Building long term shareholder value

Ross McEwan, Chief Executive

Morgan Stanley Financial Services Conference – London

15 March 2016

Delivery goals for 2016

RBS

Our blueprint for lasting success

Our Ambition

No.1 for customer service, trust and advocacy

Our Purpose

Serve customers well

Our Values

Serving customers	Working together	Doing the right thing	Thinking long term

Our Brands

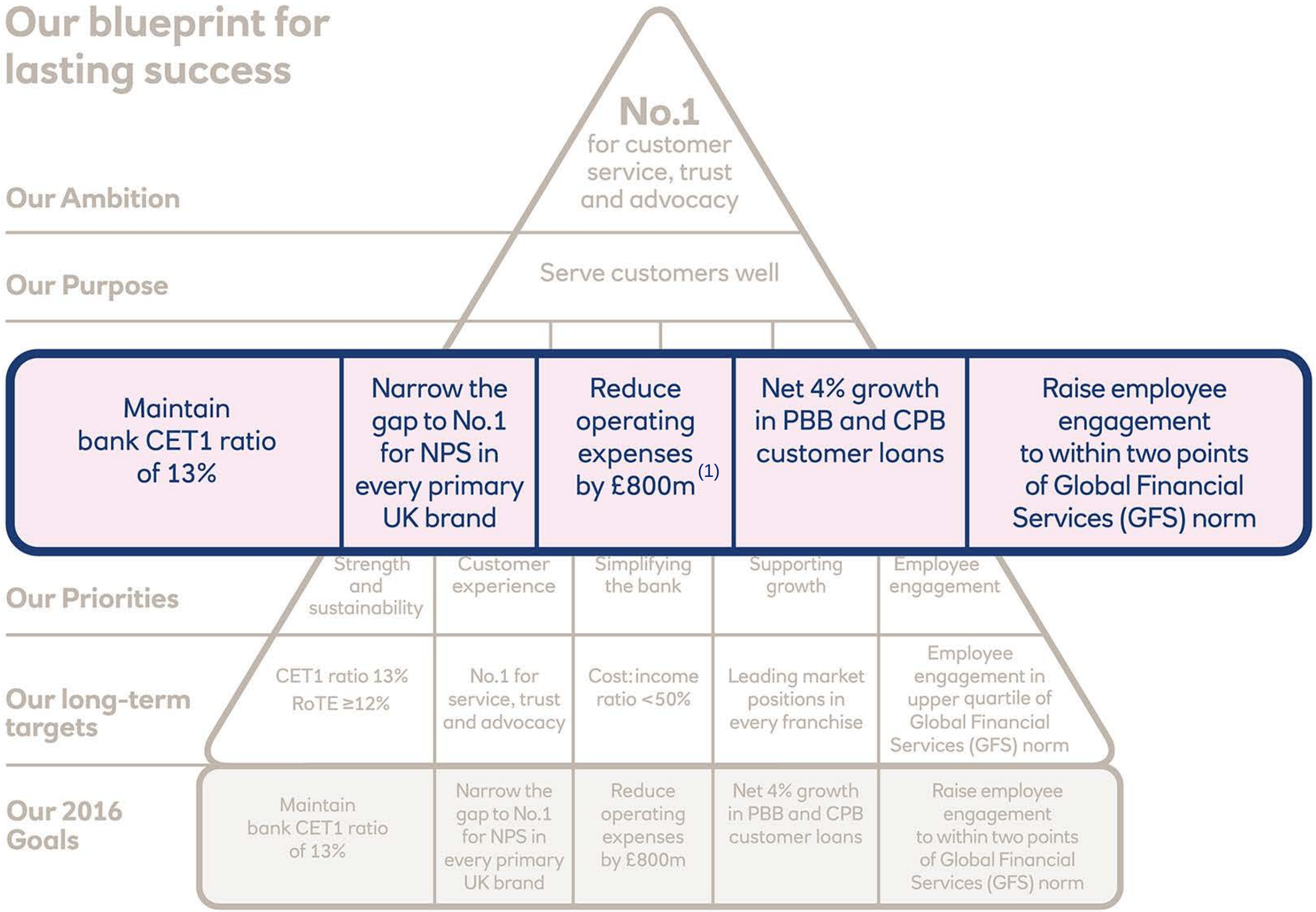
NatWest · Royal Bank of Scotland · Coutts · Ulster Bank

	Strength and sustainability	Customer experience	Simplifying the bank	Supporting growth	Employee engagement
Our Priorities	Strength and sustainability	Customer experience	Simplifying the bank	Supporting growth	Employee engagement
Our long-term targets	CET1 ratio 13% RoTE ≥12%	No.1 for service, trust and advocacy	Cost:income ratio <50%	Leading market positions in every franchise	Employee engagement in upper quartile of Global Financial Services (GFS) norm
Our 2016 Goals	Maintain bank CET1 ratio of 13%	Narrow the gap to No.1 for NPS in every primary UK brand	Reduce operating expenses by £800m [1]	Net 4% growth in PBB and CPB customer loans	Raise employee engagement to within two points of Global Financial Services (GFS) norm

Note:
(1) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn.

Delivery goals for 2016

Our 2016 Goals



(1) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn.

Delivering on the second phase of our plan

Phase 1 – 2014

Building financial strength

- Rebuild capital strength – CET1 ratio +260bps during 2014
- De-risk – US ABP, RCR, NPLs, liquidity portfolio
- Start cost reduction plan – £1.1bn savings achieved
- Simplify our organisational structure

Phase 2 – 2015/16

Improve our core businesses and deal with Citizens, Capital Resolution, and Williams & Glyn

- Accelerate the transformation of our core businesses
- Achieve material RWA reduction from our Capital Resolution exit
- Address other material remaining issues

Phase 3 – 2017 to 2019

Becoming #1

- Cement customer-centric positioning – #1 for customer service, trust and advocacy by 2020
- Achieve attractive, balanced and sustainable financial returns – target 12+% RoTE in 2019

- Discussions around resumption of dividends / buy-backs[(1)]
- Pay out surplus capital above 13% CET1 ratio subject to PRA approval[(1)]

(1) Earliest possible timing is likely to be later than Q1 2017, subject to Board and PRA approval. Key milestones before seeking PRA approval for capital distributions would include, among other considerations, maintaining the 13% CET1 ratio target, passing regulatory capital requirements, pass 2016 Bank of England stress test (including Individual Capital Guidance hurdle) and operating within capital risk appetite, peak of litigation and conduct costs passed including US RMBS, confidence in sustainable profitability, and Williams & Glyn exit assured.

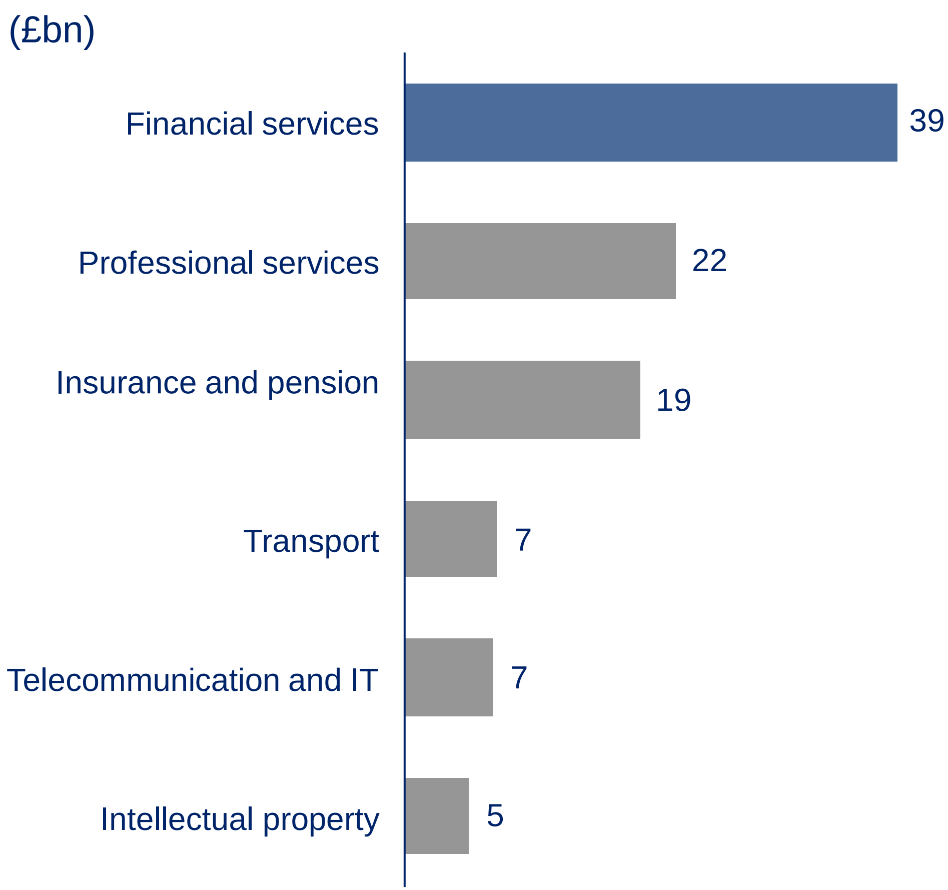
Agenda

- Delivering growth by supporting our customers
- We went further, faster in 2015
- Driving value and performance
- Concluding remarks

Delivering growth by supporting our customers

UK is an attractive market for financial services

UK services sectors generating trade surplus



Source: ONS Balance of Payments – The Pink Book: 2015

- UK financial services generated a trade surplus of £39bn in 2014, more than any other net exporting industry
- UK financial services are a vital source of tax receipts, contributing £66bn in tax revenue in 2013/14
- Foreign companies invested ~£100bn into UK financial companies since 2007

- RBS is the leading provider of payments which are critical to the UK economy
  - UK highest on-line spend in the world[1]
  - Number of electronic payments (52%) now exceeds cash payments (48%)[2]
  - Over half of online sales now made through mobile devices[3]

[1] OFCOM International Communication Market Report December 2015. [2] Payments UK. [3] IMRG Capgemini e-Retail Sales Index.

Investing to win customer loyalty and business

Highly qualified & engaged people

~5,500 front line staff completed certified banking skills programmes with a further ~11,000 enrolled

Employee Engagement index +6pt to within 3pt of GFS Norm

Better service

Business current account opening times halved

Number of mortgage advisers +21%

Higher quality earnings from a lower cost base

More efficient distribution

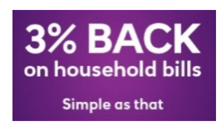
3.7 million mobile app users in UK, +27% on 2014

50% of branch network now modernised, including 322 branches in 2015

Better products

One of the 1st UK banks to offer the Help to Buy: ISA

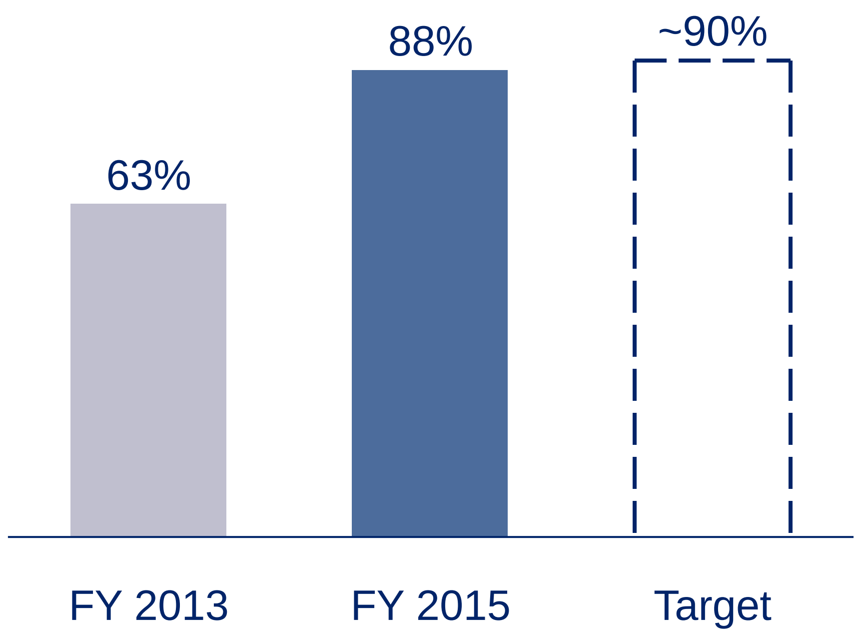
Reward account; 3% back on household bills with £3 a month account fee



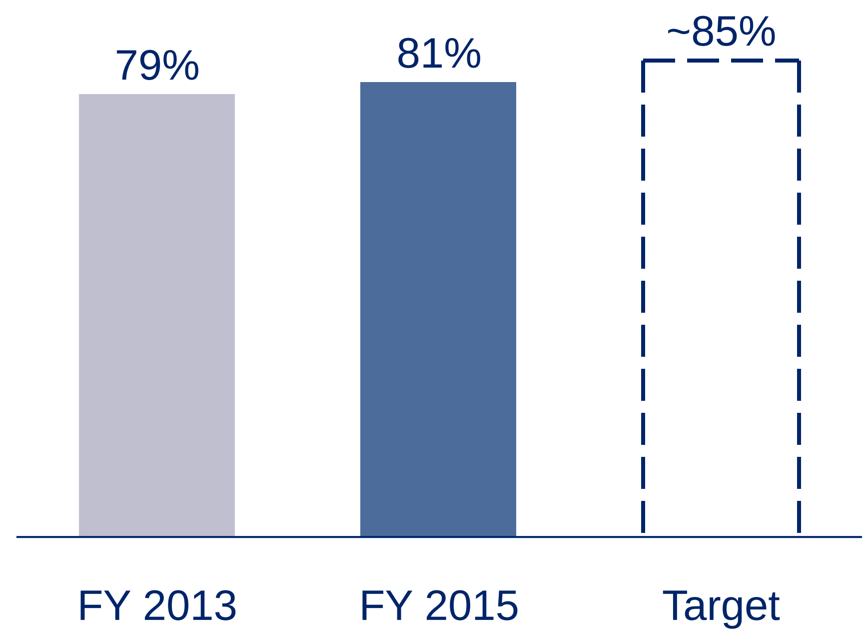
Delivering growth by supporting our customers

Increasingly focused on UK Retail & Commercial

Income from UK



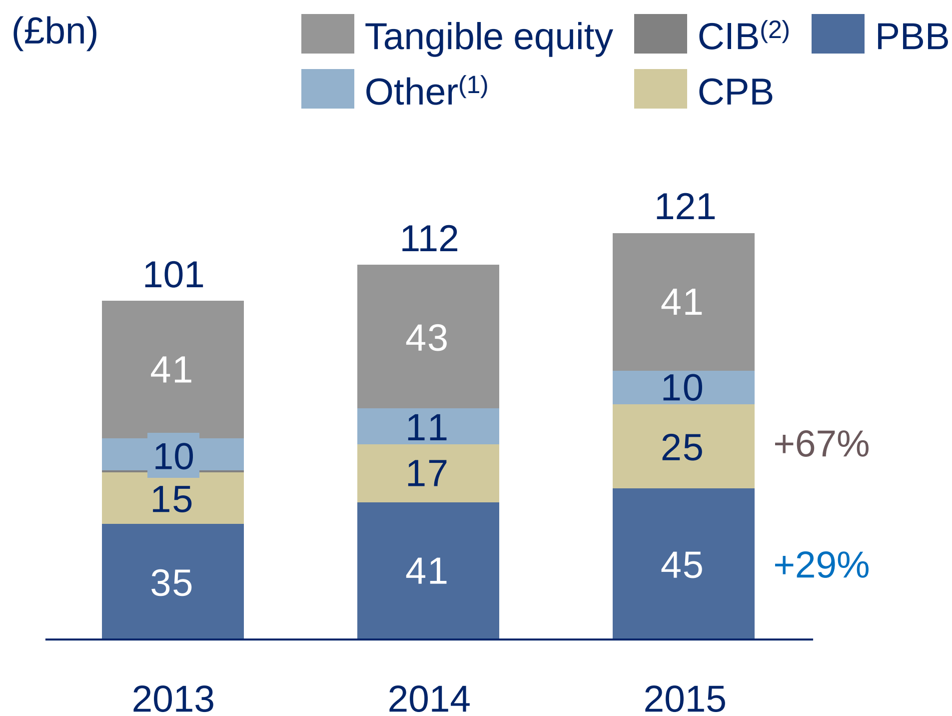
RWAs in Personal, Business & Commercial



Delivering growth by supporting our customers

Continue to attract quality deposit flow

Average non-interest bearing demand deposits by franchise, and tangible equity



Sensitivity of Net Interest Income to interest rate changes

	Sensitivity (£m)
+ 25 basis point shift in yield curves	68
− 25 basis point shift in yield curves	(96)
+ 100 basis point shift in yield curves	**469**
− 100 basis point shift in yield curves	(429)

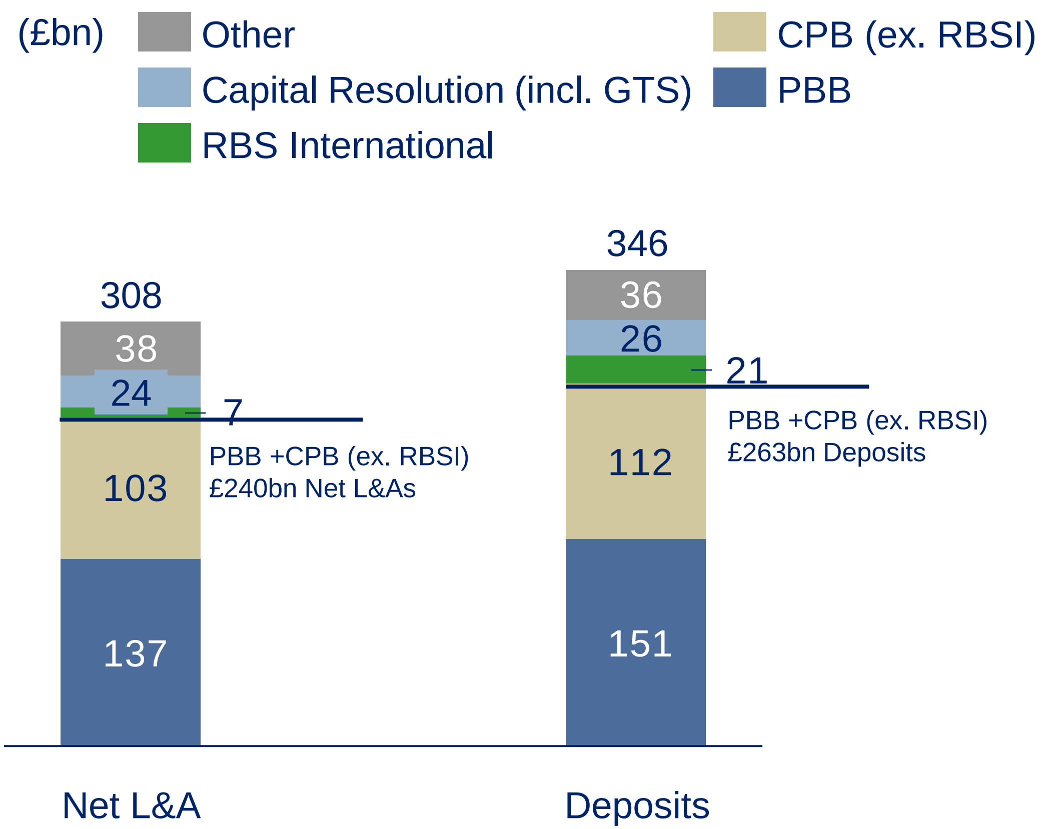
- £121bn of free funds to support client activity – a strength in the medium to long-term
- Strong growth in free funds – £20bn in PBB and CPB in the last 2 years
- Low interest rates a challenge in the short to medium-term

(1) Other is primarily Central items but also includes W&G and Capital Resolution. (2) CIB demand deposits were £0.3bn in 2013, £0.1bn in 2014 and £0.03bn in 2015.

Delivering growth by supporting our customers

Well positioned to support increasing client activity

Net L&A and Deposits (2015)



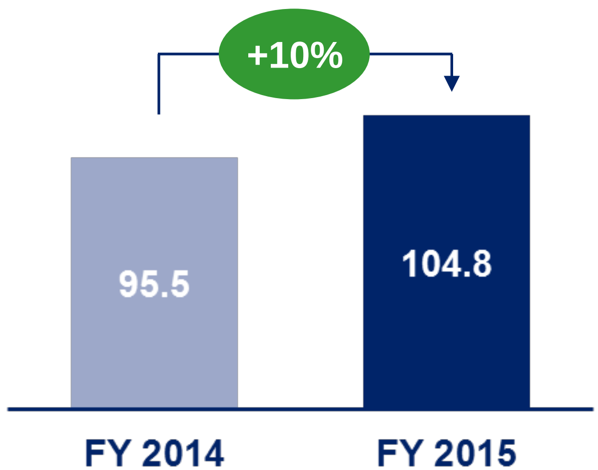
- Excellent funding profile
- Funds available to lend, supported by a strong liquidity position
- Front-book margins remain attractive, low margin legacy assets continue to run off (e.g. Irish tracker mortgages)
- PBB and CPB (ex. RBSI) combined LDR 91%

- **Over £35bn of funds available to deploy in PBB and CPB (ex. RBSI) to get to the target LDR range of 105% - 110% for these businesses**

Delivering growth by supporting our customers
Good growth in our core businesses

UK Personal & Business Banking[1]

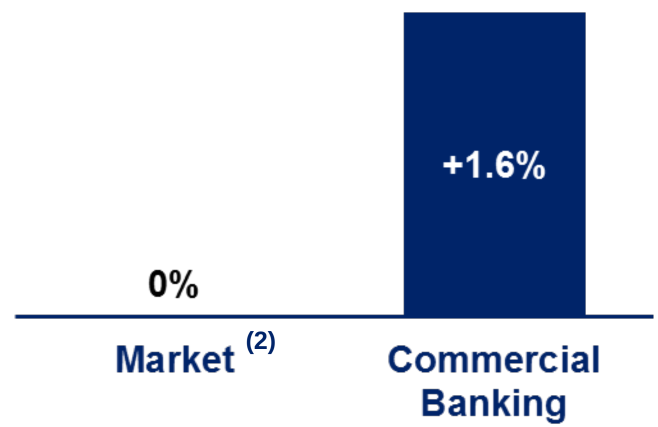
Stock of UK PBB mortgage lending (£bn)



- £23bn of gross mortgage lending during 2015, up 29% versus 2014
- New mortgage business market share reached 10.5% for FY 2015 versus a stock share of 8.2%

Commercial Banking

Growth in stock of lending to businesses, FY 2015



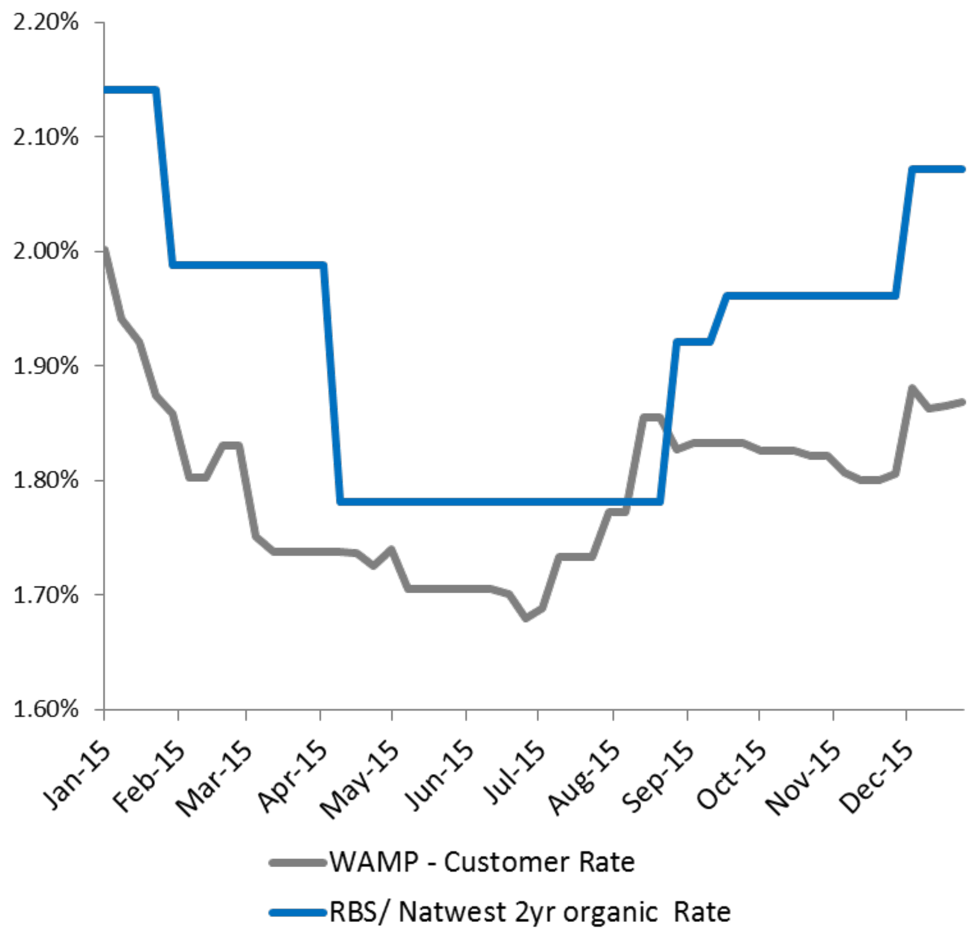
- Net new lending of £1.4bn includes a £2.2bn reduction in net lending due to the legacy portfolio in Commercial Banking
- 12,500 statements of appetite issued offering up to £8bn of new lending

[1] UK PBB now includes Ulster Bank Northern Ireland and excludes Williams & Glyn, which is reported as a separate segment. All mortgage figures relate to UK PBB on this restated basis. [2] 12 month growth rate at December 2015 of loans to Non-Financial Businesses (Source: Bank of England) .

Mortgages – competing on service, not price

- Growth: net lending +150% to £10bn
  - Agree a mortgage every minute
- Investing in people: Mortgage advisers up 21%; 803 to 974
  - Engage customers with 'mortgage elsewhere'
- Service: Speed to Offer improved by 4 days to 16 days (from 20 days previously)
- Retention: ~50% customers renew online
  - Best in class
- Leads to strong risk adjusted returns
  - Optimise market segments and margin through pricing without compromising on credit quality

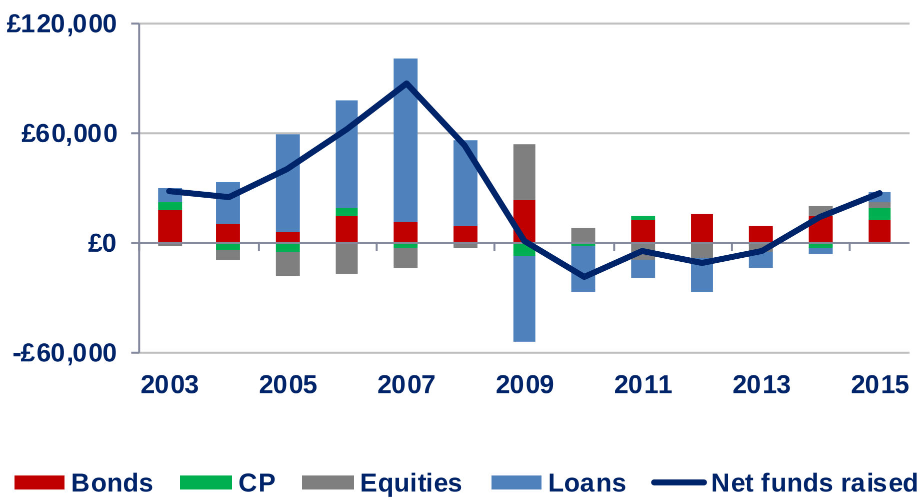
2015: RBS/ Natwest 60% LTV 2yr Fixed vs. Weighted Average Market Price ("WAMP")



Delivering growth by supporting our customers

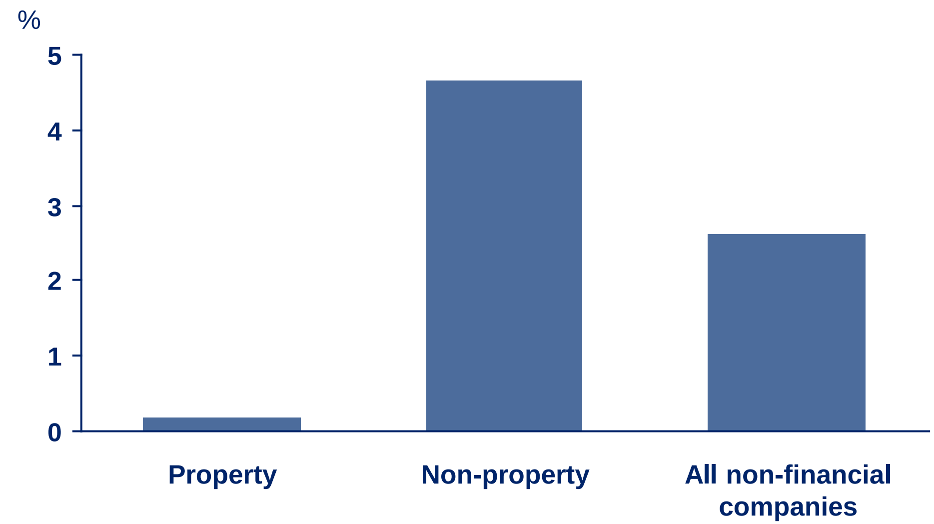
UK Corporates are borrowing again

Net funds raised by UK businesses (£m)



Source: Bank of England

Consensus-based forecast for loan growth balances in 2016



Source: Oxford Economics, using consensus-based forecast

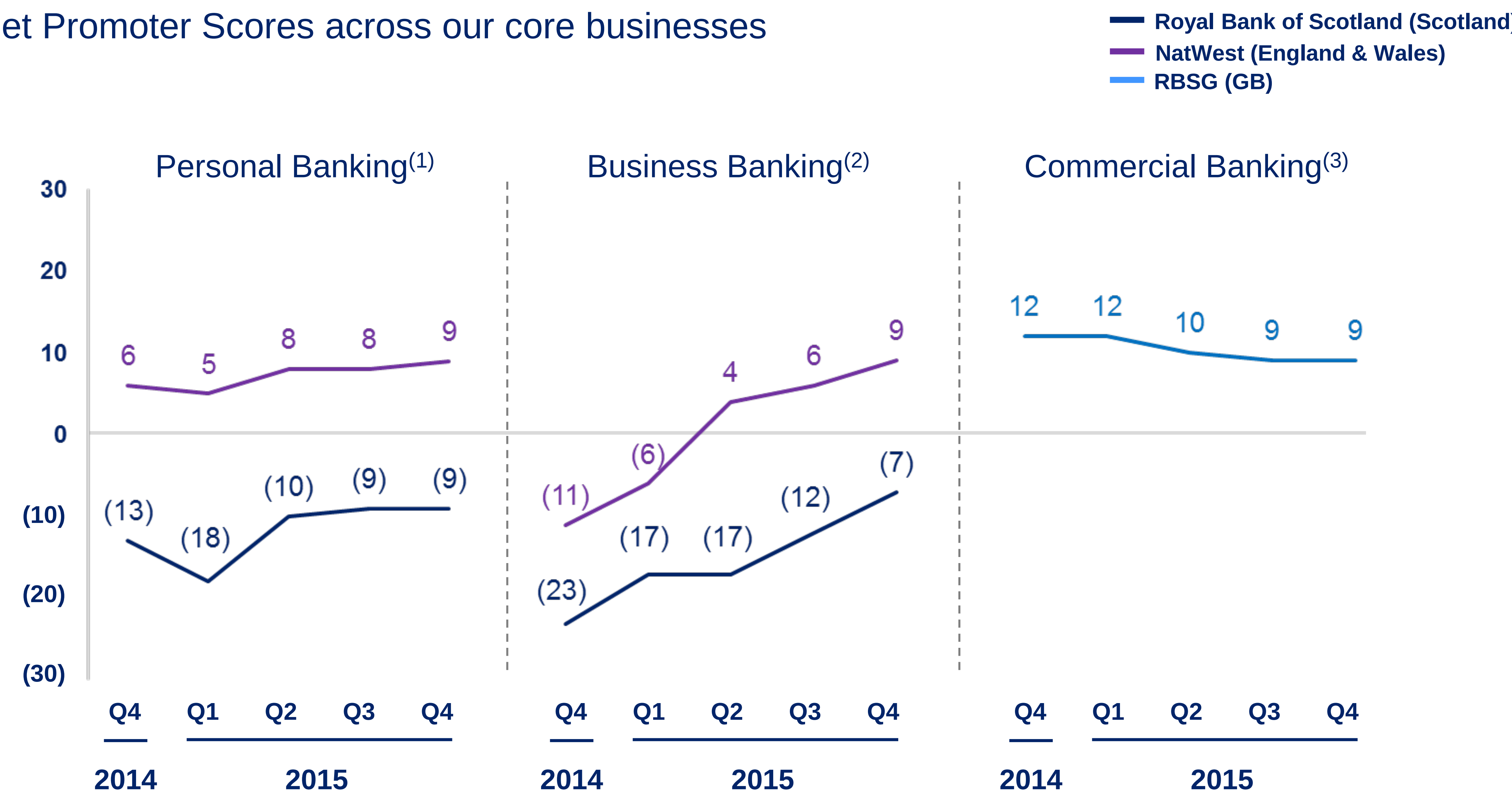
- Firms added financial liabilities to their balance sheets for the second year running, primarily via bonds
- 2016 should see growth in UK commercial lending[1], with lending to property companies expected to grow for the first time since 2008
- We should also see modest growth in company profits and a continued low rate of insolvencies

[1] Lending to PNFCs (Private Non-Financial Corporations).

Delivering growth by supporting our customers
NatWest Personal and Business NPS highest since 2010

RBS

Net Promoter Scores across our core businesses



(1) Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3509) Royal Bank of Scotland (623) 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. Year on year increases are not significant. (2+3) Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1351) Royal Bank of Scotland (432) (3) Commercial: £2m+ combination of NatWest & Royal Bank of Scotland in GB (872) 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. The year on year improvements in Business Banking are significant.

Agenda

Delivering growth by supporting our customers

We went further, faster in 2015

Driving value and performance

Concluding remarks

We went further, faster in 2015

A clear record of delivering our goals

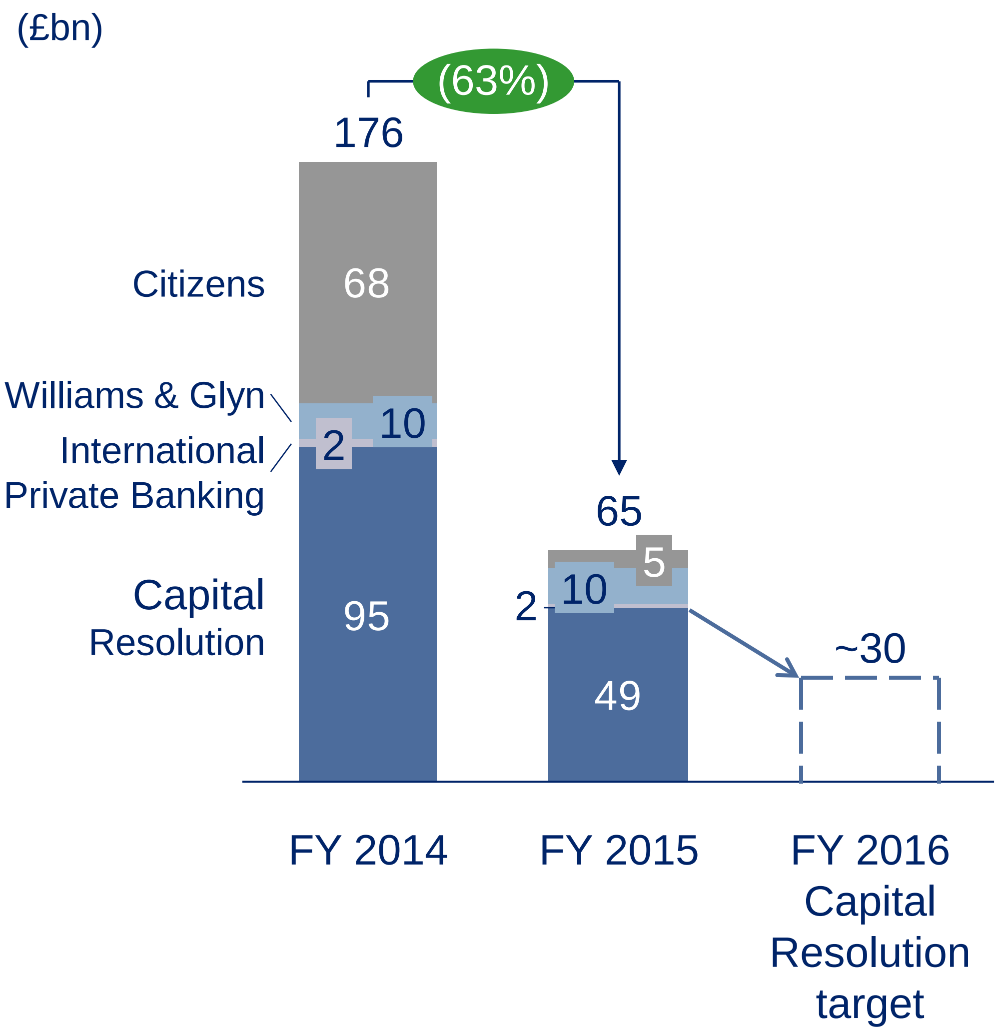
Priorities	2015 Goals	Delivery
Strength & sustainability	Reduce Risk-Weighted Assets (RWAs) to <£300 billion	✓
	RCR exit substantially complete	✓
	Citizens deconsolidation	✓
	£2 billion of AT1 issuance	✓
Customer experience	Improve NPS in every UK franchise	✓ (6 out of 9)
Simplifying the bank	Reduce costs by £800m(1), target exceeded and increased to >£900m	✓
Supporting growth	Lending growth in strategic segments ≥ nominal UK GDP growth	✓
Employee engagement	Raise employee engagement index to within 8% of GFS Norm	✓

(1) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn.

We went further, faster in 2015

Rapid reduction of legacy businesses & portfolios

Legacy businesses & portfolios (RWAs)

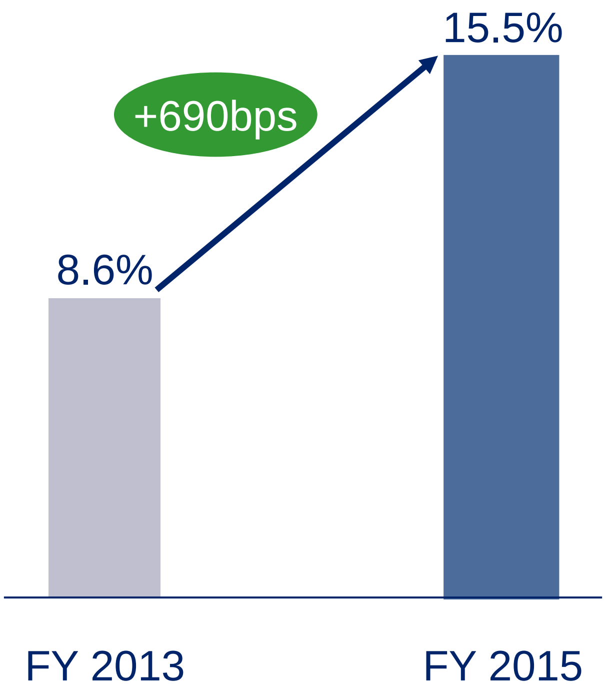


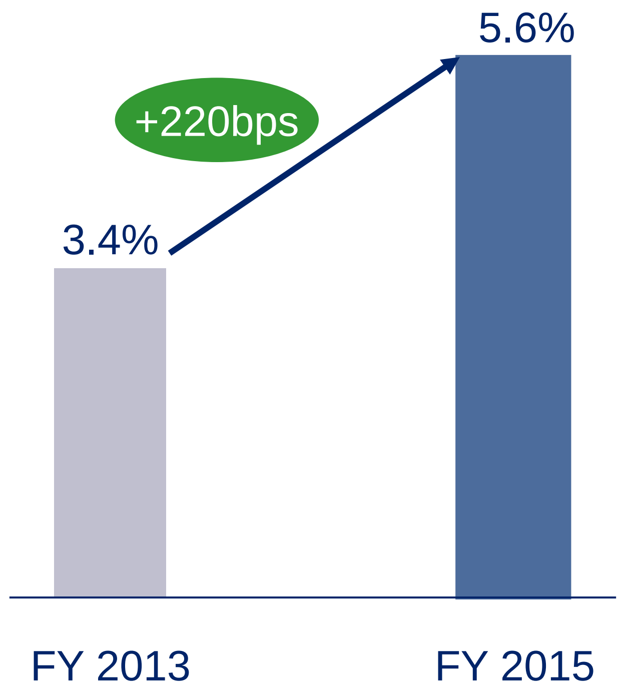
- Capital Resolution down £46bn (48%) – expected to reduce RWAs to around £30bn by the end of 2016
- Working on solutions for the remaining Capital Resolution rump (e.g. Saudi Hollandi stake)
- Williams & Glyn – on-going preparations for 2017 separation & exit
- International Private Banking – full exit expected early Q2 2016
- Citizens – release £4.9bn of operational risk RWAs in 2016

We went further, faster in 2015

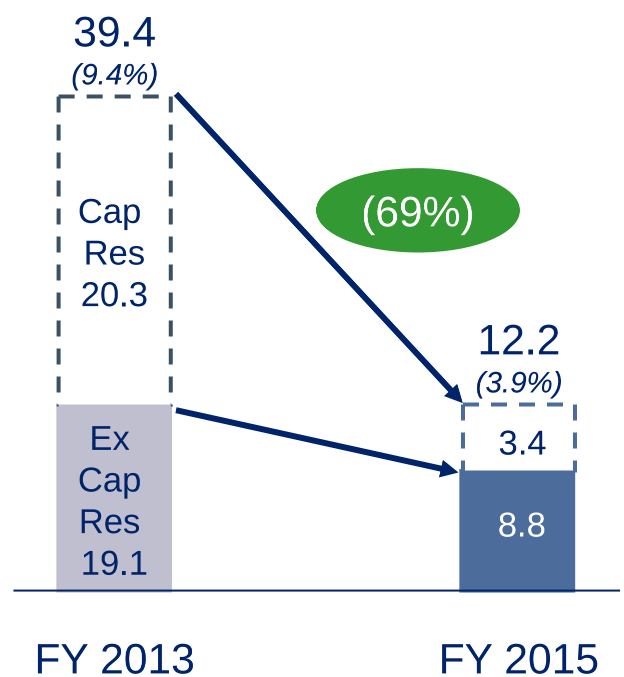
Our balance sheet is now more resilient

CET1 Ratio: 13% Target	Leverage Ratio	REILs (£bn)





(as % of Total Gross L&As)

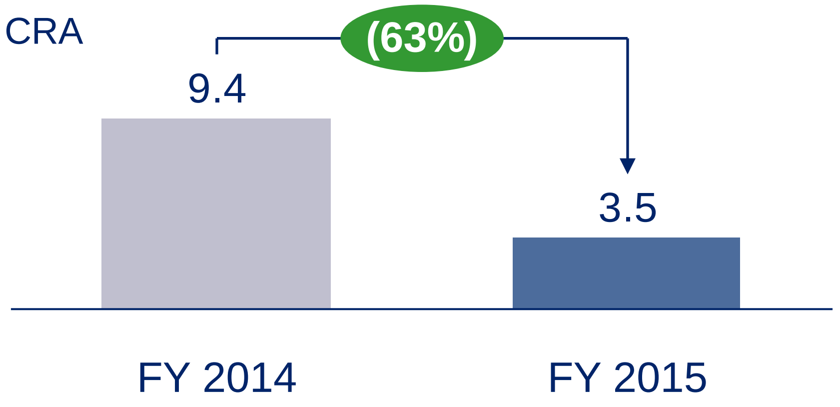


- Excluding Capital Resolution REILs were 3.0% of Total Gross L&As (Ex Capital Resolution) at FY 2015

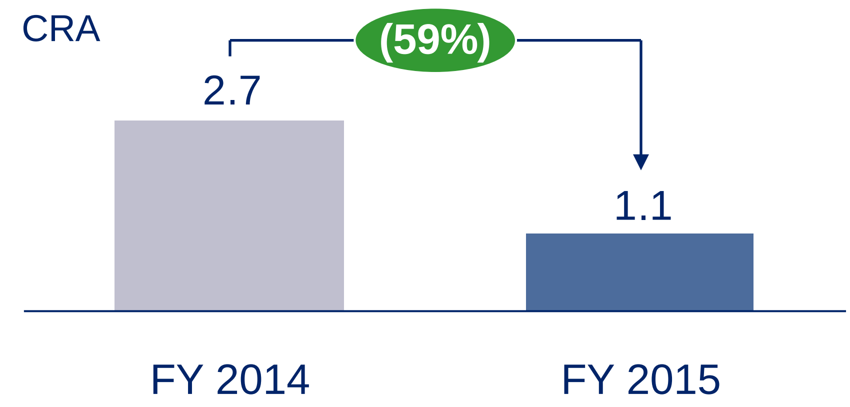
We went further, faster in 2015

Excellent progress in shrinking higher risk exposures

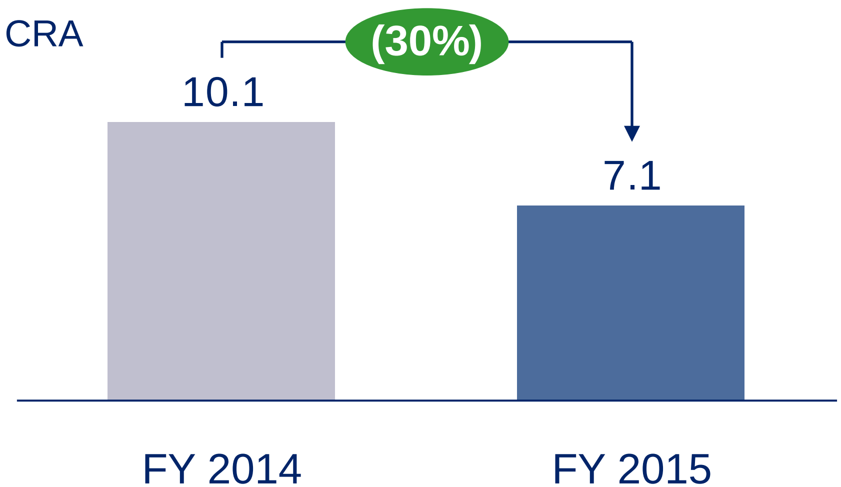
Oil & Gas (£bn)[1]



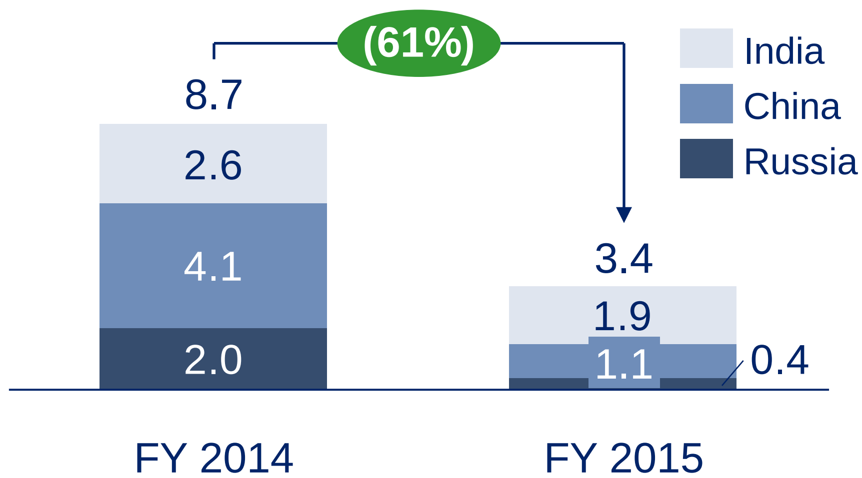
Mining and Metals (£bn)[1]



Shipping (£bn)[1]



Emerging Markets (£bn)[2]



[1] CRAs (Credit Risk Assets) consist of lending gross of impairment, provisions and derivative exposures after netting and contingent obligations. [2] Total exposure includes committed but undrawn facilities.

Note: For further information please see p.198 of the 2015 Annual report and accounts and p.30 of the 2015 Annual Results

We went further, faster in 2015

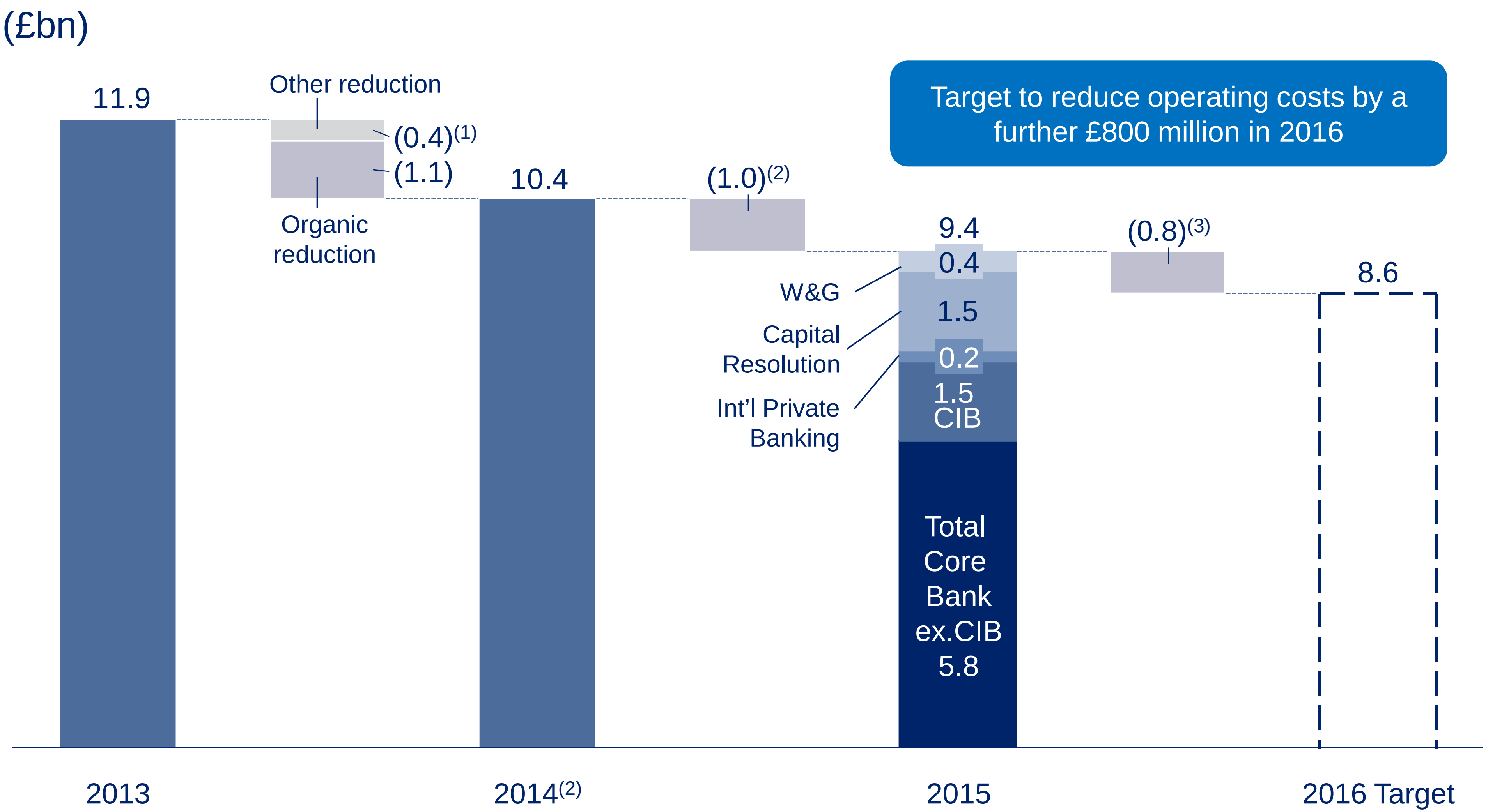
We are becoming simpler

	Property	Structure	Products	Systems
	# London properties	*# registered companies*	*# front book products*	*# major banking platforms*
2013	11	1,107	416[1]	651
	↓ **27%**	↓ **34%**	↓ **19%**	↓ **13%**
2015	8	733	339	568
Target	5	~500	<300	~150

(1) FY 2014.

We went further, faster in 2015

Lowered costs by >£2bn over the last 2 years

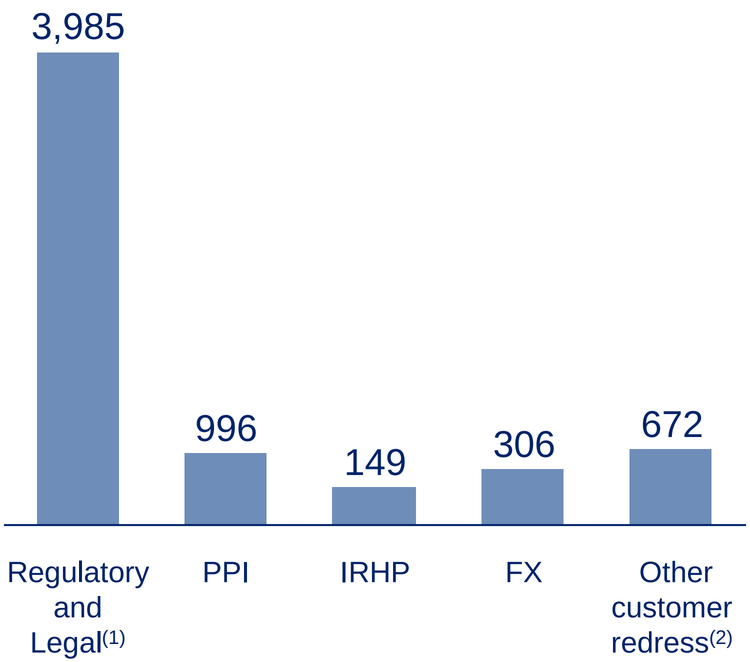


(1) £0.4bn is made up of the benefit of lower intangible asset write-offs of 2013-£344m, 2014-£146m as well as the year on year benefit of FX. (2) This includes £71m lower intangible write offs offset by £29m growth in W&G. (3) Excludes movements in intangible write-offs and any growth in W&G.

We went further, faster in 2015

Litigation and conduct

End of Q4 2015 provisions (£m)



Litigation and conduct provision: £6.1bn, as at December 2015

	Comments
US RMBS	■ Total provisions to US RMBS litigation increased in Q4 2015 by £1.5bn from £2.3bn to £3.8bn, further substantial provisions may be required ■ These provisions do not include potential penalties and compensatory damages imposed by US DoJ and various State Attorneys General, which may be substantial
FX and other market related investigations and claims	■ Remain in discussions with various Governmental and Regulatory Authorities
UK class action lawsuit over 2008 capital raising	■ Trial of preliminary issues scheduled to commence in Q1 2017
Various UK customer redress issues	Includes: ■ PPI: further Q4 2015 provision of £0.5bn taken for PPI to deal with time barring and the implications of the Plevin judgement
FCA SME treatment review	■ Fully co-operating with the ongoing FCA review ■ Timing of initial findings not confirmed, but may be during H1 2016

(1) Includes Other regulatory provisions and Litigation as per the Annual Results 2015 p.47(note 3)
(2) Closing provision primarily relates to investment advice and packaged accounts

Agenda

Delivering growth by supporting our customers

We went further, faster in 2015

Driving value and performance

Concluding remarks

Our plan to improve returns and performance

- Income and RWA figures are business as a % of FY15 adjusted Income (£11,422m) and RWAs (£175bn) across all 6 core businesses:

Invest to Grow

	UK PBB	Commercial Banking	RBS International
	46% Income 19% RWAs Adj. cost:income ratio: 58%	28% Income 41% RWAs Adj. cost:income ratio: 55%	3% Income 5% RWAs Adj. cost:income ratio: 43%
Actions	▪ Increase mortgage market penetration ▪ Deepen customer relationships ▪ Achieve positive operating jaws	▪ Grow lending and non-interest income ▪ Deepen customer relationships ▪ Achieve positive operating jaws	▪ Grow support for Funds and mortgage customers ▪ Increase capital efficiency ▪ Reposition as a NRFB

Reposition for Returns

	Ulster Bank RoI	Private Banking	CIB
	5% Income 11% RWAs Adj. cost:income ratio: 78%	6% Income 5% RWAs Adj. cost:income ratio: 80%	12% Income 19% RWAs Adj. cost:income ratio: 104%
Actions	▪ Significant cost reduction ▪ Increase capital efficiency by reducing NPL and drag from tracker mortgages ▪ Support the ongoing Irish macro recovery	▪ Significant cost reduction ▪ Drive growth by leveraging great brands, and Commercial and UK PBB customer base	▪ Continue multi-year transformation: - Stabilise income and cut costs - Reduce RWAs - Connect to Commercial

Driving value and performance
2016 outlook

Income
- Expect PBB and CPB franchises income to stabilise in 2016
- CIB may see some modest further income erosion given slow start to the year

Loan growth
- Target net 4% growth in PBB and CPB customer loans

Costs
- Target cost savings of £800m (in addition to the £2 billion achieved in 2014 and 2015)

Jaws
- Expect cost reduction to exceed any income erosion across our combined core businesses

Impairments
- Do not expect the considerable recoveries seen in 2014 and 2015 to be repeated and some portfolios may see net impairment charges

Legacy businesses & portfolios
- Targeting further material reduction by Q4 2016
- Expect to reduce Capital Resolution RWAs by ~£20bn to around £30bn by the end of 2016

Agenda

Delivering growth by supporting our customers

We went further, faster in 2015

Driving value and performance

Concluding remarks

Capital distributions

Milestones before seeking Board and Regulatory approval

- **Capital structure normalised (final DAS dividend planned in H1 2016[1], B-shares now cancelled)**
- **Williams & Glyn exit assured**
- **Pass the peak of litigation and conduct costs, including US RMBS**
- **Confidence in sustainable profitability**
- **Pass 2016 BoE stress test (including Individual Capital Guidance hurdle) and operating within capital risk appetite**

[1] Subject to final Board and PRA approval.

Summary

RBS

Determined to build a great customer bank

Strong performance against 2015 targets

In 2016, targeting stabilising revenues and positive jaws – across combined core franchises

Continue to address key issues to be able to return to shareholder distributions[1]

[1] Earliest possible timing is likely to be later than Q1 2017, subject to Board and PRA approval. Key milestones before seeking PRA approval for capital distributions would include, among other considerations, maintaining the 13% CET1 ratio target, passing regulatory capital requirements, pass 2016 Bank of England stress test (including Individual Capital Guidance hurdle) and operating within capital risk appetite, peak of litigation and conduct costs passed including US RMBS, confidence in sustainable profitability, and Williams & Glyn exit assured.

Q&A

Forward Looking Statements

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

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group plc's (RBS) restructuring (which includes, the separation and divestment of Williams & Glyn, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme), as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other capital raising plans, funding and credit risk profile; litigation, government and regulatory investigations RBS's future financial performance; the level and extent of future impairments and write-downs, including with respect to Goodwill; future pension contributions, and RBS's exposure to political risks, operational risk, conduct risk and credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk and other disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in the 2015 Annual Report and Accounts. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes (including where resolved by settlement); the uncertainty relating to the referendum on the UK's membership of the European Union and the consequences arising from it; the separation and divestment of Williams & Glyn; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme; as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from implementing its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategy to refocus on the UK, the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include: operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to preventing a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets; and the success of RBS in managing the risks involved in the foregoing.

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

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.

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