

Commercial & Private Banking (CPB)

Investor Briefing

Alison Rose, Chief Executive Officer CPB

29 September 2014

Today's speakers



Alison Rose, Chief Executive Officer CPB



Rob Whittick, Finance Director CPB



Andy Ellis, Head of Strategy CPB

Agenda

Business Overview

Commercial & Private Banking Strategy

Financial Performance & Outlook

Summary

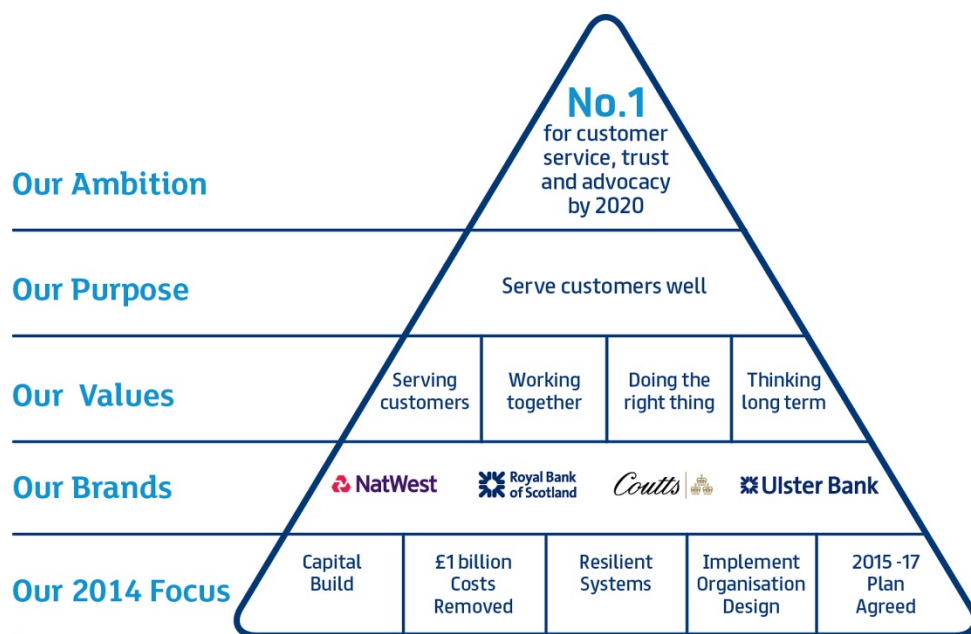
Commercial and Private Banking

- #1 UK Commercial and Private Banking franchises
- Significant and growing contribution to Bank performance
- Strong market position to benefit as UK economy grows
- Bringing together wealth creators and wealth managers
- Investing in our business for the benefit of our customers

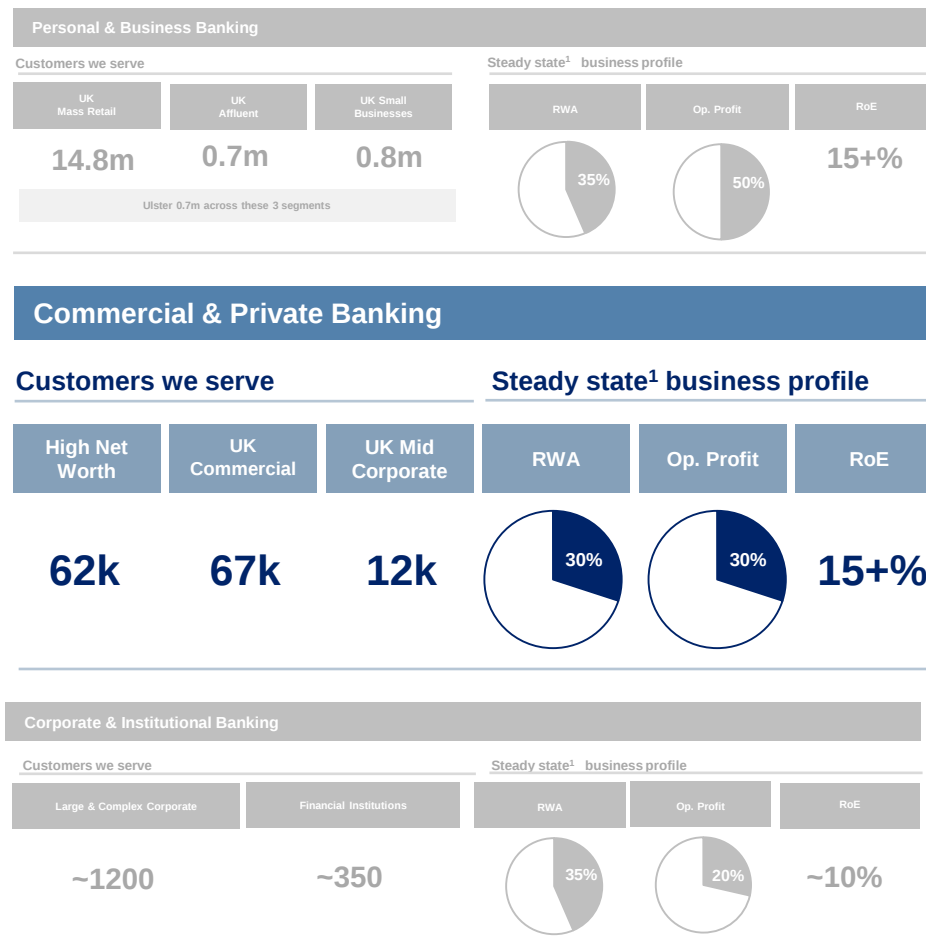
Targeting attractive returns, built on leading customer proposition and efficiency

CPB is a key pillar in the Bank's strategy

RBS blueprint for lasting success...



...for the customers we serve



Market leading franchises and clear proposition

Commercial & Private Banking

UK Commercial	UK Mid Corporate	High Net Worth
<i>Companies with turnover £2m-£25m</i>	<i>Companies with turnover £25m+</i>	<i>>£1m invested with Coutts/Adam</i>
▪ #1 UK Corporate bank: – 67k Commercial and 12k Corporate customers – 31% market share of relationships ▪ Local presence in 100+ UK locations ▪ Served by over 7k employees		▪ #1 UK private bank: – 62k UK customers – Market leading share of CAL¹ (7%) ▪ Served by over 2.5k UK employees

Relationship-led target proposition

RMs at the centre

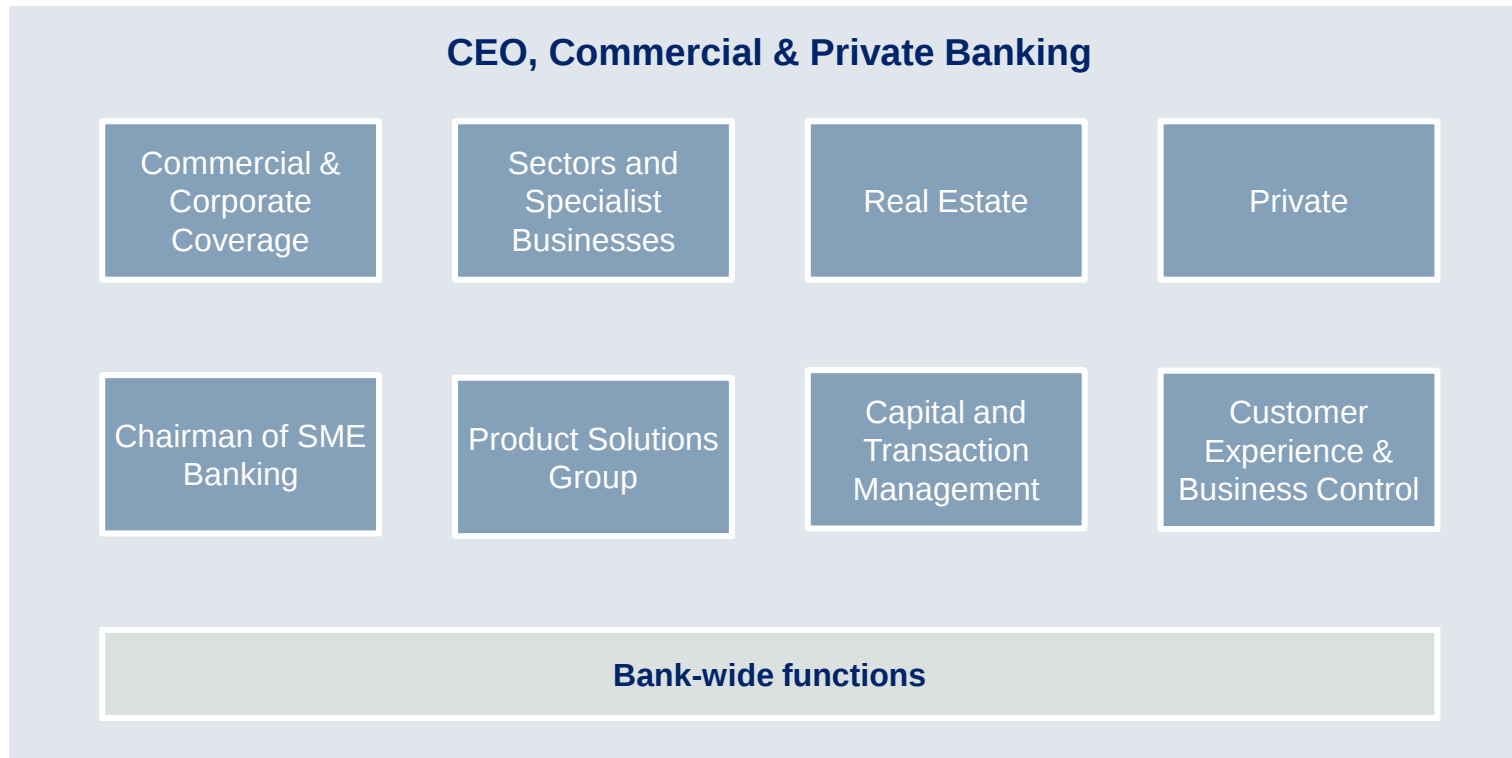
- Dedicated relationship management
- Best bankers in the market
- Serve customers with mutual long term benefits

Supported by...

- Excellent service
- Simplified set of fairly priced products
- Clear and strong brand proposition



Refreshed leadership team with deep expertise



- Average 25 years banking experience
- Balance shifted towards customer and front-line focus
- Governance and accountabilities to manage key risks streamlined and clearly defined

Customer focused strategy

#1 for customer service, trust and advocacy by 2020

Customers first

Simplicity and discipline

Winning together

Backing UK business and communities

- Customer-obsessed culture
- Anticipating needs
- Exceeding expectations
- Long term relationships

- Be easy to do business with
- Empowering our people
- Robust control environment

- Deliver value for our customers
- Improved collaboration
- Encourage and support our people

- Supporting financing needs of UK business
- Contribute to community in which we operate

Our values guide the way we do business

Early wins and comprehensive plan in place

Progress highlights

- ✓ New leadership in place
- ✓ Organisation redesigned around customer
- ✓ Governance simplified: 17 committees down to 5
- ✓ High Net Worth review complete
- ✓ Clear PBB/CPB/CIB perimeters established
- ✓ Cost quick wins: 50% reduction in management layers
- ✓ Product rationalisation underway: 120 removed from sale
- ✓ 'Simplifying customer life': 300 ideas implemented
- ✓ Revenue campaigns launched
- ✓ RM training and accreditation review complete

2014–2018 initiatives: ~£1bn investment spend

Customers first

1. Customer programme
2. Segments, analytics & profitability
3. Banker tools & capability
4. Customer channels

Simplicity and discipline

5. Simplifying customer life
6. Account opening / onboarding
7. Cost rationalisation
8. Product management

Winning together

9. Lending
10. Revenue campaigns
11. Private strategy / CPB connectivity
12. Accountability / empowerment of our people

Backing UK business and communities

13. Sustainability and diversity
14. Innovation
15. Branding
16. Entrepreneurs

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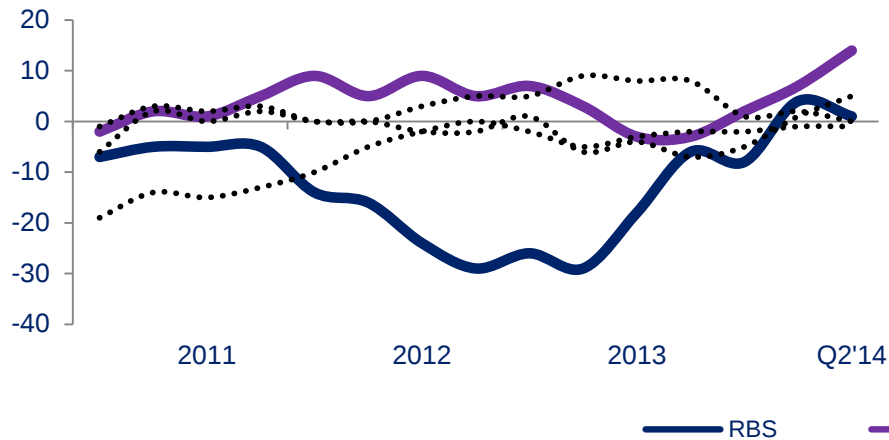
Summary

Understanding the drivers of customer advocacy

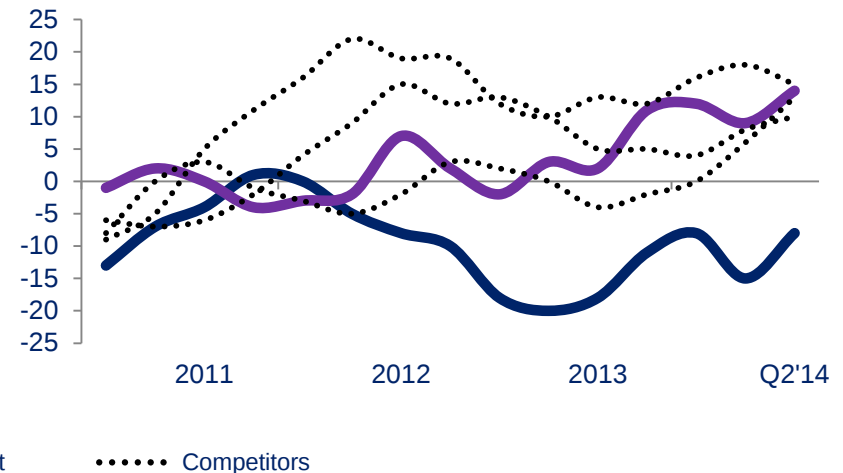
Advocacy drivers		Importance ¹		Performance		Impact on NPS ¹	
		£2-25m	£25m+	£2-25m	£25m+	'excellent'	'fair'/'poor'
	"I have an excellent RM – understands my needs and delivers benefit"	#2	#1	37% ²	34% ²	54% promoter likelihood	89% detractor likelihood
	"I get value for money – fair and clear pricing and service that reflects what I pay for"	#1	#4	11% ³	8% ³	80% promoter likelihood	71% detractor likelihood
	"You are easy to deal with – things are simple and issues are dealt with efficiently and quickly"	#3	#3	24% ⁴	17% ⁴	35% promoter likelihood	56% detractor likelihood
	"You'll support my financial needs – and bring solutions that benefit me"	#4	#2	16% ⁵	13% ⁵	69% promoter likelihood	64% detractor likelihood

Making progress on advocacy but lots to be done

NPS (£2-25m turnover)



NPS (£25m+ turnover)



- NatWest clear **market leader** but work to be done on the RBS brand
- RM satisfaction at **71%**, up 7% from 2013¹
- Poor for trust: NatWest **4th** (RBS 5th out of 5)³

- Brand differential considerable: NatWest **#2** but lots of work to be done on the RBS brand
- RM satisfaction at **86%**, up 5% from 2013²
- Rank **last** for trust overall³

Investing in our bankers to meet customer needs

1 Refresh banker cohort

- Highly experienced RMs (40% tenures of 30+ years)
 - Limited diversity (25% female)
 - Scale of network allows industry leading insight
- ➡
- Reshape RM profile to align to changing customer profile over next 3-5 years

2 Banker training

RMs are professional, well trained, focused on customer needs

**Accreditation
& Professional
Qualifications**



+

**'Needs-based'
training,
product training
and CPD¹**



- 90% RMs professionally qualified by end 2017

- All RMs to complete 'customer experience' training by end 2018

4 Banker performance

Tougher management on both skills and behaviours

**Behaviours &
operating
standards**

+

**Consistent
banker
scorecard**

+

**Individual
performance
objectives**

Underpinned by Values & Professional Standards

3 Banker tools

Supported by the right tools to do their job effectively

CRM



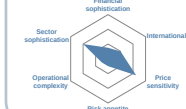
**Thought
Leadership**



**Customer
analytics**



**Customer
Needs**



Embedding good customer conduct into the culture

Conduct underpins our customer plan

23 Good Customer outcomes

	Business Model and Strategy	Product Design	Sales Process	Post-Sales Process	Governance and Culture
Conduct Principle	Our purpose is to serve customers well.	Our products are designed to meet the needs of customers at a fair price.	Our products are suitable for customers and are marketed and sold appropriately.	Our products remain appropriate for the needs of our customers.	We act in an open, direct and consistent manner.
CONDUCT OUTCOME	a) Our people are appropriately trained, managed and incentivised to serve our customers well and deliver fair outcomes. b) We do not abuse our market position to exploit customers or restrict competition. c) We manage fairly any conflicts of interest amongst our businesses, employees and customers. *CIB/CB only d) Our business model is consistent with our strategy and serving customers well. e) Changes or developments in our strategy or business model are reviewed for their impact on customers and other stakeholders. f) We identify any vulnerable customers and provide the necessary support to ensure that they receive fair outcomes.	a) The level of complexity of our products is appropriate for the target market needs and can be fully understood at the point-of-sale. b) Product profitability is fully understood and is not driven by inappropriate cross-subsidisation. c) Product design and pricing structures are transparent and fair, with no hidden charges.	a) All forms of communication are clear, fair and not misleading. b) The terms & conditions (and any associated risks) of a product are fully explained in its marketing materials or other key documentation. c) We have the necessary training, tools and, where appropriate, accreditation to identify customer needs, and provide suitable products, information, or advice. d) Any rewards focus on conduct in the best interests of customers and are in line with our values.	a) Delivery of post-sales support is in line with customer expectations. b) We monitor key market trends and notify customers of any material implications arising from actual or anticipated changes. c) There are no unreasonable barriers to change product, switch provider or to make a complaint. d) Any customer complaints are assessed and handled appropriately and in a timely manner. e) Products are regularly reviewed to ensure that they perform as designed and as customers have been led to expect.	a) Our people give consideration to the impact of their decisions and behaviours on customer outcomes and align these with purpose, vision and values. b) We act with integrity and understand and abide by the laws and regulations in each jurisdiction in which we operate. c) Our systems and procedures are reliable and ensure that all information is handled fairly, lawfully and in confidence. d) We proactively identify and protect against any known and emerging threats from financial crime. e) We act with integrity in our chosen professional markets and have strong controls to prevent market abuse.

Examples of activities

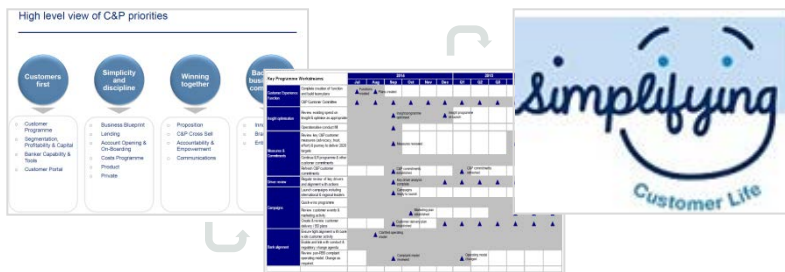
Completed

- ✓ Product governance, guidelines and tools enhanced
- ✓ Business MI developed to track against customer outcomes
- ✓ Specific Product and Pricing Committees introduced
- ✓ Good Customer Outcomes training to 6,000 staff
- ✓ Enhanced complaint handling system

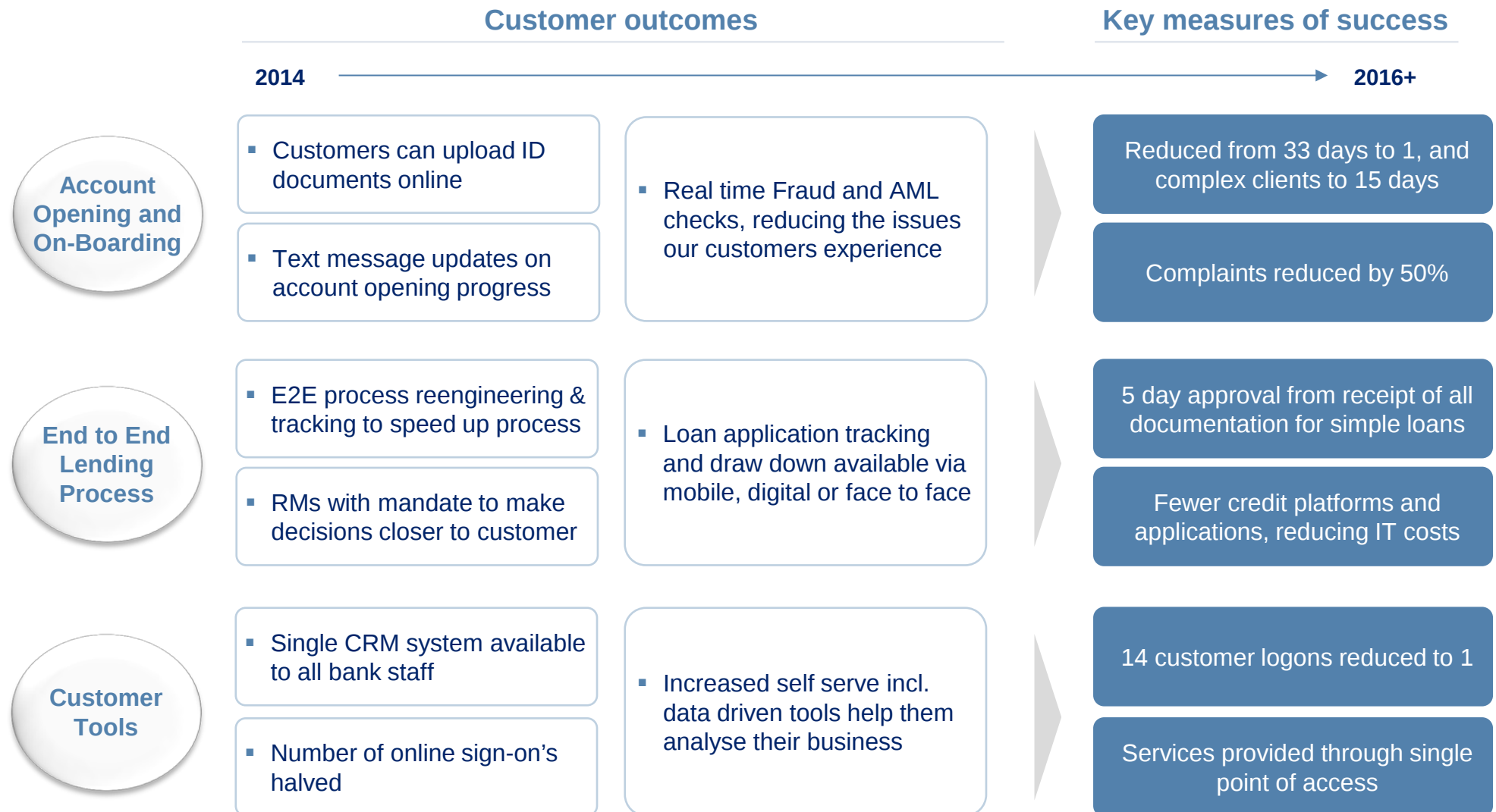
Underway

- New sales tools developed and being introduced
- Product rationalisation underway
- Customer outcomes in performance objectives by 2015
- Vulnerable Customer programme in development
- Continuous Professional Development being enhanced
- Conflicts Management continuing to be enhanced

Integrated into our Customer Plans



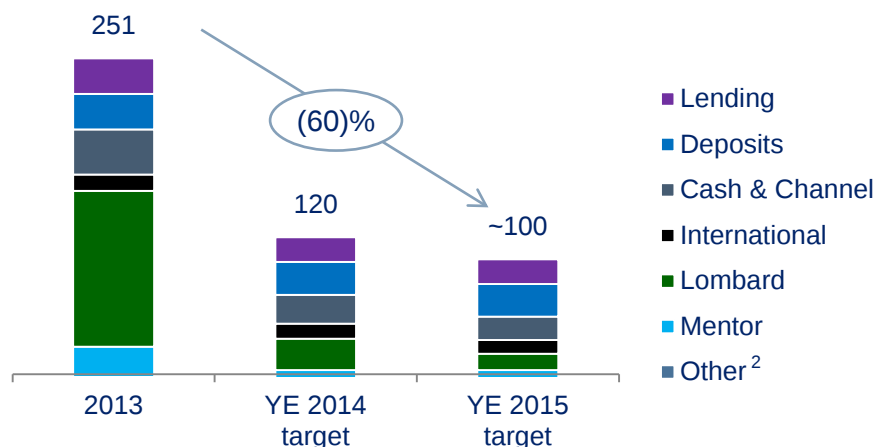
Focused on fixing basic customer processes



Simplifying our products to meet customer need

Simplifying our product set

of on-sale products¹



- Easier for frontline to match customer need to product
- Simplifies product management, process and systems
- Better customer outcomes and conduct

But retaining breadth of product capability

	RBS	Peer 1	Peer 2	Peer 3	Peer 4
Asset Finance	✓✓	✓	✓	✓	✓
Invoice Finance	✓✓	✓	✓	✓✓	✓
Transaction Services	✓✓	✓	✓✓	✓	✓
International	✓✓	✓	✓✓	✓	✓✓
Wealth	✓✓	✓✓	✓	✓	✓
FIC	✓✓	✓✓	✓✓	✓	✓

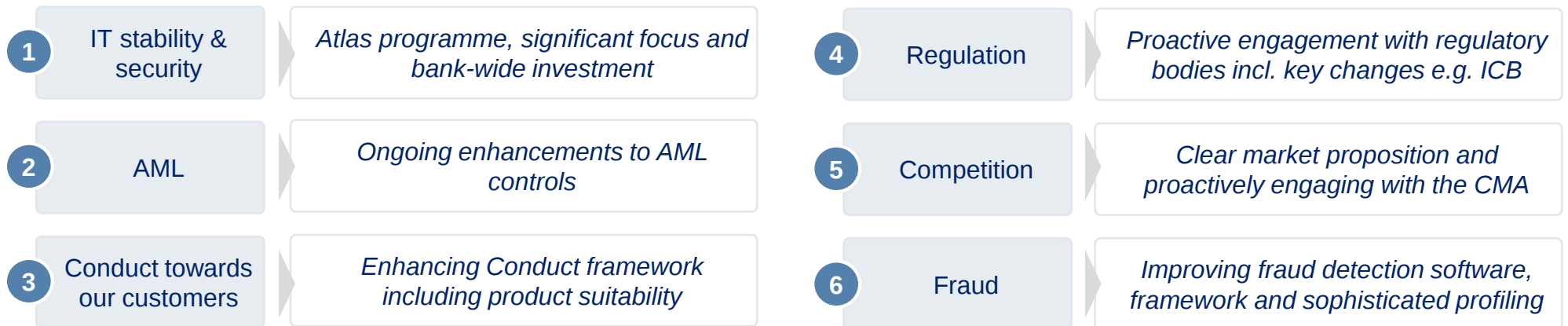
- One bank, connecting our customers across the franchises:
 - Corporate & Institutional Banking (~£200m revenue³)
 - Personal & Business Banking (~£65m revenue³)

Risk and control frameworks in place

Significantly enhanced risk management processes

- Governance and accountabilities to manage key risks streamlined and clearly defined
- Credit risk appetite (sector and asset class) and credit approval frameworks embedded enabling disciplined origination
- Operational risk framework closely managed with focus on bringing key risks within appetite
- Conduct framework continues to develop and evolve

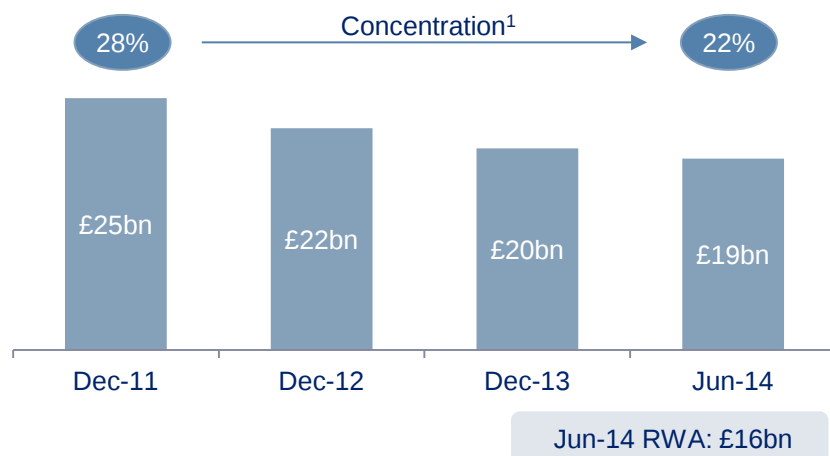
Top risks well managed and mitigated



CRE portfolio is well managed, with focus on returns

CRE balances have been tightly managed...

Gross drawn assets (£bn)



...and the risk profile enhanced²

- Through a combination of origination discipline and de-risking

	December 2011	June 2014
Loan to Value	66%	61%
Interest Cover Ratio	2.9x	4.2x

Origination discipline and sensible management to deliver a smaller, more profitable CRE business

	June 2014	Sustainable Long Term
Concentration ¹	22%	✓ 15 – 20%
Front Book RoE	~15%	✓ ~15%
Overall RoE	~8%	✓ ~15%

- Managing down legacy exposures
- Managing down Single Name Concentration excesses
- Origination discipline enhanced
- Selective re-pricing

Targeted initiatives to inject revenue momentum

Operate more effectively

Uplift **RM performance** (training, performance, tools)

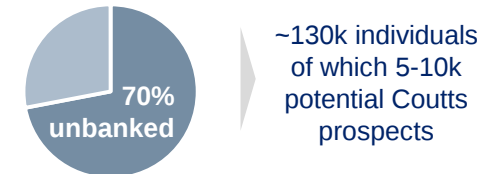


Example growth initiatives and campaigns

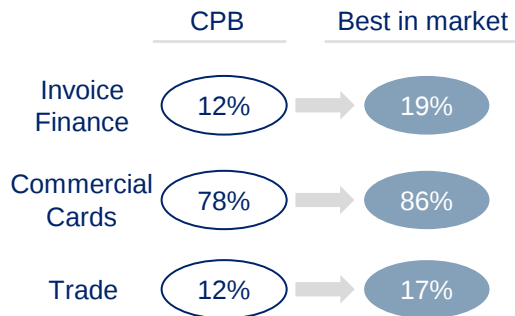
Refresh **International** proposition



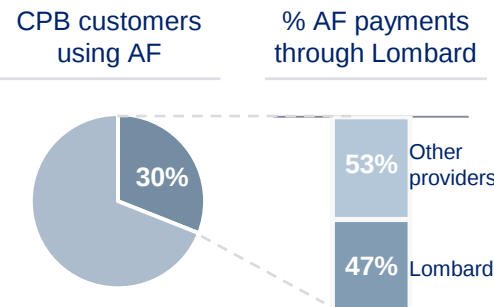
Improve Coutts / Commercial **connectivity**



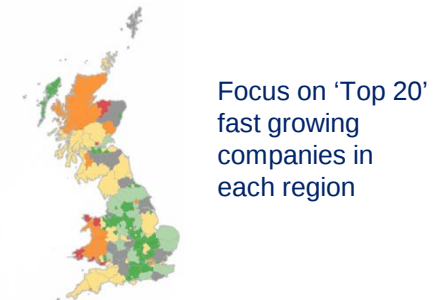
Match best-in-class **product share**



Asset Finance campaign in Lombard



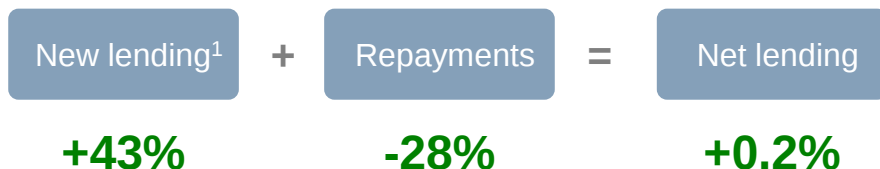
Fast tracking **regional prospects**



Higher levels of lending activity and healthy pipeline

Gross and net lending position improving

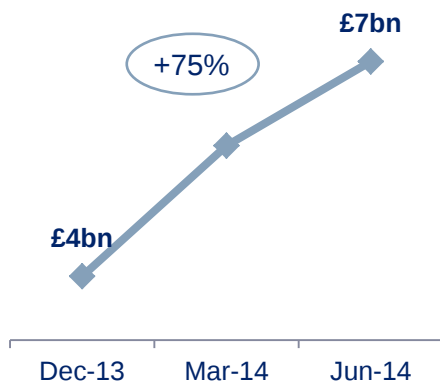
H2 2013 vs H1 2014



- M4 lending to PNFC's² fell by 2% over the same period

Pipeline indicators encouraging

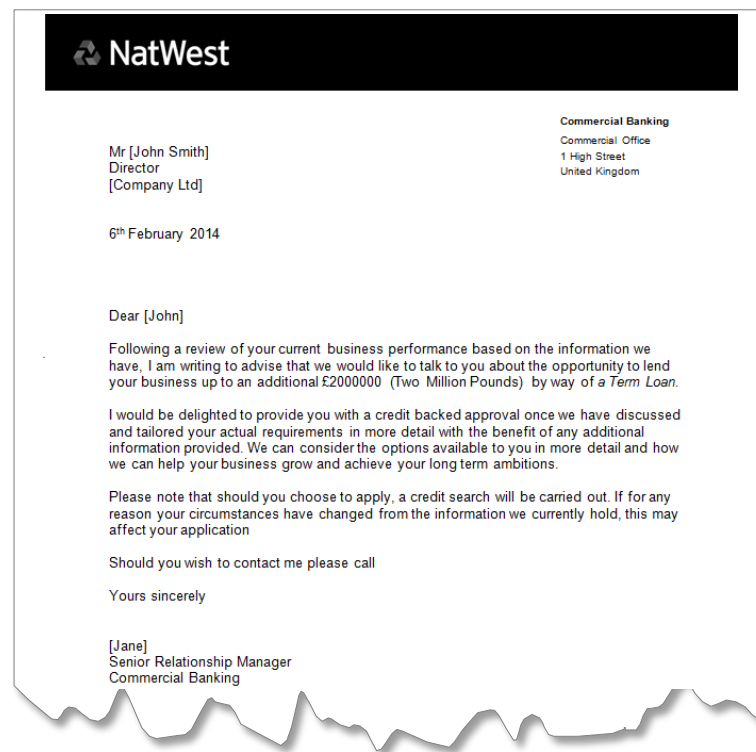
Monthly pricing approval (£bn)



- Volume of applications **+35%**
- “New to bank” lending pipeline **+17%**
- Conversion rate steady **~60%**
- Avg sanction value **+20%**

Origination activity continuing to build

- Revenue campaigns stimulating demand:
 - Key focus on sustainable lending growth
 - 17k ‘Statements of Appetite’ (~£8bn)

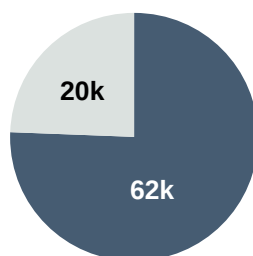
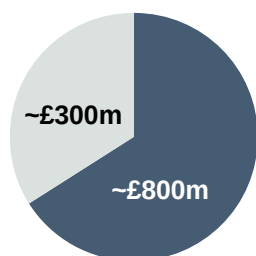


Renewed focus on UK private banking opportunity

Coutts UK is heart of the Private business

FY 13 Income: £1.1bn

Customers: 82k



■ Coutts UK¹

■ Coutts International

- Leading UK private bank with ~7% market share²
- Managing ~£54bn Customer Assets and Liabilities
- Strong brands: Coutts and Adam & Company
- Customer advocacy net positive at 27%³

Building on strong UK foundations

Coutts UK	FY 2013 ¹
Income	£800m
Adjusted pre-tax profit	£160m
Adjusted RoE	11%
Adjusted C/I ratio	77%
Assets under Management	£13bn
Loans	£13bn
Deposits	£28bn

Ambition:

#1 UK Private Bank & Wealth Manager,
serving wealthy individuals and families with
a UK presence

Ambitious plans for Coutts

Bringing together wealth creators and wealth managers

1

Focus on new customer acquisition

- Implement two-way referral across Personal and Business Banking and Commercial
- Develop UK resident-non-domiciled proposition

2

Better service customer needs

- Become clear market leader for customer advocacy
- Simplify product offering, close gaps where required
- Leverage existing investment capability further (e.g. investments penetration only 30%)

3

Enhance delivery model

- Radically simplify customer processes (e.g. advice, lending, account opening)
- Invest in digital capabilities to meet customer requirements
- Simplify client engagement model

4

Target performance

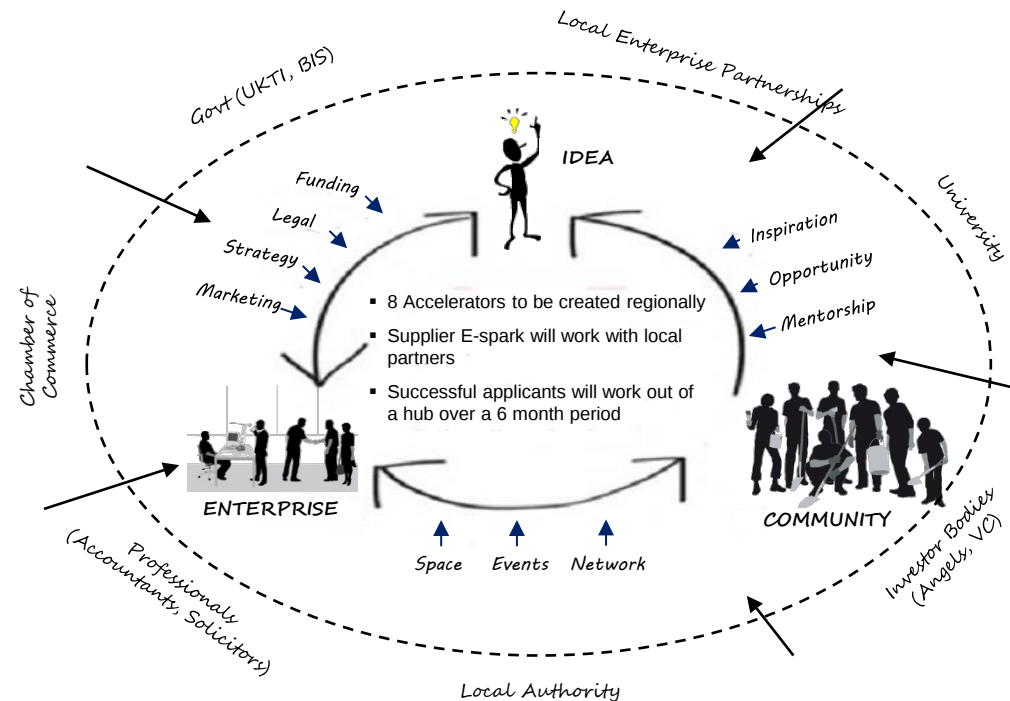
- Reduce costs by 20% over medium term
- Medium to long term RoE of 15%+

Supporting UK entrepreneurs and businesses

Entrepreneur strategy launch

Significant opportunity...

- Over 92k high growth businesses but RBS share only 16%
- 2% of our customers but contribute 10% of income
- Leverage existing partnerships to build strong ecosystem
- Opportunity for clear differentiation in key segment



1 Entrepreneur Accelerator Hubs across UK

- Successful Edinburgh hub running; London activity underway with Mass Challenge
- 6 further locations identified - Leeds, Manchester, Birmingham, Bristol, Cardiff and Belfast

2 Regular competitions with investment prizes and investor days to facilitate investor introductions

3 Develop “knowledge expert” RMs (c.470 by 2018) to better understand and serve Entrepreneurs and High Growth Businesses

4 Use analytics to identify and support high growth businesses and offer targeted support

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Financial Performance – Commercial Banking

	FY 2013	Expected Trend	H1 2014
P&L (£bn)			
Income	3.2	➔	1.6
Costs ¹	(2.0)	➔	(0.9)
Impairments	(0.7)	➔	(0.0)
Op Profit ¹	0.5	➔	0.6
Balance Sheet (£bn)			
L&A (gross)	85.0	➔	85.1
Deposits	90.7	➔	88.0
RWA	65.8	➔	63.0
Key metrics (%)			
NIM	2.64%	➔	2.70%
LDR (Net)	92%	➔	95%
C:I ratio (Headline) ¹	63%	➔	58%
C:I ratio (Underlying) ²	53%	➔	50%
RoE (Headline) ^{1,3}	4.9%	➔	12.5%
RoE (Underlying) ^{2,3}	7.7%	➔	14.7%
Headcount	7,300	➔	7,100

Income outlook moderately positive

- Increasing customer penetration
- Improving economic environment
- Deposit re-pricing

Continued targeted cost reductions

- Bank wide and CPB cost reduction programmes

Impairment charges reducing

- Fewer individual cases along with provision releases as credit conditions improve

Managing the balance sheet

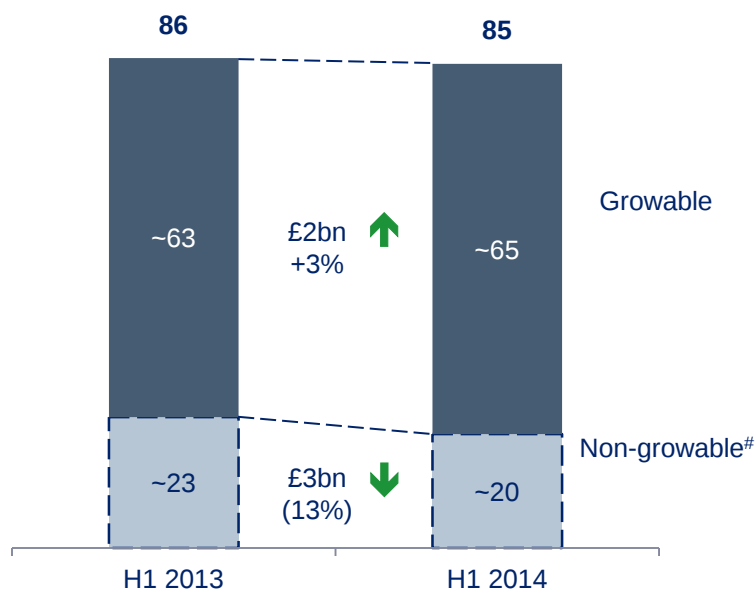
- Positive net lending trend emerging, de-leveraging slowing
- Targeted de-concentration of legacy book

Targeting 15%+ RoE

Commercial lending profile

Positive lending indicators

Growable and Non-growable¹ book, £bn



- Origination activity continuing to build, with de-leveraging and run-off trends stabilising
- Right-sizing 'non-growable' portion of the book through targeted sector and single name de-concentration

Sector diversification aligned to UK growth

Key sectors	H1 2014 L&A (£bn)	Concentration	
		H1 2014	Trend
Commercial Real Estate	19	22%	➔
Wholesale & Retail Trade	10	11%	➔
Housing Associations	8	10%	➔
Manufacturing	8	9%	➔
Education, health and social activities	8	9%	➔
Other Services (incl. hotels and restaurants)	7	9%	➔
Banks & Financial Institutions	7	8%	➔
Transport	5	6%	➔
Sovereign	3	4%	➔
Construction	3	4%	➔
Natural Resource	3	3%	➔
Telecommunication, Media & Technology	2	2%	➔
Other	2	2%	➔
Total	85	100%	

Financial Performance – Private Banking

P&L (£bn)	FY 2013	Expected Trend	H1 2014
Income	1.1	➔	0.5
Costs ¹	(1.1)	➔	(0.4)
Impairments	(0.0)	➔	0.0
Op Profit ¹	(0.0)	➔	0.1
Balance Sheet (£bn)			
L&A (gross)	16.8	➔	16.6
Deposits	37.2	➔	35.9
AuMs	29.7	➔	28.7
RWA	12.0	➔	11.8
Key metrics (%)			
NIM	3.47%	➔	3.72%
LDR (Net)	45%	➔	46%
C:I ratio ¹	103%	➔	73%
C:I ratio (Underlying) ²	81%	➔	73%
RoE (Headline) ^{1,3}	(3.1%)	➔	15.0%
RoE (Underlying) ^{2,3}	8.7%	➔	15.3%
Headcount	3,500	➔	3,500

Income outlook remains stable

- Deposit re-pricing in the UK
- Economic environment and FX rates remain a challenge for the international business

Proactive management of costs

- Investment in technology and processes starting to deliver efficiencies, targeting a 20% cost reduction in Coutts UK

Impairment charges reducing

- Improving credit conditions and provision releases

Managing the balance sheet

- New business volumes growing in the UK
- High Net Worth clients reducing leverage in current low rate environment
- Active management of funding surplus

Targeting 15%+ RoE

Income performance by product

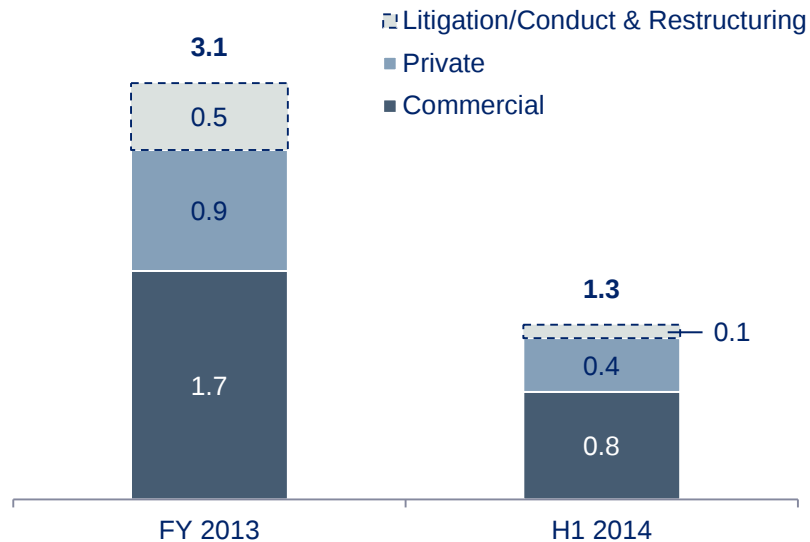
(£m)	FY 2013	Expected Trend	H1 2014
Commercial Banking			
Commercial lending	1,911	➔	894
Deposits	208	➔	153
Asset and Invoice Finance	671	➔	366
Transaction Services ¹	346	➔	165
Other ²	21	➔	(10)
Commercial Banking	3,157	➔	1,568
Private Banking			
Banking	879	➔	455
Investments	198	➔	90
Private Banking	1,077	➔	545
Commercial & Private	4,234	➔	2,113

- **Commercial Lending:** Re-shaping lending proposition through focussed investment
- **Deposits:** Re-pricing in line with Bank liquidity strategy
- **Asset and Invoice Finance:** improving outlook supported by higher volumes. Margins holding despite competition
- **Transaction Services:** International proposition expected to drive income. Domestic pressures from switch to cheaper electronic banking
- **Private Banking:** Lower activity in international markets putting pressure on assets under management. Margin outlook stable

Focus on driving efficiency

CPB efficiency improvements starting to deliver

Costs (£bn)



Headline C:I

73%

62%

Adjusted C:I¹

60%

56%

- **Bank wide and CPB cost reduction programmes**

- Support rationalisation of functions, reduced duplication and management layers
- Product simplification
- Reducing management layers
- Private Banking integration into CPB

- **Remediation costs reducing**, but remain a risk

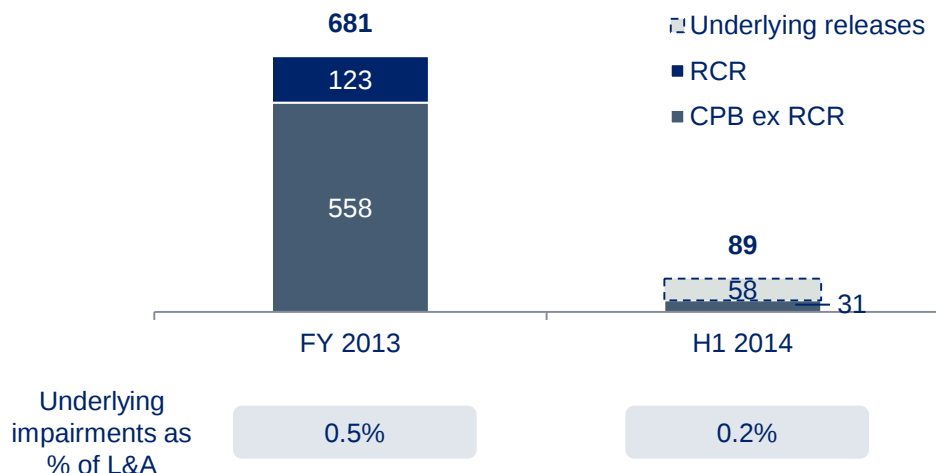
- **Long term C:I ratio target ~50%¹**

- Commercial target ~40-45%
- Private target ~60%

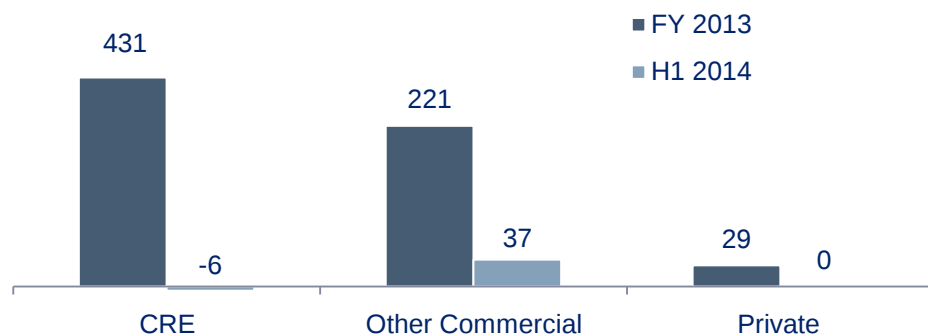
Credit risk profile improving

Impairment charges significantly reduced

Impairments charge (£m)



Impairments by key business line (£m)



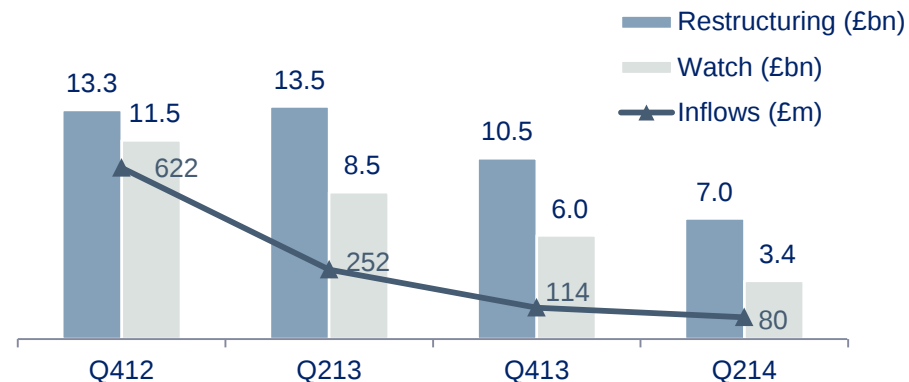
■ Credit conditions improving

- Provision releases in 2014
- Fewer individual cases across the portfolio

■ Quality of assets enhanced following transfers to RBS Capital Resolution (RCR)

■ Positive Watch and Restructuring trends

Positive trends in Watch and Restructuring¹



Positioned to support momentum in UK economy

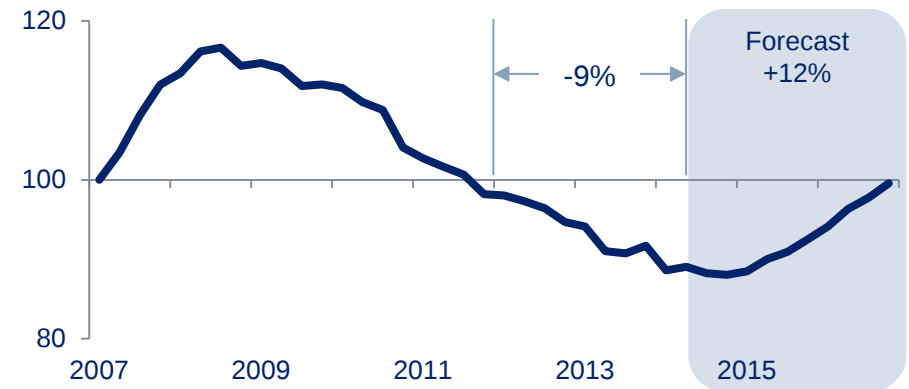
Business confidence up

Expectations of turnover improvement, indexed



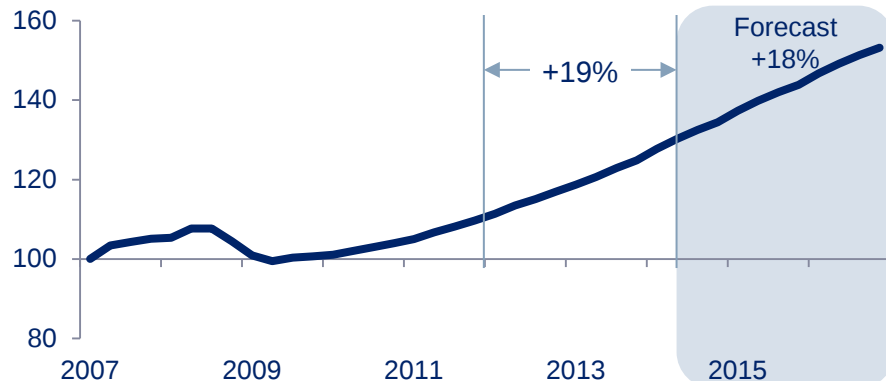
Seeds of lending growth as deleveraging slows

Stock of M4 PNFC lending, indexed



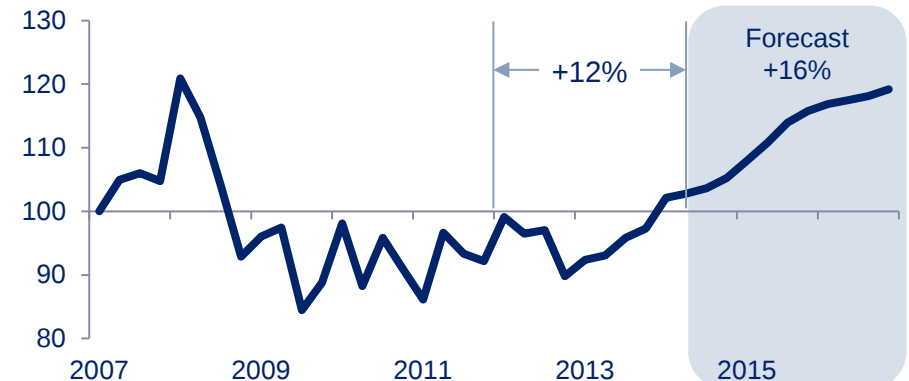
Business start ups increasing

UK stock of businesses, indexed



Business investment rising

UK business investment, indexed



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Summary

Our Investment Case

- #1 UK Commercial and Private Banking franchises
- Significant and growing contribution to Bank performance
- Strong market position to benefit as UK economy grows
- Bringing together wealth creators and wealth managers
- Investing in our business for the benefit of our customers

Targeting attractive returns, built on leading customer proposition and efficiency

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', '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 document 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 document include, but are not limited to: 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, 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 proposed 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 LIBOR and other 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 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 document 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 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.