7 July 2014 │ 61 pages

Diversified Banks
Western Europe

Head-to-Head: Barclays vs RBS

Similar Strategies; Different Outcomes – Barclays The Winner

- **Head-to-Head Series** — In the latest edition in the series, we compare Barclays and RBS. Both have adopted similar strategies, creating dedicated non-core units to run-down legacy assets and are also in the process of 'right-sizing' their investment banking operations. Both target a similar core EPS of c34-36p. However there the similarities end. We believe Barclays screens as superior on valuation, on execution risks and on TNAV growth. With target prices of 300p on both stocks, we see scope for 38% upside at Barclays versus 8% downside at RBS. Buy Barclays, sell RBS.
- **Re-Rating Potential** — In 2013 Barclays reported a core RoE of 12%, more than double the RBS core RoE of 5%. Both banks are likely to see earnings pressures in the near term, as revenue attrition precedes cost saves, but in the three years to 2016 we believe both banks should be able to grow core pre-provision profits by over 20% and increase CET1 capital ratios to >11.5%. Yet with RBS already trading on 0.9x P/TB, versus Barclays on 0.7x, we see greater re-rating potential at the latter.
- **Execution Risk** — Barclays' core revenue growth targets look conservative to us, seemingly adopting a subdued cyclical improvement in FICC revenues and cautious interest margin assumptions. Meanwhile the target reduction in RBS' underlying core cost base, of c23% (ex-divestments), looks highly ambitious relative to the 10% reduction targeted by Barclays. We forecast a 2016 core EPS of 40p at Barclays (10% above target) versus a 2017 EPS of 34p at RBS (1% below target).
- **TNAV Growth** — We foresee superior book value growth at Barclays (+13% during 2013-16), relative to RBS (-1%). The latter is likely to be impacted by heavier losses on non-core assets sales and on potential business divestments (Citizens, W&G, Ulster Bank), as well as heavier restructuring charges and the DAS repayment. In this report we also assess the outlook for conduct and litigation risks at each bank.

- Estimate Change
- Target Price Change

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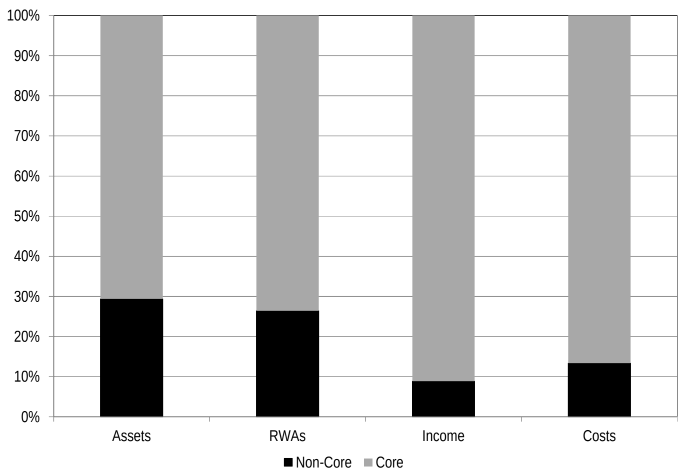
Head to Head: Barclays vs RBS

Barclays and RBS new strategies share two common themes

In recent months Barclays and RBS have both announced new strategic plans. These share two common themes and have therefore drawn comparison:

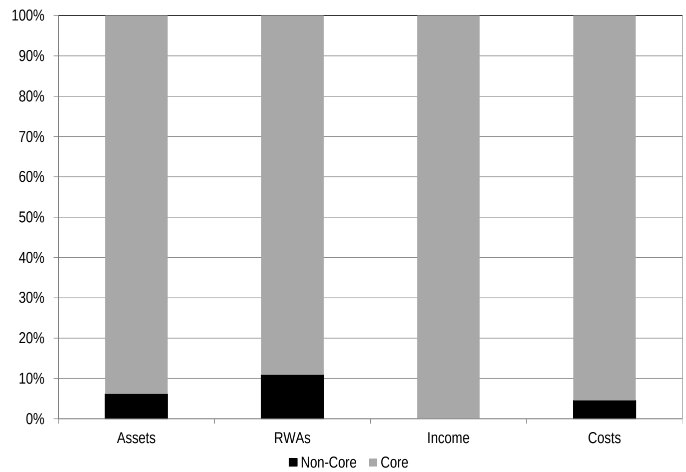
(1) Creation of a dedicated non-core unit. Barclays' non-core unit consists of £113bn RWAs (36% of Group RWAs), with 2013 income of £2.5bn and costs -£2.5bn. This is expected to shrink to <£50bn RWAs by end-2016. RBS' non-core unit, consists of £47bn of RWAs (12% of Group RWAs), with 2013 income of -£0.3bn and costs -£0.6bn, and is expected to shrink to close to zero by 2016.

Figure 1. Barclays – Core vs Non-Core Split, 2013 (%)



Source: Company Reports

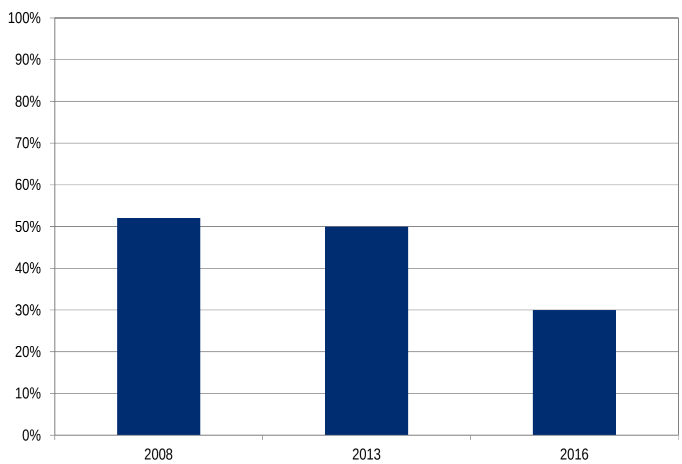
Figure 2. RBS – Core vs Non-Core Split, 2013 (%)



Source: Company Reports. Note: 2013 RCR income = -£0.3bn.

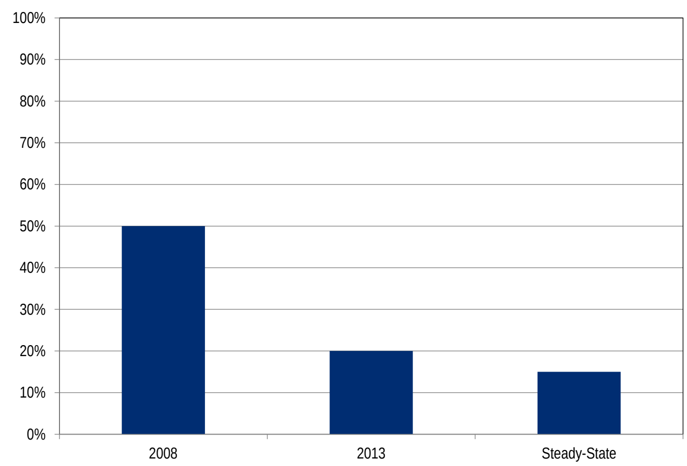
(2) 'Rightsizing' of the investment bank and re-allocation of capital. Barclays will allocate 50% of FICC RWAs and 30% of FICC revenues to non-core. RWAs in the remaining core investment bank are then expected to be held steady, thereby declining to <30% of Group RWAs over time as other core divisions grow at a faster rate. RBS has already made significant progress in shrinking its investment bank and expects to reduce 'Markets' RWAs by a further 55% to <15% of Group RWAs.

Figure 3. Barclays – Target % of Group RWAs in Investment Banking



Source: Company Reports

Figure 4. RBS – Target % of Group RWAs in Investment Banking



Source: Company Reports

Despite the similarities in the strategies announced by each bank we actually think the outcomes will be very different

Despite the initial similarities in the strategies announced by each bank we actually think the outcomes will be very different in practice. Our overall investment thesis when comparing the two stocks can be summarized into three key factors.

- Re-rating potential
- Ability to deliver on financial targets (execution risk)
- TNAV growth

Figure 5. Ranking Table – Barclays Wins The Head-To-Head, Ticks Indicate Winner

	Barclays	RBS
Valuation		
Current P/TB Multiple	☑ 0.7x	0.9x
Target Core RoTE*	☑ >13%	9-11%
Target Group RoTE*	>10%	9-11%
Execution Risk on Core Financial Targets		
Target revenue growth less cost growth ("jaws")**	☑ 12%	16%
Target revenue growth less RWA growth**	☑ -8%	1%
Citi Earnings vs Target	☑ 10%	-1%
TNAV Growth		
2013-16 TNAV Growth	☑ 13%	-1%
2016 Dividend Yield	☑ 7.3%	4.6%

Source: Citi Research
* Target RoTE based on 2016 for Barclays, 2016/17 for RBS. At Barclays target RoE of >12% is broadly equal to a target RoTE of >13%. RBS also has a 2018-2020 RoTE target of 12%+.
** Based on organic growth/reduction only ie. excludes planned disposals such as Citizens and Williams & Glyn. For Barclays target growth reflects the period from 2013-16, for RBS from 2013-17.

In summary Barclays' core financial targets appear to be conservative, in our view, while we believe the planned non-core asset reduction can be achieved whilst preserving TNAV. Meanwhile the shift in business mix from investment banking towards retail & commercial could potentially lead to a re-rating as earnings visibility improves. In the near term the tough FICC environment may continue to weigh on earnings, but we see significant long-term value at these levels. Reflecting lower FICC revenue forecasts, we trim earnings by 1-3%, and nudge down our target price 300p (from 305p) but reiterate our Buy rating.

At RBS Management have finally 'bitten the bullet' and devised a strategy which should eventually turn RBS into a sustainable business, with solid returns. However, the timeframe over which this can be achieved should not be underestimated and the financial targets, especially with regards to cost reduction, appear to us overly ambitious. We also see significant execution risks on planned disposals and believe further tangible book erosion is highly probable in the near term. Reflecting mainly tax adjustments, we trim earnings forecasts by 1% and reiterate our Sell / High risk rating, target price 300p (unchanged).

Consequently we prefer Barclays (Buy) to RBS (Sell / High Risk).

(i) Re-Rating Potential

We think Barclays offers greater re-rating potential based on the superior core earnings and return outlook

Both banks plan to move to a simplified divisional reporting structure, as illustrated below. In 2013 Barclays reported a core RoE of 12% (equivalent to an RoTE of >14%), which it expects to maintain in future with an improvement in profitability offset by an increase in the CET1 ratio to >11%. Meanwhile RBS reported a core RoE of 5% in 2013, but expects to grow this over time to a c9-11% RoTE by 2017.

Figure 6. Barclays – 2013 Pro-Forma Divisional Disclosure On New Reporting Basis (£bn)

	Personal & Corporate	BarclayCard	Africa	IB	Head Office	Total Core	Non-Core	Total Group
Income	8.8	4.1	4.0	8.7	0.1	25.7	2.5	28.2
Expenses	-5.5	-1.8	-2.5	-6.2	-0.2	-16.2	-2.5	-18.7
Impairments	-0.6	-1.1	-0.5	0.0	0.0	-2.2	-0.9	-3.1
Adjusted Pre-Tax Profit	2.7	1.2	1.0	2.5	-0.1	7.3	-1.0	6.3
Basel III RWAs	120	35	40	120	5.0	320	115	435
Leverage Exposure	330	45	65	490	30.0	960	400	1360
Average Equity	17	5	4	17	-7.0	36	16	52
RoE	11-12%	16-17%	8-9%	9-10%	-	12%	-	6%
Cost-Income	63%	44%	63%	71%	-	63%	100%	66%

Source: Company Reports and Citi Research

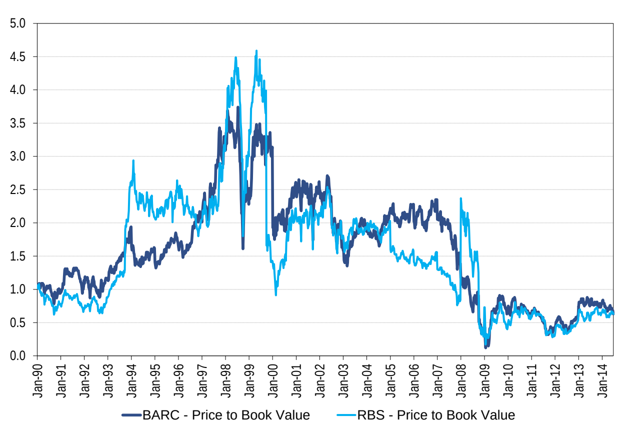
Figure 7. RBS – 2013 Pro-Forma Divisional Disclosure On New Reporting Basis (£bn)

	Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking	Other	Total Core	RCR	Total Group
Income	6.2	4.7	5.6	3.3	19.8	-0.3	19.4
Costs	-3.5	-2.6	-4.1	-2.5	-12.7	-0.6	-13.3
Impairments	-1.3	-0.7	-0.3	-1.6	-3.9	-4.6	-8.4
PBT	1.4	1.5	1.2	-0.9	3.2	-5.5	-2.3
Basel III RWAs	77	80	163	71	391	38	429
RoE	9%	10%	4%	-	5%	-	-
Cost-Income	57%	54%	74%	76%	64%	-	68%

Source: Company Reports and Citi Research

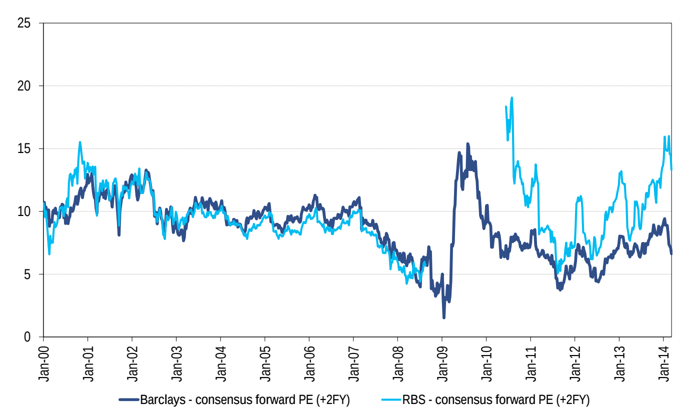
However, the superior core earnings and return outlook at Barclays does not appear reflected in its current lowly valuation multiple, with Barclays currently trading on 0.7x P/TB and 7x underlying 2015E EPS, vs. RBS on 0.9x P/TB and 12x 2015E EPS. Barclays therefore offers greater re-rating potential in the long term, in our view.

Figure 8. Barclays & RBS – Long-Term P/B Multiples



Source: DataStream (IBES Consensus)

Figure 9. Barclays & RBS – Long-Term 2-Yr Forward P/E Multiples



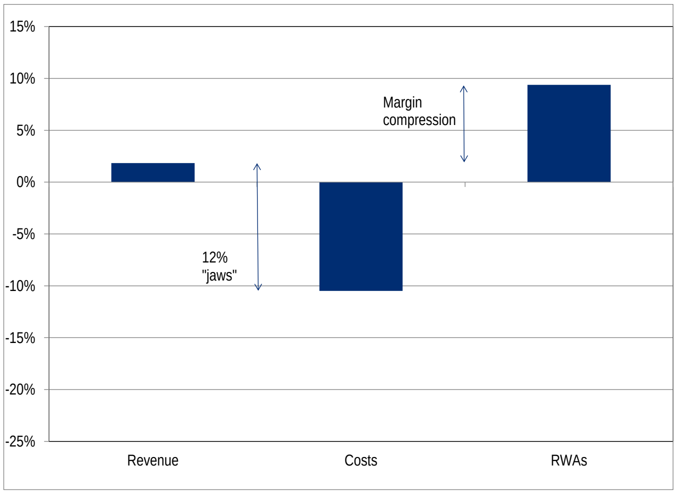
Source: DataStream (IBES Consensus)

(ii) Ability To Deliver On Financial Targets

Barclays' core financial targets look more realistic than those proposed by RBS

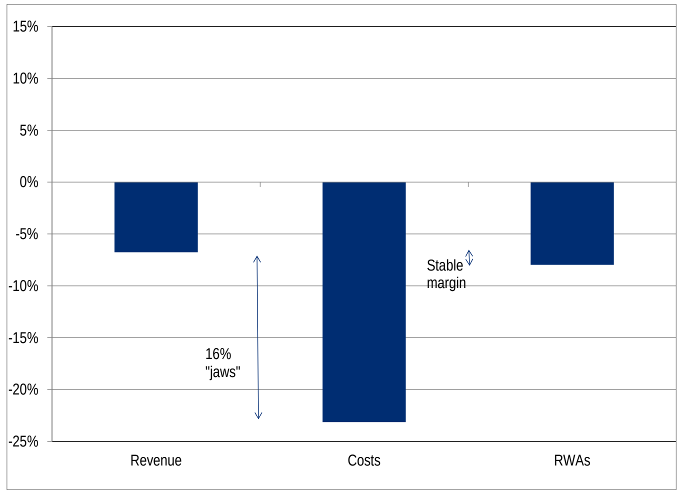
We also believe that Barclays' implied core earnings target of c36p in 2016 is more realistic than RBS' implied 34p earnings target in 2017. We expect the former to surpass its target, driven by stronger revenue growth from its non-investment banking operations, as well as lower impairments. In contrast RBS appears to make more aggressive assumptions on underlying cost take-out, which appear to be overly ambitious, and on revenue progression relative to RWAs. We illustrate this in the charts below and elaborate further in the core earnings section.

Figure 10. Barclays – Core Revenue, Cost & RWA Targets, 2013-16



Source: Company Reports and Citi Research Estimates.
Note: Revenue increase is backed out from the company financial targets assuming stable loan losses and using estimates for tax and minorities/preference shares.

Figure 11. RBS – Core Revenue, Cost and RWA Targets, 2013-17



Source: Company Reports and Citi Research Estimates.
Note: Excludes change due to planned divestments of Citizens and W&G
Assume negligible RCR contribution by 2017

Figure 12. Barclays – Implied 2016 Core Targets vs Citi Estimates (£bn)

	Target 2016	Citi 2016	% Diff
Revenues	26.2	26.9	3%
Costs	-14.5	-14.5	0%
Pre-Provision Profit	11.7	12.4	7%
Est. Impairments	-2.2	-2.0	-7%
PBT	9.5	10.4	10%
Est. Minorities/Prefs	-0.8	-0.8	
Est. Tax	-2.8	-3.1	
Net Attributable Profit	5.9	6.5	10%
Sharecount (m)	16.4	16.4	0%
EPS (p)	35.9	39.6	10%
Leverage Exposure	920	920	0%
Basel III RWAs	350	350	0%
RoTE	>13%	14.1%	
CET1 Ratio	>11%	11.7%	

Source: Company Reports and Citi Research. Note: Excludes restructuring charges.
Note: Implied revenues based on company target of allocated equity of £48-50bn and RoE >12%; with estimates made for tax, minorities/preference shares and impairments. The £14.5bn cost target is a formal company target and excludes restructuring charges Target RoE of >12% is broadly equal to a target RoTE of >13%

Figure 13. RBS – Implied 2017 Targets vs Citi Estimates (£bn)

	Target 2016/17	Citi 2017	% Diff
Revenues	15.0	15.4	2%
Costs	-8.0	-8.4	6%
Pre-Provision Profit	7.0	6.9	-1%
Est. Impairments	-1.4	-1.3	-4%
PBT	5.6	5.6	0%
Est. Minorities/Prefs	-0.4	-0.4	
Est. Tax	-1.3	-1.2	
Net Attributable Profit	3.9	4.0	2%
Sharecount (m)	11.4	11.4	0%
EPS (p)	34.2	33.9	-1%
Funded Assets	600	613	2%
Basel III RWAs	300	270	-10%
RoTE	9-11%	9.1%	
CET1 Ratio	>12%	14.7%	

Source: Company Reports and Citi Research. Note: Excludes restructuring charges.
Note: Formal costs and cost-income target provided (target costs excludes restructuring charges). Impairments estimated based on asset targets and 40-60bps loan loss charge target. Targets assume a disposal of Citizens and Williams & Glyn.

(iii) TNAV Growth

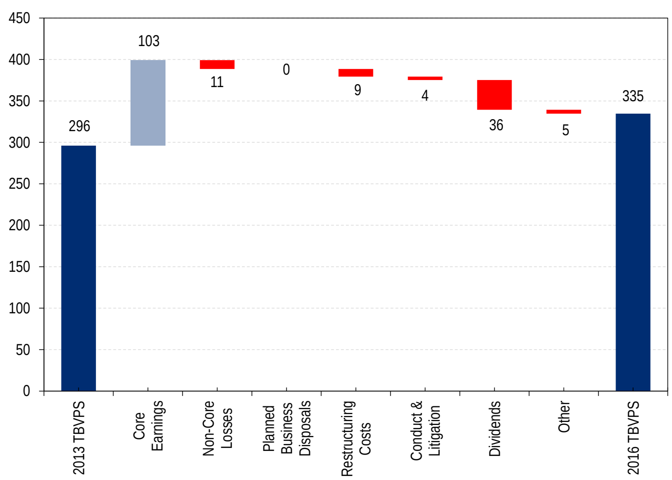
We foresee superior book value growth at Barclays, relative to RBS…

In addition we foresee superior book value growth at Barclays, relative to RBS. The latter is likely to be impacted by heavier losses relating to:

- Non-core asset reduction, a function of the accounting treatment of its non-core assets and the more aggressive planned speed of run-down. Barclays aims to reduce its non-core portfolio by c55% over three years, while "preserving TNAV and capital" while RBS plans to reduce its non-core portfolio by >85% over three years, but will "bring forward impairments and generate disposal losses".
- Heavier restructuring costs, a function of the larger cost saves identified by RBS. Barclays has identified remaining restructuring costs of c£2.0bn through 2014-16 in order to achieve its cost goals, versus c£5.2bn identified by RBS.
- Losses on the disposal of large business units to include Citizens, Williams & Glyn and potentially also Ulster Bank, all of which we expect to be sold at a discount to book given the poor near-term RoE outlook.
- RBS has agreed to pay a combined £1.5bn charge to retire the Dividend Access Share (DAS) - £0.3bn in 2014, with the remainder at the discretion of RBS.

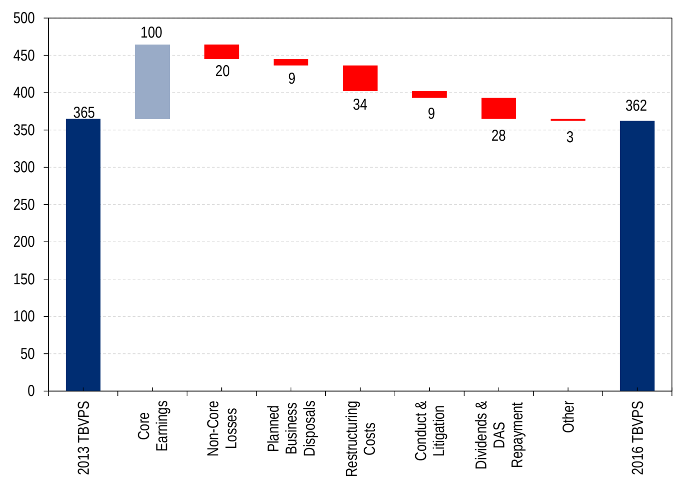
Of course, the most difficult element to quantify is litigation and conduct risks, which we discuss at more length later in this report. In the charts below we illustrate the combined impact that all of these factors are likely to have on Group TNAV progression over 2014-16E. Overall we expect Barclays' TNAV to increase by 13% during this period to 335p per share by end-2016 (Citi def'n). In sharp contrast we expect RBS' TNAV to be broadly stable at around c362p per share.

Figure 14. Barclays – Group TNAV Progression, 2014-16E (p)



Source: Citi Research

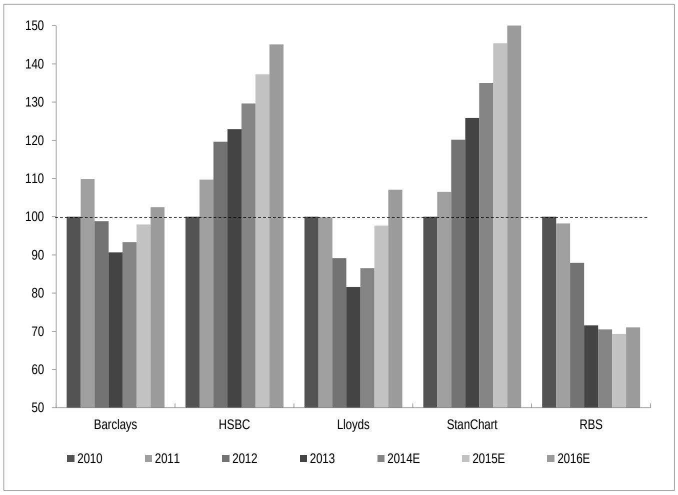
Figure 15. RBS – Group TNAV Progression, 2014-16E (p)



Source: Citi Research

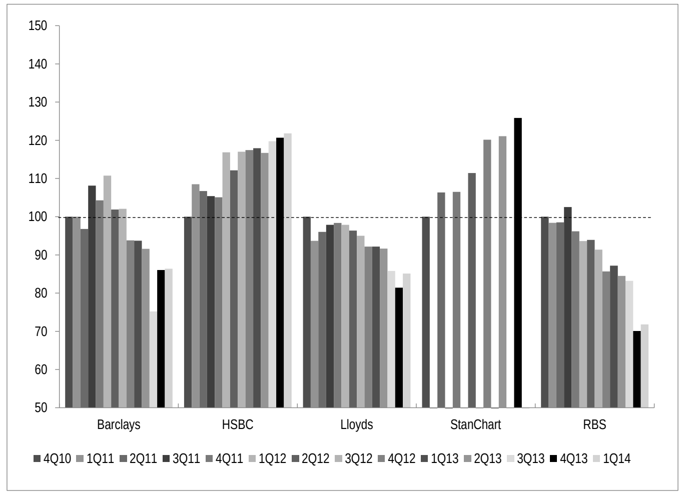
How does the growth at Barclays and RBS compare to other UK banks? Poorly. Over 2014-16 we expect to see greater TNAV growth at HSBC (+18%), StanChart (+25%) and Lloyds (+31%), but this seems to be captured in existing valuation multiples with all three banks already trading at a premium to tangible book at 1.2-1.4x. We believe the combination of TNAV growth, coupled with the lowly valuation at Barclays, on only 0.7x, therefore presents the most attractive long-term opportunity, although we concede that ongoing investment bank restructuring and the challenging FICC environment may continue to weigh on earnings in the near term. These pressures should, however, begin to alleviate in 2H14E, presenting an attractive entry point ahead of a potential cyclical recovery in 2015E and beyond.

Figure 16. UK Banks – Annual TNAV Per Share Progression



Source: Company Reports, Citi Research Estimates. Note: Rebased to 100 at end-10

Figure 17. UK Banks – Quarterly TNAV Per Share Progression

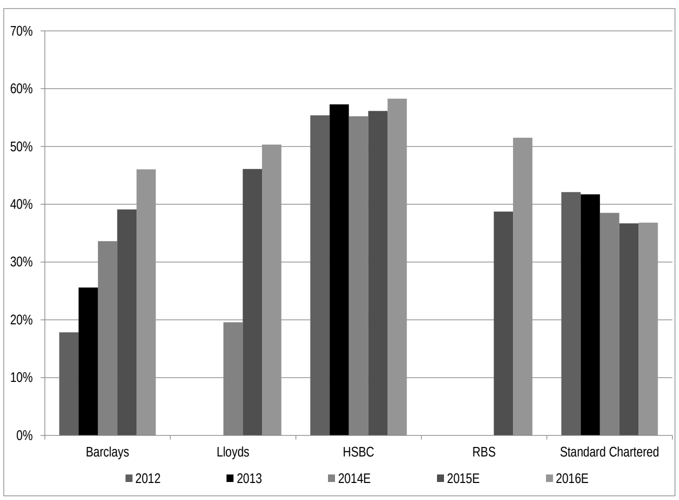


Source: Company Reports, Citi Research Estimates. Note: Rebased to 100 at end-10

… and Barclays offers a superior dividend yield

Barclays' prospective dividend yield is also superior to RBS. Based on our current dividend forecasts, we expect Barclays to offer the highest dividend yield among the UK banks in 2016 – equivalent to c7% – assuming a c45% payout ratio of underlying earnings (equivalent to a c50% payout ratio of reported earnings). This is consistent with Barclays' target payout ratio of 40-50%.

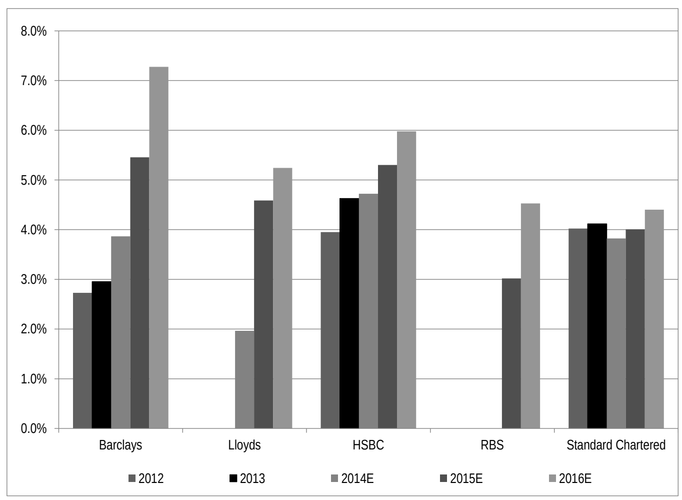
Figure 18. UK Banks – Dividend Payout Ratio



Source: Company Reports, Citi Research Estimates.

Note: As a proportion of underlying earnings (ex-restructuring).

Figure 19. UK Banks – Dividend Yield



Source: Company Reports, Citi Research Estimates

Figure 20. UK Banks – Recommendation and Valuations

				Share Price			Adj P/E			P/tB		RoTE		Yield	Share Performance				M Cap
Company	RIC	Rec	Ccy	Now	Target	+/-%	2014E	2015E	2016E	2014E	2015E	2014E	2015E	2014E	YTD	1m	3m	12m	$bn
Barclays	BARC.L	Buy	GBP	2.20	3.00	+36%	8.7x	7.0x	6.2x	0.7x	0.7x	8%	10%	3.9%	-19%	-9%	-11%	-19%	62
Lloyds Banking Grp	LLOY.L	Neutral	GBP	0.76	0.83	+9%	23.2x	10.9x	9.5x	1.5x	1.3x	15%	14%	2.0%	-4%	-3%	-2%	+15%	93
RBS	RBS.L	Sell-H	GBP	3.29	3.00	-9%	11.5x	11.7x	10.5x	0.9x	0.9x	7%	7%	0.0%	-3%	-3%	+4%	+16%	64
HSBC	HSBA.L	Neutral	GBP	6.06	6.85	+13%	11.3x	10.3x	9.5x	1.3x	1.2x	11%	12%	4.8%	-9%	-3%	-1%	-15%	198
Standard Chartered	STAN.L	Buy	GBP	12.3	14.0	+14%	11.3x	10.2x	9.3x	1.2x	1.1x	11%	12%	3.8%	-10%	-8%	-3%	-18%	52

Source: dataCentral, Citi Research. Note: Recommendations: "H"= High Risk; Prices as of 4 July, 2014

SOTP Valuation

Barclays

Barclays can achieve a core RoTE of c14% in 2016E and release c21p of capital from non-core over 2014-16E

Barclays targets a core RoE of >12% in 2016, equivalent to a RoTE of >14%. We believe this is feasible, as we illustrate in the table below. Non-core will however still represent a c3% drag at this stage, so the Group RoTE is likely to be closer to c11%. That said, we do expect the run-down of the non-core division to release c21p of capital over 2014-16, equivalent to 10% of the current share price.

Figure 21. Barclays – Key Financial Metrics

	2013	2014E	2015E	2016E
Core Bank				
Underlying EPS	-	30.1	34.7	39.6
- o/w IB	-	8.2	10.0	12.2
- o/w non-IB	-	21.9	24.7	27.4
TBVPS	217.5	243.8	270.2	294.3
Underlying RoTE	14.1%	12.8%	13.5%	14.1%
Adjusted RoTE*	10.9%	11.0%	12.4%	13.8%
Non-Core				
Underlying EPS		-4.8	-4.0	-4.8
TBVPS	78.6	61.0	49.7	40.4
Group				
Underlying EPS	25.4	25.3	30.7	34.8
TBVPS	296.0	304.8	319.9	334.7
Underlying RoTE	8.2%	8.6%	10.0%	10.9%
Adjusted RoTE*	6.4%	7.4%	9.3%	10.6%

Source: Company Reports and Citi Research Estimates. *Adjusted RoTE assumes a 12% CET1 ratio (vs company target >11%). Note: Allocated equity between core and non-core based on RWA split.

Figure 22. Barclays – Capital Released From Non-Core Run-Down (£bn)

	2014E	2015E	2016E	Total
Post-Tax Loss	-2.2	-1.3	-1.1	-4.6
Capital Released*	4.0	2.4	1.7	8.1
Net Capital Released	1.8	1.1	0.6	3.5
Per Share (p)	11.0	6.5	3.8	21.3

Source: Citi Research * Capital released based on RWA reduction per annum, at an allocated 12% CET1 ratio

We provide a SOTP valuation analysis using a range of multiples for Barclays' core and non-core operations

In the next table we provide a scenario analysis for a SOTP valuation applying a range of P/TB multiples for both the core and non-core business, based on end-2014E TBVPS. For example, applying a P/TB multiple of 1.0x to the core bank (which we believe is cautious given the potential 14% RoTE and growth in TNAV) and zero to the non-core bank (again prudent given the potential capital release) we derive a Group valuation of 244p per share, still implying 11% upside vs. the current share price even with somewhat pessimistic valuation assumptions.

Figure 23. Barclays - Implied Group Valuation (pence) – Core 2014 P/TB Multiple (Rows) versus Non-Core 2014 P/TB Multiple (Columns)

	-0.5x	-0.4x	-0.3x	-0.2x	-0.1x	0.0x	0.1x	0.2x	0.3x	0.4x	0.5x
0.5x	91	97	104	110	116	122	128	134	140	146	152
0.6x	116	122	128	134	140	146	152	158	165	171	177
0.7x	140	146	152	158	165	171	177	183	189	195	201
0.8x	165	171	177	183	189	195	201	207	213	219	226
0.9x	189	195	201	207	213	219	226	232	238	244	250
1.0x	213	219	225	232	238	244	250	256	262	268	274
1.1x	238	244	250	256	262	268	274	280	286	293	299
1.2x	262	268	274	280	286	293	299	305	311	317	323
1.3x	286	293	299	305	311	317	323	329	335	341	347
1.4x	311	317	323	329	335	341	347	354	360	366	372
1.5x	335	341	347	354	360	366	372	378	384	390	396

Source: Citi Research Estimates

We also provide a second approach, instead applying 2016 P/E multiples to value the core bank, rather than P/TB multiples. In this scenario, applying a multiple of 7.4x to core EPS (equivalent to 5.0x IB earnings and 8.5x non-IB earnings) and again valuing the non-core business at zero, we derive a Group valuation of 294p per share, implying 34% upside.

Figure 24. Barclays - Implied Group Valuation (pence) – Core 2016 P/E Multiple (Rows) versus Non-Core 2014 P/TB Multiple (Columns)

	-0.5x	-0.4x	-0.3x	-0.2x	-0.1x	0.0x	0.1x	0.2x	0.3x	0.4x	0.5x
5.0x	167	173	180	186	192	198	204	210	216	222	228
5.5x	187	193	199	205	212	218	224	230	236	242	248
6.0x	207	213	219	225	231	237	244	250	256	262	268
6.5x	227	233	239	245	251	257	263	269	276	282	288
7.0x	246	253	259	265	271	277	283	289	295	301	307
7.5x	266	272	278	285	291	297	303	309	315	321	327
8.0x	286	292	298	304	310	317	323	329	335	341	347
8.5x	306	312	318	324	330	336	342	349	355	361	367
9.0x	326	332	338	344	350	356	362	368	374	381	387
9.5x	345	351	358	364	370	376	382	388	394	400	406
10.0x	365	371	377	383	390	396	402	408	414	420	426

Source: Citi Research Estimates

We assign a target price of 300p to Barclays

If we instead use a Group valuation methodology, consistent with how we value other UK and European banks, we derive a target price of 300p. We continue to use this as our primary valuation methodology.

Figure 25. Barclays – Dividend Discount Model & Capital-Adjusted Warranted Equity Valuation

1. Dividend Discount Model (DDM)	2014E	2015E	2016E	2017E
PV of dividend (by quarter received)	7.9	10.1	12.1	12.3
Total dividend PV (GB pence)	43			
2. Terminal value (WEV)	2017e			
RoTE	10.9%			
Long-term growth	2.0%			
CoE	11.0%			
Theoretical TBVM	0.99x			
TBVPS	353			
Terminal value	351			
PV of TV (GB pence)	242			
3. DDM & WEV valuation				
Total PV (1 + 2) (GB pence)	285			
4. Capital Adjusted	2017e			
Basel 3 CET1 ratio	12.4%			
Capital surplus/(deficit) per share vs 11.5% [A]	22			
PRA leverage ratio (ex legacy AT1)	5.0%			
Capital surplus/(deficit) per share vs 4.0% [B]	74			
Minimum [A,B]	22			
PV of Capital Surplus (GB pence)	15			
5. Final Adjusted DDM & WEV valuation				
Total Adj PV (3 + 4) (GB pence)	300			

Source: Citi Research

RBS

RBS can achieve a core adjusted RoTE of c11% in 2016E and release c7p of capital from non-core over 2014-16E

RBS targets a RoTE of >11% in 2016/17. We believe this is feasible, but only by 2017. Non-core is still likely to be c1.5% drag in 2016, on our estimates, but this drag should be negligible in 2017. Nonetheless the RoTE outlook in the medium term, even after adjusting for excess capital, looks weaker than at Barclays. The net capital released from non-core over 2014-16E, at 7p, is also much smaller.

Figure 26. RBS – Key Financial Metrics

	2013	2014E	2015E	2016E
Core Bank				
Underlying EPS	10.0	34.6	32.6	32.9
- o/w IB	1.9	2.9	2.2	1.6
- o/w non-IB	8.0	31.7	30.3	31.3
TBVPS	335.9	333.5	332.9	351.1
Underlying RoTE	2.6%	10.3%	9.7%	9.5%
Adjusted RoTE*	1.9%	8.4%	10.2%	10.8%
Non-Core				
Underlying EPS	-34.5	-9.5	-6.7	-3.8
TBVPS	29.1	26.1	20.6	11.1
Group				
Underlying EPS	-24.6	25.1	25.8	29.1
TBVPS	365.0	359.6	353.5	362.2
Underlying RoTE	-6.0%	7.0%	7.2%	8.1%
Adjusted RoTE*	-4.3%	5.7%	7.6%	9.2%

Source: Company Reports and Citi Research Estimates. *Adjusted RoTE assumes a 12% CET1 ratio (vs company target >12%). Note: Allocated equity between core and non-core based on RWA split.

Figure 27. RBS – Capital Released From Non-Core Run-Down (£bn)

	2014E	2015E	2016E	Total
Post-Tax Loss	-1.1	-0.8	-0.4	-2.3
Capital Released*	0.7	1.3	1.0	3.1
Net Capital Released	-0.3	0.6	0.6	0.8
Per Share (p)	-3.0	5.1	5.1	7.2

Source: Citi Research * Capital released based on RWA reduction per annum, at an allocated 12% CET1 ratio

We provide a SOTP valuation analysis using a range of multiples for RBS' core and non-core operations

In the table below we provide a scenario analysis for a SOTP valuation applying a range of P/TB multiples for both the core and non-core business, based on end-2014E TBVPS. For example, applying a P/TB multiple of 1.0x to the core bank (which arguably seems optimistic as RBS' target 9-11% RoTE is still below our estimate of cost of equity) and zero to the non-core bank we derive a Group valuation of 334p per share, in-line with the current share price.

Figure 28. RBS - Implied Group Valuation (pence) – Core 2014 P/TB Multiple (Rows) versus Non-Core 2014 P/TB Multiple (Columns)

	-0.5x	-0.4x	-0.3x	-0.2x	-0.1x	0.0x	0.1x	0.2x	0.3x	0.4x	0.5x
0.5x	154	156	159	162	164	167	169	172	175	177	180
0.6x	187	190	192	195	198	200	203	205	208	211	213
0.7x	220	223	226	228	231	233	236	239	241	244	247
0.8x	254	256	259	262	264	267	269	272	275	277	280
0.9x	287	290	292	295	298	300	303	305	308	311	313
1.0x	321	323	326	328	331	334	336	339	341	344	347
1.1x	354	356	359	362	364	367	370	372	375	377	380
1.2x	387	390	392	395	398	400	403	405	408	411	413
1.3x	421	423	426	428	431	434	436	439	441	444	447
1.4x	454	457	459	462	464	467	470	472	475	477	480
1.5x	487	490	492	495	498	500	503	506	508	511	513

Source: Citi Research Estimates

We also provide a second approach, instead applying 2016E P/E multiples to value the core bank, rather than P/TB multiples. In this scenario, applying a multiple of 8.3x to core EPS (equivalent to 5.0x IB earnings and 8.5x non-IB earnings) and again valuing the non-core business at zero, we derive a Group valuation of 274p per share, equivalent to 17% downside from the current share price.

Figure 29. RBS - Implied Group Valuation (pence) – Core 2016 P/E Multiple (Rows) versus Non-Core 2014 P/TB Multiple (Columns)

	-0.5x	-0.4x	-0.3x	-0.2x	-0.1x	0.0x	0.1x	0.2x	0.3x	0.4x	0.5x
5.0x	151	154	157	159	162	164	167	170	172	175	177
5.5x	168	170	173	176	178	181	184	186	189	191	194
6.0x	184	187	190	192	195	197	200	203	205	208	210
6.5x	201	203	206	209	211	214	216	219	222	224	227
7.0x	217	220	222	225	228	230	233	235	238	241	243
7.5x	234	236	239	241	244	247	249	252	255	257	260
8.0x	250	253	255	258	261	263	266	268	271	274	276
8.5x	267	269	272	274	277	280	282	285	287	290	293
9.0x	283	286	288	291	293	296	299	301	304	306	309
9.5x	299	302	305	307	310	312	315	318	320	323	326
10.0x	316	319	321	324	326	329	332	334	337	339	342

Source: Citi Research Estimates

We assign a target price of 300p to RBS

If we instead use a Group valuation methodology, consistent with how we value other UK and European banks, it points to a target price of 300p. We continue to use this as our primary valuation methodology.

Figure 30. RBS – Dividend Discount Model & Capital-Adjusted Warranted Equity Valuation

1. Dividend Discount Model (DDM)	2014E	2015E	2016E	2017E
PV of dividend (by quarter received)	0.0	8.5	11.6	10.6
Total dividend PV (GB pence)	31			

2. Terminal value (WEV)	2017e
RoTE	9.2%
Long-term growth	2.0%
CoE	10.4%
Theoretical TBVM	0.86x
TBVPS	378
Terminal value	323
Basel 3 CET1 ratio	14.6%
Capital surplus/(deficit) per share vs 12%	61
PV of adj TV (GB pence)	269

3. DDM & WEV valuation	
Total PV (1 + 2) (GB pence)	300

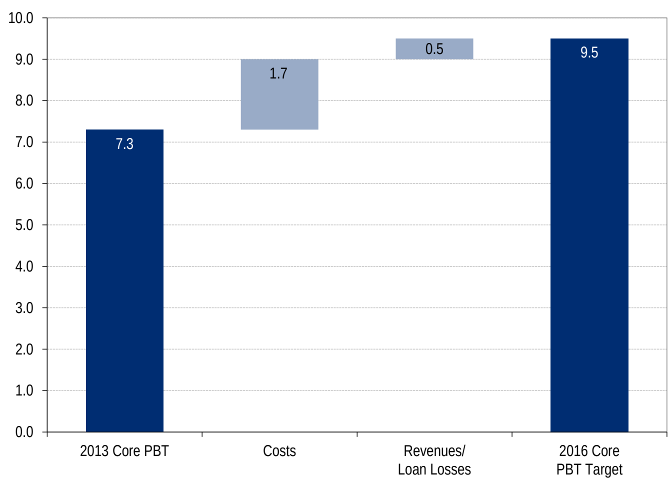
Source: Citi Research

Long-Term Core Earnings Potential

Both banks target large cost saves but revenue and RWA assumptions differ – Barclays aims to grow core RWAs while RBS plans to shrink core RWAs

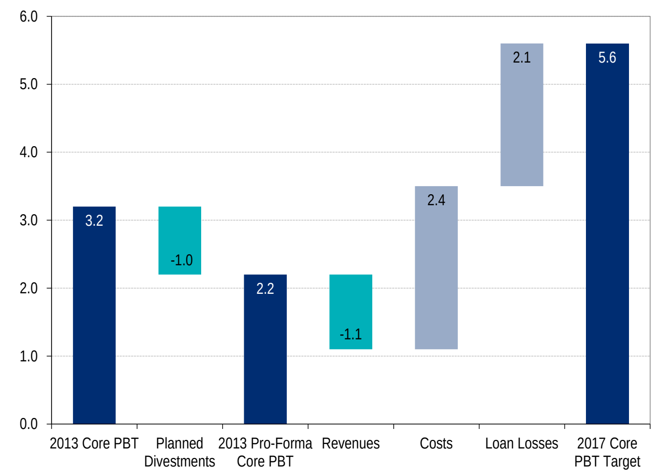
Based on the long-term financial targets set by Barclays and RBS one can calculate an implied core pre-tax profit target for each bank. We illustrate these implied targets below and the direction of travel on how each bank plans to achieve this level of profitability. Both banks target meaningful cost saves, equivalent to c10-23% of their existing expense base. While RBS expects to see revenue attrition, Barclays appears to be assuming some modest revenue growth. However, this seems a fair assumption as Barclays plans to grow core RWAs by c9% (15% in Personal & Corporate, Cards & Africa; zero in Investment Banking), while we calculate that RBS plans to shrink underlying core RWAs (post planned divestments) by c8%.

Figure 31. Barclays – Implied Target Core Profitability (£bn)



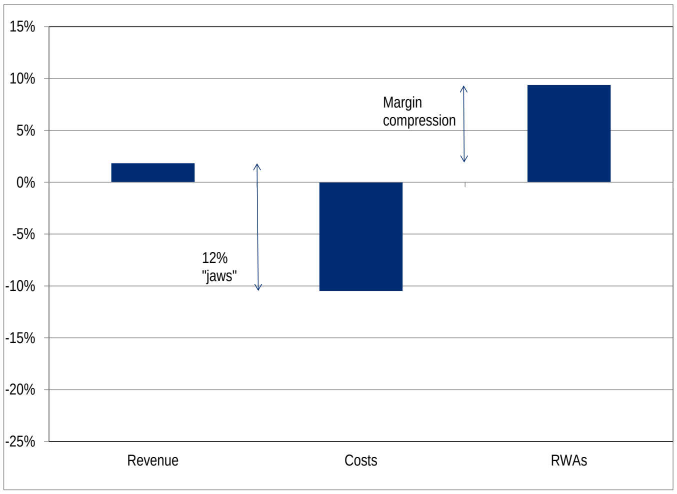
Source: Company Reports and Citi Research Estimates.
Note: Implied profitability based on company target of allocated equity of £48-50bn and RoE >12%; with estimates made for tax, and minorities/preference shares.

Figure 32. RBS – Implied Target Core Profitability (£bn)



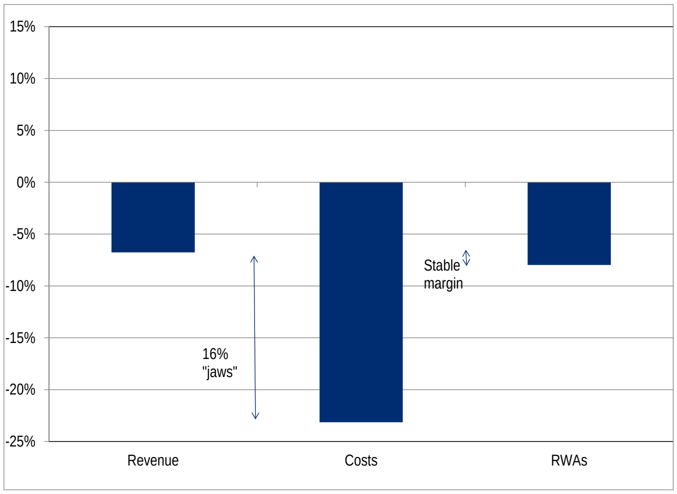
Source: Company Reports and Citi Research Estimates
Note: Impairments estimated based on asset targets and 40-60bps loan loss charge target. Target costs of £8bn excludes restructuring charges. Assume negligible RCR contribution by 2017. Planned divestments includes Citizens and W&G.

Figure 33. Barclays – Core Revenue, Cost & RWA Targets, 2013-16



Source: Company Reports and Citi Research Estimates.
Note: Revenue increase is backed out from the company financial targets assuming stable loan losses and using estimates for tax and minorities/preference shares.

Figure 34. RBS – Core Revenue, Cost and RWA Targets, 2013-17



Source: Company Reports and Citi Research Estimates.
Note: Excludes change due to planned divestments of Citizens and W&G
Assume negligible RCR contribution by 2017.

Barclays: c36p Core EPS Target in 2016

Barclays' ambition is to generate a core pre-tax profit of c£6bn in 2016, equivalent to a core EPS of c36p

We take a closer look at Barclays' core financial targets below, making assumptions for tax, minorities/preference shares and impairments. This illustrates Barclays' ambition to generate a core pre-tax profit of c£6bn in 2016, equivalent to core EPS of c36p. The main driver of this 30% improvement in profitability is expected to come from cost saves, with the core cost base set to be reduced from £16.2bn in 2013 to £14.5bn in 2016 via headcount reductions and greater use of automation.

Barclays targets a £1.7bn, or 10%, absolute reduction in the core cost base

A £1.7bn, or 10%, absolute reduction in the core cost base, is expected to come from branch closures across UK, Europe & Africa, a simplification of the retail & investment banking product offering, geography realignments, de-layering of management structures, rationalization of infrastructure and ongoing consolidation of shared services (IT, HR, finance, legal, etc). All core divisions will contribute to these cost saves. The overall 2014 Group gross headcount reduction has been increased to 14,000 of which 50% is expected to come from front-office and distribution, 40% from operations and technology and 10% from central functions.

Figure 35. Barclays – Implied 2016 Core Targets vs 2013 Core Reported

	2013 Actual	Increase/(Decrease)	Core Targets 2016	% Chg Required
Implied Revenues	25.7	+0.5	26.2	+2%
Cost Target	-16.2	+1.7	-14.5	-10%
Pre-Provision Profit	9.5	2.2	11.7	+23%
Est. Impairments	-2.2	0.0	-2.2	0%
Implied PBT	7.3	+2.2	9.5	+30%
Est. Minorities / Prefs	-		-0.8	
Est. Tax			-2.8	
Net Attributable Profit	-		5.9	
EPS (p)	-		35.9	
Leverage Exposure	960	-40	920	-4%
Basel III RWAs	320	+30	350	+9%
RoE	12%		>12%	
CET1 Ratio	9.3%		>11%	

Source: Company Reports and Citi Research Estimates
Note: Implied revenues based on company target of allocated equity of £48-50bn and RoE >12%; with estimates made for tax, minorities/preference shares and impairments. The £14.5bn cost target is a formal company target.

We believe the 10% cost reduction target is feasible, and that Barclays' implied revenue target could be surpassed

Our Group forecasts, including both core and non-core, are for 35p EPS in 2016, somewhat ahead of Barclays implied Group target of c31p. We are yet to model Barclays' core vs non-core earnings in detail using the new reporting structure, as we prefer to wait for the new divisional restatements which should be disclosed shortly, but it is fair to assume that the majority of the c4p difference is attributable to the core business, where we believe the 10% cost reduction target is feasible, and that Barclays' implied revenue assumptions could be surpassed.

Figure 36. Barclays – 2016 Implied Group Targets vs Citi Estimates

	Core Target	Non-Core Target	Group Target	Group, Citi Estimate	% Diff
Leverage Exposure	920	180	1,100	1,144	4%
Leverage Ratio	-	-	>4%	4.5%	
RWAs	350	50	400	398	0%
CET1 Ratio	-	-	>11%	11.7%	
Implied Allocated Equity	49.0	7.0	56.0	62.5	12%
RoE	>12%	-	>9%	9.5%	
RoTE	-	-	-	10.9%	
Implied Attributable Profit	5.9	-0.8	5.0	5.4	7%
Sharecount (m)	16.4	16.4	16.4	16.4	
EPS (p)	35.9	-5.1	30.7	34.8	13%

Source: Company Reports and Citi Research Estimates. Note: Excludes restructuring charges.

The FICC Conundrum

We model a sharp decline in core investment bank revenues in 2014, before a slow cyclical recovery thereafter

Below we include a back-of-the-envelope model of Barclays' core earnings. We model a 15% decline in core investment bank revenues in 2014, due mainly to ongoing FICC weakness In 1H14, followed by a slow recovery thereafter, driven by a cyclical uplift in volatility as base rates start to rise in UK and US. Key to this assumption is that we continue to believe that the majority of recent revenue declines are more cyclical than structural – see Figure 40 and Figure 41.

In the core retail & commercial bank we forecast 11% growth in revenues from 2013-16, slightly below the expected 15% growth in RWAs

Outside of the investment bank we forecast 11% growth in revenues from 2013-16, slightly below the expected 15% growth in RWAs, due to some net interest margin compression in cards which is still heavily reliant upon wholesale funding. By comparison the existing UK Retail and BarclayCard divisions reported a 9% increase in revenues from 2010-13, so 11% does not seem totally unrealistic. Furthermore Africa, which was a drag from 2010-13 due to strategic decisions and ZAR depreciation, should now be in a position to grow again.

Our core EPS forecast of c40p in 2016 is c10% ahead of the implied company target, mainly due to higher revenues

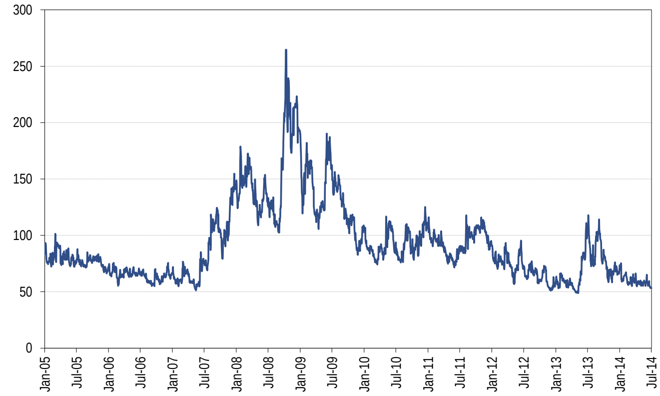
We assume Barclays can achieve the desired £14.5bn core expense base, with cost saves across all of the divisions. We also assume core impairments decline in 2014 (1Q14 Group impairments declined by 22% yoy) before a small increase thereafter as base rates increase, reducing affordability. Overall this results in a core EPS of c40p in 2016E, which is c10% ahead of the company targets.

Figure 37. Barclays – Core Earnings Forecasts (£bn)

	2013	2014E	2015E	2016E	% Growth, 2013-16	2016 vs Target*
Core Investment Bank						
Income	8.7	7.4	7.6	8.0	-8%	
Expenses	-6.2	-5.2	-5.0	-4.8	-23%	
Impairments	0.0	0.0	0.0	0.0	-	
Adjusted Pre-Tax Profit	2.5	2.2	2.7	3.2	28%	
RWAs	120	120	120	120	0%	
Leverage Exposure	490	460	430	400	-18%	
Core Non-Investment Bank						
Income	17.0	17.7	18.3	19.0	11%	
Expenses	-10.0	-9.9	-9.8	-9.7	-3%	
Impairments	-2.2	-1.8	-1.9	-2.0	-7%	
Adjusted Pre-Tax Profit	4.8	6.0	6.6	7.2	50%	
RWAs	200	210	220	230	15%	
Leverage Exposure	470	487	503	520	11%	
Total Core						
Income	25.7	25.1	25.9	26.9	5%	3%
Expenses	-16.2	-15.1	-14.8	-14.5	-10%	0%
Impairments	-2.2	-1.8	-1.9	-2.0	-7%	-7%
Adjusted Pre-Tax Profit	7.3	8.2	9.3	10.4	43%	10%
Minorities, Prefs & Tax	-	-3.3	-3.6	-3.9		
Net Attributable Profit	-	4.9	5.7	6.5		10%
EPS (p)	-	30.1	34.7	39.6		10%
RWAs	320	330	340	350	9%	0%
Leverage Exposure	960	947	933	920	-4%	0%

Source: Company Reports and Citi Research Estimates. Note: Excludes restructuring charges. *See Figure 35.

Figure 38. Rates Volatility - MOVE Index

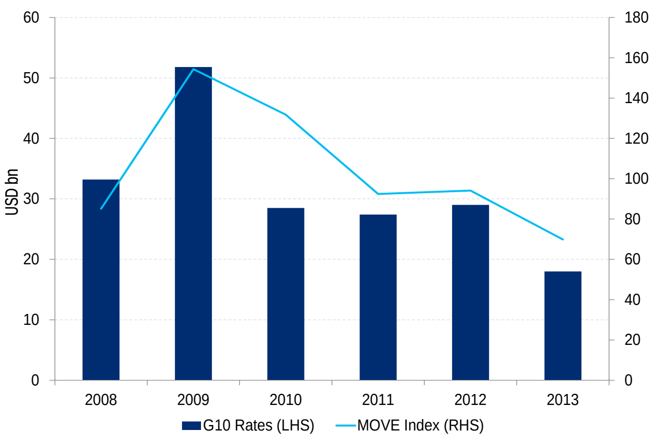


Source: Bloomberg

Figure 39. FX Volatility - CVIX Index

Source: Bloomberg

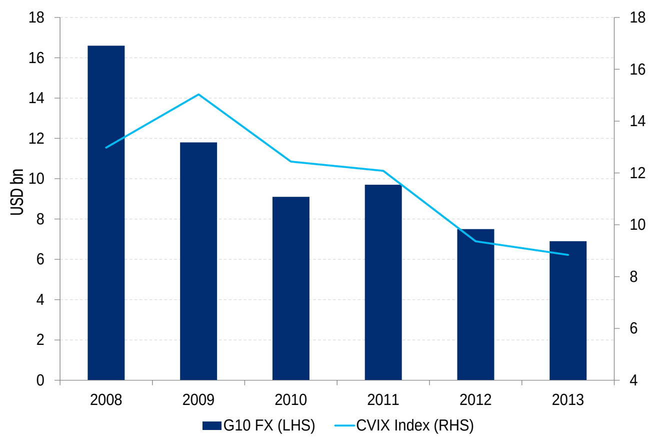
Figure 40. Rates Revenues Highly Correlated with Rates Volatility[1]



Source: Coalition, Bloomberg, Citi Research

Note: 1. Based on MOVE index; 2. R^2 = 65%

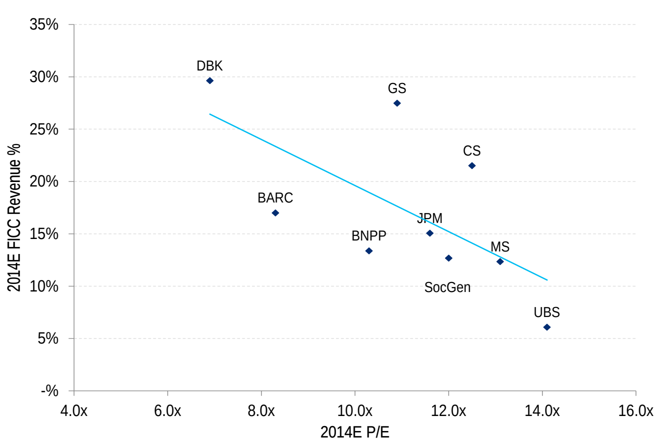
Figure 41. Forex Revenues Correlated with FX Volatility[1]



Source: Coalition, Bloomberg, Citi Research

Note: 1. Based on CVIX index; 2. R^2 = 47%

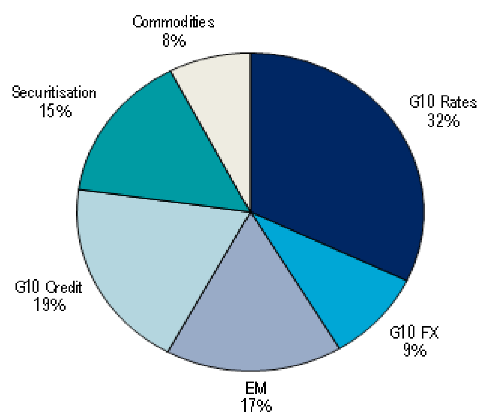
Figure 42. Wholesale Bank Valuations - Correlated with FICC Reliance



Source: Citi Research

Note: 2015E P/E multiples; 2015E FICC revenues as a % of Group revenue

Figure 43. FICC Industry Revenue Breakdown, 2013



Source: Coalition, Citi Research

Note: EM revenues split 45% FX, 30% Rates, 15% Credit, 10% Commodities

RBS: c34p Core EPS Target in 2017

To derive RBS' implied underlying organic growth assumptions we need to back-out planned divestments

Analysis of RBS' financial targets is complicated by two factors: (i) 2013 suffered from elevated impairments in preparation for the formation of the new non-core division, the RCR, so it is not comparable; (ii) the financial targets incorporate a divestment of two businesses – Citizens in the US and Williams & Glyn in the UK.

Figure 44. RBS – 2013 Financial Contribution From Planned Divestments (£bn)

	Citizens	Williams & Glyn	Total
Revenue	3.0	0.7	3.7
Costs	-2.0	-0.3	-2.3
Loan Losses	-0.3	-0.1	-0.4
PBT	0.7	0.3	1.0
RWAs	55	10	65
Assets	75	20	95

Source: Company Reports and Citi Research

RBS' ambition is to generate a core pre-tax profit of c£5.6bn in 2016/17, equivalent to a core EPS of c34p

In the next table we adjust for the planned disposals, in order to better illustrate the underlying improvement in profitability implied by RBS' financial targets. Underlying PBT is expected to almost treble, albeit this is driven mainly by provisions, due to the aforementioned 'one-off' charges in 2013. In contrast the target improvement in underlying pre-provision profit, at approximately +23%, is similar to Barclays. Note we assume that the non-core contribution is zero by 2017.

RBS targets a £2.4bn, or 23% absolute reduction in the core cost base

Again this improvement is driven predominantly by cost saves. A £2.4bn, or 23%, underlying reduction in the core cost base, is mainly attributable to £2.2bn of targeted cost saves, as well as £0.6bn of cost saves relating to running-down and reshaping Markets and International Banking. This is expected to be part offset by increased regulatory spend relating to the EU resolution fund, bank levy, etc…

The £2.2bn of cost saves are split £0.3bn from 'businesses' (focus on a simplified service provision), £0.3bn 'property' (consolidating), £0.8bn from 'IT & operations' (investment in IT platforms and streamlining operational activities) and £0.8bn from 'functions' (streamlining the back office and other overhead costs). Overall the 23% underlying reduction in the core cost base seems to us somewhat ambitious, relative to the 10% announced by Barclays, albeit RBS has provided more disclosure, and probably does have greater levels of system and process duplication to exit.

Figure 45. RBS – Implied 2017 Targets vs 2013 Core Reported (£bn)

	2013 Core Actual	Divestments*	2013 Pro-Forma	Increase/(Decrease)	Target 2016/17	% Chg Required
Revenues	19.8	-3.7	16.1	-1.1	15.0	-7%
Costs	-12.7	2.3	-10.4	2.4	-8.0	-23%
Pre-Provision Profit	7.1	-1.4	5.7	1.3	7.0	+23%
Est. Impairments	-3.9	0.4	-3.5	2.1	-1.4	-59%
PBT	3.2	-1.0	2.2	3.4	5.6	+152%
Est. Minorities / Prefs	-0.5	0.1	-0.4	0.0	-0.4	0%
Est. Tax	-1.0	0.3	-0.7	-0.6	-1.3	+78%
Implied Attributable Profit	1.7	-0.6	1.1	4.1	3.9	+260%
EPS (p)	14.9	-	9.6	-	34.2	+256%
Funded Assets	712	-95	617	-17	600	-3%
Basel III RWAs	391	-65	326	-26	300	-8%
RoTE	5.5%		3.2%		9-11%	
CET1 Ratio	8.6%				>12%	

Source: Company Reports and Citi Research Estimates.
Note: Impairments estimated based on asset targets and 40-60bps loan loss charge target. Target costs excludes restructuring charges.
* Planned divestments includes Citizens and Williams & Glyn.

Investment vs Retail Banking Targets

We see additional revenue attrition risk from the investment bank as RBS continues to scale back…

Furthermore the planned reduction in Markets & International Banking is expected to reduce RWAs by 55% in Markets and 18% in Int'l Banking. Yet, revenues are only expected to decline by 40% and 19%, respectively. We see additional revenue attrition risk from the investment bank as RBS continues to scale back here.

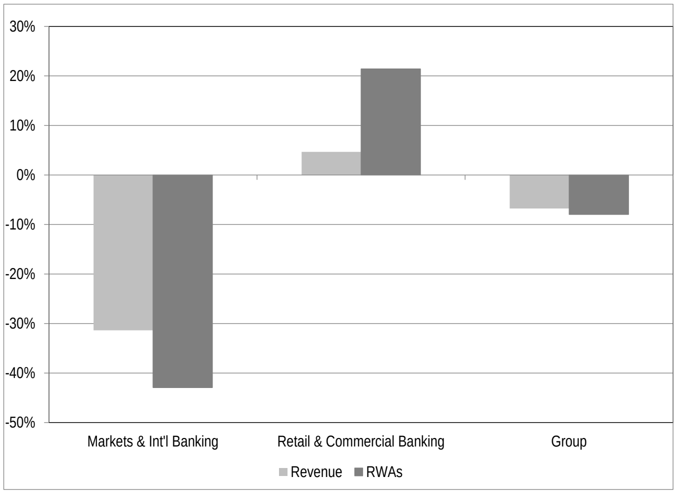
Figure 46. RBS – Planned Reduction in Markets & International Banking (£bn)

	2013 Actual	2016 Targets	% Chg	2016E Citi	% Diff
Markets					
Income	3.3	<2.0	-40%	1.8	-9%
RWAs	99.9	45.0	-55%	51.0	13%
International Banking					
Income	1.8	1.5	-19%	1.6	5%
RWAs	49.0	40.0	-18%	39.4	-2%

Source: Company Reports and Citi Research Estimates

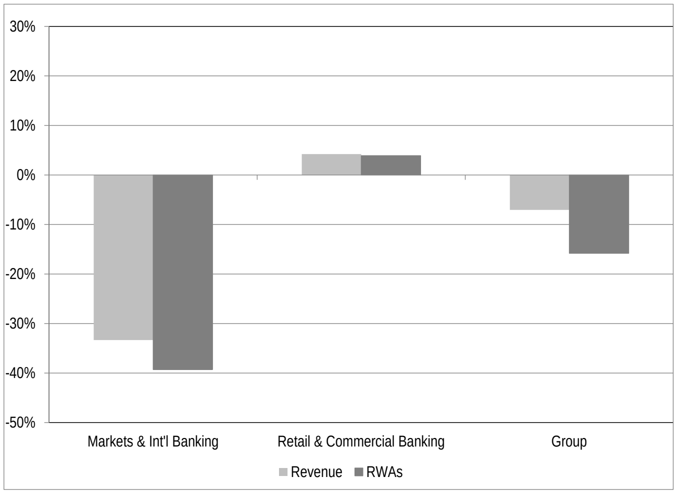
However, this also implies that RBS is targeting underlying revenue growth of c5% from the other divisions (excluding Markets and Int'l Banking) against RWA growth of up to c20%. We doubt Retail & Commercial banking RWAs will grow this quickly, which is why we forecast a CET1 ratio ahead of the target >12% by 2016.

Figure 47. RBS – Target Growth/Reduction in Underlying Core Revenues and RWAs by Business Segment, 2013 to 2016/17



Source: Company Reports. Note: Excludes planned divestments.

Figure 48. RBS – Citi Estimate of Growth/Reduction in Underlying Core Revenues and RWAs by Business Segment, 2013-16



Source: Citi Research Estimates. Note: Excludes planned divestments.

… but this may be offset by better than expected revenue growth in UK Retail

RBS has recently provided additional guidance on the 'new' Personal & Business Banking division, which to some extent should map to the 'old' retail & commercial banking divisions (ex-Citizens). Overall RBS expects to report a small increase in revenues in 2014, driven by higher volumes, with overall NIMs stable (better deposit margins offset by lower mortgage margins as SVR customers refinance).

RBS' current share of new UK mortgages is c10-12% versus an 8% share of outstanding stock, while RBS expects industry growth to be c1-2% per annum from 2014-16. On this basis it would seem to imply RBS UK mortgage growth is expected to be c2-3% per annum. This reinforces our belief that RBS is likely to surpass its capital targets, via lower RWA growth outside the investment bank. Meanwhile solid revenue growth from UK retail banking may also help to partly offset the revenue attrition risks within the investment bank.

Figure 49. RBS – 2014 Outlook for Key Variables

	2013 Income (£bn)*	Income Expected Trend	Volume Expected Trend	Margin Expected Trend	Fees Expected Trend
Mortgages	2.6	→	↗	↓	→
Unsecured Lending	0.9	→	→	↓	↗
Personal Deposits	0.5	↑	↗	↗	↘
Cards	0.8	↓	↓	↓	→
Business	1.0	↗	↗	↗	→
Total	5.8	↗	↗	→	→

Source: Company Reports
* Excludes Ulster Bank and includes Williams & Glyn

Our core EPS forecast of c34p in 2017 is c1% below the implied company target, due mainly to more conservative costs

Overall we see greater execution risks at RBS, relative to Barclays, especially with respect to costs (and investment banking revenues). Our 2017 Group forecasts are slightly shy of the implied company targets – with EPS c1% below the implied target – driven by elevated costs. While we also forecast lower revenues from investment banking than the company target, this is offset by better revenues from RBS' other divisions (due mainly to UK retail). We also model a reduction in RWAs beyond the company target, resulting in a superior capital ratio of close to c15% by end-2017E.

Figure 50. RBS – Implied 2017 Targets vs Citi Estimates (£bn)

	Target 2016/17	Citi 2017E	% Diff
Revenues	15.0	15.4	2%
Costs	-8.0	-8.4	6%
Pre-Provision Profit	7.0	6.9	-1%
Est. Impairments	-1.4	-1.3	-4%
PBT	5.6	5.6	0%
Est. Minorities/Prefs	-0.4	-0.4	
Est. Tax	-1.3	-1.2	
Net Attributable Profit	3.9	4.0	2%
Sharecount (m)	11.3	11.4	1%
EPS (p)	34.2	33.9	-1%
Funded Assets	600	613	2%
Basel III RWAs	300	270	-10%
RoTE	9-11%	9.1%	
CET1 Ratio	>12%	14.7%	

Source: Company Reports and Citi Research. Note: Excludes restructuring charges.

We question RBS' long-term proposed business mix

We also question RBS' long-term proposed business mix. Despite the optimistic Markets revenue targets, relative to the planned reduction in RWAs, RBS is still only targeting a RoE of c10% from 'Corporate & Institutional Banking' by 2017. To put this into perspective, Barclays' core investment bank was already generating a RoE of c9-10% in 2013 and should improve from these levels, subject to a cyclical recovery in FICC revenues, as rates & FX volatility begins to recover.

Figure 51. RBS – Core Divisional Targets

	Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking
CEO	Les Matheson	Alison Rose	Donald Workman
Target RWA Contribution	35%	30%	35%
Target Operating Profit Contribution	50%	30%	20%
Target RoE	15%+	15%+	~10%

Source: Company Reports

Non-Core Run-Down

Barclays aims to preserve TNAV while running down non-core, while RBS expects to bring forward impairments and disposal losses

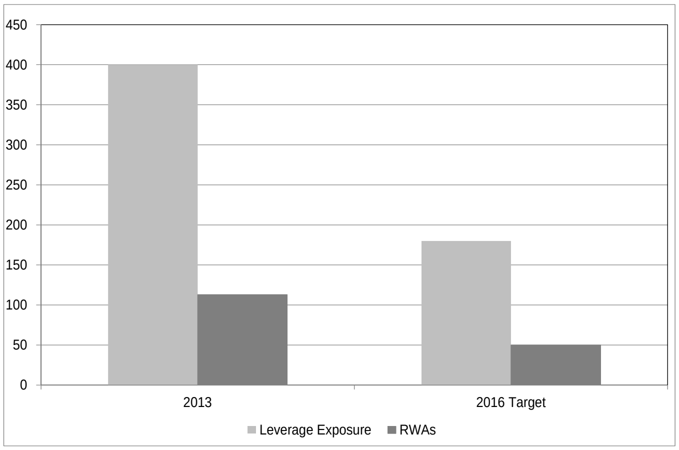
Barclays and RBS are not the first banks to create non-core units, with a wide range of other European banks already reporting on a similar basis, albeit definitions of 'non-core' differ widely. We outline the selection criteria for Barclays and RBS below. Barclays aims to reduce its non-core portfolio by c55% over three years, while "preserving TNAV and capital". Meanwhile RBS plans to reduce its non-core portfolio at a faster rate, by >85% over three years, but does expect to "bring forward impairments and generate disposal losses". So the strategies are different.

Figure 52. Comparison of Barclays and RBS Non-Core Criteria

	Barclays	RBS
Asset Selection	Limited growth opportunity Poor strategic fit Not expected to meet leverage and RWA return hurdles	Excludes retail, wealth Credit grade of B+ or lower (S&P) >150% risk-weighting
Management & Governance	Dedicated management team & traders	Dedicated management team
Pace Of Run-Down	Sales and run-off expected to drive RWA reductions Will act in a commercial way to preserve TNAV and capital Target c55% run-down within 3 years	Realisation of assets and release of capital at maturity (2014-16 only) Bring forward impairments, generate disposal losses Target >85% run-down within 3 years

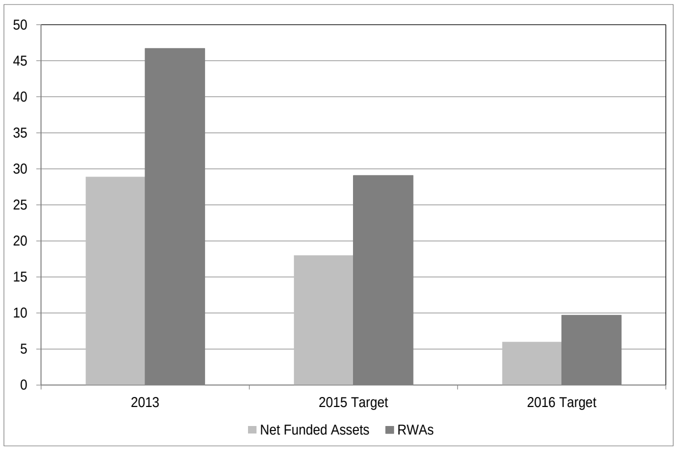
Source: Company Reports

Figure 53. Barclays – Non-Core Leverage Exposure and RWAs (£bn)



Source: Company Reports

Figure 54. RBS – Non-Core Assets and RWAs (£bn)



Source: Company Reports and Citi Research Estimates

Barclays Non-Core: Preserving TNAV

Barclays' non-core division consists mainly of investment banking assets that are profitable…

In contrast to most European peers, the majority of Barclays' non-core division will be attributable to investment banking assets. Overall £90bn, or 41% of the 'old' investment bank RWAs, will be re-allocated to non-core. These assets will account for 80% of total non-core RWAs, 60% of income and 45% of expenses and generated a small pre-tax profit in 2013, of c£0.1bn. In contrast we calculate that the retail & corporate assets placed in the non-core unit generated a loss of c£1.1bn, driven by elevated costs and impairments within the European operations.

Figure 55. Barclays – Breakdown of Investment Bank P&L, 2013 (£bn)

	Core IB	Africa IB	Non-Core IB	Total IB
Income	8.7	0.5	1.5	10.7
Expenses	-6.2	-0.4	-1.1	-7.8
Impairments	0.0	0.0	-0.2	-0.2
Adjusted Pre-Tax Profit	2.5	0.1	0.1	2.8
RWAs	120	12	90	222
Average Equity	17	-	-	19
RoE	9-10%	-	-	8.2%

Source: Company Reports and Citi Research Estimates

Figure 56. Barclays – Breakdown of Non-Core P&L, 2013 (£bn)

	IB	Non-IB	Total
Revenue	1.5	1.0	2.5
Costs	-1.1	-1.4	-2.5
Loan Losses	-0.2	-0.7	-0.9
PBT	0.1	-1.1	-1.0
RWAs	90.0	25.0	115.0

Source: Company Reports and Citi Research Estimates

… and should run-off relatively quickly…

A closer inspection of the non-core portfolio indicates that c£44bn of RWAs, or c38% of the total, are in long-duration assets, to include the CRD IV rates portfolio, as well as long-dated retail and corporate lending (mainly in Europe). The remaining assets – structured credit, trading books in run-off (commodities, emerging markets, financing, etc) as well as non-strategic IB businesses – are likely to be much shorter in duration. These assets should therefore run-off relatively quickly, explaining why Barclays targets a reduction in RWAs from £113bn to <£50bn by end-2016. Consequently the RoE drag is expected to decline from 6% in 2013 to <3% in 2016.

Figure 57. Barclays – Composition of Non-Core Division, end-2013

	Income		RWAs	
	£m	% Total	£bn	% Total
Portfolio Assets	142	6%	24	21%
Pre-CRD IV Rates	-140	-6%	22	19%
Trading Book Run-Off	710	28%	35	31%
Non-Strategic Businesses	785	31%	10	9%
Total Non-Core IB	1,497	60%	91	81%
Europe Retail	648	26%	16	14%
Other Retail	290	12%	2	2%
Non-UK Corporate	160	6%	2	2%
Long-Dated UK Corporate	-100	-4%	2	2%
Total Non-Core RBB	998	40%	22	19%
Total Non-Core	2,495	100%	113	100%

Source: Company Reports
Note: "Trading book run-off" comprises non-core elements of commodities, emerging markets, fixed income financing and securitized products. Europe retail principally relates to mortgage portfolios in Spain and Italy.

… while the majority will also be held at fair value, already thereby minimizing the risk of future losses on disposal

As the vast majority of non-core assets have been re-allocated from the investment bank, they are likely to be held at fair value. This is in sharp contrast to RBS, as loans and receivables (and certain debt instruments which are not quoted in an active market) are usually held at amortised cost. We therefore perceive the risk of write-downs upon the sale of non-core assets as lower at Barclays versus RBS.

Figure 58. IAS 39 asset classification

Category	Includes	Accounting
FV through P&L	All derivatives and trading assets	Marked to market through P&L
Available for Sale	Default category	FV on balance sheet. Dividends/interest, realised gains/losses, impairments in P&L
Loans & receivables	Debt instruments not quoted in active market	Amortised cost
Held to maturity	Debt instruments held to maturity	Amortised cost

Source: IASB, Citi Research. FV = fair value

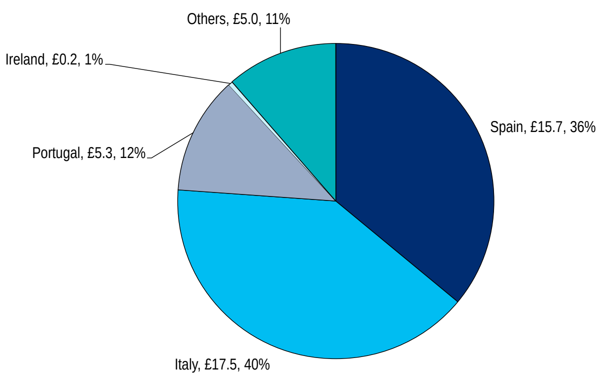
This should help Barclays to preserve TNAV while delivering on the non-core asset reduction targets. While less relevant at a Group level we previously calculated that if all assets and liabilities were held at fair value, rather than amortised cost, it would result in a 25% reduction in Barclays NAV (32% reduction in TNAV) and 22% reduction in RBS NAV (29% reduction in TNAV). For more detail please see *'European Banks Annual Report Review' (16 June 2014)*.

Spanish Optionality

If Barclays disposes of Barclays Bank Spain then this would further reduce the non-core drag on the Group RoE

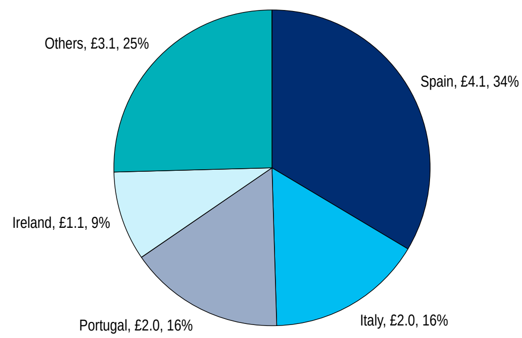
The non-core RoE drag in 2016 could be even lower than the target <3% if Barclays is able to accelerate its non-core asset reduction program. The best way to achieve this, in our view, is via a block-sale of the Spanish retail business. In Barclays' current planning the European retail business, which mainly relates to mortgage portfolios in Spain and Italy, is being managed as a going concern while the various options available to Barclays are assessed. This book should run-down organically at c9% per year and has a stable average >90 days delinquency rate of c80bps.

Figure 59. Barclays - European Retail Loans, end-2012 (£bn)



Source: Company Reports

Figure 60. Barclays - European Corporate Loans, end-2012 (£bn)



Source: Company Reports

The business is currently loss-making…

While a disposal of the Italian business may prove trickier, we believe there is M&A appetite in Spain now. So the key question is whether Barclays Bank Spain could be perceived to be an attractive acquisition? Figure 61 and Figure 62 outline the summary financials for Barclays Spain. The company was loss-making in 2011-12 due to low margins, high provisions and an inefficient cost structure. Furthermore with c€23bn of total assets, the bank is barely 1% of the market by assets.

Figure 61. Barclays Spain – Summary Balance Sheet, 2011-12 (€m)

Balance Sheet	2011	2012	Nov-13
Deposits with banks	1,205	719	1,076
Loans	25,218	22,663	20,475
DTA	463	528	575
Rest	3,139	2,136	1,035
Total Assets	30,025	26,045	23,162
Deposits from central banks	1,050	4,506	3,570
Deposits from banks	7,631	2,018	1,022
Customer deposits	15,997	14,584	13,855
DTL	16	16	16
Other liabilities	3,191	2,917	2,700
Shareholders' equity	2,140	2,004	2,000
Total Liab & Sh Equity	30,025	26,045	23,162
Capital			
Core Capital	1,862	1,688	
Risk Weighted Assets	15,016	13,188	
Core Capital Ratio	12.4%	12.8%	
Total Capital Ratio	12.4%	12.8%	

Source: Citi Research, Barclays Spain company reports, AEB

Figure 62. Barclays Spain – Summary P&L and Ratios, 2011-12 (€m)

P&L	2011	2012
NII	309	303
Other Revenues	197	168
Total Revenues	506	471
Costs	-549	-380
Provisions	-269	-408
Pre-tax operating profit	-312	-317
Other result	-20	-13
Pre-tax profit	-332	-330
Taxes	105	104
Net profit	-227	-226

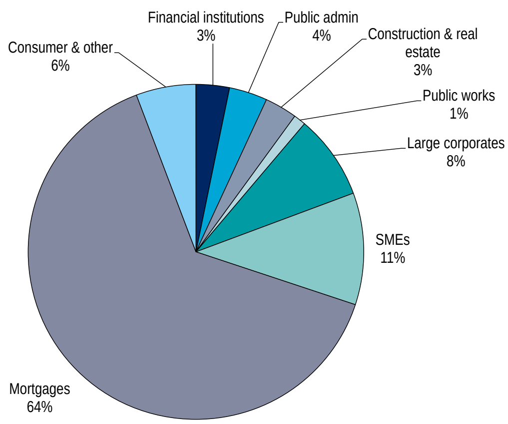
Operating Ratios	2011	2012
NIM	1.03%	1.16%
Cost/Income Ratio	108.5%	80.7%
Cost of Risk	1.07%	1.80%
ROE	-10.6%	-11.3%

Source: Citi Research, Barclays Spain company reports, AEB

… but may present an attractive opportunity for consolidators looking to gain market share in Madrid

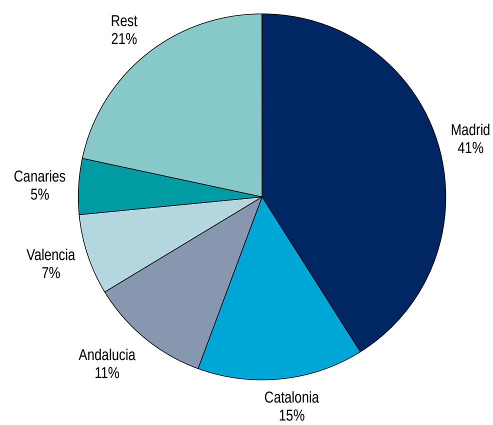
However, Barclays Spain is predominantly a mortgage bank (64% of the loan book) with concentrated regional exposures in Madrid (41% of the loan book), Catalonia (15%) and Andalusia (11%). It could therefore look potentially attractive to local consolidators looking to improve market share within these regions of Spain.

Figure 63. Barclays Spain – Split of Loan Book by Type, 2012 (%)



Source: Citi Research, AEB, Barclays Spain company reports

Figure 64. Barclays Spain – Split of Loan Book by Region, 2012 (%)



Source: Citi Research, AEB, Barclays Spain company reports

Local press reports Caixabank has made the "best initial bid"

Assuming there is a buyer willing and able to turn around the bank's profitability – or use its platform to grow – we estimate the acquisition would consume the least capital for SAN and BBVA (at 1x P/B). However, Barclays Spain's meaningful presence in Madrid could mean that it is a more attractive acquisition for the likes of CABK and SAB, which have a lower presence in the capital city compared to their national market share. The latest press reports seem to indicate that CABX is the front-runner to acquire Barclays' Spanish operations, with *Expansion* reporting on 30 June that Caixabank had made the "best initial bid" for Barclays Spain, albeit the same paper has since reported that Barclays may delay the sale of this business.

Figure 65. Barclays Spain – Capital Consumption at Various P/B Multiples (€m)

BV	RWA	P/B	Badwill / (G'will)	9% RWA Cons	Total Consumpt
2,000	13,188	0.50	1,000	-1,187	-187
2,000	13,188	0.75	500	-1,187	-687
2,000	13,188	1.00	0	-1,187	-1,187
2,000	13,188	1.25	-500	-1,187	-1,687
2,000	13,188	1.50	-1,000	-1,187	-2,187

Figure 66. Barclays Spain – Capital Impact from a Potential Deal to Banks Under Citi Coverage, % 2013A RWA (in bps)

P/B	SAN	BBVA	BKIA	BKT	CABK	POP	SAB
0.50	-4	-6	-21	-82	-14	-23	-26
0.75	-14	-21	-77	-302	-53	-85	-94
1.00	-24	-37	-134	-521	-92	-147	-163
1.25	-34	-52	-190	-741	-131	-209	-231
1.50	-45	-68	-246	-960	-169	-272	-300

Source: Citi Research, Barclays Spain, company reports, AEB

A disposal could add c15bps to Barclays' CET1 ratio

We don't include a disposal of the Barclays Bank Spain within our model, so any resolution to divesting this business could provide additional upside to our capital forecasts. Most Spanish banks trade between 1.2-1.6x tangible book, but are also far more profitable than Barclays Bank Spain. We therefore expect any divestment would be at a notable discount to peers. For example, a disposal at 0.7x tangible book would hit Group TNAV by 0.8%, but would add c15bps to the CET1 ratio.

Figure 67. Sensitivity Table – Barclays Spain P/B Valuation Multiple vs Barclays Capital Uplift (bps)

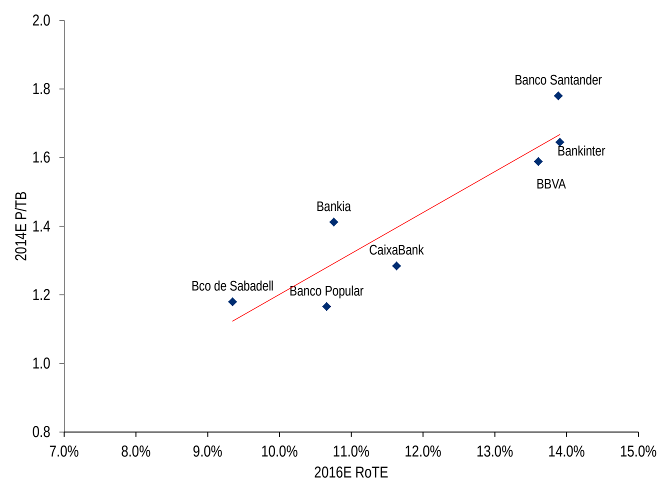
P/B Multiple	BARC Spain Valuation (£m)	Post-Tax Gain/ (Loss) on Sale* (£m)	Capital Relief From RWA Reduction** (£m)	Total Capital Benefit (£m)	Total Capital Uplift (bps)
0.5x	835	-626	1,211	585	9
0.6x	1,002	-501	1,211	710	12
0.7x	1,169	-376	1,211	835	15
0.8x	1,336	-250	1,211	960	18
0.9x	1,502	-125	1,211	1,086	21
1.0x	1,669	0	1,211	1,211	24
1.1x	1,836	125	1,211	1,336	27

Source: Citi Research. Notes: Analysis is based on Nov 2013 figures. *Based on a 25% tax rate; **Based on an 11% core tier 1 ratio

Figure 68. Spanish Banks – 1Yr Fwd P/E

Source: Powered by dataCentral

Figure 69. Spanish Banks – 2014E P/TB vs 2016E RoTE



Source: Citi Research

RBS Non-Core: Accelerated Run Down

RBS plans to run-down the non-core portfolio rapidly…

In 1Q14 RBS reduced non-core net funded assets by an impressive 16% qoq and RWAs by 13% qoq. RBS therefore looks well on track to achieve its desired aim of reducing non-core assets by >85% by end-2016 and by 2017 we expect the non-core contribution to RBS' Group balance sheet and P&L will be minimal.

Figure 70. RBS – Composition of RCR Capital Resolution (RCR) Division, end-2013

	Gross Funded Assets		Net Funded Assets		RWA		RWAe	
	£bn	%	£bn	%	£bn	%	£bn	%
End-2013								
Ulster Bank	16.2	36%	4.8	11%	3.3	7%	8.9	20%
Real Estate Finance	13.0	29%	9.5	21%	13.5	30%	18.6	41%
Corporate	11.4	25%	9.8	22%	16.4	36%	21.1	46%
Markets	4.9	11%	4.8	11%	13.5	30%	16.4	36%
Total	45.5	100%	28.9	100%	46.7	100%	65.0	100%
End-March 2014								
Ulster Bank	16.2	36%	4.8	11%	3.3	7%	8.9	20%
Real Estate Finance	13.0	29%	9.5	21%	13.5	30%	18.6	41%
Corporate	11.4	25%	9.8	22%	16.4	36%	21.1	46%
Markets	4.9	11%	4.8	11%	13.5	30%	16.4	36%
Total	45.5	100%	28.9	100%	46.7	100%	65.0	100%
% QoQ								
Ulster Bank	-3%		-8%		-15%		-25%	
Real Estate Finance	-21%		-19%		-15%		-28%	
Corporate	-9%		-12%		-10%		-19%	
Markets	-27%		-25%		-15%		-16%	
Total	-12%		-16%		-13%		-22%	

Source: Company Reports. Note: RWAe = RWA equivalents ie. also adjusting for associated capital deductions.

… but this is likely to come at a cost

However, while the speed of the proposed run-down in non-core assets sounds impressive, this is likely to come at a cost. Overall c90% of non-core assets (70% of RWAs) relate to Ulster Bank, Real Estate Finance and Corporate Lending, which are likely to be held at amortised cost, rather than at fair value. The risk of additional charges on disposal is therefore higher at RBS, relative to Barclays, in our view.

Total losses from non-core over 2014-16 are expected to amount to £3.5-4.5bn

RBS itself expects total disposal costs over 2014-16 to reach £1.5-2.0bn, additional impairments of up to £0.5-1.0bn and operating/funding costs of £1.5bn. The total losses from the non-core operations over 2014-16 are therefore expected to amount to £3.5-4.5bn. Our 2014-16 forecast, of £4.1bn, is in the middle of the range. This is likely to hinder RBS' ability to grow TNAV, although the impact on the capital position should be less pronounced given the offsetting RWA reduction.

Figure 71. RBS – RBS Capital Resolution (RCR) Targets vs Citi Estimates (£bn)

	Target	Citi
TPAs end-2016	<6.0	5.1
Disposal Costs, 2014-16	1.5-2.0	1.5
Extra Impairments, 2014-16	0.5-1.0	1.0
Operating & Funding Costs, 2014-16	1.5	1.6
Implied Total Cost, 2014-16	3.5-4.5	4.1

Source: Company Reports and Citi Research

Core Business Divestments

RBS has identified two sizeable 'core' businesses that it plans to divest and may yet also divest a third

Barclays' planned divestments are all expected to come from the non-core division. The execution risk surrounding these is therefore factored into our non-core assumptions. In contrast, RBS has identified two sizeable 'core' businesses that it plans to divest (mainly to satisfy regulatory demands) – Citizens in the US and Williams & Glyn in the UK. In addition, press reports suggest RBS may also choose to dispose of Ulster Bank, or at least merge and deconsolidate this business in order to improve the overall Group RoE outlook. All of these divestments carry potential execution risk.

Citizens

RBS plans to launch an IPO of up to 25% of Citizens in the "latter part" of 2014, with a full exit earmarked by end-2016

On 12 May 2014 Citizens filed an S-1 filing with SEC to proceed with an IPO. RBS has previously stated that it plans to launch an IPO of up to 25% of Citizens in the "latter part" of 2014, with a full exit earmarked by end-2016. Citizens is the 16th largest bank in the US by assets, focused on 12 states, within three geographic regions – Mid-West, Mid-Atlantic and New England.

Citizens only generates an adjusted RoTE of c7% versus the local US peers average of c10-12%...

Business profitability has been recovering, driven by lower provisions and costs, but revenues remain weak. In 2013, US R&C contributed 15% of total Group revenues, but in absolute terms revenues have been falling. Based on the local accounts at end-2013 Citizens had a tangible book value of $12.3bn, a Basel III core tier 1 capital ratio of 13.1% and generated a RoTE of 4.9%. Even on a "normalized" basis, excluding non-recurring and non-core items and based on a 10% CT1 ratio, the RoTE would still only be c7% versus the local US peers average of c10-12%.

Figure 72. RBS Citizens – Summary Balance Sheet, 2009-2013, USD m

	2009	2010	2011	2012	2013
Total Assets	147,681	129,689	129,654	127,053	122,154
Gross Customer Loans	95,080	87,002	86,795	87,248	85,859
Customer Deposits	98,053	92,155	92,888	95,148	86,903
LDR	97%	94%	93%	92%	99%
Shareholders' Equity	22,276	22,694	23,393	24,129	19,196
Goodwill & Other Intangibles	11,443	11,362	11,324	11,322	6,876
Tangible Equity	10,833	11,332	12,069	12,807	12,320
Basel III Core Tier 1 Ratio (%)	11.0%	12.4%	13.3%	13.4%	13.1%
Basel II Tier 1 Ratio (%)	11.6%	13.0%	13.9%	14.2%	13.5%

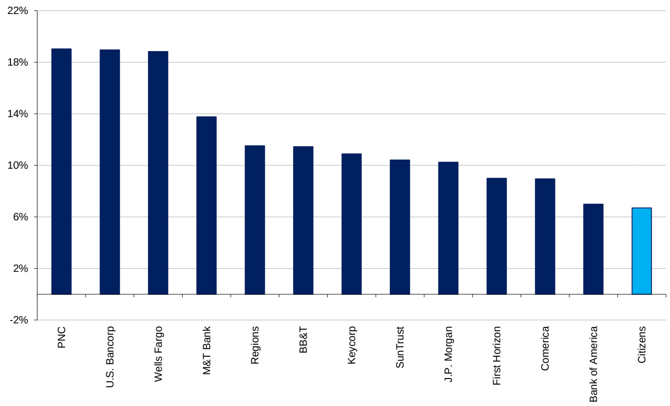
Source: Company Reports

Figure 73. RBS Citizens – Summary P&L, 2009-2013, USD m

	2009	2010	2011	2012	2013*
Net Interest Income	3,419	3,345	3,320	3,227	3,058
Non Interest Income	1,666	1,733	1,704	1,667	1,632
Total Revenues	5,085	5,078	5,024	4,894	4,690
Expenses	-3,495	-3,483	-3,371	-3,457	-3,217
Provisions	-2,783	-1,644	-882	-413	-479
Pre-Tax Profit	-1,193	-49	771	1,024	967
Tax	453	60	-265	-381	-313
Net Operating Income	-740	11	506	643	654
Net Interest Margin	2.49%	2.78%	2.97%	2.90%	2.85%
Cost-Income Ratio	69%	69%	67%	71%	69%
Loan Loss Charge	2.9%	1.9%	1.0%	0.5%	0.6%
RoE	-3.3%	0.0%	2.2%	2.7%	2.7%
RoTE	-6.8%	0.1%	4.2%	4.9%	4.9%

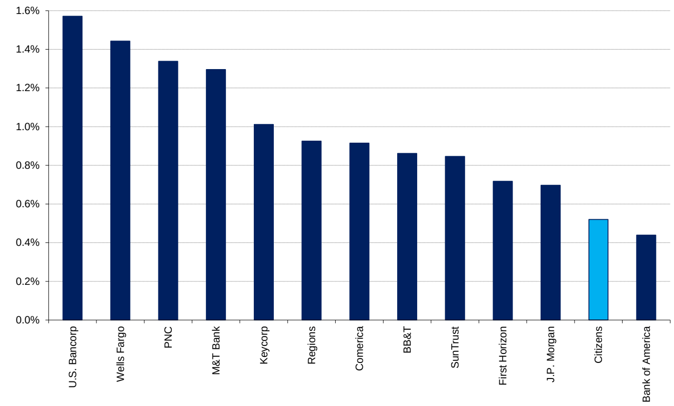
Source: Company Reports
* Excludes a one-off goodwill impairment in expenses. Including this item net profit would equal -$3,426m.

Figure 74. Selected US Banks – "Normalized" RoEs 2013 (%)



Source: Company Reports.
"Normalized" based on shareholders' equity equivalent to 10% of RWAs.

Figure 75. Selected US Banks – RoAs 2013 (%)

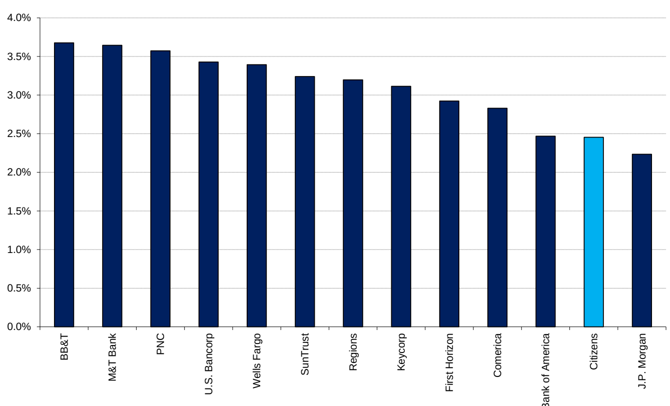


Source: Company Reports

... which is a function of poor revenues based on a sub-optimal business mix

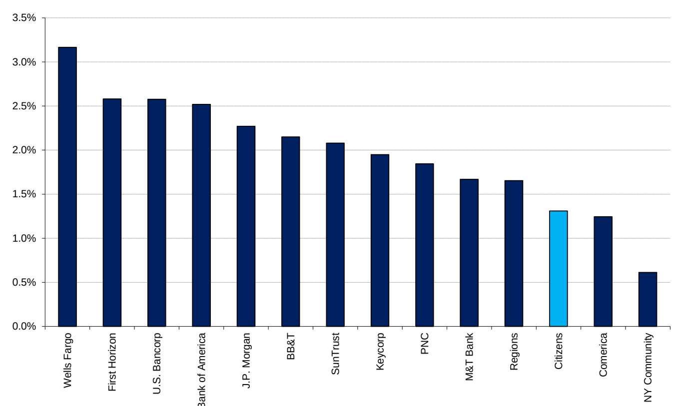
The lackluster returns at Citizens versus peers are predominantly due to weaker interest & commission income. This in turn is mainly attributable to business mix, as the bank is subscale in credit cards and mortgages, but also reflects the bank's low LDR, conservative risk appetite and historic pricing and hedging practices. Citizens management are attempting to improve interest margins and grow fee income, but have been unsuccessful in recent years hindered by the impact of new regulation, the low-rate environment (poor reinvestment options) and subdued economy. In contrast on costs, asset quality and capital the business screens well versus peers.

Figure 76. Selected US Banks – NII / ATA 2013 (%)



Source: Company Reports
Note: ATA = Average Total Assets

Figure 77. Selected US Banks – Non-NII / ATA 2013 (%)

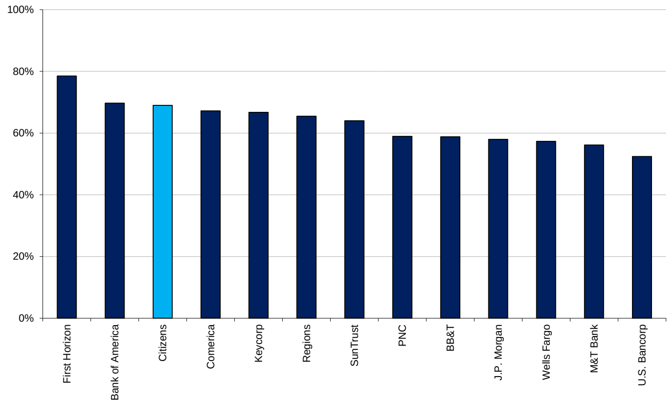


Source: Company Reports

We believe the ability to achieve a double-digit RoTE is still some way away

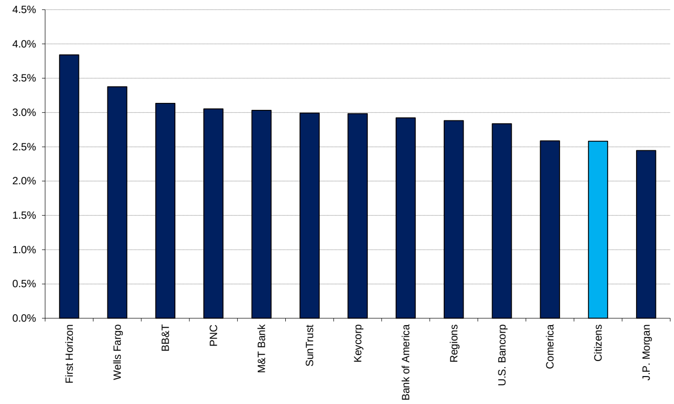
Management target a 10% RoTE in the medium term and 12%+ RoTE in the long term by growing the balance sheet, improving the asset mix and yield, leveraging investment spend to become more efficient and through capital optimization. Several strategic initiatives are already under way to achieve this, such as adding originators and the sale of the Chicago-area retail branches. Nonetheless the near-term NIM outlook is expected to be "broadly stable in a difficult environment". We believe the ability to achieve a double-digit RoTE is still some way away.

Figure 78. Selected US Banks – 2013 Cost-Income (%)



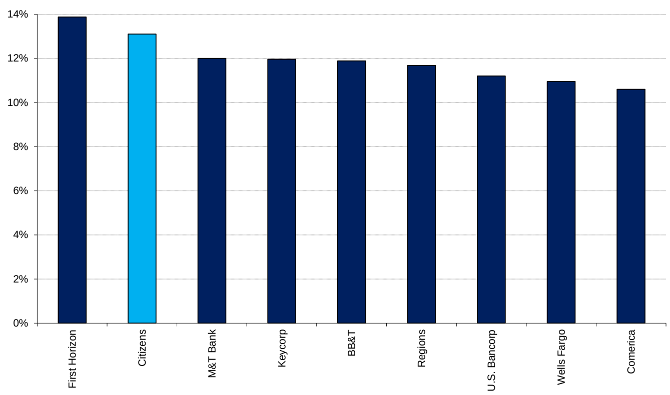
Source: Company Reports

Figure 79. Selected US Banks – 2013 Costs / ATA (%)



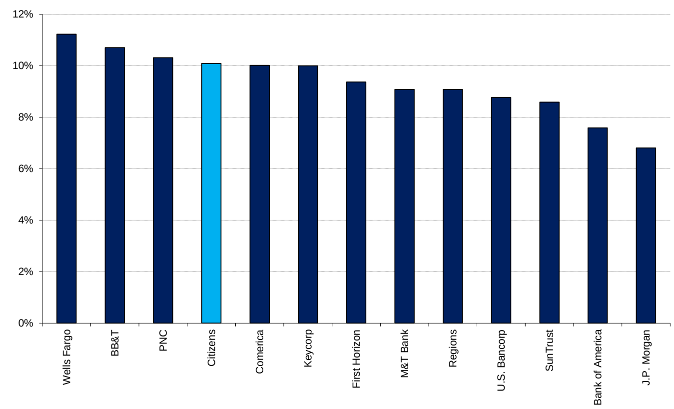
Source: Company Reports

Figure 80. Selected US Banks – 2013 Tier 1 Capital Ratio



Source: Company Reports.

Figure 81. Selected US Banks – 2013 TCE/TA



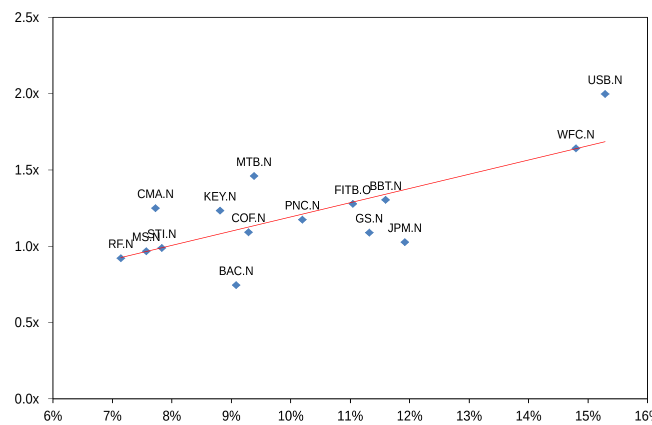
Source: Company Reports

On average US banks trade at c1.2x P/B (and c12.5x P/E). Based on its sub-par profitability we would argue it may be difficult for Citizens to achieve this kind of multiple in the near term. At 0.8x tangible book, which we believe to be a more realistic multiple, the implied valuation would be c£5.8bn.

Figure 82. US Banks – 1Yr Fwd P/E

Source: Powered by dataCentral

Figure 83. US Banks – 2014E P/TB vs 2016E RoTE



Source: Citi Research

A disposal at 0.8x tangible book would hit RBS' TNAV by 2.4% but add c100bps to the CET1 ratio upon full disposal

A disposal at 0.8x tangible book would provide a 2.4% hit to RBS' TNAV but a c100bps uplift to RBS' CET1 capital ratio upon full disposal. In the table below we illustrate the long-term potential uplift to RBS' CET1 ratio from a full disposal of Citizens based on a range of potential valuation multiples. However, the benefit from an IPO of an initial c25% stake would be much smaller, as a loss would be booked upfront (if sold at a discount), the RWAs would still be fully consolidated and any benefit from increased minorities is now limited compared to Basel 2.

Figure 84. Sensitivity Table – Citizens P/TB Valuation Multiple vs RBS Capital Uplift (bps)

Citizens P/TB Multiple	Citizens Valuation (£m)	Post-Tax Gain/ (Loss) on Sale* (£m)	Capital Relief From RWA Reduction** (£m)	Total Capital Benefit (£m)	Total Capital Uplift (bps)
0.5x	3,624	-2,536	6,551	4,014	57
0.6x	4,348	-2,029	6,551	4,521	71
0.7x	5,073	-1,522	6,551	5,029	84
0.8x	5,798	-1,015	6,551	5,536	98
0.9x	6,522	-507	6,551	6,043	111
1.0x	7,247	0	6,551	6,551	125
1.1x	7,972	507	6,551	7,058	138

Source: Citi Research. Notes: *Based on a 30% tax rate; **Based on a 12% core tier 1 ratio

Even in the case of a full disposal, we fear that this may become 'trapped' capital, which RBS would be unable to fully repatriate. That said, we take some comfort from the $185m common dividend that Citizens paid to RBS in 2013 and the $1bn debt for equity swap that was completed with RBS.

Williams & Glyn

RBS plans to IPO a majority stake in Williams & Glyn during 2016

RBS was mandated to dispose of 314 UK branches by the European Commission as part of the conditions of its bail-out by the UK Government in October 2008. In August 2010, RBS agreed to sell its RBS England & Wales and NatWest Scotland branch-based business to Santander UK. In 2011 – the last point at which RBS provided full financial disclosure on this business unit – the branches for sale accounted for c4% of Group loans and c5% of core Group Core PBT.

Figure 85. RBS – 2011 RBS Branch Sale Summary Financials (£m)

	UK Retail	% UK Retail	UK Corporate	% UK Corporate	Total	% Core Total	% Group Total
Income Statement							
Income Statement	437	8.0%	522	13.5%	959	4.0%	4.1%
Expenses	-247	9.2%	-194	11.7%	-441	3.1%	2.8%
Impairment Charges	-92	11.7%	-107	13.6%	-199	5.6%	275.0%
Profit before Tax	98	4.9%	221	15.6%	319	5.2%	16.9%
Balance Sheet							
Risk Weighted Assets	3,600	7.4%	7,500	9.9%	11,100	2.7%	2.5%
Loans	7,300	6.6%	12,200	11.2%	19,500	4.4%	4.3%
Deposits	8,800	8.6%	13,000	12.9%	21,800	5.1%	4.3%
Metrics							
Branches	-		-		318		
Customers	1.8m		245,200		2.05m		
LDRs	78%		88%		84%		

Source: Citi Research, Company Reports

The transaction was initially expected to close at the end of 2012, but in October 2012 Santander confirmed it would no longer be proceeding with the transaction. Subsequently, RBS decided to instead IPO this business – renamed as 'Williams & Glyn' – with a majority stake expected to be sold by the end of 2016.

In September 2013 RBS confirmed that it had agreed a £600m pre-IPO investment in Williams & Glyn's, in the form of a bond issued by RBS, which will be exchangeable into shares at the time of the IPO (at the IPO price, subject to a minimum ownership level). The consortium, led by Corsair Capital and Centerbridge Partners, will also have the option to acquire up to 10% extra shares at the IPO price, subject to their ownership being no more than 49%. The subscription for the bond was satisfied by way of a cash payment from the consortium, with RBS' Markets division providing a £270m secured financing package for the investment.

In 1H13 W&G generated an operating profit of £168m, or £336m annualized

The Williams & Glyn business now serves nearly 1.7 million retail, SME and mid-corporate customers, with a broad national footprint. It currently employs around 4,500 staff and in the future plans to employ c6,000 staff. At end-June 2013 the loan book totaled £19.7bn, funded by £22.2bn of customer deposits and total RWAs amounted to £13.3bn. This is equivalent to 5% of RBS Group loans and deposits and 3% of RWAs. Interestingly, RWAs increased by c20% between 2011-1H13, although loans were up by a mere 1%. In 1H13 the business generated operating profit of £168m, or £336m annualized, up 5% versus 2011. This was equivalent to 7% of RBS Core PBT, or 10% of Group PBT. The post-tax return on allocated equity was c16% in 1H13, substantially higher than RBS' aggregate core RoE of 7.0%.

Figure 86. Williams & Glyn – 2011 vs 1H13

£bn (except where stated)	2011	1H13	Growth %	% of RBS Core
Loans	19.5	19.7	1%	5%
Deposits	21.8	22.2	2%	5%
RWA	11.1	13.3	20%	3%
PBT (GBP m)	319	336*	5%	14%

Source: Company Reports; *Note: 1H13 PBT annualized

RBS has stated that the transaction is "expected to be marginally dilutive to RBSG's earnings and capital in the period through to the IPO"

Our sensitivity analysis shows that at a valuation multiple of c0.5-1.0x book, the divestment would hit RBS' tangible book value by up to c1.6%, but still boost the CET1 ratio by c20-40bps. However, we note that RBS has stated that the transaction is "expected to be marginally dilutive to RBSG's earnings and capital in the period through to the IPO". This seems to imply that the additional restructuring and transaction costs associated with the operational and legal separation of Williams & Glyn, together with any potential loss on IPO, are expected to more than offset the capital relief from deconsolidating the RWAs.

Figure 87. Capital Sensitivity to RBS Group (£m)

	Original Transaction Terms*	New IPO Sensitivity					
Valuation Multiple	1.3x	0.5x	0.6x	0.7x	0.8x	0.9x	1.0x
Total RWAs	15,200	13,300	13,300	13,300	13,300	13,300	13,300
Assumed CT1 Ratio	8.5%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Implied Allocated Equity	1,292	1,995	1,995	1,995	1,995	1,995	1,995
Implied Valuation	1,650	998	1,197	1,397	1,596	1,796	1,995
Gain/(Loss) on Sale	358	-998	-798	-599	-399	-200	0
Assumed Tax Rate	25%	25%	25%	25%	25%	25%	25%
Net Gain/(Loss) on Sale	269	-748	-599	-449	-299	-150	0
As % of TBV	0.5%	-1.6%	-1.3%	-1.0%	-0.6%	-0.3%	0.0%
Capital Relief From Lower RWAs**	1,520	1,596	1,596	1,596	1,596	1,596	1,596
Total Capital Boost	1,789	848	998	1,147	1,297	1,446	1,596
Total Capital Boost (bps)	42	20	23	27	30	34	37

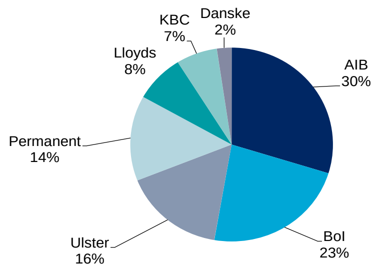
Source: Citi Research, Company Reports
Note: Analysis based on 1H13 numbers. *Based on terms agreed with Santander UK in August 2010; ** Capital relief in sensitivity analysis assumes a 12% CET1 ratio for RBS.

Ulster Bank

Ulster Bank is the third-largest bank in the Republic of Ireland

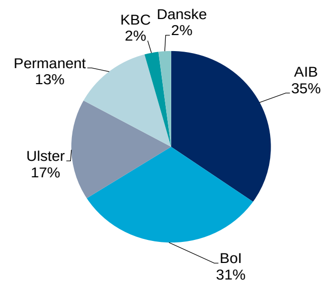
Ulster Bank is the largest bank in Northern Ireland and third-largest bank in the Republic of Ireland, after the two domestic 'pillar' banks, Bank of Ireland (BoI) and Allied Irish Bank (AIB). We calculate that the two pillar banks, alongside RBS' Ulster Bank, control c70% of the Irish lending market by gross loans and an even larger proportion of deposits. Permanent TSB, currently state-owned, is the fourth-largest.

Figure 88. Ireland – Market Share of Total Loans Outstanding, 2013



Source: Company Reports and Citi Research (ex-NAMA)

Figure 89. Ireland – Market Share of Deposits Outstanding, 2013



Source: Company Reports and Citi Research

In the RBS accounts, Ulster Bank is split between core and non-core and made a combined £4.4bn pre-tax loss in 2013, driven largely by elevated provisions on the transfer of Irish assets to the new RCR and acceleration in disposals. In 2013 Ulster Bank contributed 6% of RBS' Group revenues (up from 4% in 2012), but accounted for 57% of the Group loan loss impairments (versus 44% in 2012).

We expect Ulster Bank to remain loss-making until 2016, hindered by poor NIMs and a slow recovery in loan losses

Despite the strong improvement in 1Q14, we expect Ulster Bank to remain loss-making until 2016, hindered by poor interest margins. This is due to elevated legacy funding costs and an unprofitable mortgage portfolio, as approximately two-thirds of the mortgage book relates to low-margin ECB trackers. Furthermore while we do forecast an improvement in impairments, we would highlight that Ulster Bank's provision ratio looks low relative to peers in mortgages and CRE. After a sharp improvement in 2014 we therefore only model a slow recovery in provisions thereafter and believe the possibility of write-backs is a somewhat distant prospect.

Figure 90. Irish Banks – Loan Breakdown

Gross Loans (FY13)	AIB	Bank of Ireland	Danske	KBC	Lloyds	Ulster Bank
Mortgages	49%	50%	53%	79%	39%	61%
Other Personal	5%	3%	nd	nd	nd	4%
Commercial Real Estate	24%	17%	25%	11%	36%	13%
SME / Corporate	22%	30%	22%	10%	25%	22%
Total	100%	100%	100%	100%	100%	100%

Source: Company Reports and Citi Research

Figure 91. Irish Banks – Provision Ratio

Provision Ratios (FY13)	AIB	Bank of Ireland	Danske	KBC	Lloyds	Ulster Bank
Mortgages	10%	7%	13%	14%	11%	9%
Other Personal	27%	-		-	-	15%
Commercial Real Estate	43%	-	57%	38%	68%	36%
SME / Corporate	20%	-		29%	59%	28%
Total	21%	-	30%	18%	44%	17%

Source: Company Reports and Citi Research

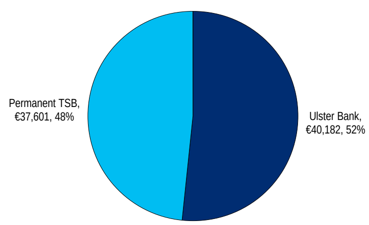
Press reports suggest Ulster Bank may merge with Permanent TSB

Given the poor profitability of this business and the subsequent drag on the Group RoE it may make strategic sense to exit from this business. The *Sunday Times* (15 June) has reported that RBS is in talks with private equity house, Warburg Pincus, to inject cash into Ulster Bank to bolster its capital position, before it is then merged with another Irish bank, most probably Permanent TSB. This would in turn allow RBS to reduce its stake below 50%, enabling RBS to deconsolidate the loss-making business. Over time RBS would then be able to exit via an IPO of the combined Irish bank, according to the report. None of the above firms have commented.

A combined Ulster Bank / Permanent TSB entity would be similar in size to AIB and BoI

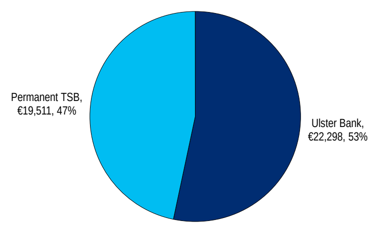
If combined, an Ulster Bank / Permanent TSB entity would have c£52bn of loans, c£38bn of deposits and c£46bn of RWAs. This would be equivalent to a c30% market share of Irish loans and deposits, similar to AIB and BoI. This could result in notable synergies, via both scale efficiencies and improved pricing power. Under its existing strategy Permanent TSB aims to return to profitability in 2016 (after reporting a -€1.0bn pre-tax loss in 2013), similar to our expectation for Ulster Bank.

Figure 92. Ulster Bank and Permanent TSB – Loans (2013A)



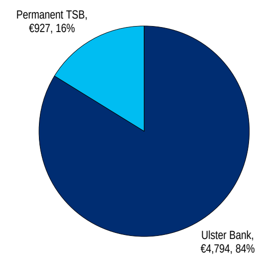
Source: Company Reports

Figure 93. Ulster Bank and Permanent TSB – Deposits (2013A)



Source: Company Reports

Figure 94. Ulster Bank and Permanent TSB – Credit Costs (2013A)



Source: Company Reports

Deconsolidation of Ulster Bank would have limited impact on our future Group earnings forecasts …

The level of initial RBS dilution in any proposed combined Irish entity would be largely determined by the agreed merger transaction price, the subsequent goodwill/badwill created and the impact on the subsidiary's capital position, as this in turn would be another factor in determining the size of any private equity investment required. Currently, Ulster Bank has a Basel II CET1 ratio of 8.7% and Permanent TSB 13.1%; however pro-forma for Basel III adoption Permanent TSB's CET1 ratio declines to 10.9%. Ulster Bank is likely to be notably lower under a Basel III framework, due to additional capital deductions (DTAs, pension deficit).

… and the potential capital uplift may be limited given the execution risk

A deconsolidation of Ulster Bank would have negligible impact on our long-term earnings forecasts, as we already forecast close to zero contribution from this business in 2016-17. While deconsolidation of the Ulster Bank RWAs could result in some capital relief (up to c80bps), this would likely be part offset by fair-value write-downs post any M&A and third-party investment. Furthermore, one should not underestimate the complexities in successfully executing upon any transaction.

Figure 95. Ulster Bank – Key Financials (£m)

	Core			Non-Core			Total		
	2012	2013	1Q14	2012	2013	1Q14	2012	2013	1Q14
Revenues	845	871	206	110	271	-13	955	1,142	193
Expenses	-521	-554	-142	-185	-168	-	-706	-722	-
Provisions	-1,364	-1,774	-47	-976	-3,020	-51	-2,340	-4,794	-98
PBT	-1,040	-1,457	17	-1,051	-2,917	-	-2,091	-4,374	-
Tax	-	-	-	-	-	-	-113	181	-
Net Income	-	-	-	-	-	-	-2,204	-4,193	-
Gross Loans	32,652	31,446	26,646	12,560	11,605	15,500	45,212	43,051	42,146
Net Loans	28,742	26,068	23,256	5,696	2,216	4,400	34,438	28,284	27,656
Deposits	22,200	21,700	21,100	870	598	-	23,070	22,298	-
RWAs	31,800	30,700	28,700	9,300	1,500	2,800	41,100	32,200	31,500
Core Tier 1 Capital	-	-	-	-	-	-	4,788	2,791	
Preference Shares	-	-	-	-	-	-	1,436	1,446	
Core Tier 1 Ratio	-	-	-	-	-	-	11.6%	8.7%	

Source: Company Reports. Note: Asset transfer took place between core and non-core on 1 Jan 2014.

Conduct & Litigation Risks

The frequency & magnitude of litigation and regulatory settlements is increasing

Conduct and litigation risks have been one of the major headwinds across the financial sector in recent years, with the frequency and magnitude of settlements increasing. Furthermore it is often the hardest risk to quantify, thereby leading to significant uncertainty. It is common for share prices to fall on the announcement of an investigation and/or summons, but then rally back after a final settlement is agreed. This 'travel and arrive' situation has made bank stocks all the more volatile.

We outline the key issues for Barclays and RBS in the following tables:

Both Barclays and RBS have disclosed a number of conduct, litigation and regulatory investigations that they are currently subject to. The tables below summarize the key issues disclosed by these two companies:

Figure 96. Barclays Litigation Summary

Barclays	Comments
PPI	Conduct charges for miss-selling of PPI products sold At end 1Q14 £4.0bn total provisions had been booked, of which £3.3bn has been utilised Uncertain future claim levels; provision represents best estimate of all future expected costs of PPI redress
IRHP	Conduct charges for miss-selling of interest rate hedging products sold to 'non-sophisticated' retail clients or private customers At end 1Q14, £1.5bn of total provisions had been booked, of which £0.6bn has been utilised Expects that the provision will be sufficient to cover the full cost of completing the redress
FHFA	US FHFA filed lawsuit in connection with Fannie Mae's and Freddie Mac's purchases of RMBS, alleging that the RMBS offering materials contained materially false and misleading statements and/or omissions Barclays settled in 1Q14 for $0.3bn against GSE Issuance of $4.9bn
Lehman Brothers	Claims by certain entities on the assets sold to Barclays by Lehman Brothers Inc. in 2008 Approximately $4.3bn (£2.6bn) of assets to which the Group is entitled as part of the acquisition had not been received by 31 December 2013, c$2.7bn (£1.6bn) of which have been recognised as an AFS investment on the balance sheet. Barclays takes the view that the effective provision of $1.6bn (£1.0bn) that is reflected in its estimate of fair value is appropriate.
American Depository Shares	Barclay's Board of Directors have been named as defendants in five proposed securities class actions consolidated in the SDNY Claims concerning misstatements and omissions concerning Barclay's portfolio of mortgage-related securities during 2006-2008 SDNY and the Second Circuit dismissed the complaint; second amended complaint filed in Sep 2013
US Mortgage-Related Activity	Litigations on certain loan level representations and warranties relating to underlying mortgages sold to entities between 2005-08 Under certain circumstances, the Group and/or the Acquired Subsidiary may be required to repurchase the related loans or make other payments related to such loans if the representations and warranties are breached
Devonshire Trust	Barclays terminated swaps with Devonshire Trust. This was challenged by Devonshire The Court ruled Devonshire was entitled to receive back cash collateral of approximately C$533m together with accrued interest If the Court of Appeal's decision is unaffected by any future proceedings, Barclays estimates that its loss would be approximately C$500m, less any impairment provisions recognised to date.
FERC	Federal Energy Regulatory Commission (FERC) investigated the Group's power trading in Western US from late-2006 to 2008 In July 2013, FERC issued an Order Assessing Civil Penalties in which it assessed a $435m civil penalty against Barclays and ordered Barclays to disgorge an additional $34.9m of profits plus interest Barclays is "vigorously defending" this action in the US District Court in California
BDC Finance L.L.C.	In October 2008, BDC Finance L.L.C. (BDC) filed a complaint in the Supreme Court of the State of New York (NY Supreme Court) alleging that Barclays breached an ISDA Master Agreement and a Total Return Loan Swap Master Confirmation BDC demands damages totalling $297m plus attorneys' fees, expenses, and prejudgement interest. In January 2014, the Appellate Division issued an order denying the motion for re-argument and granting the motion for leave to appeal to the New York Court of Appeals.
Interchange Investigations	The Office of Fair Trading, as well as other competition authorities elsewhere in Europe, continues to investigate credit and debit interchange rates. Barclays receives interchange fees, as a card issuer, from providers of card acquiring services to merchants.
Credit Default Swap (CDS) Antitrust	Commission and the DOJ-AD have commenced investigations in the CDS market This claims certain banks took collective action to delay and prevent the emergence of exchange traded credit derivative products.
Swiss/US Tax Programme	In August 2013, the DOJ and the Swiss Federal Department of Finance announced a Programme for Non-Prosecution Agreements or Non-Targeted letters for Swiss Banks Barclays is participating in the Programme, which requires a structured review of US accounts. This review is ongoing and the outcome of the review will determine whether any agreement will be entered into or sanction applied.
Qatar Holdings	The FCA has investigated certain agreements, including two advisory services agreements between Barclays and Qatar Holdings The Warning Notices concludes Barclays were in breach of certain disclosure-related listing rules and Listing Principle 3 The financial penalty in the Warning Notices against the group is £50m. Barclays continue to contest the findings.
High Frequency Trading / Dark Pools	In June 2014, the New York Attorney General filed a Supreme Court summons claiming Barclays falsified marketing material and falsely represented how it routed client orders with respect to high frequent trading in its dark pool The summons requests that Barclays provide: (i) an account of all fees & revenues received from the defendant in its Equities Electronic Trading division; (ii) Pay damages caused and disgorge all amounts obtained in connection with the alleged violations

Source: Company Reports

Figure 97. RBS Litigation Summary

RBS	Comments
PPI	Conduct charges for miss-selling of PPI products sold At end 1Q14 £3.1bn total provisions had been booked, of which £2.4bn has been utilised
IRHP	Conduct charges for miss-selling of interest rate hedging products sold to 'non-sophisticated' retail clients or private customers At end 1Q14, £1.3bn of total provisions had been booked, of which £0.4bn has been utilised
FHFA	US FHFA filed lawsuit in connection with Fannie Mae's and Freddie Mac's purchases of RMBS, alleging that the RMBS offering materials contained materially false and misleading statements and/or omissions RBS has booked a provision for this of up to £1.9bn ($3.0bn). Final settlement awaited against the GSE Issuance of $30.4bn
Shareholder Litigation	Class actions filed in the US District Court for the Southern District of New York involving holders of RBS preferred shares and ADRs. Additionally, between March and July 2013, claims were issued in the High Court of Justice of England and Wales Alleges that RBS made certain false and misleading statements and omissions in public filings and other communications during the period 1 March 2007 to 19 January 2009
NJ Carpenters Vacation Fund et al.	RBS have been named as defendants in their various roles as issuer, depositor and/or underwriter in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. RBS has settled in principle for US$275 million, subject to documentation and court approval, and has provisioned for this.
Luther v. Countrywide Financial Corp	RBS Securities Inc. was a defendant in Luther v. Countrywide Financial Corp. et al. and related class action cases. In Dec 2013 the court granted final approval of a $500m settlement to be paid by Countrywide without contribution from RBS.
Credit Default Swap Antitrust Litigation	Defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York. The plaintiffs generally allege that defendants violated the U.S. antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps.
Madoff	In December 2010, Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC., filed a clawback claim against RBS in New York bankruptcy court. The trustee seeks to recover $75.8m in redemptions that RBS allegedly received from certain Madoff feeder funds and $162.1m that RBS allegedly received from its swap counterparties. A further claim, for $21.8m, was filed in Oct 2011.
Thornburg Adversary Proceeding	Proceeding filed in the U.S. bankruptcy court in Maryland by the trustee for TMST, Inc The trustee seeks recovery of transfers made under certain restructuring agreements as, among other things, avoidable fraudulent and preferential conveyances and transfers.
Complex Systems	RBS is a defendant in an action pending in the United States The plaintiff alleges that RBS has since late 2007 been using the plaintiff's back-office trade finance processing software without a valid licence seeking in excess of $300m in alleged profits
Credit Default Swap (CDS) Antitrust	EC has raised concerns that banks, Markit and ISDA may have jointly prevented exchanges from entering the CDS market. RBS cannot estimate reliably what effect the outcome of the investigation may have on the Group, which may be material.
CPDO Litigation	Claims relating to the sale of a type of structured financial product known as a constant proportion debt obligation In March 2013 RBS was ordered to pay A$19.7m. An appeal has been filed by RBS and is due to be heard in March 2014.
Card Protection Plan	RBS has agreed a compensation scheme relating to the sale of card and/or identity protection insurance to certain retail customers. RBS has made an appropriate levels of provision based on its estimate of ultimate exposure
US Mortgage-Related Activity	RBS Citizens makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of the representations and warranties concerning the underlying loans. Between the start -2009 and end-2013, RBS Citizens received $208m in repurchase demands in respect of loans originated primarily since 2003. However, repurchase demands are subject to challenge and rebuttal by RBS Citizens. RBS cannot currently estimate what the ultimate exposure may be with respect to repurchase demands.
OFAC	On 11 December 2013 RBS announced that they had reached a settlement with the Board of Governors of the Federal Reserve System (Fed), the New York State Department of Financial Services (DFS), and the Office of Foreign Assets Control (OFAC) with respect to RBS' historical compliance with US economic sanction regulations outside the US. In settlement with the above authorities, RBS agreed to pay $100m in total, including $50m to the Fed, of which $33m was deemed to satisfy the OFAC penalty, and $50m to DFS.
Swiss/US Tax Programme	In August 2013, the DOJ announced a programme for Swiss banks, to settle the long-running dispute between the US tax authorities and Switzerland regarding the role of Swiss banks in concealing the assets of US tax payers in offshore accounts. Coutts & Co AG (Coutts), a member of the Group incorporated in Switzerland, has notified the DOJ that it intends to participate in the Programme based on the possibility that some of its clients may not have declared their assets in compliance with US tax laws. The Programme requires a detailed review of all US related accounts.

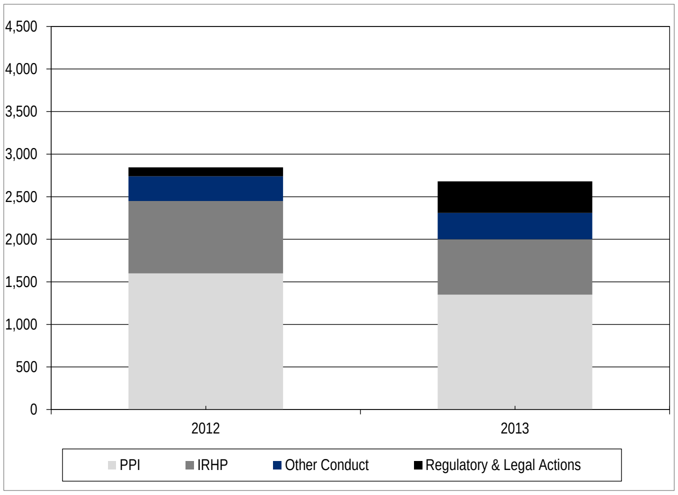
Source: Company Reports

In 2012 Barclays booked conduct and litigation charges of £2.6bn, rising to £2.7bn in 2013…

… while at RBS the equivalent figures were £2.2bn and £3.8bn

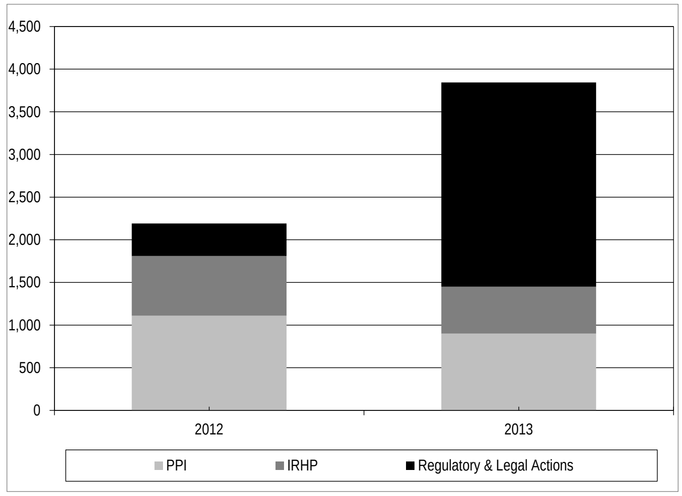
Attempting to quantify the potential magnitude of any charge surrounding these conduct, litigation and regulatory issues is an extremely challenging exercise. However, we do have some assistance on this front. For a start we know the historical experience at both banks. In 2012 Barclays booked conduct and litigation charges of £2.6bn, rising to £2.7bn in 2013, the majority of which related to PPI. At RBS the equivalent figures were £2.2bn and £3.8bn, mainly relating to PPI and FHFA. Barclays still has outstanding conduct and litigation provisions of c£3.0bn.

Figure 98. Barclays – Conduct & Litigation Charges, 2012-13



Source: Company Reports

Figure 99. RBS – Conduct & Litigation Charges, 2012-13



Source: Company Reports

Figure 100. Barclays – Conduct & Litigation Provisions

	PPI	IRHP	Other Conduct	Regulatory & Legal Actions	Total
End-2011 Provision	565	0	-	140	705
Additions	1600	850	-	105	2,555
Amount Utilised	-1179	-36	-	-35	-1,250
Unused Amounts Reversed	-	-	-	-11	-11
Exchange & Other Movements	-	-	-	1	1
End-2012 Provision	986	814	213	200	2,213
Additions	1,350	650	310	371	2,681
Amount Utilised	-1,365	-295	-130	-70	-1,860
Unused Amounts Reversed	-	-	-5	-12	-17
Exchange & Other Movements	-	-	-	-4	-4
End-2013 Provision	971	1,169	388	485	3,013

Source: Company Reports

The PRA 'capital adjustment' applied to Barclays for future expected losses and conduct & litigation risks is £2.2bn

In 2013 the PRA also assessed the strength of each of the largest eight UK lenders' capital positions, after making adjustments for (i) 3-years of future expected credit losses (rather than 1-year as prescribed the Basel committee), (ii) a "realistic assessment" of future costs of conduct redress; (iii) a more prudent calculation of risk-weights, applying a 15% risk-weight floor on UK mortgages and a 45% LGD floor on corporate loans. Provisions already held by firms were taken into account in arriving at an estimate of around £10bn for costs not yet provided for by the UK banks with regards to outstanding fines and redress payments.

At an individual bank level the PRA did not split out the proportion of the capital adjustment that was attributable to future expected credit losses versus future conduct costs, but the combined total amounted to £8.6bn for Barclays and £7.1bn for RBS as at end-2012. At Barclays this 'capital adjustment' has since declined to only £2.2bn, following a re-assessment by the PRA and post the charges booked during 2013. RBS has not disclosed an updated figure.

While further conduct and litigation charges look inevitable at both banks, we take some comfort from this analysis. In the following sections we look at some of the individual issues that have been raised in more detail.

Payment Protection Insurance (PPI)

PPI claims peaked in May 2012, the tail has been long and redress continues. Further charges cannot be ruled out

In March 2010 the FSA reported that 16.1m of PPI policies had been sold since 2005 (ex regular premium PPI on first charge mortgages), equivalent to c£17bn of gross written premiums. As the FSA was only given statutory responsibility for regulating intermediaries' GI selling activity from 14 January 2005 the FSA did "not expect any material review of PPI sales made before this date to occur". The FSA also outlined that if all policies were deemed mis-sales, causing consumer detriment, with a 100% customer response and uphold rates and redress was paid in line with guidance, then total industry redress costs could amount to c£15.6bn.

These expectations have already been far surpassed. While claims peaked in May 2012, the tail has been long and redress continues. The four listed UK banks have already booked in excess of £20bn of provisions and additional charges cannot be ruled out. While 1Q14 did see a slowdown in redress payments, we would caution that this may be due partly to seasonal factors.

Figure 101. UK Banks – Cumulative PPI Provisions Relative To Cumulative Redress (£m)

	PPI Provisions	Redress	% Utilised
Barclays	3,950	3,262	83%
HSBC	3,153	1,786	57%
Lloyds	9,825	7,544	77%
RBS	3,100	2,387	77%
Total	20,028	14,979	75%

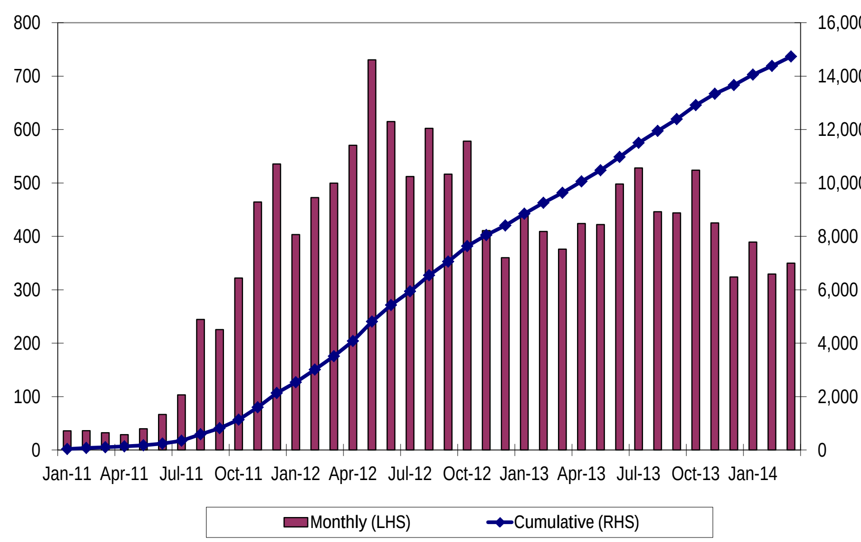
Source: Company Reports; Note: Data for all banks at 1Q14

Figure 102. UK Banks – Quarterly PPI Redress Progression (£m)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	% QoQ
Barclays	215	244	306	400	300	400	387	293	282	-4%
Lloyds	755	1,155	745	644	586	695	706	687	256	-23%
RBS	181	236	300	300	190	186	217	276	218	-21%
Total	1,151	1,635	1,351	1,344	1,076	1,281	1,310	1,256	1,026	-18%

Source: Company Reports

Figure 103. Cumulative Industry-Wide PPI Redress (£m)



Source: FCA

We see greatest risk at Lloyds

HSBC has taken the most conservative provisions for PPI, while the three UK domestic banks have similar provision utilization rates, at c77-83%. However we would highlight that Barclays is now c90% of the way through its pro-active customer mailing, which compares favorably to Lloyds (c60%) and to RBS. The response and uphold rate has also typically been lower at Barclays.

Figure 104. UK Banks - PPI Assumptions and Sensitivity, end-2013

	Barclays			Lloyds			RBS		
	Experience	Future Expected	Sensitivity	Experience	Future Expected	Sensitivity	Experience	Future Expected	Sensitivity
Customer Initial Claims Received	970k	190k	50k = £90m	2,500k	500k	100k = £200m	-	-	-
Proactive Mailing	660k	90k	-	1,660k	1,190k	100k = £45m	-	-	-
Response Rate To Proactive Mailing	26%	25%	1% = £1m	37%	31%	1% = £20m	36%	38%	5% = £45m
Average Uphold Rate Per Claim	74%	73%	1% = £4m	80%	83%	1% = £15m	84%	83%	5% = £30m
Average Redress Per Valid Claim	£1,763	£1,726	£100 = £23m	£1,600	£1,600	£100 = £110m	£1,733	£1,646	5%= £26m

Source: Company Reports

Interest Rate Hedge Products (IRHP)

All four listed UK banks look already adequately covered for IRHP miss-selling

Overall c19,000 customers have been invited to join the FCA review into interest rate hedge product miss-selling, of which c85% have opted in. Of these customers 14,400 are in redress phase, of which 5,732 have already had offers accepted (for total redress payments of c£0.8bn) and 1,971 have been refused redress.

The four listed banks have already provisioned £3.8bn for this, so look to be well covered, especially as most of the banks are nearing the end of the consultation process. For example, Barclays has already communicated its findings to 71% of customers and RBS to 68% of customers (Lloyds is at 90%). We therefore believe that provision reversals are more likely here, rather than additional charges.

Figure 105. UK Banks – Provisions For Interest Rate Hedge Product Miss-selling (£m)

	Provisions	Redress	% Utilised
Barclays	1,500	572	38%
Lloyds	530	162	31%
RBS	1,250	372	30%
Subtotal	3,280	1,106	34%
HSBC	485	nd	-
Total	3,765	-	-

Source: Citi Research; Note: Data for RBS and BARC at 1Q14, LLOY and HSBC at 4Q13

Figure 106. IRHP – Industry Claims Trend by Bank

	Invited	Opted-In	Redress Phase	Communicated
Barclays	3,014	2,910	2,555	2,136
HSBC	3,413	2,855	2,691	2,567
Lloyds	1,601	1,553	1,483	1,438
RBS	7,736	7,240	7,017	5,225
Other	3,236	1,592	654	505
Total	19,000	16,150	14,400	11,871

Source: FCA

FHFA

Barclays has already settled on FHFA, while RBS has taken a large provision

FHFA has filed lawsuits in connection with Fannie Mae's and Freddie Mac's purchases of RMBS, alleging that the RMBS offering materials contained materially false and misleading statements and/or omissions. A number of banks have already settled with settlement rates, as a percentage of issuance, ranging from 6-14%. Barclays is one of the banks to have already settled. In contrast RBS has yet to agree on a settlement with FHFA, possibly because the RBS action has been filed in Connecticut, while all the actions against the other banks have been filed in NY. RBS has already booked a provision for "litigation and conduct related matters, primarily relating to mortgage-backed securities" of £1.9bn ($3.2bn), equivalent to 11% of issuance. We model a small additional charge in 4Q14 (£0.6bn).

Figure 107. FHFA Lawsuits – GSE Issuance Detailed In Claims (US$bn)

	GSE Issuance	Settlement	Settlement as % Issuance
Bank of America	57.5	9.3	12%
JPM Chase	33.0	4.0	12%
RBS	30.4		
Deutsche Bank	14.2	1.9	14%
Credit Suisse	14.1	0.9	6%
Goldman Sachs	11.1		
Morgan Stanley	10.6	1.3	12%
UBS	6.3	0.9	14%
HSBC	6.2		
Barclays	4.9	0.3	6%
Nomura	2.0		
SocGen	1.3	0.1	9%

Source: FHFA, Company Reports;

Note (1): RBS has booked a £1.9bn ($3.2bn) provision for "litigation and conduct related matters, primarily relating to mortgage-backed securities", equivalent to 11% of issuance;

Note (2): HSBC has a note in its accounts indicating FHFA-related settlement could be up to 26% ($1.6bn)

OFAC

All of the UK banks have already settled with respect to OFAC violations

OFAC violations have recently been placed back into the spotlight, following the long, drawn-out settlement process with BNP Paribas and the subsequent $9.0bn fine, to include the provision of a guilty plea and a one-year ban on US$ clearing to be applied from 01 January 2015. Reassuringly all of the UK banks, to include Barclays and RBS, have already settled with US authorities on OFAC violations.

Figure 108. Prosecutions & Legal Actions Related To OFAC Violations and AML Deficiencies

Bank	Date	Fine
BNP Paribas	Jul-14	$8,970m
RBS	Dec-13	$100m
HSBC	Dec-12	$1,900m
Standard Chartered	Dec-12	$667m
ING Bank NV	Apr-12	$619m
Barclays	Aug-10	$298m
ABN Amro	May-10	$500m
Wachovia	Mar-10	$160m
Credit Suisse	Dec-09	$536m
Lloyds Bank	Sep-09	$217m
ANZ Bank	Aug-09	$6m

Source: US Senate PSI Report, Company Reports

High Frequency Trading & Dark Pools

The NY Attorney General has filed a summons claiming Barclays falsified marketing and made false representation with respect to its dark pool

On 26 June the New York Attorney General filed a Supreme Court summons on behalf of the People of the State of New York, claiming Barclays: (i) Falsified marketing material purporting to show the extent & type of high frequency trading in its dark pool; (ii) Falsely represented that it routed client orders for securities to trading venues in a manner that did not favour Barclays' own dark pool. The stock reacted sharply, falling by 6% on the day of the announcement, equivalent to a c$4bn decline in Barclays market capitalization.

Barclays must respond to the summons within 20 days. The Attorney General has requested that Barclays provide: (i) An account of all fees, revenues, or other compensation received from the Defendant's operations in its Equities Electronic Trading division; (ii) Pay damages caused and disgorge all amounts obtained in connection with, or as a result of, the alleged violations, and make restitution of all funds obtained from investors in connection with said violations/acts. If there is an error or a violation, then it's normal that a fine be levied. However, the greatest concern among investors is that it is no longer clear whether the fines being levied in the US are proportionate and reasonable to the observed damages.

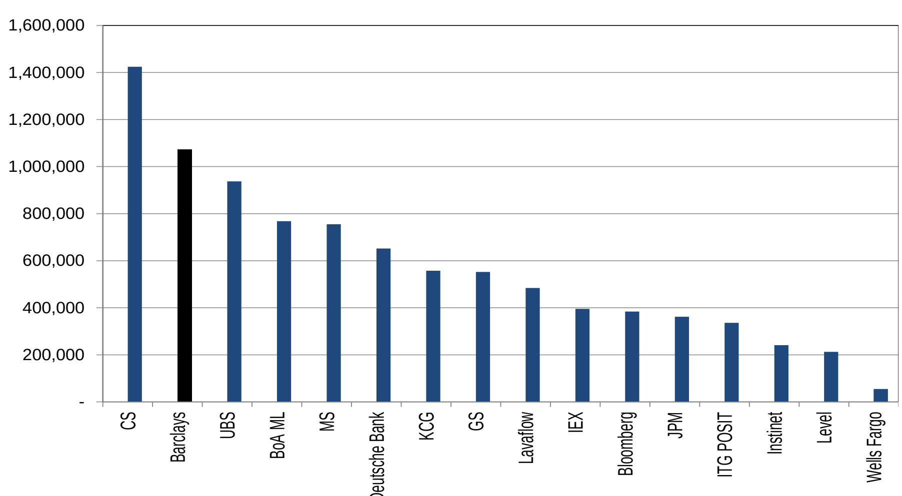
The revenue contribution from this business is negligible for Barclays

Barclays' dark pool – Barclays LX – is one of the largest dark pools operating in the US. FINRA has recently started to provide weekly reports to make dark pools more transparent, which in May-to-June indicated that Credit Suisse, Barclays and UBS traded the most shares (Figure 109). TABB Group has previously estimated that these three firms made combined alternative trading systems (ATS) revenues of $60-90m in 2013. The summons itself quotes a Barclays document as suggesting the revenue growth opportunity was $37-50m. It is extremely difficult to quantify the size of any potential fine, albeit we would highlight the revenue contribution from this business is negligible for Barclays – at only c0.1% of total Group revenues – so if the size of the fine is proportional it should be an immaterial hit to TNAV.

There is no reference to criminal charges within the summons

While we expect some of these revenues will now be lost, as clients instruct brokers to pull direct flow away, there should be limited impact on the rest of the equities business, in our view. Furthermore, we note that within the summons there is no reference to criminal charges, nor is there any reference to a temporary (or permanent) ban on any form of US transactions. This should therefore have no implications on Barclays' existing non-prosecution agreement (NPA).

Figure 109. US Dark Pool Transactions, 19-May to 9-Jun



Source: FINRA

Summary Financial Models

Barclays

Figure 110. Barclays – Group Profit and Loss Account 2011-17E (£m)

Income statement	2011	2012	2013	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg	2017E	% Chg
Net Interest Income	12,201	11,654	11,600	0%	12,317	6%	13,056	6%	13,647	5%	14,184	4%
Net Fee Income	8,622	8,536	8,731	2%	8,525	-2%	8,829	4%	9,159	4%	9,514	4%
Net Trading Income	7,660	3,347	6,553	96%	4,307	-34%	4,351	1%	4,643	7%	4,952	7%
Net Investment Income	2,305	844	680	-19%	823	21%	841	2%	859	2%	879	2%
Net Premiums from Insurance Contracts	1,076	896	732	-18%	660	-10%	675	2%	695	3%	722	4%
Other Operating Income	-2,610	4,684	368	-92%	-302	-182%	-527	74%	-752	43%	-977	30%
Total Non-Interest Income	17,053	18,307	17,064	-7%	14,013	-18%	14,168	1%	14,604	3%	15,091	3%
Total Gross Revenue	29,254	29,961	28,664	-4%	26,330	-8%	27,224	3%	28,252	4%	29,275	4%
Insurance net claims and benefits	-741	-600	-509	-15%	-504	-1%	-478	-5%	-471	-2%	-467	-1%
Total Income Net of Insurance Claims	28,513	29,361	28,155	-4%	25,826	-8%	26,746	4%	27,781	4%	28,808	4%
Total Staff Costs	-11,516	-11,467	-12,115	6%	-10,289	-15%	-9,909	-4%	-9,694	-2%	-9,944	3%
Other Costs	-7,772	-7,096	-6,569	-7%	-6,387	-3%	-6,151	-4%	-6,018	-2%	-6,173	3%
Total Expenses	-19,288	-18,563	-18,684	1%	-16,677	-11%	-16,060	-4%	-15,711	-2%	-16,116	3%
Gross Operating Profit (Net of Ins Claims)	9,225	10,798	9,471	-12%	9,149	-3%	10,686	17%	12,070	13%	12,692	5%
Impairments (inc credit market)	-3,802	-3,340	-3,071	-8%	-2,470	-20%	-2,866	16%	-3,326	16%	-3,481	5%
Other Net Income	59	141	-24	-117%	71	-396%	67	-5%	68	2%	70	2%
Operating Profit	5,482	7,599	6,376	-16%	6,750	6%	7,887	17%	8,812	12%	9,280	5%
FVOD gain/loss	2,708	-4,579	-220	-95%	119	-154%	0	-100%	0	nm	0	nm
Other Disposal gains/Losses & Exceptionals	-2,419	-2,223	-3,288	48%	-1,883	-43%	-1,050	-44%	-600	-43%	-300	-50%
Pre-Tax Profit from continuing operations	5,771	797	2,868	260%	4,986	74%	6,837	37%	8,212	20%	8,980	9%
Tax on continuing operations	-1,904	-616	-1,571	155%	-1,408	-10%	-1,721	22%	-2,053	19%	-2,245	9%
Profit After Tax from continuing ops	3,867	181	1,297	617%	3,578	176%	5,116	43%	6,159	20%	6,735	9%
Profit after tax from discontinued operations	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Minorities & Non-Equity Interests	-944	-805	-757	-6%	-804	6%	-762	-5%	-788	3%	-802	2%
Attributable Profit to Ord Shareholders	2,923	-624	540	-187%	2,774	414%	4,354	57%	5,371	23%	5,933	10%
Dividends Paid Out	-660	-733	-859	17%	-1,065	24%	-1,885	77%	-2,950	57%	-2,950	0%
Retained Earnings	2,263	-1,357	-319	-76%	1,709	-636%	2,470	45%	2,421	-2%	2,983	23%
PER SHARE DATA												
Reported, Diluted EPS	21.6p	(4.6)p	3.7p	-181%	16.7p	354%	26.0p	56%	32.1p	23%	35.4p	10%
Underlying, Diluted EPS	23.9p	33.7p	25.4p	-25%	25.3p	0%	30.7p	21%	34.8p	13%	36.8p	6%
Dividend Per Share (Reported)	5.4p	6.0p	6.5p	8%	8.5p	31%	12.0p	41%	16.0p	33%	18.0p	13%
Payout ratio	25%	-131%	177%	-234%	51%	-71%	46%	-9%	50%	8%	51%	2%
BVPS (outstanding shares)	419.2p	382.5p	343.7p	-10%	351.8p	2%	366.8p	4%	381.6p	4%	399.8p	5%
Tangible BVPS (outstanding shares)	358.7p	322.7p	296.0p	-8%	304.8p	3%	319.9p	5%	334.7p	5%	352.9p	5%
OPERATING RATIOS												
Net interest margin (calc)	1.9%	1.8%	1.9%		1.9%		2.0%		2.0%		1.9%	
Cost income ratio	65.9%	62.0%	65.2%		63.3%		59.0%		55.6%		55.1%	
Cost of Risk (impairments /ave loans)	0.88%	0.78%	0.72%		0.54%		0.59%		0.66%		0.66%	
NPL ratio - calc	4.8%	3.5%	3.0%		2.3%		2.0%		1.8%		1.6%	
Coverage ratio	49.7%	51.9%	54.6%		57.6%		60.8%		62.7%		64.8%	
Adj. ROE	6.2%	8.8%	7.0%		7.4%		8.7%		9.5%		9.6%	
Adj. ROTE	7.3%	10.3%	8.2%		8.6%		10.0%		10.9%		10.9%	
ROA	0.19%	-0.04%	0.04%		0.21%		0.34%		0.43%		0.48%	
BALANCE SHEET SUMMARY												
Total Assets	1,562,083	1,488,335	1,312,267	-12%	1,309,120	0%	1,243,650	-5%	1,227,964	-1%	1,225,955	0%
Net Customer Loans	431,934	423,906	430,411	2%	480,385	12%	497,200	4%	515,236	4%	534,508	4%
Customer Deposits	366,032	385,411	427,902	11%	443,377	4%	459,492	4%	476,260	4%	493,710	4%
Loan-to-deposit ratio	118%	110%	101%	-9%	108%	8%	108%	0%	108%	0%	108%	0%
Avg shareholder funds	52,605	52,484	53,000	1%	56,520	7%	58,889	4%	61,334	4%	64,036	4%
CAPITAL POSITION												
Core Tier 1	40,113	37,989	40,387	6%	42,444	5%	44,650	5%	46,770	5%	49,602	6%
Risk Weighted Assets	375,400	371,400	354,809	-4%	412,602	16%	402,588	-2%	398,062	-1%	399,922	0%
Core Tier 1 Ratio (%)	8.5%	8.4%	9.3%		10.3%		11.1%		11.7%		12.4%	
PRA Leverage Ratio (%)		2.1%	3.0%		3.4%		4.1%		4.5%		5.0%	

Source: Company Reports and Citi Research Estimates

Figure 111. Barclays – Group Profit and Loss Account 1H10-2H14E (£m)

Income statement	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14E	2H14E
Net Interest Income	5,969	6,554	6,071	6,130	5,871	5,783	5,714	5,886	6,081	6,236
Net Fee Income	4,194	4,677	4,552	4,070	4,336	4,200	4,449	4,282	4,239	4,286
Net Trading Income	4,820	2,867	3,803	3,857	4,408	-1,061	4,486	2,067	2,501	1,806
Net Investment Income	529	948	562	1,743	315	529	392	288	411	412
Net Premiums from Insurance Contracts	582	555	540	536	495	401	374	358	325	335
Other Operating Income	89	29	167	-2,777	430	4,254	-76	444	-123	-180
Total Non-Interest Income	10,214	9,077	9,624	7,429	9,984	8,323	9,625	7,439	7,354	6,659
Total Gross Revenue	16,183	15,631	15,695	13,559	15,855	14,106	15,339	13,325	13,434	12,895
Insurance net claims and benefits	-415	-350	-396	-345	-363	-237	-268	-241	-252	-252
Total Income Net of Insurance Claims	15,730	15,319	15,299	13,214	15,492	13,869	15,071	13,084	13,182	12,643
Total Staff Costs	-5,812	-6,104	-6,110	-5,406	-5,945	-5,522	-6,431	-5,684	-5,533	-4,756
Other Costs	-3,908	-3,904	-3,726	-4,046	-3,575	-3,521	-2,710	-3,859	-2,738	-3,649
Total Expenses	-9,720	-10,008	-9,836	-9,452	-9,520	-9,043	-9,141	-9,543	-8,271	-8,405
Gross Operating Profit (Net of Ins Claims)	6,010	5,311	5,463	3,762	5,972	4,826	5,930	3,541	4,911	4,238
Impairments (inc credit market)	-3,080	-2,592	-1,828	-1,974	-1,710	-1,630	-1,631	-1,440	-1,179	-1,291
Other Net Income	33	25	36	23	77	64	-68	44	38	33
Operating Profit	2,963	2,744	3,671	1,811	4,339	3,260	4,231	2,145	3,770	2,980
FVOD gain/loss	851	-460	89	2,619	-2,945	-1,634	86	-306	119	0
Other Disposal gains/Losses & Exceptionals	133	-166	-1,170	-1,249	-523	-1,700	-2,640	-648	-690	-1,200
Pre-Tax Profit from continuing operations	3,947	2,118	2,590	3,181	871	-74	1,677	1,191	3,199	1,780
Tax on continuing operations	-1,026	-490	-649	-1,255	-313	-303	-594	-977	-954	-454
Profit After Tax from continuing operations	2,921	1,628	1,941	1,926	558	-377	1,083	214	2,245	1,326
Profit after tax from discontinued operations	0	0	0	0	0	0	0	0	0	0
Minorities & Non-Equity Interests	-490	-495	-485	-459	-410	-395	-412	-345	-402	-402
Attributable Profit to Ord Shareholders	2,431	1,133	1,456	1,467	148	-772	671	-131	1,843	924
Dividends Paid Out	-294	-237	-452	-208	-481	-252	-581	-322	-738	-328
Retained Earnings	2,137	896	1,004	1,259	-333	-1,024	90	-453	1,106	596
PER SHARE DATA										
Reported, Diluted EPS	18.2p	8.2p	10.7p	10.7p	1.2p	(6.1)p	4.8p	(0.8)p	11.1p	5.6p
Underlying, Diluted EPS	12.3p	10.7p	16.8p	6.8p	21.9p	14.8p	17.7p	7.5p	14.3p	10.9p
Dividend Per Share (Reported)	1.8p	3.2p	1.7p	3.7p	1.8p	4.2p	2.0p	4.5p	2.0p	6.5p
Payout ratio	10%	39%	16%	35%	156%	-68%	42%	-566%	18%	117%
BVPS (outstanding shares)	394.1p	393.9p	399.1p	419.2p	409.9p	382.5p	372.3p	343.7p	348.1p	351.8p
Tangible BVPS (outstanding shares)	350.7p	326.6p	333.0p	358.7p	350.5p	322.7p	315.1p	296.0p	301.2p	304.8p
OPERATING RATIOS										
Net interest margin (calc)	1.9%	2.0%	1.9%	1.9%	1.7%	1.8%	1.7%	1.8%	1.9%	1.8%
Cost income ratio	60.1%	64.0%	62.7%	69.7%	60.0%	64.1%	59.6%	71.6%	61.6%	65.2%
Cost of Risk (impairments /ave loans)	1.42%	1.18%	0.84%	0.90%	0.77%	0.74%	0.73%	0.64%	0.52%	0.54%
NPL ratio - calc	5.2%	7.2%	5.2%	4.8%	4.2%	3.5%	3.1%	3.0%	2.6%	2.3%
Coverage ratio	51.4%	38.8%	49.3%	49.7%	50.4%	51.9%	53.8%	54.6%	56.1%	57.6%
Adj. ROE	6.8%	5.9%	9.0%	3.6%	10.1%	7.1%	9.8%	4.6%	8.5%	6.3%
Adj. ROTE	8.3%	7.1%	10.8%	4.2%	11.8%	8.4%	11.6%	5.4%	9.8%	7.3%
ROA	0.33%	0.15%	0.20%	0.19%	0.02%	-0.10%	0.08%	-0.02%	0.25%	0.14%
BALANCE SHEET SUMMARY										
Total Assets	1,587,146	1,489,645	1,492,922	1,562,083	1,631,265	1,488,335	1,532,733	1,312,267	1,362,068	1,309,120
Net Customer Loans	448,266	428,984	441,983	431,934	454,728	423,906	470,062	430,411	475,471	480,385
Customer Deposits	360,980	345,788	373,374	366,032	408,550	385,411	460,264	427,902	437,336	443,377
Loan-to-deposit ratio	124%	124%	118%	118%	111%	110%	102%	101%	109%	108%
Avg shareholder funds	48,434	50,225	51,215	52,962	54,279	52,410	50,849	53,234	56,222	57,356
CAPITAL POSITION										
Core Tier 1						37,989	38,100	40,387	42,077	42,444
Risk Weighted Assets	395,025	398,031	395,150	375,400	390,223	387,373	387,230	354,809	423,556	412,602
Core Tier 1 Ratio (%)						8.4%	8.1%	9.3%	9.9%	10.3%
PRA Leverage Ratio (%)						2.1%	2.2%	3.0%	3.2%	3.4%

Source: Company Reports and Citi Research Estimates

Figure 112. Barclays – Corporate & Investment Banking and Wealth Divisional Profit and Loss Account 2011-17E (£m)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
INVESTMENT BANK												
Fixed Income, Currency and Commodities	6,066	7,249	5,798	-20%	4,152	-28%	4,152	0%	4,360	5%	4,578	5%
Equities and Prime Services	1,807	2,183	2,672	22%	2,476	-7%	2,600	5%	2,730	5%	2,866	5%
Investment Banking	2,117	2,137	2,201	3%	2,273	3%	2,386	5%	2,506	5%	2,631	5%
Principal Investments	232	206	62	-70%	38	-39%	39	3%	40	3%	42	3%
Insurance Net Claims & Benefits	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Total Revenue	10,222	11,775	10,733	-9%	8,939	-17%	9,177	3%	9,636	5%	10,116	5%
Operating Costs	-7,726	-7,631	-7,750	2%	-6,581	-15%	-5,965	-9%	-5,621	-6%	-5,901	5%
Gross Operating Profit	2,496	4,144	2,983	-28%	2,358	-21%	3,212	36%	4,015	25%	4,215	5%
Total impairments	-93	-204	-220	8%	1	-100%	-100	-10074%	-226	127%	-239	6%
Other Net Income	12	50	22	-56%	18	-18%	18	0%	18	0%	18	0%
Operating Profit	2,415	3,990	2,785	-30%	2,377	-15%	3,130	32%	3,807	22%	3,994	5%
Disposal Gains and Exceptionals	0	0	-262	nm	-449	71%	-300	-33%	-300	0%	-300	0%
Pretax Profit	2,415	3,990	2,610	-35%	1,928	-26%	2,830	47%	3,507	24%	3,694	5%
Cost - income ratio	76%	65%	72%		74%		65%		58%		58%	
Cost - net income ratio	76%	66%	74%		74%		66%		60%		60%	
Loan loss ratio	9	23	23		-0		7		15		15	
CORPORATE BANK												
Net Interest Income	2,298	1,911	1,987	4%	2,002	1%	2,063	3%	2,223	8%	2,392	8%
Net Fees & Commissions	1,041	998	992	-1%	900	-9%	918	2%	936	2%	955	2%
Net Trading Income	-90	87	97	11%	60	-38%	60	0%	60	0%	60	0%
Net Investment Income	29	23	12	-48%	10	-17%	10	0%	10	0%	10	0%
Insurance Net Premiums	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Other Operating Income	37	27	27	0%	0	-100%	0	nm	0	nm	0	nm
Total Non-Interest Income	1,017	1,135	1,128	-1%	970	-14%	988	2%	1,006	2%	1,025	2%
Insurance Net Claims & Benefits	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Total Revenue	3,315	3,046	3,115	2%	2,972	-5%	3,051	3%	3,229	6%	3,417	6%
Operating Costs	-1,976	-1,711	-1,692	-1%	-1,556	-8%	-1,509	-3%	-1,494	-1%	-1,509	1%
Gross Operating Profit	1,339	1,335	1,423	7%	1,416	0%	1,542	9%	1,735	13%	1,908	10%
Loan Loss Provisions	-1,150	-885	-510	-42%	-369	-28%	-409	11%	-476	17%	-521	9%
Income From JV's & Associates	2	10	2	-80%	1	-50%	1	1%	1	1%	1	1%
Operating Profit	191	460	915	99%	1,048	15%	1,134	8%	1,260	11%	1,388	10%
Disposal Gains and Exceptionals	-196	-850	-764	-10%	-6	-99%	0	-100%	0	nm	0	nm
Pretax Profit	-5	-390	151	-139%	1,042	590%	1,134	9%	1,260	11%	1,388	10%
NIM (bps)	1.56%	1.27%	1.21%		1.20%		1.20%		1.25%		1.30%	
Cost income ratio	60%	56%	54%		52%		49%		46%		44%	
Loan loss ratio	140	108	65		48		52		60		65	
WEALTH & INVESTMENT MANAGEMENT												
Net Interest Income	823	856	859	0%	871	1%	970	11%	1,057	9%	1,120	6%
Net Fees & Commissions	944	948	968	2%	961	-1%	990	3%	1,028	4%	1,073	4%
Net Trading Income	5	16	12	-25%	15	25%	15	0%	15	0%	15	0%
Net Investment Income	0	0	6	nm	0	-100%	0	nm	0	nm	0	nm
Insurance Net Premiums	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Other Operating Income	-2	0	-6	nm	0	-100%	0	nm	0	nm	0	nm
Total Non-Interest Income	947	964	980	2%	976	0%	1,005	3%	1,043	4%	1,088	4%
Insurance Net Claims & Benefits	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Total Revenue	1,770	1,820	1,839	1%	1,848	0%	1,975	7%	2,100	6%	2,208	5%
Operating Costs	-1,538	-1,509	-1,592	6%	-1,459	-8%	-1,489	2%	-1,518	2%	-1,549	2%
Gross Operating Profit	232	311	247	-21%	388	57%	487	25%	582	19%	659	13%
Loan Loss Provisions	-41	-38	-121	218%	-50	-59%	-50	0%	-50	0%	-50	0%
Other Net Income	-3	1	13	1200%	2	-85%	2	0%	2	0%	2	0%
Operating Profit	188	274	134	-51%	338	152%	439	30%	534	22%	611	14%
Disposal Gains and Exceptionals	0	0	-237	nm	-22	-91%	0	-100%	0	nm	0	nm
Pretax Profit	188	274	-103	-138%	316	-407%	439	39%	534	22%	611	14%
Revenue Margin (%)	1.08%	1.04%	0.94%		0.88%		0.90%		0.92%		0.93%	
Cost income ratio	86.9%	82.9%	86.6%		79.0%		75.4%		72.3%		70.2%	
Impairment rate (bps)	23	19	55		21		19		19		18	
AuM	164,200	186,000	204,800	10%	215,168	5%	223,775	4%	232,726	4%	242,035	4%

Source: Company Reports and Citi Research Estimates

Figure 113. Barclays – Corporate & Investment Banking and Wealth Management Divisional Profit and Loss Account 1H10-2H14E (£m)

	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14E	2H14E
INVESTMENT BANK										
Fixed Income, Currency and Commodities	4,883	3,804	3,834	2,232	4,080	3,169	3,827	1,971	2,305	1,847
Equities and Prime Services	1,056	984	1,161	646	1,206	977	1,531	1,141	1,335	1,141
Investment Banking	1,017	1,226	1,197	920	1,024	1,113	1,086	1,115	1,138	1,135
Principal Investments	105	134	107	125	150	56	29	33	18	20
Credit market losses	-65	-59	0	0	0	0	0	0	0	0
Insurance Net Claims & Benefits	0	0	0	0	0	0	0	0	0	0
Total Revenue	7,061	6,148	6,299	3,923	6,460	5,315	6,473	4,260	4,796	4,143
Operating Costs	-4,213	-4,082	-4,182	-3,544	-4,044	-3,587	-3,751	-3,999	-3,290	-3,290
Gross Operating Profit	2,848	2,066	2,117	379	2,416	1,728	2,722	261	1,505	853
Total impairments	-309	-234	110	-203	-202	-2	-181	-39	31	-30
Other Net Income	10	8	10	2	28	22	17	5	8	10
Operating Profit	2,549	1,840	2,237	178	2,242	1,748	2,558	227	1,544	833
Disposal Gains and Exceptionals	0	0	0	0	0	0	-169	-93	-149	-300
Pretax Profit	2,549	1,840	2,237	178	2,242	1,748	2,389	221	1,395	533
Cost - income ratio	60%	66%	66%	90%	63%	67%	58%	94%	69%	79%
Cost - net income ratio (ex-FVOD)	62%	69%	65%	95%	65%	68%	60%	95%	70%	68%
Loan loss ratio	23	22	-10	20	16	0	14	4	-2	2
CORPORATE BANK										
Net Interest Income	939	1,065	1,014	1,284	970	941	998	989	1,000	1,002
Net Fees & Commissions	464	446	508	533	511	487	506	486	450	450
Net Trading Income	27	53	29	-119	79	8	49	48	30	30
Net Investment Income	-33	1	8	21	9	14	2	10	5	5
Insurance Net Premiums	0	0	0	0	0	0	0	0	0	0
Other Operating Income	4	8	101	-64	14	13	-3	30	0	0
Total Non-Interest Income	462	508	646	371	613	522	554	574	485	485
Insurance Net Claims & Benefits	0	0	0	0	0	0	0	0	0	0
Total Revenue	1,401	1,573	1,660	1,655	1,583	1,463	1,552	1,563	1,485	1,487
Operating Costs	-829	-835	-984	-992	-839	-872	-852	-840	-757	-799
Gross Operating Profit	572	738	676	663	744	591	700	723	728	689
Loan Loss Provisions	-949	-747	-614	-536	-431	-454	-258	-252	-174	-195
Income From JV's & Associates	0	-2	-1	3	-2	12	1	1	1	0
Operating Profit	-377	-11	61	130	311	149	443	472	554	493
Disposal Gains and Exceptionals	0	-243	-64	-132	-450	-400	-691	-73	-6	0
Pretax Profit	-377	-254	-3	-2	-139	-251	-248	399	548	493
NIM (bps)	1.44%	1.64%	1.34%	1.72%	1.30%	1.25%	1.23%	1.21%	1.20%	1.20%
Cost income ratio	59%	53%	59%	60%	53%	60%	55%	54%	51%	54%
Loan loss ratio	230	185	152	128	102	105	76	76	45	50
WEALTH & INVESTMENT MANAGEMENT										
Net Interest Income	305	367	369	429	420	436	431	428	428	443
Net Fees & Commissions	447	426	470	473	468	480	485	483	477	485
Net Trading Income	-15	7	9	-4	5	11	9	3	8	8
Net Investment Income	54	48	0	0	0	0	6	0	0	0
Insurance Net Premiums	0	0	0	0	0	0	0	0	0	0
Other Operating Income	0	-1	7	17	1	-1	0	-6	0	0
Total Non-Interest Income	486	480	486	486	474	490	500	480	484	492
Insurance Net Claims & Benefits	0	0	0	0	0	0	0	0	0	0
Total Revenue	791	847	855	915	894	926	931	908	912	935
Operating Costs	-638	-722	-759	-779	-775	-734	-810	-782	-730	-729
Gross Operating Profit	153	125	96	136	119	192	121	126	182	206
Loan Loss Provisions	-27	-21	-19	-22	-19	-19	-49	-72	-25	-25
Other Net Income	0	0	-2	-1	-1	2	8	5	2	0
Operating Profit	126	104	75	113	99	175	80	54	157	181
Disposal Gains and Exceptionals	0	0	0	0	0	0	-33	-204	-22	0
Pretax Profit	126	104	75	113	99	175	47	-150	135	181
Revenue Margin (%)	0.99%	1.01%	1.03%	1.10%	1.05%	1.02%	0.95%	0.89%	0.88%	0.88%
Cost income ratio	83.9%	88.9%	88.8%	85.1%	86.7%	79.3%	87.0%	86.1%	80.0%	78.0%
Impairment rate (bps)	40	28	23	24	20	19	47	0	0	0
AuM	153,500	163,900	169,500	164,200	176,100	186,000	204,204	204,800	209,920	215,168

Source: Company Reports and Citi Research Estimates

Figure 114. Barclays – Retail & Business Banking UK & Europe Divisional Profit and Loss Account 2011-16E (£m)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
UK RETAIL												
Net Interest Income	3,378	3,190	3,395	6%	3,682	8%	4,035	10%	4,345	8%	4,512	4%
Net Fees & Commissions	1,157	1,154	1,098	-5%	1,020	-7%	1,061	4%	1,103	4%	1,147	4%
Net Trading Income	0	0	0	nm	0	nm	0	nm	0	nm	0	nm
Net Investment Income	17	0	0	nm	0	nm	0	nm	0	nm	0	nm
Insurance Net Premiums (PPI)	92	74	46	-38%	40	-13%	42	4%	43	4%	45	4%
Other Operating Income	-1	-1	1	-200%	0	-100%	0	nm	0	nm	0	nm
Total Non-Interest Income	1,265	1,227	1,145	-7%	1,060	-7%	1,102	4%	1,146	4%	1,192	4%
Insurance Net Claims & Benefits	-22	-33	-17	-48%	-24	41%	-10	-57%	-11	4%	-11	4%
Total Revenue	4,621	4,384	4,523	3%	4,718	4%	5,127	9%	5,481	7%	5,693	4%
Operating Costs	-2,866	-2,894	-2,833	-2%	-2,726	-4%	-2,753	1%	-2,781	1%	-2,809	1%
Gross Operating Profit	1,755	1,490	1,690	13%	1,992	18%	2,374	19%	2,700	14%	2,885	7%
Loan Loss Provisions	-536	-269	-347	29%	-329	-5%	-425	29%	-529	24%	-551	4%
Other Net Income	3	4	27	575%	0	-100%	0	nm	0	nm	0	nm
Operating Profit	1,222	1,225	1,370	12%	1,662	21%	1,949	17%	2,171	11%	2,334	7%
Disposal Gains and Exceptionals	-400	-1,180	-835	-29%	-31	-96%	0	-100%	0	nm	0	nm
Pretax Profit	822	45	535	1089%	1,631	205%	1,949	19%	2,171	11%	2,334	7%
NIM (bps)	151	134	129		137		136		141		140	
Cost income ratio	62.0%	66.0%	62.6%		57.8%		53.7%		50.7%		49.3%	
Loan loss ratio	45.3	21.6	26.2		23.5		28.8		33.9		33.4	
BARCLAYCARD												
Net Interest Income	3,047	3,009	3,318	10%	3,482	5%	3,629	4%	3,624	0%	3,718	3%
Net Fees & Commissions	1,201	1,292	1,435	11%	1,364	-5%	1,418	4%	1,475	4%	1,534	4%
Net Trading Income	-7	-9	-4	-56%	-6	50%	-6	0%	-6	0%	-6	0%
Net Investment Income	10	0	0	nm	0	nm	0	nm	0	nm	0	nm
Insurance Net Premiums	42	36	26	-28%	20	-23%	21	5%	22	5%	23	5%
Other Operating Income	13	17	11	-35%	10	-9%	10	0%	10	0%	10	0%
Total Non-Interest Income	1,259	1,336	1,468	10%	1,388	-5%	1,443	4%	1,501	4%	1,561	4%
Insurance Net Claims & Benefits	-1	-1	0	-100%	0	nm	0	nm	0	nm	0	nm
Total Revenue	4,305	4,344	4,786	10%	4,870	2%	5,072	4%	5,125	1%	5,279	3%
Operating Costs	-1,812	-1,842	-1,999	9%	-1,936	-3%	-1,995	3%	-2,054	3%	-2,116	3%
Gross Operating Profit	2,493	2,502	2,787	11%	2,933	5%	3,077	5%	3,070	0%	3,163	3%
Loan Loss Provisions	-1,312	-1,049	-1,264	20%	-1,288	2%	-1,473	14%	-1,640	11%	-1,727	5%
Other Net Income	31	30	33	10%	30	-9%	31	4%	32	4%	34	4%
Operating Profit	1,212	1,483	1,556	5%	1,675	8%	1,635	-2%	1,463	-11%	1,470	0%
Disposal Gains and Exceptionals	-647	-420	-739	76%	-13	-98%	0	-100%	0	nm	0	nm
Pretax Profit	565	1,063	817	-23%	1,662	103%	1,635	-2%	1,463	-11%	1,470	0%
NIM (bps)	927	851	829		771		750		707		685	
Cost income ratio	42.1%	42.4%	41.8%		39.8%		39.3%		40.1%		40.1%	
Loan loss ratio	399	313	348		323		350		370		370	
EUROPE RETAIL												
Net Interest Income	610	428	420	-2%	371	-12%	346	-7%	324	-6%	304	-6%
Net Fees & Commissions	376	248	187	-25%	175	-6%	158	-10%	142	-10%	128	-10%
Net Trading Income	9	7	-1	-114%	0	-100%	0	nm	0	nm	0	nm
Net Investment Income	91	52	78	50%	50	-36%	45	-10%	41	-10%	36	-10%
Insurance Net Premiums	463	331	276	-17%	240	-13%	216	-10%	194	-10%	175	-10%
Other Operating Income	-42	1	14	1300%	10	-29%	10	0%	10	0%	10	0%
Total Non-Interest Income	897	639	554	-13%	475	-14%	429	-10%	387	-10%	349	-10%
Insurance Net Claims & Benefits	-503	-359	-308	-14%	-280	-9%	-252	-10%	-227	-10%	-204	-10%
Total Revenue	1,004	708	666	-6%	566	-15%	522	-8%	483	-7%	449	-7%
Operating Costs	-1,149	-807	-839	4%	-716	-15%	-608	-15%	-517	-15%	-440	-15%
Gross Operating Profit	-145	-99	-173	75%	-150	-13%	-86	-43%	-34	-61%	9	-127%
Loan Loss Provisions	-207	-257	-287	12%	-193	-33%	-143	-26%	-114	-20%	-103	-10%
Other Net Income	12	13	-133	-1123%	15	-111%	15	0%	15	0%	15	0%
Operating Profit	-340	-343	-593	73%	-328	-45%	-214	-35%	-133	-38%	-79	-41%
Disposal Gains and Exceptionals	-427	0	-403	nm	-3	-99%	0	-100%	0	nm	0	nm
Pretax Profit	-767	-343	-996	190%	-331	-67%	-214	-35%	-133	-38%	-79	-41%
NIM (bps)	99	77	79		75		75		75		75	
Cost income ratio	114%	114%	126%		127%		116%		107%		98%	
Loan loss ratio	48	61	75		55		45		40		40	

Source: Company Reports and Citi Research Estimates

Figure 115. Barclays – Retail & Business Banking UK & Europe Divisional Profit and Loss Account 1H10-2H14E (£m)

	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14E	2H14E
UK RETAIL BANKING										
Net Interest Income	1,493	1,672	1,625	1,753	1,594	1,596	1,621	1,774	1,816	1,865
Net Fees & Commissions	624	631	591	566	567	587	567	531	500	520
Net Trading Income	0	-2	0	0	0	0	0	0	0	0
Net Investment Income	0	0	0	17	0	0	0	0	0	0
Insurance Net Premiums (PPI)	73	57	49	43	39	35	27	19	20	20
Other Operating Income	0	1	-8	7	1	-2	-2	3	0	0
Total Non-Interest Income	697	687	632	633	607	620	592	553	520	540
Insurance Net Claims & Benefits	-19	-12	-9	-13	-17	-16	-11	-6	-12	-12
Total Revenue	2,171	2,347	2,248	2,373	2,184	2,200	2,202	2,321	2,324	2,393
Operating Costs	-1,322	-1,487	-1,343	-1,523	-1,470	-1,424	-1,393	-1,440	-1,353	-1,373
Gross Operating Profit	849	860	905	850	714	776	809	881	971	1,020
Loan Loss Provisions	-447	-372	-275	-261	-122	-147	-178	-169	-161	-168
Other Net Income	2	-3	1	2	0	4	28	-1	0	0
Operating Profit	404	485	631	591	592	633	659	711	811	852
Disposal Gains and Exceptionals	100	0	-400	0	-300	-880	-687	-148	-31	0
Pretax Profit	504	485	231	591	292	-247	-28	563	780	852
NIM (bps)	140	151	145	149	128	140	122	132	136	138
Cost income ratio	60.9%	63.4%	59.7%	64.2%	67.3%	60.5%	63.3%	62.0%	58.2%	57.4%
Loan loss ratio	82.4	64.8	47.1	43.7	20.0	23.4	27.0	24.9	23.3	23.8
BARCLAYCARD										
Net Interest Income	1,369	1,445	1,370	1,677	1,467	1,542	1,626	1,692	1,717	1,765
Net Fees & Commissions	569	567	571	630	618	674	698	737	675	689
Net Trading Income	-4	-4	-3	-4	-5	-4	-4	0	-3	-3
Net Investment Income	10	29	0	10	0	0	0	0	0	0
Insurance Net Premiums	19	31	21	21	22	14	14	12	10	10
Other Operating Income	2	-1	134	-121	11	6	9	2	5	5
Total Non-Interest Income	596	622	723	536	646	690	717	751	687	701
Insurance Net Claims & Benefits	-7	-1	-2	1	-1	0	0	0	0	0
Total Revenue	1,958	2,066	2,091	2,214	2,112	2,232	2,343	2,443	2,404	2,466
Operating Costs	-764	-806	-856	-956	-886	-956	-963	-1,036	-937	-999
Gross Operating Profit	1,194	1,260	1,235	1,258	1,226	1,276	1,380	1,407	1,466	1,467
Loan Loss Provisions	-890	-798	-669	-643	-492	-557	-616	-648	-631	-658
Other Net Income	13	12	18	13	17	13	16	17	15	15
Operating Profit	317	474	584	628	751	732	780	776	851	824
Disposal Gains and Exceptionals	0	0	-647	0	0	-420	-695	-44	-13	0
Pretax Profit	317	474	-63	628	751	312	85	732	838	824
NIM (bps)	954	999	932	982	894	856	829	830	775	766
Cost income ratio	39.0%	39.0%	40.9%	43.2%	42.0%	43.0%	41.0%	42.4%	39.0%	40.5%
Loan loss ratio	620	552	455	377	300	294	339	0	320	325
EUROPE RETAIL										
Net Interest Income	335	344	358	252	221	207	219	201	188	182
Net Fees & Commissions	214	207	219	157	131	117	93	94	90	85
Net Trading Income	7	13	5	4	4	3	-1	0	0	0
Net Investment Income	36	31	33	58	27	25	45	33	25	25
Insurance Net Premiums	262	217	254	209	220	111	148	128	120	120
Other Operating Income	24	-15	-100	58	13	-12	10	4	5	5
Total Non-Interest Income	543	453	411	486	395	244	295	259	240	235
Insurance Net Claims & Benefits	-276	-235	-272	-231	-237	-122	-162	-146	-140	-140
Total Revenue	602	562	497	507	379	329	352	314	288	277
Operating Costs	-495	-538	-594	-555	-409	-398	-422	-417	-369	-347
Gross Operating Profit	107	24	-97	-48	-30	-69	-70	-103	-81	-69
Loan Loss Provisions	-133	-181	-96	-111	-125	-132	-142	-145	-99	-94
Other Net Income	7	8	8	4	7	6	-141	8	7	8
Operating Profit	-19	-149	-185	-155	-148	-195	-353	-240	-173	-156
Disposal Gains and Exceptionals	29	0	0	-427	0	0	-356	-47	-3	0
Pretax Profit	10	-149	-185	-582	-148	-195	-709	-287	-176	-156
NIM (bps)	114	117	117	82	81	67	82	77	75	75
Cost income ratio	82%	96%	120%	109%	108%	121%	221%	133%	128%	125%
Loan loss ratio	66	87	43	51	60	66	70	0	55	55

Source: Company Reports and Citi Research Estimates

Figure 116. Barclays – Retail & Business Banking Africa & Other Divisional Profit and Loss Account 2011-17E (£m)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
AFRICA RETAIL												
Net Interest Income	1,874	1,654	1,437	-13%	1,269	-12%	1,300	2%	1,321	2%	1,342	2%
Net Fees & Commissions	1,179	1,065	924	-13%	805	-13%	885	10%	974	10%	1,071	10%
Net Trading Income	3	-4	-2	-50%	0	-100%	0	nm	0	nm	0	nm
Net Investment Income	56	5	10	100%	13	30%	13	0%	13	0%	13	0%
Net Premiums from Insurance Contracts	432	417	359	-14%	360	0%	396	10%	436	10%	479	10%
Other Operating Income	35	-2	73	-3750%	60	-18%	60	0%	60	0%	60	0%
Total Non-Interest Income	1,705	1,481	1,364	-8%	1,238	-9%	1,354	9%	1,482	9%	1,623	10%
Insurance Net Claims & Benefits	-215	-207	-184	-11%	-200	9%	-216	8%	-233	8%	-252	8%
Total Revenue	3,364	2,928	2,617	-11%	2,307	-12%	2,439	6%	2,570	5%	2,713	6%
Operating Costs	-2,177	-1,984	-1,870	-6%	-1,622	-13%	-1,536	-5%	-1,542	0%	-1,628	6%
Gross Operating Profit	1,187	944	747	-21%	685	-8%	902	32%	1,028	14%	1,085	6%
Loan Loss Provisions	-462	-632	-324	-49%	-241	-26%	-267	11%	-291	9%	-291	0%
Income From JV's & Associates	5	10	7	-30%	4	-43%	0	-100%	0	nm	0	nm
Operating Profit	730	322	430	34%	449	4%	635	42%	737	16%	794	8%
Disposal Gains and Exceptionals	2	0	-26	nm	-9	-65%	0	-100%	0	nm	0	nm
Pretax Profit	732	322	404	25%	440	9%	635	45%	737	16%	794	8%
NIM (bps)	0	3,052,055	3,163,596		3,074,689		3,150,000		3,200,000		3,250,000	
Cost income ratio (excludes net claims) (%)	64.7%	67.8%	71.5%		70.3%		63.0%		60.0%		60.0%	
Bad debts Advances (bp)	124	197	116		99		110		120		120	
HEAD OFFICE & ADJUSTMENTS												
Total Revenue	-88	356	-124	-135%	-393	217%	-618	57%	-843	36%	-1,068	27%
Operating Costs	-43	-165	-109	-34%	-88	-19%	-204	132%	-184	-10%	-165	-10%
Loan Loss Provisions	-3	-6	2	-133%	0	-100%	0	nm	0	nm	0	nm
Operating Profit	-135	208	-226	-209%	-480	112%	-822	71%	-1,026	25%	-1,233	20%
FVOD gain/loss	2,708	-4,579	-220	-95%	119	-154%	0	-100%	0	nm	0	nm
Disposal Gains and Exceptionals	-752	227	-22	-110%	-1,350	6036%	-750	-44%	-300	-60%	0	-100%
Pretax Profit	1,821	-4,144	-468	-89%	-1,711	265%	-1,572	-8%	-1,326	-16%	-1,233	-7%

Source: Company Reports and Citi Research Estimates

Figure 117. Barclays – Retail & Business Banking Africa & Other Divisional Profit and Loss Account 1H10-2H14E (£m)

	1H10	2H10	1H11	2H11	1H12	2H12	1H13	2H13	1H14E	2H14E
AFRICA RETAIL										
Net Interest Income	1,007	1,026	824	1,050	835	819	733	704	637	632
Net Fees & Commissions	633	685	650	529	539	526	478	446	392	412
Net Trading Income	61	-8	43	-40	6	-10	-2	0	0	0
Net Investment Income	-17	75	30	26	8	-3	10	0	6	7
Net Premiums from Insurance Contracts	187	212	216	216	214	203	185	174	175	185
Other Operating Income	24	30	25	10	-1	-1	43	30	30	30
Total Non-Interest Income	888	994	964	741	766	715	714	650	603	634
Insurance Net Claims & Benefits	-113	-102	-113	-102	-108	-99	-95	-89	-100	-100
Total Revenue	1,895	2,020	1,675	1,689	1,493	1,435	1,352	1,265	1,141	1,166
Operating Costs	-1,069	-1,349	-1,102	-1,075	-999	-985	-926	-944	-799	-823
Gross Operating Profit	826	671	573	614	494	450	426	321	342	343
Loan Loss Provisions	-330	-232	-268	-194	-314	-318	-208	-116	-120	-121
Income From JV's & Associates	1	2	3	2	3	7	3	4	4	0
Operating Profit	384	339	308	422	183	139	221	209	226	222
Disposal Gains and Exceptionals	4	77	0	2	0	0	-9	-17	-9	0
Pretax Profit	388	416	308	424	183	139	212	192	217	222
HEAD OFFICE & ADJUSTMENTS										
Total Revenue	-36	-143	-25	-63	387	-31	-134	10	-168	-225
Operating Costs	-390	-189	-14	-29	-98	-67	-24	-85	-43	-45
Loan Loss Provisions	5	-7	1	-4	-5	-1	1	1	0	0
Operating Profit	-421	-338	-40	-95	309	-101	-157	-69	-210	-270
FVOD gain/loss	851	-460	89	2,618	-2,945	-1,634	86	-306	119	0
Disposal Gains and Exceptionals	0	0	-59	-693	227	0	0	-22	-450	-900
Pretax Profit	430	-798	-10	1,830	-2,409	-1,735	-71	-397	-541	-1,170

Source: Company Reports and Citi Research Estimates

Figure 118. Barclays - Summary Group & Divisional Profit and Loss Account 1Q12-4Q14E (£m)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
Group												
Revenues	8,108	7,384	7,002	6,867	7,734	7,337	6,445	6,639	6,650	6,532	6,302	6,341
Expenses	-4,965	-4,555	-4,353	-4,690	-4,782	-4,359	-4,262	-5,281	-4,195	-4,076	-3,966	-4,439
Gross Operating Profit	3,143	2,829	2,649	2,177	2,952	2,978	2,183	1,358	2,455	2,456	2,336	1,903
Impairments	-784	-926	-805	-825	-706	-925	-722	-718	-548	-631	-646	-646
JVs & Associates	36	41	21	43	54	-122	25	19	26	12	17	17
Operating Profit	2,395	1,944	1,865	1,395	2,300	1,931	1,486	659	1,933	1,837	1,706	1,273
FVOD gains/losses	-2,620	-325	-1,074	-560	-251	337	-211	-95	119	0	0	0
Disposal gains/Losses & Exceptionals	-300	-223	-700	-1,000	-514	-2,126	-101	-547	-240	-450	-450	-750
Pre-Tax Profit	-525	1,396	91	-165	1,535	142	1,174	17	1,812	1,387	1,256	523
Tax on continuing operations	140	-453	-104	-199	-491	-103	-446	-531	-597	-357	-320	-133
Profit After Tax	-385	943	-13	-364	1,044	39	728	-514	1,215	1,030	936	390
Barclays Capital												
Fixed Income, Currency & Commodities	2,319	1,761	1,675	1,494	2,190	1,637	940	1,031	1,253	1,052	947	900
Equities and Prime Services	591	615	523	454	706	825	645	496	674	661	594	547
Investment Banking	515	509	493	620	558	528	525	590	555	583	530	605
Principal Investments	11	139	30	26	9	20	1	32	8	10	10	10
Total revenue	3,436	3,024	2,721	2,594	3,463	3,010	2,111	2,149	2,490	2,306	2,082	2,061
Operating Costs	-2,195	-1,849	-1,737	-1,850	-2,054	-1,697	-1,622	-2,377	-1,722	-1,568	-1,474	-1,816
Gross Operating Profit	1,241	1,175	984	744	1,409	1,313	489	-228	768	737	608	246
Total impairments	-81	-121	-3	1	14	-195	-25	-14	46	-15	-15	-15
Other Net Income	22	6	7	15	8	9	5	0	3	5	5	5
Operating Profit	1,182	1,060	988	760	1,431	1,127	469	-242	817	727	598	236
Divisional Operating Profit												
UK Retail	232	360	358	275	299	360	380	331	391	420	431	420
BarclayCard	347	404	396	336	363	417	403	373	436	415	415	410
Europe Retail	-72	-76	-81	-114	-106	-247	-105	-135	-85	-88	-83	-73
Africa Retail	132	51	34	105	81	140	134	75	110	116	124	99
Retail & Business Banking	639	739	707	602	637	670	812	644	852	863	887	856
Investment Bank	1,182	1,060	988	760	1,431	1,127	469	-242	817	727	598	236
Corporate	203	108	88	61	220	223	289	183	266	288	264	229
Wealth	50	49	70	105	60	20	51	8	73	86	85	95
IB, Corporate & Wealth	1,435	1,217	1,146	926	1,711	1,370	809	-51	1,156	1,102	947	560
Head Office & Other	320	-11	12	-113	-48	-109	-135	66	-82	-128	-128	-143
Total	2,394	1,945	1,865	1,415	2,300	1,931	1,486	659	1,926	1,837	1,706	1,273

Source: Company Reports and Citi Research Estimates

RBS

Figure 119. Royal Bank of Scotland – Group Profit and Loss Account 2011-17E (£m)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
Net Interest Income	12,313	11,417	10,992	-4%	10,778	-2%	9,144	-15%	8,862	-3%	9,176	4%
Net Fee Income	5,417	4,876	4,518	-7%	3,977	-12%	2,797	-30%	2,627	-6%	2,686	2%
Income from trading activities	3,313	3,533	2,651	-25%	2,408	-9%	1,972	-18%	1,588	-19%	1,564	-1%
Other Operating Income	2,381	2,259	1,281	-43%	1,494	17%	1,746	17%	1,875	7%	1,939	3%
Total Operating Revenue	23,424	22,085	19,442	-12%	18,657	-4%	15,659	-16%	14,952	-5%	15,365	3%
Staff Costs	-8,072	-7,377	-6,882	-7%	-6,063	-12%	-4,626	-24%	-4,168	-10%	-4,101	-2%
Other operating costs	-5,139	-4,943	-5,170	5%	-4,808	-7%	-3,668	-24%	-3,305	-10%	-3,252	-2%
Depreciation	-1,635	-1,534	-1,261	-18%	-1,162	-8%	-886	-24%	-799	-10%	-786	-2%
Total Operating Costs	-14,846	-13,854	-13,313	-4%	-12,033	-10%	-9,180	-24%	-8,271	-10%	-8,138	-2%
Other net income	0	0	0	n.m.	0	n.m.	0	n.m.	0	n.m.	0	n.m.
Gross Operating Profit	8,578	8,231	6,129	-26%	6,624	8%	6,479	-2%	6,681	3%	7,227	8%
Impairment losses	-7,439	-5,279	-8,432	60%	-2,077	-75%	-1,799	-13%	-1,510	-16%	-1,341	-11%
Pretax Profit (underlying)	1,139	2,952	-2,303	-178%	4,547	-297%	4,680	3%	5,170	10%	5,886	14%
FVO gains	1,914	-4,649	-120	-97%	139	nm	0	nm	0	nm	0	nm
Restructuring costs, PPI & other	-4,444	-3,580	-5,820	63%	-4,377	-25%	-3,155	-28%	-1,605	-49%	-805	-50%
Pretax Profit (reported)	-1,391	-5,277	-8,243	56%	309	-104%	1,525	393%	3,565	134%	5,081	43%
Tax	-1,075	-441	-382	-13%	-42	-89%	-356	743%	-832	134%	-1,186	43%
Post-tax profit from continuing ops	-2,466	-5,718	-8,625	51%	267	-103%	1,169	337%	2,733	134%	3,896	43%
Profit / loss from discontinued ops (net of tax)	348	-172	148	nm	9	nm	112	nm	0	nm	0	nm
Minority Interests (Incl. Non-Equity)	-28	136	-120	nm	-28	nm	-12	nm	-12	nm	-12	nm
Preference dividends	0	-301	-398	32%	-375	-6%	-400	7%	-400	0%	-400	0%
Net Attributable Profit	-2,146	-6,055	-8,995	49%	-127	-99%	869	-785%	2,321	167%	3,484	50%
Ordinary Dividend & DAS Paid Out	0	0	0	n.m.	-320	n.m.	-1,560	387%	-1,329	-15%	-1,709	29%
Retained Earnings	-2,146	-6,055	-8,995	49%	-447	-95%	-691	55%	992	-244%	1,775	79%
PER SHARE DATA												
Basic, Core EPS	55.1p	54.6p	10.0p	-82%	34.6p	247%	32.6p	-6%	32.9p	1%	34.9p	6%
Basic Underlying EPS	3.7p	15.6p	(24.6)p	-257%	25.1p	-202%	25.8p	3%	29.1p	13%	33.9p	17%
Diluted Underlying EPS	3.7p	15.6p	(24.6)p	-257%	25.1p	-202%	25.8p	3%	29.1p	13%	33.9p	17%
Diluted EPS Reported	(19.8)p	(55.0)p	(80.3)p	46%	(1.1)p	-99%	7.6p	-784%	20.4p	167%	30.6p	50%
Dividend per share, reported	0.0p	0.0p	0.0p	n.m.	0.0p	n.m.	10.0p	n.m.	15.0p	50%	15.0p	0%
Diluted BVPS	635.7p	570.2p	474.9p	-17%	468.7p	-1%	462.6p	-1%	471.4p	2%	486.9p	3%
Tangible diluted BVPS	500.9p	448.3p	365.0p	-19%	359.6p	-1%	353.5p	-2%	362.2p	2%	377.8p	4%
OPERATING RATIOS												
Reported NIM	1.9%	1.9%	2.0%		2.1%		2.0%		2.0%		2.1%	
Cost-income ratio, adjusted	63.4%	62.7%	68.5%		64.5%		58.6%		55.3%		53.0%	
NPL ratio	8.9%	9.1%	9.5%		6.9%		5.4%		3.4%		2.1%	
Coverage ratio (Provision / NPL)	48.8%	51.7%	64.0%		64.9%		64.9%		64.9%		64.9%	
Adj. ROE	0.6%	2.6%	-4.7%		5.3%		5.5%		6.2%		7.1%	
Adj. ROTE	0.7%	3.2%	-6.0%		7.0%		7.2%		8.1%		9.2%	
Adj RoA	0.03%	0.12%	-0.23%		0.28%		0.33%		0.39%		0.45%	
BALANCE SHEET SUMMARY												
Total assets	1,506,867	1,312,295	1,027,878	-22%	975,195	-5%	867,582	-11%	853,214	-2%	857,292	0%
Net loans and advances to customers	454,112	430,088	390,825	-9%	375,701	-4%	289,247	-23%	280,256	-3%	280,443	0%
Customer accounts	502,955	521,279	470,880	-10%	461,689	-2%	390,833	-15%	396,860	2%	404,626	2%
Loan to deposit ratio	90%	83%	83%		81%		74%		71%		69%	
Total shareholders' funds	70,075	63,386	53,450	-16%	53,390	0%	52,699	-1%	53,692	2%	55,467	3%
CAPITAL POSITION												
Core tier 1 capital (Basel 3)	44,218	37,908	36,768	-3%	37,826	3%	36,661	-3%	37,482	2%	39,375	5%
Risk weighted assets (Basel 3)	582,035	494,600	429,100	-13%	387,412	-10%	289,259	-25%	274,857	-5%	270,558	-2%
Basel 3 Core Tier 1 Ratio (%)	7.6%	7.7%	8.6%		9.8%		12.7%		13.6%		14.6%	
Leverage Ratio (%)	0.0%	3.2%	3.5%		3.8%		4.1%		4.3%		4.5%	

Source: Company Reports and Citi Research Estimates

Figure 120. Royal Bank of Scotland – Group Profit and Loss Account 1Q12-4Q14E (£m)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
Net Interest Income	2,923	2,907	2,811	2,776	2,672	2,770	2,783	2,767	2,698	2,668	2,691	2,721
Net Fee Income	1,306	1,249	1,191	1,130	1,106	1,142	1,144	1,126	1,055	953	975	993
Income from trading activities	1,264	929	769	571	1,016	874	599	162	856	585	513	454
Other Operating Income	672	435	787	365	367	661	368	-115	444	350	350	350
Total Operating Revenue	6,165	5,520	5,558	4,842	5,161	5,447	4,894	3,940	5,053	4,556	4,530	4,519
Staff Costs	-2,171	-1,945	-1,882	-1,379	-1,821	-1,764	-1,758	-1,539	-1,647	-1,520	-1,468	-1,428
Other operating costs	-1,234	-1,307	-1,217	-1,185	-1,221	-1,327	-1,223	-1,399	-1,281	-1,199	-1,168	-1,159
Depreciation	-394	-382	-374	-384	-339	-308	-305	-309	-262	-300	-300	-300
Total Operating Costs	-3,799	-3,634	-3,473	-2,948	-3,381	-3,399	-3,286	-3,247	-3,190	-3,019	-2,937	-2,888
Other net income	0	0	0	0	0	0	0	0	0	0	0	0
Gross Operating Profit	2,366	1,886	2,085	1,894	1,780	2,048	1,608	693	1,863	1,537	1,593	1,631
Impairment losses	-1,314	-1,335	-1,176	-1,454	-1,033	-1,117	-1,170	-5,112	-362	-571	-572	-572
Pretax Profit (underlying)	1,052	551	909	440	747	931	438	-4,419	1,501	966	1,021	1,059
FVO gains	-2,456	-518	-1,455	-220	249	127	-496	0	139	0	0	0
Restructuring costs, PPI & other	-110	-201	-822	-2,447	-170	-510	-576	-4,564	2	-535	-720	-3,124
Pretax Profit (reported)	-1,514	-168	-1,368	-2,227	826	548	-634	-8,983	1,642	431	301	-2,064
Tax	-138	-261	-3	-39	-350	-328	-81	377	-362	-103	-72	495
Post-tax profit from continuing ops	-1,652	-429	-1,371	-2,266	476	220	-715	-8,606	1,280	327	229	-1,569
Profit / loss from discontinued ops (net of tax)	93	13	67	-345	129	9	-5	15	9	0	0	0
Minority Interests (Incl. Non-Equity)	14	11	3	108	-131	14	-6	3	-19	-3	-3	-3
Preference dividends	0	-82	-104	-115	-81	-101	-102	-114	-75	-100	-100	-100
Net Attributable Profit	-1,545	-487	-1,405	-2,618	393	142	-828	-8,702	1,195	224	126	-1,672
Ordinary Dividend & DAS Paid Out	0	0	0	0	0	0	0	0	0	-320	0	0
Retained Earnings	-1,545	-487	-1,405	-2,618	393	142	-828	-8,702	1,195	-96	126	-1,672
PER SHARE DATA												
Basic, Core EPS	11.6p	22.9p	10.1p	10.1p	5.3p	3.4p	7.1p	(5.9)p	10.2p	8.4p	8.6p	7.3p
Basic Underlying EPS	6.8p	2.6p	4.8p	1.5p	2.7p	2.4p	1.6p	(31.2)p	9.4p	5.3p	5.7p	4.6p
Diluted Underlying EPS	6.7p	2.6p	4.7p	1.5p	2.7p	2.4p	1.6p	(31.2)p	9.4p	5.3p	5.7p	4.6p
Diluted EPS Reported	(14.2)p	(4.4)p	(12.7)p	(23.6)p	3.5p	1.3p	(7.4)p	(77.3)p	10.5p	2.0p	1.1p	(14.7)p
Dividend per share, reported	6.7p	2.6p	4.7p	1.5p	2.7p	2.4p	1.6p	(31.2)p	9.4p	5.3p	5.7p	4.6p
Diluted BVPS	621.2p	623.1p	608.4p	567.4p	577.1p	563.7p	555.8p	474.9p	483.1p	482.3p	483.4p	468.7p
Tangible diluted BVPS	487.6p	489.2p	475.9p	446.2p	454.1p	440.2p	433.3p	365.0p	374.0p	373.2p	374.3p	359.6p
OPERATING RATIOS												
Reported NIM	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.1%	2.1%	2.1%	2.1%	2.2%
Cost-income ratio, adjusted	61.6%	65.8%	62.5%	60.9%	65.5%	62.4%	67.1%	82.4%	63.1%	66.3%	64.8%	63.9%
NPL ratio	9.0%	9.0%	9.3%	9.1%	9.0%	9.6%	9.4%	9.5%	9.0%	8.3%	7.6%	6.9%
Coverage ratio (Provision / NPL)	50.8%	51.3%	50.8%	51.7%	52.4%	51.6%	53.1%	64.0%	64.9%	64.9%	64.9%	64.9%
BALANCE SHEET SUMMARY												
Total Assets (m)	1,403	1,415	1,377	1,312	1,308	1,216	1,129	1,028	1,024	1,006	990	975
Net loans and advances to customers	440,406	434,965	423,155	430,088	432,360	418,792	406,927	390,825	390,780	384,460	379,777	375,701
Customer accounts	497,510	501,719	506,055	521,279	526,095	526,418	506,941	470,880	458,361	458,725	460,174	461,689
Loan to deposit ratio	89%	87%	84%	83%	82%	80%	80%	83%	85%	84%	83%	81%
Total shareholders' funds	68,672	69,272	67,955	63,386	65,341	63,891	62,376	53,450	55,032	54,936	55,062	53,390
CAPITAL POSITION												
Core tier 1 capital (Basel 3)				37,908	39,950	40,977	41,070	36,768	39,063	39,116	39,376	37,826
Risk weighted assets (Basel 3)				494,600	487,200	471,000	452,500	429,100	414,300	403,685	395,144	387,412
Basel 3 Core Tier 1 Ratio (%)				7.7%	8.2%	8.7%	9.1%	8.6%	9.4%	9.7%	10.0%	9.8%
Leverage Ratio (%)							3.6%	3.5%	3.7%	3.8%	3.9%	3.8%

Source: Company Reports and Citi Research Estimates

Figure 121. Royal Bank of Scotland – Divisional Profit and Loss Account 2011-2017E (£m)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
MARKETS												
Rates	2,067	2,230	1,314	-41%	1,022	-22%	868	-15%	738	-15%	731	-1%
Currencies	1,060	757	920	22%	733	-20%	623	-15%	529	-15%	524	-1%
Asset backed products	1,254	1,318	940	-29%	895	-5%	716	-20%	573	-20%	567	-1%
Credit markets	616	862	714	-17%	468	-34%	374	-20%	299	-20%	296	-1%
Investor products and equity derivatives	0	0	0	n.m.	0	n.m.	0	n.m.	0	n.m.	0	n.m.
Total income continuing businesses	4,997	5,167	3,888	-25%	3,117	-20%	2,581	-17%	2,139	-17%	2,118	-1%
Inter-divisional revenue share	-767	-691	-611	-12%	-477	-22%	-395	-17%	-327	-17%	-324	-1%
Run-off businesses	185	7	45	543%	49	9%	0	-100%	0	n.m.	0	n.m.
Total income	4,415	4,483	3,322	-26%	2,689	-19%	2,186	-19%	1,812	-17%	1,794	-1%
Total Direct Expenses	-2,707	-2,175	-1,850	-15%	-1,529	-17%	-1,254	-18%	-1,066	-15%	-1,013	-5%
Indirect Expenses	-771	-762	-760	0%	-664	-13%	-544	-18%	-463	-15%	-440	-5%
Operating Profit	937	1,546	712	-54%	496	-30%	388	-22%	283	-27%	342	21%
Impairment losses	-38	-37	-92	149%	-2	-98%	0	-100%	0	n.m.	0	n.m.
Pretax Contribution	899	1,509	620	-59%	494	-20%	388	-21%	283	-27%	342	21%
Total third party assets (ex derivs mtm)	312,600	284,400	212,800	-25%	195,653	-8%	156,522	-20%	125,218	-20%	120,095	-4%
Risk Weighted Assets	120,300	101,300	64,500	-36%	0	-100%	0	n.m.	0	n.m.	0	n.m.
Cost/income	79%	64%	79%		82%		82%		84%		81%	
UK CORP AND COMMERCIAL												
Net Interest Income	3,092	2,974	2,874	-3%	2,886	0%	3,091	7%	2,986	-3%	3,159	6%
Fees and commissions	1,375	1,365	1,310	-4%	1,302	-1%	1,367	5%	1,299	-5%	1,338	3%
Non-Interest Income	396	384	283	-26%	340	20%	357	5%	339	-5%	349	3%
Total Income	4,863	4,723	4,467	-5%	4,528	1%	4,815	6%	4,624	-4%	4,846	5%
Total Direct Expenses	-1,324	-1,304	-1,329	2%	-1,259	-5%	-1,221	-3%	-1,111	-9%	-1,122	1%
Indirect Expenses	-822	-785	-890	13%	-910	2%	-928	2%	-844	-9%	-861	2%
Operating Profit	2,717	2,634	2,248	-15%	2,359	5%	2,666	13%	2,669	0%	2,862	7%
Impairment losses	-793	-838	-1,188	42%	-453	-62%	-542	20%	-506	-7%	-579	14%
Pretax Contribution	1,924	1,796	1,060	-41%	1,906	80%	2,123	11%	2,163	2%	2,283	6%
Gross Loans & Advances To Customers	110,700	107,000	102,500	-4%	106,327	4%	99,251	-7%	103,221	4%	107,350	4%
Risk Weighted Assets	79,300	86,300	86,100	0%	82,836	-4%	79,502	-4%	84,272	6%	89,328	6%
Reported NIM	3.06%	3.06%	3.07%		3.16%		3.26%		3.37%		3.43%	
Cost income ratio	44%	44%	50%		48%		45%		42%		41%	
Impairment charge / advances (bp)	71	77	113		43		50		50		55	
UK RETAIL												
Net Interest Income	4,302	3,990	3,979	0%	4,079	3%	4,273	5%	4,199	-2%	4,405	5%
Fees and commissions	1,066	884	919	4%	966	5%	1,005	4%	995	-1%	1,034	4%
Other non-interest income	140	95	39	-59%	35	-10%	36	4%	36	-1%	37	4%
Total Income	5,508	4,969	4,937	-1%	5,080	3%	5,314	5%	5,229	-2%	5,477	5%
Total Direct Expenses	-1,290	-1,183	-1,258	6%	-1,171	-7%	-1,112	-5%	-1,011	-9%	-1,021	1%
Indirect Expenses	-1,409	-1,366	-1,412	3%	-1,355	-4%	-1,328	-2%	-1,206	-9%	-1,243	3%
Operating Profit	2,809	2,420	2,267	-6%	2,554	13%	2,713	6%	3,012	11%	3,214	7%
Impairment losses	-788	-529	-324	-39%	-277	-15%	-326	18%	-386	18%	-483	25%
Pretax Contribution	2,021	1,891	1,943	3%	2,277	17%	2,386	5%	2,626	10%	2,730	4%
Gross Loans & Advances To Customers	110,800	113,600	113,200	0%	117,046	3%	113,565	-3%	117,850	4%	122,301	4%
Risk Weighted Assets	48,400	45,700	43,900	-4%	45,152	3%	44,301	-2%	46,959	6%	49,777	6%
Reported NIM	3.92%	3.58%	3.57%		3.64%		3.68%		3.73%		3.77%	
Cost income ratio	49%	51%	54%		50%		49%		42%		41%	
Impairment charge / advances (bp)	72	50	30		24		28		33		40	
UK WEALTH												
Net Interest Income	645	720	674	-6%	696	3%	731	5%	767	5%	806	5%
Fees and commissions	375	366	355	-3%	357	1%	359	1%	374	4%	389	4%
Other non-interest income	84	84	64	-24%	61	-5%	63	4%	66	4%	69	4%
Total Income	1,104	1,170	1,093	-7%	1,114	2%	1,154	4%	1,207	5%	1,263	5%
Total Direct Expenses	-539	-581	-520	-10%	-494	-5%	-489	-1%	-492	1%	-496	1%
Indirect Expenses	-298	-300	-326	9%	-298	-9%	-301	1%	-304	1%	-307	1%
Operating Profit	267	289	247	-15%	322	30%	364	13%	411	13%	460	12%
Impairment losses	-25	-46	-29	-37%	-14	-52%	-18	27%	-19	5%	-20	5%
Pretax Contribution	242	243	218	-10%	308	41%	346	12%	392	13%	440	12%
Gross Loans & Advances To Customers	16,900	17,100	16,800	-2%	17,400	4%	18,244	5%	19,130	5%	20,059	5%
Risk Weighted Assets	12,900	12,300	12,000	-2%	12,428	4%	13,031	5%	13,664	5%	14,328	5%
Fees as % of AUM	1.19%	1.22%	1.21%		1.21%		1.20%		1.20%		1.20%	
Cost income ratio	76%	75%	77%		71%		68%		66%		64%	

Source: Company Reports and Citi Research Estimates

Figure 122. Royal Bank of Scotland – Divisional Profit and Loss Account 1Q12-4Q14E (£m)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
MARKETS												
Rates	924	507	466	333	340	395	390	189	368	241	217	195
Currencies	246	175	173	163	192	257	257	214	213	192	173	155
Asset backed products	427	378	374	139	437	174	125	204	324	211	190	171
Credit markets	313	184	186	179	238	146	187	143	136	122	110	99
Investor products and equity derivatives	0	0	0	0	0	0	0	0	0	0	0	0
Total income continuing businesses	1,910	1,244	1,199	814	1,207	972	959	750	1,041	766	689	620
Inter-divisional revenue share	-186	-174	-159	-172	-167	-150	-162	-132	-133	-118	-116	-109
Run-off businesses	10	-4	2	-1	0	0	37	8	49	0	0	0
Total income	1,734	1,066	1,042	641	1,040	822	834	626	957	648	573	511
Total Direct Expenses	-712	-610	-559	-294	-543	-508	-447	-352	-458	-387	-356	-329
Indirect Expenses	-196	-186	-194	-186	-203	-178	-178	-201	-179	-165	-160	-160
Operating Profit	826	270	289	161	294	136	209	73	320	96	57	22
Impairment losses	-2	-19	6	-22	-16	-43	1	-34	-2	0	0	0
Pretax Contribution	824	251	295	139	278	93	210	39	318	96	57	22
Total third party assets (ex derivs mtm)	299,800	302,000	304,200	284,400	287,900	267,700	248,200	212,800	228,200	216,790	205,951	195,653
Risk Weighted Assets	115,600	107,900	108,000	101,300	88,500	86,800	73,200	64,500	0	0	0	0
Cost/income	52%	75%	72%	75%	72%	83%	75%	88%	67%	85%	90%	96%
UK CORP AND COMMERCIAL												
Net Interest Income	756	772	729	717	706	715	725	728	706	715	725	740
Fees and commissions	336	346	334	349	321	335	328	326	312	325	330	335
Non-Interest Income	109	93	75	107	57	92	59	75	85	85	85	85
Total Income	1,201	1,211	1,138	1,173	1,084	1,142	1,112	1,129	1,103	1,125	1,140	1,160
Total Direct Expenses	-334	-325	-320	-325	-320	-339	-319	-351	-314	-320	-315	-310
Indirect Expenses	-199	-193	-203	-190	-221	-214	-221	-234	-235	-225	-225	-225
Operating Profit	668	693	615	658	543	589	572	544	554	580	600	625
Impairment losses	-176	-181	-247	-234	-185	-194	-150	-659	-63	-130	-130	-130
Pretax Contribution	492	512	368	424	358	395	422	-115	491	450	470	495
Gross Loans & Advances To Customers	109,700	110,100	108,300	107,000	106,800	104,600	103,800	102,500	103,200	104,232	105,274	106,327
Risk Weighted Assets	76,900	79,400	82,100	86,300	87,000	88,100	87,200	86,100	80,400	81,204	82,016	82,836
Reported NIM	3.09%	3.17%	2.99%	2.97%	3.01%	3.05%	3.09%	3.13%	3.13%	3.15%	3.17%	3.20%
Cost income ratio	44%	43%	46%	44%	50%	48%	49%	52%	50%	48%	47%	46%
Impairment charge / advances (bp)	64	66	90	87	69	73	58	256	24	50	50	49
UK RETAIL												
Net Interest Income	1,001	988	990	1,011	965	987	1,013	1,014	994	1,010	1,030	1,045
Fees and commissions	237	214	231	202	212	215	243	249	241	235	240	250
Other non-interest income	29	28	21	17	14	10	11	4	5	10	10	10
Total Income	1,267	1,230	1,242	1,230	1,191	1,212	1,267	1,267	1,240	1,255	1,280	1,305
Total Direct Expenses	-289	-324	-294	-276	-284	-295	-314	-365	-313	-288	-285	-285
Indirect Expenses	-346	-329	-343	-348	-350	-351	-354	-357	-335	-340	-340	-340
Operating Profit	632	577	605	606	557	566	599	545	592	627	655	680
Impairment losses	-155	-140	-141	-93	-80	-89	-82	-73	-59	-72	-73	-73
Pretax Contribution	477	437	464	513	477	477	517	472	533	555	582	607
Gross Loans & Advances To Customers	112,500	113,000	112,900	113,600	113,200	112,200	112,700	113,200	113,800	114,872	115,953	117,046
Risk Weighted Assets	48,200	47,400	47,700	45,700	44,500	44,100	44,800	43,900	43,900	44,313	44,731	45,152
Reported NIM	3.61%	3.57%	3.53%	3.60%	3.49%	3.56%	3.62%	3.60%	3.59%	3.63%	3.67%	3.69%
Cost income ratio	50%	53%	51%	51%	53%	53%	53%	57%	52%	50%	49%	48%
Impairment charge / advances (bp)	56	50	50	33	28	32	29	26	21	25	25	25
UK WEALTH												
Net Interest Income	179	178	185	178	169	162	169	174	171	175	175	175
Fees and commissions	93	90	94	89	89	91	90	85	87	90	90	90
Other non-interest income	18	35	13	18	15	19	12	18	16	15	15	15
Total Income	290	303	292	285	273	272	271	277	274	280	280	280
Total Direct Expenses	-159	-157	-146	-119	-129	-137	-132	-122	-124	-130	-120	-120
Indirect Expenses	-78	-73	-75	-74	-86	-77	-78	-85	-73	-75	-75	-75
Operating Profit	53	73	71	92	58	58	61	70	77	75	85	85
Impairment losses	-10	-12	-8	-16	-5	-2	-1	-21	1	-5	-5	-5
Pretax Contribution	43	61	63	76	53	56	60	49	78	70	80	80
Gross Loans & Advances To Customers	16,900	17,000	17,000	17,100	17,200	17,100	16,900	16,800	16,800	16,998	17,197	17,400
Risk Weighted Assets	12,900	12,300	12,300	12,300	12,500	12,500	12,100	12,000	12,000	12,141	12,284	12,428
Fees as % of AUM	1.18%	1.18%	1.27%	1.23%	1.16%	1.17%	1.18%	1.14%	1.22%	1.25%	1.24%	1.23%
Cost income ratio	82%	76%	76%	68%	79%	79%	77%	75%	72%	73%	70%	70%

Source: Company Reports and Citi Research Estimates

Figure 123. Royal Bank of Scotland – Divisional Profit and Loss Account 2011-2017E (£m) (contd)

	2011	2012	2013	%chg	2014E	%chg	2015E	%chg	2016E	%chg	2017E	%chg
INTERNATIONAL BANKING												
Net interest income	1,199	922	713	-23%	696	-2%	664	-5%	647	-3%	644	-1%
Non-interest income	1,356	1,200	1,135	-5%	1,028	-9%	977	-5%	928	-5%	900	-3%
Total income	2,555	2,122	1,848	-13%	1,724	-7%	1,641	-5%	1,575	-4%	1,544	-2%
Total direct expenses	-938	-744	-682	-8%	-589	-14%	-538	-9%	-491	-9%	-467	-5%
Indirect Expenses	-694	-673	-658	-2%	-634	-4%	-579	-9%	-529	-9%	-503	-5%
Operating Profit	923	705	508	-28%	501	-1%	524	5%	555	6%	574	4%
Impairment losses	-168	-111	-229	106%	-55	-76%	-52	-5%	-50	-5%	-48	-3%
Pretax Contribution	755	594	279	-53%	446	60%	472	6%	505	7%	526	4%
Total third party assets	69,900	53,000	48,500	-8%	47,177	-3%	44,818	-5%	42,577	-5%	42,152	-1%
Risk Weighted Assets	43,200	51,900	49,000	-6%	74,935	53%	59,948	-20%	50,956	-15%	45,860	-10%
Reported NIM	1.60%	1.64%	1.59%		1.54%		1.58%		1.62%		1.67%	
Cost/income	64%	67%	73%		71%		68%		65%		63%	
Impairment charge / advances (bp)	30	27	64		15		15		15		15	
ULSTER BANK												
Net Interest Income	736	649	631	-3%	555	-12%	462	-17%	397	-14%	355	-11%
Fees and commissions	142	145	141	-3%	120	-15%	108	-10%	97	-10%	87	-10%
Other non-interest income	69	51	99	94%	56	-43%	51	-10%	46	-10%	41	-10%
Total Income	947	845	871	3%	731	-16%	620	-15%	540	-13%	484	-10%
Total Direct Expenses	-292	-263	-302	15%	-286	-5%	-243	-15%	-214	-12%	-193	-10%
Indirect Expenses	-255	-258	-252	-2%	-242	-4%	-206	-15%	-181	-12%	-163	-10%
Operating Profit	400	324	317	-2%	203	-36%	171	-16%	145	-15%	128	-12%
Impairment losses	-1,384	-1,364	-1,774	30%	-234	-87%	-183	-22%	-137	-25%	-111	-19%
Pretax Contribution	-984	-1,040	-1,457	40%	-31	-98%	-11	-64%	9	-177%	18	109%
Gross Loans To Customers	34,100	32,600	31,400	-4%	23,338	-26%	19,612	-16%	16,854	-14%	14,729	-13%
Risk Weighted Assets	36,300	36,100	30,700	-15%	25,180	-18%	21,161	-16%	18,185	-14%	15,892	-13%
Reported NIM (bps)	1.77%	1.88%	1.91%		2.16%		2.12%		2.15%		2.22%	
Cost/income	58%	62%	64%		72%		72%		73%		73%	
Impairment charge / advances (bp)	406	418	565		93		85		75		70	
CORE BANK TOTAL												
Net Interest Income	11,485	11,071	11,053	0%	10,905	-1%	9,187	-16%	8,886	-3%	9,187	3%
Non-interest income	10,965	10,726	8,735	-19%	8,053	-8%	6,638	-18%	6,134	-8%	6,189	1%
Total Income	22,450	21,797	19,788	-9%	18,958	-4%	15,825	-17%	15,020	-5%	15,376	2%
Total Expenses	-13,570	-12,910	-12,705	-2%	-11,772	-7%	-9,023	-23%	-8,192	-9%	-8,107	-1%
Operating Profit	8,880	8,887	7,083	-20%	7,187	1%	6,801	-5%	6,828	0%	7,270	6%
Impairment losses	-3,522	-3,056	-3,856	26%	-1,224	-68%	-1,122	-8%	-1,098	-2%	-1,242	13%
Pretax Contribution	5,358	5,831	3,227	-45%	5,963	85%	5,679	-5%	5,729	1%	6,028	5%
Cost/income	60%	59%	64%		62%		57%		55%		53%	
RCR												
Net Interest Income	828	346	-61	-118%	-127	108%	-43	-66%	-24	-44%	-11	-53%
Fees and commissions	54	105	55	-48%	29	-47%	20	-31%	10	-50%	5	-50%
Trading income	-721	-654	-148	-77%	91	-161%	70	-23%	30	-57%	15	-50%
Other operating income	813	491	-192	-139%	-294	53%	-213	-28%	-84	-60%	-20	-76%
Total Income	974	288	-346	-220%	-301	-13%	-166	-45%	-69	-59%	-11	-84%
Total Direct Expenses	-963	-686	-407	-41%	-188	-54%	-113	-40%	-56	-50%	-23	-60%
Indirect Expenses	-313	-258	-198	-23%	-73	-63%	-44	-40%	-22	-50%	-9	-60%
Total Expenses	-1,276	-944	-605	-36%	-262	-57%	-157	-40%	-78	-50%	-31	-60%
General insurance net income	0	0	0	n.m.	0	n.m.	0	n.m.	0	n.m.	0	n.m.
Operating Profit	-302	-656	-951	45%	-563	-41%	-323	-43%	-147	-54%	-43	-71%
Impairment losses	-3,919	-2,223	-4,576	106%	-853	-81%	-677	-21%	-412	-39%	-99	-76%
Pretax Contribution	-4,221	-2,879	-5,527	92%	-1,416	-74%	-1,000	-29%	-559	-44%	-142	-75%

Source: Company Reports and Citi Research Estimates

Figure 124. Royal Bank of Scotland – Divisional Profit and Loss Account 1Q12-4Q14E (£m) (contd)

	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14E	3Q14E	4Q14E
INTERNATIONAL BANKING												
Net interest income	260	234	227	201	197	177	166	173	180	176	172	168
Non-interest income	282	327	308	283	285	291	288	271	248	265	260	255
Total income	542	561	535	484	482	468	454	444	428	441	432	423
Total direct expenses	-237	-202	-182	-123	-163	-170	-178	-171	-144	-150	-150	-145
Indirect Expenses	-173	-165	-166	-169	-170	-157	-165	-166	-164	-160	-155	-155
Operating Profit	132	194	187	192	149	141	111	107	120	131	127	123
Impairment losses	-35	-27	-12	-37	-55	-99	-28	-47	-10	-15	-15	-15
Pretax Contribution	97	167	175	155	94	42	83	60	110	116	112	108
Total third party assets	63,700	61,400	58,400	53,000	54,400	51,900	53,300	48,500	50,900	49,628	48,387	47,177
Risk Weighted Assets	41,800	46,000	49,700	51,900	48,900	49,700	48,400	49,000	47,100	45,923	44,774	43,655
Reported NIM	1.60%	1.65%	1.70%	1.62%	1.74%	1.62%	1.47%	1.54%	1.55%	1.54%	1.54%	1.54%
Cost/income	76%	65%	65%	60%	69%	70%	76%	76%	72%	70%	71%	71%
Impairment charge / advances (bp)	26	21	10	33	52	96	27	48	10	16	16	17
ULSTER BANK												
Net Interest Income	165	160	163	161	154	154	154	169	159	137	132	127
Fees and commissions	38	35	36	36	34	35	35	37	32	31	29	28
Other non-interest income	11	11	14	15	20	53	25	1	15	14	14	13
Total Income	214	206	213	212	208	242	214	207	206	182	175	168
Total Direct Expenses	-65	-64	-67	-67	-72	-79	-79	-72	-80	-75	-68	-63
Indirect Expenses	-65	-64	-59	-70	-60	-65	-63	-64	-62	-60	-60	-60
Operating Profit	84	78	87	75	76	98	72	71	64	47	47	45
Impairment losses	-394	-323	-329	-318	-240	-263	-204	-1,067	-47	-65	-62	-60
Pretax Contribution	-310	-245	-242	-243	-164	-165	-132	-996	17	-18	-15	-15
Gross Loans To Customers	33,900	33,000	32,200	32,600	33,100	32,900	31,900	31,400	26,600	25,435	24,350	23,338
Risk Weighted Assets	38,400	37,400	35,100	36,100	36,800	33,900	31,800	30,700	28,700	27,443	26,272	25,180
Reported NIM (bps)	1.87%	1.82%	1.92%	1.93%	1.85%	1.85%	1.86%	2.10%	2.36%	2.08%	2.09%	2.10%
Cost/income	61%	62%	59%	65%	63%	60%	66%	66%	69%	74%	73%	73%
Impairment charge / advances (bp)	464	386	404	393	292	319	252	1,348	71	100	100	101
CORE BANK TOTAL												
Net Interest Income	2,808	2,821	2,725	2,717	2,700	2,740	2,816	2,797	2,703	2,713	2,732	2,757
Non-interest income	3,088	2,698	2,783	2,157	2,368	2,434	2,197	1,736	2,277	1,996	1,922	1,859
Total Income	5,896	5,519	5,508	4,874	5,068	5,174	5,013	4,533	4,980	4,709	4,653	4,616
Total Expenses	-3,536	-3,372	-3,261	-2,741	-3,216	-3,243	-3,140	-3,106	-3,111	-2,950	-2,876	-2,835
Operating Profit	2,360	2,147	2,247	2,133	1,852	1,931	1,873	1,427	1,869	1,759	1,777	1,781
Impairment losses	-825	-728	-752	-751	-600	-719	-589	-1,948	-254	-326	-323	-321
Pretax Contribution	1,535	1,419	1,495	1,382	1,252	1,212	1,284	-521	1,615	1,433	1,454	1,460
Cost/income	60%	61%	59%	56%	63%	63%	63%	69%	62%	63%	62%	61%
RCR												
Net Interest Income	115	86	86	59	-28	30	-33	-30	-5	-46	-40	-36
Fees and commissions	31	29	17	28	20	18	6	11	14	5	5	5
Trading income	-270	-131	-203	-50	45	134	-109	-218	16	25	25	25
Other operating income	393	17	150	-69	56	91	17	-356	48	-138	-113	-92
Total Income	269	1	50	-32	93	273	-119	-593	73	-153	-124	-97
Total Direct Expenses	-197	-197	-144	-148	-116	-105	-97	-89	-56	-50	-44	-39
Indirect Expenses	-66	-65	-68	-59	-49	-51	-48	-50	-23	-20	-17	-14
Total Expenses	-263	-262	-212	-207	-165	-156	-145	-139	-79	-69	-60	-53
General insurance net income	0	0	0	0	0	0	0	0	0	0	0	0
Operating Profit	6	-261	-162	-239	-72	117	-264	-732	-6	-222	-184	-150
Impairment losses	-489	-607	-424	-703	-433	-398	-581	-3,164	-108	-245	-249	-250
Pretax Contribution	-483	-868	-586	-942	-505	-281	-845	-3,896	-114	-468	-433	-401

Source: Company Reports and Citi Research Estimates

Current ratings/prices for stocks mentioned: Bank of America Corp (BAC.N; US$16.05; 1); Barclays PLC (BARC.L; £2.19; 1); BB&T (BBT.N; US$39.98; 1); Banco Bilbao Vizcaya Argentaria SA (BBVA.MC; €9.53; 2); Bankia SA (BKIA.MC; €1.44; 1); Bankinter SA (BKT.MC; €5.84; 2); BNP Paribas SA (BNPP.PA; €50.20; 1); CaixaBank SA (CABK.MC; €4.62; 1); Comerica Inc (CMA.N; US$51.00; 2); Capital One Financial Corp. (COF.N; US$84.95; 1); Credit Suisse (CSGN.VX; SFr26.17; 1); Deutsche Bank (DBKGn.DE; €26.22; 1); Fifth Third Bancorp (FITB.O; US$21.63; 2);

Goldman Sachs Group, Inc. (GS.N; US$169.46; 2); HSBC Holdings PLC (HSBA.L; £6.07; 2); JP Morgan Chase & Co (JPM.N; US$57.13; 1); Keycorp (KEY.N; US$14.51; 2); Lloyds Banking Group PLC (LLOY.L; £0.76; 2); Morgan Stanley (MS.N; US$32.62; 2); M&T Bank Corp (MTB.N; US$124.94; 2); PNC Financial Services Group Inc (PNC.N; US$89.97; 2); Banco Popular Espanol (POP.MC; €4.93; 3); Royal Bank of Scotland Group PLC (RBS.L; £3.32; 3H); Regions Financial Corp (RF.N; US$10.88; 2); Banco de Sabadell SA (SABE.MC; €2.47; 3); Banco Santander (SAN.MC; €7.73; 2); Societe Generale (SOGN.PA; €39.21; 1); Standard Chartered PLC (STAN.L; £12.25; 1); SunTrust Banks (STI.N; US$40.76; 2); UBS (UBSN.VX; SFr16.71; 1); US Bancorp (USB.N; US$43.59; 2); Wells Fargo & Co (WFC.N; US$53.00; 2)

Barclays PLC

Valuation

We set our target price at 300p based on a two-stage dividend discount approach combined with a capital-adjusted warranted-equity valuation to calculate a terminal value. This target price represents 1.0x 2014E TBV per share, in-line with the European banks sector average, and global investment banking peers.

Risks

There are several risks that could cause the share price to deviate significantly from our target price, including the risks of adverse regulatory changes, a prolonged UK economic recovery, or a renewed bout of Eurozone sovereign concerns. If the impact of these risk factors is more negative than we anticipate, then the share price might fail to reach our target price.

Royal Bank of Scotland Group PLC

Valuation

We set our target price at 300p based on a two-stage dividend discount approach combined with a capital-adjusted warranted-equity valuation to calculate a terminal value. This target price represents 0.8x 2014E TBV per share, a discount to the European banks sector average, which we believe is fair due to RBS's lower RoTE profile in the medium-term.

Risks

We set a High Risk rating to reflect RBS' exposure to political and regulatory uncertainty. Specific downside risks include risks associated with shrinking the non-core balance sheet and restructuring Ulster Bank and the Markets division. RBS also has potential upside surprise catalysts, that could result in it outperforming our target, such as such as a sharper credit recovery in Ireland than we anticipate, a turnaround in the US, or further margin improvements in the UK following active central bank policy.

Appendix A-1

Analyst Certification

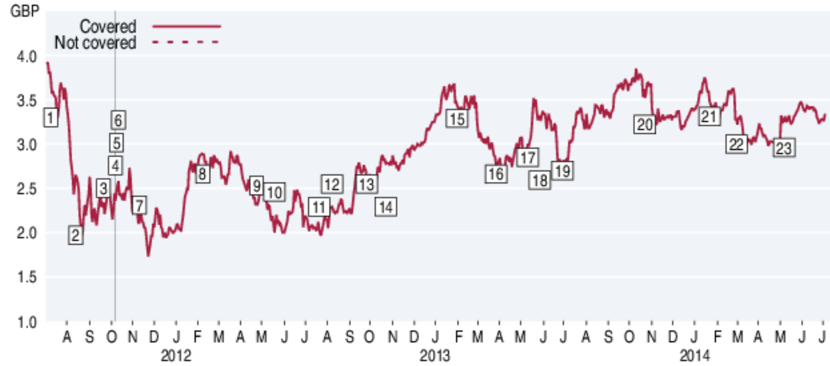
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Royal Bank of Scotland Group PLC (RBS.L)

Ratings and Target Price History
Fundamental Research

Analyst: Andrew Coombs
Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	6-Jul-11	1M	*5.00	3.79
2	12-Aug-11	1M	*4.60	2.65
3	21-Sep-11	1M	*4.20	2.34
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	4.20	2.36
6	12-Oct-11	1	*3.10	2.58
7	10-Nov-11	1	*3.00	2.11
8	8-Feb-12	*2	3.00	2.88
9	24-Apr-12	*2H	*2.80	2.33
10	18-May-12	2H	*2.50	2.00
11	20-Jul-12	2H	*2.35	2.05
12	8-Aug-12	2H	*2.30	2.29
13	26-Sep-12	2H	*2.70	2.55
14	23-Oct-12	2H	*2.85	2.78
15	31-Jan-13	2H	*3.60	3.43
16	27-Mar-13	2H	*3.00	2.77
17	10-May-13	2H	*2.90	3.00
18	28-May-13	*3H	2.90	3.32
19	28-Jun-13	3H	*2.70	2.74
20	23-Oct-13	3H	*2.75	3.52
21	22-Jan-14	3H	*2.90	3.48
22	28-Feb-14	3H	*2.70	3.28
23	7-May-14	3H	*3.00	3.26

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Royal Bank of Scotland Group PLC (RBS.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrew Coombs
Covered since July 6 2011

	Date	Rating	Target Price	Closing Price
1	2-Jul-12	*ADD LP	-	2.19
2	22-Jan-14	*REM LP	-	3.48

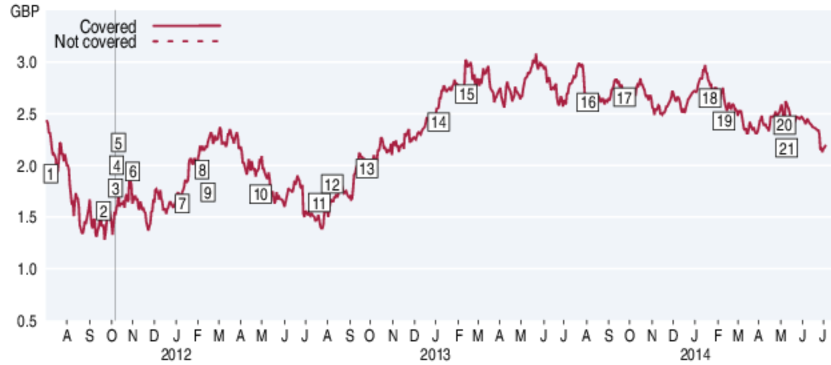
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Barclays PLC (BARC.L)

Ratings and Target Price History
Fundamental Research

Analyst: Andrew Coombs
Covered since July 6 2011



	Date	Rating	Target Price	Closing Price
1	6-Jul-11	1M	*2.86	2.31
2	21-Sep-11	1M	*2.68	1.42
3	7-Oct-11	Stock rating system changed		
4	8-Oct-11	*1	2.68	1.52
5	12-Oct-11	1	*2.08	1.73
6	1-Nov-11	1	*2.12	1.63
7	10-Jan-12	1	*2.26	1.74
8	7-Feb-12	1	*2.54	2.19
9	15-Feb-12	1	*2.77	2.23
10	30-Apr-12	1	*3.00	2.02
11	20-Jul-12	1	*2.77	1.47
12	8-Aug-12	1	*3.05	1.65
13	26-Sep-12	1	*3.42	1.97
14	4-Jan-13	1	*3.69	2.56
15	13-Feb-13	1	*4.16	3.01
16	2-Aug-13	1	*3.19	2.64
17	24-Sep-13	1	*3.20	2.71
18	22-Jan-14	1	*3.30	2.78
19	11-Feb-14	1	*3.45	2.65
20	7-May-14	1	*3.15	2.43
21	9-May-14	1	*3.05	2.60

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Barclays PLC (BARC.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Andrew Coombs
Covered since July 6 2011

	Date	Rating	Target Price	Closing Price
1	9-Aug-11	*ADD MP	-	1.66
2	22-Jan-14	*REM MP	-	2.78

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of M&T Bank Corp
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Comerica Inc
Citigroup Global Markets Ltd is acting as Joint Bookrunner in the announced rights offering by Deutsche Bank AG Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Deutsche Bank AG
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of SunTrust Banks Inc
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Goldman Sachs Group Inc
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Societe Generale
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of Morgan Stanley
Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of U.S. Bancorp
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