Fixed Income Investor Presentation

H1 2016 Results
5 August 2016

Ewen Stevenson

Chief Financial Officer

Key Messages

- We maintain strong positions in our target markets, supported by product and service improvements
- The fundamentals of our Plan remain unchanged. However, we are now operating in a more uncertain environment
- Progress against our Plan has made us more resilient to deal with this uncertainty
- Our capital, liquidity and funding positions give us capacity to lend
- Our core bank continued to deliver solid results in Q2
- Addressing conduct and litigation issues as quickly and prudently as we can

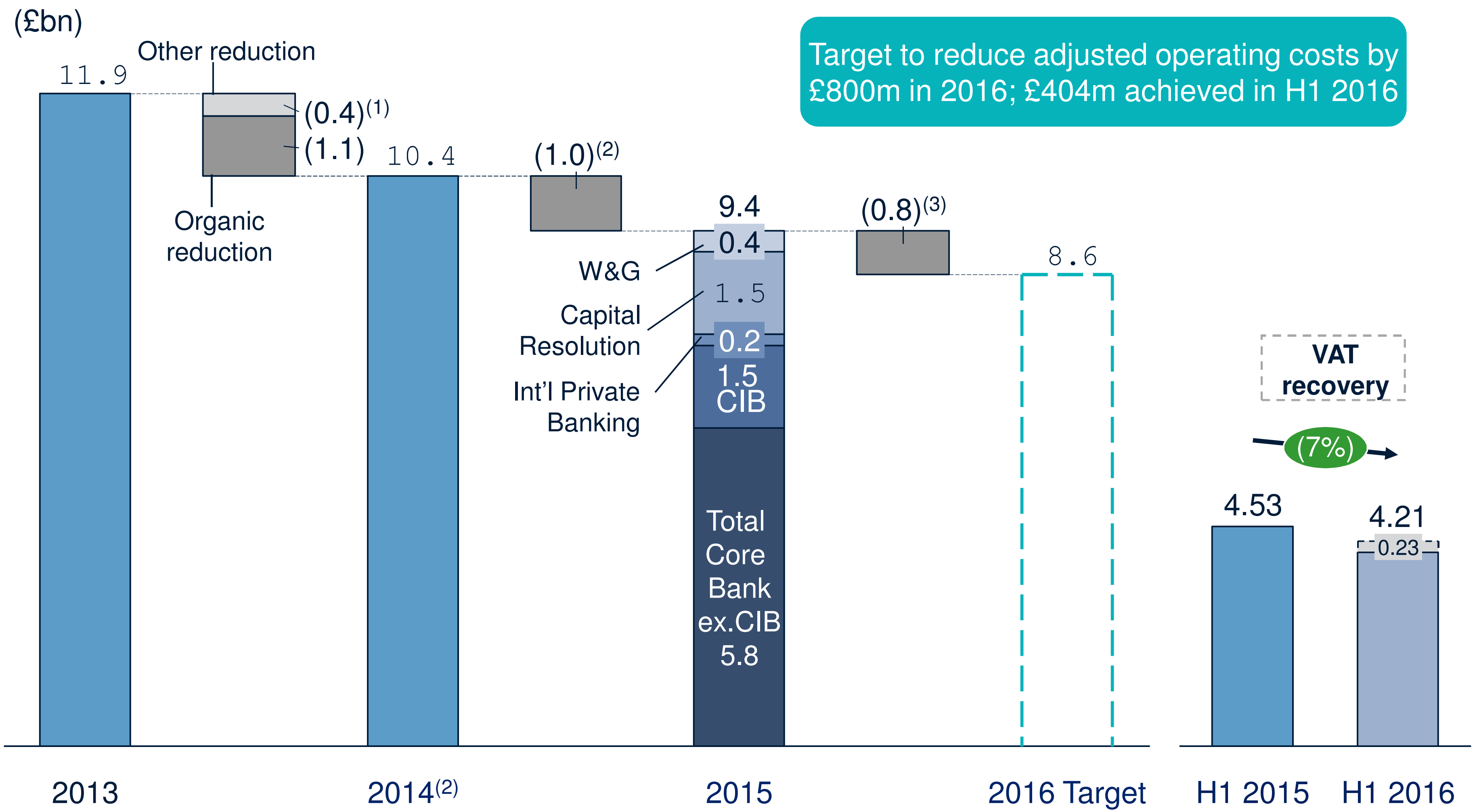
Q2 2016 results by franchise

(£bn)	Core Franchises							Total Other				Total RBS
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Total Core Franchises	Capital Resolution	W&G	Central items & other(1)	Total Other	
Adj. Income(2)	**1.3**	**0.1**	**0.8**	**0.2**	**0.1**	**0.4**	3.0*	**(0.4)**	**0.2**	**(0.1)**	**(0.3)**	**2.7***
Adj. Operating expenses(3)	(0.8)	(0.1)	(0.5)	(0.1)	(0.0)	(0.3)	(1.8)	(0.2)	(0.1)	0.3	(0.0)	(1.8)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	-	(0.0)	-	(0.1)	(0.1)	(0.0)	-	(0.1)	(0.2)
Adj. operating profit(2,3)	**0.5**	**0.1**	**0.3**	**0.0**	**0.1**	**0.1**	**1.0***	**(0.6)**	**0.1**	**0.2**	**(0.3)**	**0.7***
Funded Assets	151.2	24.1	146.3	17.7	24.6	125.6	489.5	44.7	24.9	16.5	86.1	575.6
Net L&A to Customers	126.0	18.9	99.2	11.8	8.5	21.6	286.0	19.9	20.3	0.4	40.6	326.6
Customer Deposits	140.4	14.7	96.7	25.4	24.1	8.3	309.6	18.8	23.9	3.5	46.2	355.8
RWAs	37.0	20.9	77.5	8.1	9.6	36.7	189.8	42.3	9.9	3.2	55.4	245.2
Loan: Deposit Ratio	90%	129%	103%	46%	35%	260%	92%	106%	85%	11%	88%	92%
Adj. RoE (%)(2,4)	**24.2%**	**9.0%**	**6.6%**	**9.9%**	**15.7%**	**3.5%**	**11.0%**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**3.2%**
Adj. Cost : Income ratio (%)(2,3)	58%	67%	59%	72%	35%	76%	61%	n.m.	48%	n.m.	n.m.	67%

(1) Central items include unallocated costs and assets which principally comprise volatile items under IFRS. (2) Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. (3) Excluding restructuring costs and litigation and conduct costs and goodwill. (4) RBS's CET1 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 notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAes) *Totals may not cast due to rounding

Lowered costs by >£2.5bn over the last 2.5 years

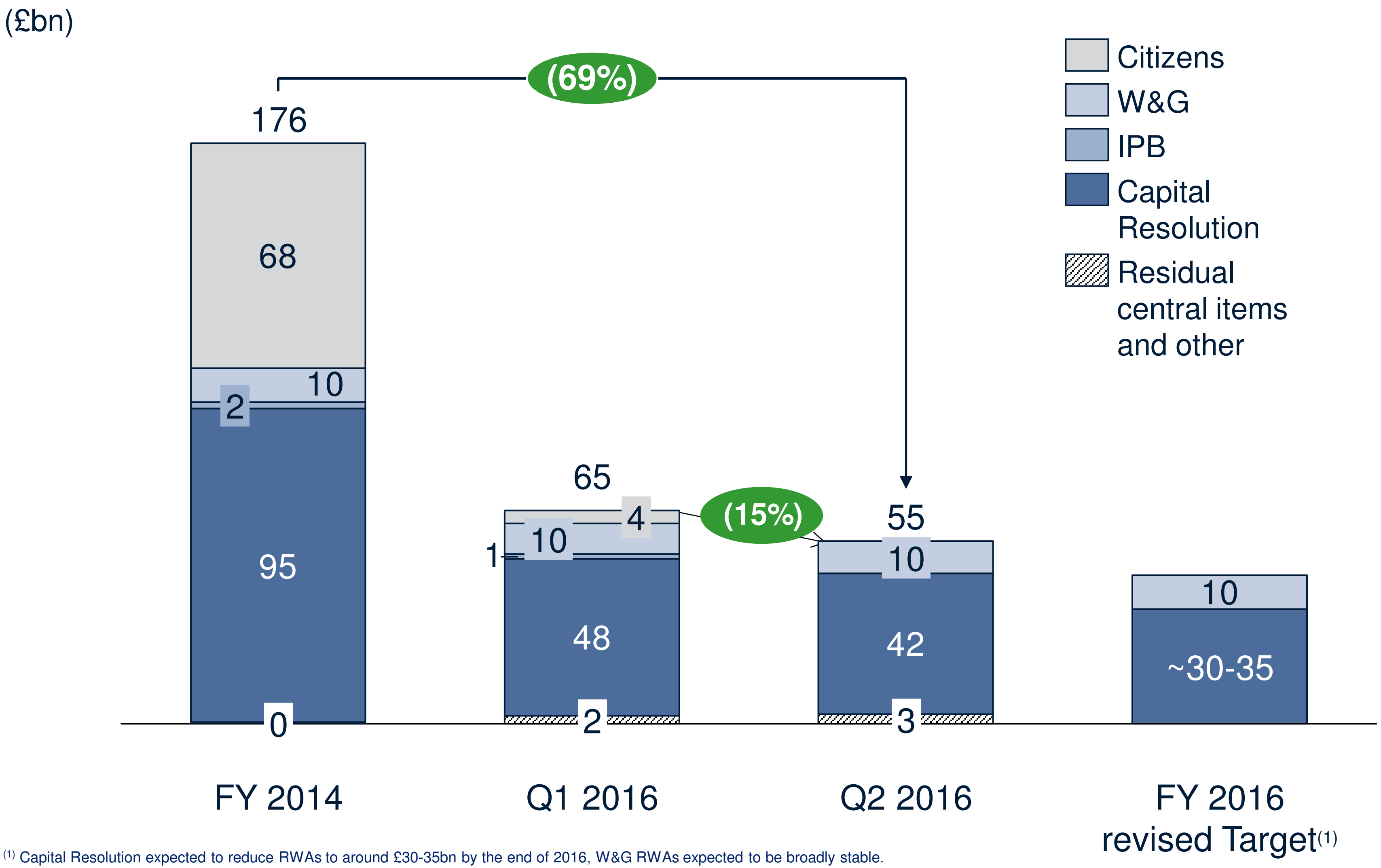
Reduction in Adjusted Operating Costs from 2013 - H1 2016



[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] Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn

Reduction of legacy businesses & portfolios

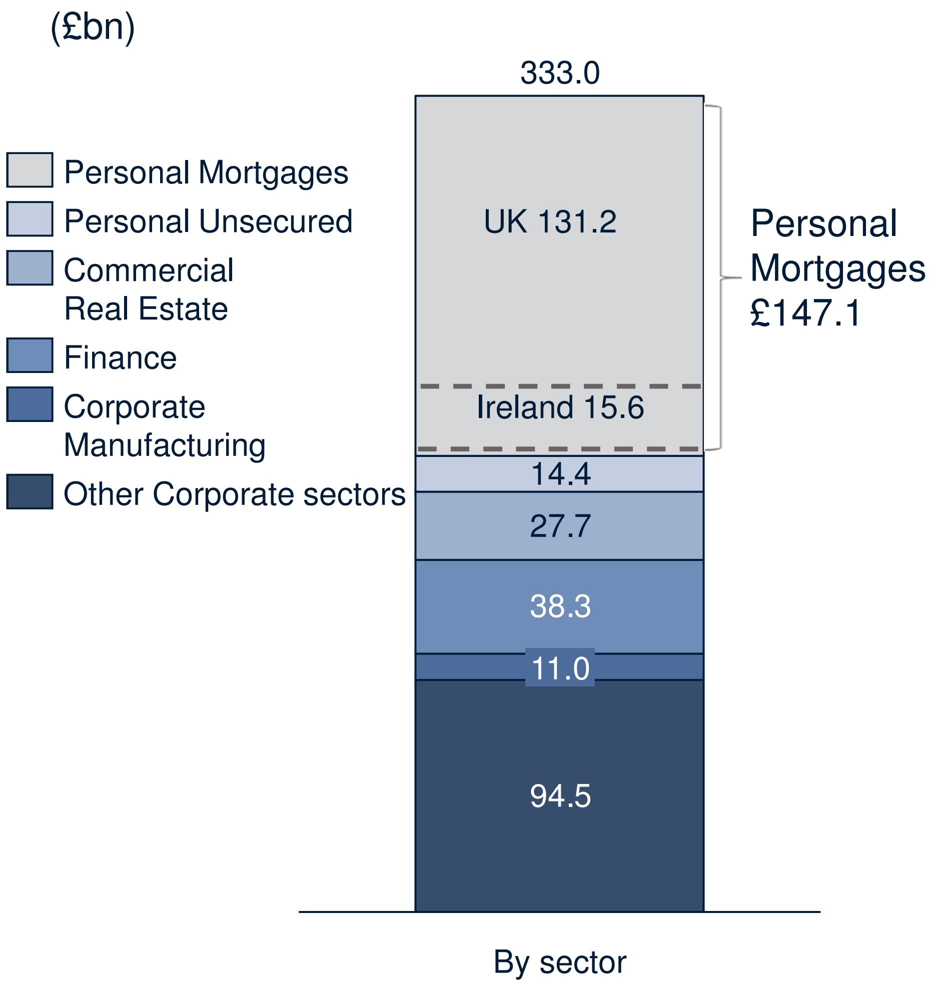
Legacy business & portfolios (RWAs)

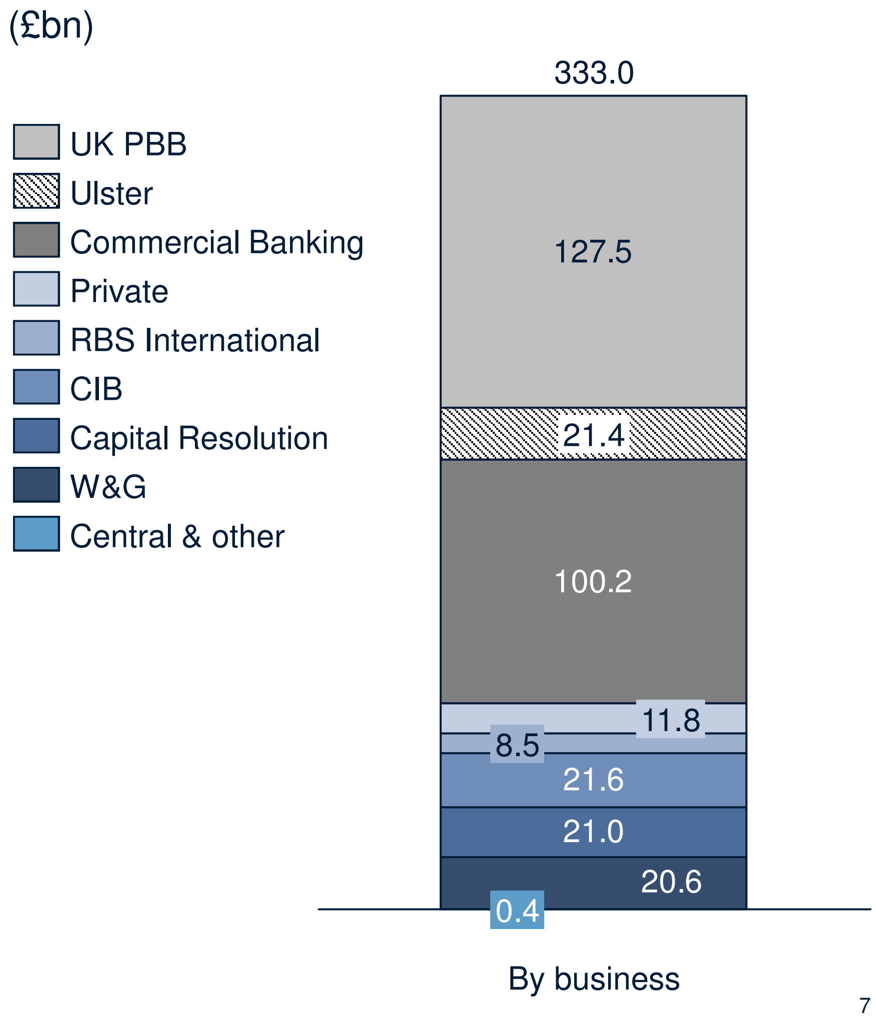


(1) Capital Resolution expected to reduce RWAs to around £30-35bn by the end of 2016, W&G RWAs expected to be broadly stable.

Spotlight on credit
Customer loans & advances

Gross L&As by sector at end Q2 2016	Gross L&As by business at end Q2 2016

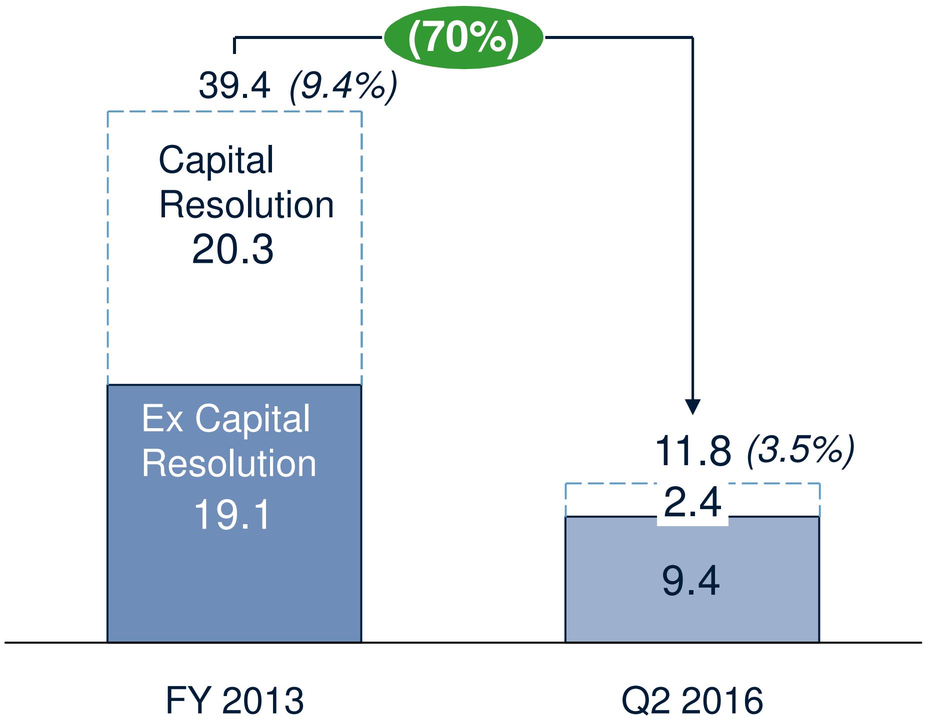




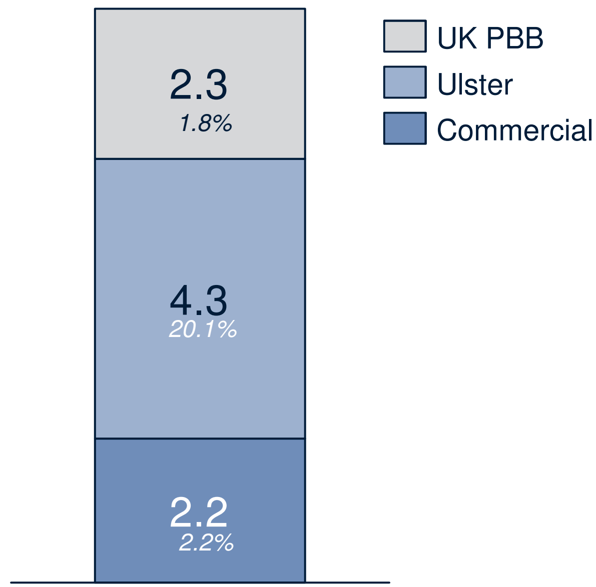
Spotlight on Credit
Risk Elements in Lending

REILs As at end Q2 2016	Key portfolios REILs As at end Q2 2016

(£bn)
(as % of Total Gross L&As)



(£bn)
(as % of Total Gross L&As within the business key portfolio)



- Exchange rate movements added £0.8bn to REILs during H1 2016
- Excluding Ulster Bank ROI and Capital Resolution the REIL ratio is 1.7%

Post EU Referendum financial implications

- NIM / impact of low interest rates
- Volumes
- Impairment cycle / IFRS 9
- Legacy assets rundown and defined benefit pension plan

Summary

- Strong and growing core bank – delivered again in Q2
- Legacy continues to be cleaned up and reduced
- EU Referendum outcome creates new uncertainty
- Positioned to deal with potential challenges ahead

John Cummins

Treasurer

H1 2016 Results – Treasurer's view

- Strong funding and liquidity metrics maintained
- 14.5% CET1 ratio, versus 13% target
- Active management toward end-state MREL compliance
- £2.2bn Senior HoldCo issued YTD, versus £3-5bn 2016 target
- Continue to target up to £2bn AT1 issuance in 2016, subject to market conditions

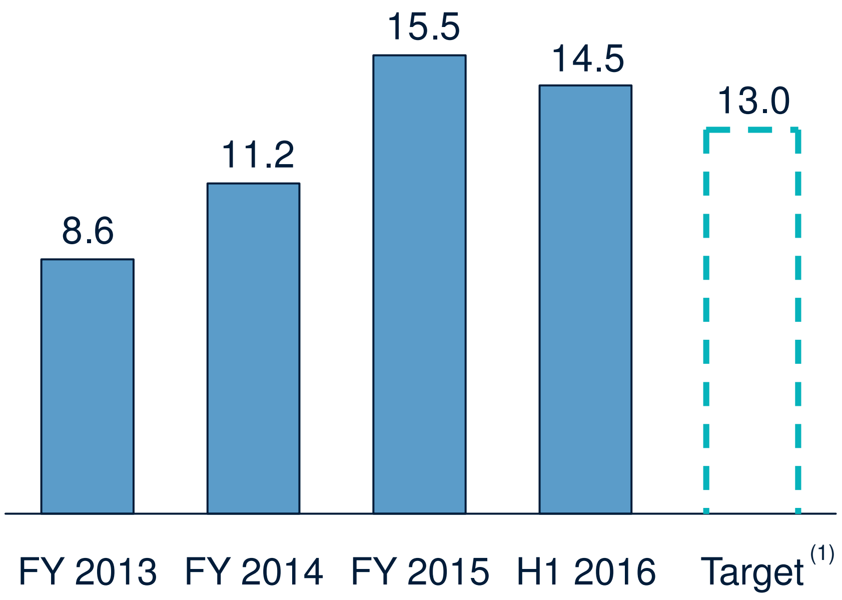
Funding & liquidity

	H1 2016	FY 2015
Loan : deposit ratio	92%	89%
Short-term wholesale funding	£15bn	£17bn
Liquidity portfolio	£153bn	£156bn
Liquidity coverage ratio	116%	136%
Net stable funding ratio	119%	121%
Stressed outflow coverage	213%	227%

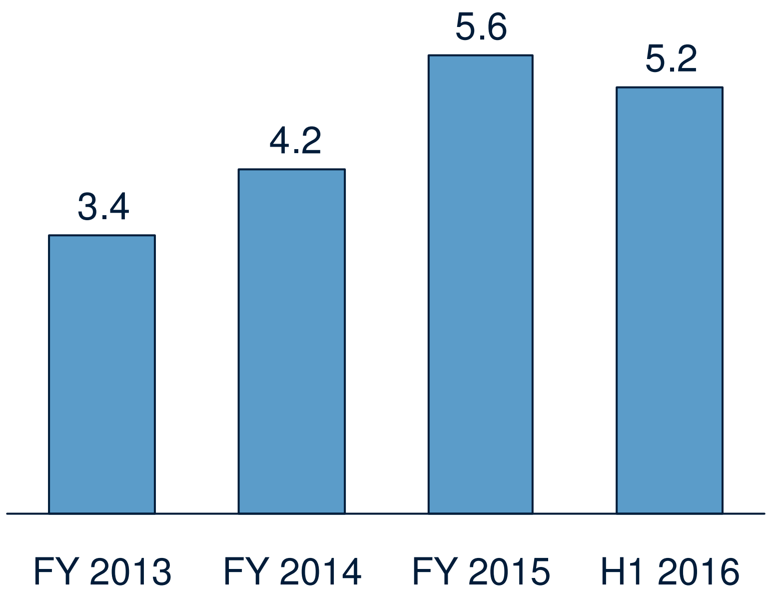
- Balance sheet position means no current requirement for new funding
- Issuance plans target building toward future capital requirements

Capital ratios maintained above target

CRR end-point Common Equity Tier 1 (CET1) ratio, %



CRR end-point Tier 1 Leverage ratio, %

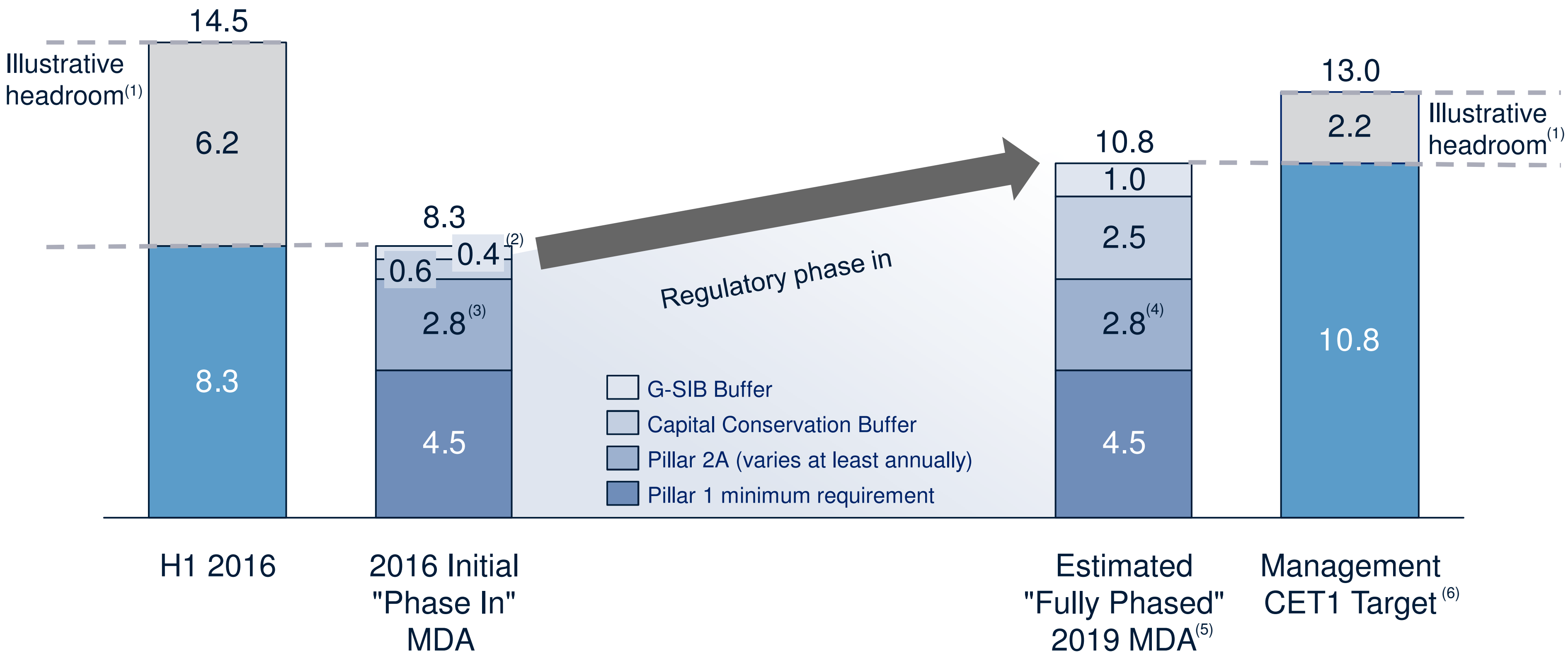


(1) During period of restructuring

Current assessment of appropriate buffers

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

Illustration, based on assumption of static regulatory requirements(4)



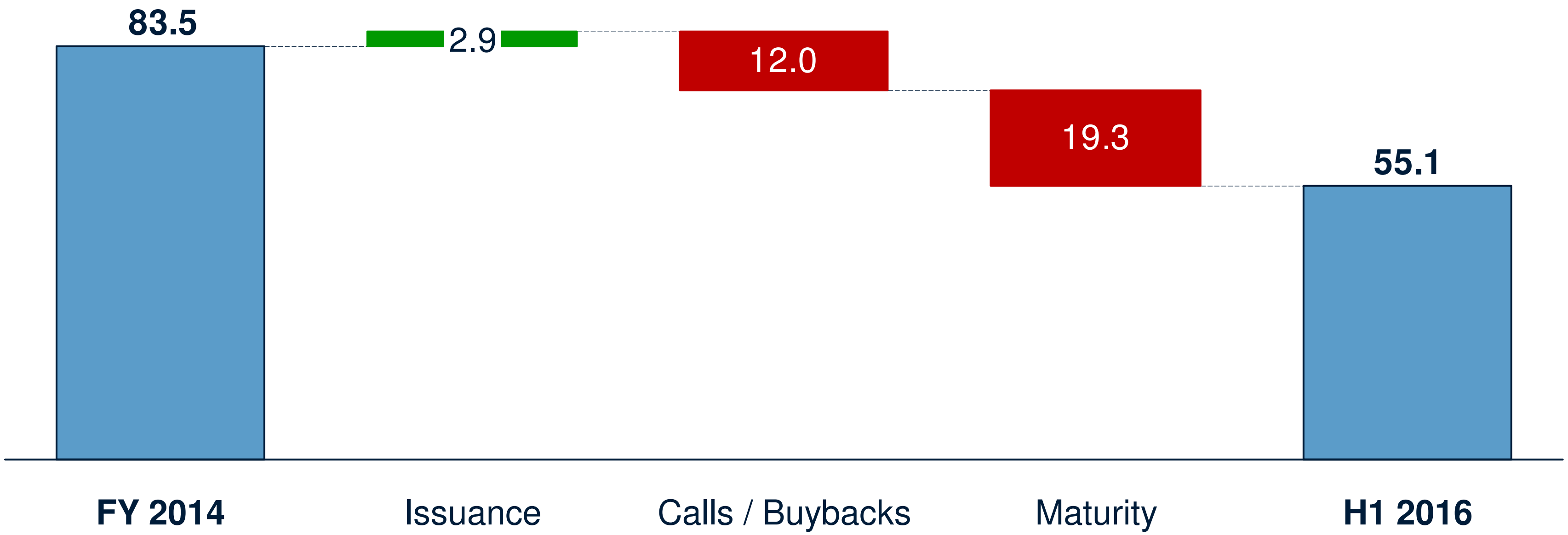
H1 2016 RBSG (HoldCo) Distributable Reserves £14.6bn vs £16.3bn at FY 2015 (7)

(1) Headroom may vary over time and headroom may be less in future. (2) 2016 G-SIB initial phase-in based on 1.5% current requirement. RBS's G-SIB requirement will reduce to 1.0% on 1 Jan 2017. (3) RBS's Pillar 2A requirement was 5.0% of RWAs as at 31 December 2015. 56% of the total Pillar 2A requirement, or 2.8% of RWAs, must be met from CET1 capital. (4) Pillar 2A requirement held constant over the period for illustration purposes. Requirement is expected to vary over time and is subject to at least annual review. Following changes to pension accounting, response to amendments to IFRIC 14 and associated scheme contributions, RBS anticipates a reduction in it's future core capital requirements. This will depend on the PRA's assessment of RBS's capital position in future. (5) Assumes no material Counter Cyclical Buffer requirement. (6) During the period of restructuring. (7) Please refer to the Risk Factors and other disclosure, in the 2015 20-F and H1 Interim Results.

Continue to reduce outstanding wholesale funding

RBS

FY 2014 - H1 2016 reduction in outstanding wholesale funding, £bn



- Total wholesale funding funding reduced by £28.4bn since FY 2014 to £55.1bn
- Continue to expect maturities to be greater than issuance requirements
- Manage stack for value, balancing factors including: current & future regulatory value; relative funding cost; and Rating Agency considerations

Progression toward HoldCo primary issuing entity

Target organisational structure[1] moving toward HoldCo as primary issuing entity

RBS Group plc
Holding Company

Proportional Intercompany LAC downstream

Ring-Fenced Holding Company *PBB & CPB* [2]	**RBS International**	**CIB NRFB** [3] *Current RBS plc* [4]
~80% of RWA	**~5% of RWA**	**~15% of RWA**[5]

- Single Point of Entry for UK resolution compliance drives future Loss-Absorbing Capital ("LAC") issuance from HoldCo
- No current operational need for funding for Operating Companies ('OpCo')
- Issuance plans target building toward future capital requirements
- All regulatory capital issued from HoldCo since 2012
- MREL Senior issuance programme commenced

Illustrative future UK creditor hierarchy

Based on RBS interpretation of a future resolution scenario

- Losses will arise first at 'OpCo' level, only applying at 'HoldCo' to the extent of any write-down of its intercompany assets[6] No creditor worse off' principle enshrined in the UK regulatory framework
- If required for LAC purposes, HoldCo Senior is expected to be downstreamed in a form subordinated to OpCo senior, thus complying with expected future TLAC / MREL requirement
- Future LAC downstreaming not planned to commence prior to completion of legal entity realignment for Ring-Fencing

(1) The proposed future ICB structure comprises part of the preliminary plan submitted to the PRA in January 2016 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) Excluding RBS International. (3) Non-Ring Fenced Bank. (4) 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, RBS Securities International. (5) Based on RBS future business profile business, excludes RBS Capital Resolution. (6) Any write-down of the intercompany assets will be determined by the relevant authority following valuations conducted as contemplated under the UK Banking Act 2003, including the rules transposing the Bank Recovery and Resolution Directive Article 36.

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

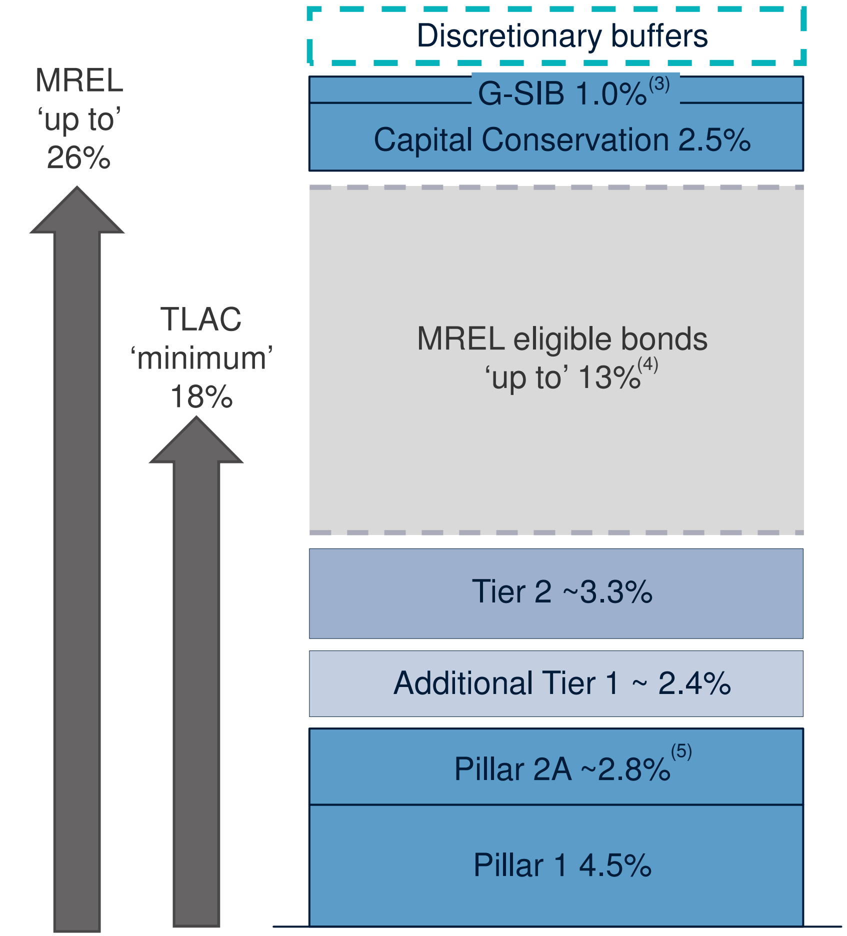
H1 2016, £bn	LAC value [1]	Regulatory Value [2,3]	Par Value [4]
Common Equity Tier 1 Capital [5]	**35.7**	**35.7**	**35.7**
Tier 1 Capital: End point CRR compliant AT1	**2.0**	**2.0**	**2.0**
o/w RBS Group Plc (HoldCo)	*2.0*	*2.0*	*2.0*
o/w RBS Operating Subsidiaries (OpCo's)	-	-	-
Tier 1 Capital: End point CRR non-compliant	**5.0**	**6.3**	**6.4**
o/w HoldCo	*4.7*	*6.0*	*6.1*
o/w OpCos	*0.3*	*0.3*	*0.3*
Tier 2 Capital: End point CRR compliant	**10.6**	**10.4**	**12.3**
o/w HoldCo	*5.2*	*6.4*	*6.5*
o/w OpCos	*5.4*	*4.0*	*5.8*
Tier 2 Capital: End point CRR non-compliant	**3.3**	**2.9**	**3.9**
o/w HoldCo	*0.1*	*0.2*	*0.3*
o/w OpCos	*3.2*	*2.7*	*3.6*
Senior unsecured debt securities	**3.3**	**-**	**19.6**
o/w HoldCo	*3.3*	-	*5.9*
o/w OpCos	-	-	*13.7*
Total LAC	**59.9**	**57.3**	**79.9**
Total LAC as a ratio of RWAs	24.4%		
Less minimum CET1 capital buffers	*(3.5%)*		
Available LAC as a ratio of RWAs	**20.9%**		

[1] ‘LAC value’ reflects RBS’s interpretation of the 9 November 2015 FSB Term Sheet on TLAC and the BoE’s consultation on their approach to setting MREL, published on 11 December 2015. MREL policy and requirements remain subject to further consultation, as such RBS estimated position remain subject to 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. [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. [5] Corresponding shareholders’ equity was £52.9bn. [6] Assumes CET1 capital buffers met by CET1 in addition to MREL requirements. Being 3.5% based on Capital Conservation Buffer (2.5%) and G-SIB requirement (1.0%), excludes consideration of any additional management buffer.

Sizing future capital / funding requirements

Illustrative future loss absorbency requirements[(1)]

Scaled to Minimum Requirements for Own Funds and Eligible Liabilities ("MREL") based on Bank of England Consultation[(2)]



- Continue to target up to £2bn AT1 issuance in 2016, subject to market conditions
- No Tier 2 issuance plans in 2016 given outstanding pool
- MREL expected to exceed TLAC[(6)], final requirements subject to regulatory finalisation and completion of resolution plans
- Target building MREL compliant Senior 'HoldCo' issuance
  - £3-5bn issuance targeted for 2016
  - £2.2bn issued YTD

[(1)] Assumes PRA buffer (Pillar 2B) not being in excess of Systemic Risk / G-SIB & Capital Conservation Buffer and no material Counter Cyclical Buffer. Requirements expected to change over time. [(2)] Based on RBS interpretation of the BoE' consultation published on 11 December 2015. MREL policy and requirements remain subject to further consultation. RBS estimated requirements remain subject to change. Please refer to the Risk Factors and other disclosure, in the 2015 20-F and H1 Interim Results. [(3)] G-SIB requirement currently 1.5%, will reduce to 1.0% on 1 Jan 2017. [(4)] Based on twice Pillar 1 and Pillar 2A at a total capital level, subject to regulatory discretion. [(5)] Pillar 2A requirement held constant over the period for illustration purposes. Requirement is expected to vary over time and is subject to at least annual review. Following our changes to pension accounting, response to amendments to IFRIC 14 and associated scheme contributions, RBS anticipates a reduction in it's future core capital requirements. This will depend on the PRA's assessment of RBS's capital position in future. [(6)] Total Loss Absorbing Capacity requirements for G-SIB's.

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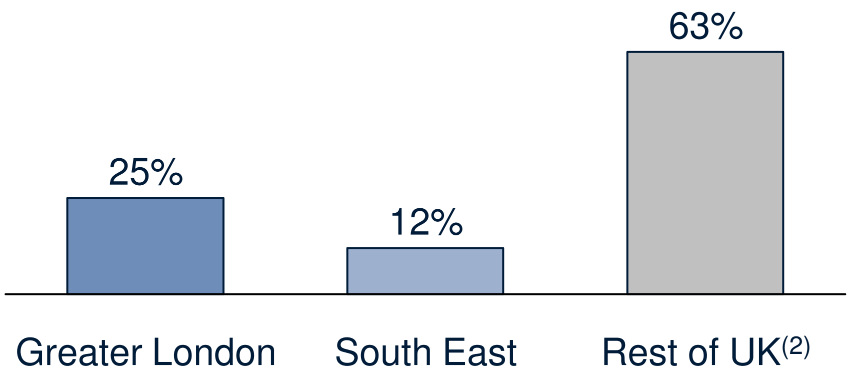
Q&A

Appendix

Spotlight on Credit
UK & Ireland CRE exposure

- Total UK investment portfolio average LTV 53%, performing book 49%, Commercial Banking new business LTV 46%
- Interest cover 3.4x in Commercial Banking UK and 1.6x and Capital Resolution respectively (unchanged vs. FY 2015)
- Remaining non performing assets and exposures >100% LTV are predominately exposures originated before the 2008 Financial Crisis
- REILs £2.5bn, down from £3.6bn at Q4 2015
- CRE provision coverage 51% at end Q2 2016
- UK exposure 84% investment, 16% development

Commercial Banking UK Investment portfolio by UK region(1) at end Q2 2016

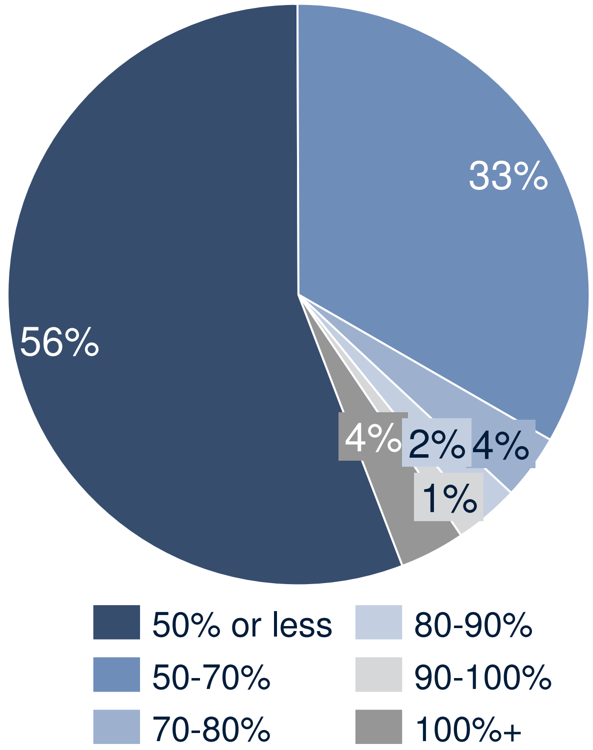


UK CRE investment portfolio by LTV band at end Q2 2016

(£bn)

Total UK CRE exposure £24.6bn(3)

o/w total with LTVs £18.3bn

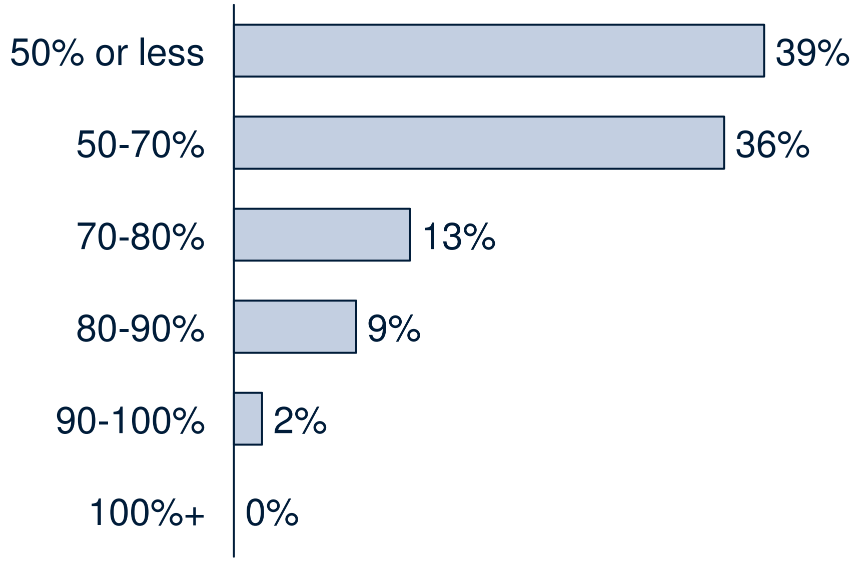


(1) Based on management estimates using the postcode of the security. Percentages are based on current exposure before provisions. (2) Rest of UK also includes lending secured against property portfolios comprising numerous properties across multiple UK locations (some of which may be in Greater London or South East). (3) £24.6bn is net of provisions on a current exposure basis

Spotlight on Credit
UK residential mortgage exposure

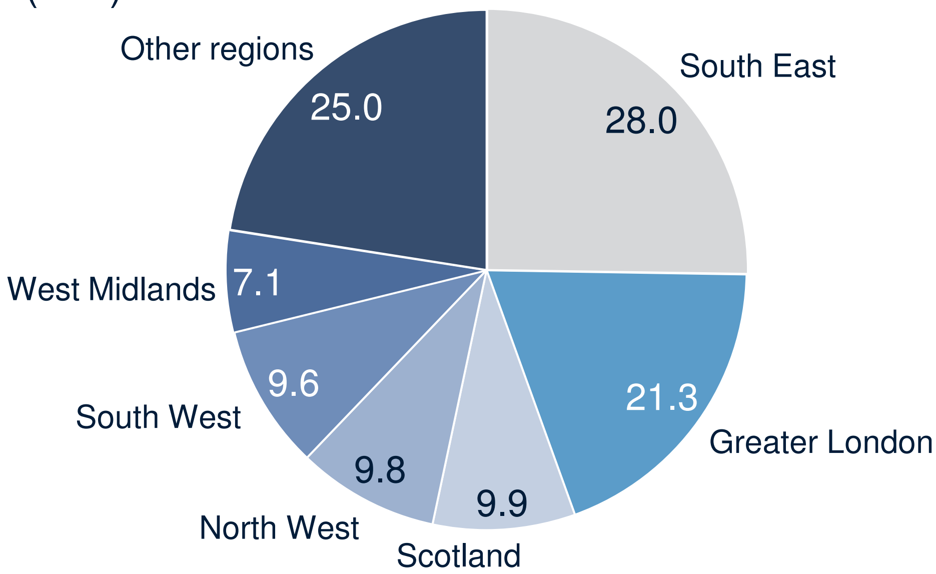
UK PBB mortgage exposure by LTV band
At end Q2 2016

UK PBB performing mortgages: £109.1bn[1]



UK total mortgage exposure by region
At end Q2 2016

(£bn)



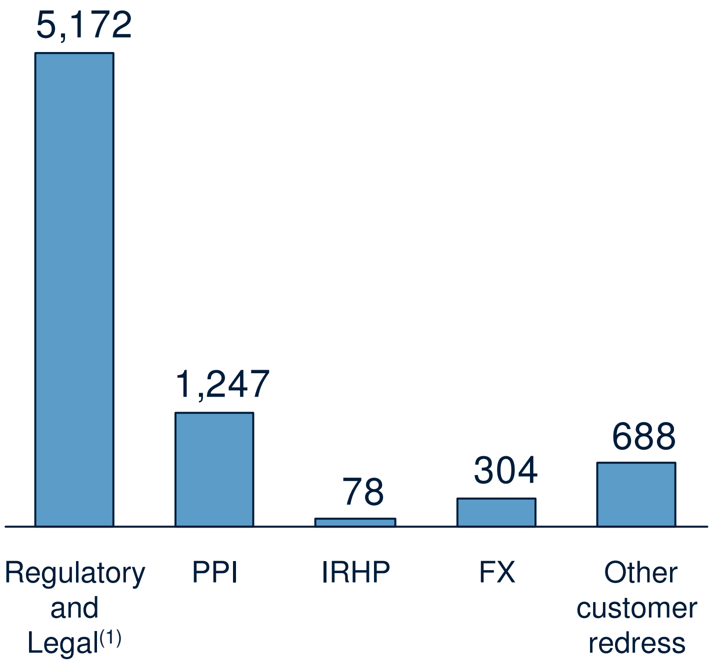
- The mortgage book is approximately 70% fixed rate, and 12% is on SVR
- London LTV lower than average at 45% vs. 56% UK average
- Indexed LTV by volume was 50%
- Only £45m of UKPBB defaulted loans have an LTV >100%
- Arrears rate[2] fell from 0.83% at end Q4 2015 to 0.79% at end Q2 2016

Weighted Average	**LTV**
South East	52%
Greater London	45%
Scotland	59%
North West	60%
South West	57%
West Midlands	62%
Other regions	63%

(1) Total mortgage portfolio including Ulster Bank RoI, Private Banking, RBSI and W&G is £145.8bn, as shown on p.32 of Appendix 1. (2) More than three pre-payments in arrears, excluding re-possessions and short falls after property sale.

Litigation and conduct

End of H1 2016 provisions (£m)



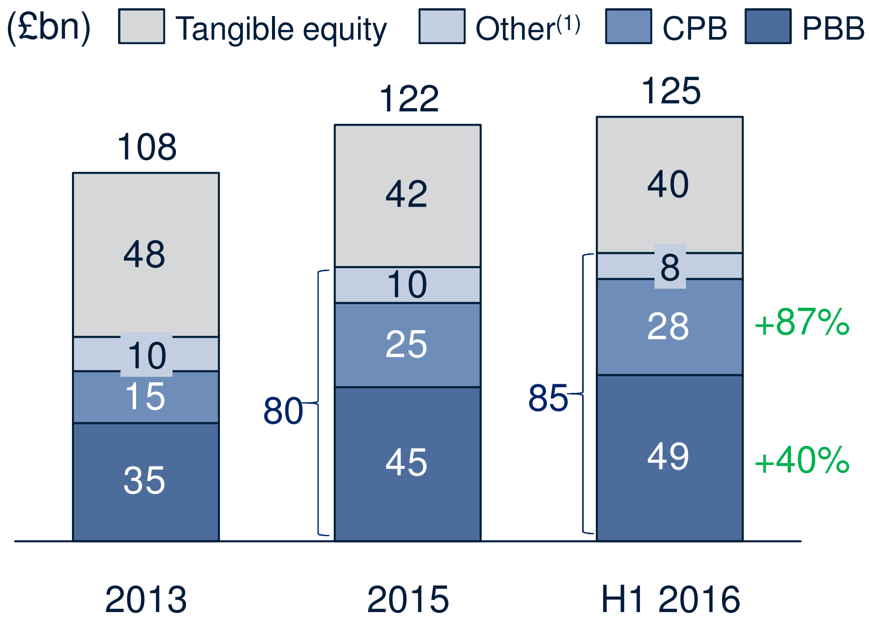
Litigation and conduct provision: £7.5bn, as at H1 2016

	Comments
US RMBS	■ MBS litigation and investigations may require additional provisions in future periods that in aggregate could be materially in excess of the provisions existing as of Q1 2016 ■ These provisions do not include potential penalties and compensatory damages imposed by US DoJ which may be substantial
UK 2008 rights issue shareholder litigation	■ In order to facilitate any potential early resolution of the litigation, RBS attended a mediation with the claimants on 26-27 July 2016. This did not lead to any settlement of the claims. Further attempts by the parties to resolve the claims are possible but absent any final agreement, these will not impact the court timetable. A provision has been recognised in relation to this matter
Various UK and Ireland customer redress issues	Includes: ■ PPI: £450m uplift in the provision in Q2 2016, following the 2/8/16 FCA Consultation Paper, largely driven by the delay to the proposed time-bar on claims ■ £92m charge in Ulster Bank ROI principally in respect of an industry-wide examination of tracker mortgages
FCA SME treatment review	The Skilled Person has submitted a draft report to the FCA, which RBS has commented on

(1) Includes Other regulatory provisions and Litigation as per Note 4 of the H1 2016 Interim Results

£125bn of free funds
A strategic asset but cyclically challenging

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	(140)
+ 100 basis point shift in yield curves	449
– 100 basis point shift in yield curves	**(341)**

- 100bps downward shift in rates would reduce Net interest income by £0.3bn in Year 1
- The yield of the equity and product hedge combined was 1.59% as at 30 June 2016, contributing an incremental £0.6bn income in H1 2016
- The rolling 5-year deposit hedge yielded 1.28% in H1 2016 contributing an incremental £0.3bn[2]
- At Q2 2016, the equivalent yield in the market was 0.44%, below the 0.50% UK base rate at the time, hence the benefits of the hedge will decline over time

Note: Please refer to Appendix 1 of the H1 2016 Interim Results, pages 55-57 for additional detail.

[1] Other is primarily Central items but also includes W&G and Capital Resolution. Note: CIB has deminimus demand deposits. [2] The £0.3bn incremental income on the deposit hedge is included in the £0.6bn income benefit on the overall hedge.

Forward Looking Statements

Thank you