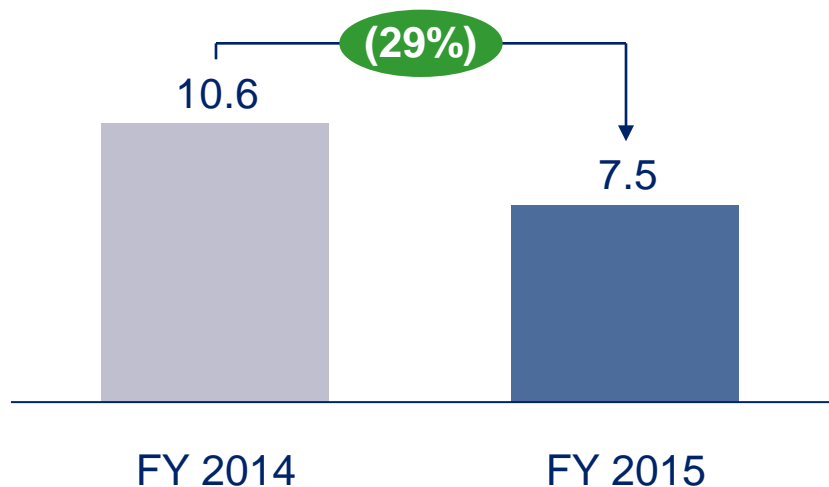
## Oil & Gas (£bn)<sup>(6)</sup>



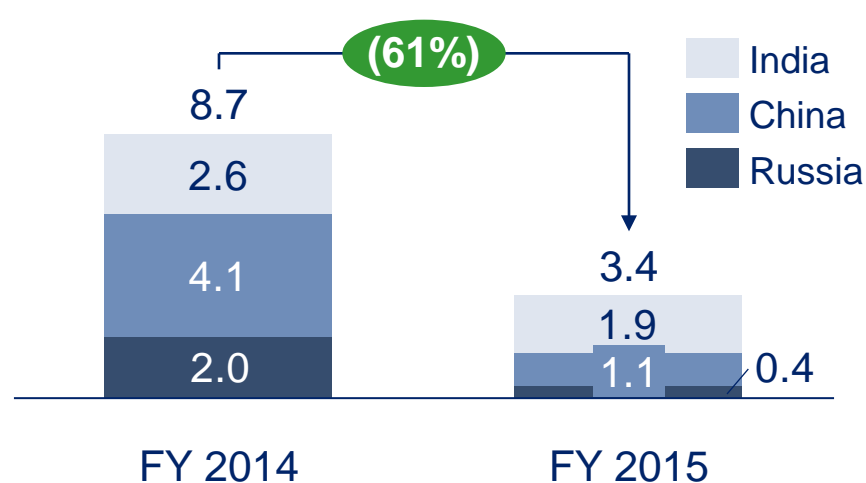
## Mining and Metals (£bn)<sup>(6)</sup>



## Shipping (£bn)<sup>(6)</sup>



## Emerging Markets (£bn)<sup>(7)</sup>



# Legacy businesses & portfolios

## Targeting further material reduction by Q4 2016



(£bn)	RWAs FY 2014	RWAs FY 2015	2015	2016 plans
CIB Capital Resolution <sup>(8)</sup>	67.2	33.6	<ul style="list-style-type: none"> <li>Exceeded £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>
Holding in Saudi Hollandi Bank	5.9	6.9		<ul style="list-style-type: none"> <li>40% shared holding<sup>(9)</sup> Exit timing to be confirmed</li> </ul>
RCR	22.0	8.5	<ul style="list-style-type: none"> <li>Wind-down to below 15% of initial funded assets (£5.7bn)</li> </ul>	<ul style="list-style-type: none"> <li>RCR now closed, residual assets now merged into Cap Res</li> </ul>
<b>Capital Resolution</b>	<b>95.1</b>	<b>49.0</b>	<ul style="list-style-type: none"> <li><b>Capital Resolution was down £46.1bn</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Expected to reduce RWAs to around £30bn by the end of 2016</b></li> </ul>
<i>Other:</i>				
Citizens	68.4	4.9	<ul style="list-style-type: none"> <li>Sold-down from 70.3% to 0%</li> </ul>	<ul style="list-style-type: none"> <li>Release £4.9bn of operational risk RWAs</li> </ul>
Williams & Glyn	10.1	9.9	<ul style="list-style-type: none"> <li>Banking licence application</li> </ul>	<ul style="list-style-type: none"> <li>On-going preparations for 2017 separation &amp; exit</li> </ul>
International Private Banking	2.2	1.5	<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 expected early Q2 2016</li> </ul>
<b>Total</b>	<b>175.8</b>	<b>65.3<sup>(10)</sup></b>		

# US RMBS litigation, Governmental and regulatory investigations



	Comments	FY 2015 balance sheet provision (£bn)
Civil Litigation	<ul style="list-style-type: none"> <li>More than 20 lawsuits outstanding involving the issuance of approximately \$43bn<sup>(11)</sup> (original principal balance) of mortgage-backed securities</li> <li>FHFA (Connecticut) – \$32bn</li> <li>NCUA Cases – \$3.25bn</li> <li>Other claims (including Novastar class action and FHFA v. Nomura/RBS), related to approx. \$7.8bn of RMBS (original principal balance)</li> </ul>	\$5.6bn (£3.8bn)
US Department of Justice	<ul style="list-style-type: none"> <li>Active criminal and civil investigations by the DoJ continue</li> </ul>	None
State Attorneys General	<ul style="list-style-type: none"> <li>Active investigations by several State Attorneys General and agencies continue</li> </ul>	None

Please refer to Note 3 “Provisions for liabilities and charges” in the Annual Results 2015 for further information

Note: RBS Securities Inc. intends to pursue a contractual claim for indemnification against Nomura (of \$383m) with respect to any losses it suffers as a result of this matter.



# John Cummins

Treasurer

**Strong funding and liquidity metrics maintained**

**Good progress in CET1 ratio build**

**Manageable MREL issuance requirements**

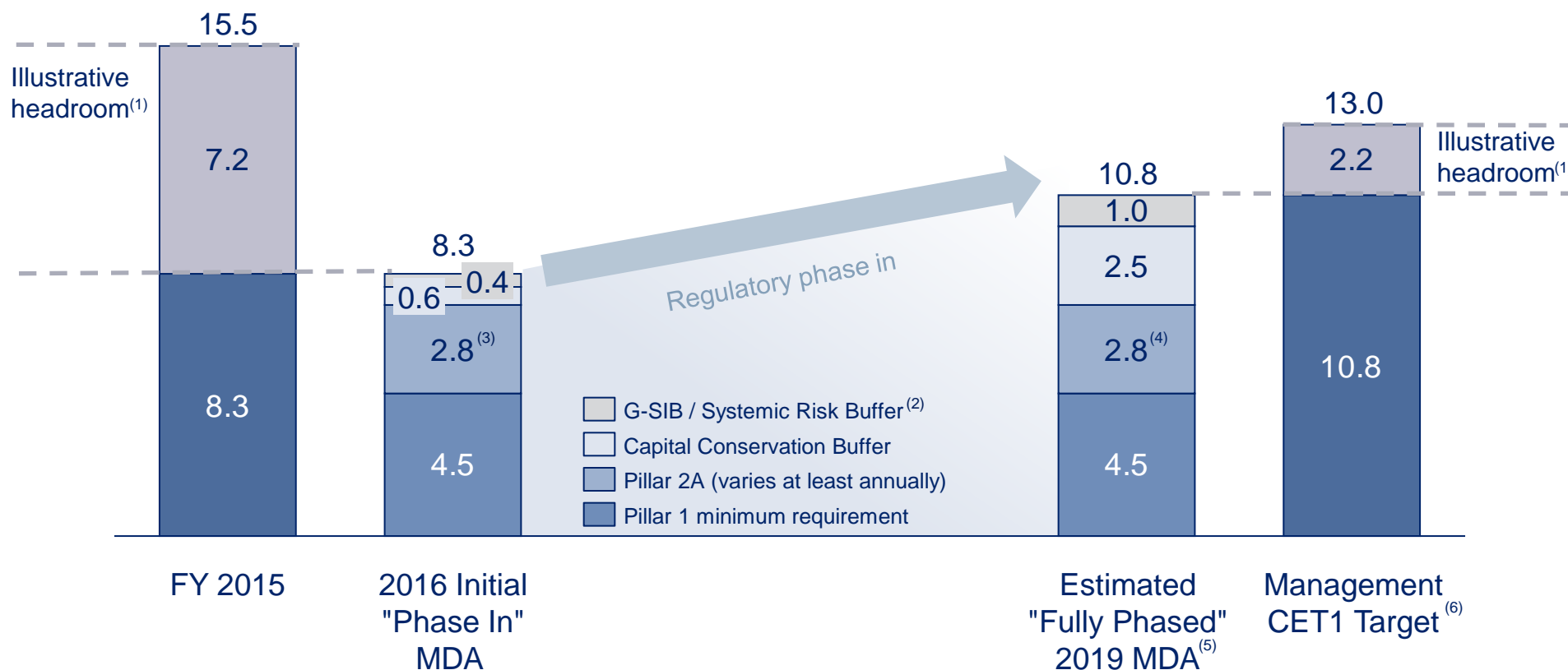
**Target ~£2bn AT1 and ~£3-5bn Senior issuance in 2016<sup>(1)</sup>**

	FY 2015	FY 2014
Loan : deposit ratio	89%	95%
Short-term wholesale funding	£17bn	£28bn
Liquidity portfolio	£156bn	£151bn
Liquidity coverage ratio	136%	112%
Net stable funding ratio	121%	112%
Stressed outflow coverage	227%	186%

# Current assessment of appropriate buffers

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

Illustration, based on assumption of static regulatory requirements<sup>(4)</sup>



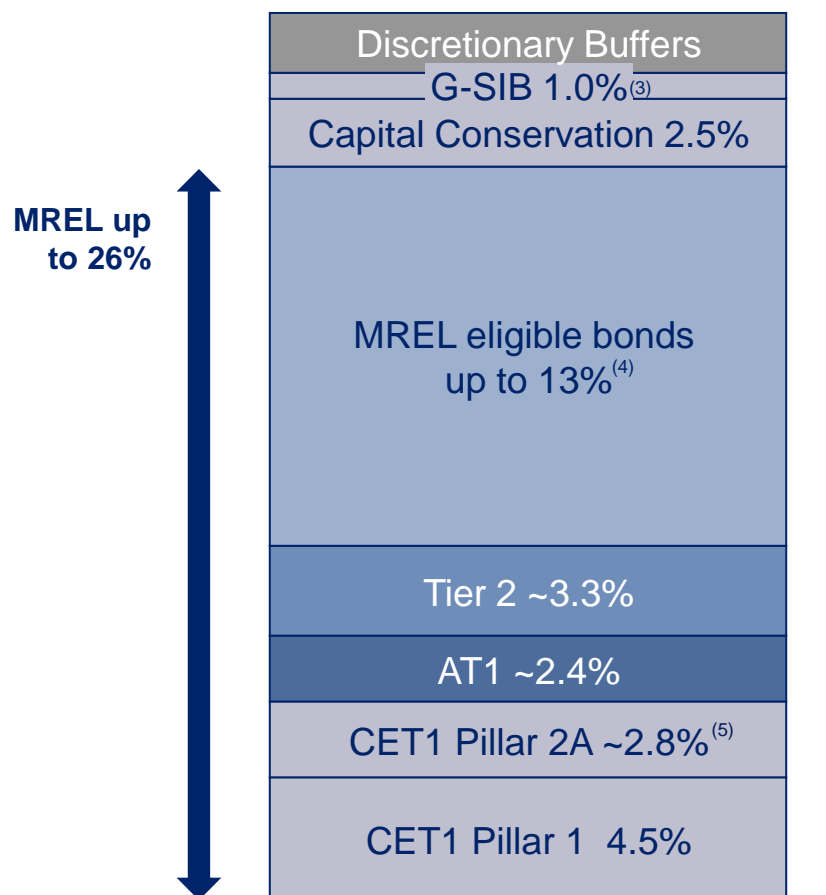
■ FY 2015 RBSG (HoldCo) Distributable Reserves £16.3bn vs £17.5bn at FY 2014<sup>(7)</sup>

<sup>(1)</sup> Headroom may vary over time and may be less in future. <sup>(2)</sup> 2016 G-SIB initial phase-in based on 1.5% current requirement. RBS' G-SIB requirement will reduce to 1.0% on 1 Jan 2017. <sup>(3)</sup> RBS's Pillar 2A requirement was 5.0% of RWAs as at 31 December 2015. 56% of the total Pillar 2A requirement, or 2.8% of RWAs, must be met from CET1 capital. <sup>(4)</sup> 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. Following our announced changes to pension accounting and planned scheme contributions in response to amendments to IFRIC 14, RBS anticipates a reduction in RBS's future core capital requirements. The timing of any such core capital offsets are likely to occur at the earliest 1 January 2017 and will depend on the PRA's assessment of RBS's core capital position in future. <sup>(5)</sup> Assumes no material Counter Cyclical Buffer requirement. <sup>(6)</sup> Based on 13% CET1 target during the period of CIB restructuring. <sup>(7)</sup> Please refer to Note 1 on page 359 of the Annual Report and Accounts.

# Sizing future capital / funding requirements

## Illustrative future loss absorbency requirements<sup>(1)</sup>

Scaled to Minimum Requirements for Own Funds and Eligible Liabilities (“MREL”) based on Bank of England Consultation<sup>(2)</sup>



- £2bn AT1 issuance targeted for 2016, subject to market conditions
- No Tier 2 issuance plans in 2016 given outstanding pool
- MREL expected to exceed TLAC<sup>(6)</sup>, final requirements subject to regulatory finalisation and completion of resolution plans
- Target building MREL compliant Senior ‘HoldCo’ issuance
  - £3-5bn issuance targeted for 2016<sup>(7)</sup>

<sup>(1)</sup> Assumes PRA buffer (Pillar 2B) not being in excess of Systemic Risk / G-SIB & Capital Conservation Buffer and no material Counter Cyclical Buffer. Requirements expected to change over time. <sup>(2)</sup> Based on RBS interpretation of the BoE consultation published on 11 December 2015. MREL policy and requirements remain subject to further consultation. RBS estimated requirements remain subject to change. <sup>(3)</sup> G-SIB requirement currently 1.5%, will reduce to 1.0% on 1 Jan 2017. <sup>(4)</sup> Based on twice Pillar 1 and Pillar 2A requirements at a total capital level, subject to regulatory discretion. <sup>(5)</sup> RBS’s Pillar 2A requirement was 5.0% of RWAs as at 31 December 2015. 56% of the total Pillar 2A requirement, or 2.8% of RWAs, must be met from CET1 capital. 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. Following our announced changes to pension accounting and planned scheme contributions in response to amendments to IFRIC 14, RBS anticipates a reduction in RBS’s future core capital requirements. The timing of any such core capital offsets are likely to occur at the earliest 1 January 2017 and will depend on the PRA’s assessment of RBS’s core capital position in future. <sup>(6)</sup> Total Loss Absorbing Capacity requirements for G-SIB’s. <sup>(7)</sup> Subject to market conditions.

# Estimated LAC position



## FY 2015 Estimated Loss Absorbing Capital (“LAC”) position <sup>(1)</sup>

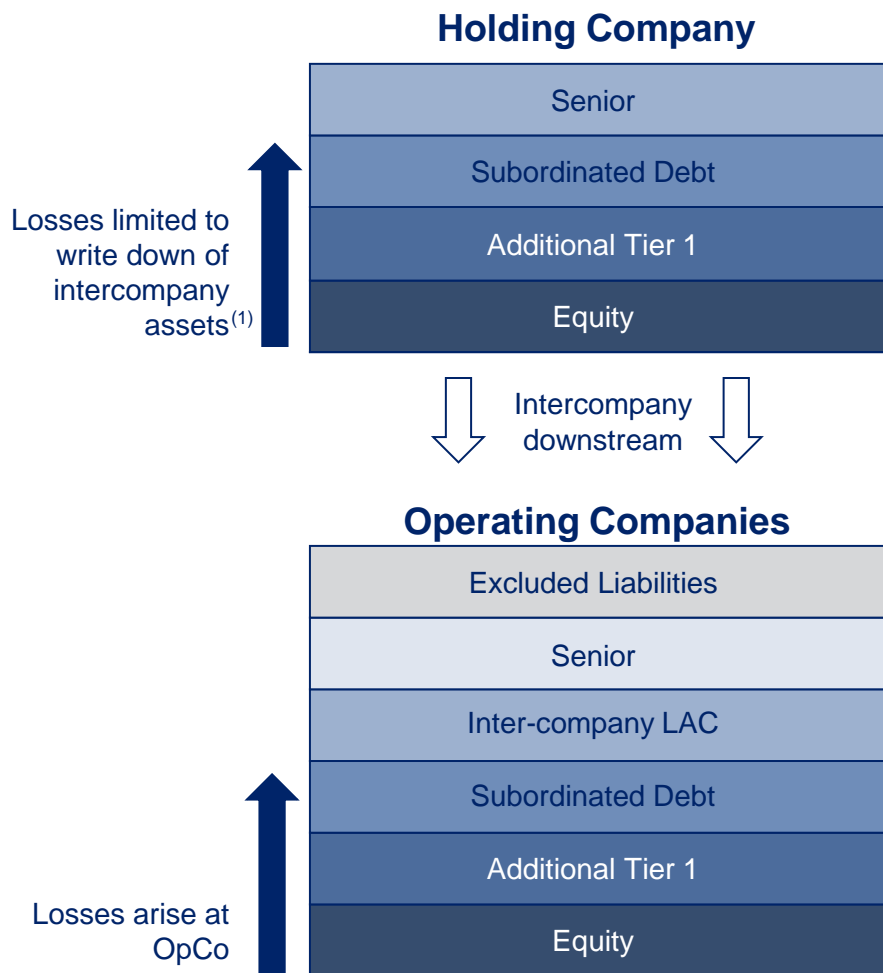
£'bn	LAC value <sup>(1)</sup>	Regulatory Value <sup>(2,3)</sup>	Par Value <sup>(4)</sup>
<b>Common Equity Tier 1 Capital <sup>(5)</sup></b>	<b>37.6</b>	<b>37.6</b>	<b>37.6</b>
<b>Tier 1 Capital: End point CRR compliant AT1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<i>o/w RBS Group Plc (HoldCo)</i>	2.0	2.0	2.0
<i>o/w RBS Operating Subsidiaries (OpCo's)</i>	-	-	-
<b>Tier 1 Capital: End point CRR non-compliant</b>	<b>4.9</b>	<b>8.4</b>	<b>8.5</b>
<i>o/w HoldCo</i>	4.6	5.9	6.0
<i>o/w OpCos</i>	0.3	2.5	2.5
<b>Tier 2 Capital: End point CRR compliant</b>	<b>9.9</b>	<b>9.5</b>	<b>10.9</b>
<i>o/w HoldCo</i>	4.4	5.7	5.8
<i>o/w OpCos</i>	5.5	3.8	5.1
<b>Tier 2 Capital: End point CRR non-compliant</b>	<b>3.0</b>	<b>3.2</b>	<b>3.6</b>
<i>o/w HoldCo</i>	0.1	0.2	0.3
<i>o/w OpCos</i>	2.9	3.0	3.3
<b>Senior unsecured debt securities</b>	<b>2.9</b>	<b>-</b>	<b>22.6</b>
<i>o/w HoldCo</i>	2.9	-	4.9
<i>o/w OpCos</i>	-	-	17.7
<b>Total LAC</b>	<b>60.3</b>	<b>60.7</b>	<b>85.2</b>
<b>LAC as a ratio of RWAs</b>	<b>24.9%</b>		

<sup>(1)</sup> 'LAC value' reflects RBS's interpretation of the 9 November 2015 FSB Term Sheet on TLAC and the BoE's consultation on their approach to setting MREL, published on 11 December 2015. MREL policy and requirements remain subject to further consultation, as such RBS estimated position remain subject to change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the TLAC/MREL criteria. <sup>(2)</sup> Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the TLAC/MREL criteria. <sup>(3)</sup> Regulatory amounts reported for Additional Tier 1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR. <sup>(4)</sup> Par value reflects the nominal value of securities issued. <sup>(5)</sup> Corresponding shareholders' equity was £53.4bn.

# Prospective implementation of UK resolution

## Illustrative anticipated UK creditor hierarchy

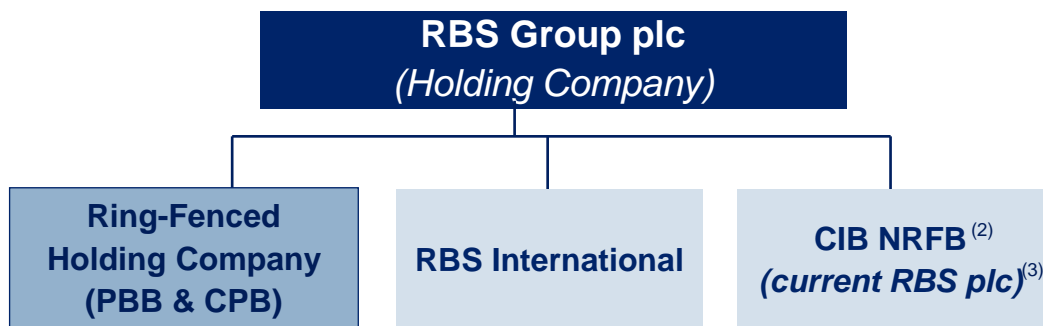
Based on RBS interpretation of the creditor hierarchy in a resolution scenario



- Losses will arise first at ‘OpCo’ level and only apply at ‘HoldCo’ to the extent of any write-down of its intercompany assets
- ‘No creditor worse off’ principle enshrined in the UK resolution regime
- If required for LAC purposes, Senior is expected to be downstreamed in a form subordinated to OpCo senior, thus complying with any TLAC / MREL requirement
- Future LAC downstreaming not planned to commence prior to completion of legal entity realignment for Ring Fencing

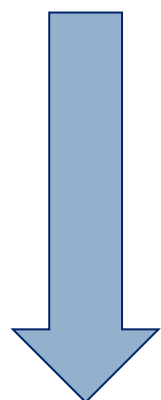
<sup>(1)</sup> The write-down of the intercompany assets will be determined by the relevant authority following valuations conducted per BRRD Article 36.

## Target organisational structure <sup>(1)</sup>



- ~80% of RWAs expected to be committed to Ring-Fenced Bank <sup>(4)</sup>
- ~15% RWAs in CIB NRFB. Target well capitalised entity with an investment grade credit rating <sup>(4)</sup>
- Overall group supported by Bank-wide service platform and functions
- Future LAC downstreaming not planned to commence prior to completion of legal entity realignment for Ring-Fencing

## Implementation timeline



- Submitted updated ring-fencing plans to regulator Jan 2016
- Final ring-fencing rules anticipated summer 2016
- Legal entity restructuring, including establishment of Ring-Fenced Bank holding company, to begin H2 2016
- Regular Rating Agency engagement anticipated throughout process
- Indicative financials for new legal entities anticipated prior to full implementation
- **Target operational compliance ahead of 1 Jan 2019 implementation**

<sup>(1)</sup> The proposed future ICB structure comprises part of the preliminary plan submitted to the PRA in January 2016 and is subject, amongst other matters, to (i) further analysis and possible amendment following discussions with the PRA and finalisation of the ring-fencing legislation and the PRA ring-fencing rules, (ii) all applicable regulatory and other approvals and (iii) employee consultation procedures.

<sup>(2)</sup> Non-Ring Fenced Bank. <sup>(3)</sup> RBS plc will own most of our activities outside the ring-fence - primarily our Markets business (Rates, Currencies, DCM) and some corporate activity, as well as our US broker-dealer, RBSSI.

<sup>(4)</sup> Based on RBS future business profile business and excludes RBS Capital Resolution.



# Q&A

# Footnotes to Ewen Stevenson's section



- (1) Earliest possible timing is likely to be after Q1 2017, subject to Board and PRA approval. Key milestones before seeking PRA approval for capital distributions would include, among other considerations, maintaining the 13% CET1 ratio target, passing regulatory capital requirements, pass 2016 Bank of England stress test (including Individual Capital Guidance hurdle) and operating within capital risk appetite, peak of litigation and conduct costs passed including US RMBS, confidence in sustainable profitability, and Williams & Glyn exit assured.
- (2) Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals.
- (3) Excluding restructuring costs, litigation and conduct costs and write-down of goodwill.
- (4) Central items include unallocated costs and assets which principally comprise volatile items under IFRS and balances in relation to Citizens and International Private Banking.
- (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 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 (RWAes). This notional equity was previously 13% for all segments. In addition, due to changes in UK tax rules enacted in the Finance Act 2015, RBS has increased its longer-term effective 31 December tax rate. The notional tax rate used in the segmental ROE has been revised from 25% to 28% (Ulster Bank Rol - 15%; RBS International - 10%). RBS's forward planning tax rate is 26%.
- (6) EAD (Exposure at default) basis.
- (7) Total exposure includes committed but undrawn facilities.
- (8) Excluding Saudi Hollandi Bank.
- (9) Official holding by RBS NV. This holding is owned jointly with Santander and the Dutch State. RBS's economic interest is ~15%.
- (10) Excluding £2.2bn of items held in Centre.
- (11) RBS potential exposure in each case is not directly proportionate to the original principal balance of MBS in dispute.

# 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) restructuring (which includes, the separation and divestment of Williams & Glyn, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme), 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), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other capital raising plans, funding and credit risk profile; litigation, government and regulatory investigations 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 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 2015 Annual Report and Accounts. 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 uncertainty relating to the referendum on the UK's membership of the European Union and the consequences arising from it; the separation and 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 implementing 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 strategy to 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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