

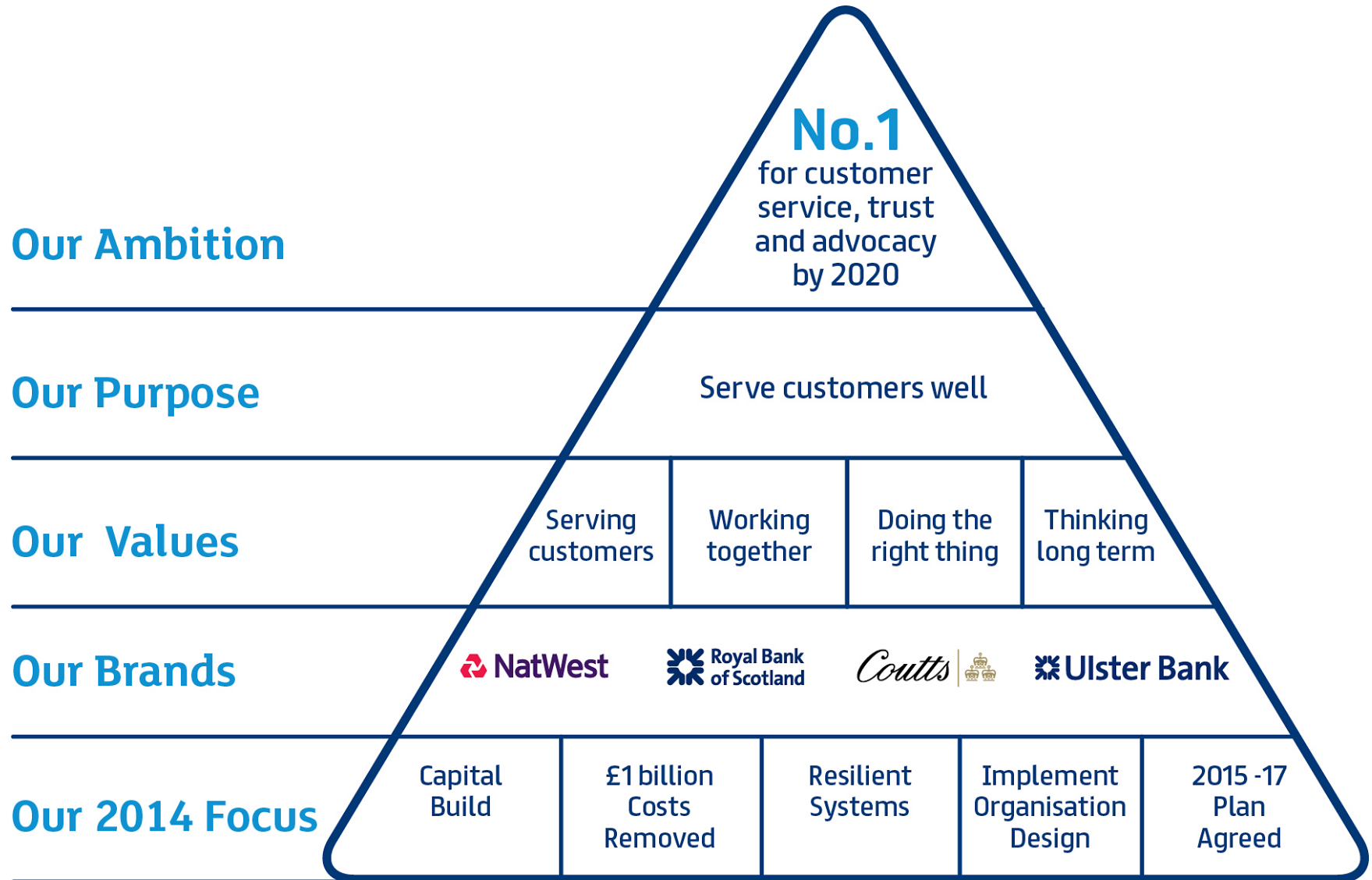
Progress towards building a truly customer-centric bank

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Bank of America Merrill Lynch Banking & Insurance CEO Conference

30th September 2014

Our blueprint



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Our ambition

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Our 2014 focus

#1 for customer service, trust and advocacy by 2020

Customers

Service

#1 Net Promoter Score for each of our segments

Trust

#1 trusted bank in the UK

People

Great place to work

Engagement Index $\geq$ Global Financial Services norm¹

Investors

Attractive and consistent returns

Return on Tangible Equity 12+%

Cost:income ratio ~50%

Unquestioned safety & soundness

CET1 ratio $\geq$ 12%²

Leverage ratio $\geq$ 4%³

Loan:deposit ratio ~100%

¹ Global Financial Services norm currently stands at 82%. Source: Towers Watson. ² Common Equity Tier 1 ratio. ³ Under review pending completion of the PRA consultation process.

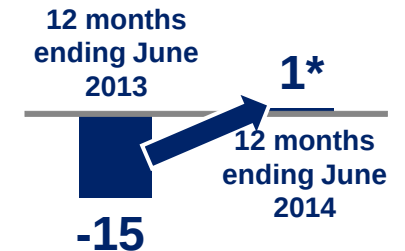
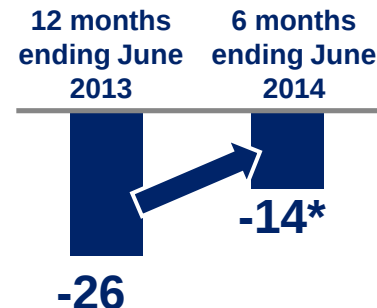
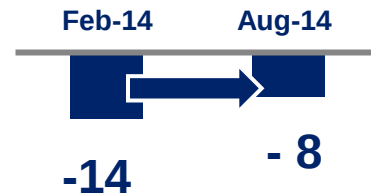
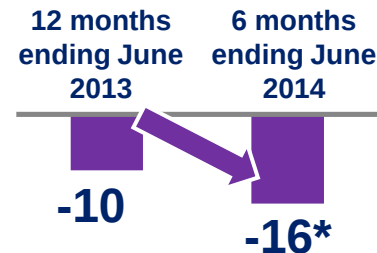
Customers are beginning to respond to the change

Net Promoter Score (NPS) performance

Personal ¹

Business

Commercial



* = Significant increase or decrease

- Internal surveys run by an external market research company show:
 - Strong personal customer satisfaction and advocacy in our fast growing Mobile channel
 - Improving scores in other personal channels such as Branch and Telephony

Source (Personal)¹: GFK FRS : Base: All main current account holders: Period: 6-month rolling figures. Net Promoter Score (NPS) – a measure of main current account customers' likelihood to recommend the current account service (Business): Charterhouse Research GB Business Banking Survey, based on interviews with businesses with annual turnover between £0m and £2m (687 NatWest main bank customers, 335 RBS, 301, weighted by region and turnover to be representative of businesses in GB (Commercial): Charterhouse Research GB Business Banking Survey, based on interviews with businesses with annual turnover between £2m and £25m (522 NatWest main bank customers, 224 RBS, 329 weighted by region and turnover to be representative of businesses in GB. Net Promoter Score (NPS) – a measure of main bank customers' likelihood to recommend the bank.

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Serve customers well...

Good early progress delivering upon our purpose

Rewarding loyalty

We have stopped teaser rates – best rates offered to new and existing customers.

Fairer pricing

Same pricing across all channels.

Simpler products

We have reduced the number of personal and business products by one third since 2012. This will reach half in 2014.

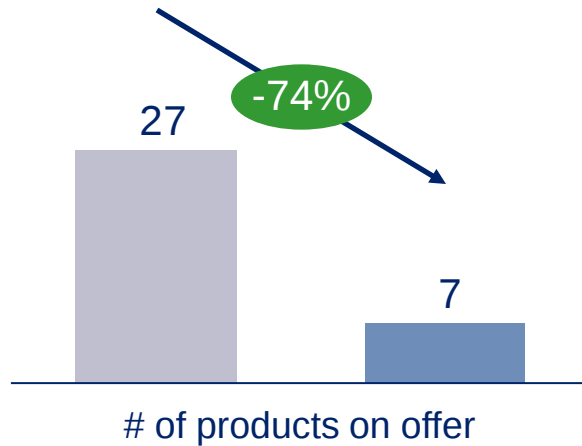
Faster processes

We are speeding up account opening and loan decisions.

Our goal: #1 for customer service, trust and advocacy by 2020

We are becoming simpler and clearer

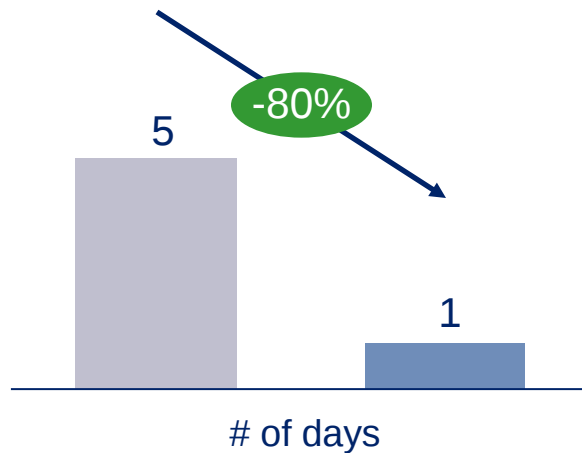
Personal current accounts



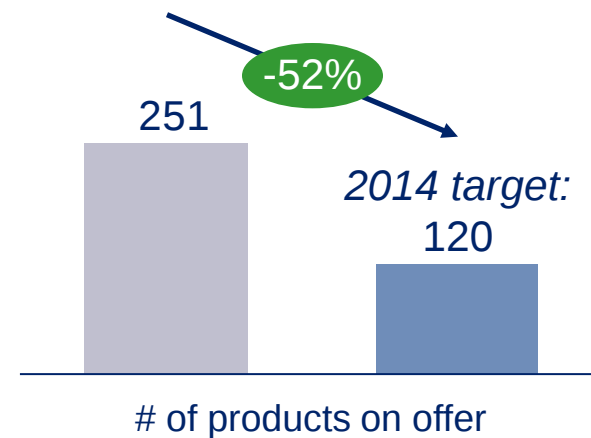
Personal savings accounts



Personal account opening time



SME product range



Our actions are beginning to have an impact

Case study: Instant saver product rationalisation



- Fair pricing and simplification supporting greater customer take-up
- We provide the support and tools to help our customers become better savers
- We are the first bank to be awarded a 5 star Fairbanking Mark accreditation

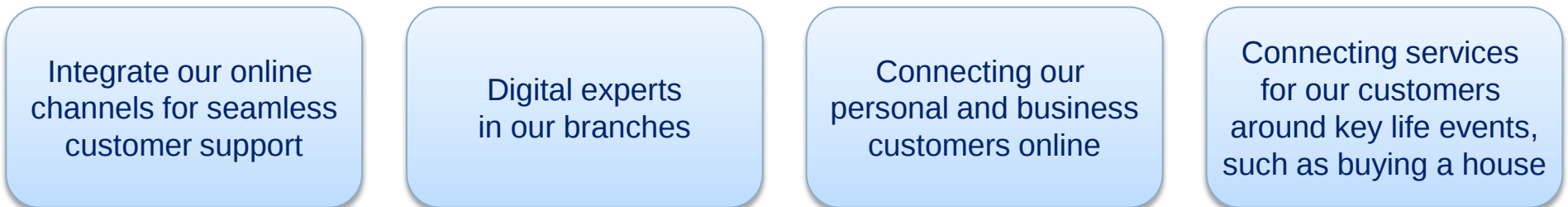


Building on our innovative mobile and channel offering

We're starting from a **strong base...**



And we have a **clear plan** to build on it...



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Our values are being embedded with staff

% of staff that agree¹...

83%

“RBS delivers excellent customer service”

Serving customers

85%

“We work well together”

Working together

89%

“I am encouraged to do the right thing at work.”

Doing the right thing

63%

“Decisions in my business area are based on what’s best in the long term.”

Thinking long term

Serve customers well. This is our purpose.

¹ Staff feedback, Our View 2013 survey.

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We have market leading franchises

Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking
#2 GB Personal current accounts¹ 23% share of GB Business Banking main bank relationships² ~800k customers 24%² share of business start-ups #1 Northern Ireland #3 Republic of Ireland	#1 UK Commercial bank 79,000 customers - Market-leading share of relationships (31%)³ - Local presence in over 100 UK locations served by over 7,000 employees #1 UK Private Bank	#1 UK Large Corporates, #4 in Europe⁴ #1 UK Cash Management, #4 in Europe⁴ - Best Trade Finance Bank in UK and Western Europe⁵ - Strong capabilities in FX, and Rates - Top 3 in UK, Top 10 in EMEA



¹ GfK FRS, RBS and NatWest market share, 6 months ending August 2014. ² Charterhouse Research GB Business Banking Survey, 6 months ending June 2014, based on 6397 businesses with annual turnover of £0 -£2m (1713 start-ups), weighted by region and turnover to be representative of businesses in GB (GB – UK excluding Northern Ireland). ³ PH data, primary banked Q2 2014. ⁴ Greenwich Associates 2014 (Large Corporate Banking & Large Corporate Cash Management Survey) Tied 4th in cash management. ⁵ Global Finance Awards, 2014.

We need to leverage our strengths

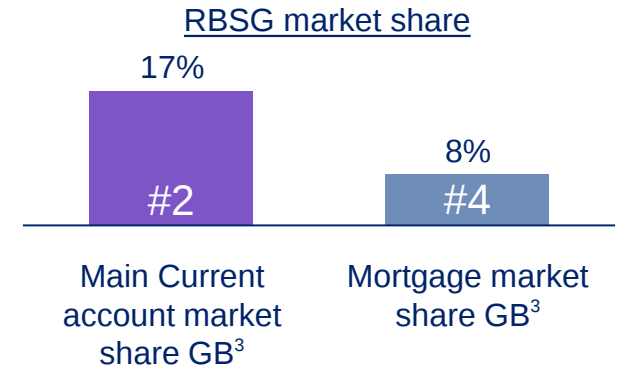
Personal & Business Banking

- 17% current account market share but only 8% in mortgages¹
- ~40% of our business customers do not have an active Personal banking relationship with RBSG²

¹ GfK FRS, RBS and NatWest market share, 6 months ending August 2014. 29,659 main current account and 6,984 mortgage holders interviewed.

² Internal analysis; business customer numbers excludes Clubs & Societies and accounts in Collections & Recoveries.

³ GB – UK excluding Northern Ireland.

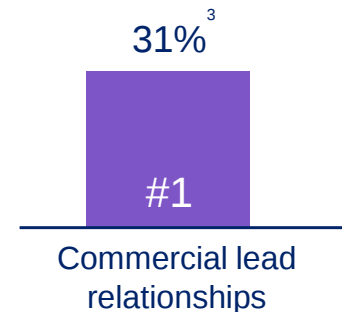


Commercial & Private Banking

- #1 in Commercial market share, but we can still deepen these relationships and do more for our customers
- Better connect Coutts UK to successful business owners and entrepreneurs

³ PH data, primary banked Q2 2014.

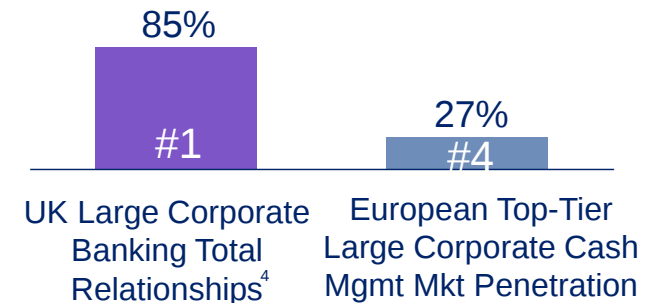
RBSG market share



Corporate & Institutional Banking

- Maintain market leadership with UK Large Corporates
- Improve connectivity across the global network

RBS product penetration and rank



⁴ Greenwich Associates 2014 Greenwich Leaders European Corporate Banking and Transactions. Tied 4th in cash management.

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Today's trading update

Economic recovery continues to support a benign impairment outlook

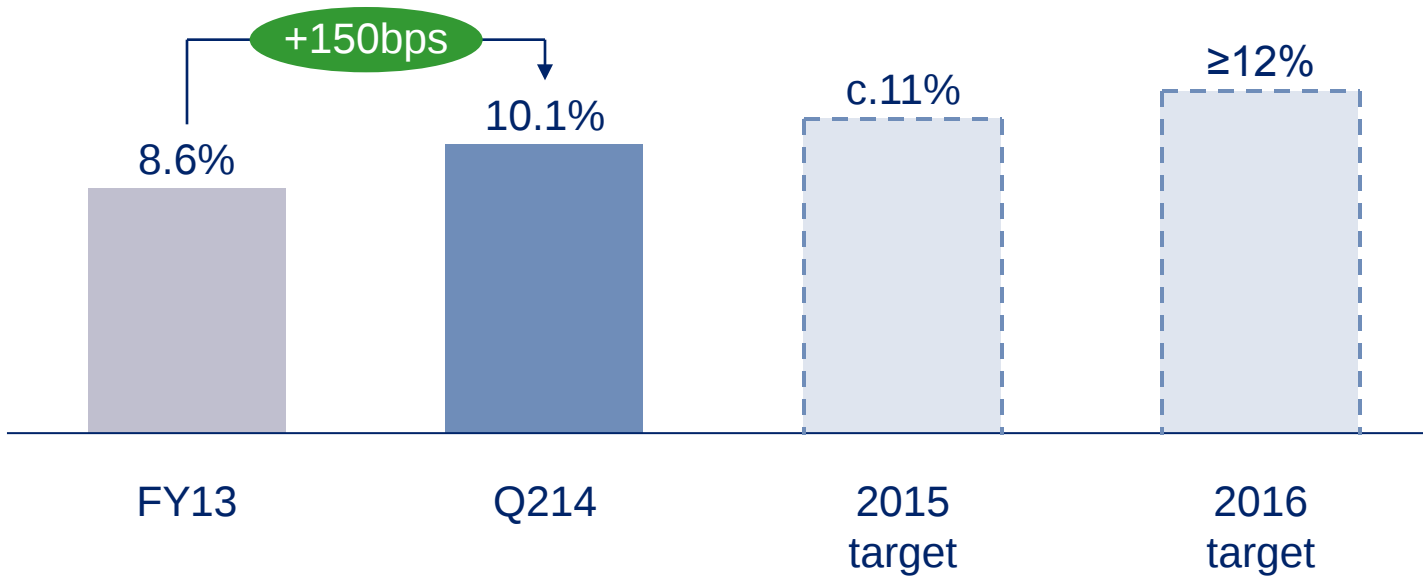
RCR making excellent progress, well geared to execute

Asset pricing supporting provision releases on some RCR asset sales

Ulster – improving economic conditions and higher real estate prices

Capital plan

CET1 target $\geq 12\%$, well on track



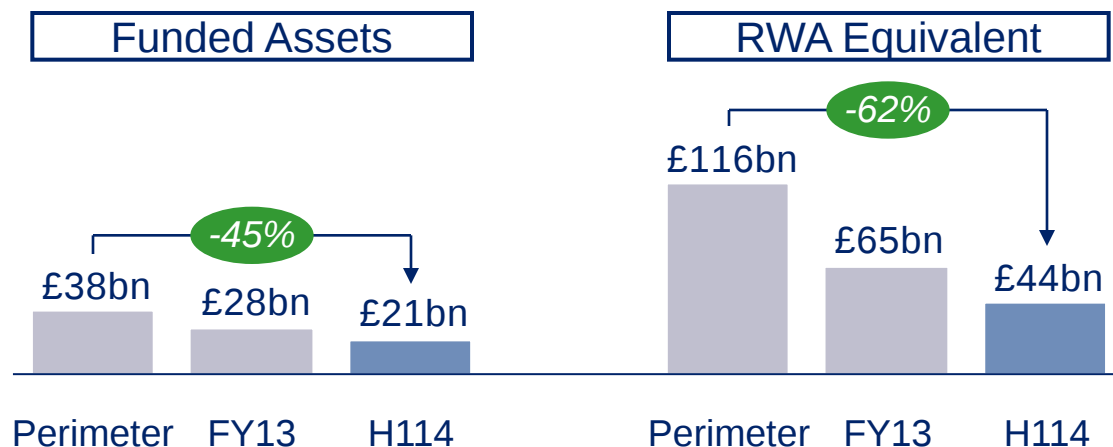
- CET1 ratio up 150bps in H1 2014
- Leverage ratio at 3.7%, up 30bps in H1, well positioned for potential higher leverage ratios

RCR's progress is well ahead of plan

Non-Core's reputation for delivery...

- Non-Core reduced funded assets by £230bn (89%) over 5 years – well below the original £40bn target

... is being continued in RCR



- Excellent progress continued in Q3
- Improving environment supported further releases

Experienced and efficient execution is key:

>150
deals
completed
in H1'14

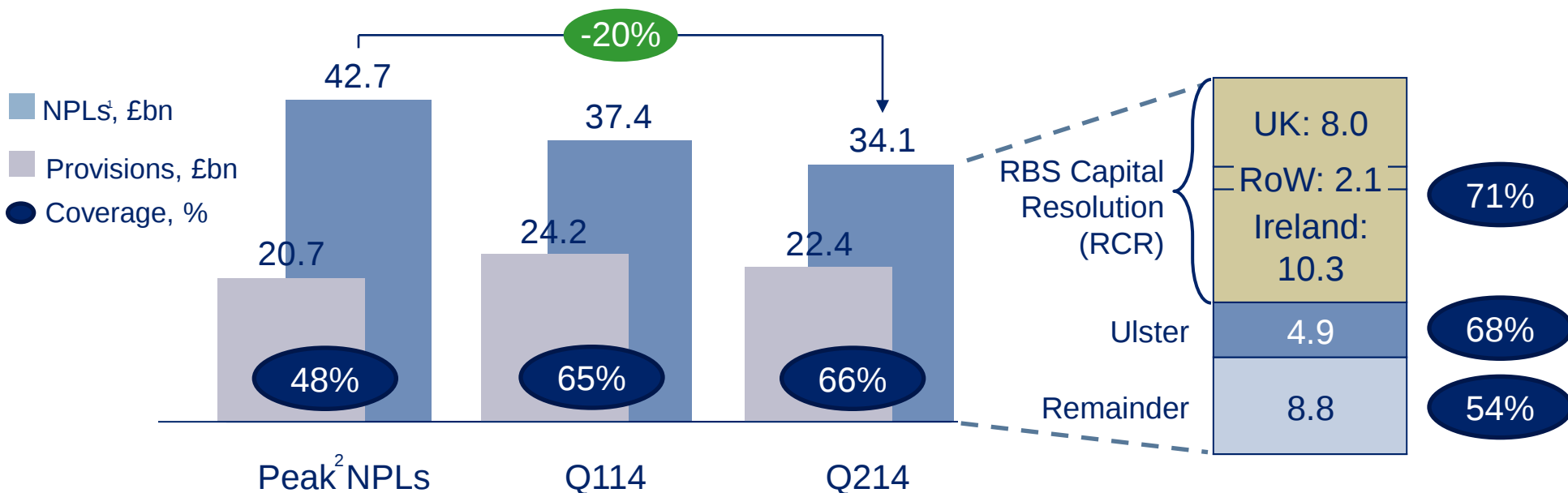
>100%
P/BV
achieved
in H1

300k
documents
added to
data rooms

>13m data
points
collected

Capital plan

Supportive credit environment, exposure risk remains



- Good progress in reducing NPLs, down 20% from peak – RCR (60% of total NPLs) key driver of accelerated run-down
- Recent results benefitted from no major impairments in RCR, alongside a number of provision releases
- Leading credit indicators continue to improve, with geared exposure to both Irish and UK recoveries

¹ NPLs (non-performing loans) = Risk Elements in Lending (REiL) per RBS results disclosures. ² Q311.

Cautious on litigation / conduct cost outcomes

PPI – continue to provide to best estimates, closely monitoring claims

Swaps – agreed outcomes with the independent reviewer relating to over 95%¹ of cases

Significant risks and uncertainty remains around the scale and timing of future specific conduct and litigation costs

Continue to work through RMBS litigation, FHFA and other material RMBS related matters remain outstanding

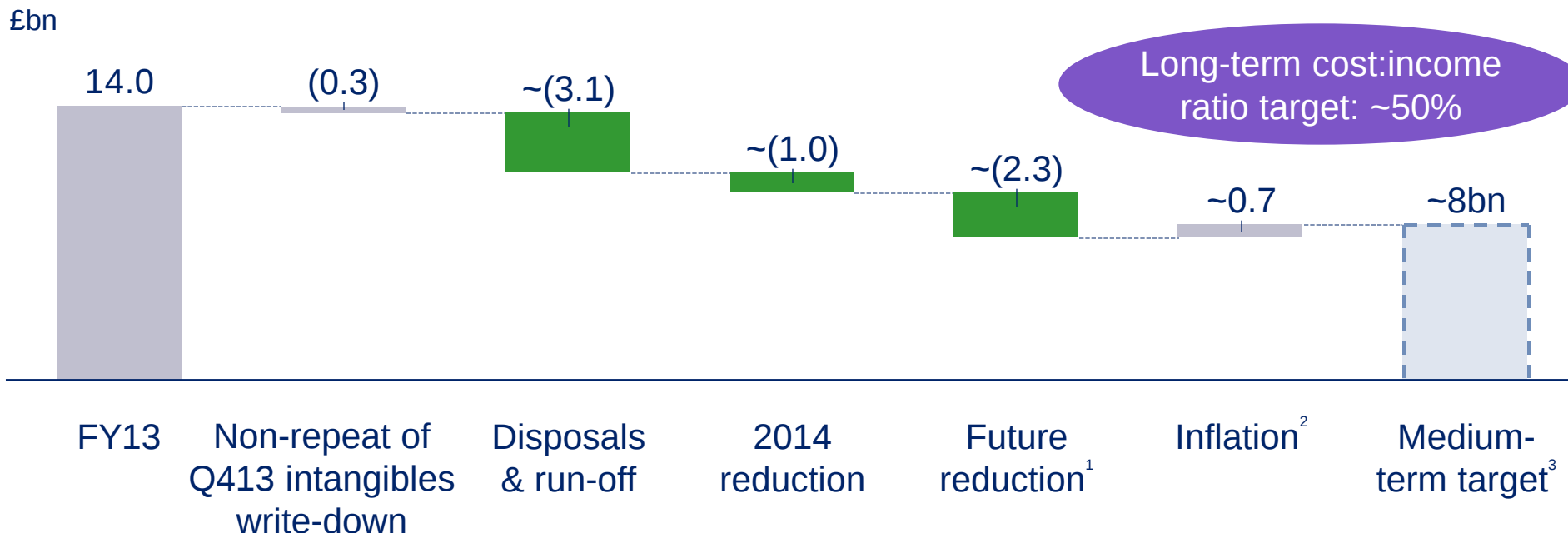
FX – timeline and potential extent still to be clarified

Work continues on putting past conduct issues behind us

¹ As at 30 June 2014.

£1bn costs on track to be removed in 2014

Operating expenses including bank levy and excluding restructuring and conduct & litigation costs



- Our historic scale and complexity left us inefficient; we are aligning our cost base to our new more focused and smaller operating model
- Reductions to be delivered over a 4-year period
- Continue to anticipate £5bn total restructuring costs 2014-17

On track to meet £1bn cost reduction target in 2014, £0.5bn delivered in H114

¹ 2015-17. ² Including bank levy. ³ Medium-term defined as 2017.

Resilient systems

An efficient, simple technology estate

We remain focussed on our vision of a resilient, efficient and simple technology estate with fewer applications to better serve our customers

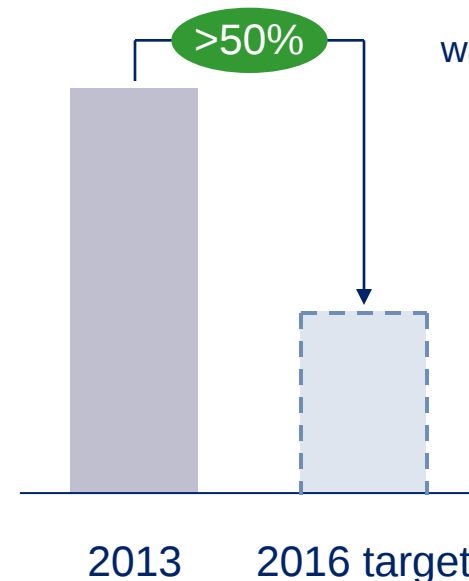
IT Resilience

- Upgraded and improved infrastructure
- Able to process >90% of card transactions during outages
- Made over 20,000 changes to simplify and strengthen the batch environment
- Our batch scheduler now runs twice as fast as previously
- Developed and delivered real time visualisation for batch monitoring

Simplification

Reducing the number of platforms

>50% fewer platforms reducing complexity, cost, error rates and wasted front line effort

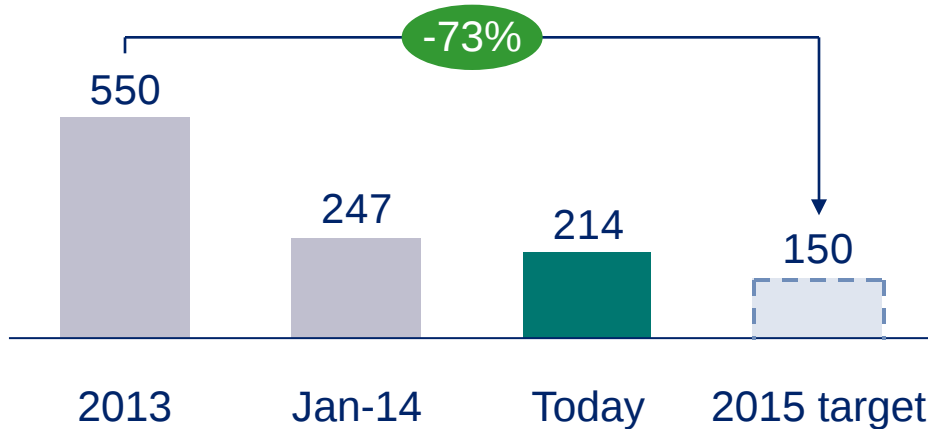


Resilient systems

Our infrastructure is becoming simpler

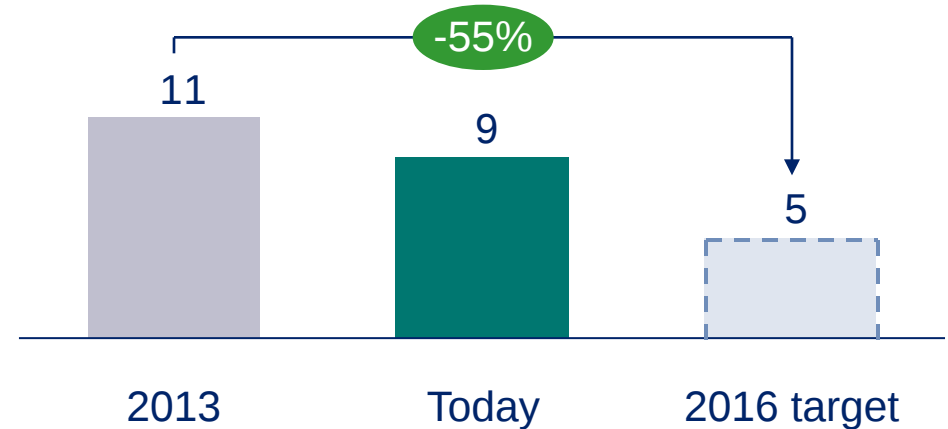
Change portfolio rationalised

of projects



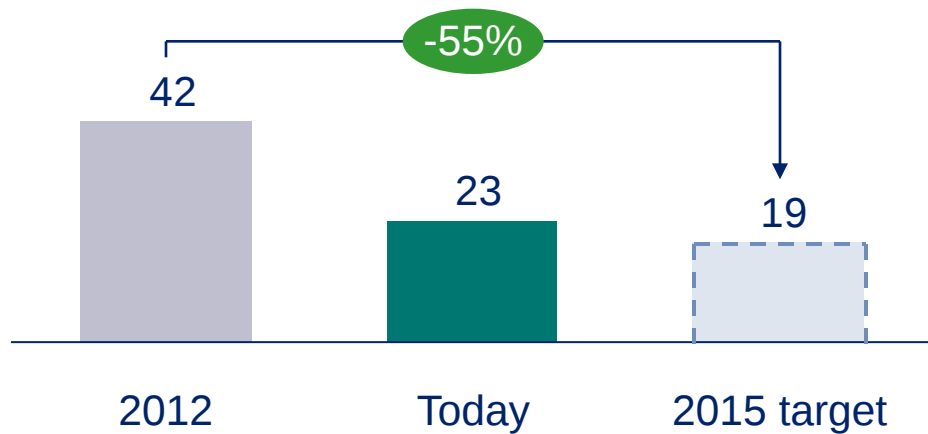
Property exits in progress

of London offices



Fewer, more strategic supplier relationships

of RBS suppliers ('000's)



Spend with 3rd parties has reduced by 14% Y/Y

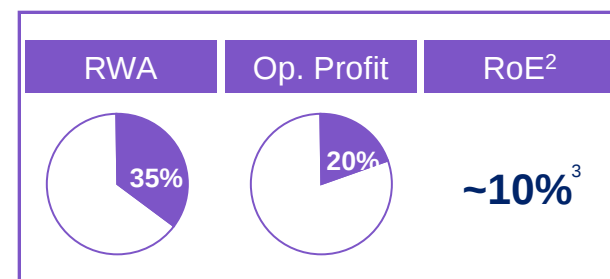
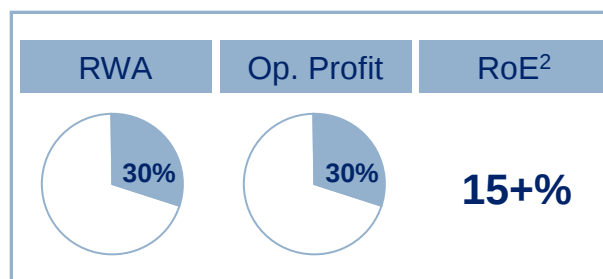
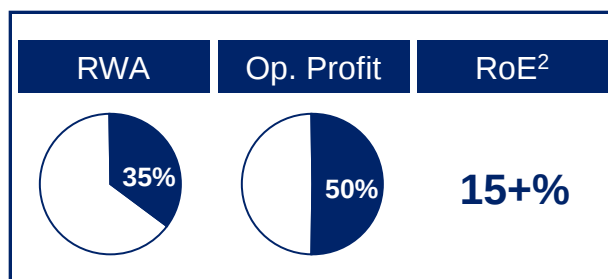
Implemented new organisation design

We are now managed as one bank



- Bank-wide service platforms and functions allow us to deliver the whole bank to our customers through their lifecycle and to drive hard on cost efficiency
- ICB implications being assessed currently

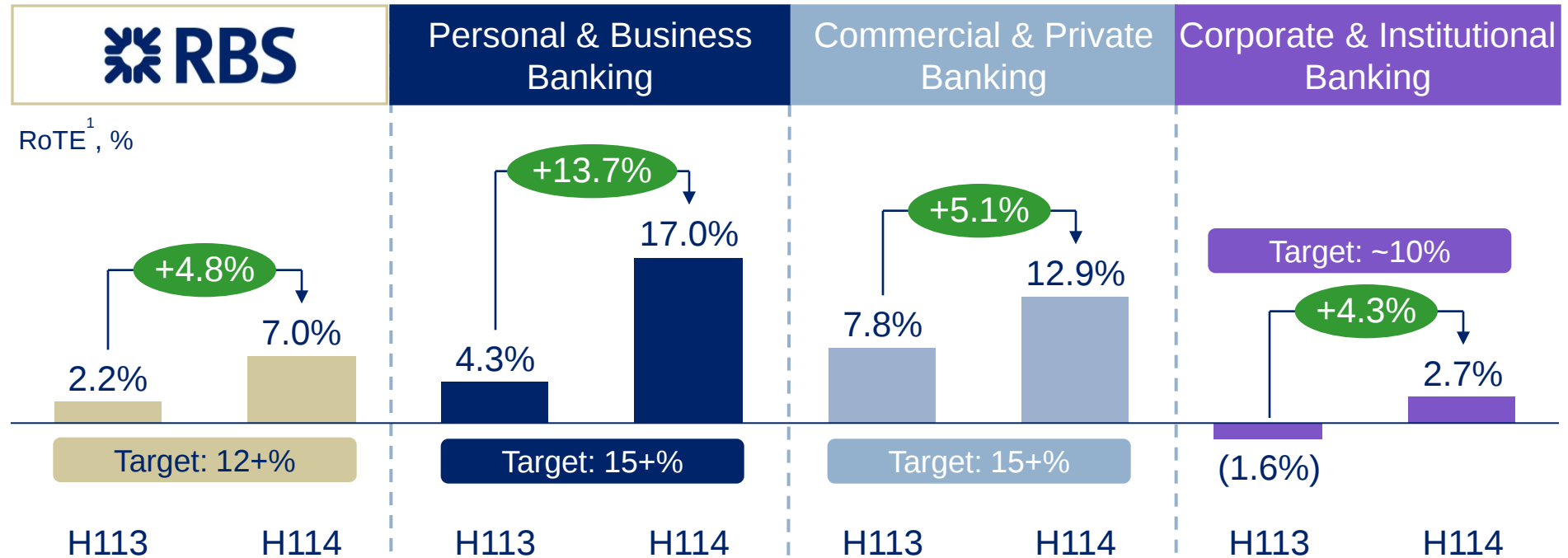
Go-forward target business profile¹



¹ Steady state defined as 2018 to 2020. ² For the purposes of computing segmental return on equity, notional equity is calculated as 12% of the monthly average of segmental RWAs. ³ 7-8% medium-term target (2016/17).

Medium-term plans

Returns improving, but much more to be done



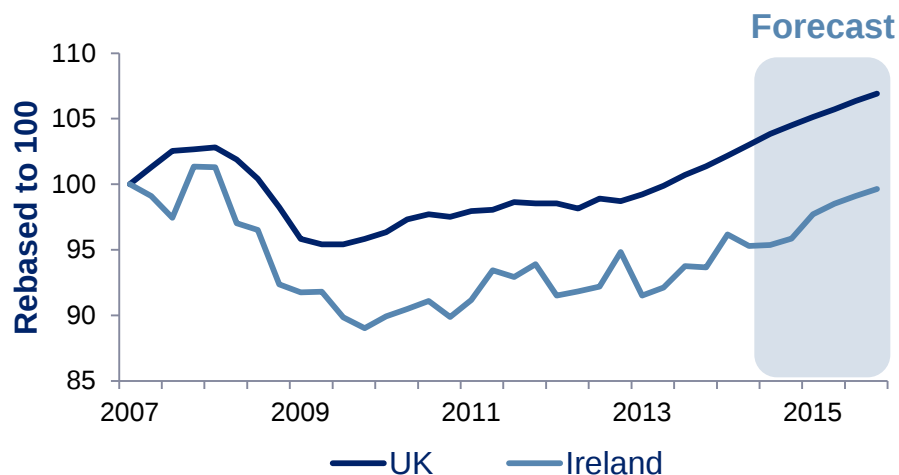
- H114 returns supported by lower impairments, notably in Ireland, and lower deleveraging losses
- Short-term performance will remain sensitive to delivery of RCR and CIB de-risking, restructuring charges and conduct & litigation headwinds
- Delivery of cost reductions fundamental to achieving 12+% RoTE target. CIB costs down 20% Y/Y

¹ For the purposes of computing segmental return on equity, notional equity is calculated as 12% of the monthly average of segmental RWAs.

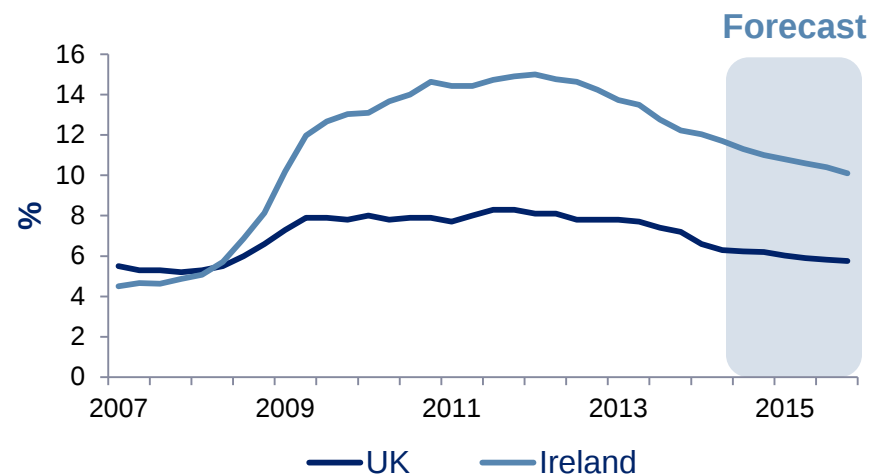
Medium-term plans

Underpinned by upturn in UK and Irish economies

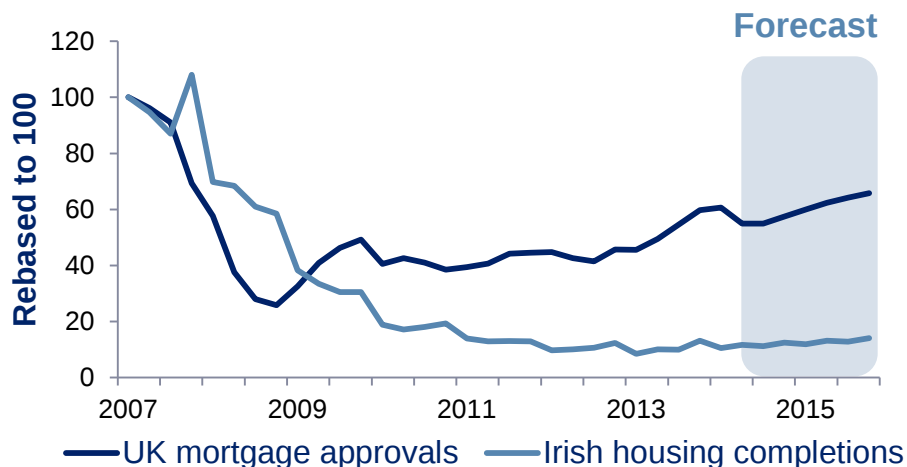
GDP growth firmly anchored



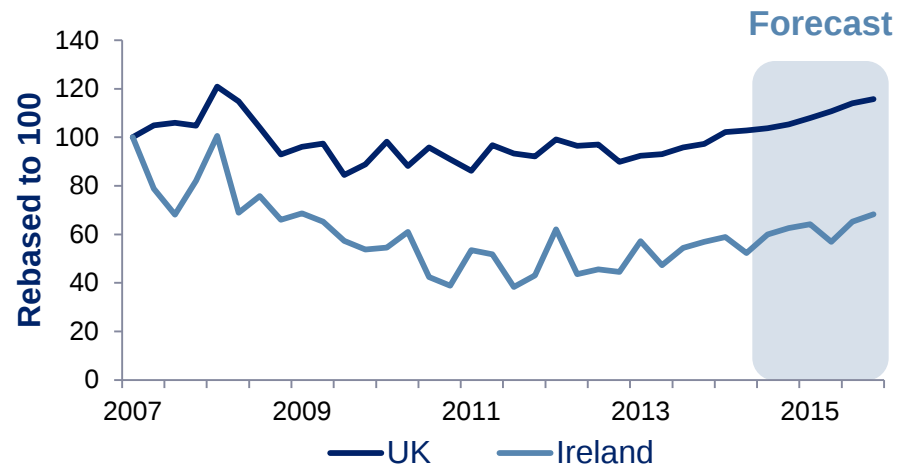
Unemployment lower



Housing market activity and HPIs increasing



Business investment is increasing



Source: Industry statistics. Forecast data from RBS economics consensus view

Medium-term plans

Well positioned to support increasing client activity

1

Deposits

- Excellent funding profile
- Continue to attract quality deposit flow, UK demand deposits up 10% Y/Y
- Substantial volume of non-interest bearing liabilities; demand deposits £81bn¹, total 'free-funds' £141bn¹

2

Lending

- Encouraging early signs of lending demand in UK franchises
- Loan:deposit ratio 96%, geared to support balance sheet growth
- Front-book margins remain attractive, low margin legacy assets continue to run off (RCR, Irish tracker mortgages)

3

Funding

- Funds available to lend, supported by strong liquidity position
- Expensive post-Crisis funding now maturing, £21bn H214 – FY15²
- Limited issuance requirements funded at lowest spreads since the onset of the Crisis

¹ H114 reported average balance sheet. ² Debt securities and subordinated liabilities issued with original maturities of >1 year. Maturity classed as final maturity, ignoring call options.

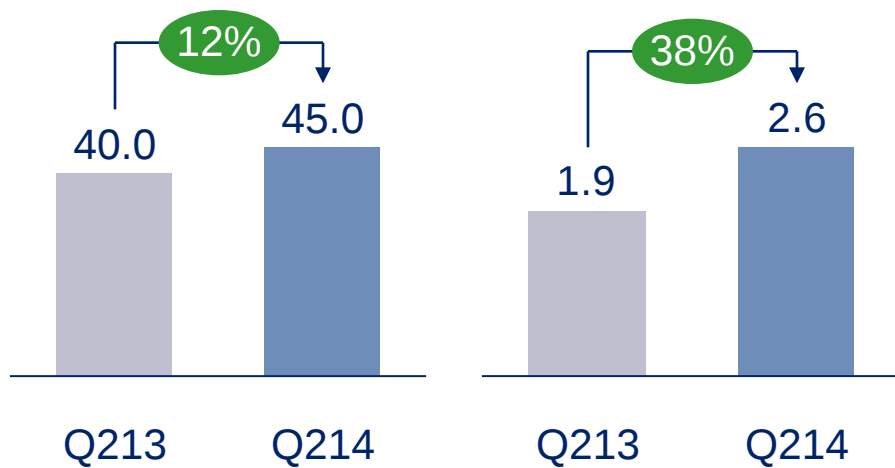
Medium-term plans

Early signs of UK loan growth

SME – continued positive trend

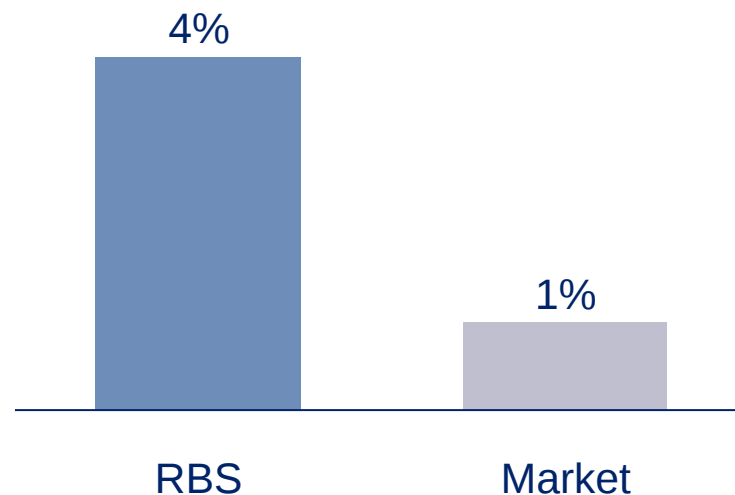
Applications ('000s)

Gross new lending (£bn)



Mortgages – strong net lending growth with continued market share gains

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



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

Medium-term plans

Delivering a simpler, more focused bank

Citizens – successful IPO

RCR – strong progress continued in Q3

Other legacy securities / asset pools – managing down

Wealth International – review completed

Dividend Access Share – first payment effected

Williams & Glyn – being prepared for 2016 IPO

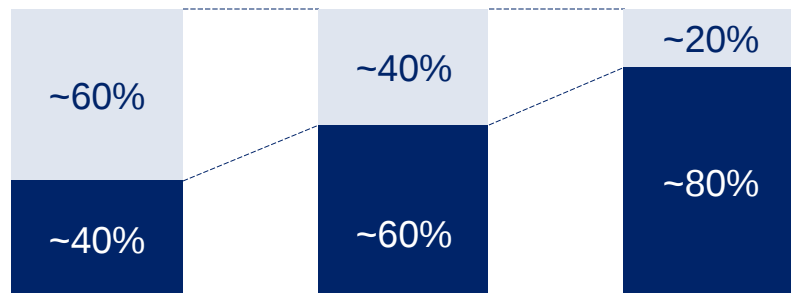
Medium-term plans

More efficient capital reallocation to underpin returns

Business mix shift towards the UK...

Illustrative split by total income

Non-UK UK



2008

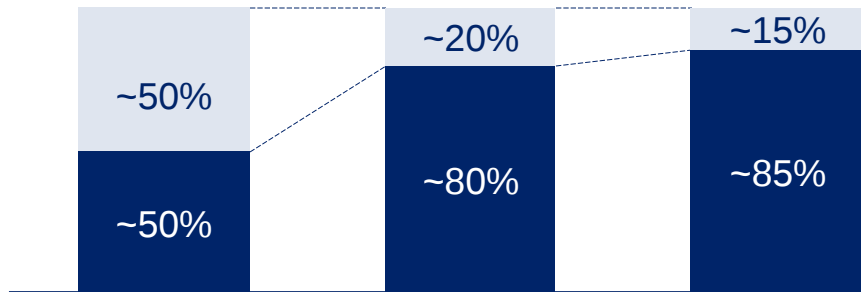
H114

Steady state¹

Clear emphasis on Retail & Commercial

Illustrative split by RWAs

Wholesale R&C



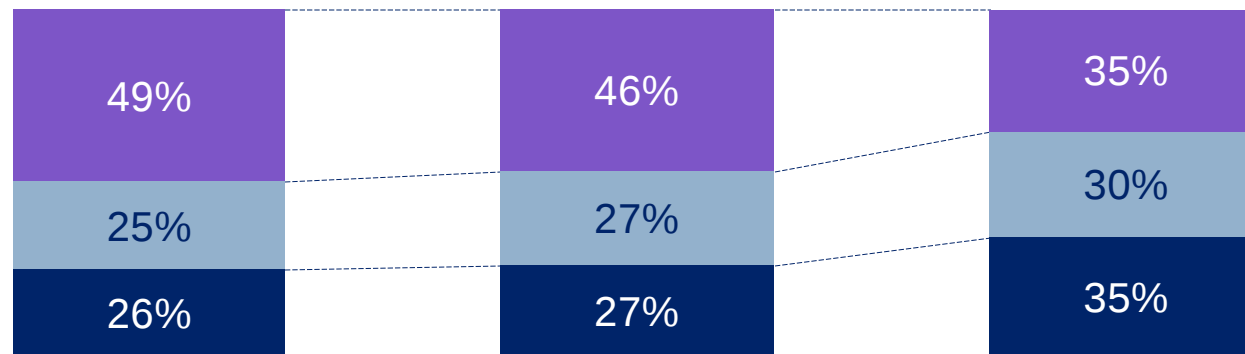
2008

H114

Steady state¹

Strategic plan redeploys capital to high return businesses

Proportion of RWAs committed to each business, %



Corporate & Institutional Banking
Commercial & Private Banking
Personal & Business Banking

FY13

H114

Steady state¹

¹ Steady state defined as 2018 to 2020.

Summary

Early progress in making our bank simpler, clearer and fairer

Business restructuring from 7 to 3 businesses with support functions

Costs consistently reduced

UK and Ireland showing growth, impairment trends significantly better

On track to achieve strong CET1 ratio targets

Attractive returns and distributions in the medium-term

Our goal: #1 for customer service, trust and advocacy by 2020

Q&A

Forward Looking Statements

Certain sections in this presentation contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this presentation includes forward-looking statements relating, but not limited to: the Group's restructuring and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, including the referendum on Scottish independence, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

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

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