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# FY 2016 Results

24 February 2017

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# Howard Davies

Chairman

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# Ross McEwan

Chief Executive Officer

# Key messages<sup>(1)</sup>

Attributable loss of £7.0bn driven by £10bn of one-offs, reflecting progress in addressing a number of legacy issues

Strong core bank: net lending growth of 10%, income growth of 4.0% and positive JAWS of 3.7%

Cost, capital and lending targets met three years running

Expect one final year of material one-off costs in 2017; targeting an attributable profit in 2018 – the first since 2007

2020 financial targets set: unadjusted 12%+ ROTE, sub-50% cost to income ratio  
13% CET1 target, #1 customer ambition remains

2020 targets to be achieved via better customer service, income growth, cost efficiency and RWA productivity

# Progress on our strategy

## Since FY 2013 we have addressed the majority of material legacy issues

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At the end of Phase II:

- ✓ Refocused on our core franchise markets, with active operations ceased in 26 countries
- ✓ De-risked the balance sheet, with legacy RWA down over 75% from peak in Q1 2014
- ✓ Ownership structure normalised with a single class of ordinary shares, via DAS repayment and conversion of B shares
- ✓ Around 20 material litigation and investigation matters concluded since January 2014, including resolving a number of LIBOR/FX investigations and RMBS civil claims
- ✓ International Private Banking sold; Citizens divested, the largest US bank IPO in history
- ✓ 503 legal entities closed to date, a 45% reduction; systems and applications reduced by 30% since 2013
- ✓ Accelerated £4.2bn contribution into the defined benefit pension plan
- ✓ REILs reduced from £39.4bn (9.4% of gross loans) at Q4 2013 to £10.3bn (3.1%); excluding Capital Resolution and Ulster RoI, REILs are now at 1.5%

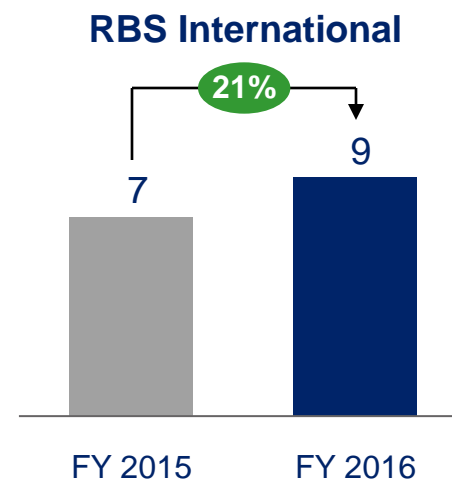
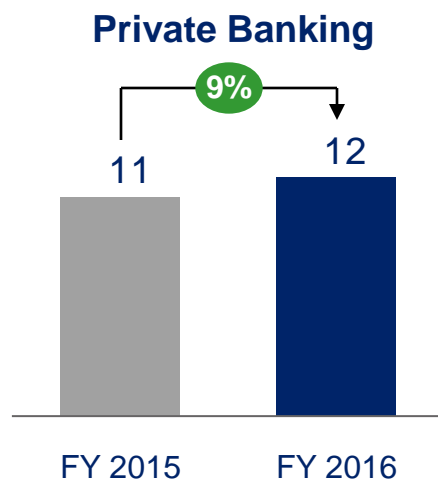
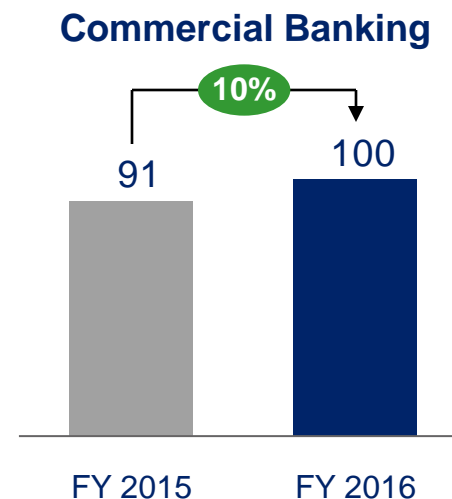
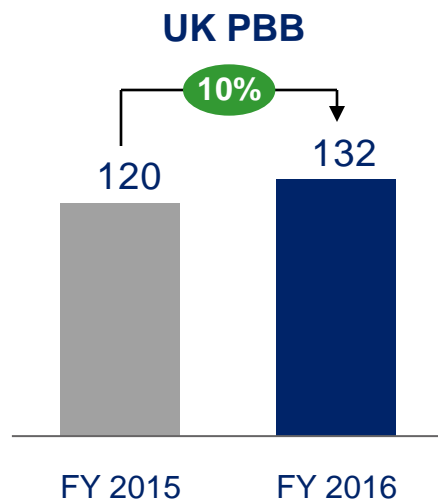
Further significant challenges include:

-  Resolving remaining RMBS matters
-  Satisfying final EC State Aid obligations

# Progress on our strategy

## Continued strong net lending growth in our core businesses

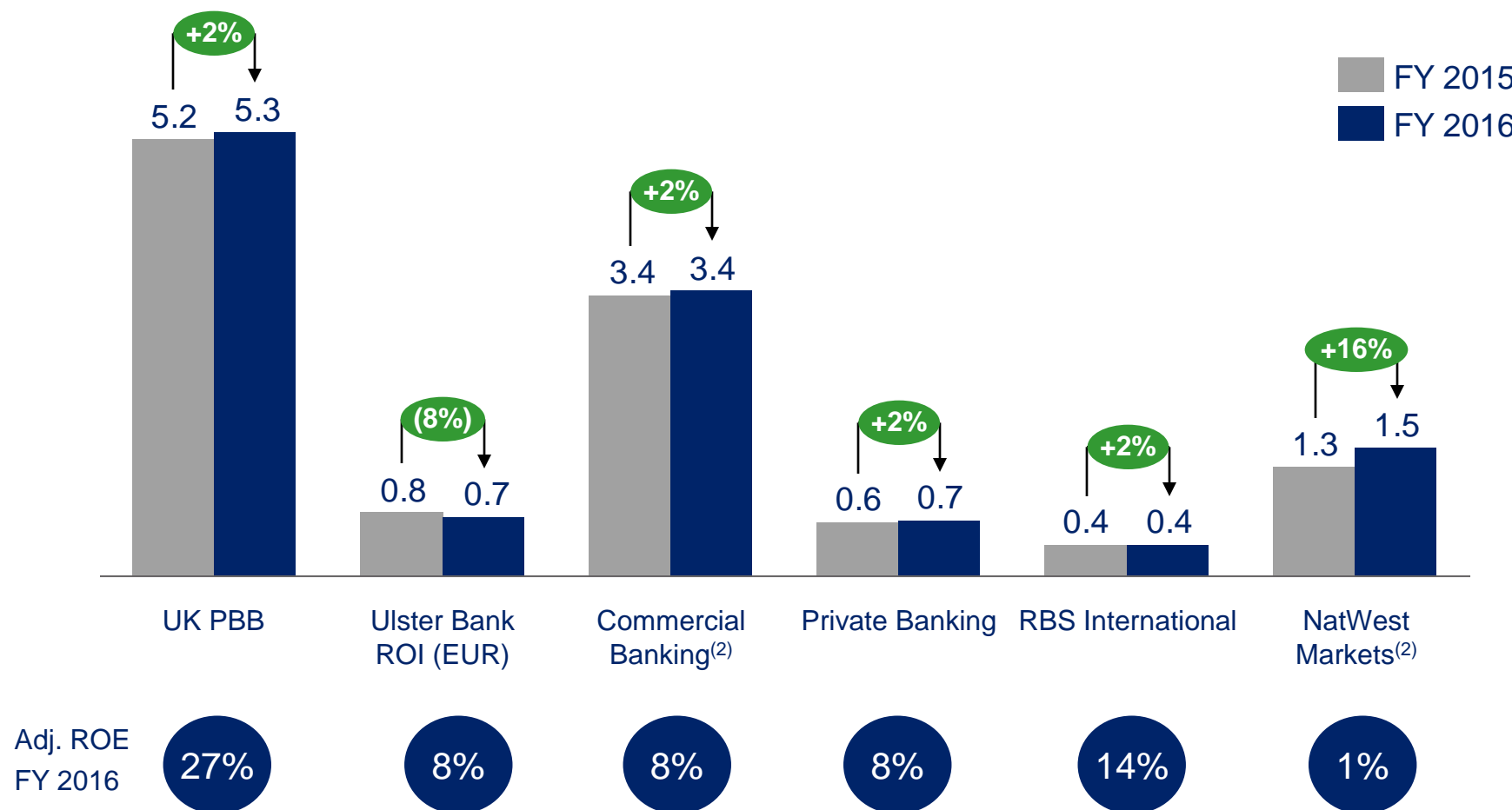
Net loans & advances to customers, £bn



# Progress on our strategy

## Solid income growth across our core businesses

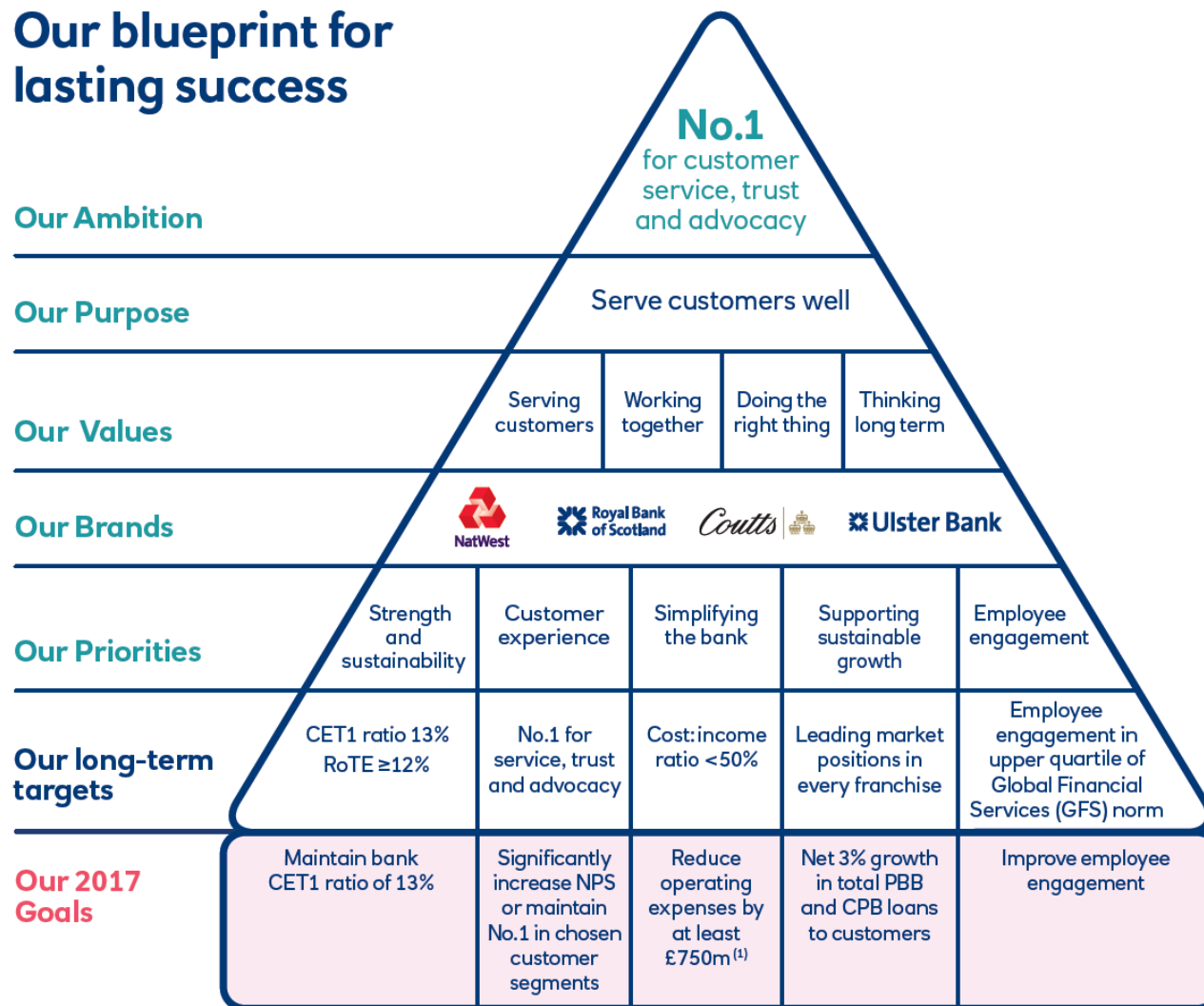
Adjusted Income<sup>(1)</sup>, £bn



<sup>(1)</sup> Adjusted income excludes own credit adjustments, loss on redemption of own debt and strategic disposals. <sup>(2)</sup> Adjusted for transfers of businesses from NatWest Markets to Commercial Banking in 2015. Corporate and Institutional Banking was renamed NatWest Markets in December 2016.

# Committed to being the No. 1 bank for customers

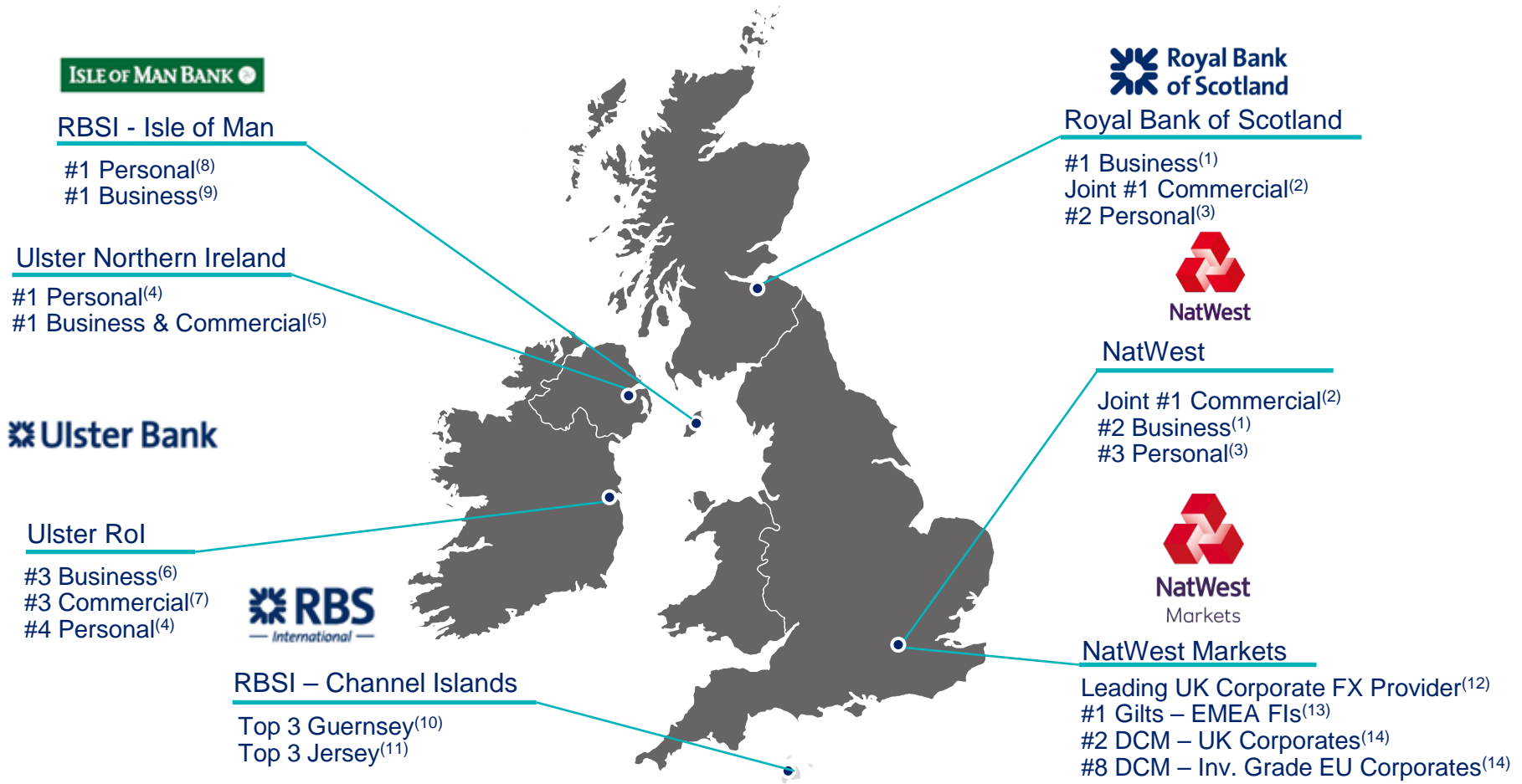
## Our blueprint for lasting success



<sup>(1)</sup> Excluding litigation and conduct costs, restructuring costs, write down of goodwill, and the 2016 VAT release of £227m.



# Strong market positions across our customer brands

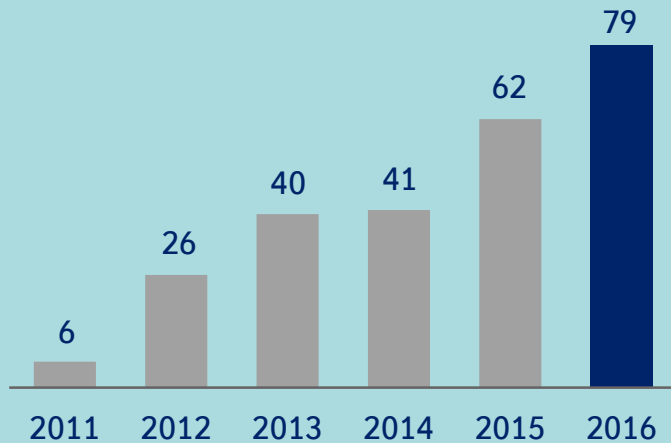


Note: Market share relates to the our geographic share in each region. This geographic share will be fully aligned to branding and legal entity as part of ring-fencing compliance. (1) Source Charterhouse Research 4 quarters ending Q4 2016, Main current account stock market share (business turnover of £0 - 2m) excluding Future W&G. (2) Source: Charterhouse Research 4 quarters ending Q4 2016 (business turnover of £2m - £1bn) excluding Future W&G (3) Source: Main current account stock market share holding level - based on GfK FRS 6 months ending Dec 2016; excluding Future W&G. (4) Personal: Main current account - based on IPSOS 4 quarters MAT ending Q4 2016 (5) Source: Charterhouse Research NI main current account market share based on 4 quarters ending Q4 2016 (business turnover £0 - £1bn). (6) PwC Business Banking Tracker 2016. Turnover <£2.5m. Named as main financial institution. (7) Source PwC Business Banking Tracker 2016. Turnover £2.5m+. Named as main financial institution. (8) Personal: IoM; Source GfK RBSI Group Market Share Dec 16 (Base size: IoM 500). (9) Business: IoM; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0 - 2m (Base size: IoM 100). (10) Personal: Guernsey; Source GfK RBSI Group Market Share Dec 16 (Base size: Guernsey 501) and Business: Guernsey; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0 - 2m (Base size: Guernsey 100). (11) Personal: Jersey; Source GfK RBSI Group Market Share Dec 16 (Base size: Jersey 500) and Business: Jersey; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0 - 2m (Base size: Jersey 100). (12) by Market Share and Overall Service Quality – Greenwich Associates, Global FX Services – UK Corporates 2015. (13) by Market Share – Greenwich Associates, European Fixed Income – Government Bonds 2016. (14) by deal value proceeds – Dealogic – 2016.

## Targeted customer segmentation while delivering more through digital channels

### Delivering for customers

NatWest Intermediary Solutions Net Promoter Score



**12%** Share of new mortgage lending, compared to 8.8% market share

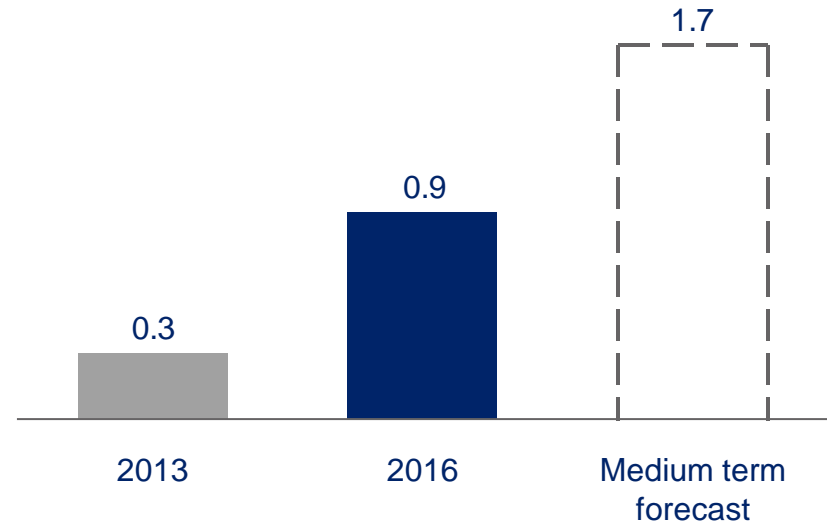
**1.1m** Reward current account customers

**£1bn** NatWest lending fund supporting SMEs

**5\*** Business current account  
*Moneyfacts*

### Increasing use of digital

Products sold through digital channels (m)



4.2 million active mobile banking users, up 19% during 2016



Best mobile banking application  
*British Bank Awards*

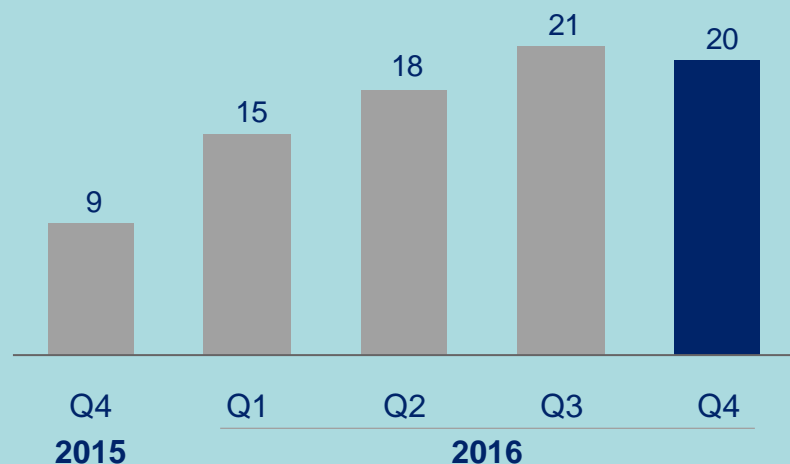


Customers transferred money using our app six times per second during 2016

## Further innovation and use of digital channels to enhance market leading position

### Delivering for customers

Commercial Net Promoter Score<sup>(1)</sup>



#1

Joint top Commercial NPS<sup>(1)</sup>

#1

Commercial UK market share<sup>(2)</sup>

£151m

Investment raised through our 12 Entrepreneurial Spark hubs

#1

Best Private Bank in UK  
*Global Private Banking Awards*

(1) Source: Charterhouse Research, Business Banking Survey – Q4 2016, Commercial Banking £2m-1bn (combination of NatWest and Royal Bank of Scotland in GB), Base: claimed main bank, Data is 4 quarterly rolling and weighted by Region & Turnover to be representative of businesses in GB, Latest base size: RBSG (935).

### Increasing use of digital

Bankline updated, a new best in class Commercial online web access tool



195,000 daily users



270,000 payments processed daily



Nearly 80% of commercial customers interact with us digitally - targeting 95% by 2020

### Further digital initiatives:



ESME: unsecured and alternative lending solutions



NIFT: Simplifying customer T&Cs



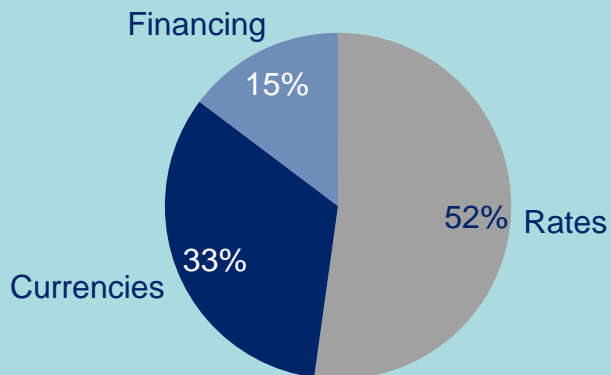
Biocatch: leading edge fraud prevention

Question: How likely would you be to recommend (bank). (2) Source: Charterhouse Research 4 quarters ending Q4 2016; Business turnover £2m-£1bn, excluding Future W&G, estimate based on combining main bank customers of NatWest in England & Wales with main bank customers of Royal Bank in Scotland. Latest base size: Total Market (3181)

## A more efficient NatWest Markets business

### Delivering for customers

Income by product (FY 2016)



In 2016, NatWest Markets gained or held share in every Rates & FX product category for EMEA and the Americas<sup>(1)</sup>

#1

GBP Interest Rate Derivatives<sup>(2)</sup>



Best bank for FX post-trade services<sup>(3)</sup>

54

million

FX trades processed annually through FX Micropay

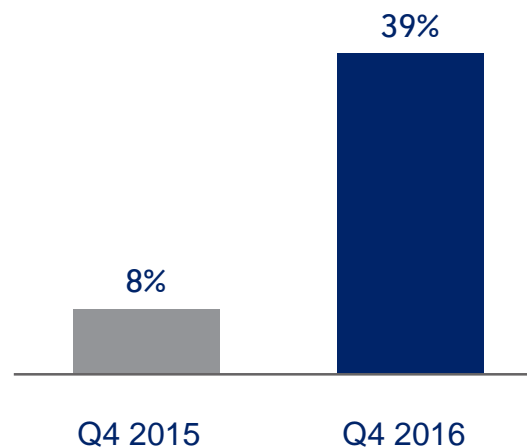
#1

EU Private Placements<sup>(4)</sup>

(1) Coalition Index, (2) Total Derivatives dealer rankings (2016), (3) FX Week, Best Bank Awards (2016), (4) by deal value proceeds – Dealogic (2016)

### Increasing use of digital

Level of automation of bond trades



### Building a technology-led Markets business:



Data Fabric: a single, scalable, data layer, replacing hundreds of individual databases



Single Risk Engine: holistic, consistent risk management for all products and services



Agile Markets: creating a comprehensive single point of access for all our clients

Good progress on resolving legacy, next phase of our plan will increase focus on customers, cost base and bottom line profit

Strong net lending and good income growth in the core bank

Cost, capital and lending targets met three years running

Unadjusted 12%+ ROTE and sub-50% cost to income ratio targets set for 2020<sup>(1)</sup>

#1 customer service, trust and advocacy target reaffirmed

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# Ewen Stevenson

Chief Financial Officer

# FY & Q4 2016 Summary

FY 2016 attributable loss of £6,955m, including £5,868m conduct & litigation provisions. Q4 2016 attributable loss of £4,441m

Adjusted operating profit for combined PBB, CPB and NWM of £4,249m up 4% vs. FY 2015; adjusted ROTE of 11.1%

Cost, capital and lending targets met three years running

A substantial number of legacy issues progressed and absorbed into TNAV (DAS, pensions, conduct, restructuring costs and disposal costs)

PBB, CPB and NWM RWAs now represent 80% of total RWAs from 50% at FY 2014

FY 2016 CET1 of 13.4%; TNAV per share of 296p

# FY & Q4 2016 Income Statement

(£m)	FY 2016	vs. FY 2015	Q4 2016	vs. Q4 2015
Adjusted income <sup>(1)</sup>	12,372	(5%)	3,329	+15%
<b>Total income</b>	<b>12,590</b>	<b>(3%)</b>	<b>3,216</b>	<b>+29%</b>
<b>Adj. operating expenses<sup>(1)</sup></b>	<b>(8,220)</b>	<b>(12%)</b>	<b>(2,219)</b>	<b>(12%)</b>
Restructuring costs	(2,106)	(28%)	(1,007)	+64%
Litigation & conduct costs	(5,868)	+64%	(4,128)	+94%
<b>Operating expenses</b>	<b>(16,194)</b>	<b>(1%)</b>	<b>(7,354)</b>	<b>+28%</b>
Impairment (losses) / releases	(478)	(166%)	75	(77%)
<b>Operating profit / (loss)</b>	<b>(4,082)</b>	<b>+51%</b>	<b>(4,063)</b>	<b>+38%</b>
Adjusted operating profit	3,674	(17%)	1,185	+73%
Adjusted operating profit PBB, CPB+NWM	4,249	+4%	848	+61%
Other items	(2,873)	n.m.	(378)	n.m.
<b>Attributable profit / (loss)</b>	<b>(6,955)</b>	<b>+251%</b>	<b>(4,441)</b>	<b>+62%</b>
<b>Key metrics</b>				
Net interest margin	2.18%	+6bps	2.19%	+9bps
Return on equity	(17.9%)	(13ppts)	(48.2%)	(22ppts)
Adj. return on equity <sup>(1,2)</sup>	1.6%	(9ppts)	8.6%	+2ppts
Cost:income ratio	129%	+2ppts	229%	(3ppts)
Adj. cost:income ratio <sup>(1,2)</sup>	66%	(6ppts)	67%	(21ppts)

## Q4 2016 vs. Q4 2015

- Attributable loss of £4,441m operating loss of £4,063m
- Includes £4,128m of conduct and litigation costs, including additional £3.1bn RMBS provision and £400m for FCA distressed SME customer review
- Adjusted operating profit for combined PBB, CPB and NWM of £848m (+61% vs. Q4 2015); adjusted ROTE of 8.5%
- Q4 includes annual bank levy of £190m

<sup>(1)</sup> Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals <sup>(2)</sup> Excluding restructuring costs, litigation and conduct costs and write-down of goodwill



# Q4 2016 – Balance Sheet

Customer balances (£bn)	Q4 2016	vs. Q3 2016	vs. Q4 2015
Funded assets	552	(3%)	(0%)
Net loans & advances to customers	323	(1%)	+5%
Customer deposits	354	(1%)	+3%
<b>Liquidity and funding</b>			
Loan-to-deposit ratio (%)	91%	+0ppts	+2ppts
Liquidity coverage ratio (%)	123%	+11ppts	(13ppts)
Liquidity portfolio (£bn)	164	+10%	+5%
<b>Capital &amp; leverage</b>			
Leverage exposure (£bn)	683	(3%)	(3%)
Leverage ratio (%)	5.1%	(1ppts)	(1ppts)
CET1 capital (£bn)	31	(13%)	(19%)
CET1 ratio (%)	13.4%	(2ppts)	(2ppts)
RWAs (£bn)	228	(3%)	(6%)
<b>TNAV</b>			
TNAV per share (p)	296p	(42p)	(56p)
Tangible equity (£bn)	35	(12%)	(15%)

## Q4 2016 vs. Q4 2015

- Customer loans and advances +5%; customer deposits +3%
- RWAs reduced by £14.4bn, including a reduction in Capital Resolution's RWAs to £34.5bn
- CET1 ratio of 13.4%; leverage ratio of 5.1%
- LCR of 123%; LDR of 91%
- TNAV down 56p to 296p vs. FY 2015 principally reflecting the attributable loss for the year

# Q4 2016 results by business – UK PBB



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
<b>Adj. Income<sup>(3)</sup></b>	<b>1.3</b>	<b>0.1</b>	<b>0.9</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>2.9</b>	<b>(0.3)</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>	<b>3.3</b>
Adj. Operating expenses <sup>(4)</sup>	(0.8)	(0.1)	(0.6)	(0.1)	(0.1)	(0.3)	(2.0)	(0.2)	(0.1)	0.1	(0.2)	(2.2)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	0.0	0.0	-	(0.0)	0.1	(0.0)	(0.0)	0.1	0.1
<b>Adj. operating profit<sup>(3,4)</sup></b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.0)</b>	<b>0.8</b>	<b>(0.3)</b>	<b>0.1</b>	<b>0.6</b>	<b>0.3</b>	<b>1.2</b>
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
Net L&A to Customers	132.1	18.9	100.1	12.2	8.8	17.4	289.5	12.8	20.6	0.1	33.5	323.0
Customer Deposits	145.8	16.1	97.9	26.6	25.2	8.4	320.0	9.5	24.2	0.2	33.9	353.9
RWAs	32.7	18.1	78.5	8.6	9.5	35.2	182.6	34.5	9.6	1.5	45.6	228.2
LDR	91%	117%	102%	46%	35%	n.m.	90%	n.m.	85%	n.m.	99%	91%
<b>Adj. RoE (%)<sup>(3,4,5)</sup></b>	<b>28%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>10%</b>	<b>(3%)</b>	<b>9%</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>8.6%</b>
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	58%	106%	64%	91%	64%	108%	69%	n.m.	45%	n.m.	n.m.	67%

<sup>(1)</sup>Williams and Glyn' refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK <sup>(2)</sup> Central items include unallocated costs and assets which principally comprise volatile items under IFRS <sup>(3)</sup> Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals <sup>(4)</sup> Excluding restructuring costs and litigation and conduct costs and goodwill <sup>(5)</sup> 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 (RWAs) \*Totals may not cast due to rounding

# Q4 2016 results by business – Commercial Banking



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
Adj. Income <sup>(3)</sup>	1.3	0.1	0.9	0.2	0.1	0.3	2.9	(0.3)	0.2	0.5	0.4	3.3
Adj. Operating expenses <sup>(4)</sup>	(0.8)	(0.1)	(0.6)	(0.1)	(0.1)	(0.3)	(2.0)	(0.2)	(0.1)	0.1	(0.2)	(2.2)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	0.0	0.0	-	(0.0)	0.1	(0.0)	(0.0)	0.1	0.1
Adj. operating profit <sup>(3,4)</sup>	0.5	0.0	0.2	0.0	0.0	(0.0)	0.8	(0.3)	0.1	0.6	0.3	1.2
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
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LDR	91%	117%	102%	46%	35%	n.m.	90%	n.m.	85%	n.m.	99%	91%
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Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	58%	106%	64%	91%	64%	108%	69%	n.m.	45%	n.m.	n.m.	67%

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# Q4 2016 results by business – Natwest Markets



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
Adj. Income <sup>(3)</sup>	1.3	0.1	0.9	0.2	0.1	0.3	2.9	(0.3)	0.2	0.5	0.4	3.3
Adj. Operating expenses <sup>(4)</sup>	(0.8)	(0.1)	(0.6)	(0.1)	(0.1)	(0.3)	(2.0)	(0.2)	(0.1)	0.1	(0.2)	(2.2)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	0.0	0.0	-	(0.0)	0.1	(0.0)	(0.0)	0.1	0.1
Adj. operating profit <sup>(3,4)</sup>	0.5	0.0	0.2	0.0	0.0	(0.0)	0.8	(0.3)	0.1	0.6	0.3	1.2
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
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Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	58%	106%	64%	91%	64%	108%	69%	n.m.	45%	n.m.	n.m.	67%

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Income Statement (£m)	FY 2016
<b>Total Income</b>	<b>837</b>
o/w Retail	480
o/w Commercial	357
<b>Total adjusted operating costs</b>	<b>393</b>
<b>Adj. Operating profit</b>	<b>402</b>
<b>Operating profits reported</b>	<b>345</b>
<b>Adj. cost : income<sup>(1)</sup> (%)</b>	<b>47%</b>
<b>Balance Sheet (£bn)</b>	
<b>Total RWAs (£bn)</b>	<b>9.6</b>
o/w Credit RWAs	8.2
o/w Corporates	5.8
<b>Total Loans (£bn)</b>	<b>20.8</b>
o/w Retail loans	12.3
o/w Commercial loans	8.5

Comments
<ul style="list-style-type: none"> <li>■ TNAV down 6p and CET1 down 30bps due to £750m restructuring provision taken in respect of the 17 February 2017 update on RBS's remaining State Aid obligation</li> <li>■ New package to replace divestment obligation is currently a proposal from HMT to the EC</li> <li>■ EC decision to open investigation does not pre-judge the outcome</li> <li>■ If plan approved, HMT will need to renegotiate a new State Aid agreement - this could take until Q4 2017 or longer</li> </ul>

<sup>(1)</sup> Only reflects the marginal costs of running the business

# Financial Targets - 2017 and 2020



Net lending growth in PBB / CPB: 3%<sup>(1)</sup> in 2017; driven by strong mortgage growth and selected Commercial segments

Operating costs: reduction in operating costs by £750m<sup>(2)</sup> in 2017, and £2bn over the next 4 years; majority achieved against combined PBB, CPB and NWM businesses

Capital Resolution: reduce RWAs (ex Alawwal Bank stake<sup>(3)</sup>) to £15-20bn and wind-up at end Q4 2017

Significant one-off issues resolved in 2016; 2017 expected to be last peak year of one-off costs. Consequently we expect the bank to be profitable in 2018

2020 targets – foundations to achieve 12+%<sup>(4)</sup> ROTE; sub-50% cost:income ratio

Reduce Core RWAs by a gross £20bn by Q4 2018

<sup>(1)</sup> Lending growth target is after including the impact of balance sheet reductions with the RWA reduction target across PBB, CPB and NWM are outlined in the outlook statement. <sup>(2)</sup> Cost saving target and progress in 2017 calculated using operating expenses excluding restructuring costs, litigation and conduct costs, write down of goodwill and 2016 VAT release <sup>(3)</sup> Previously named Saudi Hollandi Bank <sup>(4)</sup> 12%+ is the non adjusted, 'as reported' RoTE 2020 target Note: 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 this document and in the "Risk Factors" 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements.

# Four foundations to achieve 2020 targets

- Resolve legacy issues and expense one-off costs, bulk of residual targeted to be expensed in 2017
- Accelerate income momentum through enhanced customer servicing in the core bank
- Achieve significant further cost efficiency, with accelerating JAWS from 2017 across the 3 core businesses
- Improve RWA productivity across PBB, CPB and NWM – achieve a further gross £20bn reduction in the core bank by end Q4 2018 (pre any offsetting volume growth)

## 2020 target operating profile

12+%  
ROTE<sup>(1)</sup>

Sub-50% C:I  
ratio

13% CET1  
ratio

<sup>(1)</sup> 12%+ is the non adjusted, 'as reported' RoTE 2020 target

# Resolve legacy issues and expense one-off costs

One-off cost	Comment
Restructuring costs	<ul style="list-style-type: none"><li>▪ c.£2bn over 2017 to 2019 (excluding W&amp;G); of which c.£1bn in 2017</li><li>▪ Partially related to exiting head office properties with onerous lease terms</li></ul>
Capital Resolution disposal costs	<ul style="list-style-type: none"><li>▪ £2.0bn of lifetime disposal costs; of which £1.2bn taken by end 2016</li><li>▪ Majority of residual expected to be in 2017</li></ul>
W&G	<ul style="list-style-type: none"><li>▪ £750m restructuring provision taken in respect of the 17 February 2017 update on RBS's remaining State Aid obligation</li></ul>
Conduct costs	<ul style="list-style-type: none"><li>▪ Substantial number of issues progressed in 2016</li><li>▪ 2017 expected to be peak of remaining legacy conduct costs</li></ul>



**NIM:** Sharp improvement in 5 and 10 year swap rate reduces forward looking headwinds from roll-off of existing structural hedging; SVR 12% of book

**Volumes:** 3% net lending growth target for combined PBB/CPB in 2017 - expect to continue to achieve market share gains in targeted customer segments

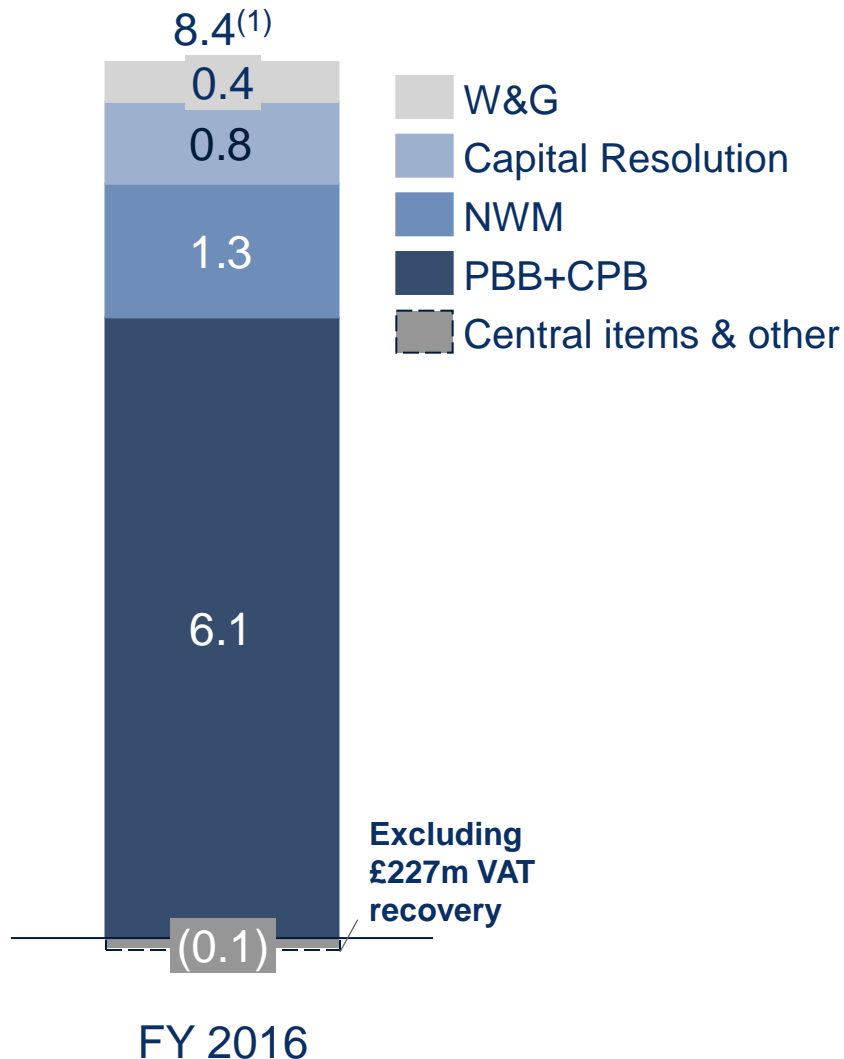
**Net interest income:** Volume benefit outweighs NIM pressure

**Fees & commission:** Headwinds from interchange alleviates from 2017 onwards

**Revenues in NWM:** Benefiting from market volatility and continued active customer flows

# Achieve further significant cost efficiency

## Adjusted operating costs (£bn)

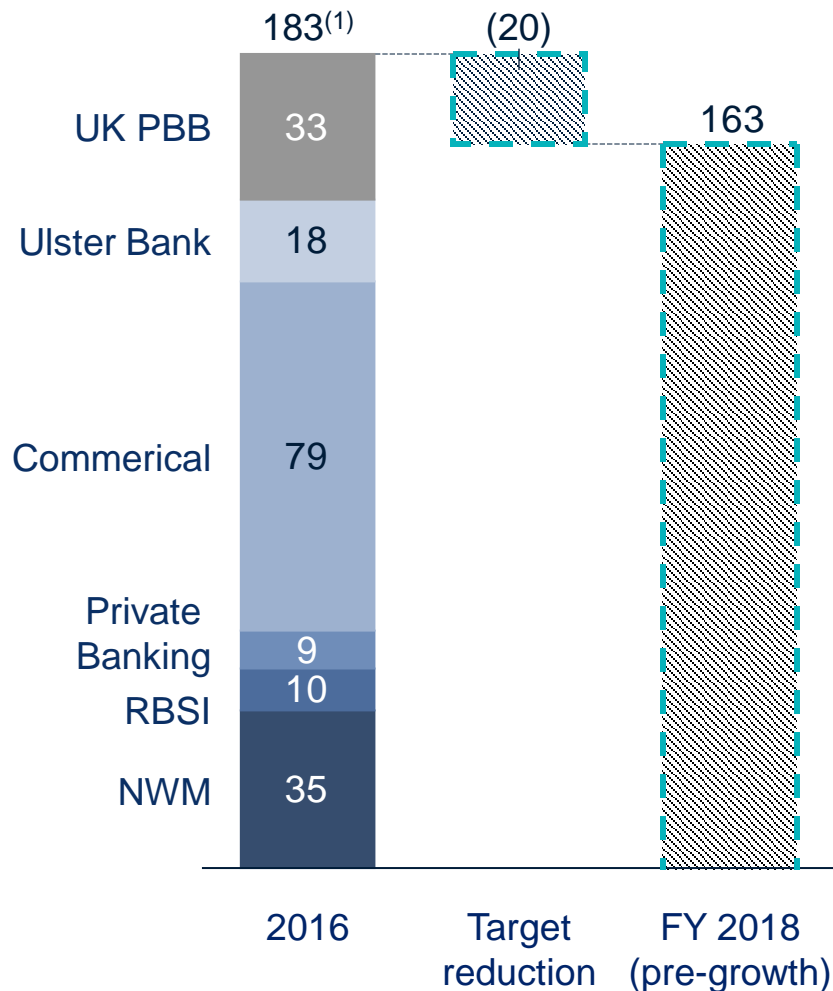


<sup>(1)</sup> Numbers may not cast due to rounding

- £3.1bn cost reduction achieved over 3 years to 2016; 2017 cost reduction target of £750m
- Significant further cost efficiency across PBB and CPB through digitisation, process simplification and automation
- NatWest Markets are currently in the middle of a substantial investment programme which will equip the franchise for new regulatory requirements and provide opportunity to reduce back office support costs
- NWM adjusted costs expected to reduce to ~£800m over the next four years, as we continue to take out organic costs and the currently expensed investment spend goes away by 2018

# Improve RWA efficiency across PBB, CPB and NWM

## Core Bank RWAs (£bn)



- Target gross £20bn RWA reduction by end Q4 2018, with some offsetting volume growth
- Improving RWA efficiency underpins improved returns and mitigates potential impact of RWA regulatory tightening from 2019 onwards
- Expect income loss to be relatively modest given much of the reduction is from:
  - The exiting of low ROE lending pools
  - Improving risk metrics in certain portfolios including Ireland
  - Continuing benefits from data clean-up
  - Improvement in the quality of our risk models

<sup>(1)</sup> Numbers may not cast due to rounding

12%+  
ROTE<sup>(1)</sup>

Sub-50%  
Cost:Income  
Ratio

<sup>(1)</sup> 12%+ is the non adjusted and 'as reported' target

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# Ross McEwan

Chief Executive Officer

Fundamentals of our strategy remain unchanged

Progress in dealing with legacy issues

Financial targets hit three years running - costs down, capital solid, lending and income growth in core bank

Further on costs, faster on digital transformation to deliver a better customer experience

Targeting profitability in 2018, and achieving 12%+ ROTE and sub-50% C:I by 2020

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# Q&A

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# Appendix



# FY 2016 results by business



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
Adj. Income <sup>(3)</sup>	5.3	0.6	3.4	0.7	0.4	1.5	11.8	(0.4)	0.8	0.1	0.5	12.4
Adj. Operating expenses <sup>(4)</sup>	(3.0)	(0.5)	(1.9)	(0.5)	(0.2)	(1.3)	(7.4)	(0.8)	(0.4)	0.3	(0.8)	(8.2)
Impairment (losses) / releases	(0.1)	0.1	(0.2)	0.0	(0.0)	-	(0.2)	(0.3)	(0.0)	-	(0.3)	(0.5)
Adj. operating profit <sup>(3,4)</sup>	2.2	0.2	1.3	0.1	0.2	0.2	4.2	(1.4)	0.4	0.5	(0.6)	3.7
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
Net L&A to Customers	132.1	18.9	100.1	12.2	8.8	17.4	289.5	12.8	20.6	0.1	33.5	323.0
Customer Deposits	145.8	16.1	97.9	26.6	25.2	8.4	320.0	9.5	24.2	0.2	33.9	353.9
RWAs	32.7	18.1	78.5	8.6	9.5	35.2	182.6	34.5	9.6	1.5	45.6	228.2
LDR	91%	117%	102%	46%	35%	n.m.	90%	n.m.	85%	n.m.	99%	91%
Adj. RoE (%) <sup>(3,4,5)</sup>	27%	8%	8%	8%	14%	1%	11%	n.m.	n.m.	n.m.	n.m.	1.6%
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	57%	80%	57%	78%	45%	87%	63%	n.m.	47%	n.m.	n.m.	66%

<sup>(1)</sup>'Williams and Glyn' refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK <sup>(2)</sup>Central items include unallocated costs and assets which principally comprise volatile items under IFRS <sup>(3)</sup>Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals <sup>(4)</sup>Excluding restructuring costs and litigation and conduct costs and goodwill <sup>(5)</sup>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 Rol), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAs) \*Totals may not cast due to rounding

# Q4 2016 results by business



	Core Franchises							Total Other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
<b>Adj. Income<sup>(3)</sup></b>	<b>1.3</b>	<b>0.1</b>	<b>0.9</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>	<b>2.9</b>	<b>(0.3)</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>	<b>3.3</b>
Adj. Operating expenses <sup>(4)</sup>	(0.8)	(0.1)	(0.6)	(0.1)	(0.1)	(0.3)	(2.0)	(0.2)	(0.1)	0.1	(0.2)	(2.2)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	0.0	0.0	-	(0.0)	0.1	(0.0)	(0.0)	0.1	0.1
<b>Adj. operating profit<sup>(3,4)</sup></b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.0)</b>	<b>0.8</b>	<b>(0.3)</b>	<b>0.1</b>	<b>0.6</b>	<b>0.3</b>	<b>1.2</b>
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
Net L&A to Customers	132.1	18.9	100.1	12.2	8.8	17.4	289.5	12.8	20.6	0.1	33.5	323.0
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LDR	91%	117%	102%	46%	35%	n.m.	90%	n.m.	85%	n.m.	99%	91%
<b>Adj. RoE (%)<sup>(3,4,5)</sup></b>	<b>28%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>10%</b>	<b>(3%)</b>	<b>9%</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>8.6%</b>
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	58%	106%	64%	91%	64%	108%	69%	n.m.	45%	n.m.	n.m.	67%

<sup>(1)</sup>'Williams and Glyn' refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK <sup>(2)</sup>Central items include unallocated costs and assets which principally comprise volatile items under IFRS <sup>(3)</sup>Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals <sup>(4)</sup>Excluding restructuring costs and litigation and conduct costs and goodwill <sup>(5)</sup>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 (RWAs) \*Totals may not cast due to rounding

# Notable items - Income

(£m)	FY 2016	FY 2015	Q4 2016	Q3 2016	Q4 2015
<b>Total Income</b>	<b>12,590</b>	<b>12,923</b>	<b>3,216</b>	<b>3,310</b>	<b>2,484</b>
Own Credit Adjustments	180	309	(114)	(156)	(115)
Gain/(Loss) on redemption of own debt	(126)	(263)	1	3	(263)
Strategic disposals	164	(157)	-	(31)	(22)
o/w Visa Gain	246	-	-	-	-
o/w Cap Res	(81)	(38)	-	(30)	(24)
<b>Adjusted Income</b>	<b>12,372</b>	<b>13,034</b>	<b>3,329</b>	<b>3,494</b>	<b>2,884</b>
IFRS volatility in Central items	(510)	15	308	(150)	59
Funding valuation adjustments in Capital Resolution	(170)	-	-	160	-
FX gain in Central items	349	14	140	(44)	54
FX reserve gain in Central items	97	-	-	97	-
Capital Resolution Disposal gain/(losses) in adjusted income	(572)	(367)	(325)	(143)	(180)

# Notable items - Expenses

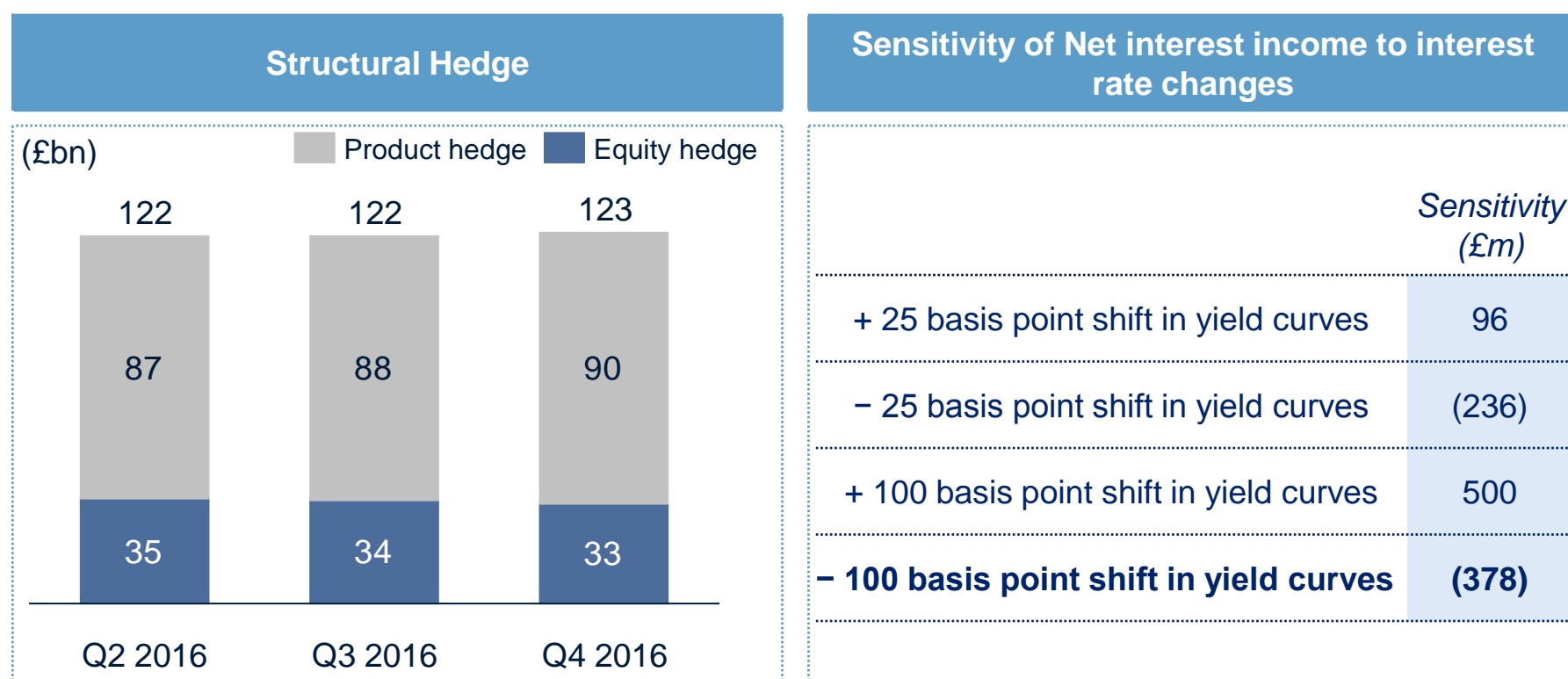
(£m)	FY 2016	FY 2015	Q4 2016	Q3 2016	Q4 2015
<b>Total Expenses</b>	<b>(16,194)</b>	<b>(16,353)</b>	<b>(7,354)</b>	<b>(2,911)</b>	<b>(5,761)</b>
Restructuring	(2,106)	(2,931)	(1,007)	(469)	(614)
o/w Williams & Glyn	(1,456)	(658)	(810)	(301)	(209)
Litigation & Conduct	(5,868)	(3,568)	(4,128)	(425)	(2,124)
o/w US RMBS	(3,300)	(2,100)	(3,051)	(249)	(1,500)
o/w RBS' treatment of SME's	(400)	-	(400)	-	-
o/w PPI	(601)	(600)	(201)	-	(500)
o/w Ulster mortgage tracker	(172)	-	(77)	-	-
Writedown of Goodwill	-	(498)	-	-	(498)
<b>Adjusted Expenses</b>	<b>(8,220)</b>	<b>(9,356)</b>	<b>(2,219)</b>	<b>(2,017)</b>	<b>(2,525)</b>
o/w central VAT recovery	227	-	-	-	-
<b>Bank Levy</b>	<b>(190)</b>	<b>(230)</b>	<b>(190)</b>	<b>-</b>	<b>(230)</b>
o/w UK PBB	(34)	(45)	(34)	-	(45)
o/w Ulster Bank Rol	(3)	(9)	(3)	-	(9)
o/w Commercial	(90)	(103)	(90)	-	(103)
o/w Private	(19)	(22)	(19)	-	(22)
o/w RBSI	(19)	(18)	(19)	-	(18)
o/w CIB	(13)	(24)	(13)	-	(24)
o/w Capital Resolution	(22)	(43)	(22)	-	(43)
o/w Central	10	34	10	-	34
<b>Impairments</b>	<b>(478)</b>	<b>727</b>	<b>75</b>	<b>(144)</b>	<b>327</b>
Capital Resolution	(253)	725	130	(120)	356
o/w Shipping Portfolio (treated as part of disposal losses)	(424)	(82)	30	(190)	(83)
Ulster Bank Rol	113	141	47	39	10
Commercial	(206)	(69)	(83)	(20)	(27)

# Tangible Net Asset Value (TNAV) movements

	Q3 2016			Q4 2015		
	£m	Shares in issue (m)	TNAV per share	£m	Shares in issue (m)	TNAV per share
<b>Starting TNAV</b>	39,822	11,792	338p	40,943	11,625	352p
Loss for the period post tax <sup>(1)</sup>	(4,237)		(36p)	(5,089)		(43p)
Less: profit to NCI / other owners	(134)		(1p)	(1,707)		(14p)
Other comprehensive Income	(503)		(4p)	1,067		9p
<i>o/w AFS</i>	68		1p	(94)		(1p)
<i>o/w Cashflow hedging gross of tax</i>	(750)		(6p)	765		6p
<i>o/w FX</i>	(13)		-	1,263		11p
<i>o/w Remeasurement of net defined pension liability</i>	(2)		-	(1,049)		(9p)
<i>o/w Tax</i>	194		2p	182		2p
Less: OCI attributable to NCI / other owners	9		-	(111)		(1p)
Redemption of preference shares	-	-	-	(420)		(4p)
Proceeds of share issuance	61	31	(1p)	466	198	(2p)
Other movements <sup>(2)</sup>	(36)		-	(167)		(1p)
	Q4 2016			Q4 2016		
<b>End of period TNAV</b>	<b>34,982</b>	<b>11,823</b>	<b>296p</b>	<b>34,982</b>	<b>11,823</b>	<b>296p</b>

<sup>(1)</sup> Loss for the period is pre non controlling interests and other owners dividends and excludes write-down of goodwill and other intangible assets. <sup>(2)</sup> Other reserve movements including intangibles.

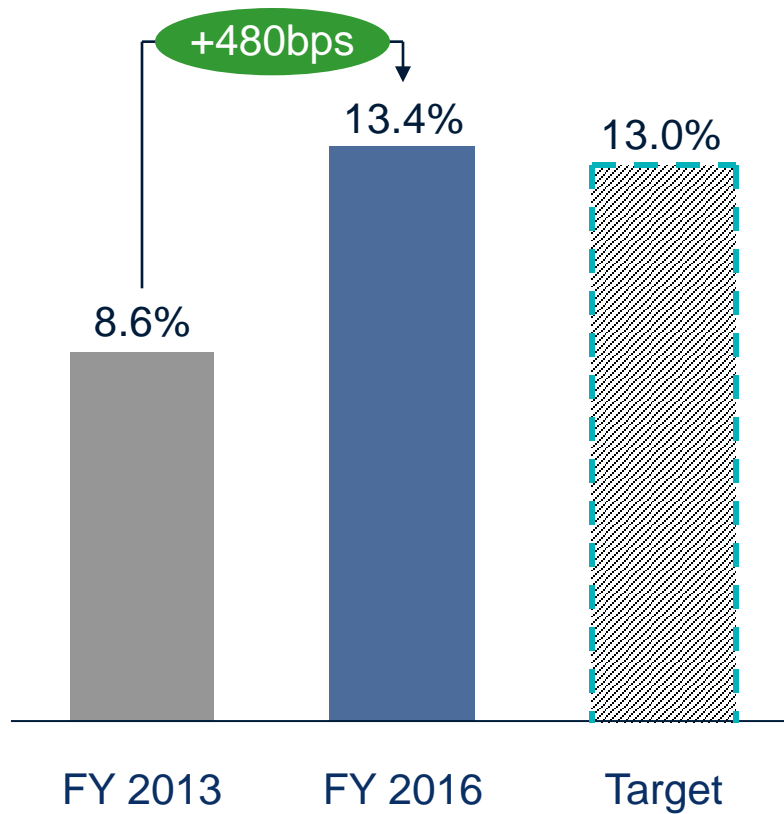
# Structural hedging - Interest rate sensitivity



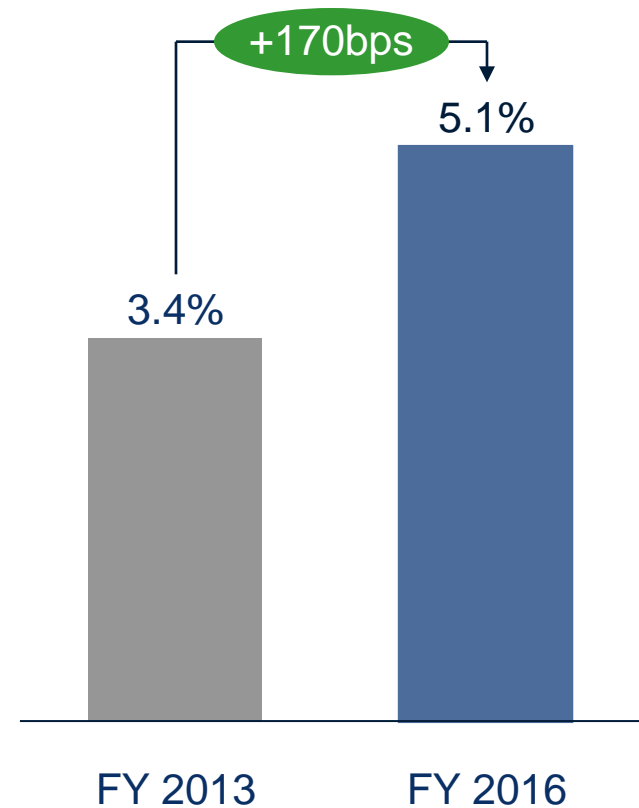
- Structural hedges of £123bn as at 31 December 2016 generated a benefit of £1.3bn through net interest income for the year
- Around 73% of these hedges are part of a five year rolling hedge programme and around 27% as part of a 10 year hedge that will progressively roll-off over the coming years
- At 31 December 2016, the 5-year swap rate was 0.74% compared with 1.45% one year previously. The market rate matching the amortising structure of the hedge was 0.60%

# CET1 and leverage ratios

CET1 Ratio



Leverage Ratio



# Leverage ratio – key drivers

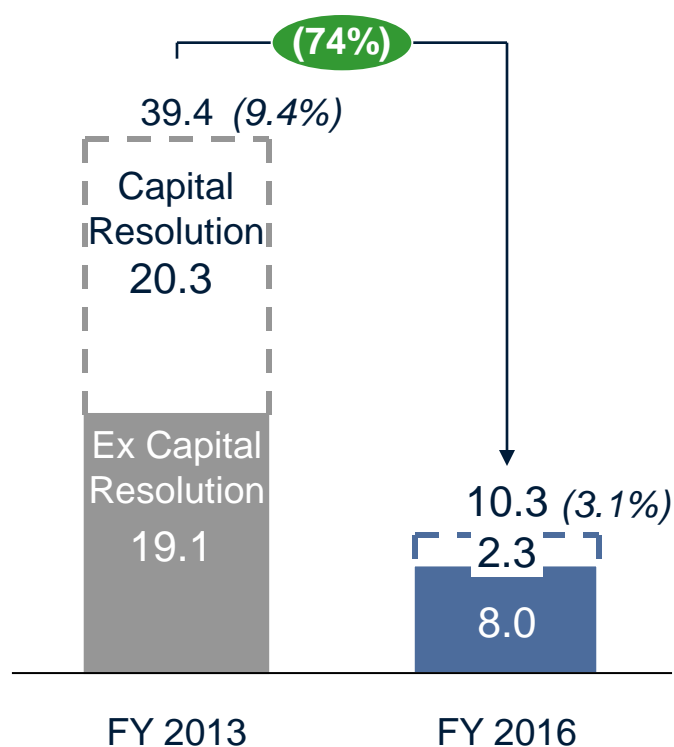
## Leverage ratio (%)

		5.6%	5.1%
(£bn)	FY 2015	FY 2016	% change
CET 1 capital	37.6	30.6	(19%)
AT1 capital	2.0	4.0	100%
<b>Tier 1 Capital</b>	<b>39.6</b>	<b>34.7</b>	<b>(12%)</b>
Total Funded Assets	552.9	551.7	(0%)
Total assets	815.4	798.7	(2%)
Netting and variation margin	(258.6)	(241.7)	(7%)
Securities financing transactions gross up	5.1	2.3	(55%)
Regulatory deductions & other adjustments	1.5	0.1	(93%)
Potential future exposures on derivatives	75.6	65.3	(14%)
Undrawn commitments	63.5	58.6	(8%)
<b>Leverage exposure</b>	<b>702.5</b>	<b>683.3</b>	<b>(3%)</b>



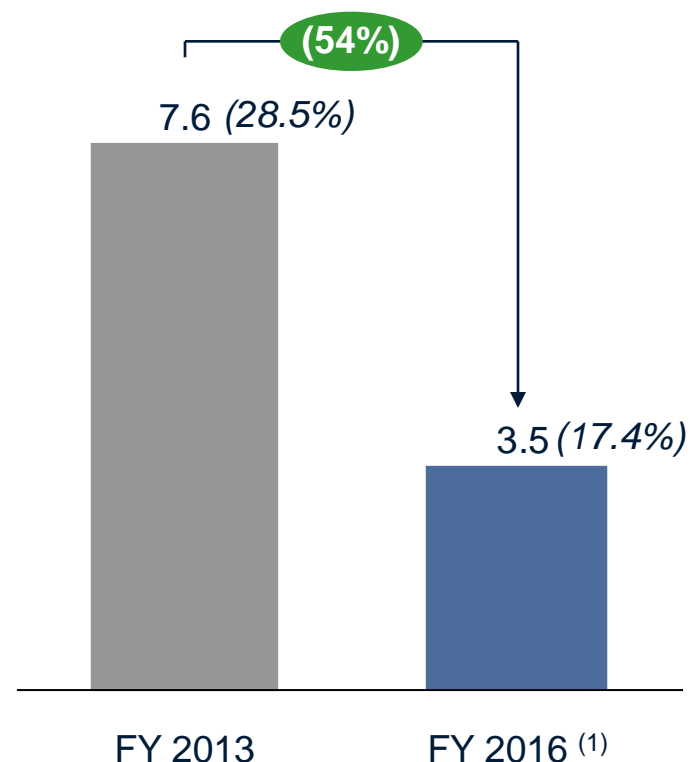
## FY 2016 REILs

£bn (as % of Total Gross L&As)



## FY 2016 Ulster ROI REILs

£bn (as % of Total Gross L&As)

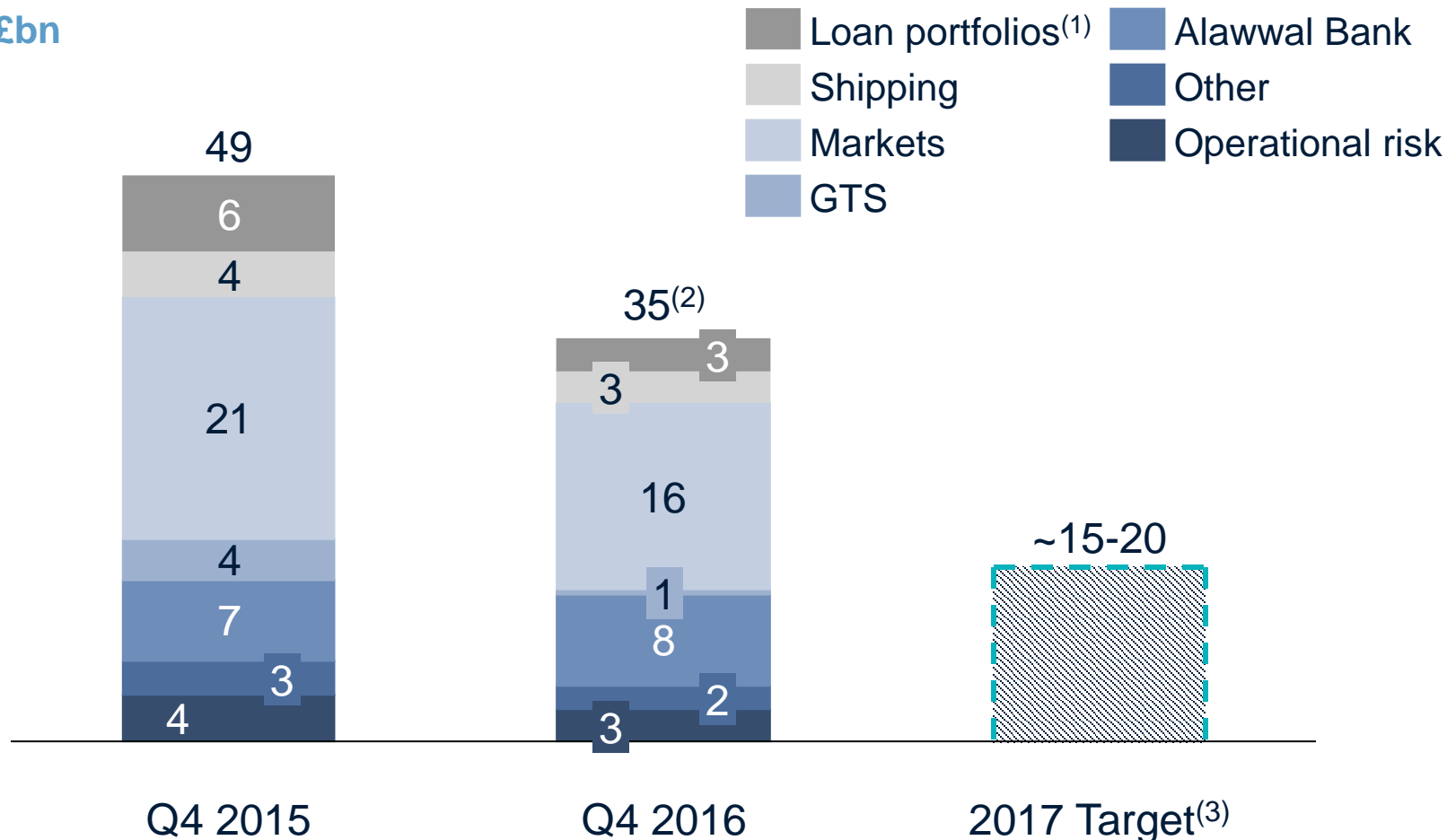


- Excluding Ulster Bank ROI and Capital Resolution the REIL ratio is 1.5%

<sup>(1)</sup> In 2016 Ulster Bank ROI widened the definition of non-performing loans which are considered to be impaired to include multiple forbearance arrangements and probationary mortgages.

# Reduction of Capital Resolution RWAs

RWAs, £bn

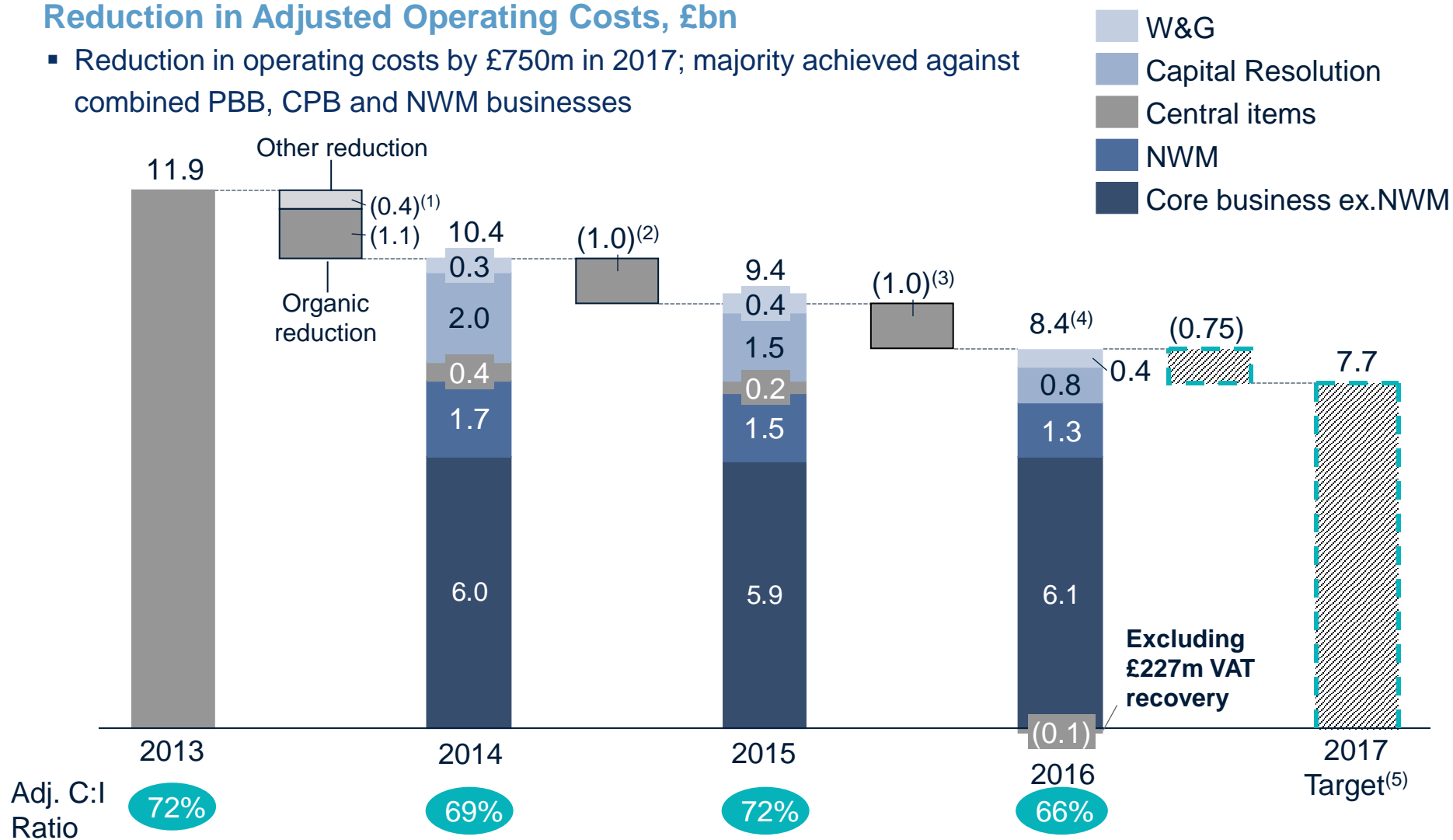


- Target of £15-20bn of RWAs excluding Alawwal Bank by end 2017

# FY 2016 Adjusted Operating costs

## Reduction in Adjusted Operating Costs, £bn

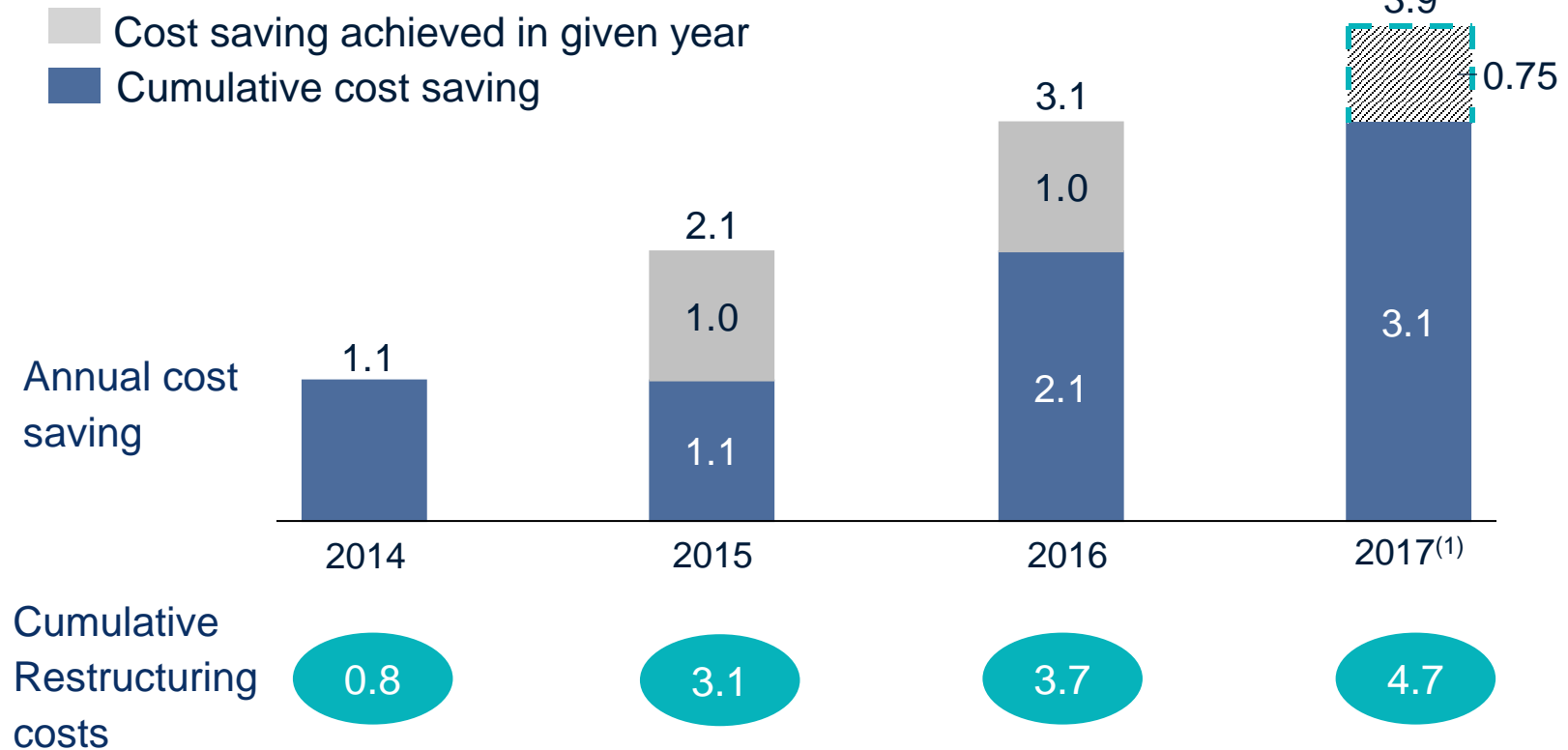
- Reduction in operating costs by £750m in 2017; majority achieved against combined PBB, CPB and NWM businesses



<sup>(1)</sup> £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. <sup>(2)</sup> This includes £71m lower intangible write offs offset by £29m growth in W&G. <sup>(3)</sup> Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets, 2016 VAT release and the operating costs of Williams & Glyn <sup>(4)</sup> Numbers may not cast due to rounding <sup>(5)</sup> The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" on pages 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements on pages 64 and 65 of the company announcement.

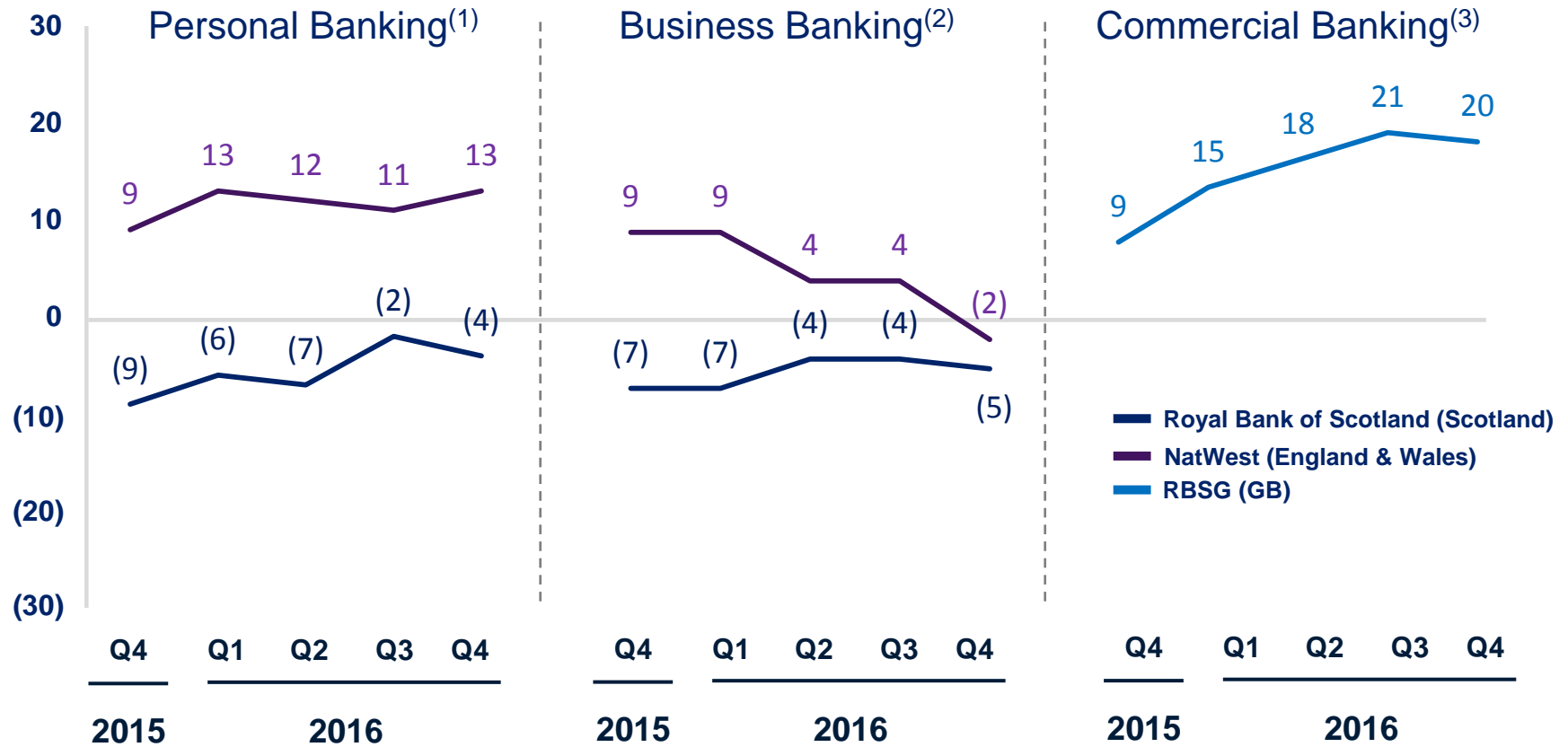
# Restructuring costs (ex.W&G) vs. annual cost saving 2014 - 2016

£bn



- We expect to incur restructuring costs of approximately £1bn in 2017 and approximately a further £1bn in aggregate during 2018 and 2019

## Net Promoter Scores across our core businesses



<sup>(1)</sup> Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (England & Wales) (3313), Royal Bank of Scotland (Scotland) (527) Question "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers. The year on year improvement in NatWest Personal Banking is significant.

<sup>(2+3)</sup> Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1258) Royal Bank of Scotland (422) Commercial <sup>(3)</sup> £2m+ combination of NatWest & Royal Bank of Scotland in GB (935) 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 improvement in RBSG Commercial Banking is significant.

# Outlook – 2017<sup>(1)</sup> (1/2)

Subject to providing fully for the remaining legacy issues, including RMBS exposures and State Aid obligations relating to W&G in particular, RBS currently expects that 2017 will be its final year of substantive clean up with significant one-off costs. Consequently, we anticipate that the bank will be profitable in 2018

Targeting net loans and advances growth of 3% across PBB and CPB, including the impact of balance sheet reductions associated with the RWA reduction target

We expect that income in 2017 will continue to be supported by balance sheet growth across PBB and CPB

Plan to reduce operating costs by a further £750m<sup>(2)</sup> in 2017

Net impairment charges should remain meaningfully below normalised levels in 2017. However, we expect the level of net impairment charges to be driven by a combination of increased gross charges and a materially reduced benefit from releases

<sup>(1)</sup> 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 this document and in the "Risk Factors" 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements.

Cumulative Capital Resolution disposal losses will total c.£2bn since the beginning of 2015, with £1.2bn incurred to date, with most of the balance incurred in 2017

Expect to incur restructuring costs (ex.W&G) of c.£1bn in 2017 and approximately a further £1bn across 2018 and 2019

If the proposal in respect of W&G is accepted, we expect to incur additional restructuring costs

Target CET1 of at least 13% at end 2017, RBS submitted a revised capital plan as part of the 2016 BoE stress tests which was accepted by the PRA Board

RBS issuance needs for 2017 focus on issuing £3-5bn MREL compliant Senior HoldCo

Continue to deal with range of significant risks and uncertainties in the external economic, political and regulatory environment and manage conduct-related investigations and litigation including RMBS

# Outlook – Medium Term<sup>(1)</sup>



Target achieving our sub 50% cost:income ratio and 12% return targets in 2020 on an unadjusted basis, one year later than originally planned

Expect to be able to grow volumes faster than market growth rates over the coming years underpinned by our ability to grow the PBB and CPB balance sheet

Plan to reduce adjusted expenses in the order of £2bn in the next four years with around two thirds of this applicable to the Core Bank

Targeting a gross RWA reduction across 3 core businesses of at least £20bn by Q4 2018 with some off-setting volume growth

We continue to monitor the ongoing discussions around the potential further tightening of regulatory capital rules and recognise that this could result in RWA inflation in the medium term

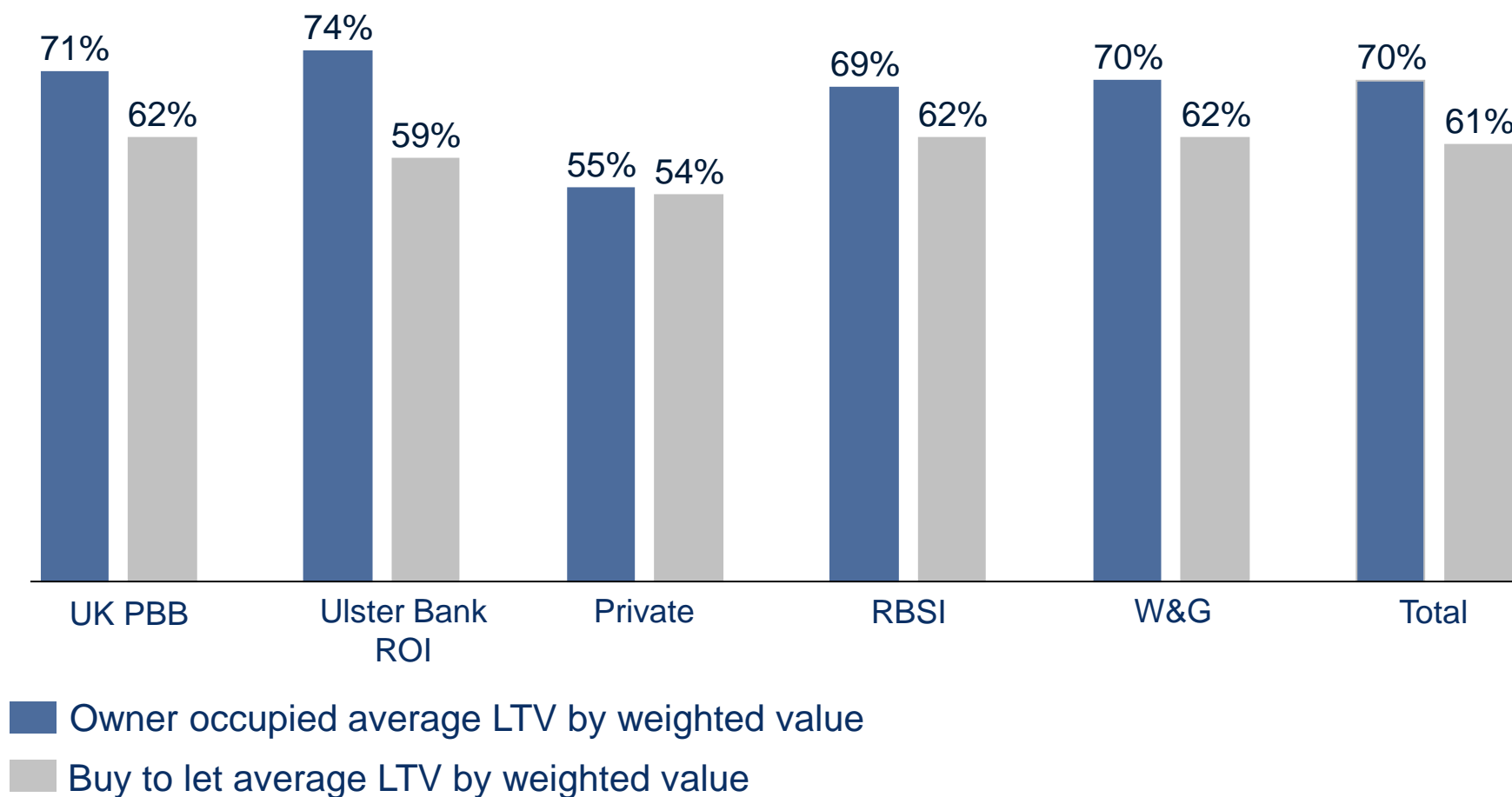
In view of the significant risks and uncertainties in the external economic, political and regulatory environment including uncertainties around the final resolution of RMBS exposures and residual State Aid obligations relating to W&G, the timing of returning excess capital to shareholders through dividends or buybacks remains uncertain

<sup>(1)</sup> 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 this document and in the "Risk Factors" 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements.



# Growth and risk profile

## New mortgage lending 2016 (average LTV by weighted value), £bn



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# Fixed Income Investor Presentation

FY 2016 Results  
24 February 2017

# Core credit messages

Diversified income streams

Three core franchises generating stable and attractive returns

Well progressed on legacy clean-up and improving balance sheet resilience

Credit and market risk positioned appropriately for less certain macro outlook

## 2020 Target Operating Profile

12+% ROTE

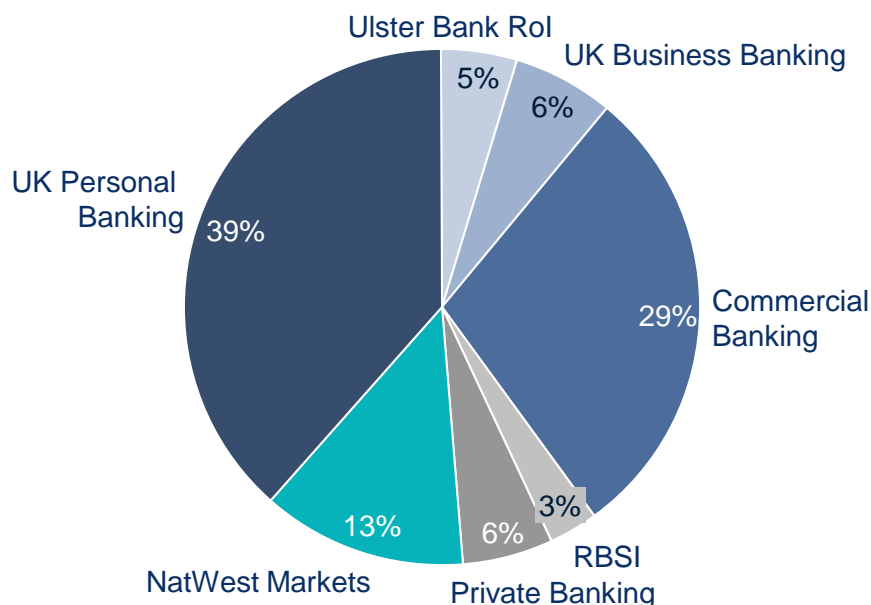
Sub-50% C:I  
ratio

13% CET1  
ratio

~85% RWAs in  
PBB & CPB

~90% Income  
from UK

## FY 2016 Adjusted Income split by Core Franchise (%)



## Strategic plan targets higher quality of earnings in future

- Focus on customer loyalty, conducting more business with our most valuable customers
- Targeted growth in areas of opportunity
- Simplification and digital driving a better customer experience at a lower cost
- Low-risk profile and actions to improve capital efficiency



 Ulster Bank

*Coutts* 

ISLE OF MAN BANK 

*Adam & Company* 

 RBS  
— International —

 Child & Co.

 NatWest  
Markets

 Royal Bank  
of Scotland

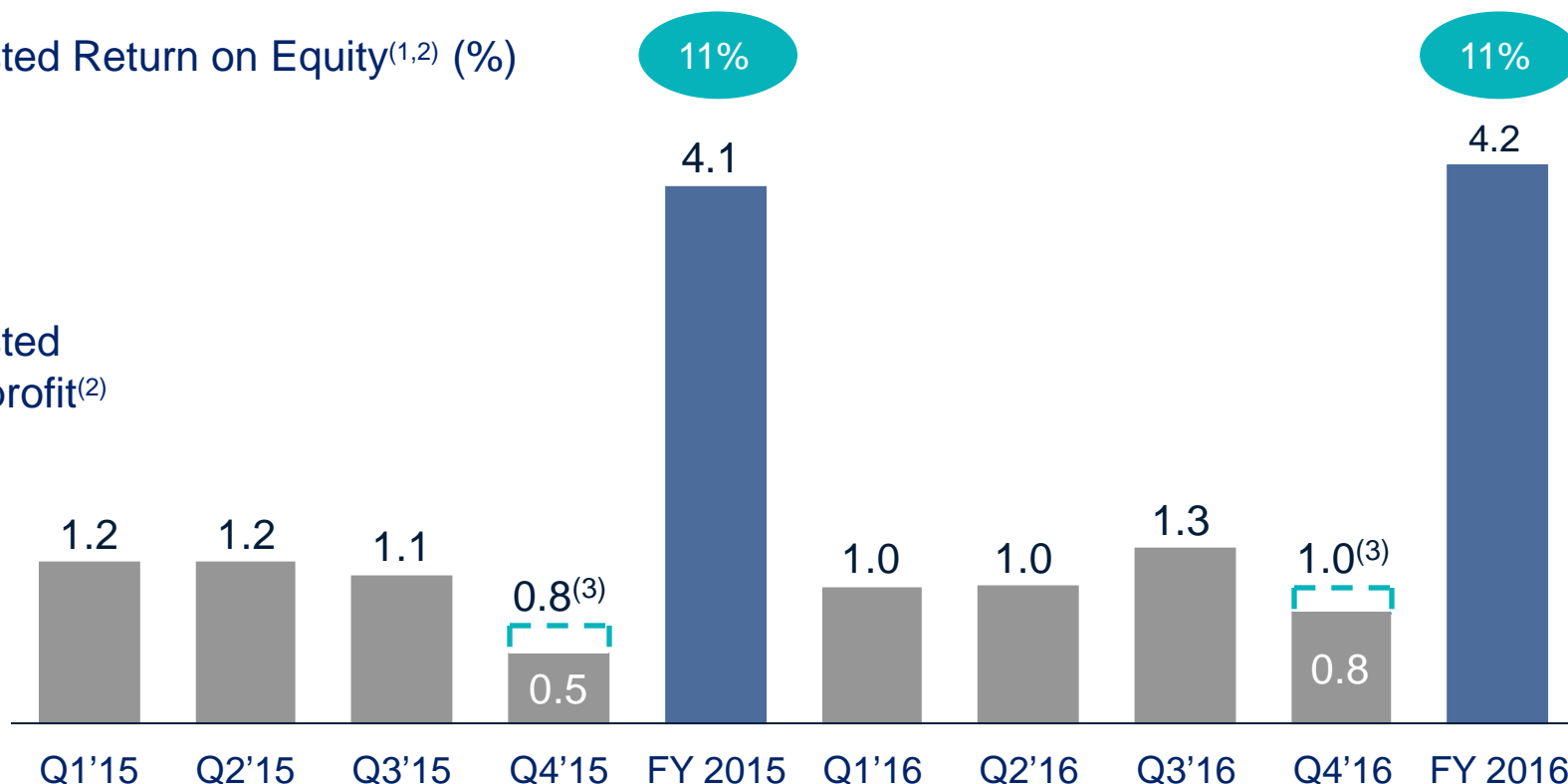
 Lombard  
*DRUMMONDS*

 HOLT'S  
MILITARY  
BANKING

# Three core businesses generating stable and attractive returns

Core Adjusted Return on Equity<sup>(1,2)</sup> (%)

Core Adjusted operating profit<sup>(2)</sup> (£bn)



- Core businesses averaged >£1bn operating profit for last 8 quarters

<sup>(1)</sup> 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 (RWAs). <sup>(2)</sup> Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. Excluding restructuring costs and litigation and conduct costs and goodwill. <sup>(3)</sup> Excluding the impact of the Bank Levy. Note: totals may not cast due to rounding.

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# Robert Begbie

Treasurer

Solid capital and liquidity metrics maintained

Increasing focus on balance sheet optimisation

Lower capital requirements reflect strategic progress  
13% target CET1 ratio maintained

Our issuance needs are evolving to reflect our strategic progress and future structure

- Target £3-5bn Senior HoldCo issuance
- No active need for AT1 or Tier 2 in 2017
- Progressive return to funding markets

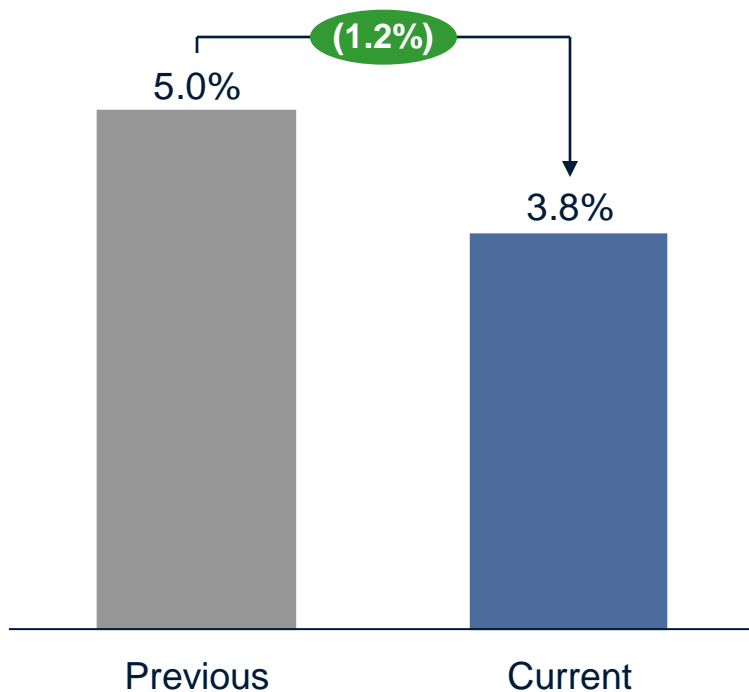
# Solid capital and liquidity metrics maintained

	FY 2016	FY 2015
Loan : deposit ratio	91%	89%
Short-term wholesale funding	£14bn	£17bn
Liquidity coverage ratio	123%	136%
Net stable funding ratio	121%	121%
Core equity tier 1 ratio	13.4%	15.5%
Leverage ratio	5.1%	5.6%

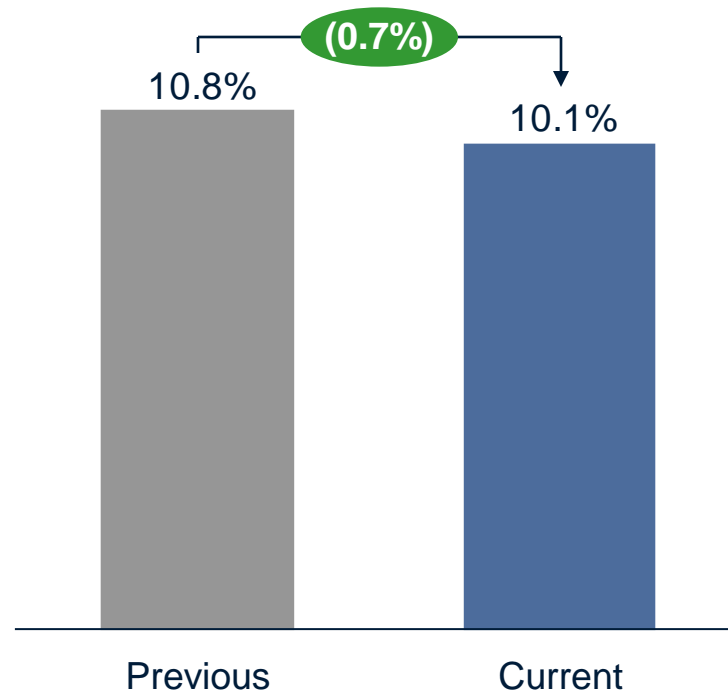


# Reduced capital requirements reflect strategic progress

Pillar 2A total capital requirement<sup>(1)</sup>



2019 'fully phased' CET1 MDA floor



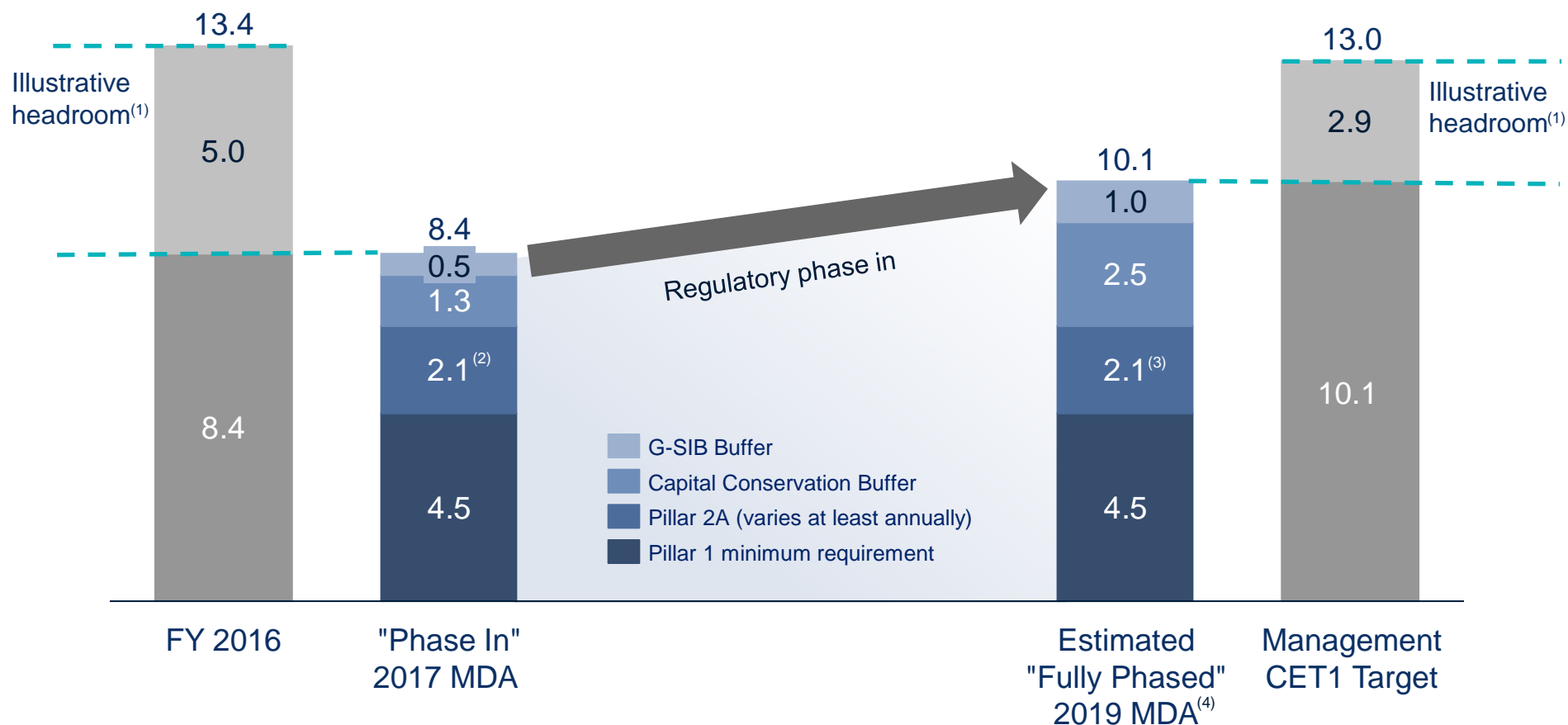
- Pillar 2A reduction primarily reflects contribution to pension scheme
- 13% target CET1 ratio maintained

<sup>(1)</sup> RBS's Pillar 2A requirement was 3.8% of RWAs as at 31 December 2016. 56% of the total Pillar 2A requirement, must be met from CET1 capital. Requirement is expected to vary over time and is subject to at least annual review.

# MDA phase-in and assessment of appropriate buffers

## Target CET1 ratio versus maximum distributable amount (“MDA”), %

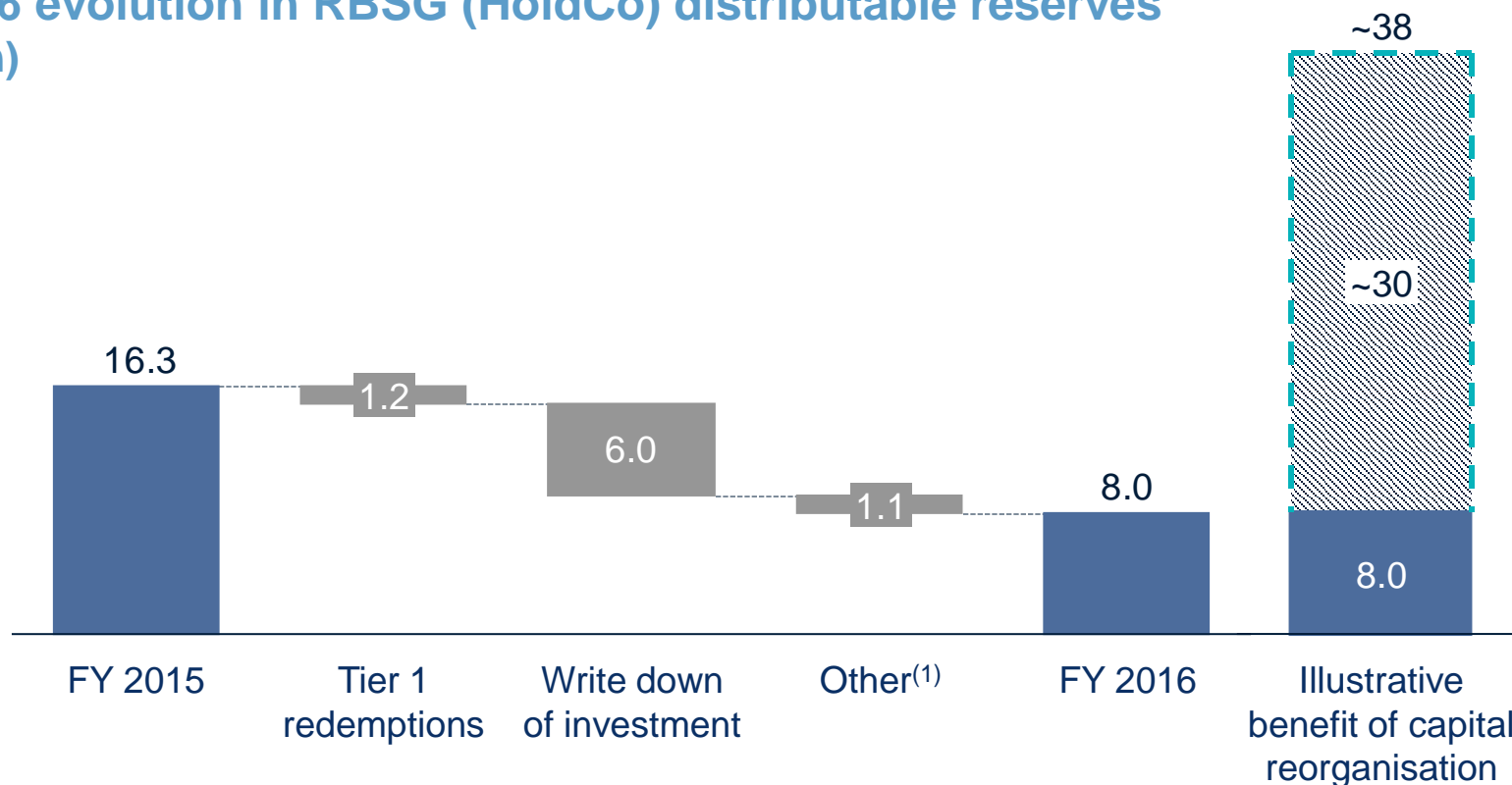
Illustration, based on assumption of static regulatory requirements<sup>(3)</sup>



<sup>(1)</sup> Headroom presented on the basis of MDA, and does not reflect excess distributable capital. Headroom may vary over time and may be less in future. <sup>(2)</sup> RBS's Pillar 2A requirement was 3.8% of RWAs as at 31 December 2016. 56% of the total Pillar 2A requirement, must be met from CET1 capital. <sup>(3)</sup> 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. <sup>(4)</sup> Assumes no material Counter Cyclical Buffer requirement.

# Capital reorganisation planned to increase available distributable reserves

## 2016 evolution in RBSG (HoldCo) distributable reserves (£bn)



- FY 2016 RBSG (HoldCo) distributable reserves £8.0bn vs £16.3bn at FY 2015
- Capital reduction planned to reclassify up to ~£25bn share premium and ~£5bn capital redemption reserve as distributable reserves
- Target AGM approval in Q2, with subsequent court approval during 2017

# Our issuance needs in 2017 are evolving to reflect our RBS strategic progress

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Issuance focussed on MREL<sup>(1)</sup> build:

- Target £3-5bn equivalent Senior HoldCo
- No active need for AT1
- No active need for Tier 2

Returning to modest funding activity:

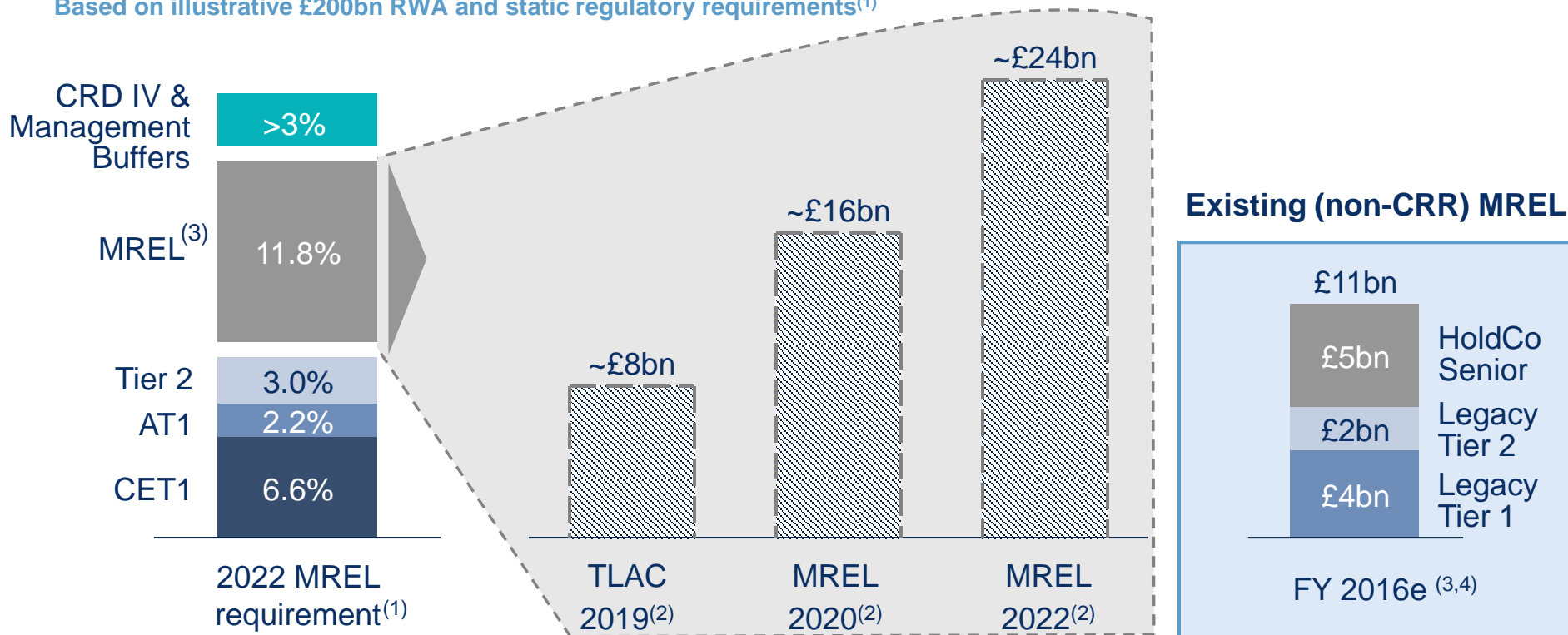
- Reintroduce regular secured funding
- Participant in the Term Funding Scheme
- Tactical unsecured funding

Manage stack for value, balancing factors including: current & future regulatory value; relative funding cost; and Rating Agency considerations

# Target £3-5bn Senior HoldCo MREL in 2017

## Illustrative future MREL requirements versus estimated existing position

Based on illustrative £200bn RWA and static regulatory requirements<sup>(1)</sup>



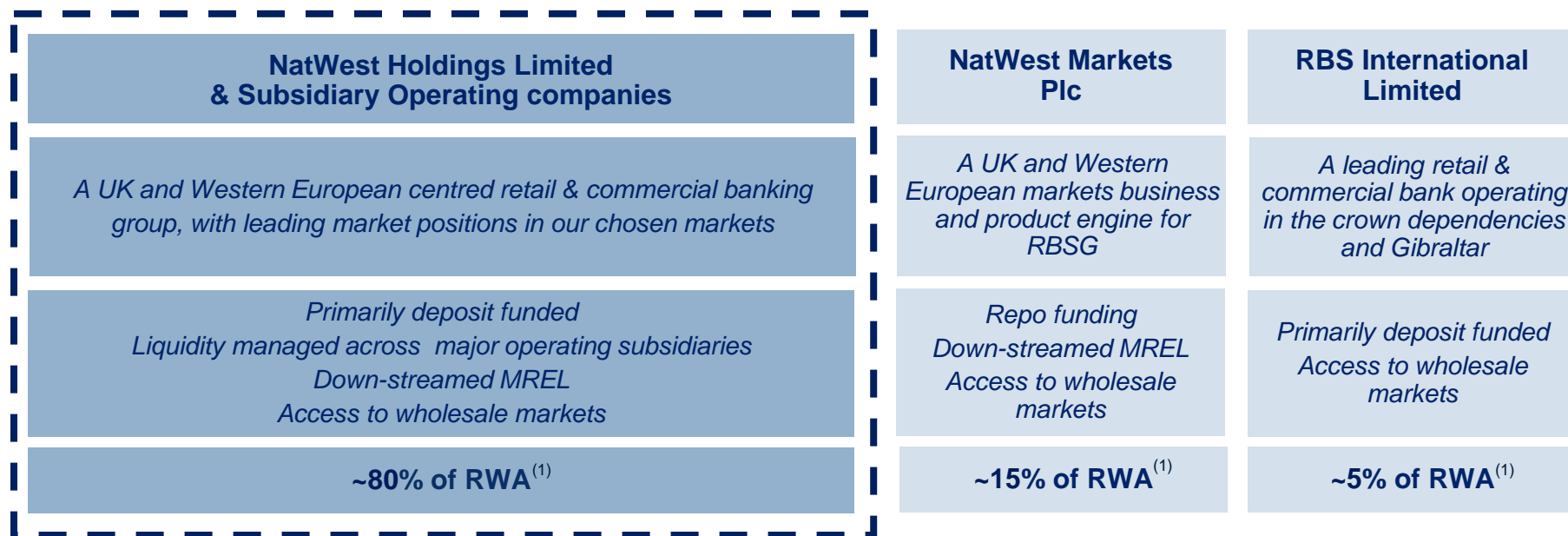
- £5.6bn of OpCo Senior maturities in 2017; ~£13bn of maturities 2017-21<sup>(5)</sup>
- Manage stack for value, balancing factors including: current & future regulatory value; relative funding cost; and Rating Agency considerations

<sup>(1)</sup> Illustrative only, both RWA and future capital requirements subject to change. <sup>(2)</sup> Based on TLAC 1 Jan 2019 = 16% RWA; MREL 1 Jan 2020 = 2x Pillar 1 and 1x Pillar 2A, MREL 1 Jan 2022 = 2x Pillar 1 and 2x Pillar 2A. 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. Note, End state requirements to be met by 1 January 2022 are subject to review by the end of 2020. For further information on TLAC and MREL, including associated leverage requirements, please refer to 'Capital sufficiency' disclosure in the 2016 Annual Report & Accounts. <sup>(3)</sup> 2020 MREL requirement not required to be met by CRDIV compliant regulatory capital. <sup>(4)</sup> For further information please see 'Loss Absorbing Capital' disclosure in 2016 Annual Report & Accounts. <sup>(5)</sup> For further information please refer to 'Roll-off profile' in 2016 Annual Report & Accounts.

# Illustrative future funding structure

## The Royal Bank of Scotland Group plc Group Holding Company and primary issuing entity for MREL

Proportional Intercompany issuance of Loss Absorbing Capital



- HoldCo primary issuing entity for MREL under single point of entry resolution model
- Operating companies tactically utilised to support future funding need
- Covered bond programme to be transferred to ring-fence bank

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# Sustainable banking

“Sustainability goes hand in hand with building trust. If we act irresponsibly, we will lose trust. That applies not just to how we treat our customers, but also the wider role we play in society.

I want us to be supporting businesses beyond just providing finance. I want us to be part of the businesses we serve. If our business customers succeed then we succeed as a bank and the UK economy succeeds as well. It is a virtuous circle and it makes sense. It is sustainable banking.”

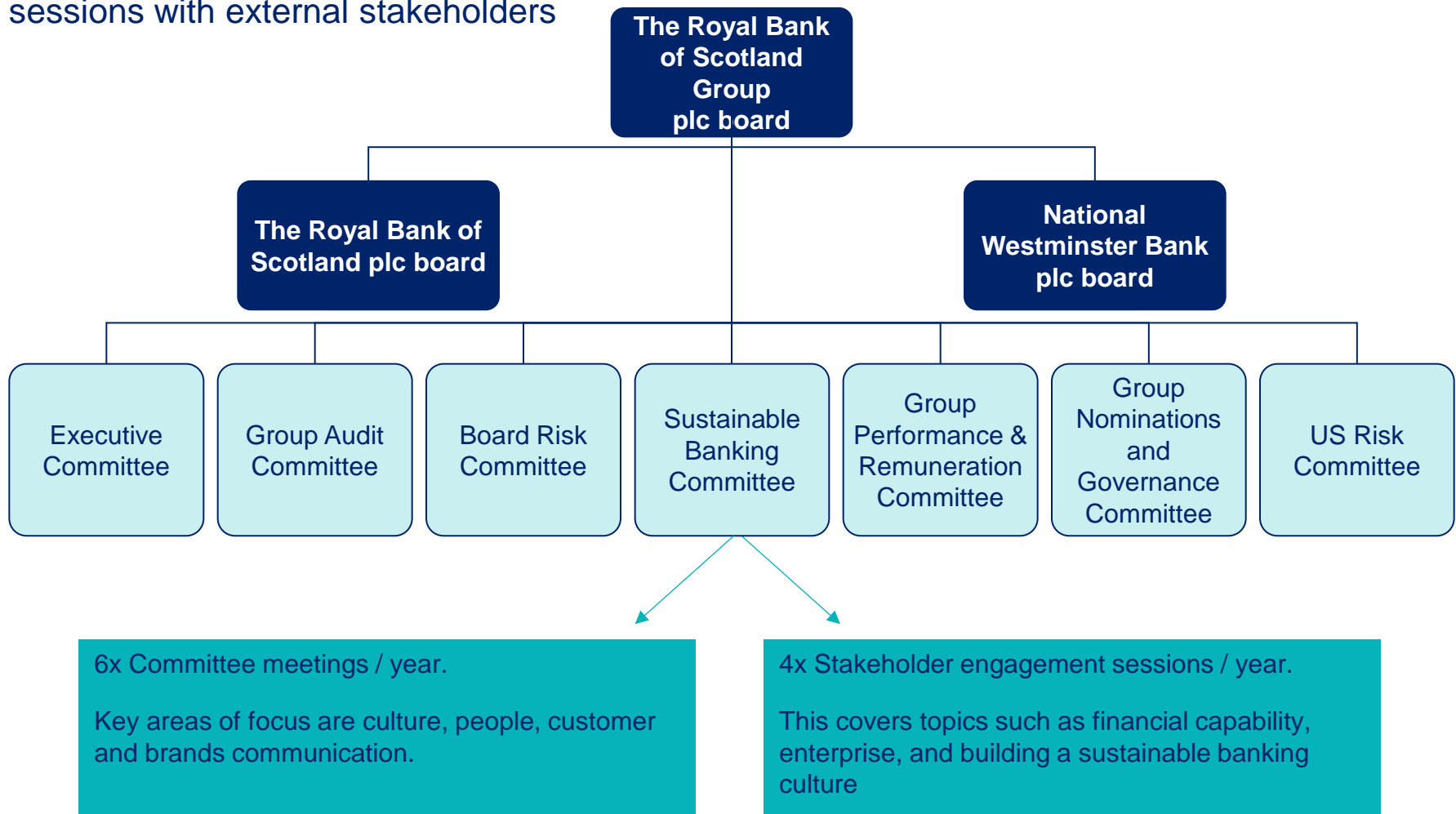
**Ross McEwan, Chief Executive**

“We are building a more sustainable bank; a more responsible company, doing business in a more sustainable way. We consider the long-term impacts of our actions in our decision making, and we are proud that our enterprise and financial education programmes show the difference we’re making for our customers and communities. Continuing to live by our values and providing, simple and fair banking will help us to build trust for the long term.”

**Kirsty Britz, Director of Sustainability**

# Sustainable banking: Board governance and oversight

Sustainable banking governance sits directly under the Board and is informed by regular sessions with external stakeholders





# We are building a more sustainable bank



## Customer Focused

- **757 branches now have Digital Zones** where customers can sign up for our digital banking services.
- **DigiDocs** service **helped more than 40,000 customers** benefit from a faster, more convenient and secure application experience this year.
- RBS continues to provide **multiple physical channels** for serving customers, including Post Office branches, mobile banking vans alongside our existing network of branches and ATMs.
- We opened a further **40,860 Foundation accounts** in 2016. Foundation accounts are an improved version of our Basic bank account.

## Responsible Business

- This year, for the first time, we have chosen to **integrate our financial and non-financial performance** to show how we are building a more sustainable bank.
- We **outperformed our 2020 targets** of 20% carbon, 5% water and 50% paper reduction targets during 2016.
- We published an interim statement in December 2016 setting out our approach to the **UK Modern Slavery Act**.
- We engaged colleagues via bank wide **'Determined to Make a Difference'** campaigns and logged over 2,500 activities to reduce our environmental impact.
- Recorded highest level of external recognition winning multiple awards for our sustainability achievements.

## Working at RBS

- We **increased the number of female leaders** to 34% in 2016. Our 2020 target is to have at least 30% women in our top three leadership layers by business area.
- **Times Top 50** Employer for Women.
- **13th in the Top 100** Stonewall Index (+19 places since 2015).
- **Delivered leadership training to almost 16,000** leaders through a comprehensive **'Determined to lead'** programme.
- Won a **Gold award** from Ministry of Defence Employer recognition scheme.
- We attained **Silver status** in the Business Disability Forum's Disability Standard.

# We are building a more sustainable bank

We are developing leadership positions on enterprise and financial capability

## Supporting enterprise

### Entrepreneurial Spark

Continued supporting UK start-up and scale up businesses in partnership with **Entrepreneurial Spark** by opening **6 new hubs** in 2016, bringing the total to 12.

### Women in business

We have over 400 accredited **Women in Business specialists in the UK** who offer specialist expertise in supporting women in business.

### Skills & Opportunities

Our Skills & Opportunities Fund **distributed £2.5m to 125 organisations**, that support people from disadvantaged communities start-up in business or get into employment.

### Boost

Launched **Boost** - a free advice and expertise service for small businesses – regardless of whether they bank with us or not.

### Leading lender

According to InfraDeals, RBS has been the **leading lender to the UK renewables sector** by number of transactions over the past 5 years (2012-2016).

### 40 years

In 2016 our partnership with the **Prince's Trust** directly **helped over 2,000 young people**, with more than 120 supported in running their own business.

## Building financial capability

### Financial Education

**MoneySense**, our 22 year flagship financial education programme, has helped an estimated **4.5 million young people** understand all about money.

### Accredited

We have been **accredited by the Royal National Institute for Blind People** for having an accessible mobile app for blind and partially sighted customers.

### Technology

We are **piloting innovative technologies** to help make mortgages more accessible

### Opening accounts

We opened a further **40,860 Foundation accounts** in 2016. Foundation accounts are an improved version of our Basic bank account.

### Citizen's Advice Bureau

We work in partnership with the **Citizens Advice Bureau (CAB)** to ensure customers in financial difficulty are immediately transferred to an in-house CAB Advisor.

### Act Now

We have **'Act Now'** text alert service to help customers manage their money and avoid charges.

# Sustainable banking: benchmarks

	2013	2014	2015	2016
CDP				
RBS – Disclosure	88	98	99	A-
RBS – Performance	B	B	B	
Industry Av. - Disclosure	70	69	84	C
Industry Av. - Performance	C	C	C	
DJSI				
RBS	82	82	80	84
Industry average	58	60	61	61
FTSE4Good				
	Included	Included	Included	Included

- Retained top 10% positions in Dow Jones World Index and CDP Leaders category
- Members of the United Nations Global Compact since 2003.
- Sustainability reporting that is independently assured to AA1000 standards.
- Awards and Recognition - Recorded highest level of external recognition winning multiple awards. A full listing is available on [rbs.com](http://rbs.com).

# 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 business; 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 (RWAs), 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 Promoter 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 set out in the Group's 2016 Annual Report and other 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 (including active civil and criminal investigations) 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 the EU Referendum; 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 transformation programme, particularly the proposed further restructuring of the NatWest Markets business, 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 exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital 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 initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks; 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 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; 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 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.

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 solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.