Fixed Income Investor Presentation

FY 2017 Results
23 February 2018

Ewen Stevenson

Chief Financial Officer

FY 2017 update on progress

4 priorities	2017 progress	
Grow income	▪ Adjusted income growth of 4.0% ▪ 2.2% net lending growth across PBB, CPB and RBSI[1] primarily driven by mortgage growth	☑
Cut costs	▪ £810m adjusted operating expenses reduction (-8% nominal)	☑
Reduce RWAs	▪ Reduced RWAs by £27.3bn (12.0%) to £201bn ▪ CET1 ratio +250bps Y/Y to 15.9%; IFRS 9 pro forma Day 1 impact +30bps	☑
Resolve legacy issues	▪ Wound up former Capital Resolution; remaining assets transferred largely into NWM ▪ Alternative remedy package approval from the EC for the business previously described as Williams & Glyn ▪ Reached settlements with FHFA and the California State Attorney General in the US; resolved 2008 rights issue litigation ▪ RMBS - substantial additional charges and costs may be recognised in the coming quarters	☑ **Pending**

First attributable profit in 10 years. Adjusted operating profit up 31%

[1] Adjusting for transfers

Core credit messages

Strategic plan is working – first full year attributable profit in ten years

Strong capital generation and targeted RWA reduction

Strong liquidity position

Targeted growth in core markets

Progression on legacy clean-up and improving balance sheet resilience

2020 Target Operating Profile

12+% ROTE	Sub-50% C:I ratio	>13% CET1 ratio	~85% RWAs in PBB & CPB	~90% Income from UK

CET1 generation 2018 and beyond[1]

	CET1	RWAs
2018	+ Underlying profitability - Potential DoJ/ RMBS settlement	+ Net Bank RWAs to be lower by £5bn-£10bn
2019	+ Underlying profitability	- Net growth - IFRS 16 to increase RWAs by c.2-3bn (1st Jan 2019)
2020	+ Underlying profitability - Agree next Triennial valuation & additional contributions (by Q1 2020)	- Net growth - PRA mortgage floors to increase RWAs by £12bn (H2)
2021	+ Underlying profitability	- Net growth - Basel 3 reforms effective Q1 2022, estimated +10% increase in RWAs (credit risk, operational risk & output floors)

[1] For a description of the risks around these and other factors that may affect capital levels, please refer to the Risk Factors on pages 372 to 402 of the Annual Report and Accounts 2017

Outlook[1]

Costs

- Costs, ex. restructuring and litigation and conduct costs, will reduce vs 2017, but the rate of cost reduction will be materially lower than in 2017

Restructuring

- Expect to spend c.£1.5bn more than prior guidance (which was £1bn ex. Williams & Glyn; W&G now estimated at around £0.3bn)

Capital

- We expect to hold in excess of 13% CET1 in the short to medium term as we work through the impacts under both base and stress of IFRS 9 volatility, RWA inflation and our defined benefit pension schemes
- End 2018 RWAs to be £5-10bn lower than end 2017, despite some model uplifts in Commercial Banking

2020 Targets

- Expect to achieve sub 50% cost:income ratio and above 12% return on equity
- We no longer guide to an absolute 2020 cost base

[1] The targets, expectations and trends discussed in this presentation represent management's current expectations and are subject to change, including as a result of the factors described in the "Risk Factors" on pages 372 to 402 of the Annual Report and Accounts 2017. These statements constitute forward looking statements, please see Forward Looking Statements at the end of this presentation.

Robert Begbie

Treasurer

FY 2017 Results – Treasurer's view

Strong capital and liquidity build

Continued progress towards MREL requirements and funding diversification

Advancing with ring-fencing plans

Progress on core strategy reflected in credit spread performance

Continue to managing our capital stack for value

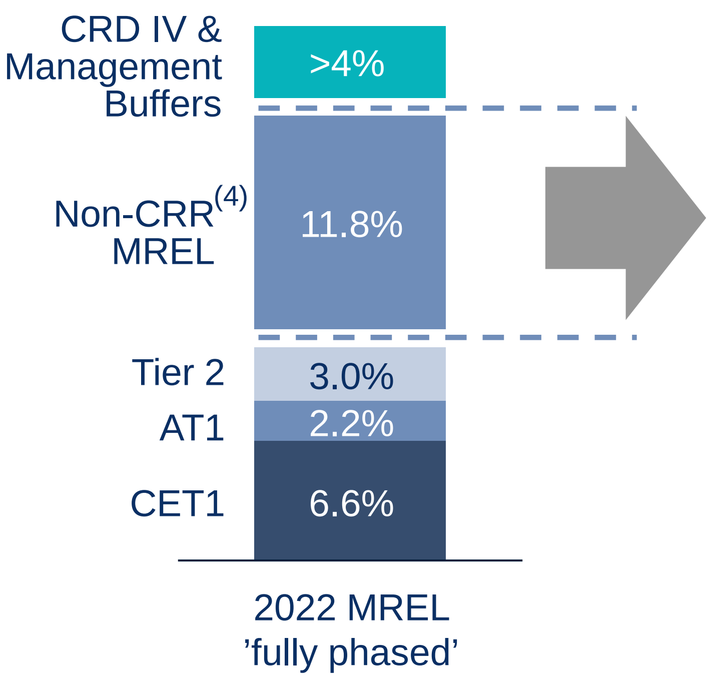
Solid capital and liquidity metrics maintained

	FY 2017	FY 2016
Loan : deposit ratio	88%	91%
Short-term wholesale funding	£18bn	£14bn
Liquidity coverage ratio	152%	123%
Net stable funding ratio	132%	121%
Common equity tier 1 ratio	15.9%	13.4%
CRR Leverage ratio	5.3%	5.1%
Loss Absorbing Capital ratio	27.1%	24.9%

On track to meet future MREL[2] requirements

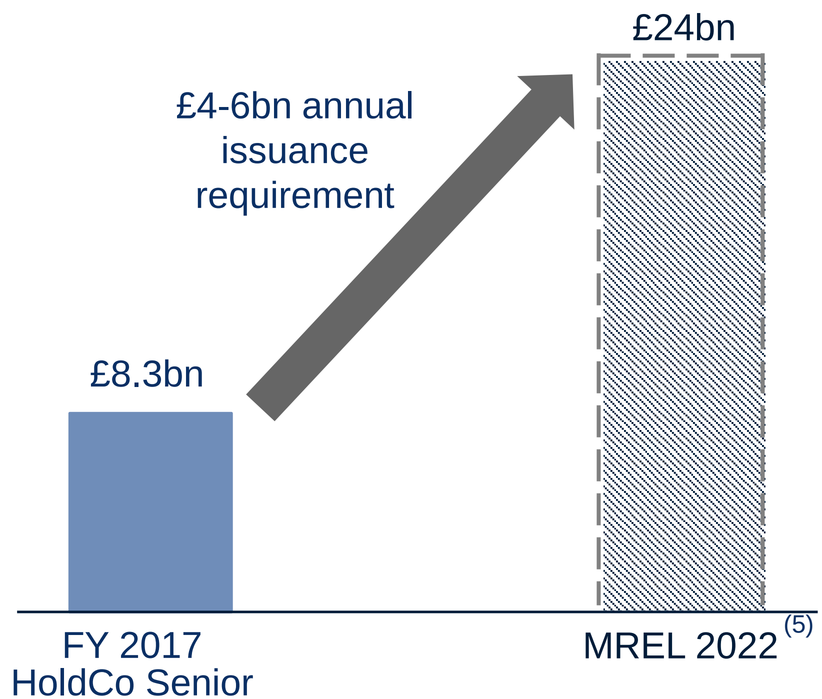
Future LAC requirement[1]

Based on BoE May 2017 guidance



Progress toward future non-CRR MREL[4] needs

Based on current £201bn RWA and static regulatory capital requirements [3]



- FY 2017 Loss Absorbing Capital ratio 27.1%, including CET1 and other legacy securities[6], versus 27.8% BoE 2022 guidance

(1) LAC: Loss Absorbing Capital, comprising total MREL and CRDIV buffers. (2) Minimum requirement for own funds and eligible liabilities. (3) Illustrative only, both RWA and future capital requirements subject to change. (4) Non-CRR MREL = Loss Absorbing Capital not required to be met by CRDIV compliant regulatory capital. (5) MREL 1 Jan 2022 = 2x Pillar 1 and 2x Pillar 2A. Pillar 2A requirement held constant over the period for illustration purposes. For further information on TLAC and MREL, including associated leverage requirements, please refer to 'Capital sufficiency' disclosure in the 2017 Annual Report & Accounts. (6) For further information please see 'Loss Absorbing Capital' disclosure in the appendix.

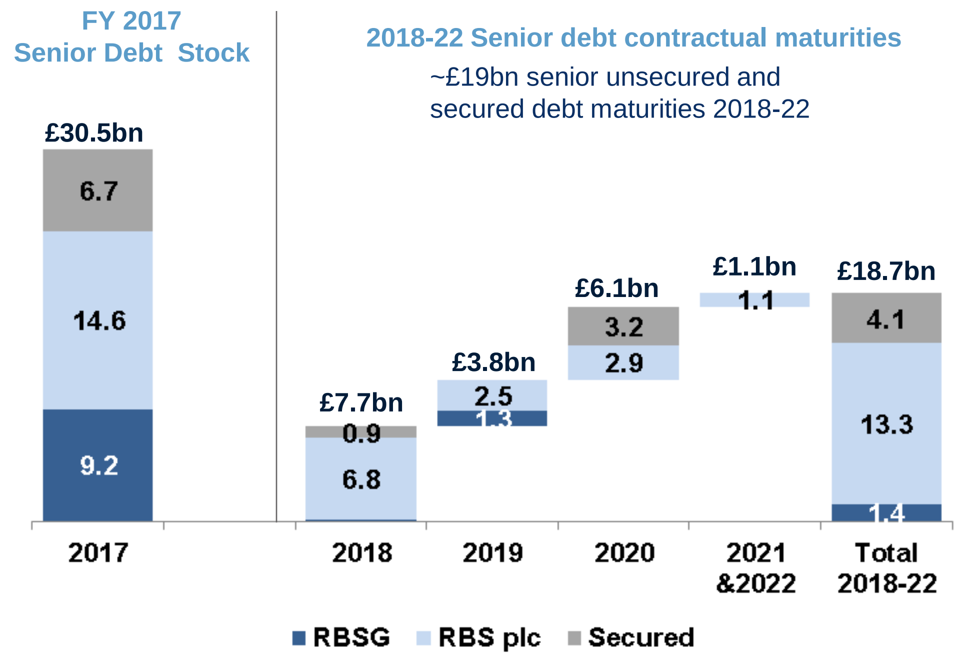
Targeting manageable issuance volumes from diverse sources

~£7bn debt issuance in 2017

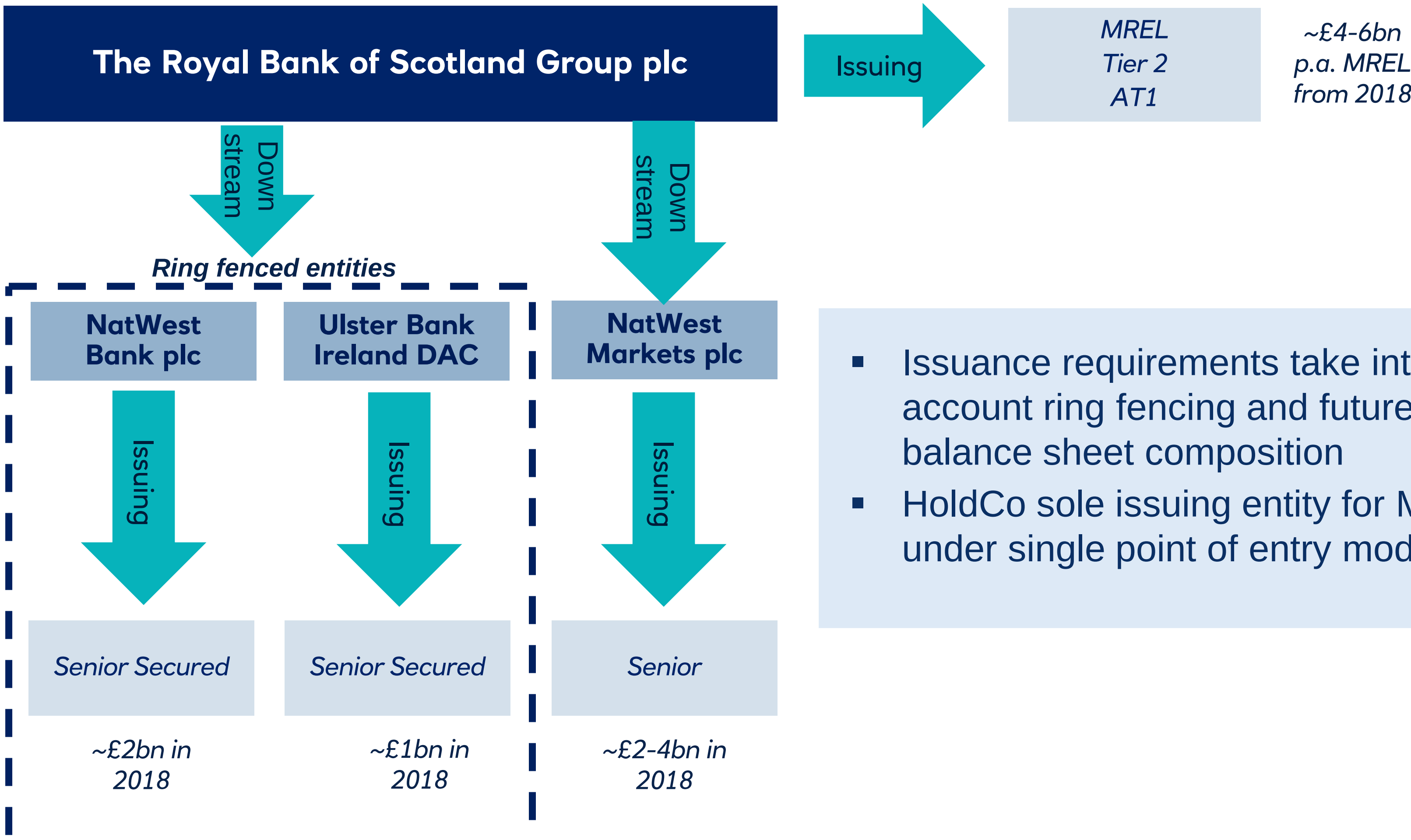
- Further MREL build issuing £3.6bn equivalent eligible Senior HoldCo
- Re entered covered bond issuing £2.4bn equivalent covered bonds
- Issued £1.1bn equivalent Senior OpCo

2018 issuance plans

- MREL targeting ~£4-6bn equivalent Senior HoldCo
- Look to issue a further ~£2bn equivalent covered bonds
- ~£2-4bn OpCo senior unsecured issuance for NatWest Markets Plc



Issuance reflects post ring fencing entity structure



- Issuance requirements take into account ring fencing and future balance sheet composition
- HoldCo sole issuing entity for MREL under single point of entry model

Ring-fencing – NatWest Markets plc funding structure[1]

Funding structure and issuance plans

- Trading liabilities, including repos, largely matched against trading assets.
- Loss absorbing capacity from MREL down-streamed from the parent company, RBSG plc.
- Ongoing debt issuance of ~£2-4bn in 2018
- Maintain presence in the short term wholesale funding market
- Metrics will be managed to ensure compliance with regulatory minima or internal risk appetite, whichever is higher

Target state capital and balance sheet metrics

CET1	**14% of RWA**
Total Capital[2]	**>28% of RWA**
RWA	**~£35bn**
Funded Assets	**~100bn**
Leverage (CRR)	**>4%**
LCR	**>100%**

[1] For a description of the risks around these and other factors that may affect capital levels, please refer to the Risk Factors on pages **190 to 223 of** the RBS plc Annual Report and Accounts 2017

[2] a total capital ratio of at least twice the CET1 ratio, including the benefit of down streamed internal MREL

Ring-fencing – Current LT Senior Debt Ratings [1]

	Standard & Poor's	Moody's	Fitch
RBSG (HoldCo)	BBB- / Stable	Baa3 / Stable	BBB+ / Stable
Inside the ring-fence			
NatWest Bank plc	BBB+ / Positive	A3 / RUR Up [2]	BBB+ / Watch Positive
Royal Bank of Scotland plc (curently Adam & Co plc) [3]	BBB+ (Prel) / Positive	A1 (Prov) [4]	A- (EXP) / Stable
Ulster Bank Limited	BBB+ / Positive	A3 / RUR Up [2]	BBB+ / Watch Positive
UBI DAC	BBB / Positive	Baa2 / RUR Up [2] [4]	BBB / Stable
Outside the ring-fence			
NatWest Markets plc (currently RBS plc)	BBB+ / Stable	A3 / RUR Down [2]	BBB+ / Stable
RBSI	BBB / Positive [3]	NR	BBB+ / Stable
RBS N.V.	BBB+ / Stable	A3 / RUR Down [2]	BBB+ / Stable
RBSSI Inc.	BBB+ / Stable	NR	BBB+ / Stable

(1) Senior unsecured debt ratings as of 23 February 2018 (2) Ratings Under Review (RUR). Moody's expects to conclude its review by April 2018 (3) New ratings (4) Moody's Deposit ratings

Appendix

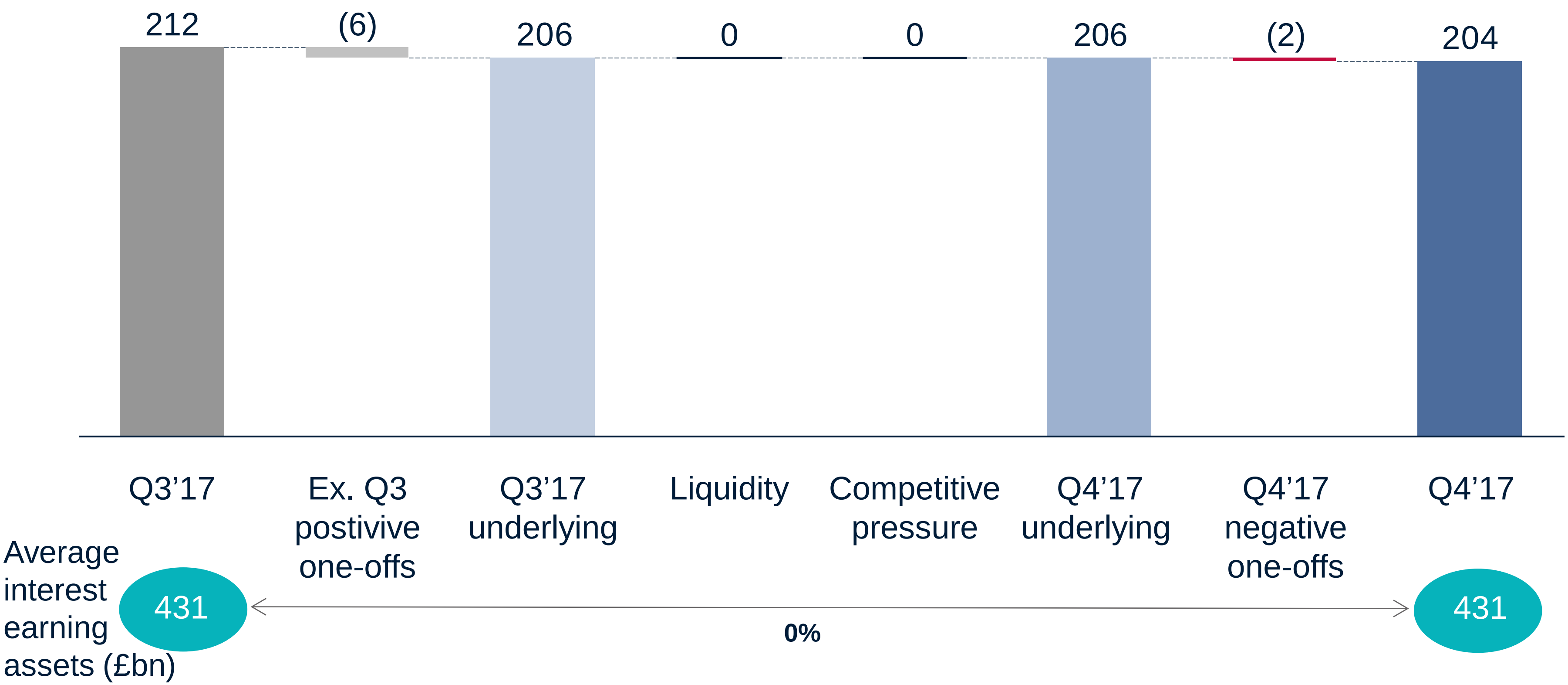
FY 2017 results by business

(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Central items & other[1]	Total RBS
Adj. Income[2]	**6.5**	**0.6**	**3.5**	**0.7**	**0.4**	**1.1**	**0.1**	**12.9**
Adj. Operating expenses[4]	(3.2)	(0.5)	(1.8)	(0.4)	(0.2)	(1.5)	0.0	**(7.6)**
Impairment (losses) / releases	(0.2)	(0.1)	(0.4)	(0.0)	(0.0)	0.2	(0.0)	**(0.5)**
Adj. operating profit[2,4]	**3.1**	**0.1**	**1.3**	**0.2**	**0.2**	**(0.3)**	**0.2**	**4.8**
Funded Assets[6]	190.6	24.5	149.5	20.3	25.9	118.7	47.7	**577.2**
Net L&A to Customers	161.7	19.5	97.0	13.5	8.7	22.7	0.1	**323.2**
Customer Deposits	180.6	17.5	98.0	26.9	29.0	14.8	0.2	**367.0**
RWAs	43.0	18.0	71.8	9.1	5.1	52.9	1.0	**200.9**
LDR	90%	111%	99%	50%	30%	153%	**n.m.**	**88%**
Adj. RoE (%)[2,4,5]	**31%**	**4%**	**8%**	**11%**	**13%**	**(4%)**	**n.m.**	**9%**
Adj. Cost : Income ratio (%)[2,3,4]	49%	74%	50%	66%	52%	140%	n.m.	**58%**

[1] Central items include unallocated transactions which principally comprise volatile items under IFRS and balances in relation to international private banking for Q1 2016. [2] Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals. [3] Operating lease depreciation included in income(year ended December 2017 - £142 million; Q4 2017 - £35 million; year ended 31 December 2016 - £152 million, Q3 2017 - £35 million and Q4 2016 - £37 million). [4] Excluding restructuring costs and litigation and conduct costs. [5] RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by average notional equity allocated at different rates of 14% (Ulster Bank RoI - 11% prior to Q1 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to Q1 2017), 16% (RBS International – 12% prior to November 2017) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). RBS's Return on equity is calculated using profit/(loss) for the period attributable to ordinary shareholders. [6] Funded assets exclude derivative assets.

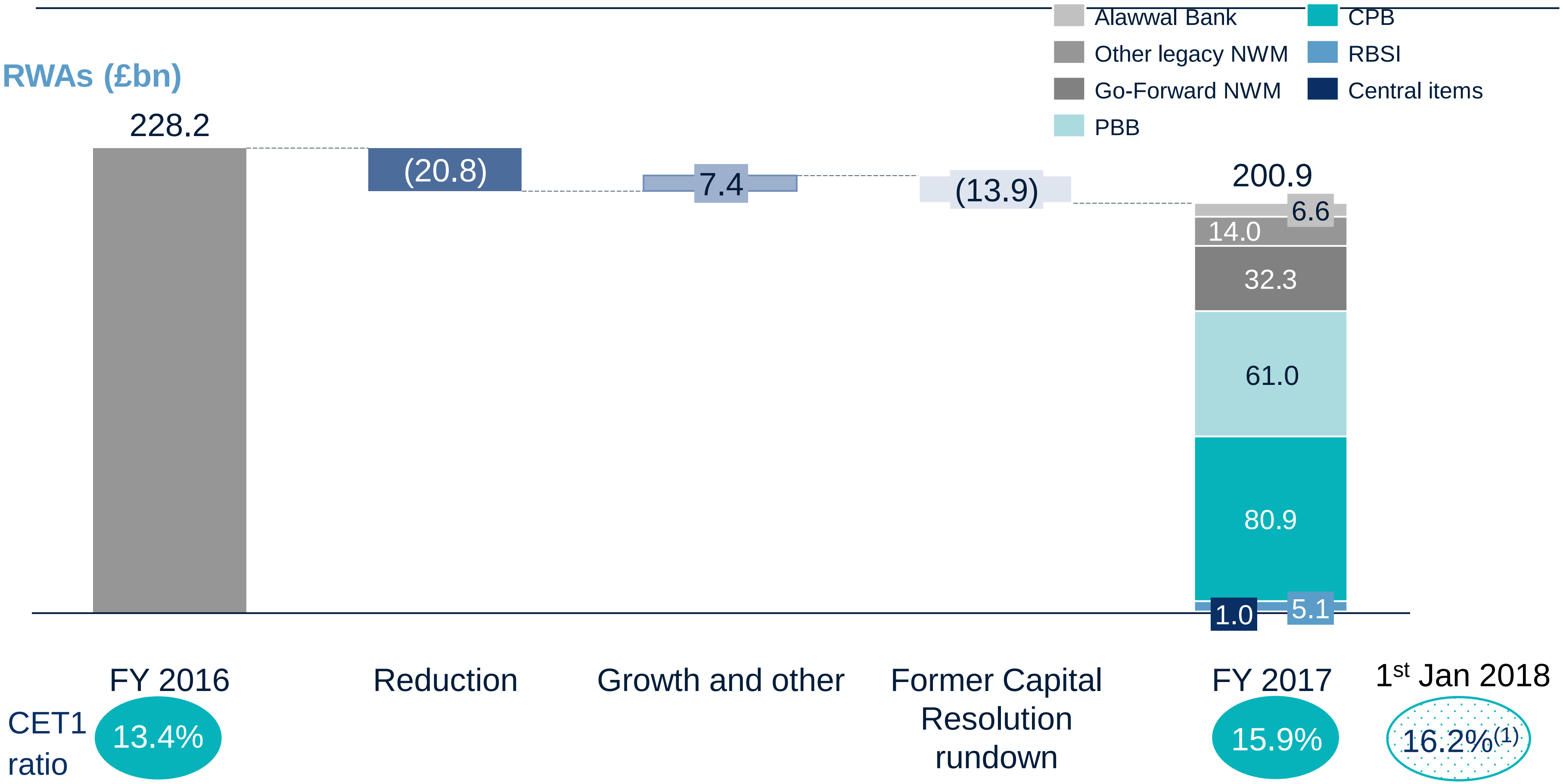
NIM progression – Q4 2017

Net interest margin (‘NIM’), bps



- Q4 NIM reduced by 8bps driven by non-repeat of Q3 income releases one-offs (6bps) and negative one-offs mainly in UK PBB (2bps)
- Competitive pressure continued with front book asset margins continuing to reduce, offset by the benefit on deposit margins of the rate rise

RWA reduction and capital generation

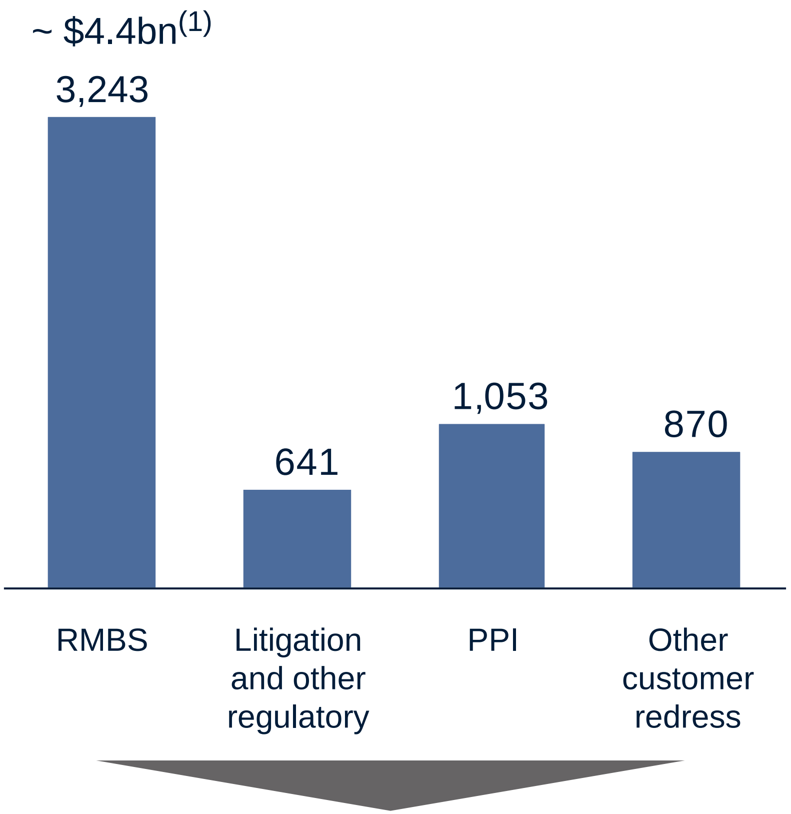


- We retain our guidance of CET1 ratio >13%
- By the end of 2018, expect Bank RWAs to be lower by £5bn - £10bn
- If we are in a position to return excess capital, we will consider the full range of available options including ordinary dividend payments, special dividends and share repurchases

(1) As of 1st January, our pro forma CET1 ratio was 16.2% including a 30bps Day 1 benefit from IFRS 9

Litigation and conduct

End of FY 2017 provisions (£m)



Total provisions for liabilities and charges: £7.8bn[2] as at FY 2017

	Comments
US RMBS	▪ RBS is involved in investigations by the US DOJ and several state attorneys general ▪ In December 2017, RBS Financial Products Inc. agreed to pay US$125 million to settle the RMBS investigation of the California Attorney General ▪ Substantial additional charges and costs may be recognised in the coming quarters
Various UK and Ireland customer redress issues	▪ RBS took an additional £175m PPI provision ▪ £1.05bn balance sheet provisions (including Plevin) remaining, around 8 quarters coverage based on Q4 run rate
Ulster Bank	▪ £135m Q4 provision in Ulster Bank RoI for remediation and project costs relating to tracker mortgages and other legacy business issues

(1) Includes Nomura $318m (2) Includes 'Other' provisions as per Note 3 of the FY 2017 Company Announcement

Estimated Loss Absorbing Capital (“LAC”) positon(1)

FY 2017, £bn	LAC value (1)	Regulatory Value(2,3)	Par Value (4)
Common Equity Tier 1 Capital	**32.0**	**32.0**	**32.0**
Tier 1 Capital: End point CRR compliant AT1	**4.0**	**4.0**	**4.0**
o/w RBS Group Plc (HoldCo)	*4.0*	*4.0*	*4.0*
o/w RBS Operating Subsidiaries (OpCos)	*-*	*-*	*-*
Tier 1 Capital: End point CRR non-compliant	**2.7**	**3.6**	**3.6**
o/w HoldCo	*2.6*	*3.5*	*3.5*
o/w OpCos	*0.1*	*0.1*	*0.1*
Tier 2 Capital: End point CRR compliant	**5.4**	**6.9**	**8.8**
o/w HoldCo	*4.9*	*6.4*	*6.5*
o/w OpCos	*0.5*	*0.5*	*2.3*
Tier 2 Capital: End point CRR non-compliant	**2.1**	**1.6**	**2.4**
o/w HoldCo	*0.1*	*0.1*	*0.3*
o/w OpCos	*2.0*	*1.5*	*2.1*
Senior unsecured debt securities	**8.3**	**-**	**23.7**
o/w HoldCo	*8.3*	*-*	*9.3*
o/w OpCos	*-*	*-*	*14.4*
Total LAC	**54.5**	**48.1**	**74.5**
Total LAC as a ratio of RWAs	**27.1%**		

(1) ‘LAC value’ reflects RBS's interpretation of the Bank of England's policy statement on the minimum requirement for own funds and eligible liabilities (MREL), published in November 2016. MREL policy and requirements remain subject to further potential development, as such RBS estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the TLAC/MREL criteria. Includes Tier 1 and Tier 2 securities prior to incentive to redeem. (2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the TLAC/MREL criteria. (3) Regulatory amounts reported for Additional Tier 1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR. (4) Par value reflects the nominal value of securities issued.

Forward-looking statements

Cautionary statement regarding 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’, ‘commit’, ‘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: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS’s transformation programme, including the further restructuring of the NatWest Markets franchise; the satisfaction of the Group’s residual EU State Aid obligations; the continuation of RBS’s balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; future pension contributions; RBS’s exposure to political risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements
These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group’s strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Important factors that could affect the actual outcome of the forward-looking statements
We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group’s 2017 Annual Report and other risk factors and uncertainties discussed in this document. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); economic, regulatory and political risks, including as may result from the uncertainty arising from Brexit and from the outcome of general elections in the UK and changes in government policies; RBS’s ability to satisfy its residual EU State Aid obligations and the timing thereof; RBS’s ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS’s ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, particularly the proposed further restructuring of the NatWest Markets franchise, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; the dependence of the Group’s operations on its IT systems; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS’s ability to achieve its capital, funding, liquidity and leverage requirements or targets which will depend in part on RBS’s success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, additional pension contributions, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS’s ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS’s strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS’s business and will increase as a result of RBS’s significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBS’s business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny (including by competition authorities) and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS’s IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to increased pension liabilities and the impact of pension risk on RBS’s capital position, including on any requisite management buffer; 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; RBS’s ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS’s activities as a result of HM Treasury’s investment in RBS; 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 or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the application of stabilisation or resolution powers in significant stress situations; contribution to relevant compensation schemes; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; 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.

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