

---

# Fixed Income Investor Presentation

FY 2016 Results  
24 February 2017

---

# Ewen Stevenson

Chief Financial Officer

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

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

Cost, capital and lending targets met three years running

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

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

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

# Financial Targets - 2017 and 2020



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

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

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

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

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

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

<sup>(1)</sup> Lending growth target is after including the impact of balance sheet reductions with the RWA reduction target across PBB, CPB and NWM are outlined in the outlook statement. <sup>(2)</sup> Cost saving target and progress in 2017 calculated using operating expenses excluding restructuring costs, litigation and conduct costs, write down of goodwill and 2016 VAT release <sup>(3)</sup> Previously named Saudi Hollandi Bank <sup>(4)</sup> 12%+ is the non adjusted, 'as reported' RoTE 2020 target.

**Note:** The targets, expectations and trends discussed in this presentation represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the "Risk Factors" 432 to 463 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements.

# Core credit messages

Diversified income streams

Three core franchises generating stable and attractive returns

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

Credit and market risk positioned appropriately for less certain macro outlook

## 2020 Target Operating Profile

12+% ROTE

Sub-50% C:I  
ratio

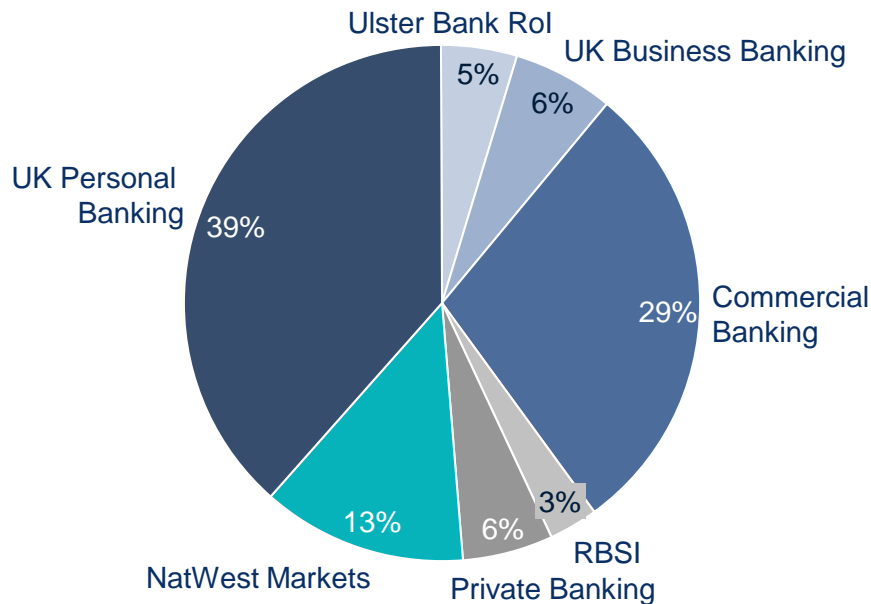
13% CET1  
ratio

~85% RWAs in  
PBB & CPB

~90% Income  
from UK

# Diversified income streams

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

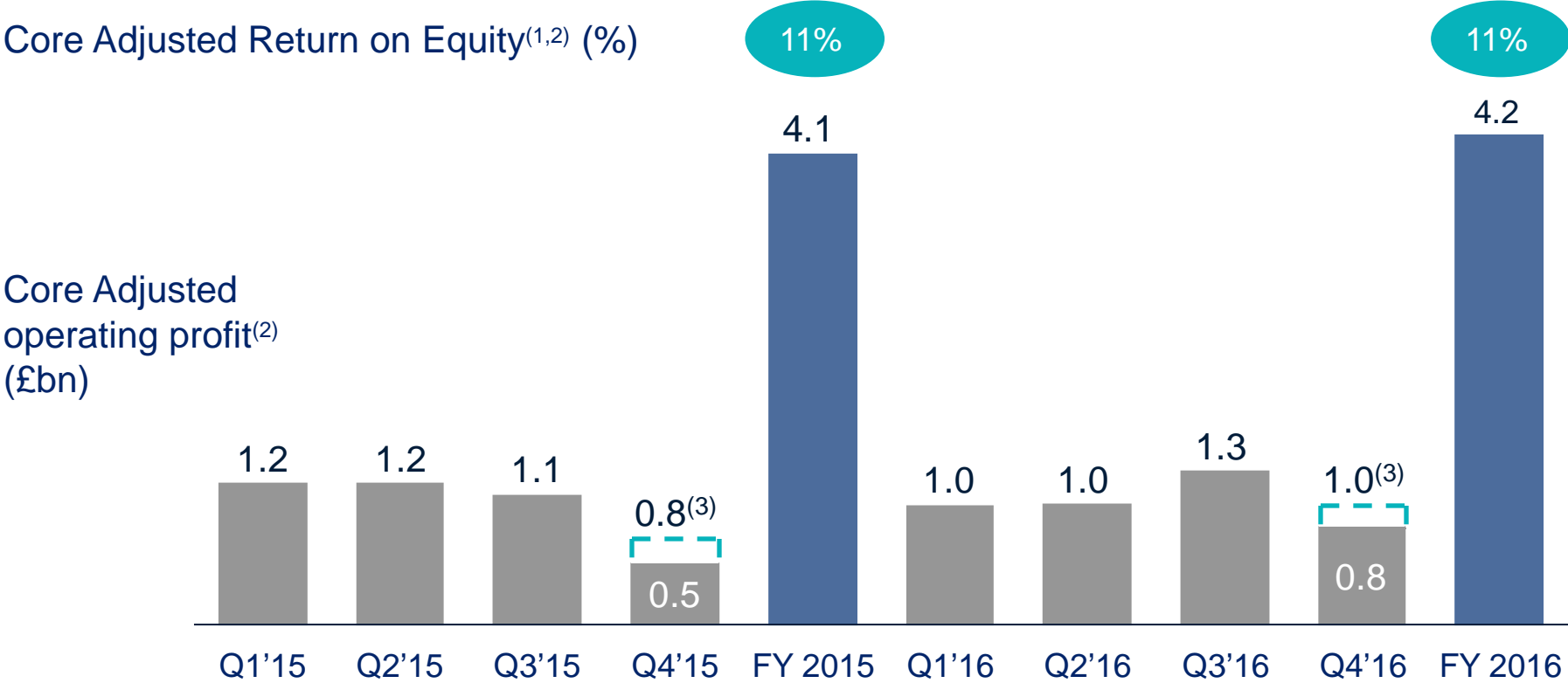


## Strategic plan targets higher quality of earnings in future

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



# Three core businesses generating stable and attractive returns



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

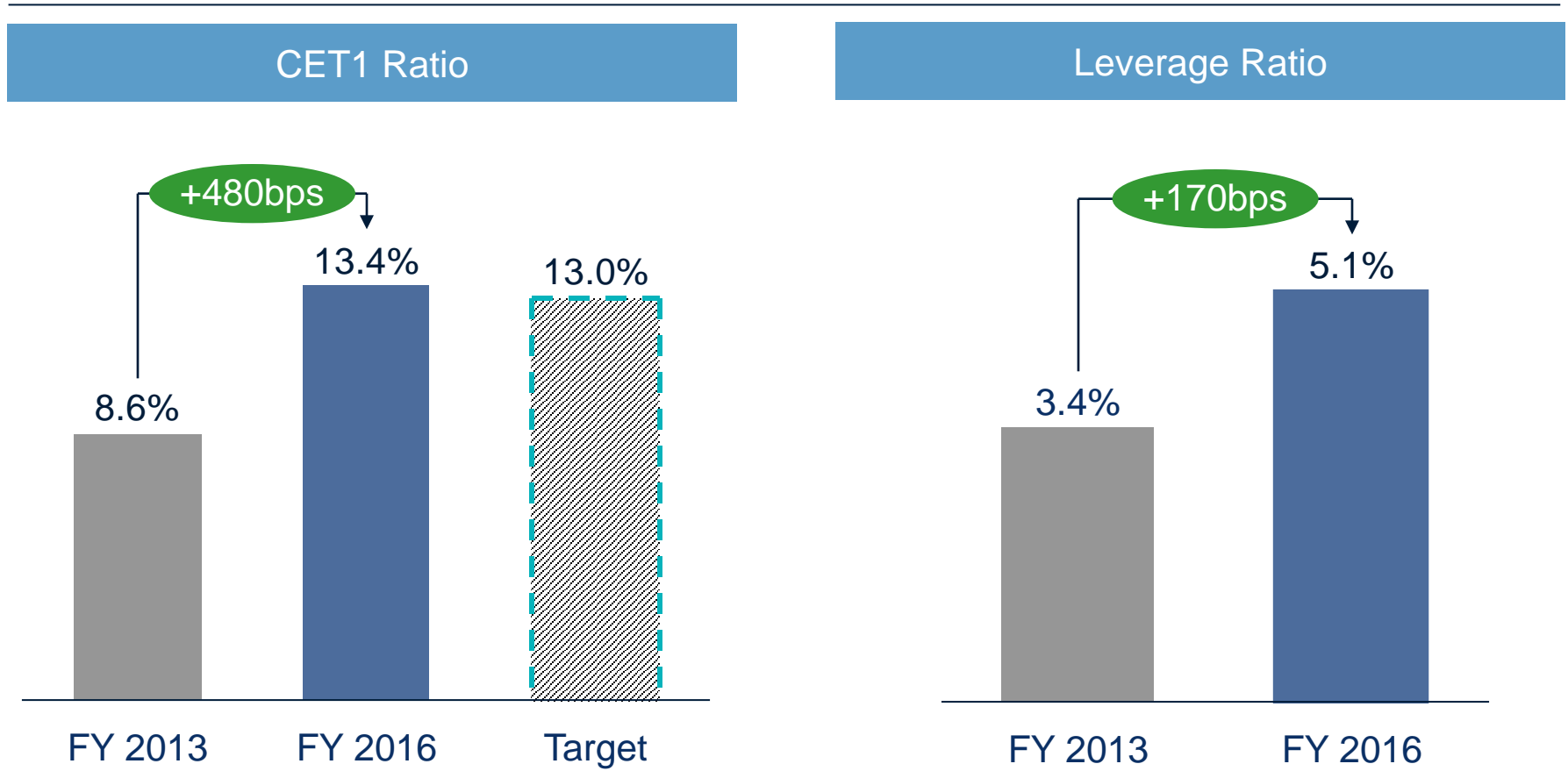
<sup>(1)</sup> RBS's CET1 target is 13% but for the purposes of computing segmental return on equity (RoE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAses). <sup>(2)</sup> Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. Excluding restructuring costs and litigation and conduct costs and goodwill. <sup>(3)</sup> Excluding the impact of the Bank Levy. Note: totals may not cast due to rounding.

# Resolve legacy issues and expense one-off costs

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



# CET1 and leverage ratios



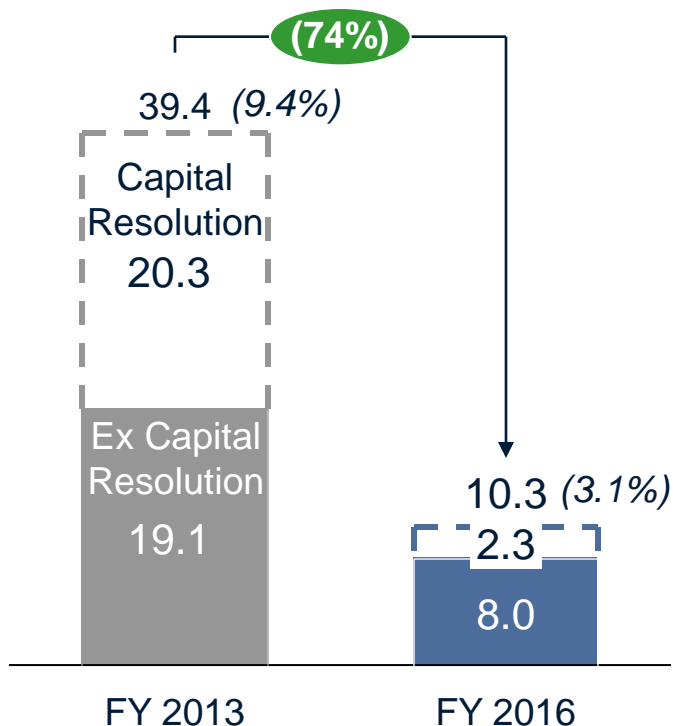
- 2016 included ~£10bn of charges across £5.9bn litigation & conduct, £2.1bn restructuring, £1.2bn DAS repayment and £0.8bn disposal costs<sup>(1)</sup>
- £4bn AT1 in issue, satisfying majority of future requirement<sup>(2)</sup>

<sup>(1)</sup> Includes £170m funding valuation adjustment charge. <sup>(2)</sup> Based on current regulatory requirements and strategic plan, subject to change.

# Risk Elements In Lending substantially reduced

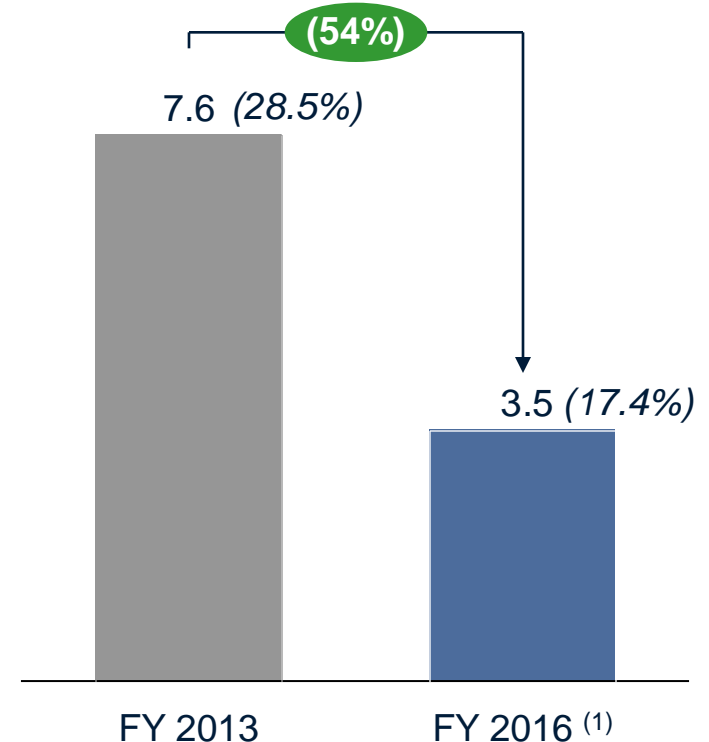
## FY 2016 REILs

£bn (as % of Total Gross L&As)



## FY 2016 Ulster ROI REILs

£bn (as % of Total Gross L&As)



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

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

---

# Robert Begbie

Treasurer

Solid capital and liquidity metrics maintained

Increasing focus on balance sheet optimisation

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

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

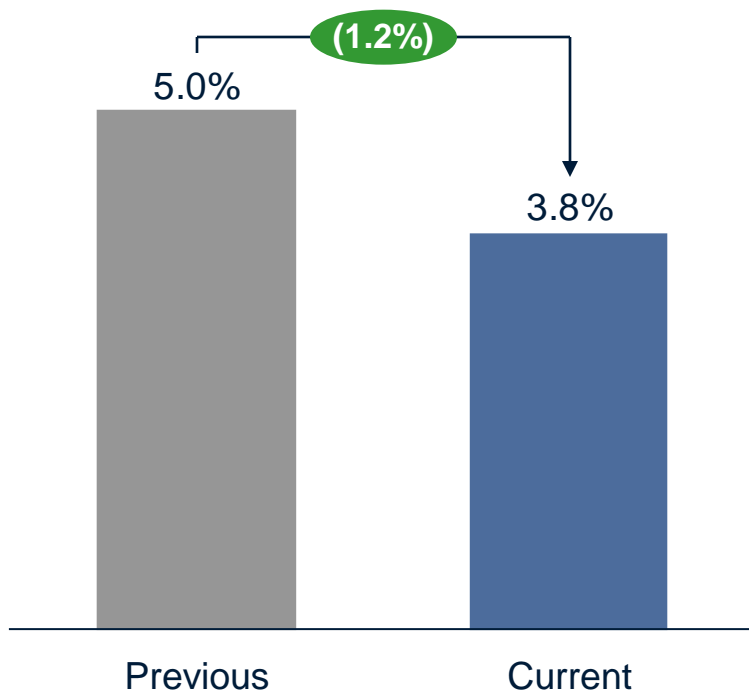
- Target £3-5bn Senior HoldCo issuance
- No active need for AT1 or Tier 2 in 2017
- Progressive return to funding markets

# Solid capital and liquidity metrics maintained

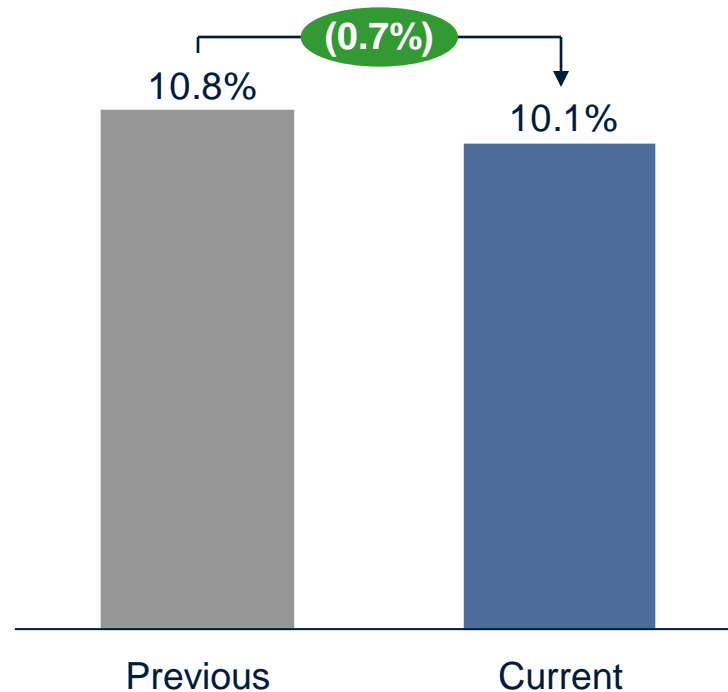
	FY 2016	FY 2015
Loan : deposit ratio	91%	89%
Short-term wholesale funding	£14bn	£17bn
Liquidity coverage ratio	123%	136%
Net stable funding ratio	121%	121%
Core equity tier 1 ratio	13.4%	15.5%
Leverage ratio	5.1%	5.6%

# Reduced capital requirements reflect strategic progress

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



2019 'fully phased' CET1 MDA floor



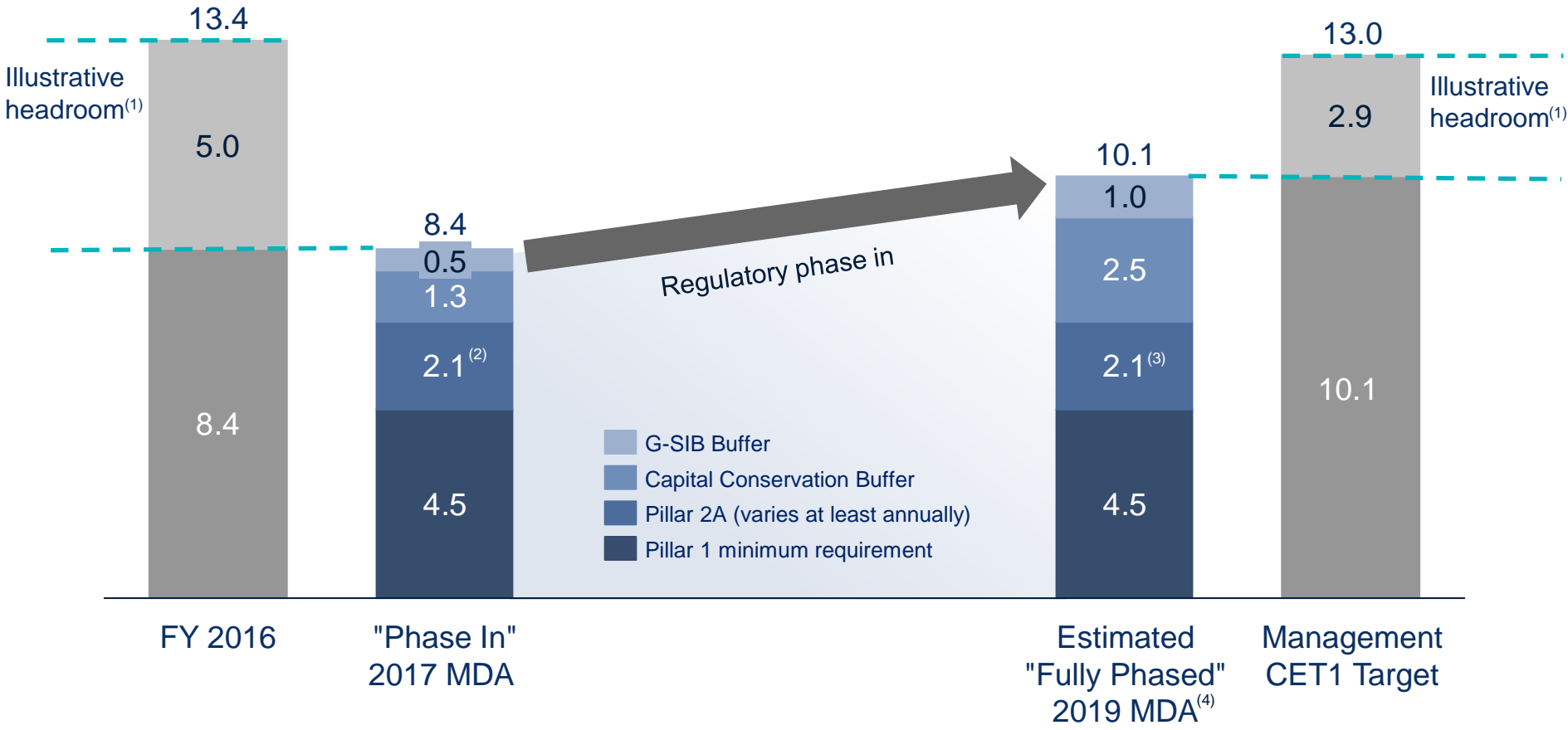
- Pillar 2A reduction primarily reflects contribution to pension scheme
- 13% target CET1 ratio maintained

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

# MDA phase-in and assessment of appropriate buffers

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

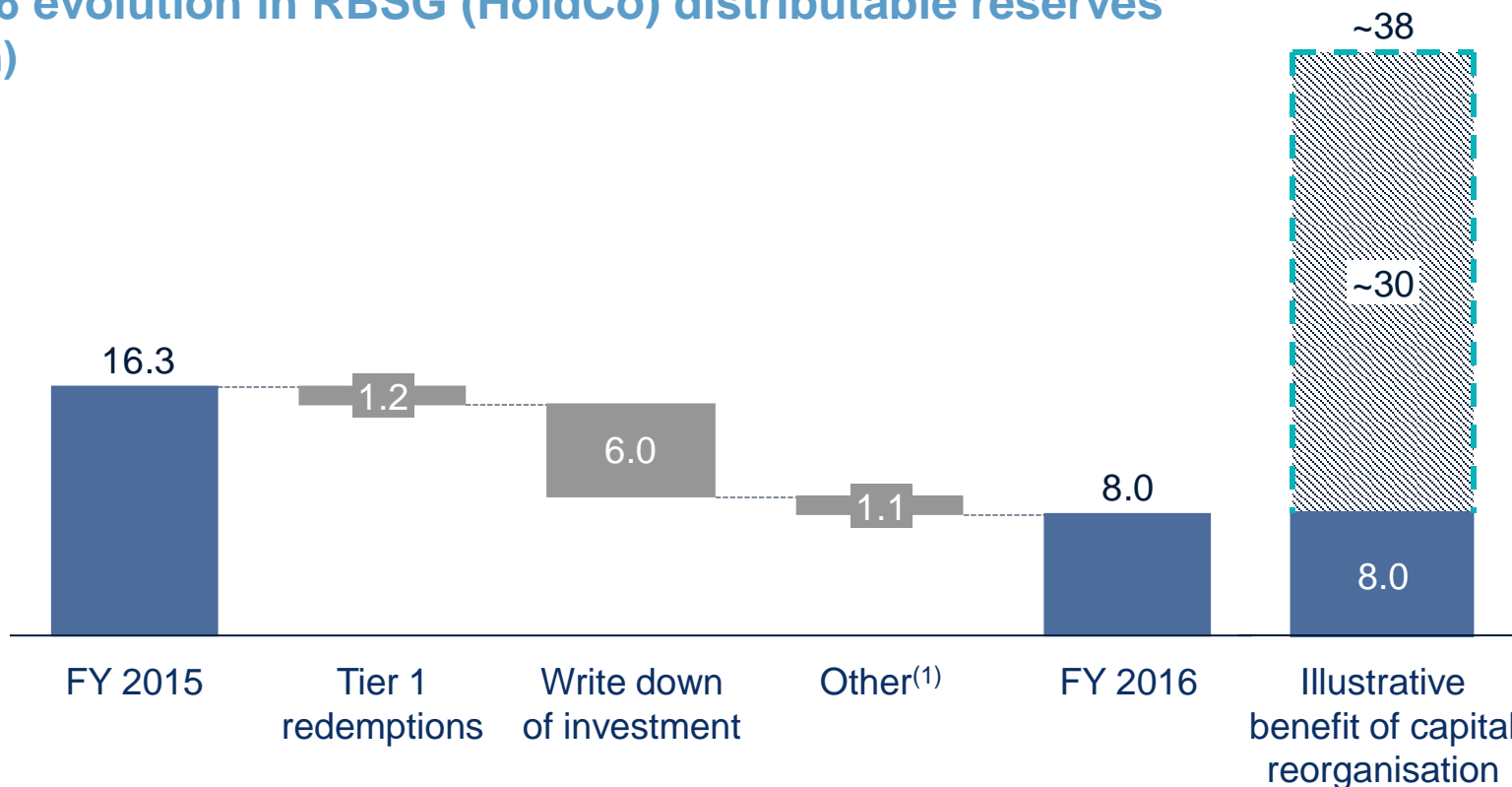
Illustration, based on assumption of static regulatory requirements<sup>(3)</sup>



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

# Capital reorganisation planned to increase available distributable reserves

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



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

<sup>(1)</sup> Includes £1.2bn to retire the Dividend Access Share



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

---

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

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

Returning to modest funding activity:

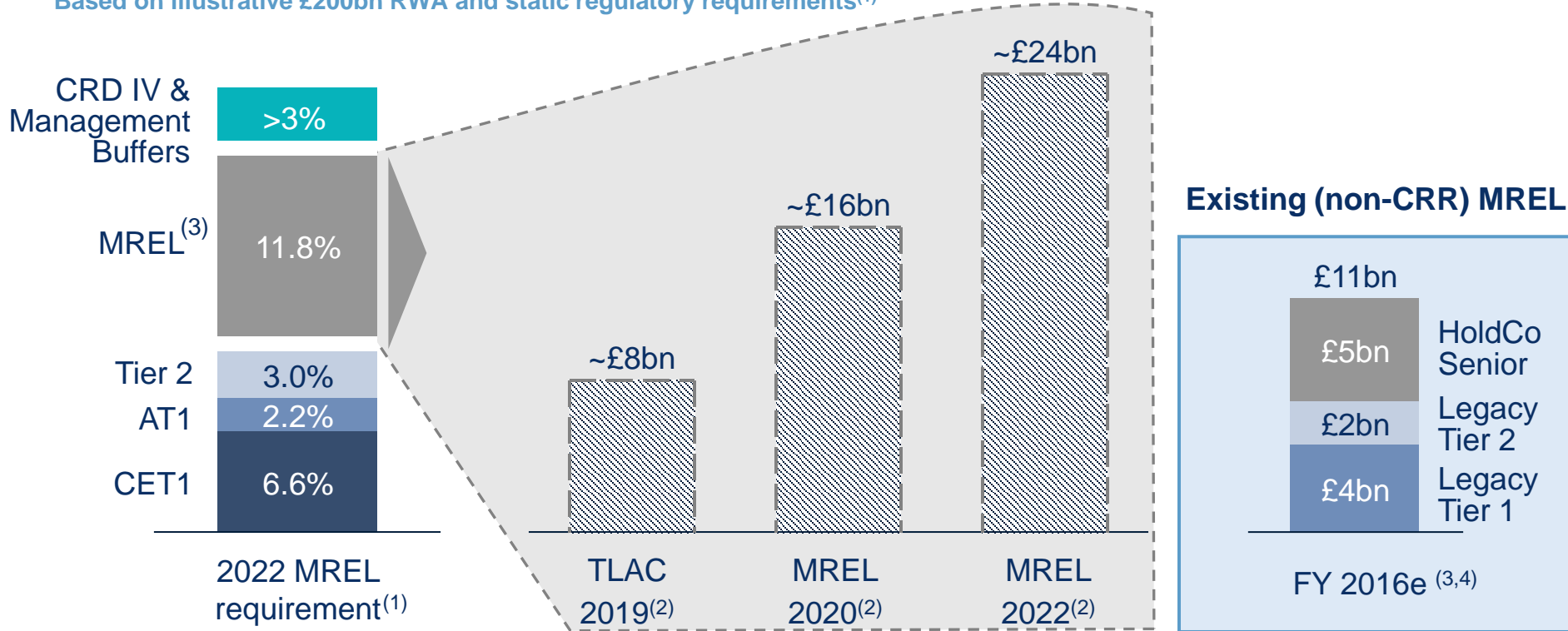
- Reintroduce regular secured funding
- Participant in the Term Funding Scheme
- Tactical unsecured funding

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

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

## Illustrative future MREL requirements versus estimated existing position

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



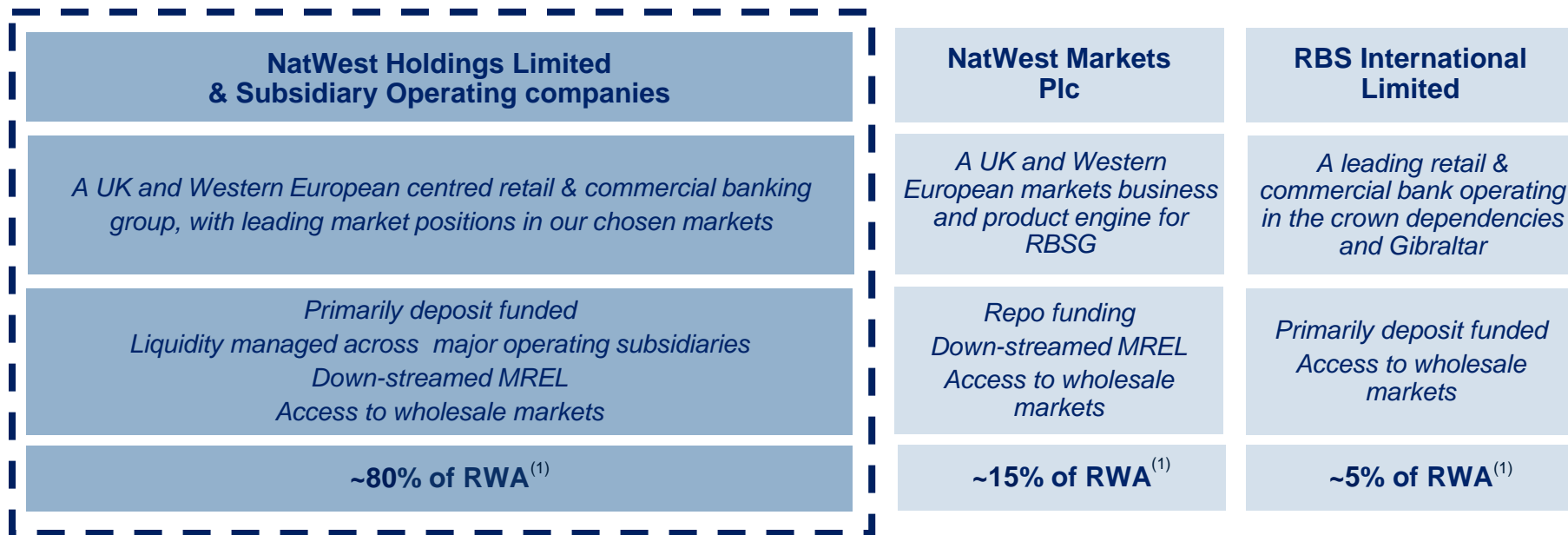
- £5.6bn of OpCo Senior maturities in 2017; ~£13bn of maturities 2017-21<sup>(5)</sup>
- Manage stack for value, balancing factors including: current & future regulatory value; relative funding cost; and Rating Agency considerations

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

# Illustrative future funding structure

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

Proportional Intercompany issuance of Loss Absorbing Capital



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

<sup>(1)</sup> Based on RBS future business profile, excludes RBS Capital Resolution

# 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 set out in the Group's 2016 Annual Report and other uncertainties discussed in this document. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); economic, regulatory and political risks, including as may result from the uncertainty arising from the EU Referendum; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its transformation programme, particularly the proposed further restructuring of the NatWest Markets business, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital and leverage requirements or targets which will depend in part on RBS's success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, additional pension contributions, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS's ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

---

# Appendix

# FY 2016 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 <sup>(1)</sup>	Central items & other <sup>(2)</sup>	Total Other	
<b>Adj. Income<sup>(3)</sup></b>	<b>5.3</b>	<b>0.6</b>	<b>3.4</b>	<b>0.7</b>	<b>0.4</b>	<b>1.5</b>	11.8	<b>(0.4)</b>	<b>0.8</b>	<b>0.1</b>	<b>0.5</b>	<b>12.4</b>
Adj. Operating expenses <sup>(4)</sup>	(3.0)	(0.5)	(1.9)	(0.5)	(0.2)	(1.3)	(7.4)	(0.8)	(0.4)	0.3	(0.8)	(8.2)
Impairment (losses) / releases	(0.1)	0.1	(0.2)	0.0	(0.0)	-	(0.2)	(0.3)	(0.0)	-	(0.3)	(0.5)
<b>Adj. operating profit<sup>(3,4)</sup></b>	<b>2.2</b>	<b>0.2</b>	<b>1.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>4.2</b>	<b>(1.4)</b>	<b>0.4</b>	<b>0.5</b>	<b>(0.6)</b>	<b>3.7</b>
Funded Assets <sup>(5)</sup>	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
Net L&A to Customers	132.1	18.9	100.1	12.2	8.8	17.4	289.5	12.8	20.6	0.1	33.5	323.0
Customer Deposits	145.8	16.1	97.9	26.6	25.2	8.4	320.0	9.5	24.2	0.2	33.9	353.9
RWAs	32.7	18.1	78.5	8.6	9.5	35.2	182.6	34.5	9.6	1.5	45.6	228.2
LDR	91%	117%	102%	46%	35%	n.m.	90%	n.m.	85%	n.m.	99%	91%
<b>Adj. RoE (%)<sup>(3,4,5)</sup></b>	<b>27%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>14%</b>	<b>1%</b>	<b>11%</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>1.6%</b>
Adj. Cost : Income ratio (%) <sup>(3,4)</sup>	57%	80%	57%	78%	45%	87%	63%	n.m.	47%	n.m.	n.m.	66%

<sup>(1)</sup>'Williams and Glyn' refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK <sup>(2)</sup>Central items include unallocated costs and assets which principally comprise volatile items under IFRS <sup>(3)</sup>Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals <sup>(4)</sup>Excluding restructuring costs and litigation and conduct costs and goodwill <sup>(5)</sup>RBS's CET1 target is 13% but for the purposes of computing segmental return on equity (RoE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank Rol), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAs) \*Totals may not cast due to rounding

# Estimated Loss Absorbing Capital (“LAC”) position<sup>(1)</sup>



FY 2016, £bn	LAC value <sup>(1)</sup>	Regulatory Value <sup>(2,3)</sup>	Par Value <sup>(4)</sup>
<b>Common Equity Tier 1 Capital <sup>(5)</sup></b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>
<b>Tier 1 Capital: End point CRR compliant AT1</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
o/w RBS Group Plc (HoldCo)	4.0	4.0	4.0
o/w RBS Operating Subsidiaries (OpCo's)	-	-	-
<b>Tier 1 Capital: End point CRR non-compliant</b>	<b>4.3</b>	<b>5.8</b>	<b>5.8</b>
o/w HoldCo	4.0	5.5	5.5
o/w OpCos	0.3	0.3	0.3
<b>Tier 2 Capital: End point CRR compliant</b>	<b>10.9</b>	<b>10.9</b>	<b>12.9</b>
o/w HoldCo	5.3	6.9	6.9
o/w OpCos	5.6	4.0	6.0
<b>Tier 2 Capital: End point CRR non-compliant</b>	<b>2.2</b>	<b>2.3</b>	<b>2.9</b>
o/w HoldCo	0.1	0.2	0.4
o/w OpCos	2.1	2.1	2.5
<b>Senior unsecured debt securities</b>	<b>5.0</b>	<b>-</b>	<b>21.7</b>
o/w HoldCo	5.0	-	6.9
o/w OpCos	-	-	14.8
<b>Total LAC</b>	<b>57.0</b>	<b>53.6</b>	<b>77.9</b>
Total LAC as a ratio of RWAs	24.9%		
<i>Less minimum CRDIV capital buffers <sup>(6)</sup></i>	<i>(3.5%)</i>		
<b>Available LAC as a ratio of RWAs</b>	<b>21.4%</b>		

<sup>(1)</sup> '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. Closing position predominantly relates to investment advice, packaged accounts (including costs), tracker mortgages and interest rate hedging products <sup>(2)</sup> Regulatory capital instruments issued from operating companies are included in the transitional LAC calculation, to the extent they meet the TLAC/MREL criteria. <sup>(3)</sup> Regulatory amounts reported for Additional Tier 1, Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR. <sup>(4)</sup> Par value reflects the nominal value of securities issued. <sup>(5)</sup> Corresponding shareholders' equity was £49.4bn. <sup>(6)</sup> Assumes CRDIV capital buffers met by CET1 in addition to MREL requirements. Based on Capital Conservation Buffer (2.5%) and G-SIB requirement (1.0%), excludes consideration of any additional management buffer.