Investor Factbook

04/08/2017

Our investment case

- A leading UK Retail and Commercial Bank with a focussed Markets division
- Strong brands and market positions
- Growing in attractive chosen markets
- Track record of cost and risk reduction
- Improving return and capital generation
- Significant distribution potential

2020 Financial Targets (1)

Our strategic plan targets sustainable returns based on…

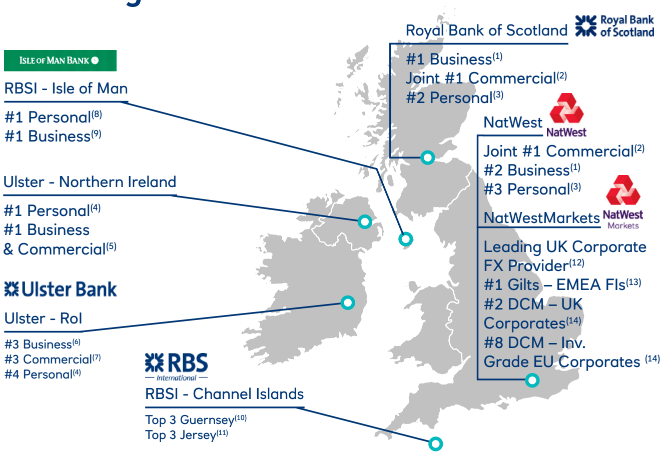
12%+ ROTE(2)	Sub-50% Cost: Income Ratio	£6.4bn cost base(3)

This will be based off…

CET1 ratio 13%	UK income ~90%	Retail & Commercial RWAs ~85%

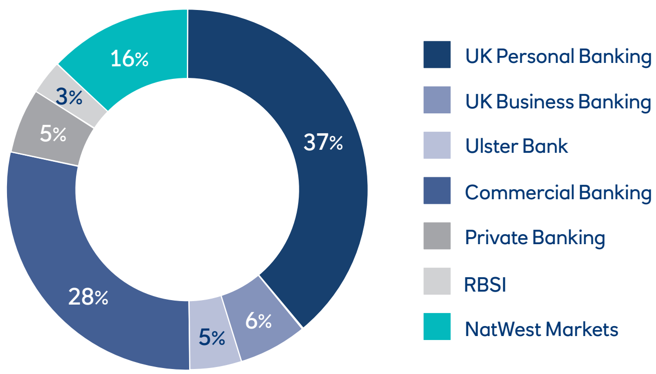
Strong franchises with clear strategies and diversified income streams

Market leading positions across our strong customer brands



Note: Based on Dec 2016 data. (Please see back page for footnotes)

H1 2017 Core adjusted income contribution (%)



Foundations to achieve our targets

1 Grow income
- Net lending growth in PBB/CPB: 3% in 2017; driven by strong mortgage growth and selected Commercial segments

2 Cut costs
- Reduce operating costs by £750m in 2017 and £2bn over the next 4 years

3 Reduce RWAs
- Reduce Core RWAs by a gross £20bn by Q4 2018
- Maintain a CET1 ratio of 13%

4 Resolve legacy issues
- Wind up Capital Resolution at end Q4 2017
- 2017 expected to be last peak year of one-off costs
- Resolve remaining RMBS matters
- Satisfy final EC State Aid obligations

On track to deliver 2017 and 2020 financial targets

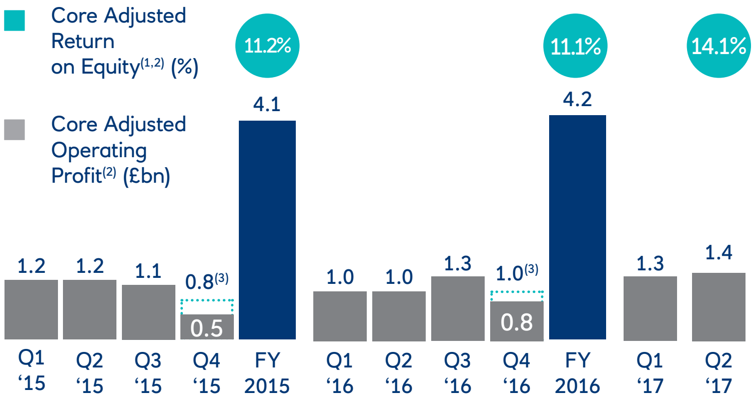
(1) These statements constitute forward looking statements, please see Forward Looking Statements at p. 467 & 468 in the 2016 Annual Report
(2) 12%+ is the non adjusted and 'as reported' target
(3) Including on-going conduct and restructuring costs

H1 2017 Progress towards 2020 targets

Key messages

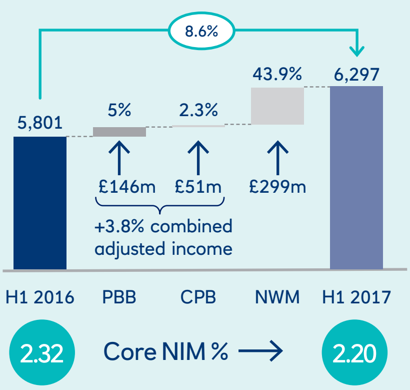
- H1 Attributable profit of £939m
- Headline ROTE of 5.6% and adjusted ROTE of 11.5%
- Cost, capital and lending targets on track for fourth consecutive year
- Targeting a bottom line profit in 2018, subject to final approval of the alternative remedies package for W&G and resolving DoJ investigations
- Continue to support the UK economy, growing in the markets we like within our risk appetite
- All delivered through better customer service, income growth, cost reduction and RWA productivity
- 2020 financial targets remain - unadjusted 12%+ ROTE, sub-50% cost to income ratio, 13% CET1 target, #1 customer ambition

Three core franchises making stable and attractive returns



1. Core income growth

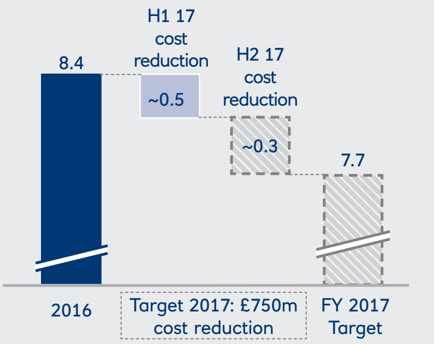
Adjusted income, £m



- 84% of our adjusted income in H1 in the Core Bank from PBB & CPB income flows

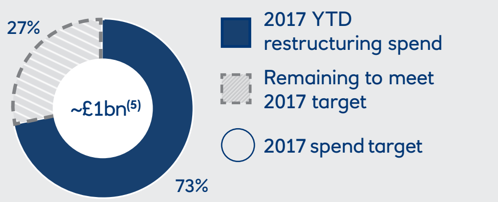
2. Adjusted operating cost progress

Adjusted Operating Costs(4) £bn

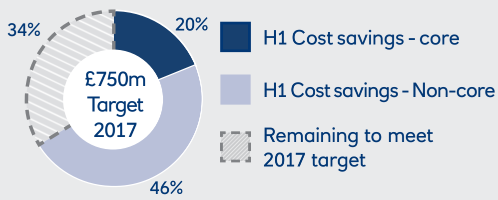


- £494m cost saving for H1 2017
- On track to meet £750m reduction for 2017, and all-in £6.4bn(6,7) cost base in FY 2020
- 31% of the H1 cost reduction was in the core bank, Q2 59% in core
- We expect core bank cost savings to represent around half for the full year

Spend vs. restructuring cost guidance

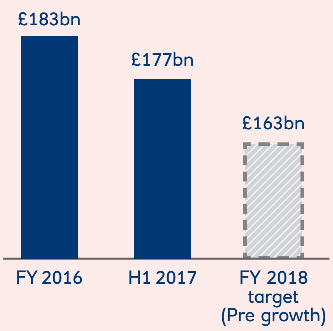


Source of adjusted cost reductions to date



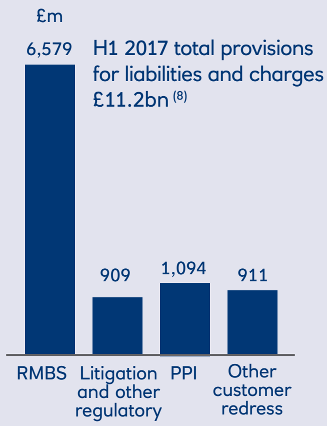
3. Improve RWA efficiency across PBB, CPB and NWM

- Target gross £20bn RWA reduction by end Q4 2018, with some offsetting volume growth



4. Resolve legacy issues and expense one-off costs

One-off cost	Comment
Capital Resolution run down	■ Further £7.9bn RWA reduction in H1 2017; £26.6bn remaining ■ Capital Resolution quarterly cost run rate of £64m, is £112m lower than Q4 2016 and £119m lower than Q2 2016
Agree solution for W&G	■ Agreed an alternative remedies package subject to approval by the EC College of Commissioners
Settle conduct & litigation	■ £176m of additional provisions for the recent FHFA settlement and 2008 rights issue litigation ■ RBS continues to cooperate with the DoJ in its civil and criminal investigations of RMBS matters and several state attorney generals in their investigations, expect further material settlement costs

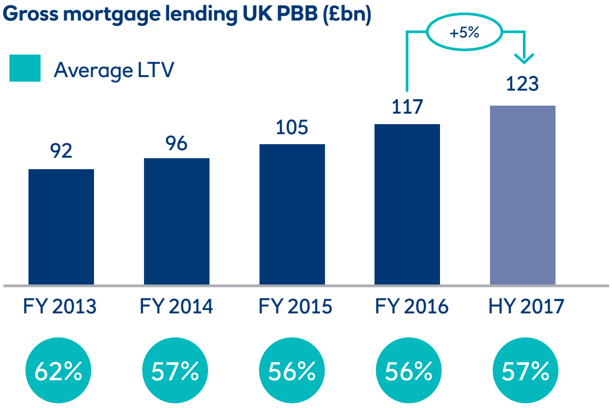


(1) RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI - 11% prior to Q1 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to Q1 2017), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). (2) Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. Excluding restructuring costs and litigation and conduct costs and goodwill. (3) Excluding the impact of the Bank Levy. Note: totals may not cast due to rounding. (4) Excluding VAT recoveries (5) Excluding restructuring costs associated with the State Aid obligations relating to Williams & Glyn (6) 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 467 & 468 of the Annual Report and Accounts 2016. (7) £6.4bn 2020 target is unadjusted total costs, this includes conduct and litigation and restructuring costs. (8) Includes 'other' provisions as per note 3 of the interim 2017 results IMS.

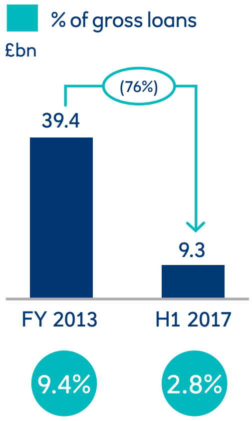
Strong Balance Sheet

Growth within our risk appetite

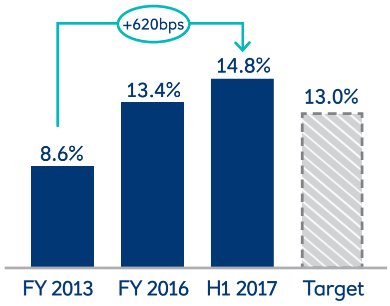
Gross mortgage lending UK PBB (£bn)



REILs



CET1 Ratio

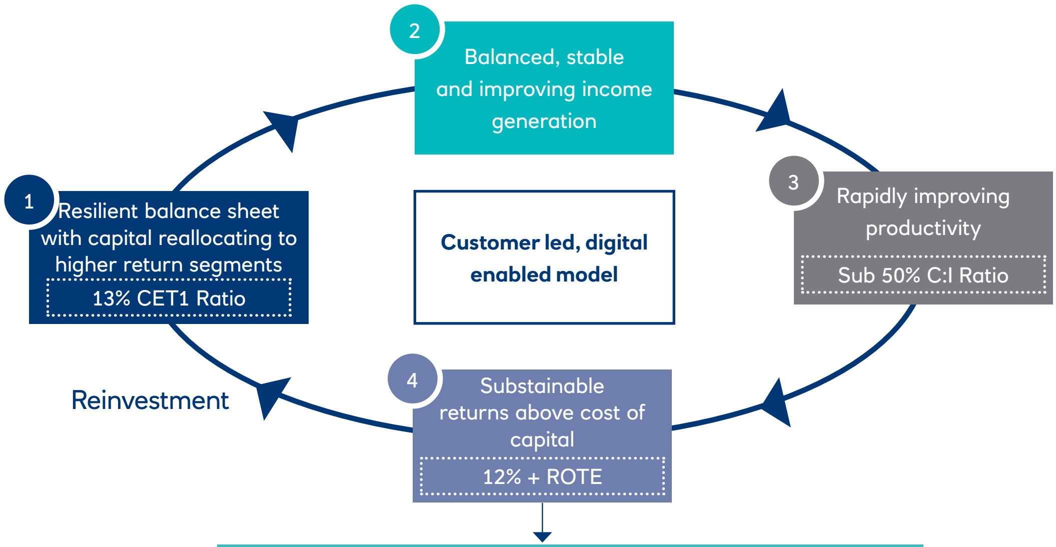


H1 2017 results by business

	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 [1]	Central items & other [2]	Total Other	
Adj. Income[3]	**2.8**	**0.3**	**1.8**	**0.3**	**0.2**	**1.0**	**6.3**	**(0.1)**	**0.4**	**0.2**	**0.5**	**6.8**
Adj. Operating expenses[4]	(1.4)	(0.2)	(0.9)	(0.2)	(0.1)	(0.6)	**(3.5)**	(0.1)	(0.2)	0.1	(0.2)	**(3.7)**
Impairment (losses)/releases	(0.1)	0.0	(0.1)	(0.0)	(0.0)	(0.0)	**(0.2)**	0.1	(0.0)	(0.0)	0.1	**(0.1)**
Adj. operating profit[3,4]	**1.3**	**0.1**	**0.8**	**0.1**	**0.1**	**0.3**	**2.7**	**(0.1)**	**0.2**	**0.3**	**0.4**	**3.1**
Funded Assets [5]	161.6	24.8	151.9	19.6	24.7	117.0	**499.6**	24.7	26.0	38.8	89.5	**589.1**
Net L&A to Customers	138.5	19.5	98.1	12.8	8.8	17.7	**295.4**	10.1	20.4	0.2	30.7	**326.1**
Customer Deposits	149.8	16.9	100.9	26.1	25.5	8.1	**327.3**	7.2	24.9	0.5	32.6	**359.9**
RWAs	32.9	18.0	76.2	9.0	9.4	31.7	**177.2**	26.6	9.4	2.2	38.2	**215.4**
LDR	92%	115%	97%	49%	35%	n.m.	**90%**	n.m.	82%	n.m.	94%	**91%**
Adj. RoE (%)[3,4,5]	**32%**	**7%**	**10%**	**9%**	**14%**	**7%**	**14%**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**11.5%**
Adj. Cost: Income ratio (%)[3,4]	51%	73%	48%	68%	46%	65%	**54%**	n.m.	38%	n.m.	n.m.	**53%**

(1)'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. During the period presented W&G has not operated as a separate legal entity (2) Central items include unallocated transactions which principally comprise volatile items under IFRS (3) Excluding own credit adjustments, gain on redemption of own debt and strategic disposals (4) Excluding restructuring costs and litigation and conduct costs (5) RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI - 11% prior to Q1 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to Q1 2017), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes) *Totals may not cast due to rounding.

Our 2020 investment case



Significant capital return potential to shareholders

Key metrics and ratios

Key metrics and ratios	Half year ended		Quarter ended		
	30-Jun-2017	30-Jun 2016	30-Jun 2017	31-Mar 2017	30-Jun 2016
Attributable profit/(loss)(1)	£939m	(£2,045m)	£680m	£259m	(£1,077m)
Operating profit - adjusted(2)	£3,061m	£1,156m	£1,690m	£1,371m	£716m
Net interest margin	2.18%	2.18%	2.13%	2.24%	2.21%
Cost: Income ratio(3)	69.8%	97.7%	64.4%	76.1%	117.2%
Cost: Income ratio - adjusted(3,4,5)	53.1%	71.4%	50.7%	55.8%	66.6%
Earnings/(loss) per share from continuing operations					
■ Basic	7.9p	(17.6p)	5.7p	2.2p	(9.3p)
■ Adjusted(4,5)	16.4p	(5.5p)	9.2p	7.1p	2.6p
Return on tangible equity - adjusted(4,5,6)	11.5%	(3.2%)	12.9%	9.7%	3.2%
Balance sheet related key metrics and ratios			30-Jun 2017	31-Mar 2017	31-Dec 2016
Tangible net asset value (TNAV) per ordinary share - fully diluted(6)			298p	295p	294p
Liquidity coverage ratio (LCR)(7,8)			145%	129%	123%
Loan: Deposit ratio(9,10)			91%	93%	91%
Common Equity Tier 1 (CET1) ratio			14.8%	14.1%	13.4%
Risk-weighted assets (RWAs)			£215.4 bn	£221.7 bn	£228.2bn
CRR leverage ratio(11)			5.1%	5.0%	5.1%
Tangible equity(6)			£35,682m	£35,186m	£34,982m
Number of ordinary shares in issue (millions)(12)			11,876	11,842	11,823

Note: (1) Attributable to ordinary shareholders. (2) Operating profit before tax excluding own credit adjustments, (loss)/gain on redemption of own debt, strategic disposals, restructuring costs and litigation and conduct costs. (3) Operating lease depreciation included in income (H1 2017 - £72 million; Q2 2017 - £36 million, H1 2016 - £76 million; Q1 2017 - £36 million and Q2 2016 - £38 million). (4)Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals. (5) Excluding restructuring costs and litigation and conduct costs. (6) Tangible equity is equity attributable to ordinary shareholders less intangible assets. (7) On 1 October 2015 the LCR became the Prudential Regulation Authority's (PRA) primary regulatory liquidity standard; UK banks are required to meet a minimum standard of 90% from 1 January 2017, rising to 100% by 1 January 2018. The published LCR excludes Pillar 2 add-ons. RBS calculates the LCR using its own interpretation of the EU LCR Delegated Act, which may change over time and may not be fully comparable with those of other institutions. (8) The LCR of 145% at 30 June 2017 excludes the impact of the litigation settlement with the FHFA in respect of claims relating to RBS issuance and underwriting of RMBS in the US, as announced on 12 July 2017. The estimated impact of the settlement on the LCR is a 6% reduction to 139%. (9) Excludes repurchase agreements and stock lending. (10) Includes disposal groups. (11) Based on end-point Capital Requirements Regulation (CRR) Tier 1 capital and leverage exposure under the CRR Delegated Act. (12) Includes 17 million treasury shares (31 March 2017 – 28 million; 31 December 2016 - 39 million).

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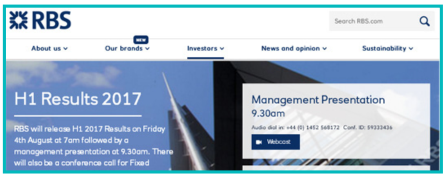

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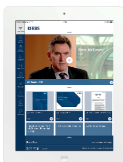

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Forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 which are subject to inherent risks, uncertainties and other factors which are further discussed in our 2016 Annual Report, interim results for the six-months ended 30 June 2017 and other public filings, including RBS's most recent Annual Report on Form 20-Fand Reports on Form 6-K. The forward-looking statements contained in this document speak only as of the date of this document and RBS does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except to the extent legally required.

Footnotes from page 1: Market leading positions across our strong 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.