
Fixed Income Investor Presentation

H1 2017 Results
4 August 2017

Ewen Stevenson

Chief Financial Officer

H1 2017 update on progress

Core Bank	Progress	
Grow income	- Core adjusted income growth of 8.6% over H1 2016 - On track to meet 3% lending growth FY 2017 target supported by mortgages	
Cut costs	£494m additional costs out in H1 2017 - On track to meet £750m reduction target for 2017	
Reduce RWAs	- Reduced H1 2017 gross RWAs by £8.6bn in the Core bank - On track to remove £20bn of gross RWA from the Core bank through FY 2018 - CET1 ratio up 70bps Q/Q to 14.8% vs. 13% target	
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	
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 attorneys general in their investigations, expect further material settlement costs	 Pending
Agree solution for W&G	Agreed an alternative remedies package subject to approval by the EC College of Commissioners	Pending

On track to deliver 2017 and 2020 financial targets

Core credit messages

Diversified income streams

Three core franchises generating stable and attractive returns

Targeted growth

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

2020 Target Operating Profile

12+% ROTE

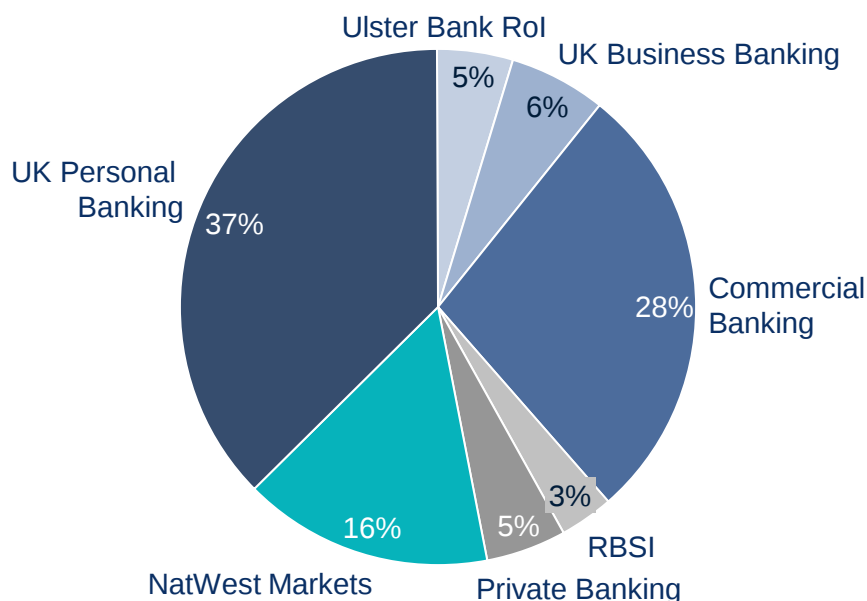
Sub-50% C:I
ratio

13% CET1
ratio

~85% RWAs in
PBB & CPB

~90% Income
from UK

H1 2017 Adjusted income contribution (%)



Strategic plan targets higher quality of earnings in future

- Focus on customer loyalty, conducting more business with our most valuable customers
- Targeted growth
- 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

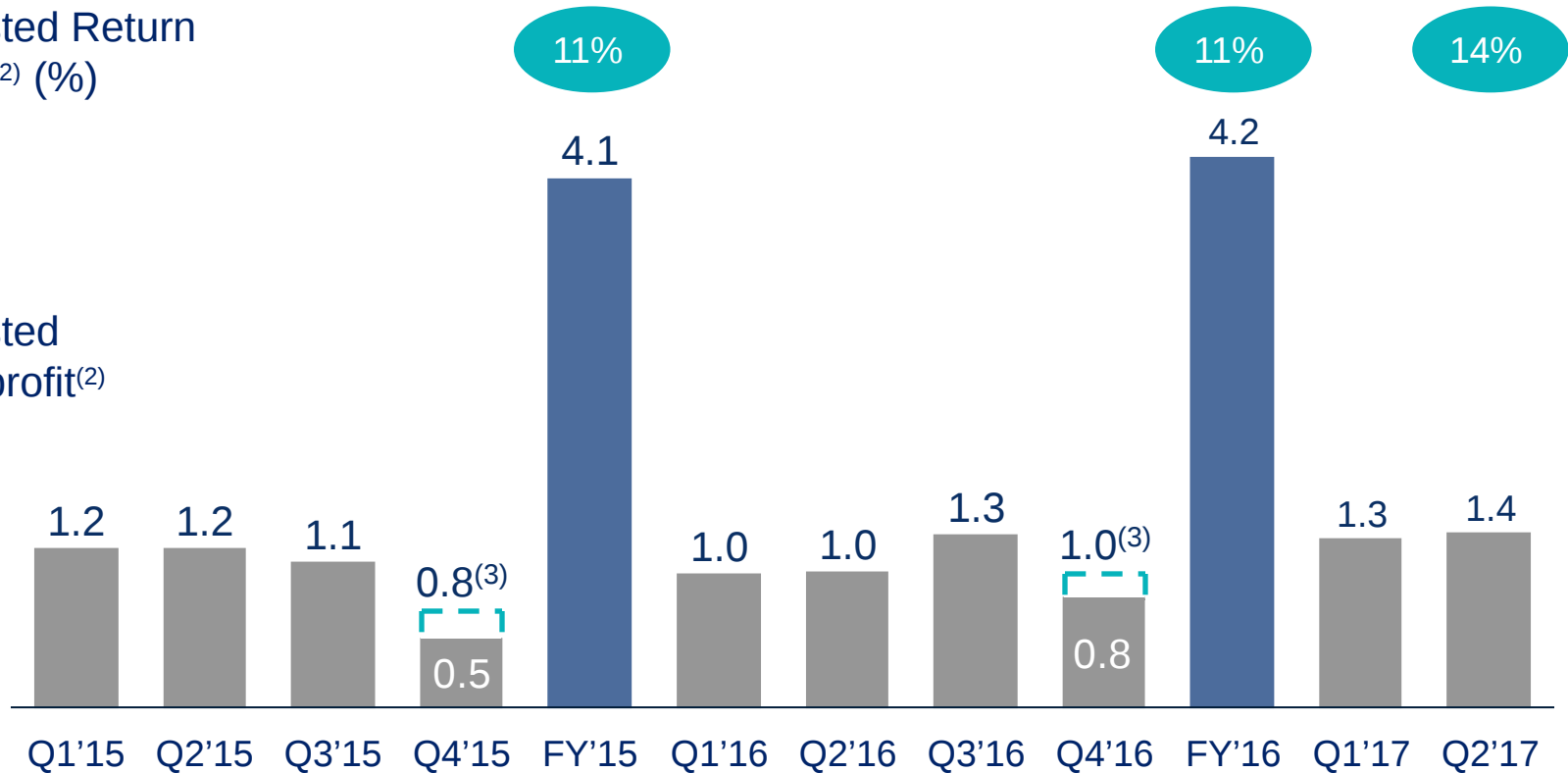
 Lombard
DRUMMONDS

 HOLT'S
MILITARY
BANKING

Three core businesses generating stable and attractive returns

Core Adjusted Return on Equity^(1,2) (%)

Core Adjusted operating profit⁽²⁾ (£bn)



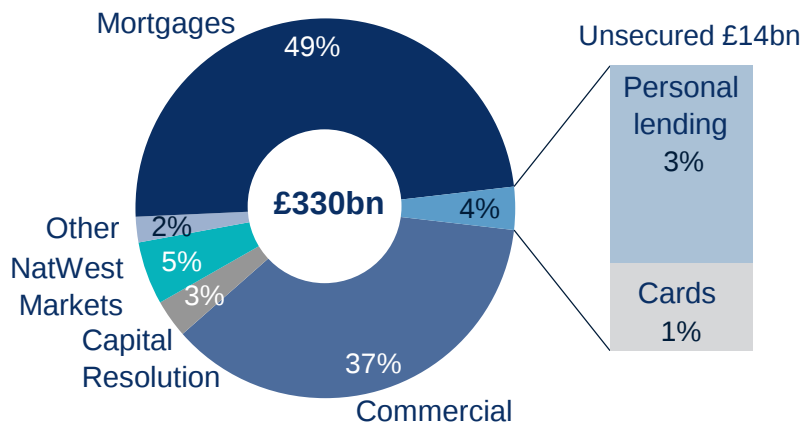
- Core businesses averaged >£1bn operating profit for last 10 quarters

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

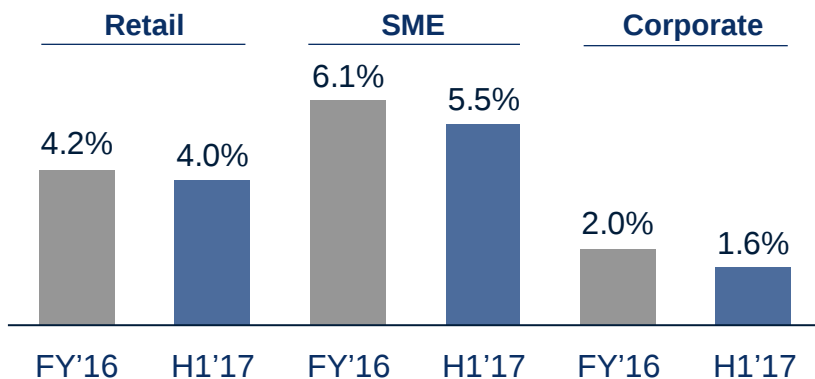
Targeted growth

Diversified portfolio with improving risk metrics

Gross loans and advances to customers

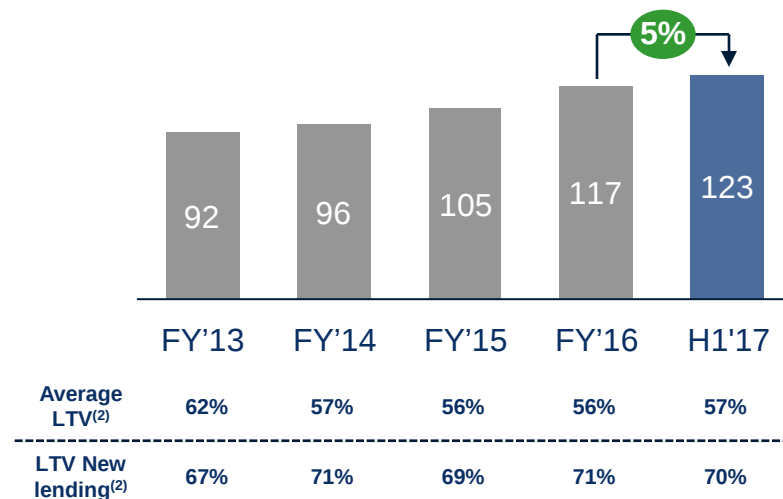


Probability of default rates

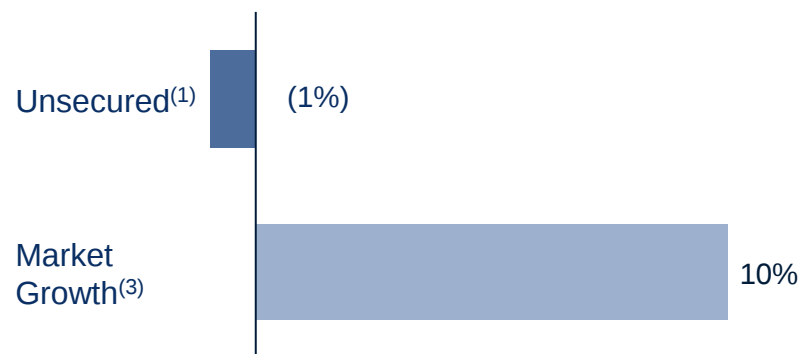


Growing in chosen markets, within risk appetite

Gross mortgage lending UK PBB (£bn)

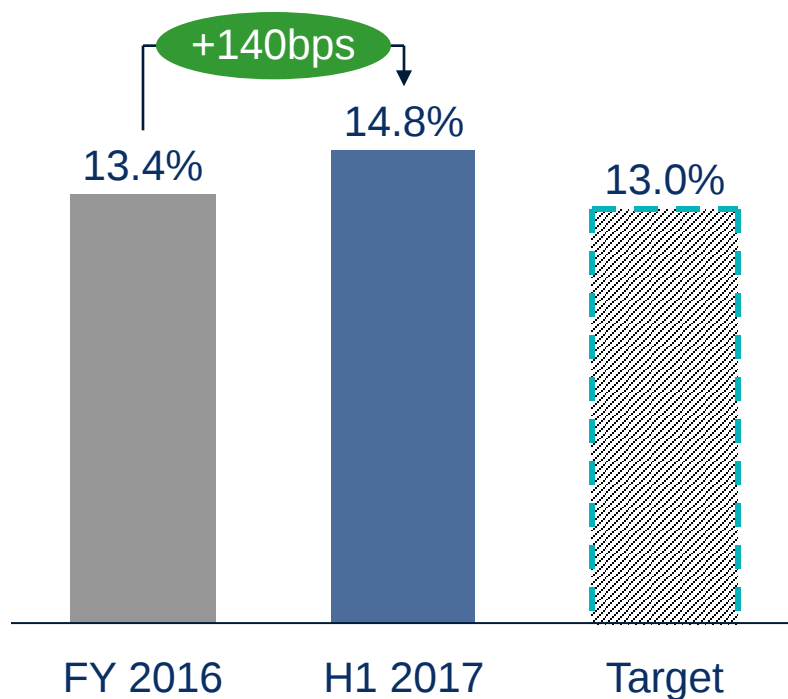


UK PBB unsecured lending growth (H1 2017 vs H1 2016)

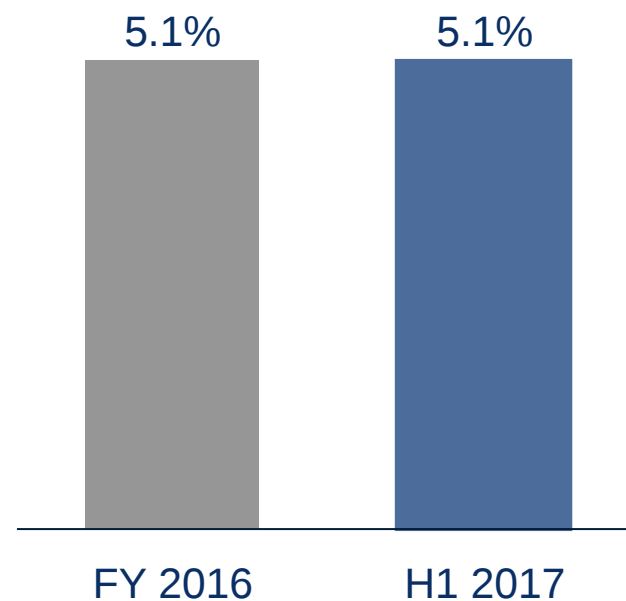


CET1 and leverage ratios

CET1 Ratio



CRR Leverage Ratio



- CET1 increased 140bps despite £1.2bn of restructuring, conduct & litigation costs
- Leverage ratio maintained
- Increasing clarity on capital generation as legacy issues are resolved

Robert Begbie

Treasurer

H1 2017 Results – Treasurer's view



Solid capital and liquidity metrics maintained, continued focus on balance sheet optimisation

Capital reorganisation complete, distributable reserves up £30bn

Good progress against issuance plans

Delivering on structural reform – ring-fencing plans entering execution phase

Strategic progress reflected in rating agency upgrade and market pricing

Solid capital and liquidity metrics maintained

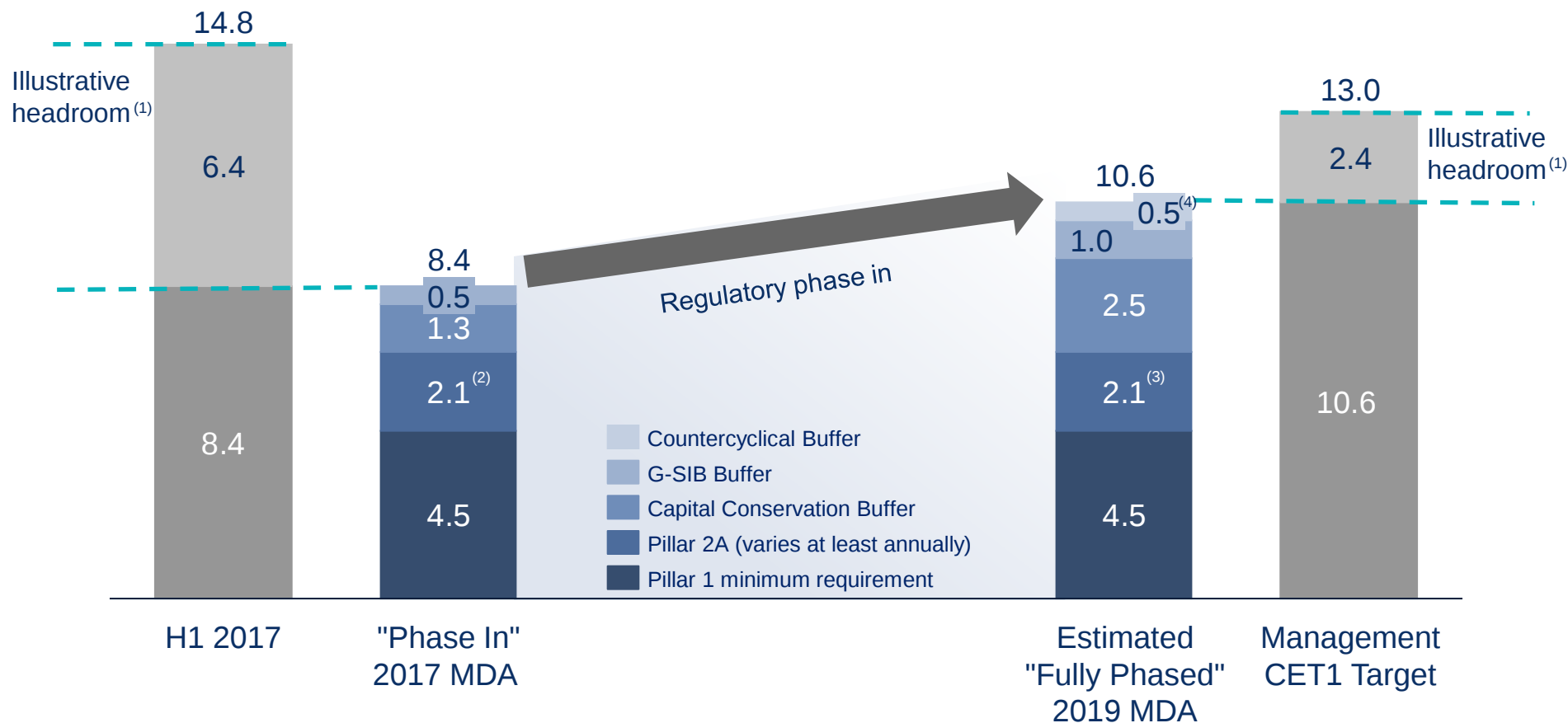
	H1 2017	FY 2016
Loan : deposit ratio	91%	91%
Short-term wholesale funding	£18bn	£14bn
Liquidity coverage ratio	145% ⁽¹⁾	123%
Net stable funding ratio	123%	121%
Common equity tier 1 ratio	14.8%	13.4%
CRR Leverage ratio	5.1%	5.1%
Loss Absorbing Capital ratio ⁽²⁾	25.5%	24.9%

(1) 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%. (2) For further detail please see slide 22.

MDA phase-in and assessment of appropriate buffers

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

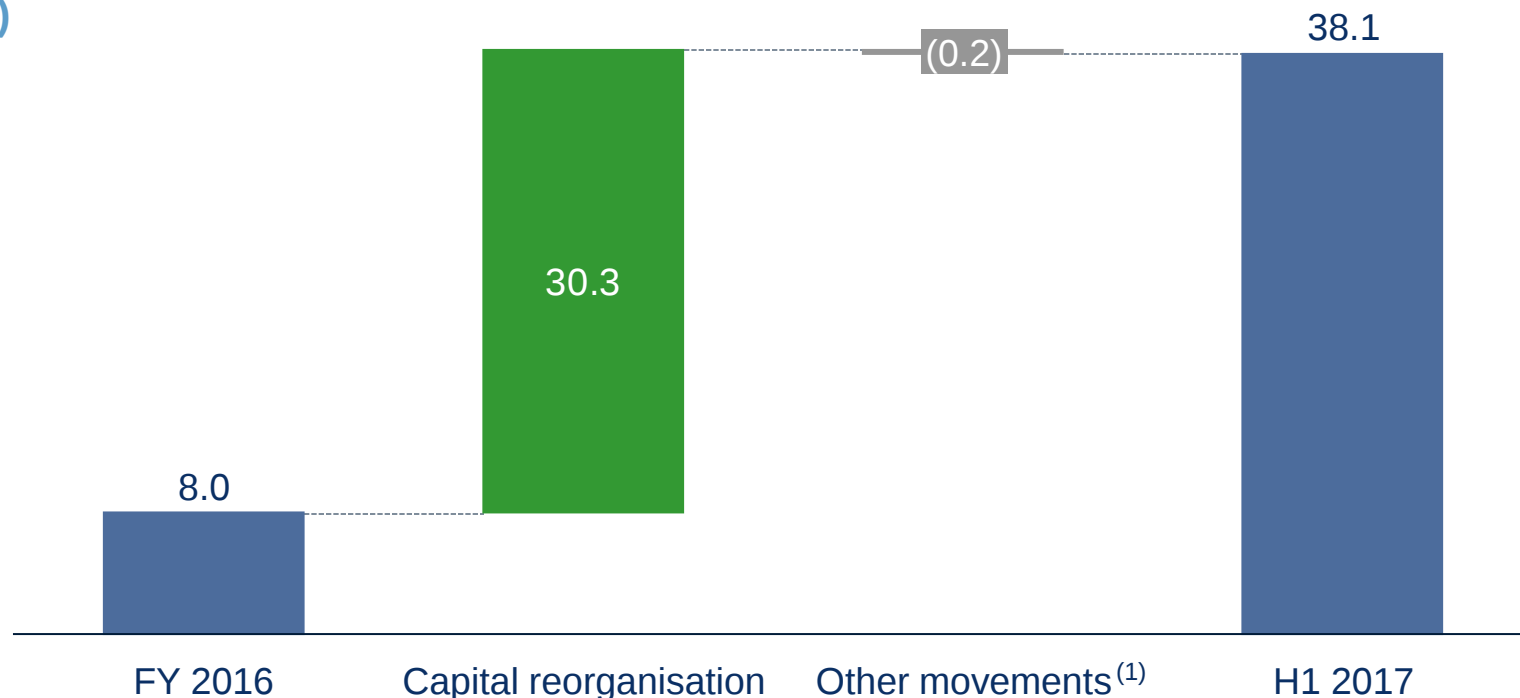
Illustration, based on assumption of static regulatory capital requirements⁽³⁾



(1) 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. (2) 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. (3) 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. (4) 0.5% Countercyclical Buffer introduced from June 2018, expected to increase to 1.0% from November 2018.

Capital reorganisation successfully completed and increased available distributable reserves

2017 evolution in RBSG (HoldCo) distributable reserves (£bn)

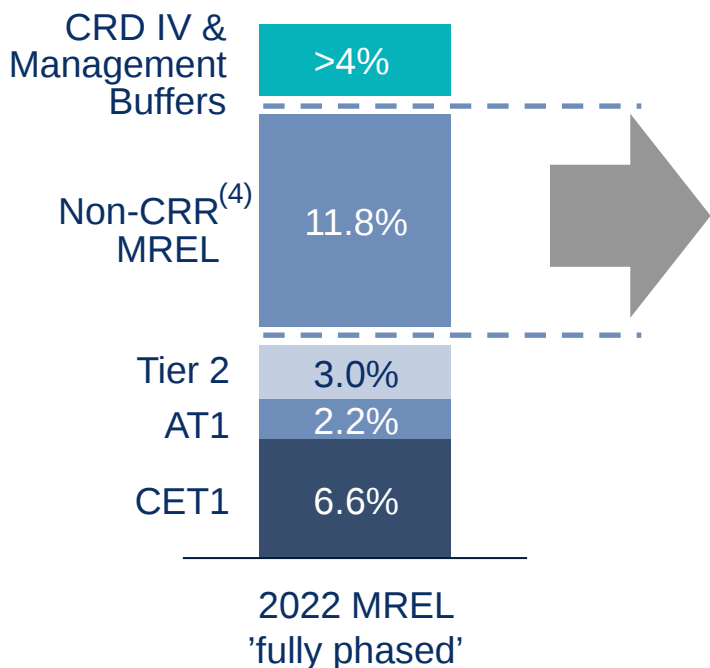


- H1 2017 RBSG (HoldCo) distributable reserves £38.1bn vs £8.0bn at FY 2016
- Capital reduction executed to reclassify approximately £25bn share premium and £5bn capital redemption reserve as distributable reserves

On track to meet future MREL requirements

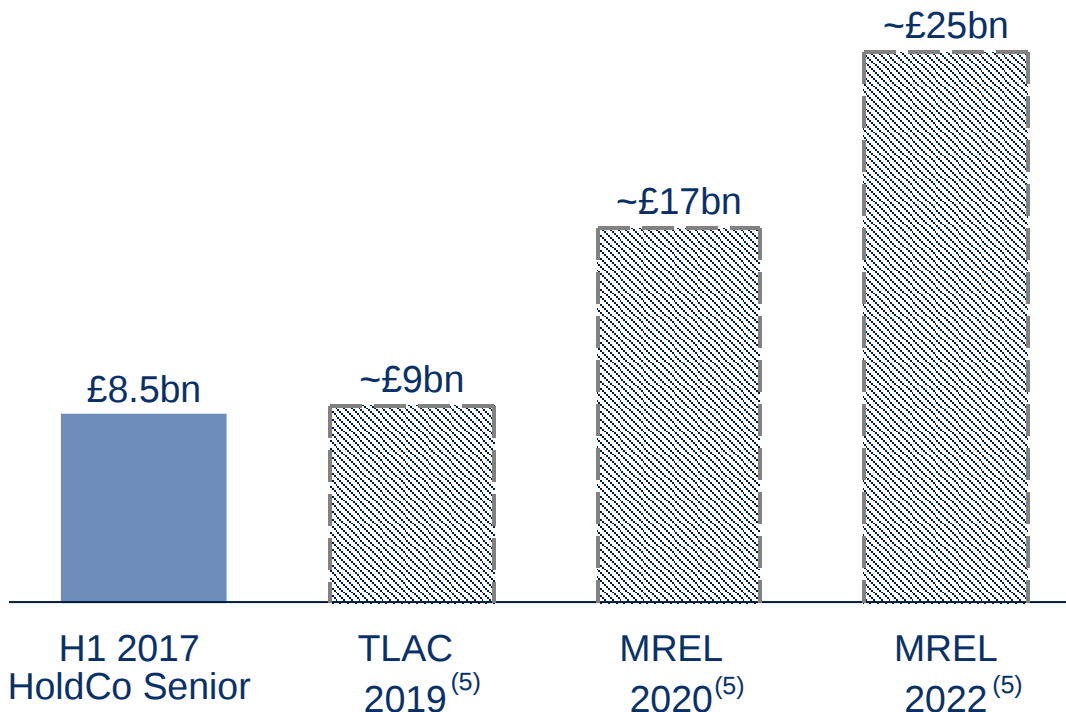
Future LAC requirement⁽¹⁾

Based on BoE May 2017 guidance



Progress toward future non-CRR MREL⁽⁴⁾ needs

Based on current £215bn RWA and static regulatory capital requirements⁽³⁾



- PRA H1 2017 guidance on MREL requirement in line with expectations
- H1 2017 Loss Absorbing Capital ratio 25.5%, including CET1 and other legacy securities⁽⁶⁾, versus 27.8% BoE 2022 guidance

(1) LAC: Loss Absorbing Capital, comprising total MREL and CRDIV buffers. (2) Minimum requirement for own funds and eligible liabilities. (3) Illustrative only, both RWA and future capital requirements subject to change. (4) Non-CRR MREL = Loss Absorbing Capital not required to be met by CRDIV compliant regulatory capital. (5) 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. For further information on TLAC and MREL, including associated leverage requirements, please refer to 'Capital sufficiency' disclosure in the 2016 Annual Report & Accounts. (6) For further information please see 'Loss Absorbing Capital' disclosure in H1 2017 Interim Results and Appendix Slide 23.

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

Not called equity accounted USD7.640% and EUR7.0916% (nominal value ~£0.8bn)⁽¹⁾

- Retained for transitional Tier 1 and rating agency contribution
- ~£370m CET1 impact from FX translation on redemption not economic versus relative coupon cost (\$/€LIBOR plus ~2.3%)

Intend to call equity accounted USD6.990% and CAD6.666% securities (~£0.4bn)⁽²⁾

- ~£260m CET1 impact on redemption from FX translation and deferred coupon⁽³⁾
- No transitional Tier 1 or future MREL contribution

Intend to redeem seven debt accounted Tier 1 securities (~£1.5bn)⁽⁴⁾ over the next few months, in line with their relevant terms

- No CET1 impact on redemption
- Provides coupon savings ranging up to ~9%

Good progress against simple issuance needs

2017 Issuance Plan

Issuance focussed on MREL build:

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

H1 Progress

- Issued £3.6bn equivalent MREL eligible Senior HoldCo

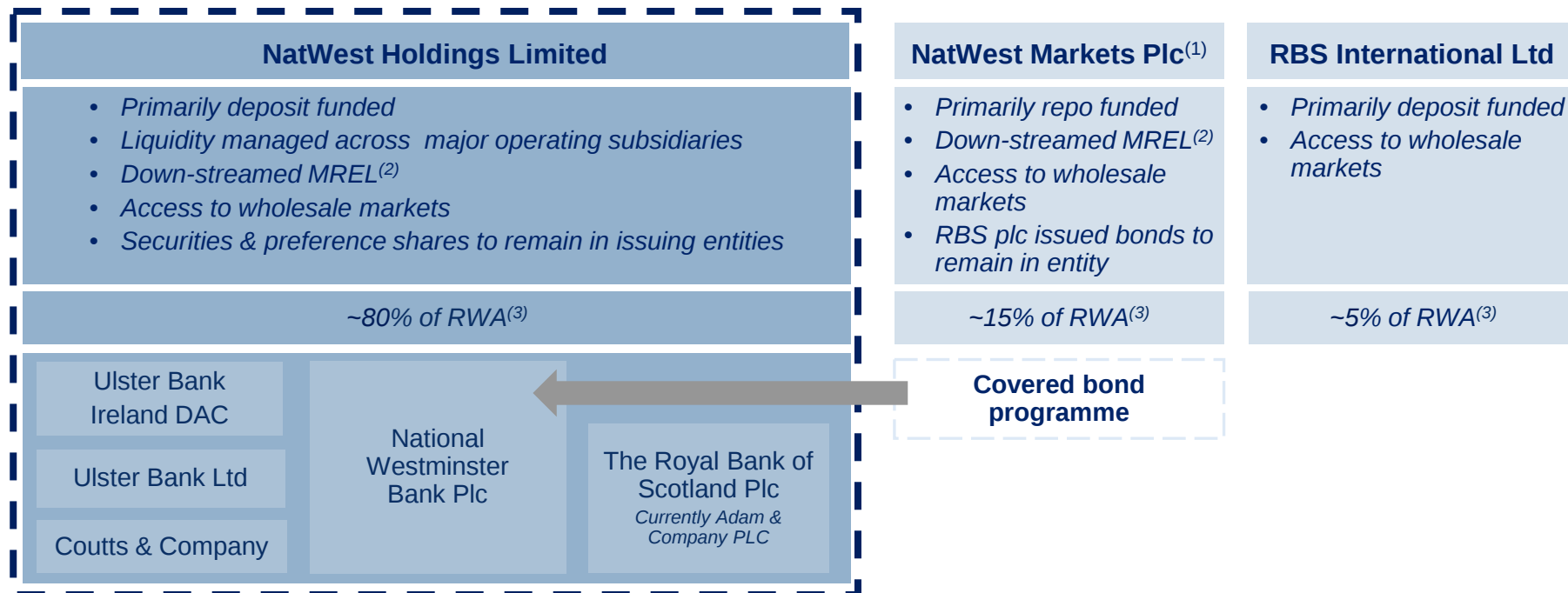
Returning to modest funding activity:

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

- Issued £2.3bn equivalent covered bonds
- Drew down £9bn from the TFS, £14bn in total
- Issued £1.1bn equivalent Senior OpCo

Ring fencing plans progressing well

Illustrative future structure



- External debt to remain in its original issuing entity; Covered bond programme transferred to NatWest Bank reflecting source collateral
- RBS NV repurposed to support NatWest Markets serve its European customers
- Entities outside ring fence likely to be rated lower than those inside – S&P have guided toward a one-notch differential

Core credit messages

Diversified income streams

Three core franchises generating stable and attractive returns

Targeted growth

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2020 Target Operating Profile

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~85% RWAs in
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~90% Income
from UK

Appendix

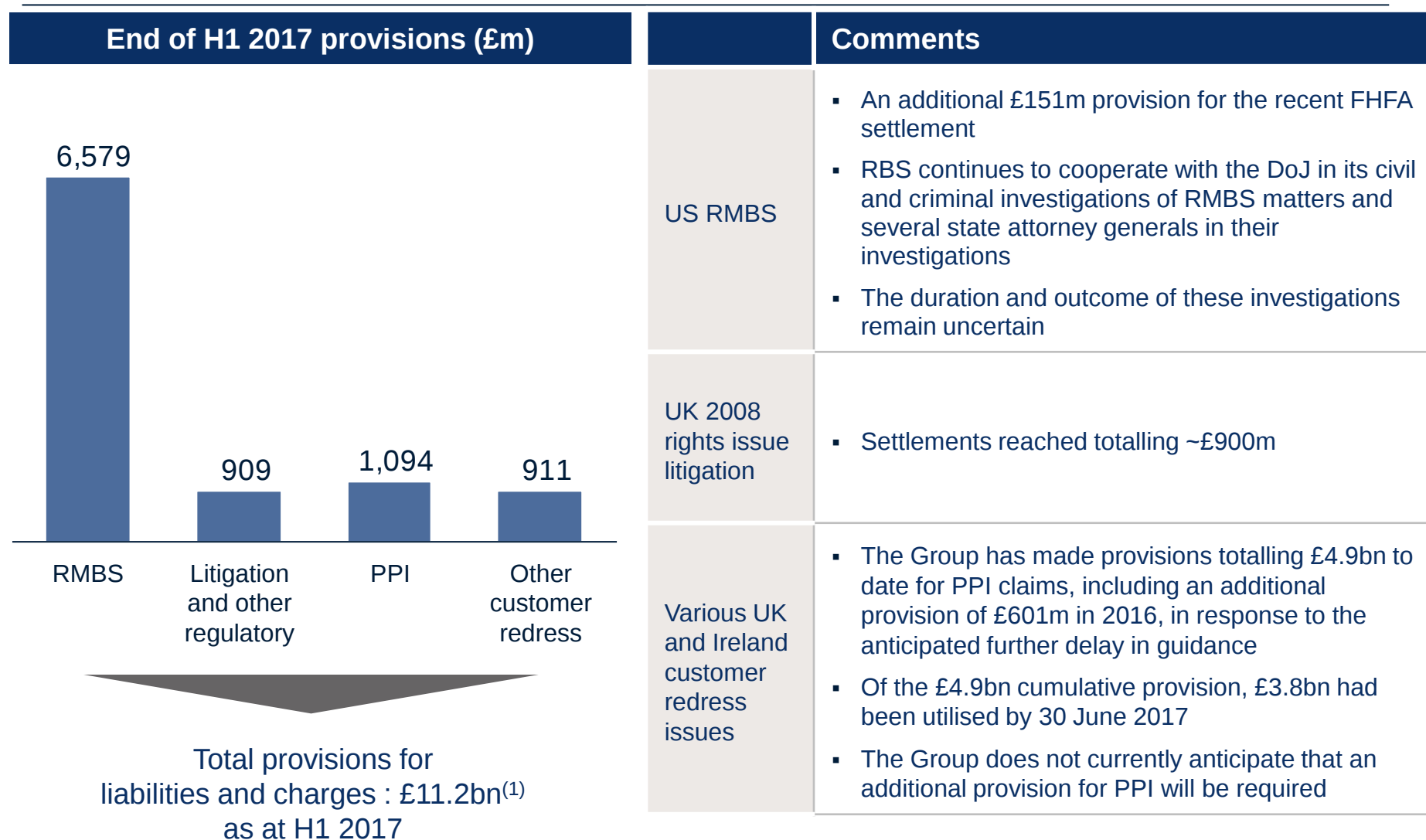
H1 2017 results by business



	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 ⁽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 Rol - 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 (RWAs) *Totals may not cast due to rounding

Litigation and conduct



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



H1 2017, £bn	LAC value ⁽¹⁾	Regulatory Value ^(2,3)	Par Value ⁽⁴⁾
Common Equity Tier 1 Capital⁽⁵⁾	31.9	31.9	31.9
Tier 1 Capital: End point CRR compliant AT1	4.0	4.0	4.0
o/w RBS Group Plc (HoldCo)	4.0	4.0	4.0
o/w RBS Operating Subsidiaries (OpCos)	-	-	-
Tier 1 Capital: End point CRR non-compliant	2.8	3.6	5.6
o/w HoldCo	2.7	3.5	5.3
o/w OpCos	0.1	0.1	0.3
Tier 2 Capital: End point CRR compliant	5.6	7.3	9.0
o/w HoldCo	5.1	6.6	6.7
o/w OpCos	0.5	0.7	2.3
Tier 2 Capital: End point CRR non-compliant	2.1	1.9	2.5
o/w HoldCo	0.1	0.1	0.4
o/w OpCos	2.0	1.8	2.1
Senior unsecured debt securities	8.5	-	25.5
o/w HoldCo	8.5	-	9.9
o/w OpCos	-	-	15.6
Total LAC	54.9	48.7	78.5
Total LAC as a ratio of RWAs	25.5%		

(1) 'LAC value' reflects RBS's interpretation of the Bank of England's policy statement on the minimum requirement for own funds and eligible liabilities (MREL), published in November 2016. MREL policy and requirements remain subject to further potential development, as such RBS estimated position remains subject to potential change. Liabilities excluded from LAC include instruments with less than one year remaining to maturity, structured debt, operating company senior debt, and other instruments that do not meet the TLAC/MREL criteria. Includes Tier 1 and Tier 2 securities prior to incentive to redeem. (2) Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the TLAC/MREL criteria. (3) Regulatory amounts reported for Additional Tier 1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR. (4) Par value reflects the nominal value of securities issued. (5) Corresponding shareholders' equity was £49.3bn.

RBS senior debt rating composition



	Standard & Poor's		Moody's		Fitch	
Stand-alone rating	Stand Alone Credit Profile	bbb	Baseline Credit Assessment	baa3	Viability Ratings	bbb+
	Anchor	bbb+	Macro profile	Very Strong -	Operating environment	a+ to aa
	Business position	0	Financial profile	baa2	Company profile	bbb to a-
	Capital and earnings	0	Qualitative adjustments	-1	Management & strategy	bbb to a-
	Risk position	-1			Risk appetite	bbb to a-
	Funding and liquidity	0			Financial profile	bb- to a+(1)
+						
Additional factors	Additional factors		Additional factors		Additional factors	
	Notching (HoldCo)	-1	Loss given failure (HoldCo)	0	Government support	0
	ALAC support (OpCo)	+2	Government support	+1	Qualifying junior debt	0
	Government support	0	Loss given failure (OpCo)	+2		
	Group support	0				
=						
Liability ratings	HoldCo senior long-term	BBB-	HoldCo senior long-term	Baa3	HoldCo senior long-term	BBB+
	OpCo senior long-term	BBB+	OpCo senior long-term	A3	OpCo senior long-term	BBB+
	OpCo senior short-term	A-2	OpCo senior short-term	P-2	OpCo senior short-term	F2
	Outlook	Stable	Outlook	Stable	Outlook	Stable

⁽¹⁾ The wide Financial profile rating range (bb to a+) is a result of a low score on profitability (bb- to bb+). RBS scores more favourably on the other components of the rating: asset quality (a- to bbb), capitalisation & leverage (a- to bbb); and funding & liquidity (a- to a+).

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 (RWAE), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; future pension contributions; RBS's exposure to political risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net 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 and other uncertainties set out in the Group's 2016 Annual Report on Form 20-F and other materials filed with, or furnished to, the US Securities and Exchange Commission, and other risk factors and uncertainties discussed in this document. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to (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 vote to leave in the EU Referendum and from the outcome of general elections in the UK and changes in government policies; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its 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, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny 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.