

2014 Annual Results and update on strategic progress

26 February 2015

Philip Hampton

Chairman

Ross McEwan

Chief Executive Officer

Ambition to be #1 for customer service, trust and advocacy

Strategy working – strong execution against 2014 targets

2014 creates the platform to go further, faster on strategy:

- Further reshaping of CIB
- CET1 ratio target raised to 13% for the period of CIB restructuring
- Citizens deconsolidation and RCR completion targeted by end 2015
- Higher cost reduction targets
- Simplify the bank for customers and colleagues

Significant net capital benefits from acceleration of strategy with intent to distribute capital above CET1 target ratio⁽¹⁾

Strong returns from a lower risk banking franchise

⁽¹⁾ Subject to PRA approval.

Strong execution against 2014 strategic targets



Strategy Goal	2014 Target	2014 Delivery
Unquestioned capital strength	CET1 >11% by end 2015	CET1 +260bps to 11.2%
Overhaul of costs	£1bn cost reduction in 2014	£1.1bn ⁽¹⁾
Resilient customer systems	Improve the resilience of our customer systems	Key services available 99.96% of time
Simplify the bank for customers and colleagues	Simplified organisational design	7 divisions streamlined to 3, back-office functionalised
2015 - 2019 plan	Priorities for accelerated delivery of the strategy	Outlined today

⁽¹⁾ Excluding restructuring costs, litigation and conduct costs, currency movements and intangible write-offs.

2014 strategic milestones



RCR	RWAs down 53%, run-down targets achieved 1 year ahead of original plan
Citizens	Successful IPO, deconsolidation now targeted by end 2015
US ABP business	Exit of business, run-down 79% complete
Ulster Bank	Review completed, retained with new plan
Coutts	Review completed, International Private Banking ⁽¹⁾ to be exited
Dividend Access Share	Reached agreement on resolution, 1 st payment made

⁽¹⁾ International Private Banking comprises private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

2014 financial results

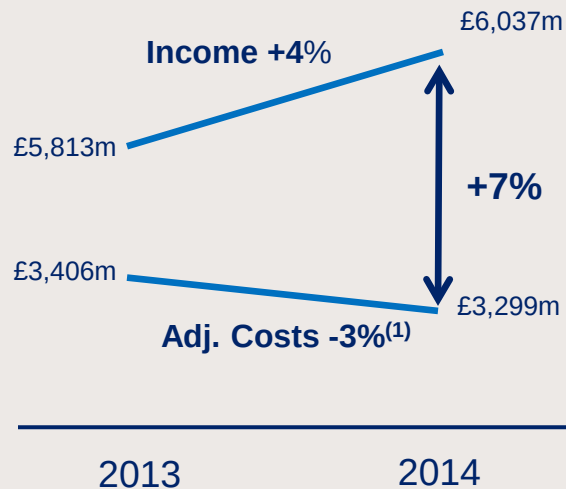


	FY13	FY14
Income	£19.4bn	£18.2bn
Operating costs (excl. restructuring, conduct & litigation)	£14.0bn	£12.4bn
Restructuring, conduct & litigation costs	£4.5bn	£3.5bn
Impairment (losses) / recoveries	£(8.4)bn	£1.2bn
Operating (loss) / profit	£(7.5)bn	£3.5bn
Attributable (loss)	£(9.0)bn	£(3.5)bn
RWAs	£429bn	£356bn
CET1 ratio	8.6%	11.2%
Leverage ratio	3.4%	4.2%

Improving our business for shareholders



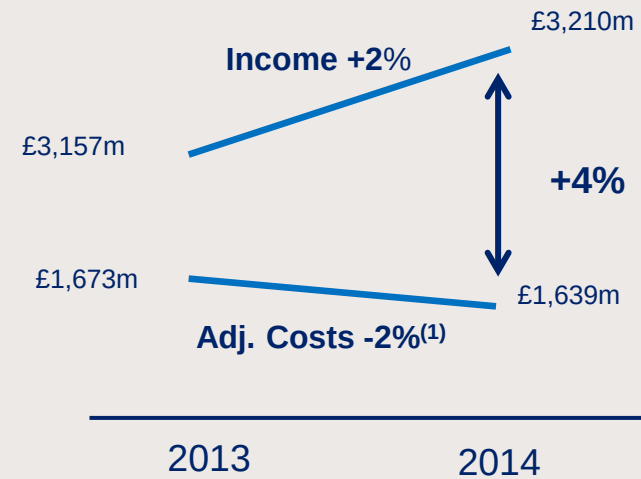
UK PBB



RoE 19.4%

Cost:income 55%⁽¹⁾

Commercial

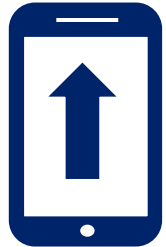


RoE 12.6%

Cost:income 51%⁽¹⁾

⁽¹⁾ Adjusted: excluding restructuring costs, and litigation and conduct costs.

Improving our business for customers



Over 1000% growth in
mobile usage since 2010

~3m active mobile
customers



16 branch transformations
per week

93% of branches re-branded
by end of 2016

End of 2013

447

3,973

0

6,106

Our
expanding
presence



communities served
by mobile bank
vans



self service
points



banking points
available via Post
Office



Total points
of presence

End of 2015

639

5,544

11,500

18,971

Focusing on growth in the UK strategic segments



	UK Mortgages	UK Commercial
Progress in 2014	#4 in GB mortgages ⁽¹⁾ £103bn in balances ⁽²⁾ (+4%)	#1 UK Commercial Bank ⁽³⁾ £86bn in balances (+1%)

Grow our large, successful UK retail and commercial franchises

Intention to 2019	Above market net balance growth with strong returns	Loan balance growth $\geq$ UK GDP growth ⁽⁴⁾

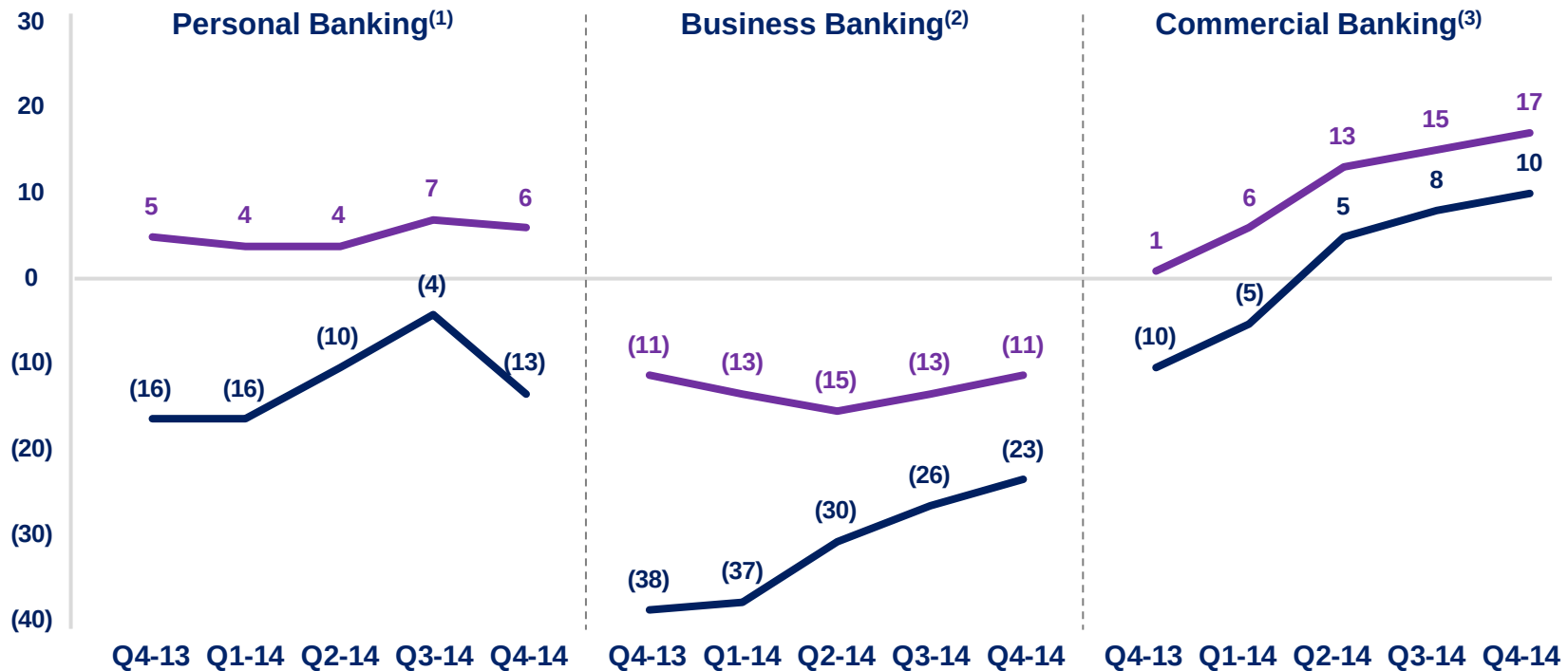
Capital and risk appetite in place to support growth

⁽¹⁾ Source: GfK FRS, RBSG market share, 6 months ending Dec 2014. ⁽²⁾ Excludes c£10bn of mortgages lent through Private Banking and Ulster (Northern Ireland). ⁽³⁾ Source: Charterhouse Research Business Banking Survey, Year End 2014. Latest base size, Businesses £2m - £25m 2381/ Businesses £2m - £1b 3227. Based on main bank relationships. Data weighted by region and turnover to be representative of businesses in Great Britain. ⁽⁴⁾ Nominal UK GDP growth.

Progress is being made towards our target of becoming #1



Net Promoter Scores across our core franchises



⁽¹⁾ Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3511) RBS (547) Question "How likely is it that you would to recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers. No improvement on year on year scores in Personal as movement not significant.

⁽²⁺³⁾ Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1267) RBS (399) Commercial £2m-1bn NatWest (630) RBS (95) Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain. Improvements from YE Q4 13 to YE Q4 14 are statistically significant except in NatWest (England & Wales) Business £0 -£2m where there has been no significant movement.

— Royal Bank of Scotland (Scotland)
— NatWest (England & Wales)

Reshaping our CIB business



Drivers of changes

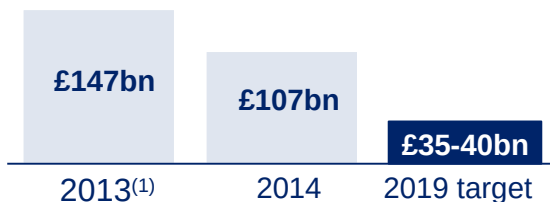
Returns are too low
Costs are too high

Capital usage
is too high

Operating risks are outside of
our go-forward risk appetite

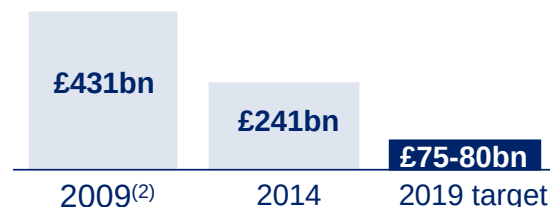
Creating a more focused corporate and institutional bank
built on existing product/service strengths

CIB RWAs



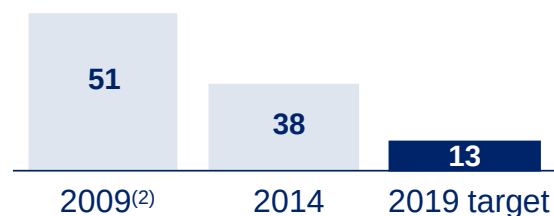
- RWAs reduced substantially over recent years with pace of reduction to be maintained. Intend to reduce by around 2/3rds by 2019
- Targeting >£25bn reduction in 2015

CIB Funded Assets



- Funded Assets down 44% since 2009
Intend to reduce by a further ~70% by 2019

CIB country footprint



- Selling or running off operations in 25 countries

⁽¹⁾ CRDIV basis as at 1 Jan 2014. ⁽²⁾ 2009 refers to the Global Banking and Markets (GBM) division.

Reshaping our CIB business



Drivers of changes

Returns are too low
Costs are too high

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is too high

Operating risks are outside of
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Creating a more focused corporate and institutional bank
built on existing product/service strengths

Strong focused product offering

Risk management:
FX, Rates
(USD, GBP and EUR)

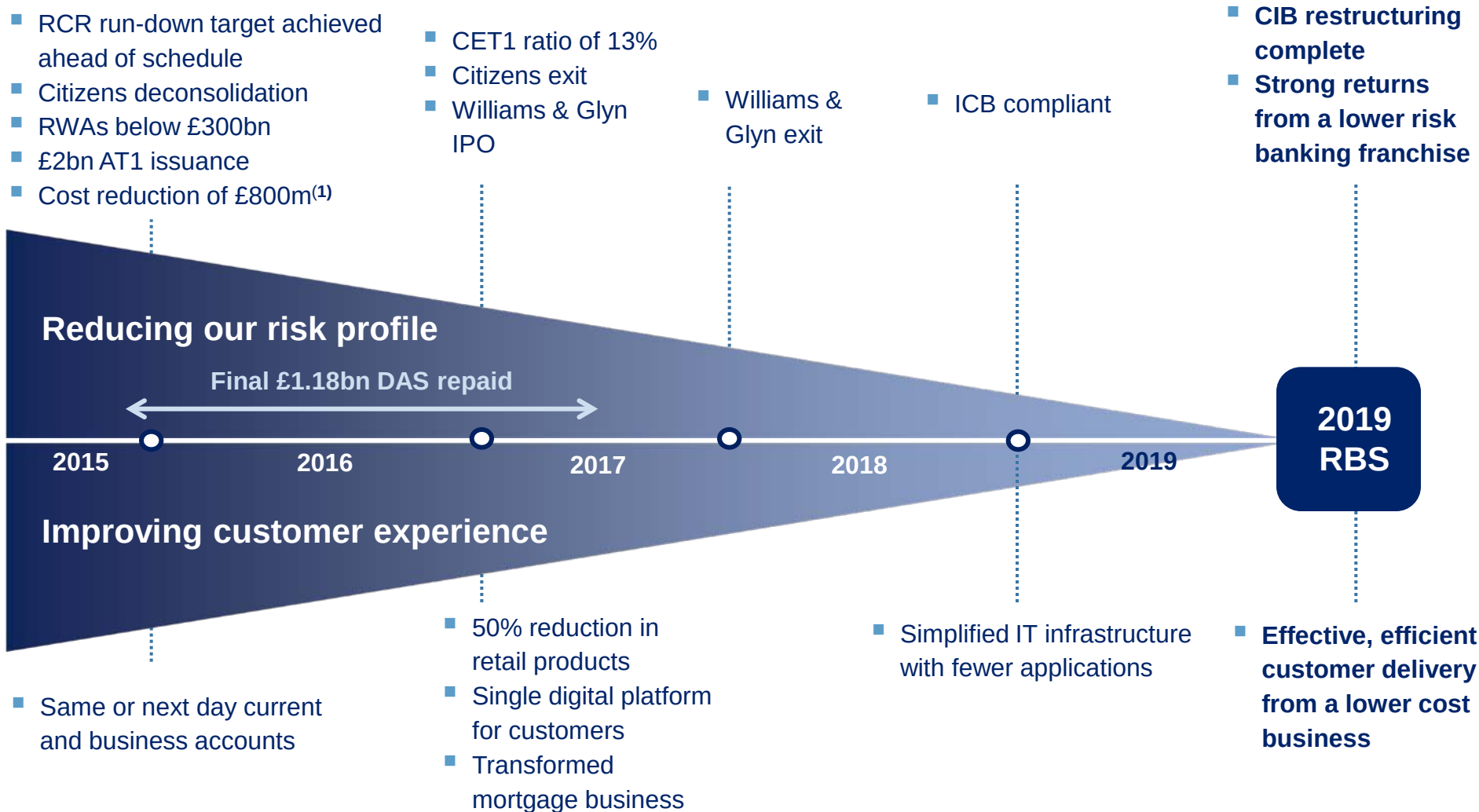
Debt Financing:
DCM, Structured Finance, Loans
(USD, GBP and EUR)

Transaction Services:
UK focused cash, payments & trade

International capability

Full service to UK and Western European clients/counterparts (9 European offices)
Distribution and trading hubs in UK, US and Singapore

2015-2019 – Targeted outcomes



⁽¹⁾ Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

The bank RBS intends to become



	RBS in 2019		
# 1 Service	Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking
Leading market positions	#2 UK Personal Current Accounts #3 ROI Personal Current Accounts #2 UK business bank main relationship	#1 SME Bank #1 UK Commercial Bank #1 UK Private Bank #1 UK crown dependencies	Top 3 UK Rates, DCM, FX Top 3 European Structured Finance Top 3 Western Europe Investment Grade Corporate DCM
Attractive returns and business mix	UK centred bank with focused international capability 85% of RWAs in retail and commercial/15% in corporate and institutional Cost:income ratio <50% 12+% RoTE from a lower risk franchise		

2015 delivery targets



Strategy goal	2015 delivery target
Strength and sustainability	RWAs reduced to below £300bn; RCR exit substantially completed and CFG deconsolidated; £2bn of AT1 raised
Customer experience	NPS improvement in every UK customer franchise
Simplifying the bank	Cost reduction of £800m ⁽¹⁾
Supporting growth	Lending growth in strategic segments in line with UK GDP growth ⁽²⁾
Employee engagement	Raise employee engagement index to within 8% of Global Financial Services (GFS) norm ⁽³⁾

⁽¹⁾ Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn. ⁽²⁾ Nominal UK GDP growth. ⁽³⁾ GFS norm currently stands at 83%.

Customer ambition reaffirmed and extended

Strong execution against 2014 targets

Positions us to now accelerate strategy

- Build on strengths of our domestic franchises
- Address unacceptable returns in CIB

New ambitious 2015 delivery targets

Intent to distribute capital above a 13% CET1 target ratio⁽¹⁾

UK-focused bank with 12%+ RoTE from a lower risk franchise

⁽¹⁾ Subject to PRA approval.

Ewen Stevenson

Chief Financial Officer

RBS FY 2014 & Q4 2014 results – P&L



Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	vs. Q4 2013 (%)
Income	18,197	(6%)	3,860	(2%)
Operating expenses ⁽¹⁾	(12,398)	(12%)	(3,131)	(18%)
<i>Restructuring costs</i>	(1,257)	+92%	(563)	+213%
<i>Litigation & conduct costs</i>	(2,194)	(43%)	(1,164)	(60%)
(Impairments) / recoveries	1,155	(114%)	623	(112%)
Operating profit / (loss)	3,503	(147%)	(375)	(95%)
Other items	(6,973)	+366%	(5,416)	+735%
Attributable profit / (loss)	(3,470)	(61%)	(5,791)	(33%)
Key metrics				
Net interest margin	2.23%	+22bps	2.32%	+24bps
Impairments as % of L&A	(30bps)	(233bps)	(68bps)	(557bps)
Return on tangible equity	(8.0%)	+11ppts	nm	+27ppts
Cost-income ratio	87%	(8ppts)	126%	(49ppts)
Adj. cost-income ratio ⁽¹⁾	68%	(4ppts)	81%	(16ppts)

FY 2014 vs. FY 2013
- Increases in PBB and CPB NII offset by lower CIB income - NIM 2.23%, up 22bps due primarily to improved liability margins £1.1bn cost reduction achieved in 2014; delivered £1bn target⁽²⁾ - Net impairment releases of £1.2bn, driven by recoveries in RCR and Ulster Bank £3.5bn attributable loss includes: £4.0bn Citizens fair value write-down £1.6bn DTA write-downs £320m initial DAS payment

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ Excluding restructuring costs, conduct and litigation costs, FX and intangible write-offs.

RBS FY 2014 & Q4 2014 results – Balance Sheet



Full Year	FY 2014	vs. Q3 2014 (%)	vs. Q4 2013 (%)
TNAV per share (p)	387p	+0%	+7%
Tangible equity (£bn)	44	+0%	+8%
Customer balances (£bn)			
Funded assets	697	(5%)	(6%)
Loans & advances to customers ⁽¹⁾	394	+0%	+1%
Customer deposits ⁽¹⁾	415	+2%	+0%
Liquidity and funding			
Loan-to-deposit ratio (%)	95%	(200bps)	+100bps
Liquidity coverage ratio (%)	112%	+10ppts	+10ppts
Liquidity portfolio (£bn)	151	+6%	+3%
Capital & leverage			
Leverage exposure (£bn)	940	(12%)	(13%)
Leverage ratio (%)	4.2%	+30bps	+80bps
CET1 capital (£bn)	40	(3%)	+8%
CET1 ratio (%)	11.2%	+40bps	+260bps
RWAs ⁽²⁾ (£bn)	356	(7%)	(17%)
RWAes ⁽³⁾ (£bn)	390		

FY 2014 vs. FY 2013
■ TNAV of 387p – down 1p from Q3, but up 24p in 2014 ■ RWAs down £73bn (17.1%), principally driven by CIB and RCR reductions ■ NPLs⁽⁴⁾ as a % of L&A down by 260bps from 9.4% to 6.8% ■ CET1 ratio up 260bps to 11.2%, supported by excellent progress in deleveraging ■ Leverage ratio improved by 80bps to 4.2% ■ Early signs of loan growth visible — Mortgage balances up £3.9bn (+4%). Gross new mortgage business up 37% to £19.7bn — Gross new lending to SMEs totalled £10.3bn ■ Revised LDR target range of 105-110%, up from ~100%, due to increasing long-term senior bail-in debt funding (TLAC)

⁽¹⁾ Includes Citizens which is in disposal group. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. ⁽⁴⁾ NPLs = Risk Elements in Lending in the Company Announcement.

Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	vs. Q4 2013 (%)	FY 2014 vs. FY 2013
Income	6,037	+4%	1,532	+3%	- Positive operating jaws and substantially lower impairments leading to a 77% rise in operating profit - NIM 3.68%, up 12bps due to improving deposit margins - Operating expenses down supported by a 7% FTE reduction - Net impairment charge down 47% driven by lower new default charges and provision releases - Gross lending in Mortgages up 37% - Mortgage market share of 10%; stock share of 8% continuing to grow - RWAs down 14% to £43bn, reflecting changing mix and asset quality improvements
Operating expenses ⁽¹⁾	(3,299)	(3%)	(866)	(9%)	
Restructuring costs	(102)	(55%)	(18)	(74%)	
Litigation & conduct costs	(918)	+7%	(650)	+44%	
(Impairments) / recoveries	(268)	(47%)	(41)	(62%)	
Operating profit / (loss)	1,450	+77%	(43)	(48%)	
Key metrics					
Net interest margin	3.68%	+12bps	3.74%	+12bps	
Impairments as % of L&A	21bps	(19bps)	13bps	(21bps)	
Return on equity	19.4%	+10ppts	(2.5%)	+2ppts	
Cost-income ratio	71.5%	(6ppts)	100.1%	+2ppts	
Balance sheet (£bn)	FY 2014	FY 2013	vs. FY 2013 (%)		
RWAs ⁽²⁾	43	50	(14%)		
RWAes ⁽³⁾	47				

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier.

Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	vs. Q4 2013 (%)	FY 2014 vs. FY 2013
Income	830	(3%)	204	+1%	- Operating profit of £606m in 2014, the first profit since 2008. Net impairment releases of £365m compared with impairment losses of £1.8bn in 2013 - NIM increased by 39bps primarily due to improving deposit margins - FTEs and property footprint reduced; offset by increased regulatory levies and other costs - Rising property values and proactive debt management supported improved impairment position
Operating expenses ⁽¹⁾	(586)	+4%	(162)	+10%	
Restructuring costs	(22)	(44%)	4	(133%)	
Litigation & conduct costs	19	(121%)	19	(129%)	
Recoveries	365	nm	104	nm	
Operating profit	606	nm	169	nm	
Key metrics					
Net interest margin	2.27%	+39bps	2.14%	+10bps	
Impairments as % of L&A	(148bps)	(713bps)	(168bps)	(1528bps)	
Return on equity	16.1%	+49ppts	20.1%	+118ppts	
Cost-income ratio	71.0%	(10ppts)	68.1%	(43ppts)	
Balance sheet (£bn)	FY 2014	FY 2013	vs. FY 2013 (%)		
RWAs ⁽²⁾	24	28	(16%)		
RWAes ⁽³⁾	22				

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier.

Note the transfer of £4.4bn of gross assets (excluding provisions) to RCR in January 2014 has had a material impact on the prior year comparison.

Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	vs. Q4 2013 (%)	FY 2014 vs. FY 2013
Income	3,210	+2%	831	+2%	- Operating profit up 143% driven by lower net impairment losses, lower expenses and higher income - NIM 2.74%, up 10bps due to improved deposit margins - Expenses down, positive 4% jaws - Benign impairment environment with very few single name cases and some latent releases - Gross lending up £1.1bn (1%), excluding CRE up £3.0bn (5%)
Operating expenses ⁽¹⁾	(1,639)	(2%)	(475)	(1%)	
Restructuring costs	(93)	+69%	(13)	(13%)	
Litigation & conduct costs	(112)	(55%)	(62)	(72%)	
(Impairments) / recoveries	(76)	(88%)	(33)	(88%)	
Operating profit / (loss)	1,290	+143%	248	(239%)	
Key metrics					
Net interest margin	2.74%	+10bps	2.77%	+1bps	
Impairments as % of L&A	9bps	(68bps)	15bps	(115bps)	
Return on equity	12.6%	+8ppts	9.6%	+16ppts	
Cost-income ratio	57.4%	(5ppts)	66.2%	(22ppts)	
Balance sheet (£bn)	FY 2014	FY 2013	vs. FY 2013 (%)		
RWAs ⁽²⁾	64	62	+4%		
RWAes ⁽³⁾	70				

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier.

Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	FY 2014 Int'l Private Banking ⁽⁵⁾
Income	1,082	+0%	267	230
Operating expenses ⁽¹⁾	(828)	(5%)	(228)	(257) ⁽⁴⁾
<i>Restructuring costs</i>	(18)	(33%)	(8)	
<i>Litigation & conduct costs</i>	(90)	(56%)	(90)	
(Impairments) / recoveries	4	(114%)	0	-
Operating profit / (loss)	150	(346%)	(59)	(27)
Key metrics				
Net interest margin	3.71%	+24bps	3.74%	
Impairments as % of L&A	(2bps)	(20bps)	0bps	-
Return on equity	7.8%	+11ppts	(12.5%)	nm
Cost-income ratio	86.5%	(16ppts)	122.1%	111.7%
Balance sheet (£bn)	FY 2014	FY 2013	vs. FY 2013 (%)	FY 2014 Int'l Private Banking⁽⁵⁾
RWAs ⁽²⁾	12	12	(4%)	3
RWAes ⁽³⁾	12			

FY 2014 vs. FY 2013

- Positive £211m swing into operating profit driven by lower expenses and net impairment releases
- NIM 3.71%, up 24bps due to deposit repricing strategy
- Non-interest income down 7% due to lower investment activity across international clients
- Operating expenses down 5% reflecting lower technology costs and benefits from the exit of high cost properties
- Sale of International Private Banking on track⁽⁶⁾
- On-going Private Banking business (ex. International) has generated an adjusted RoE of 19% in 2014

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier. ⁽⁴⁾ Total operating expenses for International Private Banking (including restructuring costs and conduct and litigation costs). ⁽⁵⁾ Private banking and wealth management activities outside of the British Isles, broadly indicative of the businesses being exited. ⁽⁶⁾ Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

Full Year (£m)	FY 2014	vs. FY 2013 (%)	Q4 2014	vs. Q4 2013 (%)
Income	3,949	(21%)	691	(34%)
Operating expenses ⁽¹⁾	(3,561)	(22%)	(822)	(40%)
<i>Restructuring costs</i>	(295)	+46%	(88)	(980%)
<i>Litigation & conduct costs</i>	(994)	(59%)	(382)	(80%)
(Impairments) / recoveries	9	(101%)	(42)	(90%)
Operating profit / (loss)	(892)	(69%)	(643)	(76%)
Key metrics				
Net interest margin	0.99%	+19bps	1.11%	+14bps
Impairments as % of L&A	(1bps)	(100bps)	23bps	(225bps)
Return on equity	(4.2%)	+9ppts	(13.6%)	+40ppts
Cost-income ratio	122.8%	(21ppts)	187.0%	(127ppts)
Balance sheet (£bn)	FY 2014	FY 2013	vs. FY 2013 (%)	
RWAs ⁽²⁾	107	147	(27%)	
RWAes ⁽³⁾	109			

FY 2014 vs. FY 2013
- Income down 21% in line with material RWA (27%) and risk reduction - Adjusted expenses down £1bn (22%), reflecting the continued focus on cost savings across both business and support areas - Net impairment releases of £9m in 2014 compared with a net impairment charge of £680m in 2013 reflecting a reduction in latent loss provisions and a low level of new impairments. This contrasted with 2013 which included substantial impairments related to the establishment of RCR - Good progress on business repositioning – RWAs down £40bn (27%) in 2014, notably in Credit due to the wind-down of US ABP, and broader risk reductions

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ 2013 RWAs are shown on a fully loaded Basel 3 basis as at 1 Jan 2014. ⁽³⁾ RWA equivalent (RWAe) is an internal metric that measures the equity capital employed in divisions. RWAe converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAe by applying a multiplier.

Full Year (£m)	FY 2014	Q4 2014	vs. Q3 2014 (%)	Comments
Income	45	(185)	(252%)	- Funded assets down £14bn (48%) and RWAE⁽²⁾ down £38bn (58%) in 2014, driven by disposals and repayments - Operating profit of £1.0bn reflects impairment releases and higher sale prices from favourable market conditions, particularly in Ireland - Now expect to complete run-down targets by end 2015, 1 year ahead of original target
Operating expenses ⁽¹⁾	(356)	(95)	+12%	
<i>Restructuring costs</i>	(7)	(3)	(25%)	
<i>Litigation & conduct costs</i>	0	0	-	
(Impairments) / recoveries	1,306	681	+13%	
Operating profit / (loss)	988	398	(38%)	
Balance sheet (£bn)	FY 2014	vs. 1 Jan 14 (%)		
Funded assets	14.9	(48%)		
Risk elements in lending	15.4	(36%)		
Provision coverage	71.0%	+2.4%		
RWAs	22	(53%)		
RWAEs ⁽²⁾	27	(58%)		

⁽¹⁾ Excluding restructuring and litigation and conduct costs. ⁽²⁾ RWA equivalent (RWAE) is an internal metric that measures the equity capital employed in divisions. RWAE converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAE by applying a multiplier.

Outlook for FY 2015 vs. FY 2014



- Core UK / Irish businesses continue to perform well, but headwinds remain
- CIB expected to see revenue decline substantially faster than cost takeout at this point in its restructuring
- £800m of cost reductions targeted⁽¹⁾
- Significant impairment recoveries from Ulster and RCR are not expected to repeat
- Litigation and conduct costs could be materially higher
- Restructuring costs are expected to be substantially higher given combined costs of core bank transformation, W&G exit, CIB restructuring and ICB
- RWAs are targeted to be less than £300bn⁽²⁾ driven by RCR run-down, CIB reduction and the partial deconsolidation of Citizens RWAs

⁽¹⁾ Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn. ⁽²⁾ £300bn assumes proportional consolidation of Citizens.

Our go-forward business profile



	Go-forward businesses profile (pro-forma 2014)					Exit group overview (pro-forma 2014)								Total RBS
(£bn)	PBB ⁽¹⁾	CPB ⁽²⁾	CIB go-forward	Other go-forward ⁽³⁾	Total go-forward	CIB Legacy	Int'l Private Banking	W&G ⁽⁴⁾	Citizens	RCR	Other Investments	Total Exit Group		
Income	6.0	4.1	2.0	-	12.1	1.9	0.2	0.9	3.1	-	-	6.1	18.2	
Adj. costs	(3.5)	(2.2)	(1.8)	(0.1)	(7.6)	(1.8)	(0.2)	(0.4)	(2.0)	(0.4)	-	(4.8)	(12.4)	
Impairments	0.2	(0.1)	-	0.1	0.2	-	-	(0.1)	(0.2)	1.3	-	1.0	1.2	
Adj. op. profit ⁽⁵⁾	2.7	1.8	0.3	(0.2)	4.6	0.1	-	0.4	0.9	1.0	-	2.4	7.0	
TPAs	142	104	169	87	502	72	6	20	81	15	1	195	697	
RWAs	56	74	46	10	186	61	2	11	68	22	6	170	356	
Adj. RoE (%) ⁽⁶⁾	28%	15%	nm	nm	13%	nm	(5%)	nm	8%	nm	nm	8%	10%	

⁽¹⁾ Total PBB excluding Williams & Glyn. ⁽²⁾ Total CPB excluding International Private Banking. ⁽³⁾ Other go-forward is primarily centre, which includes the liquidity portfolio. ⁽⁴⁾ Does not reflect the cost base, funding and capital profile of a standalone bank. ⁽⁵⁾ Excluding restructuring and conduct charges. ⁽⁶⁾ Segmental Adjusted RoE excludes restructuring and conduct and litigation costs and is calculated using a 25% notional tax rate and equity equivalent to 12% of average segmental RWAs. Total RBS Adjusted RoE excludes restructuring, conduct and litigation costs, own credit adjustments, gain on own debt, write down of goodwill, strategic disposals, discontinued operations and RFS minority interest but includes charges for preference dividends and a notional 25% tax rate. It is calculated using RBS tangible equity.

CIB – future shape of the business



Region	FY 2014					
	Current CIB		Go-forward		Non-strategic	
	RWAs (£bn)	Income (£m)	RWAs (£bn)	Income (£m)	RWAs (£bn)	Income (£m)
UK / Europe ⁽¹⁾	71	2,488	34	1,630	37	858
US ⁽²⁾	24	974	11	274	14	700
APAC	12	487	2	111	10	376
Total	107	3,949	46	2,015	61	1,934
Countries	38		13		25	

- Additional future pre-tax restructuring costs and asset disposal costs of £2.5-3.5bn

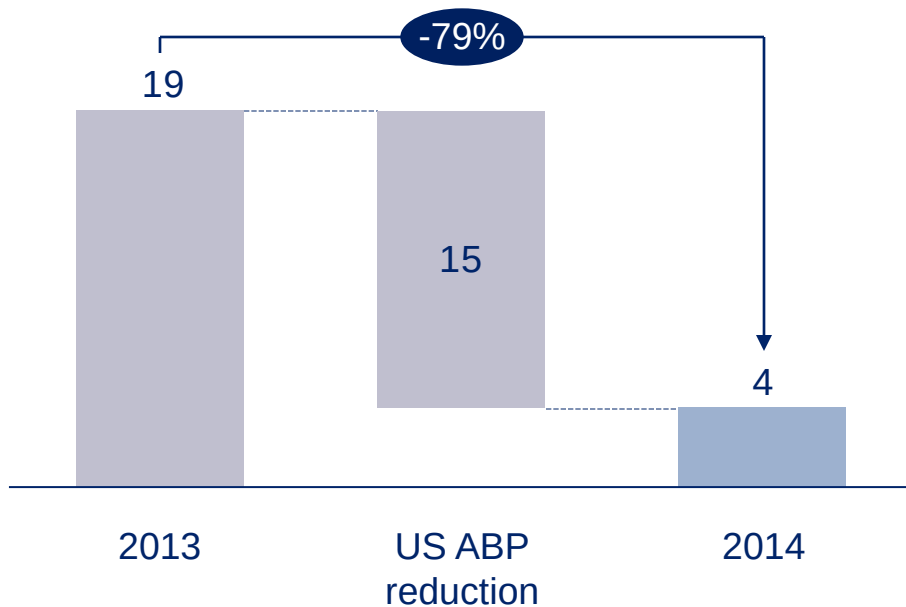
⁽¹⁾ EMEA. ⁽²⁾ North America. ⁽³⁾ Based on 2014 financials rounded.

Track record of legacy asset reductions



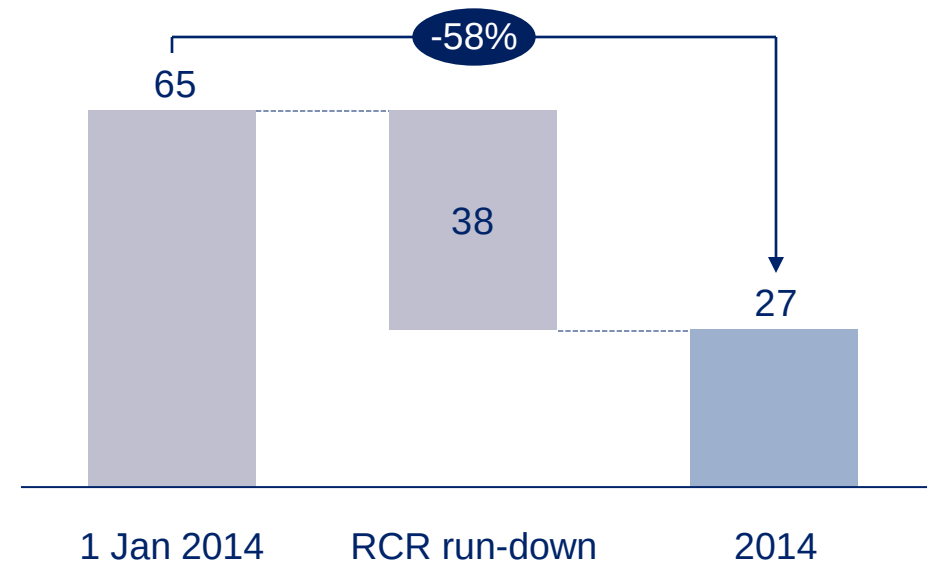
US ABP Run-down

Risk-Weighted Assets, £bn



RCR Run-down

Risk-Weighted Asset equivalents, £bn



Managing for value – other legacy asset pools



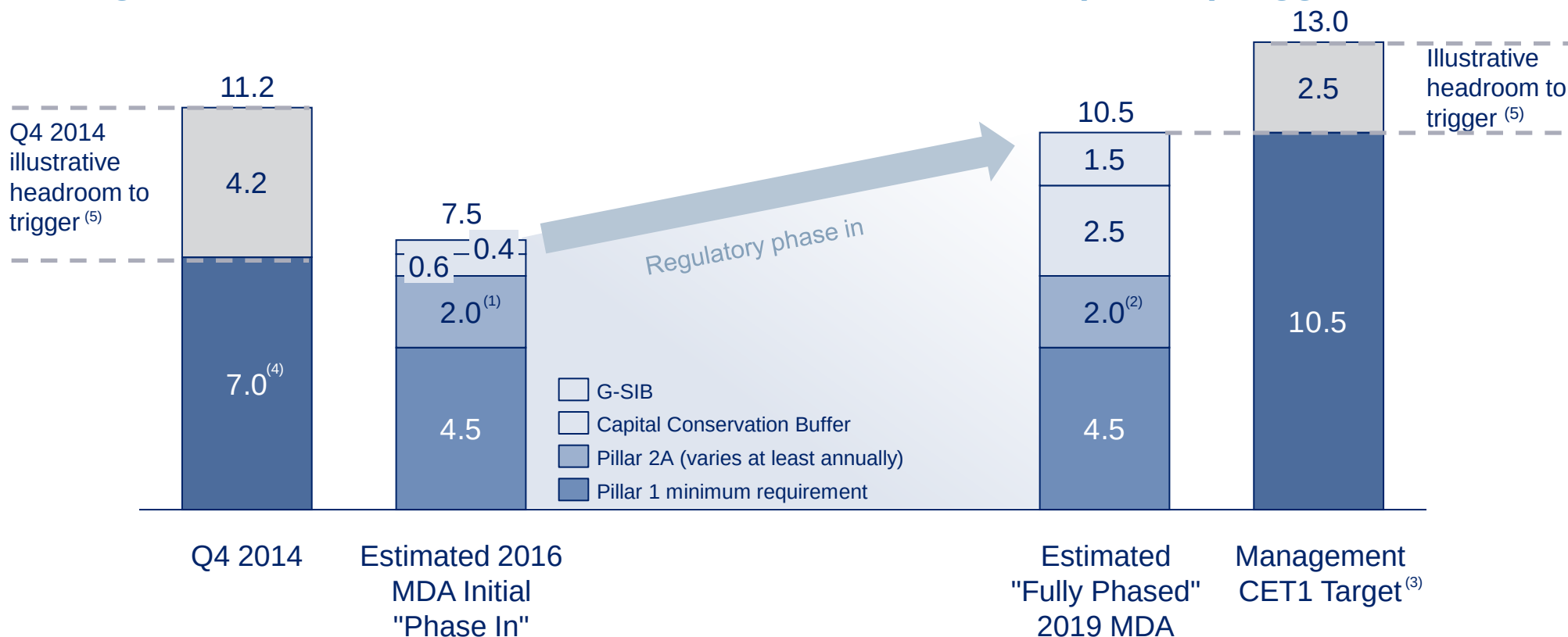
	Portfolio / Investment	End-14 RWAs (£bn)	End-2014 Funded Assets (£bn)	Duration/ maturity profile	Comments
Go-forward business	CPB legacy book	12 (RWAe)	15	>5 years ⁽¹⁾	- Pool of legacy, low margin or capital intensive assets (including CRE) - Accelerate strategy to improve returns or accelerate exit/wind-down
	Ulster – legacy tracker mortgages	11	11	c.20 years ⁽²⁾	- Low (1%)⁽⁴⁾ NIM portfolio currently benefitting from impairment write-backs - Funded Assets reducing by c.£0.7bn per annum absent loan sales
Non-strategic	RCR	22	15	75% run-off by end 19	Target end 2015 rump of c15% of original RCR perimeter (~£6bn Funded Assets)
	Other investments	6	1	n/a ⁽³⁾	Look to exit over time
Total		39	43		

⁽¹⁾ 35% of book has a contractual maturity of under 5 years, 65% > 5 years, however there are some very long tail assets (e.g. housing association loans and long dated derivatives).

⁽²⁾ On a contractual basis. ⁽³⁾ Equity investments – have no maturity. ⁽⁴⁾ 1% margin over 3 month Euribor.

Current assessment of appropriate buffers

Target CET1 ratio versus maximum distributable amount ("MDA") trigger, %



- (1) RBS Group's Pillar 2A CET1 requirement is 2.0% of RWAs as at 1 January 2015. Pillar 2A guidance is a point in time assessment of the amount of capital the PRA consider the bank should hold to meet the overall financial adequacy rule and is subject to change over time including as a result of at least annual assessment and supervisory review process
- (2) Pillar 2A requirement held constant for illustration purposes, requirement is expected to vary over time and is subject to at least annual review
- (3) Based on 13% CET1 target during the period of CIB restructuring
- (4) Minimum 7% CET1 requirement from 1 January 2014 based on an end point CRR definition, as set out in PRA's supervisory statement SS3/13
- (5) Headroom may vary over time and may be less in future

Presented on assumption of satisfying RBS's current interpretation of FSB's TLAC requirements proposals for GSIB's. Specific terms of TLAC are in the process of being evaluated. Final position of the FSB expected by the end of 2015, for expected implementation by 1 January 2019. Failure to satisfy final TLAC requirements could reduce capital buffers and result in MDA restrictions. This illustration does not reflect the anticipated impact of RBS's transformation plan, including proposed restructuring and balance sheet reduction, which are subject to significant uncertainties.

We intend to distribute excess capital



- At or above 13% CET1 ratio target
- PRA approval required
- Milestones before seeking approval include:
 - Confidence in sustainable profitability
 - Improved stress-testing results – operating within risk appetite
 - Peak of litigation and conduct costs passed
 - At least £2bn of AT1 raised
- Final DAS payment (£1.18bn) made

Strong performance against 2014 targets

We now have a platform to accelerate strategy for 2015 – 2019 with clear milestones in place

Better placed to weather outstanding litigation and conduct issues

Confident in our ability to execute our restructuring plan – accelerates path to a leaner, stronger and better bank

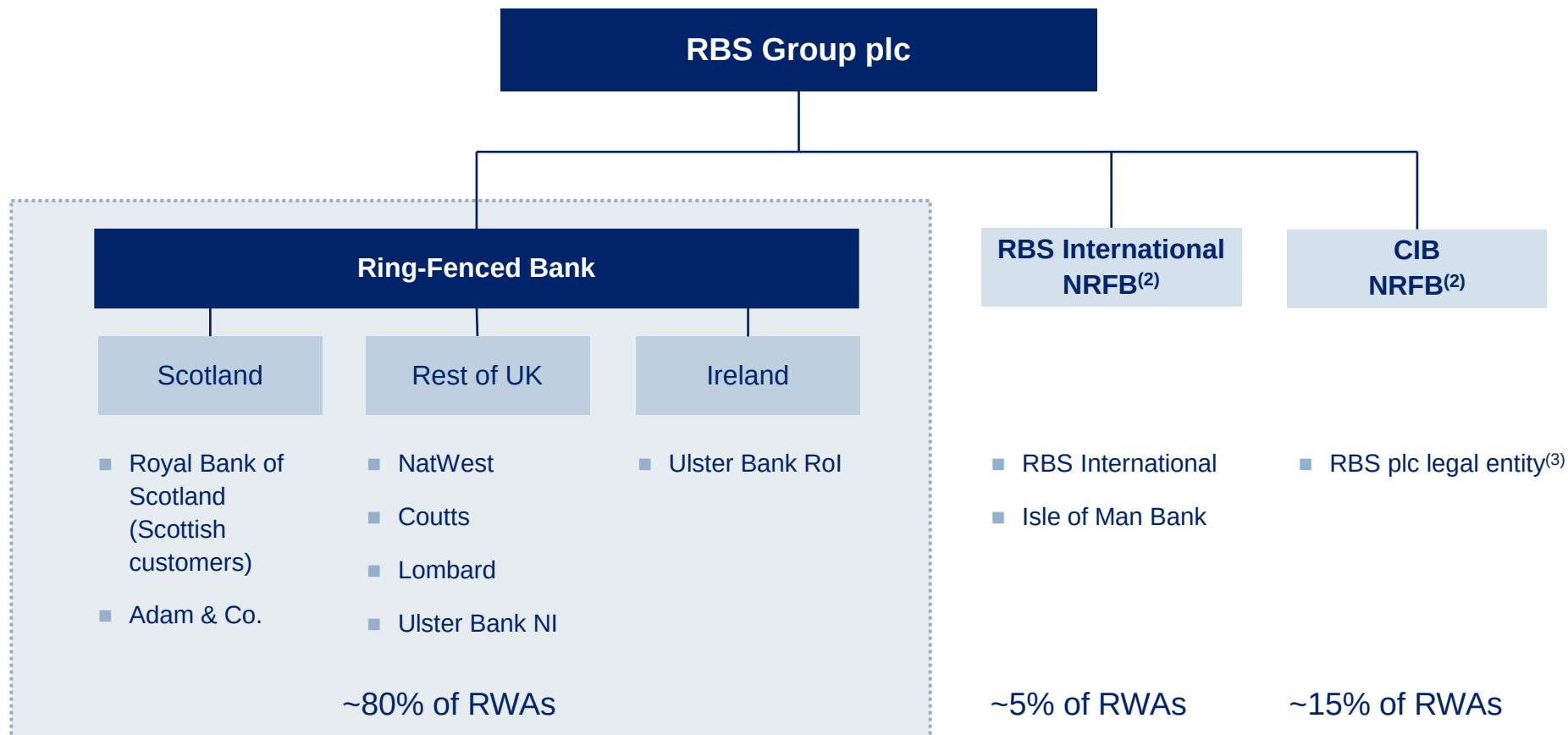
Clear intent on shareholder distributions once 13% CET1 ratio and other milestones achieved⁽¹⁾

⁽¹⁾ Subject to PRA approval.

Q&A

Appendix

Proposed future ICB structure⁽¹⁾

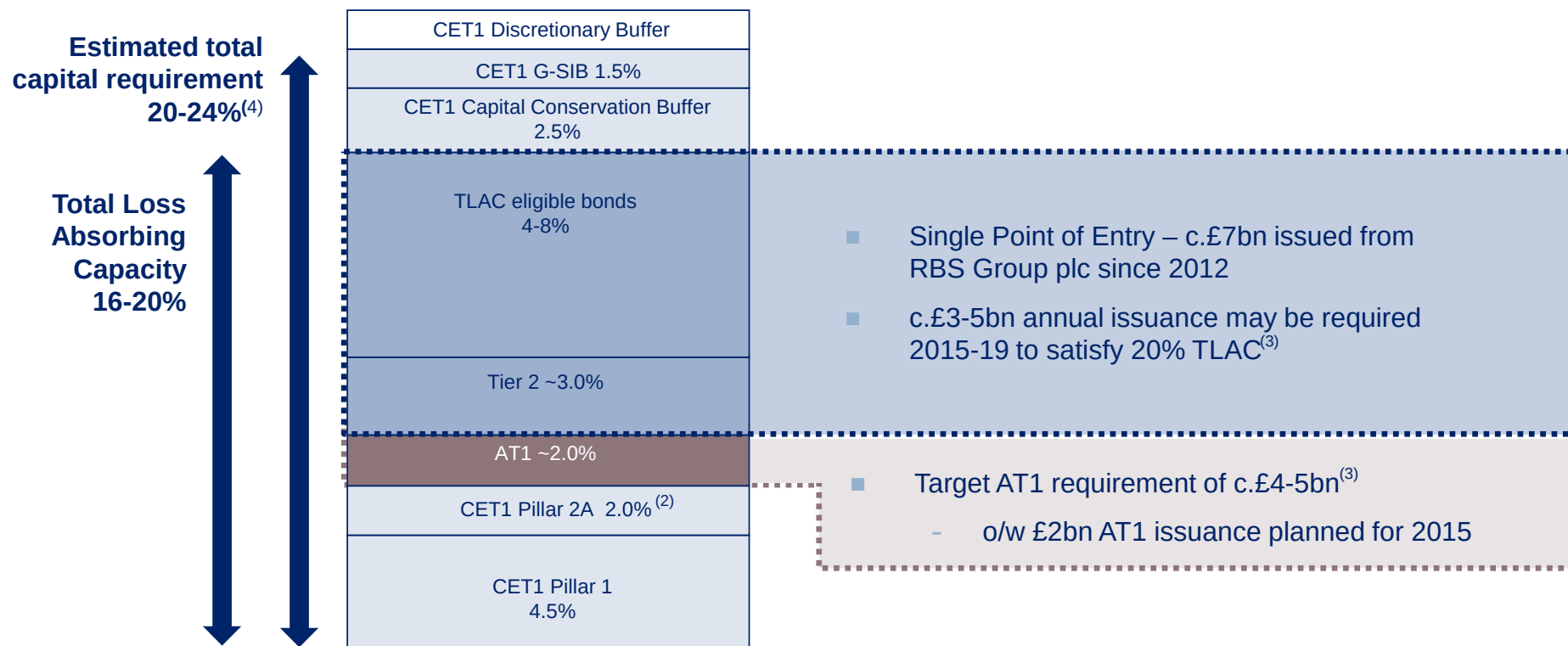


⁽¹⁾ The proposed future ICB structure comprises part of the preliminary plan submitted to the PRA on 6 January 2015 and is subject, amongst other matters, to (i) further analysis and possible amendment following discussions with the PRA and finalisation of the ring-fencing legislation and the PRA ring-fencing rules, (ii) all applicable regulatory and other approvals and (iii) employee consultation procedures. ⁽²⁾ Non-Ring Fenced Bank. ⁽³⁾ RBS plc will own most of our activities outside the ring-fence - primarily our Markets business (Rates, Currencies, DCM) and some corporate activity, as well as our US broker-dealer, RBSSI.

Future TLAC requirements



Example of potential total loss absorbing capital (“TLAC”) requirement⁽¹⁾ for RBS



- (1) Based on RBS' current interpretation of proposals for GSIB's. Final position of the FSB expected by the end of 2015, for expected implementation by 1 January 2019
- (2) RBS Group's Pillar 2A CET1 requirement is 2.0% of RWAs as at 1 January 2015. Pillar 2A guidance is a point in time assessment of the amount of capital the PRA consider the bank should hold to meet the overall financial adequacy rule and is subject to change over time including as a result of at least annual assessment and supervisory review process. Pillar 2A requirement held constant for illustration purposes, requirement is expected to vary over time and is subject to at least annual review. This illustration does not reflect the anticipated impact of RBS's proposed transformation plan, including the CIB restructuring and balance sheet reduction programmes which are subject to significant uncertainties
- (3) Assumes successful implementation and delivery of RBS's proposed transformation plan, including the CIB restructuring and balance sheet risk reduction programmes
- (4) Assumes PRA capital buffer (Pillar 2B) not being in excess of G-SIB and Capital Conservation Buffer and no material Counter Cyclical Buffer requirement. Both requirements are expected to vary over time

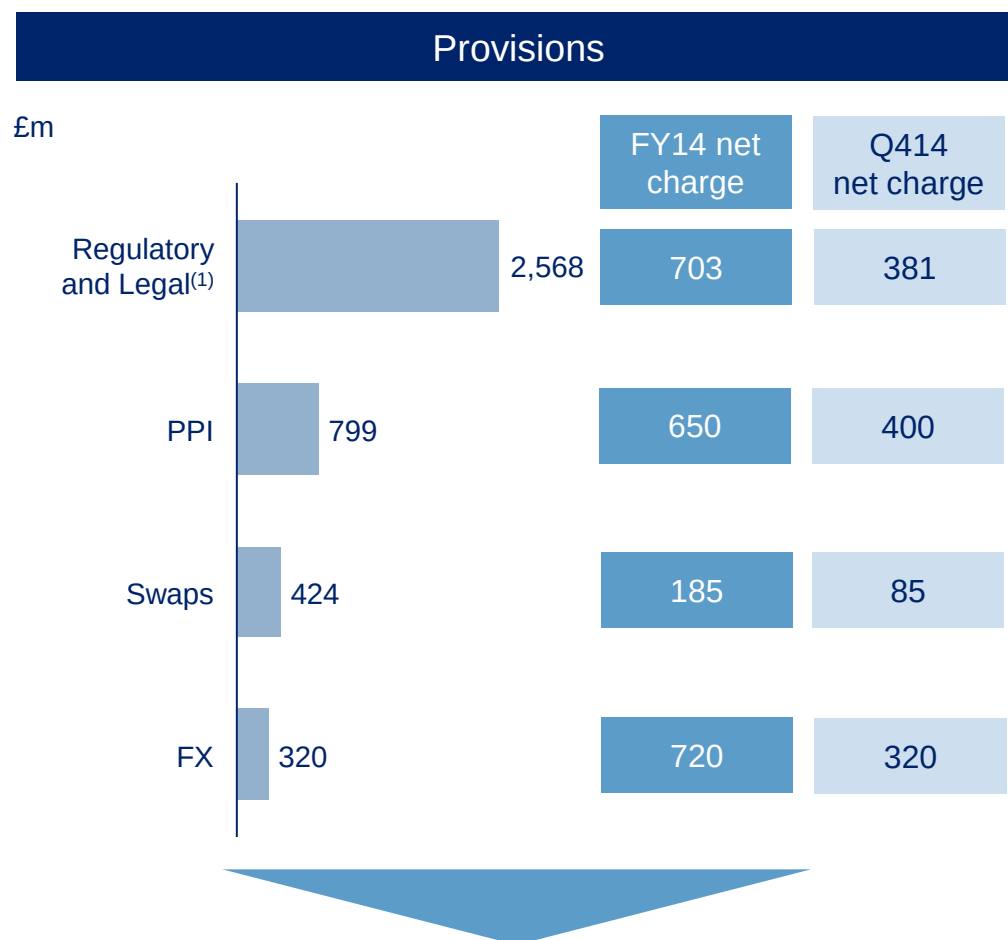
Improving the transparency of our returns



Segmental RoEs updated

	PBB	CPB	CIB	Citizens	RCR	Other	Total RBS
FY 2014 reported							
RWAs (£bn)	66.6	75.5	107.1	68.4	22.0	16.3	355.9
Tangible allocated equity (£bn) ⁽²⁾	8.0	9.1	12.9	8.2	2.6	2.0	44.4
Reported RoTE 2014 (%)	17.5%	11.9%	(4.2%)	6.6%	nm	nm	(8.0%)
FY 2014 based on a new target CET1 ratio							
RWAes ⁽¹⁾ (£bn)	68.9	81.4	108.9	68.6	27.3		
Tangible allocated equity (£bn) ⁽³⁾	9.0	10.6	14.2	8.9	3.5		
New FY 2014 RoTE⁽⁴⁾	15.7%	9.0%	(4.8%)	6.1%	nm		

⁽¹⁾ RWA equivalent (RWAes) is an internal metric that measures the equity capital employed in divisions. RWAes converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAes by applying a multiplier. ⁽²⁾ Based on 12% RWAs. ⁽³⁾ Based on 13% CET1 target RWAes. ⁽⁴⁾ From Q1 2015 business segment return on equity will be calculated based on operating profit after tax adjusted for preference share dividends divided by average notional equity (based on 13% of the monthly average RWAes).



Q4 2014 litigation and conduct balance sheet provision: £4.1bn

PPI

- Provision now covers c17 months of the current monthly utilisation. Expect claims to tail off over a longer period than previously

Interest Rate Hedging

- Reflects increased costs and a small increase in redress experience. We have now agreed outcomes with the independent reviewer on all cases

FX

- £400m settlement with the FCA and US CFTC reached in November
- Remain in discussions with other governmental and regulatory authorities
- Timing and amounts of any further settlements or redress uncertain

US RMBS

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

Other

- Includes provisions relating to investment advice in UK PBB and Private

⁽¹⁾ Includes Other regulatory provisions, Litigation and Other customer redress as per the Company Announcement p.83 (Note 4).

Impact of notable items on P&L



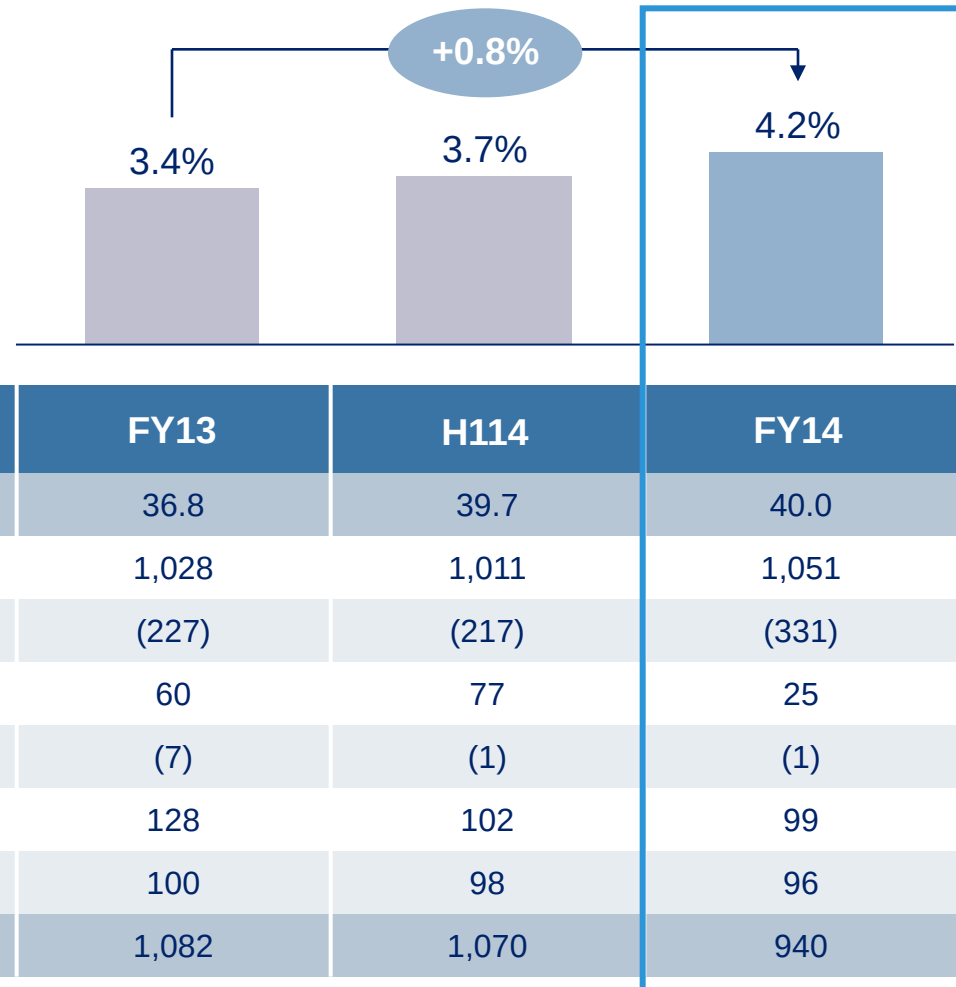
£m	FY 2014	Q4 2014
Reported in adjusted operating performance		
AFS disposal gains in Centre (<i>Income</i>)	149	6
Risk Management (including IFRS volatility) in Centre (<i>Income</i>)	(437)	(322)
UK Bank Levy ⁽¹⁾ (<i>Costs</i>)	(250)	(250)
Restructuring costs		
Restructuring costs	(1,257)	(563)
<i>o/w Software write-off in Centre</i>	(247)	(247)
<i>o/w W&G restructuring costs</i>	(378)	(174)
Conduct & litigation costs		
Total conduct & litigation costs ⁽¹⁾	(2,194)	(1,164)
<i>o/w PPI redress and related costs ⁽¹⁾</i>	(650)	(400)
<i>o/w IRHP redress and related costs ⁽¹⁾</i>	(185)	(85)
<i>o/w FX fines & litigation ⁽¹⁾</i>	(720)	(320)
Reported 'below the line'		
Own Credit Adjustment	(146)	(144)
Gain on redemption of own debt	20	-
Citizens loss from discontinued operations, net of tax	(3,486)	(3,885)
Reported within tax		
Write-down of Deferred Tax Assets	(1,625)	(1,549)

⁽¹⁾ Fully allocated to businesses.

Leverage ratio – key drivers



BCBS leverage ratio, %



Tangible Net Asset Value movements



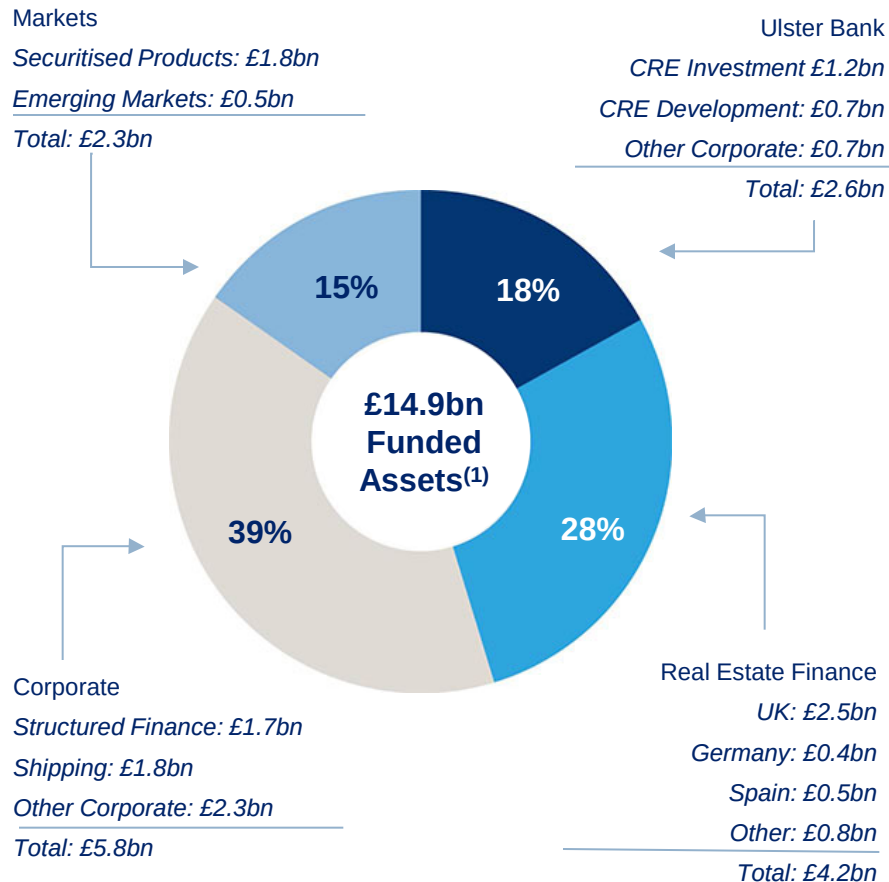
	FY 2013			Q3 2014		
	£m	Shares in issue (m)	TNAV per share ⁽¹⁾	£m	Shares in issue (m)	TNAV per share ⁽¹⁾
Starting TNAV	41,082	11,303	363p	44,345	11,303	388p
Reported attributable profit	(3,470)		(30p)	(5,791)		(51p)
Citizens and intangibles write-downs	4,517		+40p	4,305		+38p
Positive AFS movement	616		+5p	127		+1p
Proceeds of share issuance	548	163		163	45	
FX reserve movement	191		+2p	319		+3p
Cash flow hedge reserve	1,079		+9p	738		+6p
Other ⁽²⁾	(195)		(2p)	162		+2p
	FY 2014			Q4 2014		
	£m	Shares in issue (m)	TNAV per share ⁽¹⁾	£m	Shares in issue (m)	TNAV per share ⁽¹⁾
End of period TNAV	44,368	11,466	387p	44,368	11,466	387p

⁽¹⁾ TNAV - Tangible Net Asset Value per Ordinary and B Shares. ⁽²⁾ Other reserve movements including intangibles.

RCR asset composition and provisions overview



Asset composition at 31 December 2014



CRE Total (REF and Ulster Bank): £6.1bn⁽²⁾

Overview of provisions by sector

	Gross loans	Provisions	Provisions as a % of REIL	Provisions as a % of gross loans
31st December 2014	£bn	£bn	%	%
By sector:				
Commercial real estate				
- Investment	6.2	2.8	57	45
- Development	6.4	5.3	85	83
Asset finance	2.3	0.4	44	17
Other corporate	7.0	2.4	71	34
Total RCR	21.9	10.9	71	50

⁽¹⁾ Funded Assets – excluding derivatives, net of balance sheet provisions.

⁽²⁾ Includes £1.6bn of investment property and other assets.

Sustainability

“Our ambition is to shape the world around us in a positive way. We recognise that we still have a long way to go achieve this position across our business.

Sustainability is therefore not just about the many responsibilities and obligations that RBS has, but about taking leadership on a broad range of issues that are important to our stakeholders.”

Andrew Cave, Chief Sustainability Officer

Over the last five years at RBS, we have been building a sustainability programme that is able to help shape the strategy of the Bank. It has taken that full period to build up robust systems for managing social and environmental issues.

We also tasked ourselves with the challenge of becoming the most transparent UK bank, steadily improving the quality and materiality of our sustainability reporting and disclosure year on year.

You can read more about our sustainability agenda at [rbs.com/sustainable](https://www.rbs.com/sustainable).

Robust governance

- RBS has a robust sustainability governance framework, ensuring there is senior level oversight of sustainability issues.
- The Sustainable Banking Committee is a Board committee comprised of independent non-executive directors and Executive Committee members. It met six times in 2014.
- During 2014, the strategic direction of the Committee was refocused to three core themes: Bank-wide Reputation and Trust, Serving Customers and Emerging issues.



Extensive stakeholder engagement

- We work with various stakeholder groups to understand their views, and this helps shape the way we do business.
- In 2014, the Sustainable Banking Committee held six sessions with groups of external stakeholders to discuss topics such as climate change, privacy, employee engagement and supporting enterprise.

Transparency and accountability

- Our sustainability reporting is aligned to the Global Reporting Initiative and is independently assured.
- ‘[Our financing of the energy sector](#)’ briefing provides enhanced disclosure around our lending to this sector.
- In 2014, RBS was ranked # 1 in the UK by Transparency International for [transparency in corporate reporting](#).

Our policies

- Our Environmental, Social and Ethical (ESE) risk framework defines the performance requirements that we expect to see from our clients in high risk sectors.
- We have ESE risk appetite positions for six sectors covering activities which we believe carry high risks.
- We provide further detail in our sustainability reporting on the process for implementing these policies.



Sustainability performance and commitments



RBS performance in ratings and benchmarks

	2011	2012	2013	2014
DJSI				
RBS	76	79	82	82
Peer average	53	59	58	60
Sector leader	91	93	93	93
CDP				
RBS Disclosure	91	89	88	98
RBS Performance	B	B	B	B
Leader Disclosure	100	100	100	100
Leader Performance	A	A	A	A
FTSE4Good				
No score issued	Included	Included	Included	Included
Sustainalytics				
RBS	62	66	60	62
Peer average	N/A	N/A	N/A	61

- RBS is a member of the Equator Principles Association Steering Committee.
- RBS has been included in the Dow Jones Sustainability World Index (DJSI) since its launch in 1999.
- We have been members of the United Nations Global Compact since 2003.
- We actively participate in this initiative through representation on the Governing Committee of the UK members network.
- We are a member of the Transparency International Business Integrity Forum.



FTSE4Good



Dow Jones Sustainability Indexes
Member 2012/13



EQUATOR PRINCIPLES



DRIVING SUSTAINABLE ECONOMIES

Forward Looking Statements



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

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group's (RBS) transformation plan (which includes RBS's 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of Williams & Glyn and Citizens, RBS's information technology and operational investment plan, the proposed restructuring of RBS's CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capital (TLAC), minimum requirements for eligible liabilities (MREL), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS's future financial performance; the level and extent of future impairments and write-downs; and RBS's exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in Appendix 5 to the Company Announcement. These include the significant risks for RBS presented by the execution of the transformation plan; RBS's ability to successfully implement the various initiatives that are comprised in the transformation plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the transformation plan as a viable, competitive, customer-focused and profitable bank; RBS's ability to achieve its capital targets which depend on RBS's success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the transformation plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that RBS is subject to and any resulting material adverse effect on RBS of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact RBS including a possible referendum on the UK's membership of the EU; operational risks that are inherent in RBS's business and that could increase as RBS implements its transformation plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default by certain countries in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets by the Group; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and RBS does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.