

Investor Factbook

27/10/2017



Our investment case

- A leading UK Retail and Commercial Bank with a focused 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%

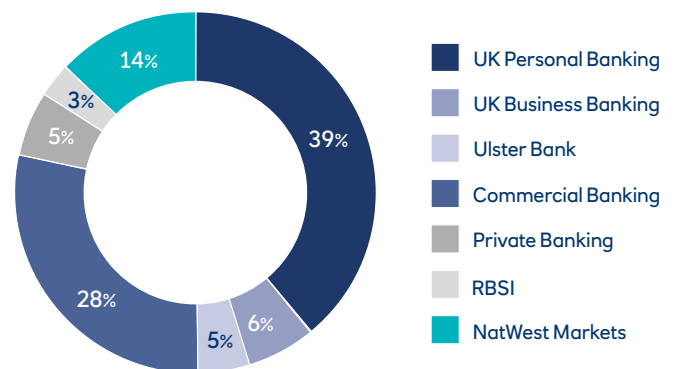
Retail &
Commercial
RWAs ~85%

Strong franchises with clear strategies and diversified income streams

Market leading positions across our strong customer brands



9M YTD 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

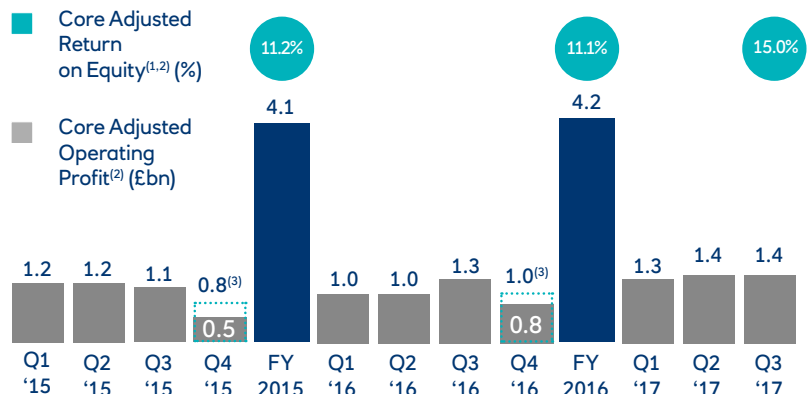
(1) Forward-looking statements This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 which are subject to inherent risks, uncertainties and other factors which are further discussed in our 2016 Annual Report, interim results for the six-months ended 30 June 2017 and other public filings, including RBS's most recent Annual Report on Form 20-F and 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. **(2)** 12%+ is the non adjusted and 'as reported' target **(3)** Including on-going conduct and restructuring costs.

Q3 2017 Progress towards 2020 targets

Key messages

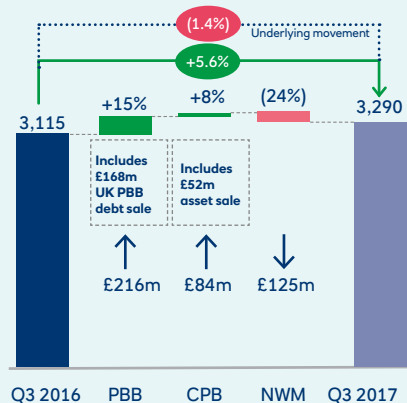
- Q3 attributable profit of £392m; Adjusted ROTE 8.2%
- Cost, capital and lending targets on track for fourth consecutive year
- Targeting a bottom line profit in 2018 subject to providing substantially for DoJ investigation into historic RMBS related activities in 2017
- Continue to support the UK economy, growing in the markets we like within our risk appetite
- We target income growth, cost reduction and RWA productivity
- 2020 financial targets unchanged – 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)



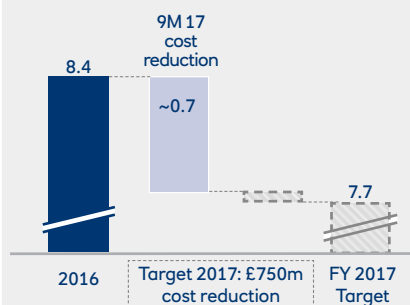
Q3 2016 PBB CPB NWM Q3 2017

2.22 Core NIM % → 2.15

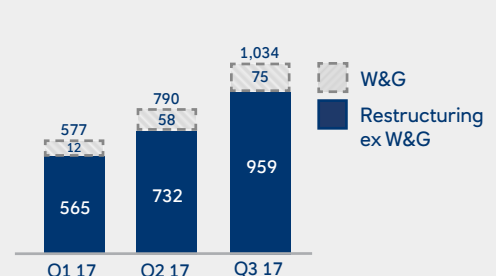
- PBB & CPB annualised loan growth of 3.4% largely driven by mortgages

2. Adjusted operating cost progress to 2017 target

Adjusted Operating Costs⁽⁴⁾ (£bn)

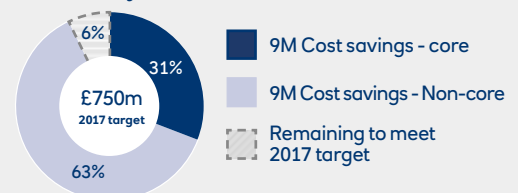


Cumulative Restructuring Spend (£m)



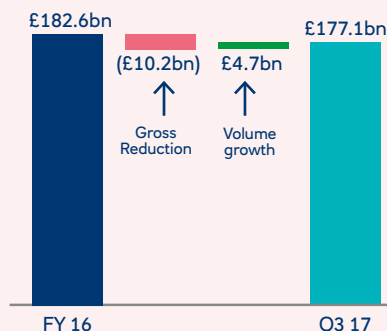
- £708m cost saving for 9M 2017; 33% of the 9M cost reduction was in the core bank
- On track to meet £750m reduction for 2017, and all-in £6.4bn^(5,6) cost base in FY 2020

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

	Comments	End of 9M 2017 provisions (£m)
Capital Resolution run-down	<ul style="list-style-type: none"> Further £3.5bn RWA reduction in Q3 2017; £23.1bn remaining - £16.1bn ex Alawwal Disposal losses of £1.6bn incurred since 2015 	£m 2,832 ⁽⁷⁾
Resolve Conduct & Litigation	RBS continues to cooperate with the DoJ in its civil and criminal investigations of RMBS matters, and with investigations by several state attorneys general; anticipate further substantial provisions and costs	787
Agree solution for W&G	Alternative remedy package approved by the European Commission	979
		828

Total provisions for liabilities and charges £7.1bn⁽⁸⁾ as at 9M 2017

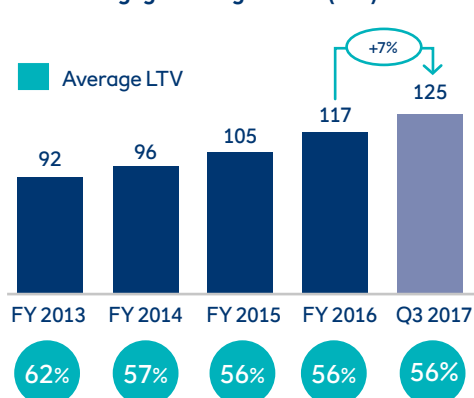
RMBS Litigation and other regulatory PPI Other customer redress

(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 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). (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) 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 2016 annual report. (6) £6.4bn 2020 target is unadjusted total costs, this includes conduct and litigation and restructuring costs. (7) ~\$3.7bn: includes Nomura \$383m (8) Includes 'other' provisions as per note 2 of the Q3 2017 results IMS.

Strong Balance Sheet

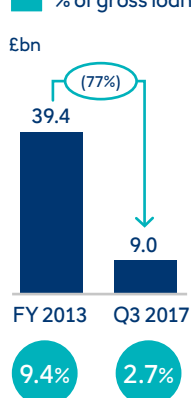
Growth within our risk appetite

Gross mortgage lending UK PBB (£bn)

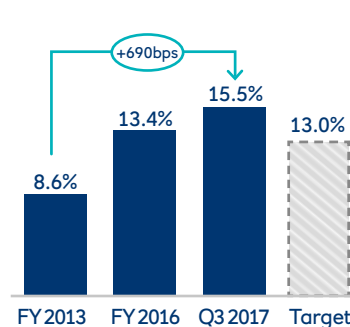


REILs

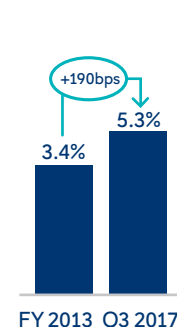
% of gross loans



CET1 Ratio



CRR Leverage Ratio



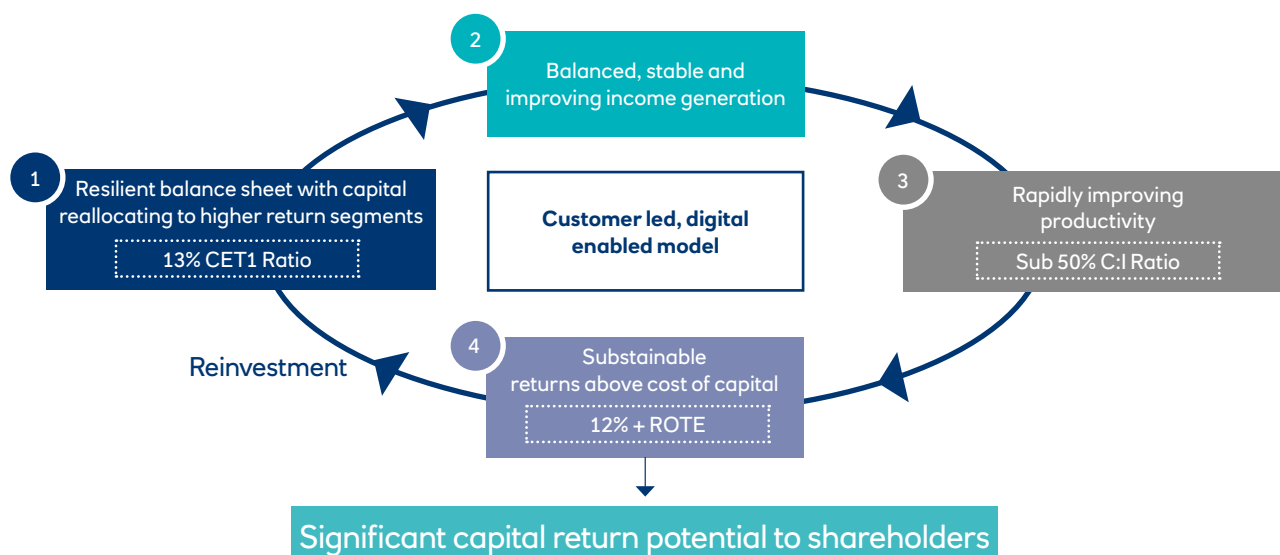
Q3 2017 results by business

(£bn)	Core franchises							Total other				Total RBS
	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⁾	1.5	0.2	0.9	0.2	0.1	0.4	3.3	(0.4)	0.2	0.0	(0.2)	3.2*
Adj. Operating expenses ⁽⁴⁾	(0.7)	(0.1)	(0.4)	(0.1)	(0.0)	(0.3)	(1.7)*	(0.1)	(0.1)	0.1	(0.1)	(1.8)
Impairment (losses)/releases	(0.1)	0.0	(0.2)	0.0	0.0	0.0	(0.2)*	0.1	(0.0)	(0.0)	0.1	(0.1)
Adj. operating profit ^(3,4)	0.8	0.0	0.4	0.1	0.1	0.1	1.4*	(0.4)	0.1	0.1	(0.2)	1.2
Funded Assets ⁽⁵⁾	164.5	25.1	147.3	19.9	24.3	112.7	493.8	22.2	25.6	38.4	86.2	580.0
Net L&A to Customers	140.4	19.5	96.6	13.3	9.3	16.7	295.8	8.4	20.4	0.1	28.8	324.7
Customer Deposits	154.0	17.3	98.2	27.0	24.9	7.1	328.5	6.6	24.6	0.2	31.4	359.9
RWAs	34.0	17.9	74.6	9.2	9.6	31.8	177.1	23.1	9.3	1.1	33.5	210.6
LDR	91%	113%	98%	49%	37%	236%	90%	127%	83%	n.m.	92%	90%
Adj. RoE (%) ^(3,4,5)	39%	6%	9%	14%	14%	4%	15%	n.m.	n.m.	n.m.	n.m.	8.2%
Adj. Cost: Income ratio (%) ^(3,4)	45%	79%	43%	60%	51%	76%	51%	n.m.	34%	n.m.	n.m.	56%

(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 and balances in relation to international private banking for Q1 2016 (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). RBS, Return on equity is calculated using profit for the period attributable to ordinary shareholders.

*Totals may not cast due to rounding

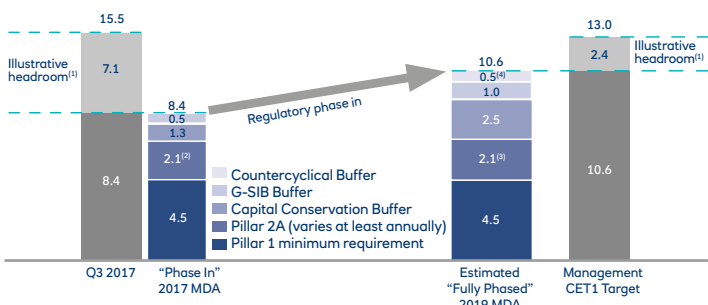
Our 2020 investment case



Future capital requirements

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

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

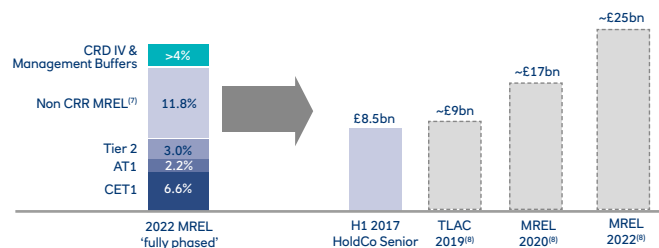


- H1 2017 RBSG (HoldCo) distributable reserves £38.1bn vs £8.0bn at FY 2016
- Capital reduction executed to reclassify approximately £25bn share premium and £5bn capital redemption reserve as distributable reserves

Illustrative future MREL requirements versus estimated existing position

Future LAC requirement⁽⁵⁾
Based on BoE May 2017 guidance

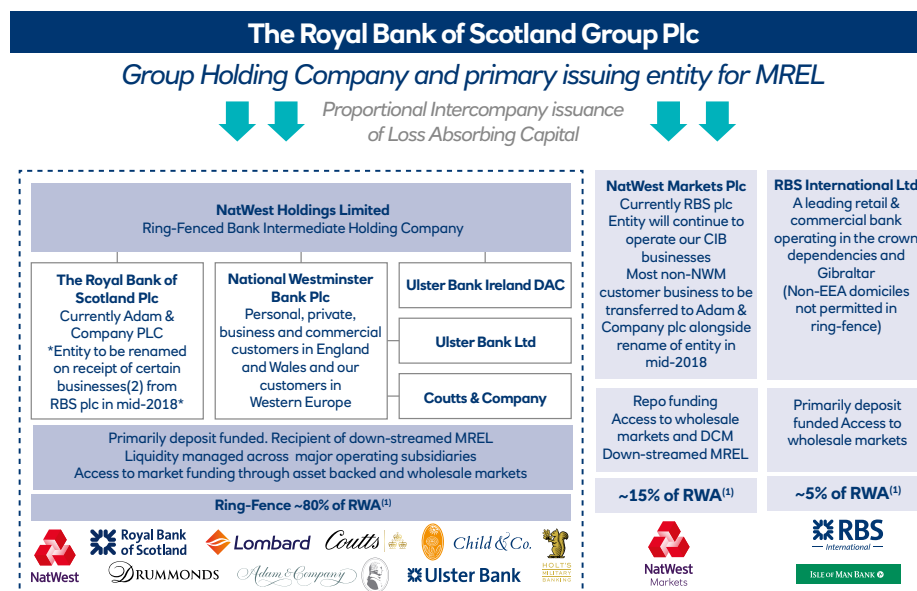
Progress toward future non-CRR MREL needs^(6,7)
Based on current £211bn RWA and static regulatory capital requirements



- Target £3-5bn Senior HoldCo MREL in 2017; £3.6bn issued in H1 2017
- H1 2017 LAC ratio 25.5%, including CET1 and other legacy securities⁽⁹⁾, versus 27.8% BoE 2022 guidance
- Manage stack for value, balancing factors including: current & future regulatory value; relative funding cost; and Rating Agency considerations

(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% Counter-cyclical Buffer introduced from June 2018, expected to increase to 1.0% from November 2018. (5) LAC: Loss Absorbing Capital, comprising total MREL and CRDIV buffers. (6) Illustrative only, both RWA and future capital requirements subject to change. (7) Non-CRR MREL = Loss Absorbing Capital not required to be met by CRDIV compliant regulatory capital. (8) 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. (9) For further information please see 'Loss Absorbing Capital' disclosure in H1 2017 Interim Results.

Illustrative future ringfenced structure



- 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
- All other external debt to remain in its original issuing entity

(Note) Our final ring-fenced legal structure and the actions taken to achieve it, remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. All such actions and their respective timings may be subject to change, or additional actions may be required, including as a result of external and internal factors including further regulatory, corporate or other developments. (1) Based on RBS future business profile and excludes RBS Capital Resolution. (2) Most of our existing personal, private, business and commercial customers from The Royal Bank of Scotland plc.

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