H1 2016 Results

Howard Davies

Chairman

Ross McEwan

Chief Executive 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

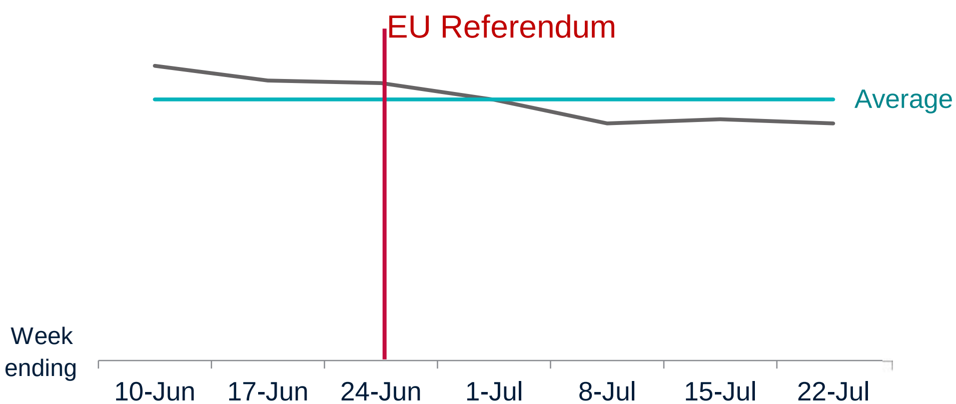
Financial results highlights

- Adjusted ROTE across our core PBB, CPB and CIB franchises of 11% in Q2 2016 and H1 2016. Q2 2016 core franchise adjusted operating profit of £1bn[(1)]
- Attributable loss of £1,077m driven by £1,284m of provisions relating to conduct and litigation issues
- PBB and CPB net loans up 7% in six months, surpassing our 4% full year target
- Underlying income across PBB and CPB stable on H1 2015
- Positive adjusted[(1)] operating JAWS across the core franchises of 2.7% Q2 vs. Q1
- On course to reduce costs by £800m in 2016 despite FX headwinds[(2)]
- CET1 ratio of 14.5%, down 10 bps on Q1 2016

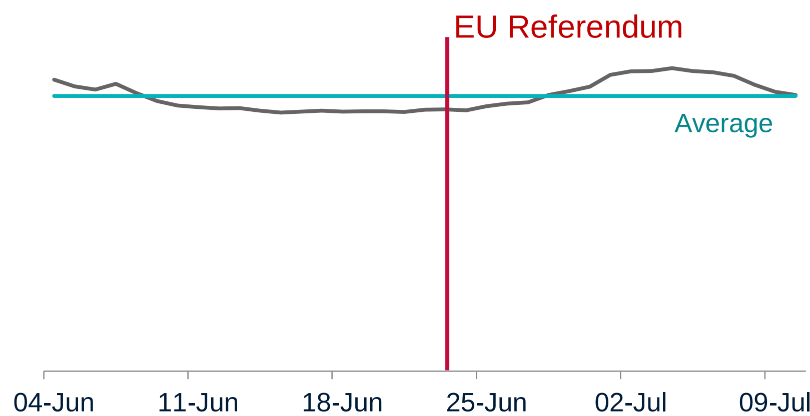
[(1)] Excluding own credit adjustments, loss on redemption of own debt, strategic disposals, restructuring costs, litigation and conduct costs. [(2)] Excluding any write down of intangible assets and the operating costs of Williams & Glyn.

Business activity since the EU Referendum

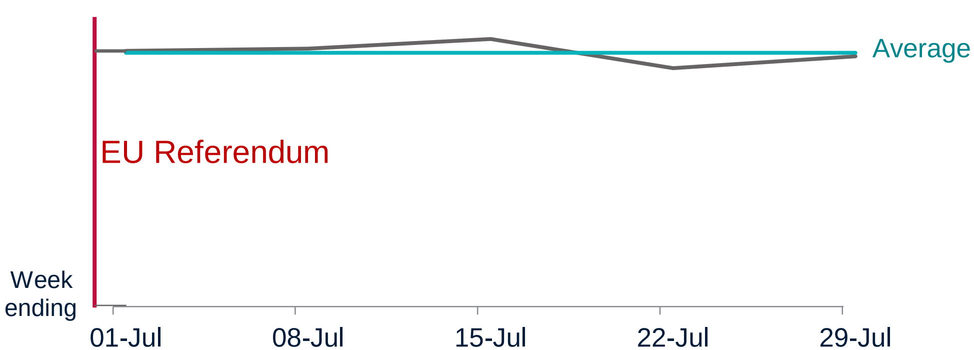
New Mortgage Applications



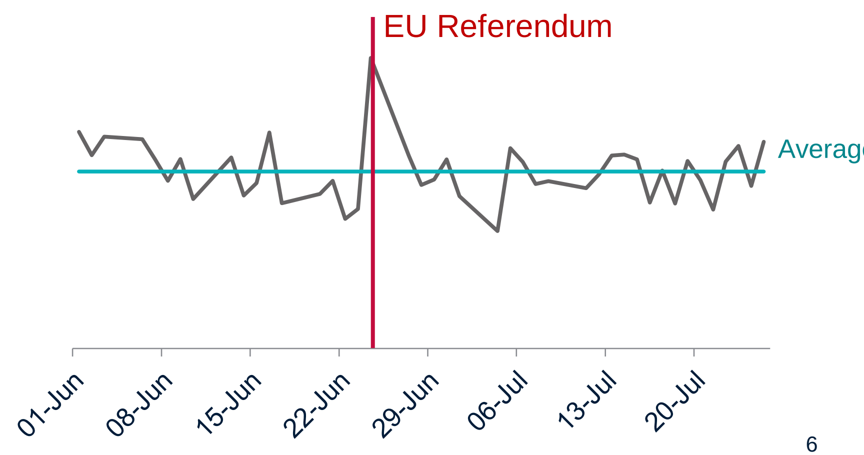
Debit card spending per day



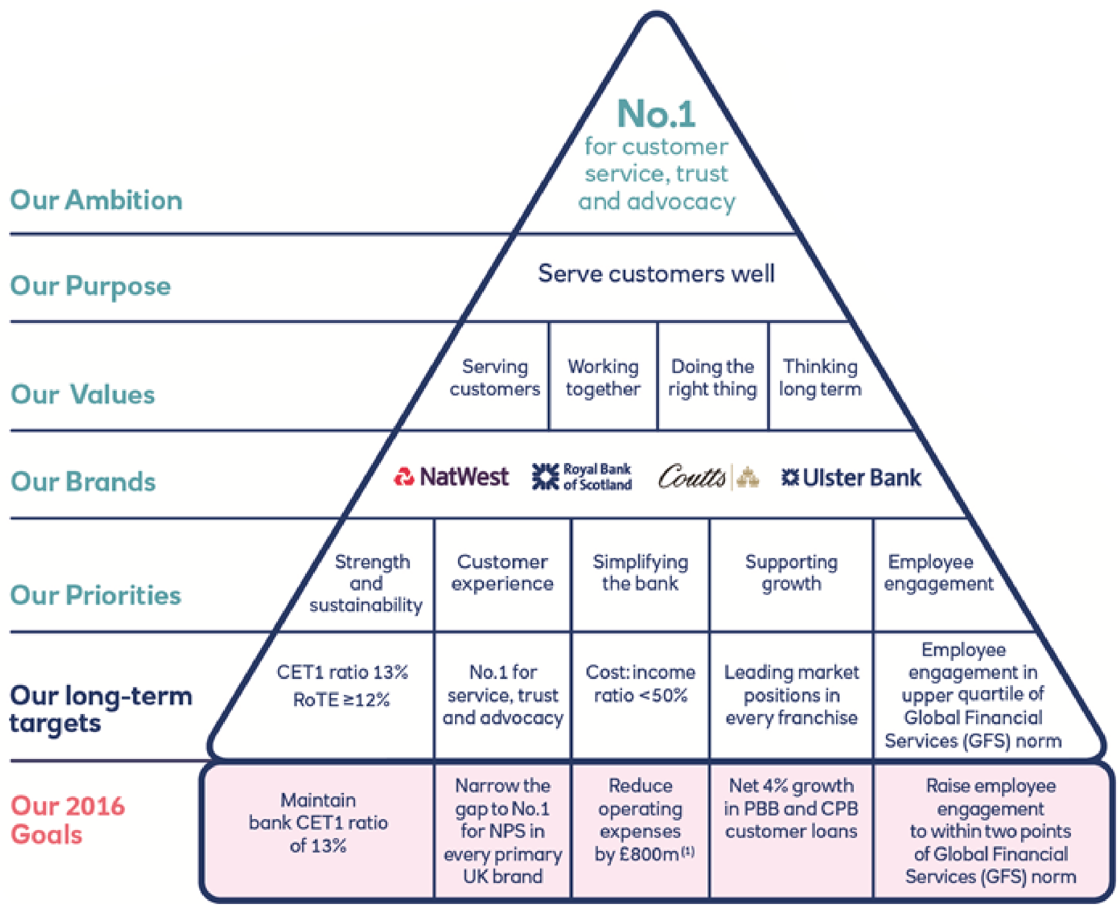
Commercial Banking volumes – Business submitted by the Relationship Managers



CIB deal count for FX products by day



Our blueprint for success
Committed to being #1 bank for customers



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

Outstanding issues

- FCA SME treatment review
- RMBS
- UK 2008 rights issue shareholder litigation
- Williams & Glyn

Simplified and streamlined

We are becoming a leaner, smaller bank

	Property	Structure	Products	Countries
	# London properties	# subsidiaries	# front book	# CPB and CIB countries of active operation
2013	11	1,107	416[2]	38
	↓ 36%	↓ 40%	↓ 19%	↓ 66%
H1 2016	7[1]	666	339	13
Target	**5**	**~500**	**<300**	**13**

[1] Excluding property occupied by Williams & Glyn. [2] FY 2014

Customers are doing more business with us

We are committed to investing in our core bank

Improving Customer Service

- Award winning DigiDocs loan application process for business customers reduced from 11 days to within 24 hours
- Electronic signatures reduced mortgage switching documentation process from 7 days to <2 days
- 73 Business Growth Enablers introduced, linking SMEs, experts, and helping local business networks

Supporting UK Business

- 50% increase in gross lending to small businesses since H1 2015
- Launched £1bn NatWest lending fund to support small businesses
- £7.9bn Commercial net new lending growth in H1 2016
- 9 Business Accelerator hubs, 3 more opening in H2 2016

Improving Products / Technology Support

- Leading mobile app, and first UK bank accredited by RNIB
- 815,000 Reward customer accounts, up 276,000 on Q1
- National roll-out of new Commercial Banking account opening platform

Digital Transformation

Customers are changing the way they do business with us:

- 4.1 million active personal mobile users, up 25% in one year
- 37% of logins to our app are now biometric
- Customers transferred money using our app six times per second during H1 2016
- 69,000 unsecured products applied for via mobile app in H1 2016

Strong franchises with clear strategies

Majority generating good returns, with actions to improve performance

	UK PBB	Commercial Banking	RBS International
Invest to Grow	20% RWAs Adj. ROE: 24%	41% RWAs Adj. ROE: 7%	5% RWAs Adj. ROE: 16%
Actions	▪ Clear customer segment strategies, leveraging products, e.g. Reward ▪ Digital transformation, improving customer experience	▪ Accelerate simplification and product rationalisation ▪ Strong digital investment ▪ Enhance CIB connectivity	▪ Grow domestic market share (e.g. Jersey, Guernsey, Isle of Man & Gibraltar) ▪ Open Luxembourg & London branch to broaden customer offering

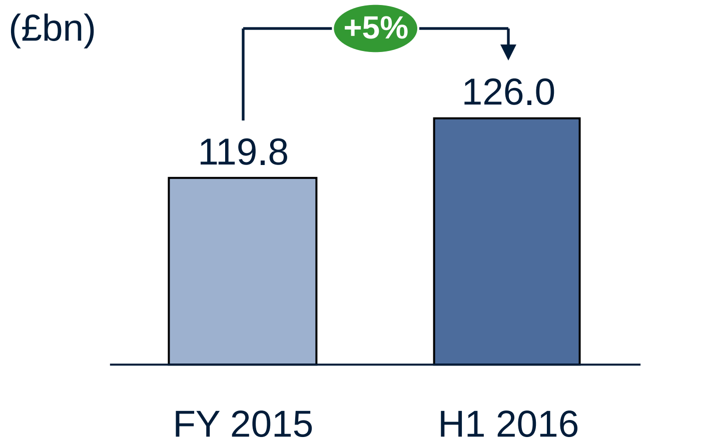
	Ulster Bank RoI	Private Banking	CIB
Reposition for Returns	11% RWAs Adj. ROE: 9%	4% RWAs Adj. ROE: 10%	19% RWAs Adj. ROE: 4%
Actions	▪ New CEO to drive strong and profitable franchise ▪ Cost reduction ▪ Increase mortgage market penetration ▪ Increase capital efficiency	▪ New CEO to drive strong and profitable franchise ▪ Cost reduction ▪ Develop referrals with Commercial ▪ Focus on balance sheet and AUM growth	▪ Continue cost reduction ▪ Stabilisation of income ▪ Deepen relationships with Commercial

Note: Adjusted return on equity for the quarter ending 30 June 2016

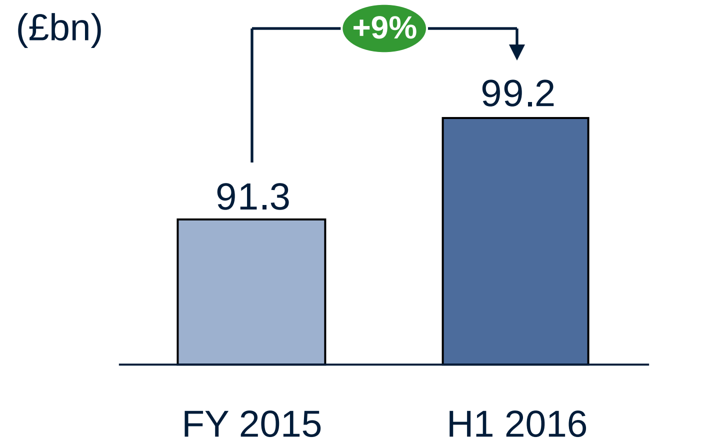
Continued growth in our core businesses

Strong H1 2016 growth in net customer loans

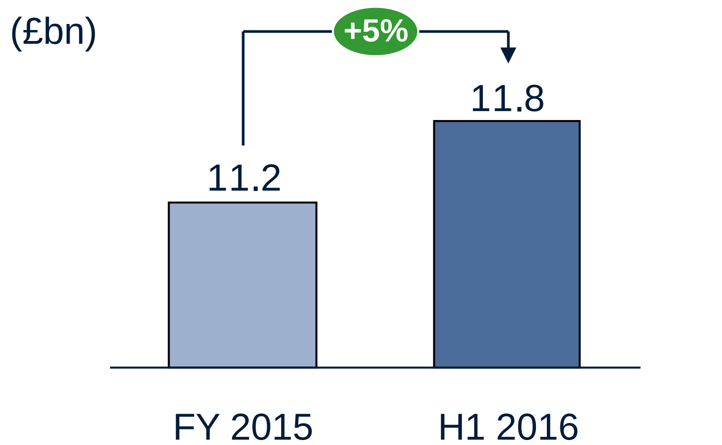
UK PBB



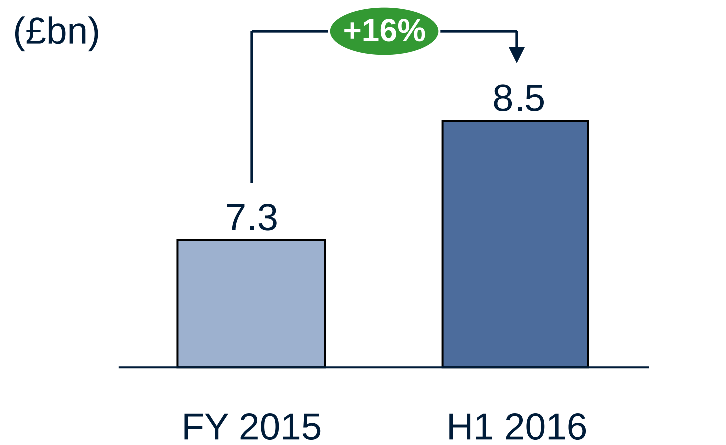
Commercial Banking



Private Banking



RBS International



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

Ewen Stevenson

Chief Financial Officer

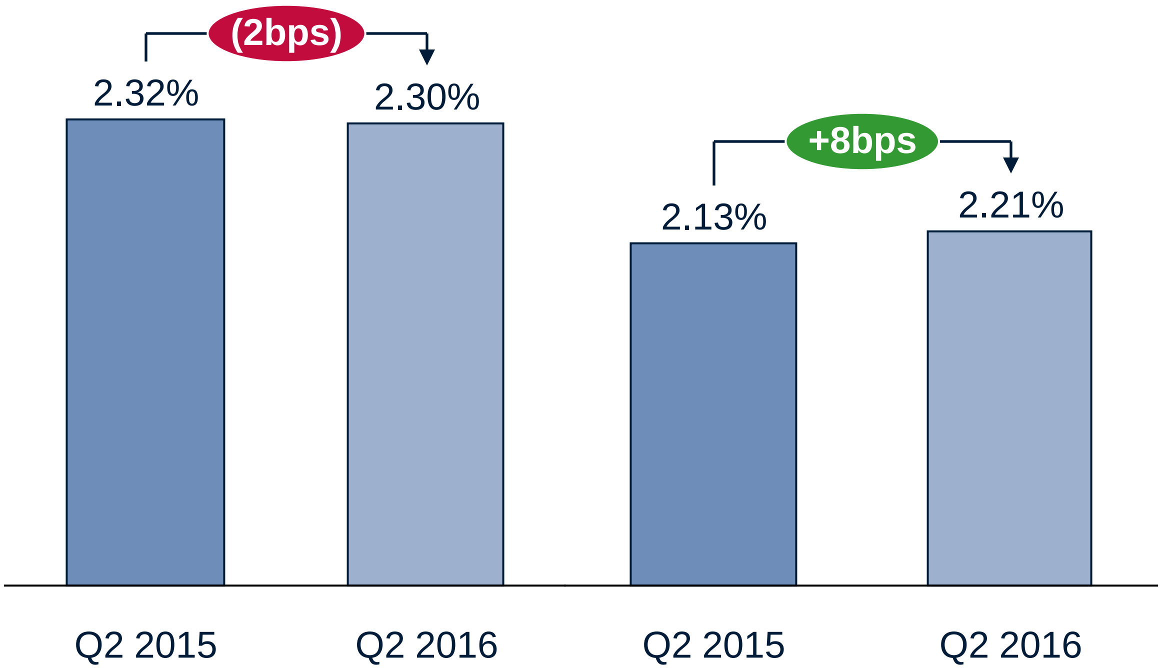
Q2 2016 results by franchise

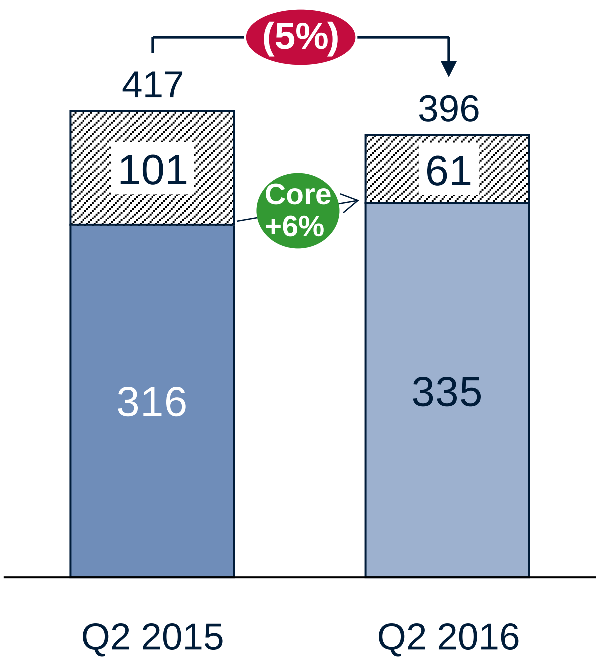
(£bn)	Core Franchises							Total Other				Total RBS
	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	CIB	Total Core Franchises	Capital Resolution	W&G	Central items & other[1]	Total Other	
Adj. Income[2]	**1.3**	**0.1**	**0.8**	**0.2**	**0.1**	**0.4**	3.0*	**(0.4)**	**0.2**	**(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

NIM analysis Q2 2016 vs. Q2 2015

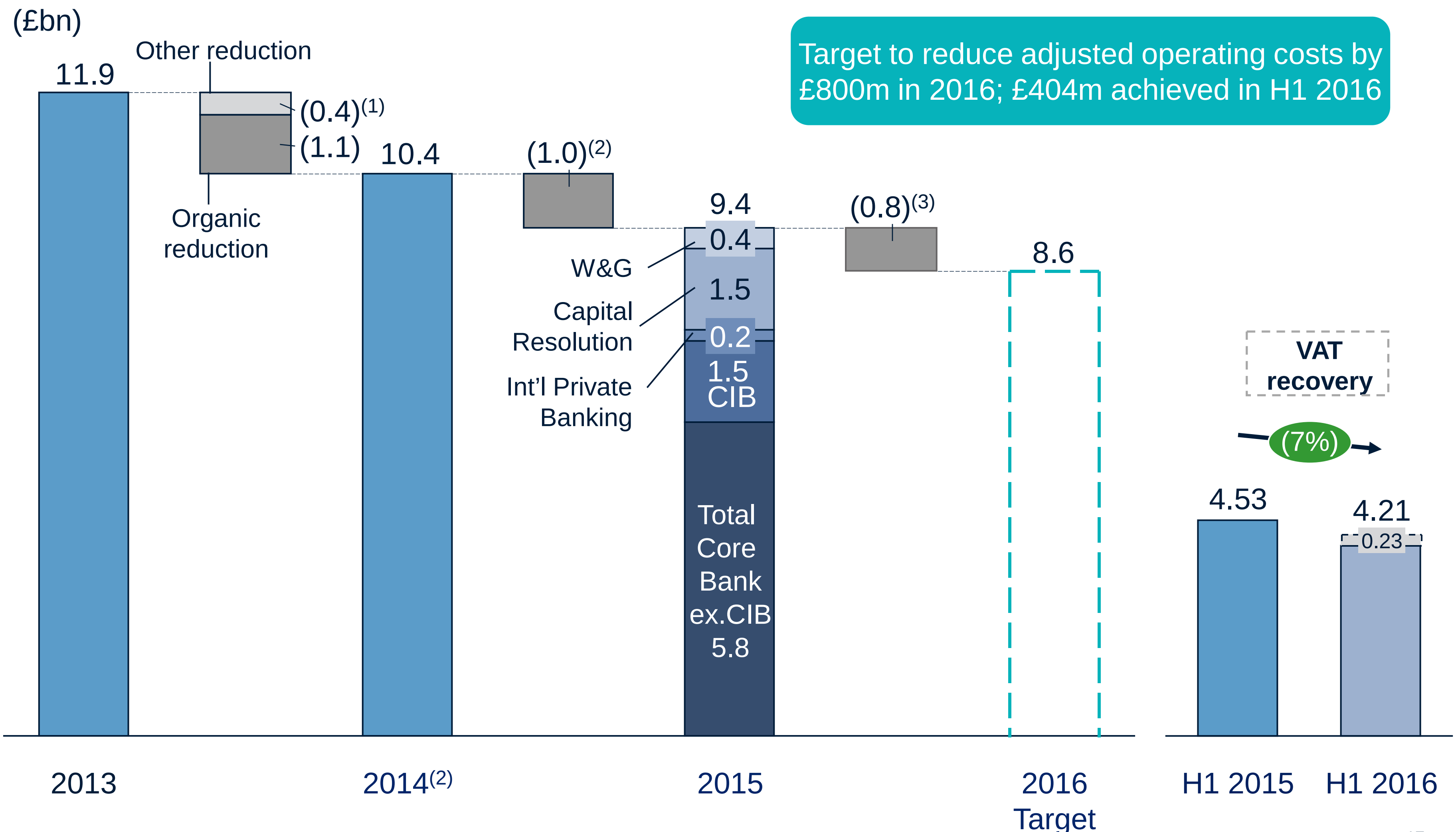
NIM		Interest earning Assets
Core	Bank	(£bn)





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

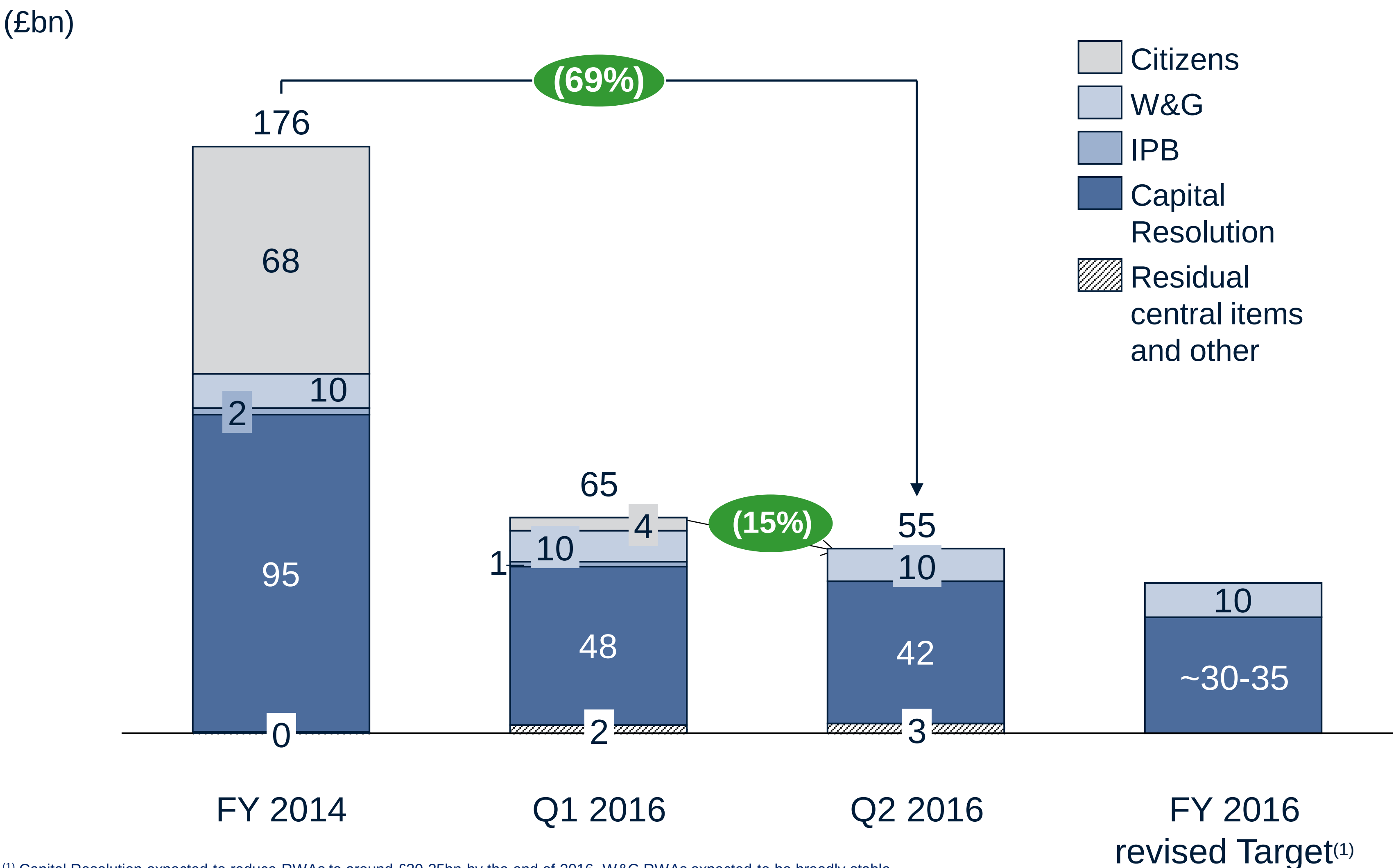
Reduction in Adjusted Operating Costs from 2013 - H1 2016



(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)

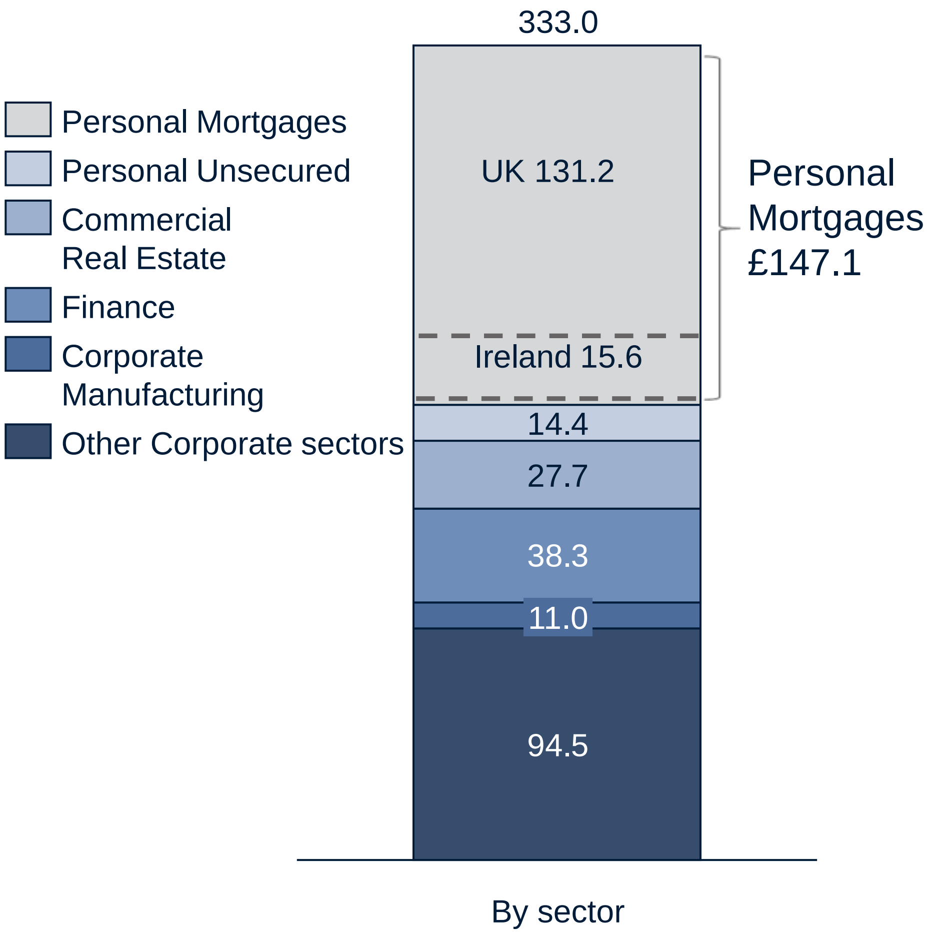


(1) Capital Resolution expected to reduce RWAs to around £30-35bn by the end of 2016, W&G RWAs expected to be broadly stable.

Spotlight on credit
Customer loans & advances

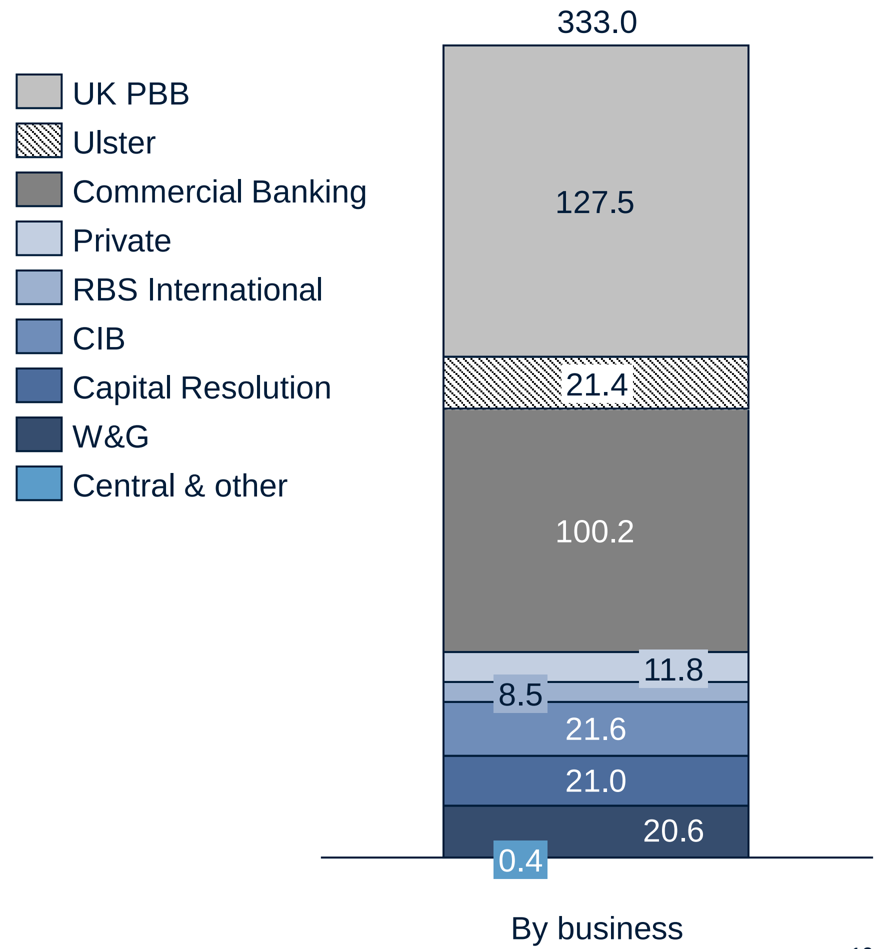
Gross L&As by sector at end Q2 2016

(£bn)



Gross L&As by business at end Q2 2016

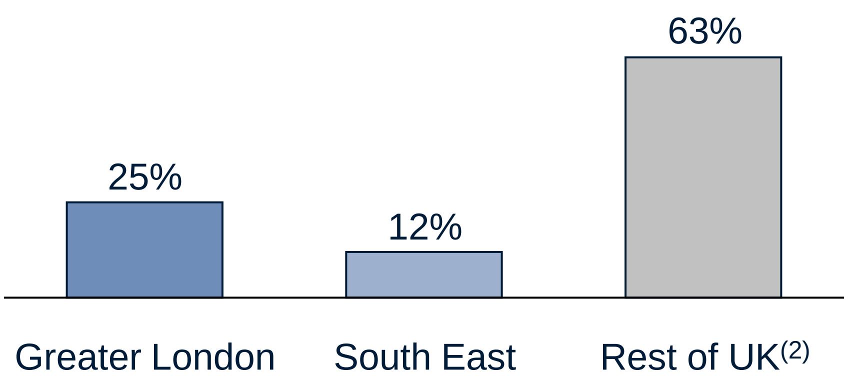
(£bn)



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 predominantly 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

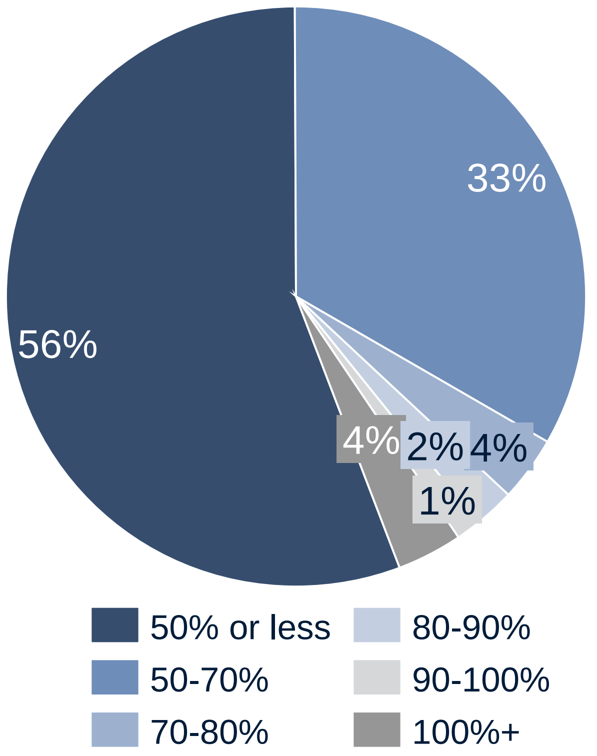


UK CRE investment portfolio by LTV band at end Q2 2016

(£bn)

Total UK CRE exposure £24.6bn[(3)]

o/w total with LTVs £18.3bn

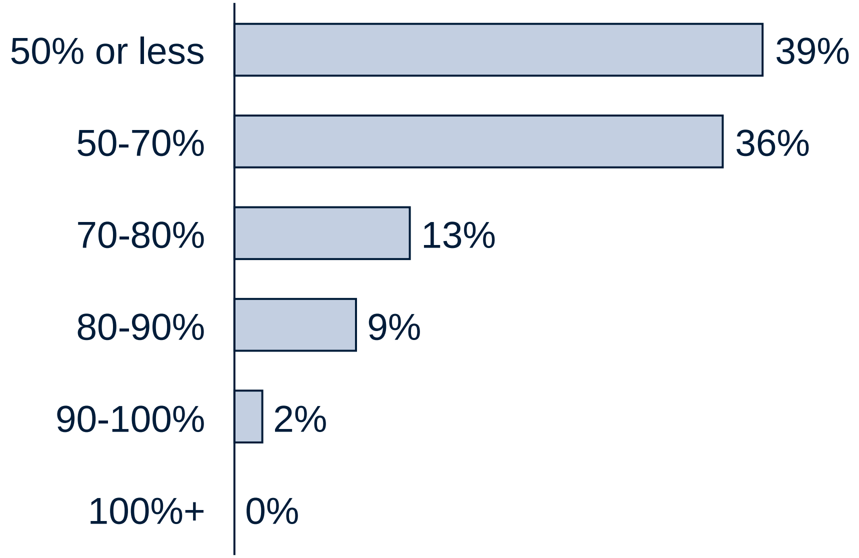


[(1)] Based on management estimates using the postcode of the security. Percentages are based on current exposure before provisions. [(2)] Rest of UK also includes lending secured against property portfolios comprising numerous properties across multiple UK locations (some of which may be in Greater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

Spotlight on credit
UK residential mortgage exposure

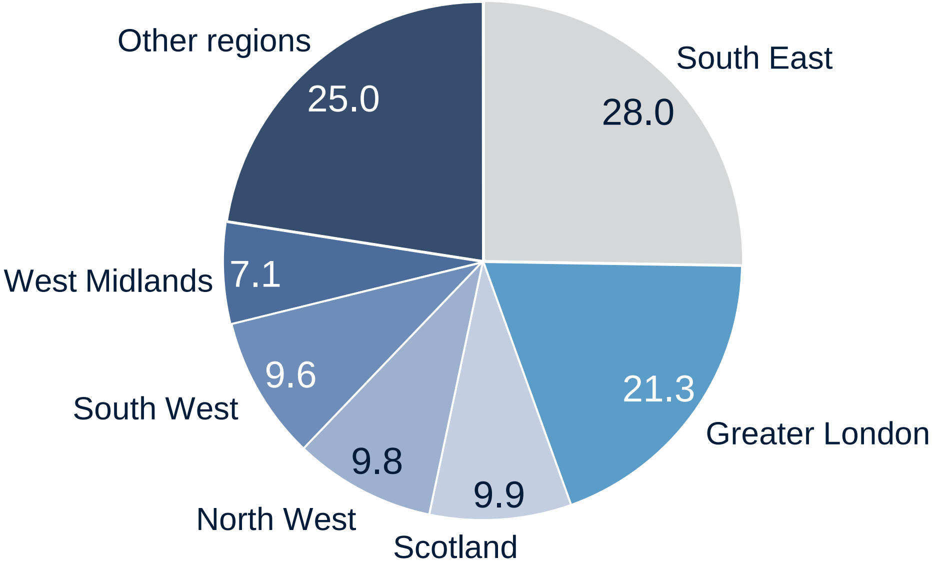
UK PBB mortgage exposure by LTV band
At end Q2 2016

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%

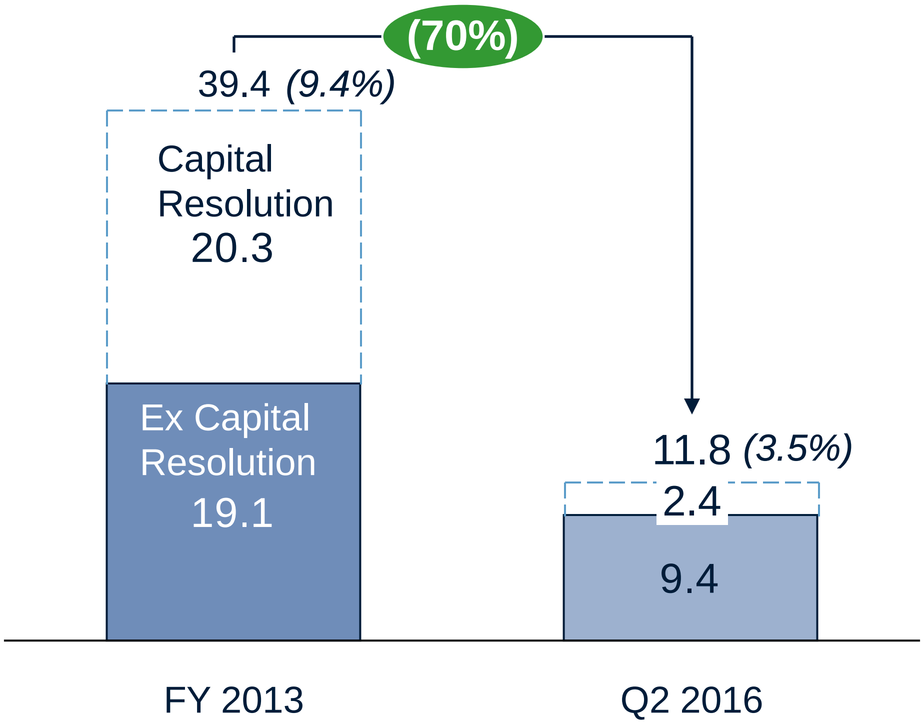
[1] Total mortgage portfolio including Ulster Bank RoI, Private Banking, RBSI and W&G is £145.8bn, as shown on p.32 of Appendix 1. [2] More than three pre-payments in arrears, excluding re-possessions and short falls after property sale.

Spotlight on credit
Risk Elements in Lending

REILs
As at end Q2 2016

(£bn)

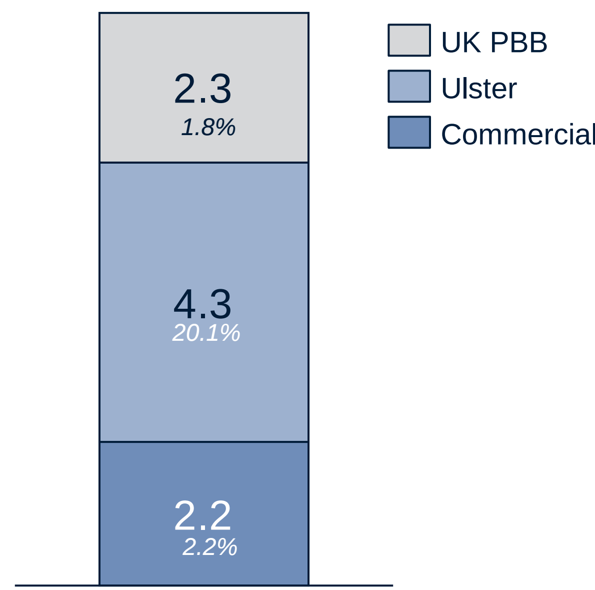
(as % of Total Gross L&As)



Key portfolios REILs
As at end Q2 2016

(£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

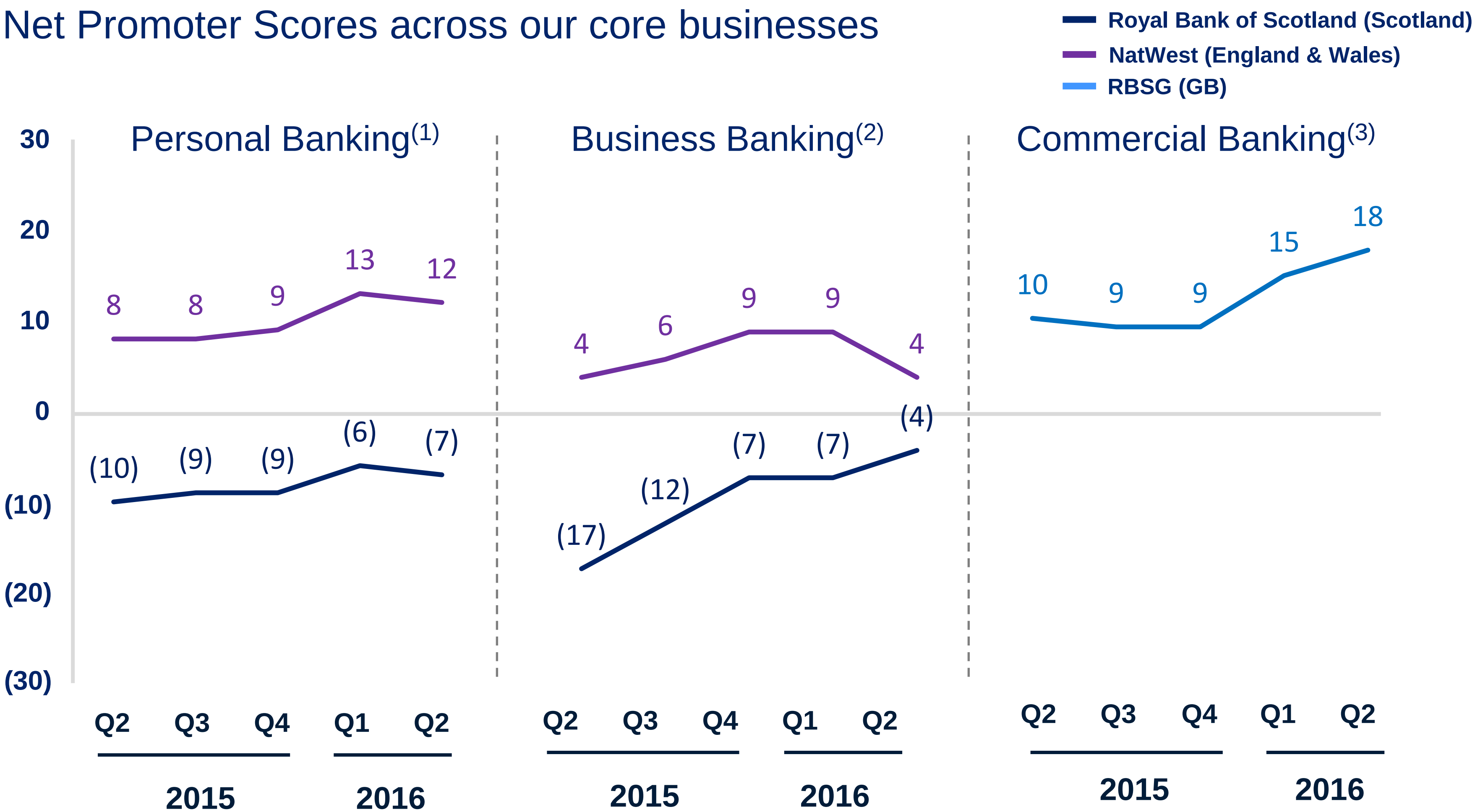
- Strong and growing core bank – delivered again in Q2
- Legacy continues to be cleaned up and reduced
- EU Referendum outcome creates new uncertainty
- Positioned to deal with potential challenges ahead

Q&A

Appendix

NPS

Net Promoter Scores across our core businesses



(1) Personal Banking: Source GfK FRS, 6 month roll. Latest base sizes: NatWest (3387) Royal Bank of Scotland (527) Question "How likely is it that you would to recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers. The year on year improvement in NatWest Personal Banking is significant.
(2+3)Business & Commercial Banking: Source Charterhouse Research Business Banking Survey, quarterly rolling. Latest base sizes, Business £0-2m NatWest (1361) Royal Bank of Scotland (438) Commercial (3) £2m+ combination of NatWest & Royal Bank of Scotland in GB (972) 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 Royal Bank Business Banking and RBSG Commercial Banking is significant.

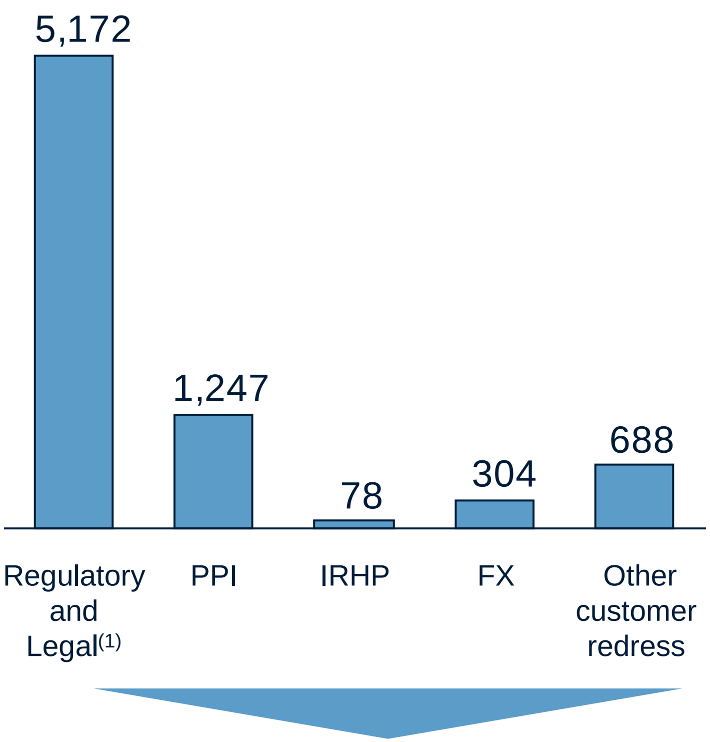
Notable items

(£m)		Q2 2016	Q1 2016	Q4 2015	Q2 2015	H1 2016	H1 2015
Total Income		**3,000**	**3,064**	**2,484**	**3,737**	**6,064**	**7,256**
Other Credit Adjustments		194	256	(115)	168	450	288
Loss on redemption of own debt		(130)	-	(263)	-	(130)	-
Strategic disposals		201	(6)	(22)	-	195	(135)
o/w Visa Gain (in Central Items)		246	-	-	-	246	-
o/w Russian disposal loss (in Cap Res)		(45)	-	-	-	(45)	-
Adjusted Income		**2,735**	**2,814**	**2,884**	**3,569**	**5,549**	**7,103**
IFRS volatility in Central items		(312)	(356)	59	204	(668)	80
Disposal of AFS securities		-	2	-	(42)	2	(69)
Fair value adjustments in Capital Resolution		(220)	(110)	-	-	(330)	-
Madoff recovery in Capital Resolution		-	109	-	-	109	-
FX gain in Central items		201	52	-	-	253	-
Capital Resolution	Disposal gain/(losses)	(57)	4	(156)	(111)	(53)	(84)
Commercial	Disposal gain/(losses)	-	-	(34)	-	-	-
Ulster Bank RoI	Disposal gain/(losses)	-	22	-	-	22	-
Total Expenses		**(3,509)**	**(2,420)**	**(5,761)**	**(3,705)**	**(5,929)**	**(7,316)**
Restructuring		(392)	(238)	(614)	(1,023)	(630)	(1,470)
o/w Williams & Glyn		(187)	(158)	(181)	(126)	(345)	(259)
Litigation & Conduct		(1,284)	(31)	(2,124)	(459)	(1,315)	(1,315)
o/w PPI [1]		(400)	-	(500)	-	(400)	(100)
o/w Ulster mortgage tracker		(96)	-	-	-	(96)	-
Writedown of Goodwill		-	-	(498)	-	-	-
Adjusted Expenses		**(1,833)**	**(2,151)**	**(2,525)**	**(2,223)**	**(3,984)**	**(4,531)**
o/w VAT recovery		227				227	
Impairments		**(186)**	**(223)**	**327**	**192**	**(409)**	**321**
Capital Resolution		(67)	(196)	356	174	(263)	319
o/w Shipping Portfolio		(38)	(226)	(83)	-	(264)	-
Commercial (primarily single name Oil & Gas exposure in Q2 2016)		(89)				(103)	(26)

[1] Q2 and H1 excludes £50m transfer. Note: "-" Denotes zero or not material

Litigation and conduct

End of H1 2016 provisions (£m)



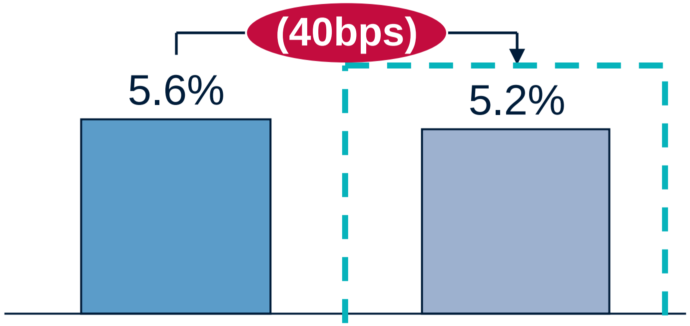
Litigation and conduct provision: £7.5bn, as at H1 2016

	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

Leverage ratio – key drivers

Leverage ratio (%)



(£bn)	Q4 2015	Q2 2016	% change
CET 1 capital	37.6	**35.7**	(5%)
AT1 capital	2.0	2.0	0%
Tier 1 Capital	**39.6**	**37.7**	**(4%)**
Total assets	815.4	901.6	11%
Netting and variation margin	(258.6)	(328.4)	27%
Securities financing transactions gross up	5.1	3.2	(37%)
Regulatory deductions & other adjustments	1.5	5.6	n.m
Potential future exposures on derivatives	75.6	75.5	0%
Undrawn commitments	63.5	63.2	0%
Leverage exposure	**702.5**	**720.7**	**3%**

Tangible Net Asset Value (TNAV) movements

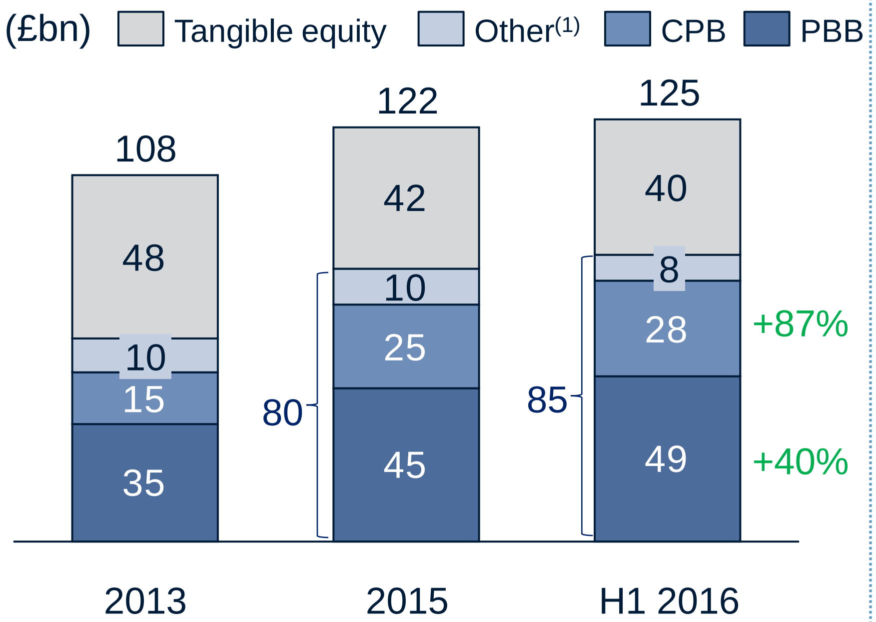
	Q4 2015			Q1 2016		
	£m	Shares in issue (m)	TNAV per share	£m	Shares in issue (m)	TNAV per share
Starting TNAV	40,943	11,625	352p	40,892	11,661	351p
Profit for the period post tax[(1)]	(525)		(4p)	(886)		(8p)
Less: profit to NCI / other owners	(1,431)		(12p)	(122)		(1p)
Other comprehensive Income	1475		13p	579		5p
o/w AFS	*(95)*		(1p)	*(87)*		*(1p)*
o/w Cashflow hedging gross of tax	*1581*		*13p*	*635*		*5p*
o/w FX	*1071*		*9p*	*489*		*4p*
o/w Remeasurement of net defined pension liability	*(995)*		*(8p)*	*(466)*		*(4p)*
o/w Tax	*(87)*		*(1p)*	*8*		-
Less: OCI attributable to NIC / other owners	(95)		(1p)	(45)		-
Proceeds of share issuance	334	130	(2p)	212	94	(2p)
Other movements[(2)]	(160)		(1p)	(89)		(1p)
	Q2 2016			**Q2 2016**		
End of period TNAV	**40,541**	**11,755**	**345p**	**40,541**	**11,755**	**345p**

[(1)] Profit for the period is pre non controlling interests and other owners dividends and excludes write-down of goodwill and other intangible assets. [(2)] Other reserve movements including intangibles.

£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)**

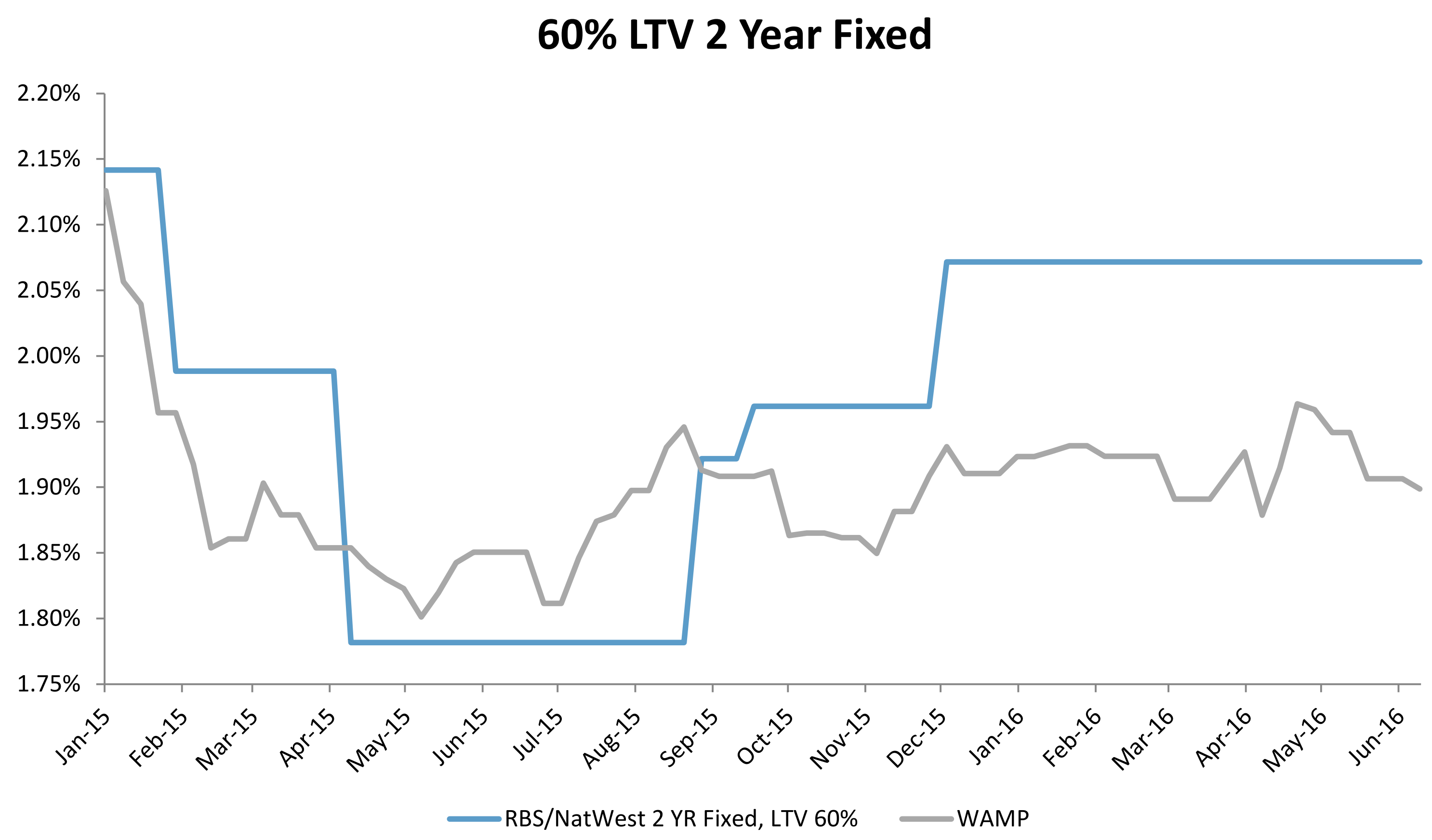
- 100bps downward shift in rates would reduce Net interest income by £0.3bn in Year 1
- The yield of the equity and product hedge combined was 1.59% as at 30 June 2016, contributing an incremental £0.6bn income in H1 2016
- The rolling 5-year deposit hedge yielded 1.28% in H1 2016 contributing an incremental £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.

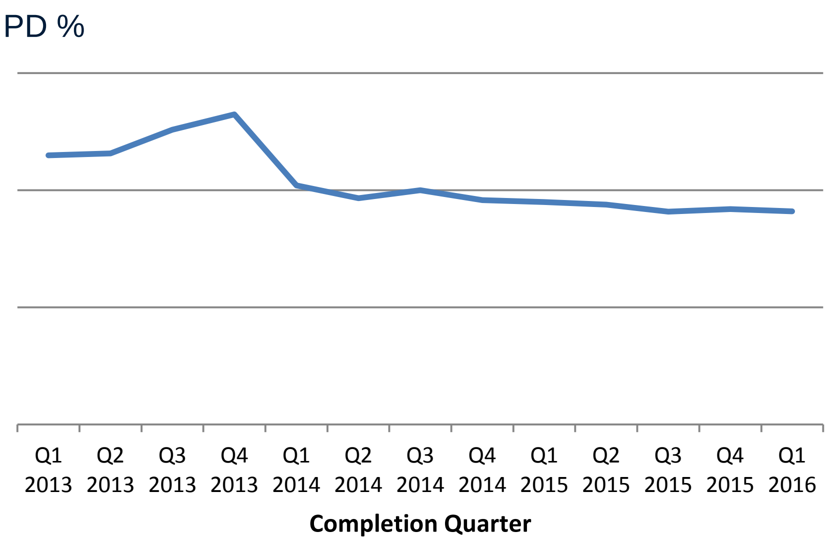
Mortgages – competing on service, not price

RBS/ Natwest 60% LTV 2yr Fixed vs. Weighted Average Market Price (“WAMP”)

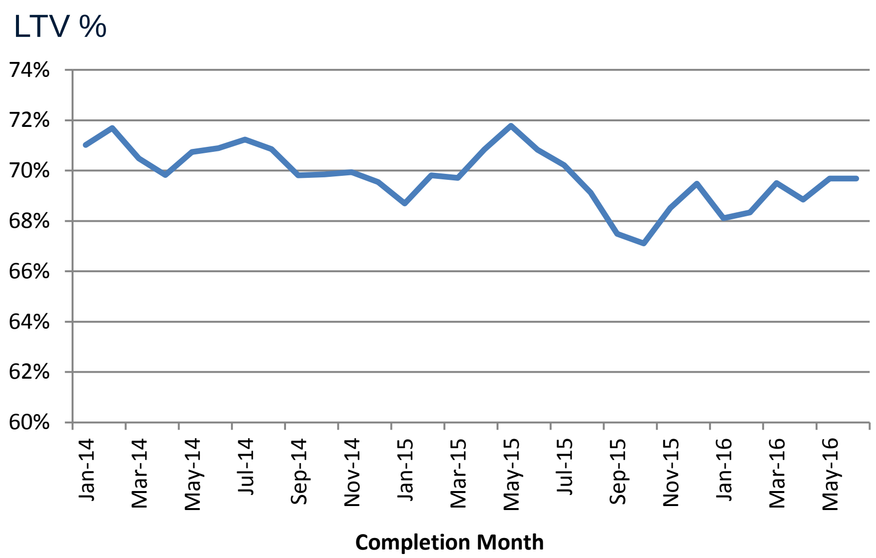


Residential mortgages – new business indicators

New Business 5yr PD rate



Average LTV (Value)



- The quality of new business completions has remained stable, as reflected by the new business Probability of Default rate, and Average LTV trends shown

Ring Fencing update

Target organisational structure

RBS Group plc
(Holding Company)

- **Ring-Fenced Holding Company (PBB & CPB)[5] c.80% RWAs**
- **RBS International c.5% RWAs**
- **CIB NRFB[2] *(current RBS plc)*[3] c.15% RWAs**

- ~80% of RWAs expected to be committed to Ring-Fenced Bank[4]
- ~15% RWAs in CIB NRFB. Target well capitalised entity with an investment grade credit rating[4]
- Overall group supported by Bank-wide service platform and functions
- Future LAC downstreaming not planned to commence prior to completion of legal entity realignment for Ring-Fencing

Implementation timeline

- Submitted updated ring-fencing plans to regulator Jan 2016
- Final ring-fencing rules published July 2016
- Legal entity restructuring, including establishment of Ring-Fenced Bank holding company, details of which will be provided in H2 2016
- Regular Rating Agency engagement anticipated throughout process
- Indicative financials for new legal entities anticipated prior to full implementation
- **Target operational compliance ahead of 1 Jan 2019 implementation**

[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] Non-Ring Fenced Bank. [3] RBS plc will own most of our activities outside the ring-fence - primarily our Markets business (Rates, Currencies, DCM) and some corporate activity, as well as our US broker-dealer, RBSSI. [4] Based on RBS future business profile business and excludes RBS Capital Resolution. [5] Excluding RBS International

Fixed Income Investor Presentation

H1 2016 Results
5 August 2016

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

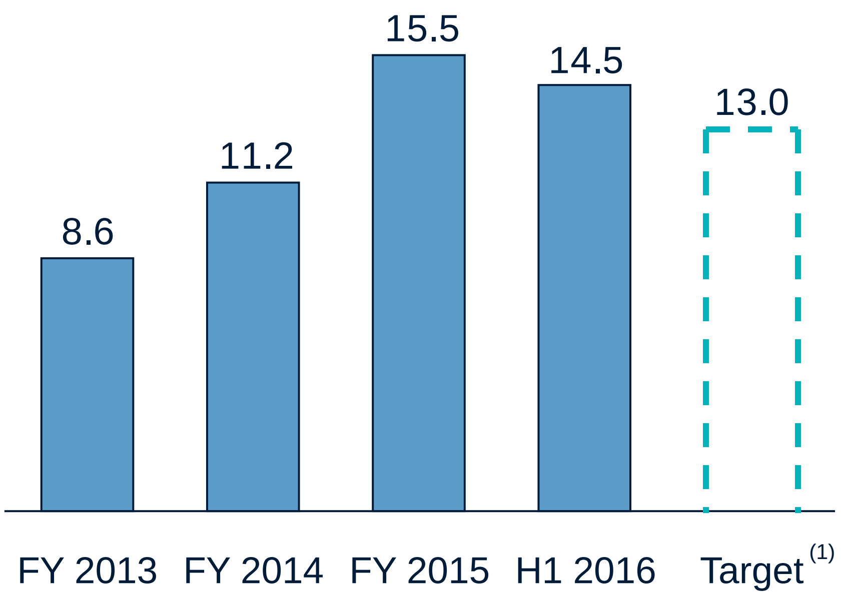
Funding & liquidity

	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%

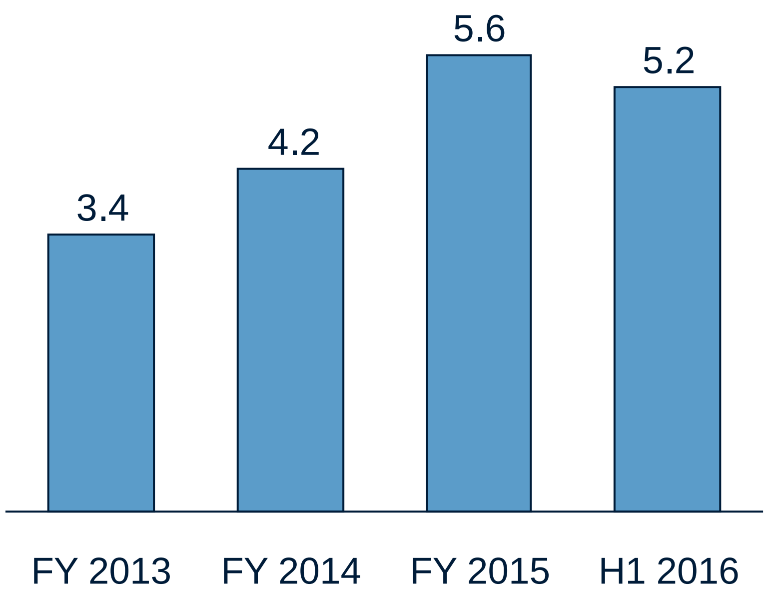
- Balance sheet position means no current requirement for new funding
- Issuance plans target building toward future capital requirements

Capital ratios maintained above target

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



CRR end-point Tier 1 Leverage ratio, %

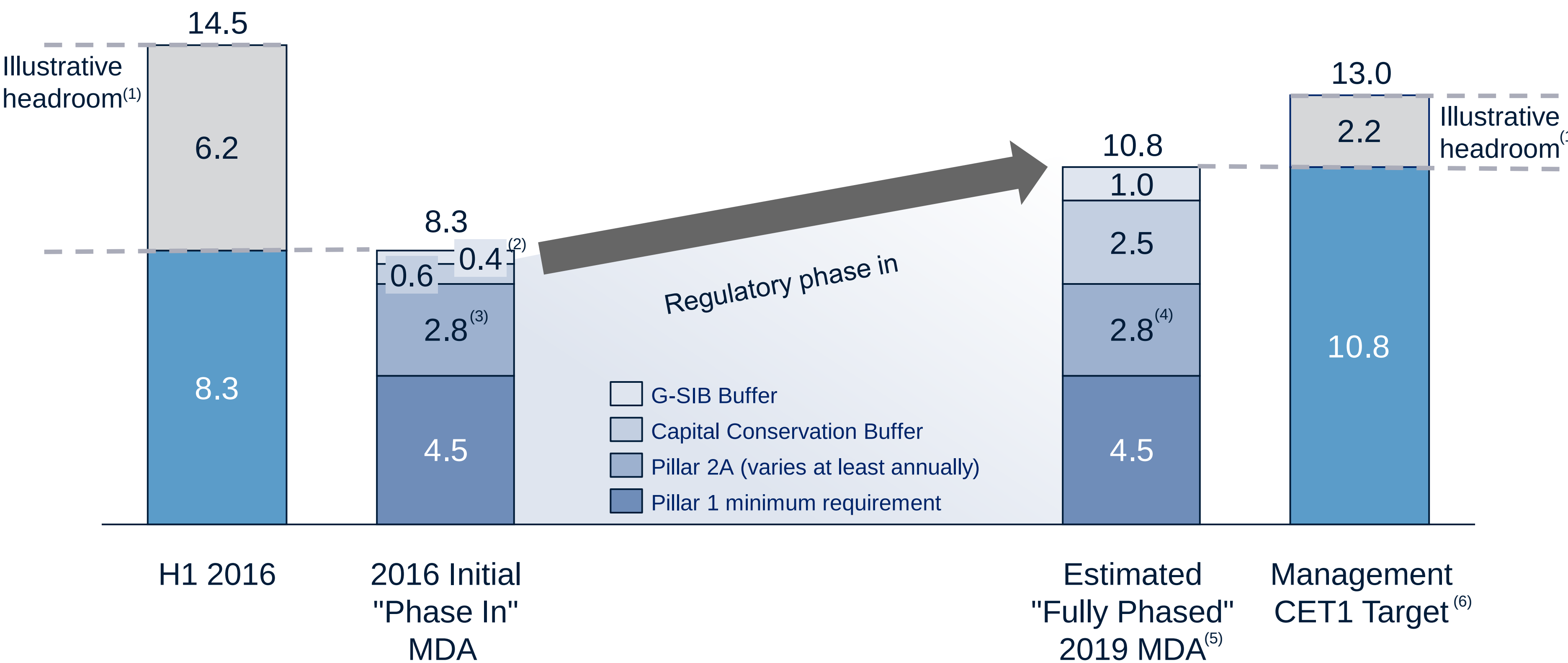


(1) During period of restructuring

Current assessment of appropriate buffers

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

Illustration, based on assumption of static regulatory requirements[4]

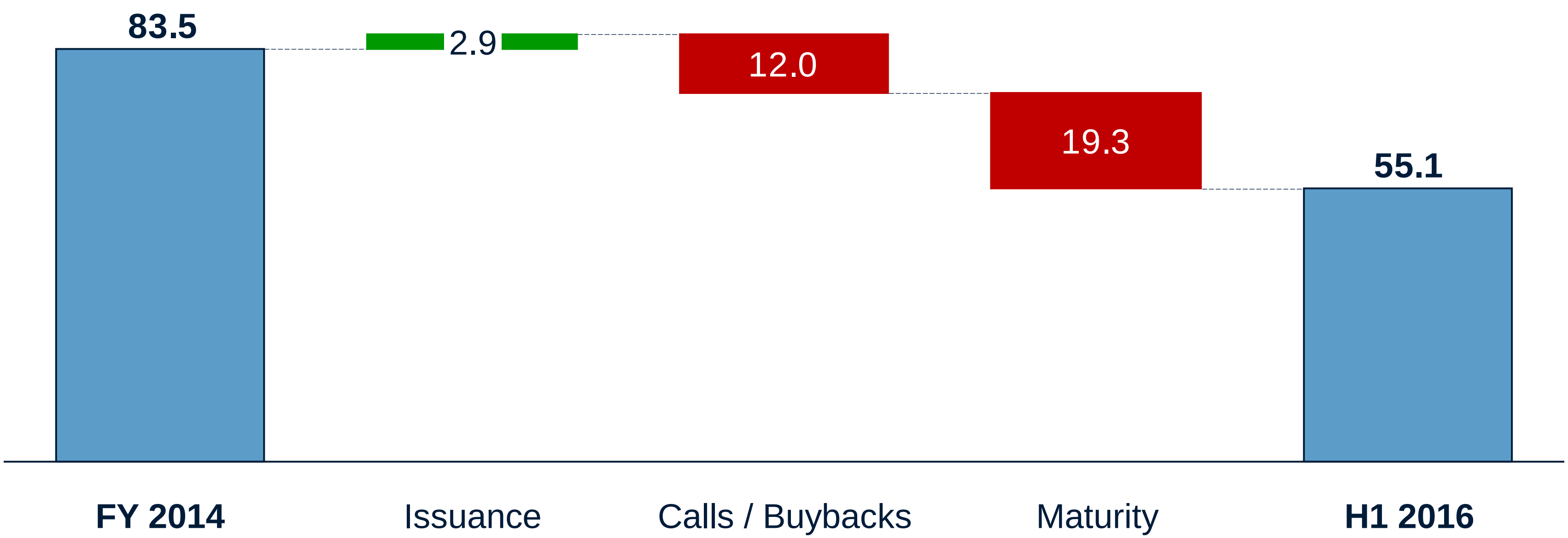


H1 2016 RBSG (HoldCo) Distributable Reserves £14.6bn vs £16.3bn at FY 2015[7]

[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

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

RBS

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%**		

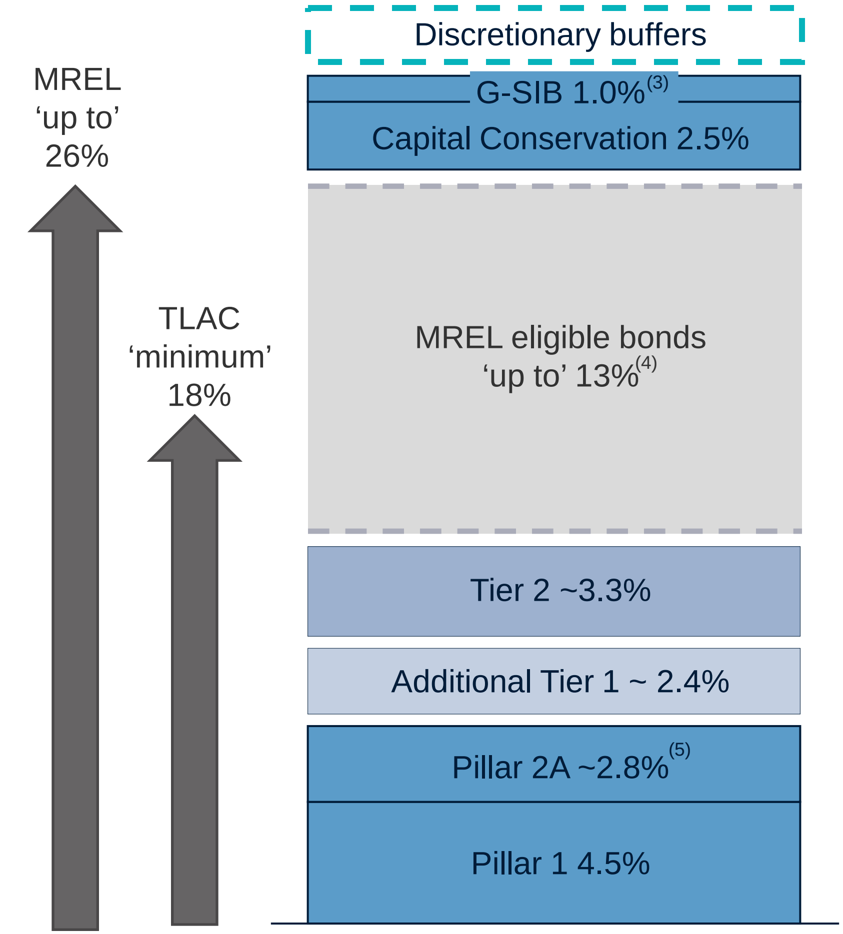
[1] 'LAC value' reflects RBS's interpretation of the 9 November 2015 FSB Term Sheet on TLAC and the BoE's consultation on their approach to setting MREL, published on 11 December 2015. MREL policy and requirements remain subject to further consultation, as such RBS estimated position remain subject to 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

RBS

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.

H1 2016 Results – Treasurer's view

- Strong funding and liquidity metrics maintained
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Forward Looking Statements

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

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

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

The forward-looking statements contained in this presentation 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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