

**Q1 2017**  
**Interim Management Statement**



## Highlights

RBS reported an operating profit before tax of £713 million for Q1 2017 and an attributable profit<sup>(1)</sup> of £259 million.

Across our Personal & Business Banking (PBB), Commercial & Private Banking (CPB) and NatWest Markets (NWM) businesses, RBS reported an adjusted operating profit<sup>(2)</sup> of £1,326 million, an increase of £303 million, or 30%, compared with Q1 2016. Adjusted return on equity across PBB, CPB and NatWest Markets was 13.8% compared with 10.9% in Q1 2016.

Common Equity Tier 1 ratio increased by 70 basis points in the quarter to 14.1%, and remains ahead of our 13.0% target.

| Key metrics and ratios   | Quarter ended        |                         |               |
|--|----------------------|-------------------------|---------------|
|  | 31 March 2017        | 31 December 2016        | 31 March 2016 |
| Attributable profit/(loss)   | £259m                | (£4,441m)               | (£968m)       |
| Operating profit/(loss)  | £713m                | (£4,063m)               | £421m         |
| Operating profit - adjusted (2)  | £1,371m              | £1,185m                 | £440m         |
| Net interest margin  | 2.24%                | 2.19%                   | 2.15%         |
| Cost:income ratio (3)  | 76.1%                | 230.2%                  | 78.7%         |
| Cost:income ratio - adjusted (3,4,5)                                       | 55.8%                | 66.3%                   | 76.1%         |
| Earnings/(loss) per share from continuing operations                       |                      |                         |               |
| - basic  | 2.2p                 | (37.7p)                 | (8.3p)        |
| - adjusted (4,5)   | 7.1p                 | 7.0p                    | (8.1p)        |
| Return on tangible equity (6,7)  | 3.1%                 | (48.2%)                 | (9.6%)        |
| Return on tangible equity - adjusted (4,5,7)                               | 9.7%                 | 8.6%                    | (9.4%)        |
| Average tangible equity (6)  | £33,357m             | £36,855m                | £40,383m      |
| Average number of ordinary shares outstanding during the period (millions) | 11,793               | 11,766                  | 11,606        |
| <b>PBB, CPB &amp; NWM</b>  |                      |                         |               |
| Total income - adjusted (4)  | £3,154m              | £2,914m                 | £2,815m       |
| Operating profit - adjusted (2)  | £1,326m              | £848m                   | £1,023m       |
| Return on tangible equity - adjusted (4,5,6)                               | 13.8%                | 8.5%                    | 10.9%         |
| <b>Balance sheet related key metrics and ratios</b>                        | <b>31 March 2017</b> | <b>31 December 2016</b> |               |
| Tangible net asset value (TNAV) per ordinary share (7)                     | 297p                 | 296p                    |               |
| Liquidity coverage ratio (LCR) (8)   | 129%                 | 123%                    |               |
| Liquidity portfolio  | £160bn               | £164bn                  |               |
| Net stable funding ratio (NSFR) (9)  | 120%                 | 121%                    |               |
| Loan:deposit ratio (10,11)   | 93%                  | 91%                     |               |
| Short-term wholesale funding (10,12)                                       | £16bn                | £14bn                   |               |
| Wholesale funding (10,12)  | £67bn                | £59bn                   |               |
| Common Equity Tier 1 (CET1) ratio  | 14.1%                | 13.4%                   |               |
| Risk-weighted assets (RWAs)  | £221.7bn             | £228.2bn                |               |
| CRR leverage ratio (13)  | 5.0%                 | 5.1%                    |               |
| UK leverage ratio (14)   | 5.7%                 | 5.6%                    |               |
| Tangible equity (7)  | £35,186m             | £34,982m                |               |
| Number of ordinary shares in issue (millions) (15)                         | 11,842               | 11,823                  |               |

### Notes:

- (1) Attributable to ordinary shareholders.
- (2) Operating profit before tax excluding own credit adjustments, gain on redemption of own debt, strategic disposals, restructuring costs and litigation and conduct costs.
- (3) Operating lease depreciation included in income (Q1 2017 - £36 million; Q4 2016 - £37 million and Q1 2016 - £38 million).
- (4) Excluding own credit adjustments, gain on redemption of own debt and strategic disposals.
- (5) Excluding restructuring costs and litigation and conduct costs.
- (6) Calculated using profit/(loss) for the period attributable to ordinary shareholders.
- (7) Tangible equity is equity attributable to ordinary shareholders less intangible assets. The dilutive impact was 2p (31 December 2016 - 2p).
- (8) 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.
- (9) NSFR for all periods have been calculated using RBS's current interpretations of the revised BCBS guidance on NSFR issued in late 2014. Therefore, reported NSFR will change over time with regulatory developments. Due to differences in interpretation, RBS's ratio may not be comparable with those of other financial institutions.
- (10) Excludes repurchase agreements and stock lending.
- (11) Includes disposal groups.
- (12) Excludes derivative collateral.
- (13) Based on end-point Capital Requirements Regulation (CRR) Tier 1 capital and leverage exposure under the CRR Delegated Act.
- (14) Based on end-point CRR Tier 1 capital and UK leverage exposures reflecting the post EU referendum measures announced by the Bank of England in the third quarter of 2016.
- (15) Includes 28 million treasury shares (31 December 2016 - 39 million).

## Highlights

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### Q1 2017 RBS Performance Summary

- RBS reported an attributable profit of £259 million for Q1 2017 compared with a loss of £968 million in Q1 2016 which included payment of the final Dividend Access Share (DAS) dividend of £1,193 million.
- Q1 2017 operating profit of £713 million compared with £421 million in Q1 2016. An adjusted operating profit of £1,371 million was £931 million higher than Q1 2016.
- Adjusted income of £3,239 million was £425 million, or 15.1%, higher than Q1 2016. NatWest Markets adjusted income of £508 million was £231 million, or 83.4%, higher than Q1 2016 reflecting consistent customer activity and an improved trading environment compared to a particularly difficult Q1 2016. Across PBB and CPB, income was £108 million, or 4.3%, higher supported by asset growth.
- Net interest margin (NIM) of 2.24% for Q1 2017 was 9 basis points higher than Q1 2016, as the benefit associated with the reduction in low yielding assets more than offset asset margin pressure and mix impacts across the core businesses. NIM increased by 5 basis points compared with Q4 2016 principally driven by deposit re-pricing in UK PBB and Commercial Banking.
- Excluding a £51 million VAT recovery, adjusted operating expenses have reduced by £278 million, or 12.9%, compared with Q1 2016. The adjusted cost:income ratio for Q1 2017 was 55.8% compared with 76.1% in Q1 2016. Across the core PBB, CPB and NatWest Markets businesses, adjusted cost:income ratio of 54.9% compared with 62.4% in Q1 2016.
- Restructuring costs were £577 million in the quarter, an increase of £339 million compared with Q1 2016, and included a charge of £235 million relating to the reduction of our property portfolio.
- Litigation and conduct costs of £54 million comprised a number of small charges.
- A net impairment loss of £46 million, 6 basis points of gross customer loans, compared with a loss of £223 million in Q1 2016, with the reduction principally reflecting a £226 million shipping impairment in Q1 2016. REIL represented 2.9% of gross customer loans compared with 3.6% at 31 March 2016 and 3.1% at 31 December 2016.
- PBB and CPB net loans and advances have increased by 5.6% on an annualised basis in Q1 2017 principally driven by mortgage growth within UK PBB.
- Tangible net asset value (TNAV)<sup>(1)</sup> per share increased by 1p from Q4 2016 to 297p.

### PBB, CPB and NatWest Markets operating performance

- Across our three customer facing businesses, PBB, CPB and NatWest Markets, adjusted operating profit of £1,326 million was £303 million, or 29.6%, higher than Q1 2016.
  - UK PBB adjusted operating profit of £629 million was £98 million, or 18.5%, higher than Q1 2016. Total income of £1,377 million was £102 million, or 8.0%, higher than Q1 2016 driven by increased lending, with net loans and advances 11.5% higher at £135.8 billion.
  - Ulster Bank RoI adjusted operating profit of £62 million was £2 million, or 3.1%, lower than Q1 2016 reflecting an asset disposal gain in Q1 2016 and reduced income on free funds, partially offset by an increased net impairment release.
  - Commercial Banking adjusted operating profit of £356 million was £47 million, or 11.7%, lower than Q1 2016 primarily driven by an increased impairment charge. Income was £12 million, or 1.4%, higher at £865 million with the benefit of increased net loans and advances, up 3.4% to £99.7 billion, offset by margin pressure, down 12 basis points to 1.76%.
  - Private Banking<sup>(2)</sup> adjusted operating profit of £44 million was £18 million, or 69.2%, higher than Q1 2016 driven by a £24 million, or 17.5%, reduction in adjusted operating expenses, principally reflecting various management actions to improve operational efficiency.
  - RBS International adjusted operating profit of £48 million reduced by £5 million, or 9.4%, compared with Q1 2016 driven by an £8 million, or 22.9%, increase in adjusted operating expenses principally reflecting increased regulatory and remediation costs.
  - NatWest Markets adjusted income of £508 million was £231 million, or 83.4%, higher than Q1 2016 reflecting the benefit of consistent customer activity and an improved trading environment compared to a particularly difficult Q1 2016, notably in the Rates business. An adjusted operating profit of £187 million compared with a loss of £54 million for Q1 2016.

#### Notes:

(1) Tangible equity is equity attributable to ordinary shareholders less intangible assets. The dilutive impact was 2p (31 December 2016 – 2p)

(2) Private Banking serves high net worth individuals through Coutts and Adam & Co.

## Highlights

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### Capital Resolution & Central items operating performance

- Capital Resolution adjusted operating loss of £76 million compared with a loss of £377 million in Q1 2016 reflecting modest disposal losses and impairments of £5 million and a 70.3% reduction in adjusted operating expenses to £69 million. RWAs reduced by a further £4.0 billion in the quarter to £30.5 billion.
- Central items adjusted operating profit of £10 million compared with a loss of £307 million in Q1 2016 and included a £18 million loss in respect of IFRS volatility (Q1 2016 - £356 million loss). In addition, a VAT recovery of £51 million was recognised in the quarter.

### Building a stronger RBS

RBS is progressing with its plan to build a strong, simple, fair bank for customers and shareholders.

- CET1 remains ahead of our 13% target at 14.1%, a 70 basis point increase on Q4 2016 driven by a £6.5 billion reduction in RWAs and the £259 million attributable profit.
- RWAs decreased by £6.5 billion compared with Q4 2016 principally reflecting £4.0 billion of disposals and run-off in Capital Resolution and planned RWA reductions in the core businesses. Excluding volume growth, RWAs across PBB, CPB and NatWest Markets reduced by £3.2 billion (PBB £0.7 billion, CPB £1.4 billion and NatWest Markets £1.1 billion) during Q1 2017, and we remain committed to achieving at least a £20 billion gross reduction by the end of 2018.
- On 1 March 2017, RBS issued €1.5 billion Senior holding company (RBSG) debt which it expects to be eligible to meet its 'Minimum Requirement for Own Funds and Eligible Liabilities' (MREL). Total MREL eligible securities are now £55.3 billion, or 24.9% of RWAs.
- Leverage ratio reduced by 10 basis points to 5.0% driven by increased lending exposure.
- Risk elements in lending (REIL) of £9.7 billion were £0.6 billion lower than 31 December 2016 and represented 2.9% of gross customer loans, compared with 3.1% at 31 December 2016 and 3.6% as at 31 March 2016. Excluding REIL in Capital Resolution and Ulster Bank Rol, REIL were £4.1 billion or 1.4% of the respective gross customer loans.
- As at 31 March 2017, there has been no material change to the surplus ratio of assets to liabilities in the Main Scheme of The Royal Bank of Scotland Group Pension Fund which at 31 December was c.115% under IAS valuation principles.
- RBS has continued to utilise the Bank of England's Term Funding Scheme. A further £9 billion has been drawn since 31 December 2016, taking total RBS participation to £14 billion as at 31 March 2017.

### Building the number one bank for customer service, trust and advocacy in the UK

- RBS continued to deliver strong support for both household and business customers. Within UK PBB, gross new mortgage lending of £7.8 billion was 10% higher than Q1 2016 with market share of new mortgages at approximately 13% supporting growth in stock share to approximately 9.0%, up from 8.8% at 31 December 2016 and 8.3% at 31 March 2016. Positive momentum continued across business banking lending with balances up 4.7%, excluding transfers of £0.9 billion as at 31 March 2017, compared with Q1 2016.
- RBS continues to enhance the functionality of its mobile app. Customers can now view remaining ISA allowances, register their travel plans, and apply for loans and credit cards. There are also improved transaction descriptions to help customers manage their finances and spot transactions they do not recognise. We now have 4.3 million customers regularly using our mobile app in the UK, over 4% higher than Q4 2016. Nearly 80% of our commercial customers' interaction with us is via digital channels.
- In February 2017, RBS launched a fully automated lending platform, ESME, to originate unsecured SME lending of up to £150,000. Where our credit risk appetite permits, these loans can be processed and funded within an hour, responding to our customers' desire for speed and simplicity.
- RBS launched 'Royal Bank Assist', our artificial intelligence-based, 'always-on' online support on the Royal Bank of Scotland website, supported by IBM Watson and LivePerson, answering our top 80 customer questions and getting customers to the right place to meet their needs more quickly.
- RBS has launched a dedicated team of 1,200 TechXperts, who are in our branches helping customers make the most of online and mobile banking, providing advice on how to stay safe and secure.

## Highlights

### Capital reorganisation

- It is our intention to implement a capital reorganisation in 2017 in order to increase the distributable reserves of the parent company, RBSG plc, providing greater flexibility for future distributions and preference share redemptions. We intend to seek shareholder approval to reduce the share premium account by around £25 billion and to cancel the capital redemption reserve of around £5 billion. This will, subject to approval by shareholders and regulators, and confirmation by the Court of Session in Edinburgh, increase RBSG plc distributable reserves by around £30 billion. As at 31 March 2017, distributable reserves were £7.9 billion.

### IFRS 9

- Ahead of adopting IFRS 9 Financial Instruments from 1 January 2018, RBS has adopted the provisions in respect of the presentation of gains and losses on financial liabilities at fair value that are not held for trading from 1 January 2017. Accordingly, a loss of £20 million has been reported in the Consolidated Statement of Other Comprehensive Income instead of in the Consolidated Income Statement. Comparatives have not been restated, however, in Q1 2016 a gain of £108 million was included in the Consolidated Income Statement. Own credit adjustments on financial liabilities held for trading will continue to be recognised in the Consolidated Income Statement, a loss of £29 million was reported in Q1 2017 (Q1 2016 - gain of £148 million).

### Williams & Glyn

- On 17 February 2017, RBS announced that it had been informed by HM Treasury (HMT) that the Commissioner responsible for EU competition policy planned to propose to the College of Commissioners to open proceedings to gather evidence on an alternative plan for RBS to meet its remaining state aid obligations. On 4 April 2017, the European Commission announced that it had opened an in-depth investigation into whether this alternative plan was an appropriate replacement for the existing requirement to achieve separation and divestment of Williams & Glyn by 31 December 2017.

### Progress on 2017 targets

RBS remains committed to achieving its priority targets for 2017.

| Strategy goal               | 2017 target   | Q1 2017 Progress   |
|-----------------------------|---|--|
| Strength and sustainability | Maintain bank CET1 ratio of 13%   | CET1 ratio of 14.1%; up 70 basis points from Q4 2016   |
| Customer experience         | Significantly increase NPS or maintain No.1 in chosen customer segments | The March 2017 NatWest Personal NPS score was the highest seen since we started to track it in 2009<br>Commercial Banking is a market leader for customer advocacy, seeing a significant improvement in NPS since Q1 2013 and as of Q1 2017 we have more promoters of our brand than ever before |
| Simplifying the bank        | Reduce operating expenses by at least £750 million <sup>(1)</sup>       | Operating expenses down £278 million, or 12.9%, excluding the VAT recovery   |
| Supporting growth           | Net 3% growth on total PBB and CPB loans to customers                   | Net customer loans in PBB and CPB are up 5.6% on an annualised basis for the year to date; 47% of the total full year target   |
| Employee engagement         | Improve employee engagement   | Reviewed bi-annually   |

Note:

(1) Cost saving target and progress 2017 calculated using operating expenses excluding restructuring costs, litigation and conduct costs, write down of goodwill and VAT recoveries.

## Highlights

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### Outlook <sup>(1)</sup>

- We retain the 2017 full year guidance and medium term outlook we provided in the 2016 Annual Results document. In addition, and subject to providing fully for remaining significant legacy issues in 2017, our expectation remains that we will be profitable in 2018.
- We anticipate that adjusted operating profit will be lower in Q2 2017 compared with Q1 2017 reflecting expected reduced income in NatWest Markets, coupled with increased adjusted operating expenses, in part due to the absence of the Q1 2017 VAT recovery in Q2 2017. Separately, we expect to recognise a gain on the sale of RBS's stake in Vocalink of approximately £160 million during the quarter.

### Recent developments

- RBS N.V.'s associate Alawwal Bank announced on 25 April 2017 that it was starting merger discussions with Saudi British Bank (SABB). The 40% stake in Alawwal Bank is the remaining significant shared asset of the RFS Consortium.

Note:

- (1) 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; refer to Forward-looking statements in this announcement.

## Summary consolidated income statement for the period ended 31 March 2017

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| Net interest income  | 2,234                  | 2,208                     | 2,156                  |
| Own credit adjustments   | (29)                   | (114)                     | 256                    |
| Gain on redemption of own debt                                     | 2                      | 1                         | -                      |
| Strategic disposals  | -                      | -                         | (6)                    |
| Other operating income   | 1,005                  | 1,121                     | 658                    |
| Non-interest income  | 978                    | 1,008                     | 908                    |
| <b>Total income</b>  | <b>3,212</b>           | <b>3,216</b>              | <b>3,064</b>           |
| Restructuring costs  | (577)                  | (1,007)                   | (238)                  |
| Litigation and conduct costs                                       | (54)                   | (4,128)                   | (31)                   |
| Other costs  | (1,822)                | (2,219)                   | (2,151)                |
| <b>Operating expenses</b>  | <b>(2,453)</b>         | <b>(7,354)</b>            | <b>(2,420)</b>         |
| <b>Profit/(loss) before impairment (losses)/releases</b>           | <b>759</b>             | <b>(4,138)</b>            | <b>644</b>             |
| Impairment (losses)/releases                                       | (46)                   | 75                        | (223)                  |
| <b>Operating profit/(loss) before tax</b>                          | <b>713</b>             | <b>(4,063)</b>            | <b>421</b>             |
| Tax charge   | (327)                  | (244)                     | (80)                   |
| <b>Profit/(loss) for the period</b>                                | <b>386</b>             | <b>(4,307)</b>            | <b>341</b>             |
| <b>Attributable to:</b>  |                        |                           |                        |
| Non-controlling interests  | 11                     | (27)                      | 22                     |
| Other owners   | 116                    | 161                       | 94                     |
| Dividend access share  | -                      | -                         | 1,193                  |
| Ordinary shareholders  | 259                    | (4,441)                   | (968)                  |
| <b>Notable items memo</b>  |                        |                           |                        |
| <b>Adjusted basis</b>  |                        |                           |                        |
| Total income - adjusted (1)  | 3,239                  | 3,329                     | 2,814                  |
| Operating expenses - adjusted (2)                                  | (1,822)                | (2,219)                   | (2,151)                |
| Operating profit - adjusted (1,2)                                  | 1,371                  | 1,185                     | 440                    |
| <b>Within adjusted total income</b>                                |                        |                           |                        |
| IFRS volatility in Central items (3)                               | (18)                   | 308                       | (356)                  |
| FX (losses)/gains in Central items                                 | (52)                   | 140                       | 52                     |
| Capital Resolution disposal losses                                 | (50)                   | (325)                     | 4                      |
| Unwind of securitisations in the property portfolio                | (105)                  | -                         | -                      |
| <b>Within adjusted operating expenses</b>                          |                        |                           |                        |
| VAT recovery in Central items                                      | 51                     | -                         | -                      |
| Bank levy  | -                      | (190)                     | -                      |
| <b>Within restructuring costs</b>                                  |                        |                           |                        |
| Property exit costs  | (235)                  | -                         | -                      |
| Williams & Glyn restructuring costs                                | (12)                   | (810)                     | (158)                  |
| <b>Within impairment (losses)/releases</b>                         |                        |                           |                        |
| Capital Resolution impairment releases/(losses)                    | 45                     | 130                       | (196)                  |
| Capital Resolution shipping portfolio impairment releases/(losses) | 4                      | 30                        | (226)                  |
| Ulster Bank Rol impairment releases                                | 24                     | 47                        | 13                     |
| Commercial Banking impairment losses                               | (61)                   | (83)                      | (14)                   |

Notes:

- (1) Excluding own credit adjustments, gain on redemption of own debt and strategic disposals.  
(2) Excluding restructuring costs and litigation and conduct costs.  
(3) IFRS volatility relates to loans which are economically hedged but for which hedge accounting is not permitted under IFRS.

Details of other comprehensive income are provided on page 26.



## Summary consolidated balance sheet as at 31 March 2017

|   | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m |
|---|------------------------|---------------------------|
| Cash and balances at central banks                | 83,160                 | 74,250                    |
| Net loans and advances to banks (1)               | 20,513                 | 17,278                    |
| Net loans and advances to customers (1)           | 326,733                | 323,023                   |
| Reverse repurchase agreements and stock borrowing | 45,451                 | 41,787                    |
| Debt securities and equity shares                 | 77,347                 | 73,225                    |
| Assets of disposal groups                         | 92                     | 13                        |
| Other assets                                      | 25,927                 | 22,099                    |
| <b>Funded assets</b>                              | <b>579,223</b>         | <b>551,675</b>            |
| Derivatives                                       | 204,052                | 246,981                   |
| <b>Total assets</b>                               | <b>783,275</b>         | <b>798,656</b>            |
| Bank deposits (2)                                 | 40,276                 | 33,317                    |
| Customer deposits (2)                             | 351,498                | 353,872                   |
| Repurchase agreements and stock lending           | 44,966                 | 32,335                    |
| Debt securities in issue                          | 28,163                 | 27,245                    |
| Subordinated liabilities                          | 15,514                 | 19,419                    |
| Derivatives                                       | 196,224                | 236,475                   |
| Provisions for liabilities and charges            | 11,619                 | 12,836                    |
| Liabilities of disposal groups                    | 14                     | 15                        |
| Other liabilities                                 | 45,490                 | 33,738                    |
| Total liabilities                                 | 733,764                | 749,252                   |
| Non-controlling interests                         | 805                    | 795                       |
| Owners' equity                                    | 48,706                 | 48,609                    |
| <b>Total liabilities and equity</b>               | <b>783,275</b>         | <b>798,656</b>            |
| <b>Contingent liabilities and commitments</b>     | <b>148,324</b>         | <b>150,691</b>            |

Notes:

- (1) Excludes reverse repurchase agreements and stock borrowing.  
(2) Excludes repurchase agreements and stock lending.

## Analysis of results

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Net interest income</b>  |                        |                           |                        |
| Net interest income   |                        |                           |                        |
| RBS   | <b>2,234</b>           | 2,208                     | 2,156                  |
| - UK Personal & Business Banking  | <b>1,111</b>           | 1,093                     | 1,019                  |
| - Ulster Bank Rol   | <b>105</b>             | 105                       | 105                    |
| - Commercial Banking  | <b>567</b>             | 542                       | 536                    |
| - Private Banking   | <b>112</b>             | 111                       | 113                    |
| - RBS International   | <b>80</b>              | 77                        | 75                     |
| - NatWest Markets   | <b>29</b>              | 29                        | 19                     |
| - Capital Resolution  | <b>33</b>              | 44                        | 86                     |
| - Williams & Glyn   | <b>165</b>             | 170                       | 162                    |
| - Central items & other   | <b>32</b>              | 37                        | 41                     |
| Average interest-earning assets (IEA)                                   |                        |                           |                        |
| RBS   | <b>405,122</b>         | 401,548                   | 403,384                |
| - UK Personal & Business Banking  | <b>149,581</b>         | 147,703                   | 135,793                |
| - Ulster Bank Rol   | <b>24,424</b>          | 26,259                    | 24,178                 |
| - Commercial Banking  | <b>130,885</b>         | 128,174                   | 114,855                |
| - Private Banking   | <b>17,597</b>          | 17,679                    | 16,259                 |
| - RBS International   | <b>22,949</b>          | 22,793                    | 21,075                 |
| - NatWest Markets   | <b>17,192</b>          | 14,085                    | 11,568                 |
| - Capital Resolution  | <b>16,771</b>          | 19,696                    | 30,767                 |
| - Williams & Glyn   | <b>25,170</b>          | 25,145                    | 23,356                 |
| - Central items & other   | <b>553</b>             | 14                        | 25,533                 |
| <b>Yields, spreads and margins of the banking business</b>              |                        |                           |                        |
| Gross yield on interest-earning assets<br>of the banking business (1,2) | <b>2.70%</b>           | 2.72%                     | 2.82%                  |
| Cost of interest-bearing liabilities of banking business (1)            | <b>(0.69%)</b>         | (0.82%)                   | (1.01%)                |
| Interest spread of the banking business (1,3)                           | <b>2.01%</b>           | 1.90%                     | 1.81%                  |
| Benefit from interest-free funds  | <b>0.23%</b>           | 0.29%                     | 0.34%                  |
| Net interest margin (4)   |                        |                           |                        |
| RBS   | <b>2.24%</b>           | 2.19%                     | 2.15%                  |
| - UK Personal & Business Banking  | <b>3.01%</b>           | 2.94%                     | 3.02%                  |
| - Ulster Bank Rol   | <b>1.74%</b>           | 1.59%                     | 1.75%                  |
| - Commercial Banking  | <b>1.76%</b>           | 1.68%                     | 1.88%                  |
| - Private Banking   | <b>2.58%</b>           | 2.50%                     | 2.80%                  |
| - RBS International   | <b>1.41%</b>           | 1.34%                     | 1.43%                  |
| - NatWest Markets   | <b>0.68%</b>           | 0.82%                     | 0.66%                  |
| - Capital Resolution  | <b>0.80%</b>           | 0.89%                     | 1.12%                  |
| - Williams & Glyn   | <b>2.66%</b>           | 2.69%                     | 2.79%                  |
| <b>Third party customer rates (5)</b>                                   |                        |                           |                        |
| Third party customer asset rate   |                        |                           |                        |
| - UK Personal & Business Banking  | <b>3.57%</b>           | 3.64%                     | 3.95%                  |
| - Ulster Bank Rol (6)   | <b>2.47%</b>           | 2.20%                     | 2.33%                  |
| - Commercial Banking  | <b>2.67%</b>           | 2.65%                     | 2.87%                  |
| - Private Banking   | <b>2.71%</b>           | 2.76%                     | 3.01%                  |
| - RBS International   | <b>2.75%</b>           | 2.93%                     | 3.29%                  |
| Third party customer funding rate                                       |                        |                           |                        |
| - UK Personal & Business Banking  | <b>(0.17%)</b>         | (0.28%)                   | (0.62%)                |
| - Ulster Bank Rol (6)   | <b>(0.40%)</b>         | (0.42%)                   | (0.59%)                |
| - Commercial Banking  | <b>(0.14%)</b>         | (0.27%)                   | (0.35%)                |
| - Private Banking   | <b>(0.07%)</b>         | (0.12%)                   | (0.23%)                |
| - RBS International   | <b>(0.03%)</b>         | (0.08%)                   | (0.24%)                |

For the notes to this table refer to the following page.

## Analysis of results

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### Notes:

- (1) For the purpose of calculating gross yields and interest spread, interest receivable has been decreased by £18 million and interest payable has been decreased by £18 million in respect of negative interest relating to both financial assets and financial liabilities that attracted negative interest.
- (2) Gross yield is the interest earned on average interest-earning assets as a percentage of average interest-earning assets.
- (3) Interest spread is the difference between the gross yield and interest paid on average interest-bearing liabilities as a percentage of average interest-bearing liabilities.
- (4) Net interest margin is net interest income as a percentage of average interest-earning assets.
- (5) Net interest margin includes Treasury allocations and interest on intercompany borrowings, which are excluded from third party customer rates.
- (6) Ulster Bank Ireland DAC manages its funding and liquidity requirements locally. Its liquid asset portfolios and non-customer related funding sources are included within its net interest margin, but excluded from its third party asset and liability rates.

### Net interest income

#### Key points

- Net interest income of £2,234 million was £78 million, or 3.6%, higher than Q1 2016 principally reflecting higher volumes in UK PBB, up £92 million or 9.0%, and Commercial Banking, up £31 million or 5.8%. Partially offsetting, Capital Resolution reduced by £53 million in line with the planned shrinkage of the balance sheet.
- NIM of 2.24% for Q1 2017 was 9 basis points higher than Q1 2016, as the benefit associated with the reduction in low yielding assets more than offset asset margin pressure and mix impacts across the core businesses. NIM increased by 5 basis points compared with Q4 2016 largely driven by increases in UK PBB and Commercial Banking associated with deposit book re-pricing.
- Across PBB and CPB, NIM reduced by 6 basis points to 2.32% compared with Q1 2016, but increased by 8 basis points compared with Q4 2016.
- UK PBB NIM decreased by 1 basis point compared with Q1 2016 to 3.01% principally reflecting a decline in current account hedge returns and reduced mortgage margins, partially offset by savings re-pricing benefits. Compared with Q4 2016, NIM increased by 7 basis points driven by the full effect of savings re-pricing in November 2016.
- Ulster Bank RoI NIM of 1.74% increased by 15 basis points compared with Q4 2016 principally reflecting income recognised on a cohort of non performing loans in Q1 2017.
- Commercial Banking NIM fell by 12 basis points from Q1 2016 to 1.76% driven by asset margin pressure in a competitive market and lower rate environment. Compared with Q4 2016, NIM increased by 8 basis points due to the active re-pricing of the deposit book and asset pricing actions on new lending.
- Private Banking NIM of 2.58% reduced by 22 basis points compared with Q1 2016 reflecting the competitive market and low rate environment.
- Structural hedges of £126 billion generated a benefit of £0.3 billion through net interest income for Q1 2017.

## Analysis of results

|                                       | Quarter ended          |                           |                        |
|---------------------------------------|------------------------|---------------------------|------------------------|
|                                       | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Non-interest income</b>            |                        |                           |                        |
| Net fees and commissions              | 605                    | 608                       | 654                    |
| Income/(loss) from trading activities | 428                    | 622                       | (110)                  |
| Own credit adjustments (OCA)          | (29)                   | (114)                     | 256                    |
| Gain on redemption of own debt        | 2                      | 1                         | -                      |
| Strategic disposals                   | -                      | -                         | (6)                    |
| Other operating income                | (28)                   | (109)                     | 114                    |
| <b>Total non-interest income</b>      | <b>978</b>             | <b>1,008</b>              | <b>908</b>             |

### Key points

- Non-interest income was £978 million, an increase of £70 million, or 7.7%, compared with Q1 2016. NatWest Markets non-interest income increased by £137 million, or 42.5%, to £459 million reflecting consistent customer activity and an improved trading environment compared to a particularly difficult Q1 2016, partially offset by an £84 million adverse movement in OCA. Central items non-interest income improved by £117 million principally reflecting a reduction in IFRS volatility losses, £18 million compared with £356 million in Q1 2016, partially offset by a £52 million FX loss (compared with a £52 million gain in Q1 2016) and a £105 million charge in respect of the unwind of securitisations relating to our property portfolio. Partially offsetting, Capital Resolution non-interest income was a loss of £92 million compared with a gain of £67 million in Q1 2016 reflecting a £115 million adverse movement in OCA and increased disposal losses, £50 million compared with £2 million in Q1 2016.
- Income from trading activities increased by £538 million compared with Q1 2016 largely reflecting reduced IFRS volatility losses and increased NatWest Markets income.
- Other operating income decreased by £142 million compared with Q1 2016 largely reflecting a £105 million charge in respect of the unwind of securitisations relating to our property portfolio.

## Analysis of results

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Operating expenses</b>                            |                        |                           |                        |
| Staff costs  | 1,024                  | 1,025                     | 1,202                  |
| Premises and equipment                               | 310                    | 346                       | 315                    |
| Other administrative expenses                        | 320                    | 601                       | 446                    |
| Restructuring costs (see below)                      | 577                    | 1,007                     | 238                    |
| Litigation and conduct costs                         | 54                     | 4,128                     | 31                     |
| <b>Administrative expenses</b>                       | <b>2,285</b>           | <b>7,107</b>              | <b>2,232</b>           |
| Depreciation and amortisation                        | 168                    | 178                       | 178                    |
| Write down of intangible assets                      | -                      | 69                        | 10                     |
| <b>Operating expenses</b>                            | <b>2,453</b>           | <b>7,354</b>              | <b>2,420</b>           |
| Adjusted operating expenses (1)                      | 1,822                  | 2,219                     | 2,151                  |
| Restructuring costs comprise:                        |                        |                           |                        |
| - staff expenses                                     | 291                    | 117                       | 121                    |
| - premises, equipment, depreciation and amortisation | 241                    | 107                       | 9                      |
| - other  | 45                     | 783                       | 108                    |
|  | <b>577</b>             | <b>1,007</b>              | <b>238</b>             |
| Staff costs as a % of total income                   | 31.9%                  | 31.9%                     | 39.2%                  |
| Cost:income ratio (2)                                | 76.1%                  | 230.2%                    | 78.7%                  |
| Cost:income ratio - adjusted (2,3)                   | 55.8%                  | 66.3%                     | 76.1%                  |
| Employee numbers (FTE - thousands)                   | 76.2                   | 77.8                      | 92.4                   |

### Notes:

(1) Excluding restructuring costs and litigation and conduct costs.

(2) Operating lease depreciation included in income (Q1 2017 - £36 million; Q4 2016 - £37 million and Q1 2016 - £38 million).

(3) Excluding restructuring costs, litigation and conduct costs, own credit adjustments, gain on redemption of own debt and strategic disposals.

## Key points

- Total operating expenses of £2,453 million were £33 million, or 1.4%, higher than Q1 2016 reflecting a £339 million increase in restructuring costs and a £23 million increase in litigation and conduct costs, partially offset by a £329 million, or 15.3%, reduction in adjusted operating expenses.
- Excluding a £51 million VAT recovery, adjusted operating expenses reduced by £278 million, or 12.9%, compared with Q1 2016 and we remain on target to achieve a £750 million reduction for the full year. The cost reduction was principally driven by Capital Resolution, down £163 million or 70.3%, and Central items, down £79 million, excluding the VAT recovery. Across PBB, CPB and NatWest Markets, adjusted operating expenses reduced by £22 million, or 1.2%.
- Staff costs of £1,024 million, were £178 million, or 14.8%, lower than Q1 2016 underpinned by a 16,200, or 17.5%, reduction in FTEs.
- Restructuring costs of £577 million included a £235 million charge associated with the planned reduction of our property portfolio, a £73 million net settlement relating to the RBS Netherlands pension scheme and a £70 million charge in Capital Resolution, primarily in respect of Asia-Pacific restructuring.
- Litigation and conduct costs of £54 million were £23 million higher than Q1 2016 and reflected a number of small items.
- Compared with Q4 2016, adjusted operating expenses reduced by £397 million principally reflecting the £190 million UK bank levy charge and a £69 million write down of intangible assets in Q4 2016 and a £51 million VAT recovery in Q1 2017.

## Analysis of results

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Impairment losses/(releases)</b>       |                        |                           |                        |
| Loan impairment losses/(releases)         |                        |                           |                        |
| - individually assessed                   | 42                     | (40)                      | 186                    |
| - collectively assessed                   | 38                     | (1)                       | 16                     |
| - latent                                  | 4                      | (25)                      | 21                     |
| Total loan impairment losses/(releases)   | 84                     | (66)                      | 223                    |
| Securities                                | (38)                   | (9)                       | -                      |
| <b>Total impairment losses/(releases)</b> | <b>46</b>              | <b>(75)</b>               | <b>223</b>             |

|   | 31 March<br>2017 | 31 December<br>2016 | 31 March<br>2016 |
|---|------------------|---------------------|------------------|
| <b>Credit metrics (1)</b>                 |                  |                     |                  |
| Gross customer loans                      | £330,843m        | £327,478m           | £325,339m        |
| Loan impairment provisions                | £4,110m          | £4,455m             | £6,701m          |
| Risk elements in lending (REIL)           | £9,726m          | £10,310m            | £11,867m         |
| Provisions as a % of REIL                 | 42%              | 43%                 | 57%              |
| REIL as a % of gross customer loans       | 2.9%             | 3.1%                | 3.6%             |
| Provisions as a % of gross customer loans | 1.2%             | 1.4%                | 2.1%             |

Note:

(1) Includes disposal groups and excludes reverse repos.

### Key points

- A net impairment loss of £46 million, 6 basis points of gross customer loans, compared with a loss of £223 million in Q1 2016.
- Capital Resolution reported a net impairment release of £45 million in Q1 2017 compared with a loss of £196 million in Q1 2016 which included a £226 million charge in respect of the shipping portfolio.
- Commercial Banking reported a net impairment loss of £61 million in Q1 2017, £47 million higher than Q1 2016 with four specific impairment charges totalling £47 million in the quarter.
- REIL reduced by £2,141 million, compared with Q1 2016, to £9,726 million reflecting Capital Resolution run-down and a portfolio sale in Ulster Bank RoI partially offset by an increase in the shipping portfolio, foreign exchange movements and the implementation of a revised mortgage methodology in Ulster Bank RoI. REIL represented 2.9% of gross customer loans compared with 3.6% at 31 March 2016 and 3.1% at 31 December 2016. Provision coverage was 42% compared with 57% at 31 March 2016 and 43% at 31 December 2016.
- Excluding REIL in Capital Resolution and Ulster Bank RoI, REIL were £4.1 billion or 1.4% of the respective gross customer loans.

### Capital and leverage

#### Key points

- CET1 has increased by 70 basis points to 14.1% as a result of the attributable profit and the reduction in RWAs in the period.
- RWAs have decreased by £6.5 billion to £221.7 billion primarily driven by a £4.0 billion reduction in Capital Resolution reflecting disposal and run offs in line with exit strategy and a £1.1 billion reduction in NatWest Markets principally due to business movements. Excluding volume growth, RWAs across PBB, CPB and NatWest Markets reduced by £3.2 billion during Q1 2017.
- Operational risk RWAs have decreased by £1.9 billion as a result of the annual recalculation.
- Leverage ratio decreased marginally to 5.0% as increased lending exposure was offset by movements in capital.

## Capital and leverage ratios

|   | End-point CRR basis (1) |                          |
|---|-------------------------|--------------------------|
|   | 31 March<br>2017<br>%   | 31 December<br>2016<br>% |
| <b>Risk asset ratios</b>                    |                         |                          |
| CET1  | 14.1                    | 13.4                     |
| Tier 1                                      | 15.9                    | 15.2                     |
| Total                                       | 19.2                    | 19.2                     |
| <b>Capital</b>                              |                         |                          |
|   | £m                      | £m                       |
| Tangible equity                             | 35,186                  | 34,982                   |
| Expected loss less impairment provisions    | (1,396)                 | (1,371)                  |
| Prudential valuation adjustment             | (377)                   | (532)                    |
| Deferred tax assets                         | (887)                   | (906)                    |
| Own credit adjustments                      | (245)                   | (304)                    |
| Pension fund assets                         | (186)                   | (208)                    |
| Cash flow hedging reserve                   | (888)                   | (1,030)                  |
| Other deductions                            | 45                      | (8)                      |
| Total deductions                            | (3,934)                 | (4,359)                  |
| CET1 capital                                | 31,252                  | 30,623                   |
| AT1 capital                                 | 4,041                   | 4,041                    |
| Tier 1 capital                              | 35,293                  | 34,664                   |
| Tier 2 capital                              | 7,370                   | 9,161                    |
| Total regulatory capital                    | 42,663                  | 43,825                   |
| <b>Risk-weighted assets</b>                 |                         |                          |
| Credit risk                                 |                         |                          |
| - non-counterparty                          | 160,100                 | 162,200                  |
| - counterparty                              | 20,800                  | 22,900                   |
| Market risk                                 | 17,000                  | 17,400                   |
| Operational risk                            | 23,800                  | 25,700                   |
| Total RWAs                                  | 221,700                 | 228,200                  |
| <b>Leverage (2)</b>                         |                         |                          |
| Derivatives                                 | 204,100                 | 247,000                  |
| Loans and advances                          | 347,200                 | 340,300                  |
| Reverse repos                               | 45,500                  | 41,800                   |
| Other assets                                | 186,500                 | 169,600                  |
| Total assets                                | 783,300                 | 798,700                  |
| Derivatives                                 |                         |                          |
| - netting and variation margin              | (204,200)               | (241,700)                |
| - potential future exposures                | 63,400                  | 65,300                   |
| Securities financing transactions gross up  | 2,800                   | 2,300                    |
| Undrawn commitments                         | 55,100                  | 58,600                   |
| Regulatory deductions and other adjustments | 300                     | 100                      |
| CRR leverage exposure                       | 700,700                 | 683,300                  |
| Tier 1 capital                              | 35,293                  | 34,664                   |
| CRR leverage ratio %                        | 5.0                     | 5.1                      |
| UK leverage exposure (3)                    | 622,200                 | 614,600                  |
| UK leverage ratio % (3)                     | 5.7                     | 5.6                      |

### Notes:

- (1) CRR as implemented by the PRA in the UK, with effect from 1 January 2014. All regulatory adjustments and deductions to CET1 have been applied in full for both bases with the exception of unrealised gains on available-for-sale securities which have been included from 2015 under the PRA transitional basis.
- (2) Based on end-point CRR Tier 1 capital and leverage exposure under the CRR Delegated Act.
- (3) Based on end-point CRR Tier 1 capital and UK leverage exposures reflecting the post EU referendum measures announced by the Bank of England in the third quarter of 2016.

## Segment performance

|   | Quarter ended 31 March 2017 |                       |                          |                       |                         |                 |                    |                     |                           |           |
|---|-----------------------------|-----------------------|--------------------------|-----------------------|-------------------------|-----------------|--------------------|---------------------|---------------------------|-----------|
|   | PBB                         |                       | CPB                      |                       |                         | NatWest Markets | Capital Resolution | Williams & Glyn (1) | Central items & other (2) | Total RBS |
|   | UK PBB<br>£m                | Ulster Bank Rol<br>£m | Commercial Banking<br>£m | Private Banking<br>£m | RBS International<br>£m |                 |                    |                     |                           |           |
| <b>Income statement</b>                                     |                             |                       |                          |                       |                         |                 |                    |                     |                           |           |
| Net interest income   | 1,111                       | 105                   | 567                      | 112                   | 80                      | 29              | 33                 | 165                 | 32                        | 2,234     |
| Other non-interest income                                   | 266                         | 41                    | 298                      | 48                    | 18                      | 479             | (85)               | 41                  | (101)                     | 1,005     |
| Total income - adjusted (3)                                 | 1,377                       | 146                   | 865                      | 160                   | 98                      | 508             | (52)               | 206                 | (69)                      | 3,239     |
| Own credit adjustments                                      | -                           | (1)                   | -                        | -                     | -                       | (20)            | (7)                | -                   | (1)                       | (29)      |
| Gain on redemption of own debt                              | -                           | -                     | -                        | -                     | -                       | -               | -                  | -                   | 2                         | 2         |
| Total income  | 1,377                       | 145                   | 865                      | 160                   | 98                      | 488             | (59)               | 206                 | (68)                      | 3,212     |
| Direct expenses - staff costs                               | (163)                       | (49)                  | (125)                    | (38)                  | (12)                    | (71)            | (16)               | (53)                | (497)                     | (1,024)   |
| - other costs   | (64)                        | (12)                  | (55)                     | (7)                   | (3)                     | (17)            | (9)                | (11)                | (620)                     | (798)     |
| Indirect expenses   | (489)                       | (47)                  | (268)                    | (68)                  | (28)                    | (233)           | (44)               | (20)                | 1,197                     | -         |
| Operating expenses - adjusted (4)                           | (716)                       | (108)                 | (448)                    | (113)                 | (43)                    | (321)           | (69)               | (84)                | 80                        | (1,822)   |
| Restructuring costs - direct                                | (20)                        | (19)                  | (39)                     | -                     | -                       | -               | (70)               | -                   | (429)                     | (577)     |
| - indirect  | (111)                       | (15)                  | (60)                     | (11)                  | (3)                     | (68)            | (16)               | -                   | 284                       | -         |
| Litigation and conduct costs                                | (4)                         | -                     | (3)                      | -                     | -                       | (31)            | (6)                | -                   | (10)                      | (54)      |
| Operating expenses  | (851)                       | (142)                 | (550)                    | (124)                 | (46)                    | (420)           | (161)              | (84)                | (75)                      | (2,453)   |
| Operating profit/(loss) before impairment (losses)/releases | 526                         | 3                     | 315                      | 36                    | 52                      | 68              | (220)              | 122                 | (143)                     | 759       |
| Impairment (losses)/releases                                | (32)                        | 24                    | (61)                     | (3)                   | (7)                     | -               | 45                 | (11)                | (1)                       | (46)      |
| Operating profit/(loss)                                     | 494                         | 27                    | 254                      | 33                    | 45                      | 68              | (175)              | 111                 | (144)                     | 713       |
| Operating profit/(loss) - adjusted (3,4)                    | 629                         | 62                    | 356                      | 44                    | 48                      | 187             | (76)               | 111                 | 10                        | 1,371     |
| <b>Additional information</b>                               |                             |                       |                          |                       |                         |                 |                    |                     |                           |           |
| Return on equity (5)  | 24.8%                       | 4.0%                  | 5.7%                     | 6.0%                  | 12.0%                   | 1.7%            | nm                 | nm                  | nm                        | 3.1%      |
| Return on equity - adjusted (3,4,5)                         | 32.0%                       | 9.3%                  | 8.9%                     | 8.6%                  | 13.0%                   | 7.9%            | nm                 | nm                  | nm                        | 9.7%      |
| Cost:income ratio (6)                                       | 61.8%                       | 97.9%                 | 62.0%                    | 77.5%                 | 46.9%                   | 86.1%           | nm                 | 40.8%               | nm                        | 76.1%     |
| Cost:income ratio - adjusted (3,4,6)                        | 52.0%                       | 74.0%                 | 49.7%                    | 70.6%                 | 43.9%                   | 63.2%           | nm                 | 40.8%               | nm                        | 55.8%     |
| Total assets (£bn)  | 159.1                       | 24.7                  | 153.3                    | 18.1                  | 25.1                    | 225.3           | 119.2              | 25.8                | 32.7                      | 783.3     |
| Funded assets (£bn) (7)                                     | 159.1                       | 24.6                  | 153.3                    | 18.1                  | 25.1                    | 113.9           | 29.2               | 25.8                | 30.1                      | 579.2     |
| Net loans and advances to customers (£bn)                   | 135.8                       | 19.0                  | 99.7                     | 12.5                  | 8.9                     | 17.9            | 12.3               | 20.6                | -                         | 326.7     |
| Risk elements in lending (£bn)                              | 1.9                         | 3.5                   | 1.7                      | 0.1                   | 0.1                     | -               | 2.1                | 0.3                 | -                         | 9.7       |
| Impairment provisions (£bn)                                 | (1.2)                       | (1.1)                 | (0.8)                    | -                     | -                       | -               | (0.7)              | (0.2)               | (0.1)                     | (4.1)     |
| Customer deposits (£bn)                                     | 146.3                       | 16.6                  | 97.2                     | 25.7                  | 25.3                    | 8.0             | 7.6                | 24.0                | 0.8                       | 351.5     |
| Risk-weighted assets (RWAs) (£bn)                           | 32.7                        | 17.7                  | 77.8                     | 8.7                   | 9.5                     | 34.1            | 30.5               | 9.7                 | 1.0                       | 221.7     |
| RWA equivalent (£bn) (5)                                    | 35.7                        | 18.9                  | 81.8                     | 8.7                   | 9.5                     | 36.0            | 32.7               | 10.2                | 1.2                       | 234.7     |
| Employee numbers (FTEs - thousands)                         | 18.2                        | 3.1                   | 5.4                      | 1.7                   | 0.8                     | 1.2             | 0.3                | 4.3                 | 41.2                      | 76.2      |

For the notes to this table refer to page 17. nm = not meaningful



## Segment performance

|   | Quarter ended 31 December 2016 |                 |                    |                 |                   |                 |                    |                     |                           |           |
|---|--------------------------------|-----------------|--------------------|-----------------|-------------------|-----------------|--------------------|---------------------|---------------------------|-----------|
|   | PBB                            |                 | CPB                |                 |                   | NatWest Markets | Capital Resolution | Williams & Glyn (1) | Central items & other (2) | Total RBS |
|   | UK PBB                         | Ulster Bank Rol | Commercial Banking | Private Banking | RBS International |                 |                    |                     |                           |           |
|   | £m                             | £m              | £m                 | £m              | £m                | £m              | £m                 | £m                  | £m                        | £m        |
| <b>Income statement</b>                                     |                                |                 |                    |                 |                   |                 |                    |                     |                           |           |
| Net interest income   | 1,093                          | 105             | 542                | 111             | 77                | 29              | 44                 | 170                 | 37                        | 2,208     |
| Other non-interest income                                   | 246                            | 32              | 325                | 50              | 19                | 285             | (329)              | 47                  | 446                       | 1,121     |
| Total income adjusted (3)                                   | 1,339                          | 137             | 867                | 161             | 96                | 314             | (285)              | 217                 | 483                       | 3,329     |
| Own credit adjustments                                      | -                              | -               | -                  | -               | -                 | (29)            | (8)                | -                   | (77)                      | (114)     |
| Gain on redemption of own debt                              | -                              | -               | -                  | -               | -                 | -               | -                  | -                   | 1                         | 1         |
| Total income  | 1,339                          | 137             | 867                | 161             | 96                | 285             | (293)              | 217                 | 407                       | 3,216     |
| Direct expenses - staff costs                               | (161)                          | (57)            | (130)              | (39)            | (12)              | (64)            | (23)               | (60)                | (479)                     | (1,025)   |
| - other costs   | (72)                           | (23)            | (69)               | (12)            | (4)               | (7)             | (3)                | (13)                | (991)                     | (1,194)   |
| Indirect expenses   | (544)                          | (65)            | (357)              | (95)            | (45)              | (267)           | (150)              | (24)                | 1,547                     | -         |
| Operating expenses - adjusted (4)                           | (777)                          | (145)           | (556)              | (146)           | (61)              | (338)           | (176)              | (97)                | 77                        | (2,219)   |
| Restructuring costs - direct                                | (1)                            | (6)             | (12)               | (6)             | (1)               | (3)             | (21)               | -                   | (957)                     | (1,007)   |
| - indirect  | (50)                           | 2               | (34)               | (8)             | (1)               | (43)            | 13                 | -                   | 121                       | -         |
| Litigation and conduct costs                                | (214)                          | (77)            | (407)              | 1               | (1)               | (466)           | (3,156)            | -                   | 192                       | (4,128)   |
| Operating expenses  | (1,042)                        | (226)           | (1,009)            | (159)           | (64)              | (850)           | (3,340)            | (97)                | (567)                     | (7,354)   |
| Operating profit/(loss) before impairment (losses)/releases | 297                            | (89)            | (142)              | 2               | 32                | (565)           | (3,633)            | 120                 | (160)                     | (4,138)   |
| Impairment (losses)/releases                                | (16)                           | 47              | (83)               | 8               | 1                 | -               | 130                | (11)                | (1)                       | 75        |
| Operating profit/(loss)                                     | 281                            | (42)            | (225)              | 10              | 33                | (565)           | (3,503)            | 109                 | (161)                     | (4,063)   |
| Operating profit/(loss) - adjusted (3,4)                    | 546                            | 39              | 228                | 23              | 36                | (24)            | (331)              | 109                 | 559                       | 1,185     |
| <b>Additional information</b>                               |                                |                 |                    |                 |                   |                 |                    |                     |                           |           |
| Return on equity (5)  | 13.5%                          | (5.8%)          | (9.1%)             | 1.6%            | 8.8%              | (30.2%)         | nm                 | nm                  | nm                        | (48.2%)   |
| Return on equity - adjusted (3,4,5)                         | 27.8%                          | 5.4%            | 5.3%               | 4.5%            | 9.8%              | (2.7%)          | nm                 | nm                  | nm                        | 8.6%      |
| Cost:income ratio (6)                                       | 77.8%                          | 165.0%          | 117.1%             | 98.8%           | 66.7%             | nm              | nm                 | 44.7%               | nm                        | 230.2%    |
| Cost:income ratio - adjusted (3,4,6)                        | 58.0%                          | 105.8%          | 62.6%              | 90.7%           | 63.5%             | 107.6%          | nm                 | 44.7%               | nm                        | 66.3%     |
| Total assets (£bn)  | 155.6                          | 24.1            | 150.5              | 18.6            | 23.4              | 240.0           | 132.5              | 25.8                | 28.2                      | 798.7     |
| Funded assets (£bn) (7)                                     | 155.6                          | 24.0            | 150.5              | 18.5            | 23.4              | 100.9           | 27.6               | 25.8                | 25.4                      | 551.7     |
| Net loans and advances to customers (£bn)                   | 132.1                          | 18.9            | 100.1              | 12.2            | 8.8               | 17.4            | 12.8               | 20.6                | 0.1                       | 323.0     |
| Risk elements in lending (£bn)                              | 2.0                            | 3.5             | 1.9                | 0.1             | 0.1               | -               | 2.3                | 0.4                 | -                         | 10.3      |
| Impairment provisions (£bn)                                 | (1.3)                          | (1.2)           | (0.8)              | -               | -                 | -               | (0.8)              | (0.2)               | (0.2)                     | (4.5)     |
| Customer deposits (£bn)                                     | 145.8                          | 16.1            | 97.9               | 26.6            | 25.2              | 8.4             | 9.5                | 24.2                | 0.2                       | 353.9     |
| Risk-weighted assets (RWAs) (£bn)                           | 32.7                           | 18.1            | 78.5               | 8.6             | 9.5               | 35.2            | 34.5               | 9.6                 | 1.5                       | 228.2     |
| RWA equivalent (£bn) (5)                                    | 35.7                           | 19.5            | 82.6               | 8.6             | 9.5               | 37.2            | 37.5               | 10.1                | 1.7                       | 242.4     |
| Employee numbers (FTEs - thousands)                         | 18.3                           | 3.1             | 5.5                | 1.7             | 0.8               | 1.2             | 0.4                | 4.5                 | 42.3                      | 77.8      |

For the notes to this table refer to page 17. nm = not meaningful.

## Segment performance

|   | Quarter ended 31 March 2016 |                          |                             |                          |                            |                    |                       |                        |                                 |              |
|---|-----------------------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------------------|-----------------------|------------------------|---------------------------------|--------------|
|   | PBB                         |                          | CPB                         |                          |                            | NatWest<br>Markets | Capital<br>Resolution | Williams<br>& Glyn (1) | Central<br>items &<br>other (2) | Total<br>RBS |
|   | UK PBB<br>£m                | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m |                    |                       |                        |                                 |              |
| <b>Income statement</b>                                     |                             |                          |                             |                          |                            |                    |                       |                        |                                 |              |
| Net interest income   | 1,019                       | 105                      | 536                         | 113                      | 75                         | 19                 | 86                    | 162                    | 41                              | 2,156        |
| Other non-interest income                                   | 256                         | 50                       | 317                         | 52                       | 15                         | 258                | (35)                  | 43                     | (298)                           | 658          |
| Total income - adjusted (3)                                 | 1,275                       | 155                      | 853                         | 165                      | 90                         | 277                | 51                    | 205                    | (257)                           | 2,814        |
| Own credit adjustments                                      | -                           | 3                        | -                           | -                        | -                          | 64                 | 108                   | -                      | 81                              | 256          |
| Strategic disposals   | -                           | -                        | -                           | -                        | -                          | -                  | (6)                   | -                      | -                               | (6)          |
| Total income  | 1,275                       | 158                      | 853                         | 165                      | 90                         | 341                | 153                   | 205                    | (176)                           | 3,064        |
| Direct expenses - staff costs                               | (181)                       | (51)                     | (131)                       | (40)                     | (10)                       | (67)               | (45)                  | (62)                   | (615)                           | (1,202)      |
| - other costs   | (63)                        | (11)                     | (49)                        | (14)                     | (5)                        | (14)               | (33)                  | (15)                   | (745)                           | (949)        |
| Indirect expenses   | (484)                       | (42)                     | (256)                       | (83)                     | (20)                       | (250)              | (154)                 | (21)                   | 1,310                           | -            |
| Operating expenses - adjusted (4)                           | (728)                       | (104)                    | (436)                       | (137)                    | (35)                       | (331)              | (232)                 | (98)                   | (50)                            | (2,151)      |
| Restructuring costs - direct                                | (13)                        | (6)                      | (1)                         | (1)                      | -                          | -                  | (7)                   | (20)                   | (190)                           | (238)        |
| - indirect  | (9)                         | -                        | 1                           | (15)                     | (1)                        | (12)               | (9)                   | -                      | 45                              | -            |
| Litigation and conduct costs                                | -                           | -                        | (2)                         | -                        | -                          | (18)               | (10)                  | -                      | (1)                             | (31)         |
| Operating expenses  | (750)                       | (110)                    | (438)                       | (153)                    | (36)                       | (361)              | (258)                 | (118)                  | (196)                           | (2,420)      |
| Operating profit/(loss) before impairment (losses)/releases | 525                         | 48                       | 415                         | 12                       | 54                         | (20)               | (105)                 | 87                     | (372)                           | 644          |
| Impairment (losses)/releases                                | (16)                        | 13                       | (14)                        | (2)                      | (2)                        | -                  | (196)                 | (6)                    | -                               | (223)        |
| Operating profit/(loss)                                     | 509                         | 61                       | 401                         | 10                       | 52                         | (20)               | (301)                 | 81                     | (372)                           | 421          |
| Operating profit/(loss) - adjusted (3,4)                    | 531                         | 64                       | 403                         | 26                       | 53                         | (54)               | (377)                 | 101                    | (307)                           | 440          |
| <b>Additional information</b>                               |                             |                          |                             |                          |                            |                    |                       |                        |                                 |              |
| Return on equity (5)  | 26.1%                       | 8.8%                     | 11.1%                       | 1.5%                     | 16.0%                      | (2.6%)             | nm                    | nm                     | nm                              | (9.6%)       |
| Return on equity - adjusted (3,4,5)                         | 27.3%                       | 9.2%                     | 11.2%                       | 5.1%                     | 16.3%                      | (4.4%)             | nm                    | nm                     | nm                              | (9.4%)       |
| Cost:income ratio (6)                                       | 58.8%                       | 69.6%                    | 49.3%                       | 92.7%                    | 40.0%                      | 105.9%             | nm                    | 57.6%                  | nm                              | 78.7%        |
| Cost:income ratio - adjusted (3,4,6)                        | 57.1%                       | 67.1%                    | 49.0%                       | 83.0%                    | 38.9%                      | 119.5%             | nm                    | 47.8%                  | nm                              | 76.1%        |
| Total assets (£bn)  | 146.3                       | 22.7                     | 139.4                       | 17.4                     | 23.7                       | 255.9              | 218.8                 | 24.2                   | 34.5                            | 882.9        |
| Funded assets (£bn) (7)                                     | 146.3                       | 22.6                     | 139.4                       | 17.3                     | 23.7                       | 116.0              | 50.2                  | 24.2                   | 31.0                            | 570.7        |
| Net loans and advances to customers (£bn)                   | 121.8                       | 17.9                     | 96.4                        | 11.6                     | 8.0                        | 18.6               | 22.4                  | 20.1                   | 1.8                             | 318.6        |
| Risk elements in lending (£bn)                              | 2.4                         | 4.5                      | 2.2                         | 0.1                      | 0.1                        | -                  | 2.2                   | 0.4                    | -                               | 11.9         |
| Impairment provisions (£bn)                                 | (1.6)                       | (2.7)                    | (1.1)                       | -                        | -                          | -                  | (1.0)                 | (0.3)                  | -                               | (6.7)        |
| Customer deposits (£bn)                                     | 136.9                       | 13.7                     | 97.1                        | 23.2                     | 21.6                       | 6.7                | 24.9                  | 24.3                   | 6.6                             | 355.0        |
| Risk-weighted assets (RWAs) (£bn)                           | 34.7                        | 20.4                     | 75.7                        | 8.6                      | 9.1                        | 36.1               | 47.6                  | 9.7                    | 7.6                             | 249.5        |
| RWA equivalent (£bn) (5)                                    | 37.5                        | 21.7                     | 79.7                        | 8.6                      | 9.1                        | 36.7               | 48.4                  | 10.1                   | 7.8                             | 259.6        |
| Employee numbers (FTEs - thousands)                         | 21.4                        | 3.2                      | 6.0                         | 1.8                      | 0.7                        | 1.3                | 1.0                   | 5.5                    | 51.5                            | 92.4         |

nm = not meaningful.

Notes:

- (1) Williams & 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.
- (6) Operating lease depreciation included in income (Q1 2017 - £36 million; Q4 2016 - £37 million and Q1 2016 - £38 million).
- (7) Funded assets exclude derivative assets.

## Segment performance

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Total income by segment</b>                       |                        |                           |                        |
| <b>UK PBB</b>  |                        |                           |                        |
| Personal advances                                    | 225                    | 215                       | 204                    |
| Personal deposits                                    | 204                    | 184                       | 168                    |
| Mortgages  | 590                    | 598                       | 564                    |
| Cards  | 137                    | 150                       | 142                    |
| Business banking                                     | 194                    | 188                       | 182                    |
| Other  | 27                     | 4                         | 15                     |
| <b>Total</b>   | <b>1,377</b>           | <b>1,339</b>              | <b>1,275</b>           |
| <b>Ulster Bank Rol</b>                               |                        |                           |                        |
| Corporate  | 45                     | 34                        | 56                     |
| Retail   | 100                    | 101                       | 100                    |
| Other  | -                      | 2                         | 2                      |
| <b>Total</b>   | <b>145</b>             | <b>137</b>                | <b>158</b>             |
| <b>Commercial Banking</b>                            |                        |                           |                        |
| Commercial lending                                   | 468                    | 503                       | 436                    |
| Deposits   | 123                    | 109                       | 125                    |
| Asset and invoice finance                            | 171                    | 175                       | 177                    |
| Other  | 103                    | 80                        | 115                    |
| <b>Total</b>   | <b>865</b>             | <b>867</b>                | <b>853</b>             |
| <b>Private Banking</b>                               |                        |                           |                        |
| Investments  | 25                     | 23                        | 28                     |
| Banking  | 135                    | 138                       | 137                    |
| <b>Total</b>   | <b>160</b>             | <b>161</b>                | <b>165</b>             |
| <b>RBS International</b>                             | <b>98</b>              | <b>96</b>                 | <b>90</b>              |
| <b>NatWest Markets</b>                               |                        |                           |                        |
| Rates  | 325                    | 129                       | 121                    |
| Currencies   | 128                    | 157                       | 144                    |
| Financing  | 88                     | 78                        | 42                     |
| Other  | (33)                   | (50)                      | (30)                   |
| Total excluding own credit adjustments               | 508                    | 314                       | 277                    |
| Own credit adjustments                               | (20)                   | (29)                      | 64                     |
| <b>Total</b>   | <b>488</b>             | <b>285</b>                | <b>341</b>             |
| <b>Capital Resolution</b>                            |                        |                           |                        |
| Portfolio and GTS                                    | 16                     | 34                        | 52                     |
| Shipping   | 5                      | 6                         | 16                     |
| Markets  | 16                     | 6                         | (29)                   |
| Other  | (39)                   | (6)                       | 8                      |
| Total excluding disposals and own credit adjustments | (2)                    | 40                        | 47                     |
| Disposal losses                                      | (50)                   | (325)                     | (2)                    |
| Own credit adjustments                               | (7)                    | (8)                       | 108                    |
| <b>Total</b>   | <b>(59)</b>            | <b>(293)</b>              | <b>153</b>             |
| <b>Williams &amp; Glyn (1)</b>                       |                        |                           |                        |
| Retail   | 119                    | 129                       | 115                    |
| Commercial   | 87                     | 88                        | 90                     |
| <b>Total</b>   | <b>206</b>             | <b>217</b>                | <b>205</b>             |
| <b>Central items</b>                                 | <b>(68)</b>            | <b>407</b>                | <b>(176)</b>           |
| <b>Total RBS</b>                                     | <b>3,212</b>           | <b>3,216</b>              | <b>3,064</b>           |

Note:

(1) Williams & 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 Williams & Glyn has not operated as a separate legal entity.

## Segment performance

|   | Quarter ended                    |                                     |                                  |
|---|----------------------------------|-------------------------------------|----------------------------------|
|   | 31 March<br>2017<br>£m           | 31 December<br>2016<br>£m           | 31 March<br>2016<br>£m           |
| <b>Impairment losses/(releases) by segment</b>          |                                  |                                     |                                  |
| <b>UK PBB</b>   |                                  |                                     |                                  |
| Personal advances                                       | 28                               | 38                                  | 6                                |
| Mortgages   | (18)                             | (39)                                | 4                                |
| Business banking  | 2                                | (3)                                 | -                                |
| Cards   | 20                               | 20                                  | 6                                |
| Total   | 32                               | 16                                  | 16                               |
| <b>Ulster Bank Rol</b>                                  |                                  |                                     |                                  |
| Mortgages   | (14)                             | (30)                                | 1                                |
| Commercial real estate                                  |                                  |                                     |                                  |
| - investment  | 2                                | (1)                                 | (5)                              |
| - development   | (3)                              | (1)                                 | (2)                              |
| Other lending   | (9)                              | (15)                                | (7)                              |
| Total   | (24)                             | (47)                                | (13)                             |
| <b>Commercial Banking</b>                               |                                  |                                     |                                  |
| Commercial real estate                                  | 2                                | 8                                   | (2)                              |
| Asset and invoice finance                               | 16                               | 21                                  | 3                                |
| Private sector services (education, health etc)         | (2)                              | 7                                   | 1                                |
| Banks & financial institutions                          | 1                                | -                                   | -                                |
| Wholesale and retail trade repairs                      | 7                                | 6                                   | 3                                |
| Hotels and restaurants                                  | 3                                | 7                                   | -                                |
| Manufacturing   | 2                                | 1                                   | 1                                |
| Construction  | -                                | 13                                  | 1                                |
| Other   | 32                               | 20                                  | 7                                |
| Total   | 61                               | 83                                  | 14                               |
| <b>Private Banking</b>                                  | 3                                | (8)                                 | 2                                |
| <b>RBS International</b>                                | 7                                | (1)                                 | 2                                |
| <b>Capital Resolution</b>                               | (45)                             | (130)                               | 196                              |
| <b>Williams &amp; Glyn (1)</b>                          |                                  |                                     |                                  |
| Retail  | 8                                | 7                                   | 5                                |
| Commercial  | 3                                | 4                                   | 1                                |
| Total   | 11                               | 11                                  | 6                                |
| <b>Central items</b>                                    | 1                                | 1                                   | -                                |
| <b>Total RBS</b>  | <b>46</b>                        | <b>(75)</b>                         | <b>223</b>                       |
|   | <b>31 March<br/>2017<br/>£bn</b> | <b>31 December<br/>2016<br/>£bn</b> | <b>31 March<br/>2016<br/>£bn</b> |
| <b>Analysis of Capital Resolution RWAs by portfolio</b> |                                  |                                     |                                  |
| Portfolio and GTS                                       | 2.8                              | 3.2                                 | 8.5                              |
| Shipping  | 2.4                              | 2.8                                 | 4.2                              |
| Markets   | 14.0                             | 15.8                                | 22.4                             |
| Alawwal Bank  | 7.8                              | 7.9                                 | 7.3                              |
| Other   | 1.7                              | 2.0                                 | 2.4                              |
| Total credit and market risk RWAs                       | 28.7                             | 31.7                                | 44.8                             |
| Operational risk  | 1.8                              | 2.8                                 | 2.8                              |
| Total RWAs  | 30.5                             | 34.5                                | 47.6                             |

Note:

(1) Williams & 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 Williams & Glyn has not operated as a separate legal entity.

## Segment performance

|   | 31 March<br>2017<br>£bn | 31 December<br>2016<br>£bn | 31 March<br>2016<br>£bn |
|---|-------------------------|----------------------------|-------------------------|
| <b>Loans and advances to customers (gross) by segment (1)</b> |                         |                            |                         |
| <b>UK PBB</b>   |                         |                            |                         |
| Personal advances   | 6.1                     | 6.0                        | 6.0                     |
| Mortgages   | 120.6                   | 117.1                      | 108.0                   |
| Business banking  | 6.6                     | 6.4                        | 5.5                     |
| Cards   | 3.7                     | 3.9                        | 3.9                     |
| Total   | 137.0                   | 133.4                      | 123.4                   |
| <b>Ulster Bank Rol</b>  |                         |                            |                         |
| Mortgages   | 15.0                    | 15.3                       | 14.8                    |
| Commercial real estate  |                         |                            |                         |
| - investment  | 0.8                     | 0.7                        | 1.0                     |
| - development   | 0.2                     | 0.2                        | 0.6                     |
| - other lending   | 4.1                     | 3.9                        | 4.2                     |
| Total   | 20.1                    | 20.1                       | 20.6                    |
| <b>Commercial Banking</b>                                     |                         |                            |                         |
| Commercial real estate  | 17.1                    | 16.9                       | 17.5                    |
| Asset and invoice finance                                     | 14.2                    | 14.1                       | 14.4                    |
| Private sector services (education, health etc)               | 6.8                     | 6.9                        | 7.0                     |
| Banks & financial institutions                                | 8.9                     | 8.9                        | 7.4                     |
| Wholesale and retail trade repairs                            | 8.3                     | 8.4                        | 8.3                     |
| Hotels and restaurants  | 3.9                     | 3.7                        | 3.5                     |
| Manufacturing   | 6.3                     | 6.6                        | 6.4                     |
| Construction  | 2.2                     | 2.1                        | 2.2                     |
| Other   | 32.8                    | 33.3                       | 30.8                    |
| Total   | 100.5                   | 100.9                      | 97.5                    |
| <b>Private Banking</b>  |                         |                            |                         |
| Personal advances   | 2.2                     | 2.3                        | 2.6                     |
| Mortgages   | 7.4                     | 7.0                        | 6.8                     |
| Other   | 2.9                     | 2.9                        | 2.2                     |
| Total   | 12.5                    | 12.2                       | 11.6                    |
| <b>RBS International</b>                                      |                         |                            |                         |
| Corporate   | 6.3                     | 6.2                        | 5.4                     |
| Mortgages   | 2.6                     | 2.6                        | 2.6                     |
| Total   | 8.9                     | 8.8                        | 8.0                     |
| <b>Capital Resolution</b>                                     | 13.0                    | 13.6                       | 23.4                    |
| <b>Williams &amp; Glyn (2)</b>                                |                         |                            |                         |
| Retail  | 12.3                    | 12.3                       | 11.7                    |
| Commercial  | 8.5                     | 8.5                        | 8.7                     |
| Total   | 20.8                    | 20.8                       | 20.4                    |
| <b>Central items</b>  | 0.1                     | 0.3                        | 1.8                     |
| <b>Balance sheet</b>  |                         |                            |                         |
| <b>NatWest Markets</b>  |                         |                            |                         |
| Loans and advances to customer (excluding reverse repos)      | 17.9                    | 17.4                       | 18.6                    |
| Loans and advances to banks (excluding reverse repos) (3)     | 4.9                     | 3.3                        | 5.2                     |
| Reverse repos   | 40.8                    | 38.6                       | 40.4                    |
| Securities  | 25.4                    | 22.0                       | 29.5                    |
| Cash and eligible bills                                       | 15.0                    | 13.4                       | 12.2                    |
| Other   | 9.9                     | 6.2                        | 10.1                    |
| Total funded assets   | 113.9                   | 100.9                      | 116.0                   |

Notes:

- (1) Excludes reverse repurchase agreements and includes disposal groups.
- (2) Williams & 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 Williams & Glyn has not operated as a separate legal entity.
- (3) Excludes disposal groups.

## Segment performance

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### UK Personal & Business Banking

- Operating profit was £494 million compared with £509 million in Q1 2016 with income growth of £102 million, or 8.0%, more than offset by a £16 million increase in impairments and a £109 million higher restructuring charge. Return on equity of 24.8% compared with 26.1% in Q1 2016. Adjusted operating profit of £629 million was £98 million, or 18.5%, higher than Q1 2016.
- UK PBB continued to deliver support for both personal and business customers with net loans and advances of £135.8 billion up £14.0 billion, or 11.5%, compared with Q1 2016 driven by continued strong growth across key product areas. Gross new mortgage lending in the quarter of £7.8 billion was 10% higher than Q1 2016 with market share of new mortgages at approximately 13% supporting growth in stock share to approximately 9.0% at 31 March 2017, up from 8.8% at 31 December 2016 and 8.3% at 31 March 2016. Positive momentum continued across business banking lending with balances up 4.7%, excluding transfers of £0.9 billion as at 31 March 2017, compared with Q1 2016. Margins across asset products were stable with Q4 2016, although we have seen more aggressive new business pricing in the quarter from competitors.
- Customer deposits increased by £9.4 billion, or 6.9%, to £146.3 billion compared with Q1 2016 largely driven by personal current account balance growth of 12.1%. Continued strong balance growth in Q1 2017 has offset lower hedge income in personal current accounts.
- We continue to see higher customer retention and deepening relationships from our Reward Account proposition with overall current account attrition 14% lower than Q1 2016. The Reward Account is being re-positioned from 26 June 2017 with a reduced monthly fee and cashback reduced to 2% from the current 3% level.
- The number of active mobile users has increased by over 4% to 4.3 million since Q4 2016. Our mobile app won Best Banking App at the British Bank Awards, helping maintain strong customer advocacy for our growing number of mobile customers. Total branch service transactions have reduced by 10% since Q1 2016. In recognition of this customer behaviour shift we have announced the closure of approximately 250 branches over 2017, from 1,315 at the end of 2016. However, we continue to invest in our network and enhance our digital capabilities for our customers.
- Total income of £1,377 million was £102 million, or 8.0%, higher than Q1 2016. Net interest income increased by £92 million, or 9.0%, principally reflecting strong volume growth and savings re-pricing benefits partially offset by a decline in current account hedge returns and lower mortgage margins. Non-interest income increased by £10 million, or 3.9%, compared with Q1 2016 primarily due to a £7 million debt sale profit. Compared with Q4 2016, non-interest income increased by £20 million due to an annual home insurance profit share of £20 million.
- Net interest margin increased by 7 basis points to 3.01% compared with Q4 2016 driven by the full effect of savings re-pricing in November 2016. Mortgage book margins were broadly stable as were the level of average SVR balances from Q4 2016 to Q1 2017 at around 11% of total mortgage balances.
- Adjusted expenses of £716 million were £12 million, or 1.6%, lower than Q1 2016, with direct costs £17 million, or 7.0%, down due to a 15.0% reduction in FTEs driving reduced staff costs, partially offset by increased technology infrastructure investment costs. Adjusted cost:income ratio decreased from 57.1% to 52.0%. Compared with Q4 2016, adjusted expenses reduced by £61 million reflecting a £35 million intangible asset write down and a £34 million bank levy charge in Q4 2016, partially offset by higher technology infrastructure investment in ATM and cash deposit machines and branch refurbishment costs.
- Restructuring costs of £131 million were £109 million higher than Q1 2016 largely due to a £92 million charge for property exits as we rationalise our back office property location strategy and branch distribution network.
- The net impairment charge of £32 million, 9 basis points of gross customer loans, continued to reflect benign credit conditions. Defaults in Q1 2017 continue to remain at very low levels across all portfolios.
- RWAs were £2.0 billion, or 5.8%, lower than Q1 2016 with lending growth more than offset by asset mix benefits from lower card balances and improved credit quality, reflecting the continued benign credit conditions.

## Segment performance

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### Ulster Bank RoI

- An operating profit of €32 million for the quarter compared with €78 million in Q1 2016. The decrease in operating profit primarily reflects the non recurrence of asset disposal benefits in Q1 2016 (€28 million), reduced income on free funds (€14 million) and an increase in restructuring costs in Q1 2017 (€31 million) associated with recent announcements to invest in and transform key segments of the business. Adjusted operating profit of €72 million was €10 million, or 12.2%, lower than Q1 2016. Adjusted return on equity of 9.3% compared with 9.2% in Q1 2016.
- Ulster Bank RoI added a further €0.2 billion of gross new mortgage lending in the quarter, up 25% compared with Q1 2016. The low yielding tracker mortgage portfolio declined by €0.9 billion to €10.8 billion.
- Customer deposits increased €2.1 billion, or 12.1%, compared with Q1 2016 largely driven by an increase in commercial customer funding. The loan:deposit ratio reduced by 17 percentage points to 114%.
- A non-recurring profit of €28 million relating to asset disposals was recognised in Q1 2016, of which €14 million was reported in income.
- Total income of €168 million was €37 million, or 18.0%, lower than Q1 2016. Excluding the €14 million asset disposal gain, income decreased by €23 million primarily due to reduced income on free funds and a €3 million interim adjustment to the pricing of FX transactions between Ulster Bank RoI and NatWest Markets, pending completion of a detailed pricing review.
- Compared with Q4 2016 total income increased €12 million, or 7.7%, primarily due to income recognised on a cohort of non performing loans in Q1 2017 which contributed to a 15 basis point increase in net interest margin to 1.74%.
- Adjusted operating expenses of €125 million were €11 million, or 8.1%, lower than Q1 2016, largely reflecting progress in the delivery of cost saving initiatives and one off accrual releases of €8 million in Q1 2017, partially offset by a €4 million reduction in costs recharged to other business segments. Adjusted cost:income ratio increased from 67.1% to 74.0%. Restructuring costs of €39 million were €31 million higher than Q1 2016 reflecting recent announcements to invest in and restructure the bank, including the closure of 22 branches.
- Adjusted operating expenses were €44 million lower than Q4 2016 largely driven by intangible asset write-offs and a reduction in costs recharged to other business segments in Q4 2016, in addition to business driven savings and a one off accrual release in Q1 2017.
- Risk elements in lending reduced by €1.7 billion or 29.8% to €4.0 billion compared with Q1 2016, and benefited from the sale of a portfolio of loans in 2016. As at end Q1 2017, REIL were 17.0% of gross customer loans.
- RWAs of €20.8 billion reduced by €4.9 billion, or 19.1%, compared with Q1 2016 driven by the sale of a portfolio of non-performing loans, combined with adjustments to the mortgage modelling approach and an improvement in the macro economic environment. RWAs on the tracker mortgage portfolio reduced by €2.5 billion, or 25.3%, compared with Q1 2016 to €7.5 billion.

## Segment performance

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### Commercial Banking

- Operating profit of £254 million compared with £401 million in Q1 2016. Adjusted operating profit of £356 million was £47 million, or 11.7%, lower than Q1 2016, principally reflecting an increased number of specific impairment losses taken in the quarter. An adjusted return on equity of 8.9% compared with 11.2% in Q1 2016.
- Net loans and advances increased by £3.3 billion, or 3.4%, compared with Q1 2016 reflecting increased borrowing across sectors. Compared with Q4 2016, net loans and advances decreased by £0.4 billion as reductions in exposures with weak returns have been partially offset by growth in some segments.
- Total income of £865 million was £12 million, or 1.4%, higher than Q1 2016 principally reflecting higher asset volumes. Net interest margin fell by 12 basis points from Q1 2016 to 1.76% driven by asset margin pressure in a competitive market and lower rate environment. Compared with Q4 2016, net interest margin increased by 8 basis points due to the active re-pricing of the deposit book and asset pricing actions on new lending.
- Adjusted operating expenses increased by £12 million, or 2.8%, compared with Q1 2016, reflecting the non recurrence of one off releases in Q1 2016, with underlying cost reductions of £11 million driven by a 10.0% reduction in front office headcount. Adjusted cost:income ratio was 49.7% compared with 49.0% in Q1 2016.
- Net impairment losses of £61 million, 24 basis points of gross customer loans, were £47 million higher than Q1 2016 with four specific impairment charges totalling £47 million in the quarter.
- RWAs were £77.8 billion, an increase of £2.1 billion compared to Q1 2016, reflecting asset growth partially offset by reduced RWA intensity. Compared with Q4 2016, RWAs reduced by £0.7 billion reflecting planned reductions in exposures with weak returns, partially offset by moderate growth in some segments.

### Private Banking

- Operating profit of £33 million was £23 million higher than Q1 2016 principally reflecting lower operating expenses. An adjusted return on equity of 8.6% compared with 5.1% in Q1 2016.
- Total income of £160 million decreased by £5 million, or 3.0%, compared with Q1 2016 as the benefit of increased asset volumes has been more than offset by reduced net interest margin, down 22 basis points to 2.58% primarily reflecting the competitive market and low rate environment.
- Adjusted operating expenses were £24 million, or 17.5%, lower than Q1 2016 at £113 million principally reflecting management actions to reduce operational costs. Adjusted cost:income ratio of 70.6% compared with 83.0% in Q1 2016.
- Net loans and advances increased by £0.9 billion, or 7.8%, to £12.5 billion compared with Q1 2016 driven by mortgages. Assets under management of £17.8 billion were £3.8 billion higher compared with Q1 2016 reflecting underlying growth in net new assets and positive market returns. In addition, investment cash balances were included in assets under management for the first time in Q3 2016. Excluding this, growth was £2.6 billion.

### RBS International

- Operating profit of £45 million was £7 million, or 13.5%, lower than Q1 2016 driven by higher operating expenses, partially offset by increased income. An adjusted return on equity of 13.0% compared with 16.3% in Q1 2016.
- Total income increased by £8 million, or 8.9%, to £98 million compared with Q1 2016 reflecting higher asset volumes. Net interest margin was broadly stable on Q1 2016 at 1.41% as asset and liability margin pressures have been offset by mitigating pricing actions.
- Adjusted operating expenses were £8 million, or 22.9%, higher than Q1 2016 at £43 million principally reflecting increased regulatory and remediation costs (a combined £5 million). Adjusted cost:income ratio of 43.9% compared with 38.9% in Q1 2016.
- Net loans and advances to customers increased by £0.9 billion, or 11.3%, to £8.9 billion compared with Q1 2016 principally reflecting balance draw-downs in the funds sector lending portfolio and foreign exchange movements.
- Customer deposits increased by £3.7 billion, or 17.1%, to £25.3 billion principally reflecting the transfer in of the Luxembourg branch from Capital Resolution in Q2 2016 and foreign exchange movements.



## Segment performance

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### NatWest Markets

- An operating profit of £68 million compared with an operating loss of £20 million in Q1 2016. Adjusted operating profit of £187 million compared with an adjusted operating loss of £54 million in Q1 2016, with the improvement principally reflecting an increase in adjusted income. This generated an adjusted return on equity of 7.9% for the quarter.
- Adjusted income increased by £231 million, or 83.4%, to £508 million. The increase reflected a consistent level of customer activity and an improved trading environment compared to a particularly difficult Q1 2016, notably in Rates. Total income, which includes own credit adjustments, increased by £147 million, or 43.1%, to £488 million compared with £341 million in Q1 2016.
- Total expenses increased by £59 million, or 16.3%, principally reflecting an increase in restructuring costs. Adjusted operating expenses of £321 million were £10 million, or 3.0%, lower than Q1 2016, and £17 million lower than Q4 2016 driven by non-repeat of the annual bank levy charge of £13 million.
- Funded assets decreased by £2.1 billion to £113.9 billion compared with Q1 2016. Compared with Q4 2016, funded assets increased by £13.0 billion in the quarter following the seasonally low levels of activity at the end of 2016.
- RWAs decreased by £2.0 billion compared with Q1 2016 to £34.1 billion principally due to business movements, partially offset by an increase due to the weakening of sterling.

### Capital Resolution

- RWAs reduced by £4.0 billion in the quarter to £30.5 billion primarily reflecting disposal activity and updates to operational risk.
- An operating loss of £175 million compared with a £301 million loss in Q1 2016. Total income losses of £59 million compared with income of £153 million in Q1 2016, reflecting a £115 million decrease in own credit adjustments and increased disposal losses, up £48 million to £50 million.
- Adjusted expenses of £69 million reduced by £163 million, or 70.3%, compared with Q1 2016, principally reflecting the impact of a 791 reduction in headcount to 254 FTEs by the end Q1 2017.
- A net impairment release of £45 million was recorded in the quarter, compared with a net impairment loss of £196 million in Q1 2016 which was driven by a shipping portfolio charge of £226 million.
- RWAs have fallen by £17.1 billion to £30.5 billion from Q1 2016, primarily due to run-off and loan portfolio disposals. Funded assets have reduced by £21.0 billion to £29.2 billion for the same period.

### Williams & Glyn

- Operating profit of £111 million was £30 million, or 37.0%, higher than Q1 2016 due to a £13 million, or 16.9%, reduction in direct expenses and a £20 million restructuring charge incurred in Q1 2016.
- Total income was broadly stable at £206 million compared with Q1 2016. Net interest income was £3 million, or 1.9%, higher driven by retail deposits, largely offset by a £2 million, or 4.7%, reduction in non-interest income.
- Operating expenses of £84 million were £34 million, or 28.8%, lower than Q1 2016 driven by reduced staff and restructuring costs. Direct expenses were £13 million, or 16.9%, lower driven by a substantial reduction in FTEs, down over 1,000 compared with Q1 2016.
- A net impairment loss of £11 million compared with £6 million in Q1 2016, and reflects the continued benign credit conditions.
- Net loans and advances increased by £0.5 billion, or 2.5%, to £20.6 billion compared with Q1 2016 driven by a £0.3 billion increase in mortgage balances.
- Customer deposits were broadly stable at £24.0 billion compared with Q1 2016.

### Central items & other

- Central items not allocated represent a charge of £144 million in the quarter compared with a charge of £372 million in Q1 2016. Treasury funding costs were a charge of £52 million, compared with a charge of £286 million in Q1 2016, and included a £52 million foreign exchange loss (Q1 2016 - £52 million gain) and a £18 million charge for volatile items under IFRS (Q1 2016 - £356 million charge). Restructuring costs of £145 million included a £73 million net settlement charge related to the RBS Netherlands pension scheme. These were partially offset by a £51 million VAT recovery recognised in the quarter.

## Selected statutory financial statements

### Condensed consolidated income statement for the period ended 31 March 2017

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| Interest receivable   | 2,732                  | 2,770                     | 2,845                  |
| Interest payable  | (498)                  | (562)                     | (689)                  |
| <b>Net interest income (1)</b>  | <b>2,234</b>           | <b>2,208</b>              | <b>2,156</b>           |
| Fees and commissions receivable                                       | 822                    | 821                       | 866                    |
| Fees and commissions payable  | (217)                  | (213)                     | (212)                  |
| Income from trading activities  | 399                    | 590                       | 38                     |
| Gain on redemption of own debt  | 2                      | 1                         | -                      |
| Other operating income  | (28)                   | (191)                     | 216                    |
| <b>Non-interest income</b>  | <b>978</b>             | <b>1,008</b>              | <b>908</b>             |
| <b>Total income</b>   | <b>3,212</b>           | <b>3,216</b>              | <b>3,064</b>           |
| Staff costs   | (1,315)                | (1,142)                   | (1,323)                |
| Premises and equipment  | (377)                  | (382)                     | (324)                  |
| Other administrative expenses   | (419)                  | (5,511)                   | (575)                  |
| Depreciation and amortisation   | (342)                  | (249)                     | (178)                  |
| Write down of intangible assets                                       | -                      | (70)                      | (20)                   |
| <b>Operating expenses</b>   | <b>(2,453)</b>         | <b>(7,354)</b>            | <b>(2,420)</b>         |
| <b>Profit/(loss) before impairment (losses)/releases</b>              | <b>759</b>             | <b>(4,138)</b>            | <b>644</b>             |
| Impairment (losses)/releases  | (46)                   | 75                        | (223)                  |
| <b>Operating profit/(loss) before tax</b>                             | <b>713</b>             | <b>(4,063)</b>            | <b>421</b>             |
| Tax charge  | (327)                  | (244)                     | (80)                   |
| <b>Profit/(loss) for the period</b>                                   | <b>386</b>             | <b>(4,307)</b>            | <b>341</b>             |
| <b>Attributable to:</b>   |                        |                           |                        |
| Non-controlling interests   | 11                     | (27)                      | 22                     |
| Preference share and other dividends                                  | 116                    | 161                       | 94                     |
| Dividend access share   | -                      | -                         | 1,193                  |
| Ordinary shareholders   | 259                    | (4,441)                   | (968)                  |
|   | 386                    | (4,307)                   | 341                    |
| <b>Earnings/(loss) per ordinary share (EPS)</b>                       |                        |                           |                        |
| Basic and diluted EPS from continuing and discontinued operations (2) | 2.2p                   | (37.7p)                   | (8.3p)                 |
| Basic and diluted EPS from continuing operations (2)                  | 2.2p                   | (37.7p)                   | (8.3p)                 |

Notes:

- (1) Negative interest on loans and advances is classed as interest payable. Negative interest on customer deposits classed as interest receivable. Q1 2016 has been re-presented accordingly.
- (2) There is no dilutive impact in any period.

## Selected statutory financial statements

### Condensed consolidated statement of comprehensive income for the period ended 31 March 2017

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m | 31 March<br>2016<br>£m |
| <b>Profit/(loss) for the period</b>  | <b>386</b>             | <b>(4,307)</b>            | <b>341</b>             |
| <b>Items that do not qualify for reclassification</b>  |                        |                           |                        |
| Loss on remeasurement of retirement benefit schemes  | (21)                   | (2)                       | (529)                  |
| Loss on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk | (20)                   | -                         | -                      |
| Tax  | (16)                   | 3                         | 143                    |
|  | <b>(57)</b>            | <b>1</b>                  | <b>(386)</b>           |
| <b>Items that do qualify for reclassification</b>  |                        |                           |                        |
| Available-for-sale financial assets  | 60                     | 68                        | (8)                    |
| Cash flow hedges   | (189)                  | (750)                     | 946                    |
| Currency translation   | (6)                    | (13)                      | 582                    |
| Tax  | 33                     | 191                       | (238)                  |
|  | <b>(102)</b>           | <b>(504)</b>              | <b>1,282</b>           |
| <b>Other comprehensive (loss)/income after tax</b>   | <b>(159)</b>           | <b>(503)</b>              | <b>896</b>             |
| <b>Total comprehensive income/(loss) for the period</b>  | <b>227</b>             | <b>(4,810)</b>            | <b>1,237</b>           |
| <b>Total comprehensive income/(loss) is attributable to:</b>   |                        |                           |                        |
| Non-controlling interests  | 10                     | (36)                      | 72                     |
| Preference shareholders  | 40                     | 68                        | 56                     |
| Paid-in equity holders   | 76                     | 93                        | 38                     |
| Dividend access share  | -                      | -                         | 1,193                  |
| Ordinary shareholders  | 101                    | (4,935)                   | (122)                  |
|  | <b>227</b>             | <b>(4,810)</b>            | <b>1,237</b>           |

## Selected statutory financial statements

### Condensed consolidated balance sheet as at 31 March 2017

|   | 31 March<br>2017<br>£m | 31 December<br>2016<br>£m |
|---|------------------------|---------------------------|
| <b>Assets</b>                                     |                        |                           |
| Cash and balances at central banks                | 83,160                 | 74,250                    |
| Net loans and advances to banks                   | 20,513                 | 17,278                    |
| Reverse repurchase agreements and stock borrowing | 18,200                 | 12,860                    |
| Loans and advances to banks                       | 38,713                 | 30,138                    |
| Net loans and advances to customers               | 326,733                | 323,023                   |
| Reverse repurchase agreements and stock borrowing | 27,251                 | 28,927                    |
| Loans and advances to customers                   | 353,984                | 351,950                   |
| Debt securities                                   | 76,656                 | 72,522                    |
| Equity shares                                     | 691                    | 703                       |
| Settlement balances                               | 9,128                  | 5,526                     |
| Derivatives                                       | 204,052                | 246,981                   |
| Intangible assets                                 | 6,464                  | 6,480                     |
| Property, plant and equipment                     | 4,996                  | 4,590                     |
| Deferred tax                                      | 1,697                  | 1,803                     |
| Prepayments, accrued income and other assets      | 3,642                  | 3,700                     |
| Assets of disposal groups                         | 92                     | 13                        |
| <b>Total assets</b>                               | <b>783,275</b>         | <b>798,656</b>            |
| <b>Liabilities</b>                                |                        |                           |
| Bank deposits                                     | 40,276                 | 33,317                    |
| Repurchase agreements and stock lending           | 5,988                  | 5,239                     |
| Deposits by banks                                 | 46,264                 | 38,556                    |
| Customer deposits                                 | 351,498                | 353,872                   |
| Repurchase agreements and stock lending           | 38,978                 | 27,096                    |
| Customer accounts                                 | 390,476                | 380,968                   |
| Debt securities in issue                          | 28,163                 | 27,245                    |
| Settlement balances                               | 9,210                  | 3,645                     |
| Short positions                                   | 28,519                 | 22,077                    |
| Derivatives                                       | 196,224                | 236,475                   |
| Provisions for liabilities and charges            | 11,619                 | 12,836                    |
| Accruals and other liabilities                    | 6,938                  | 6,991                     |
| Retirement benefit liabilities                    | 186                    | 363                       |
| Deferred tax                                      | 637                    | 662                       |
| Subordinated liabilities                          | 15,514                 | 19,419                    |
| Liabilities of disposal groups                    | 14                     | 15                        |
| <b>Total liabilities</b>                          | <b>733,764</b>         | <b>749,252</b>            |
| <b>Equity</b>                                     |                        |                           |
| Non-controlling interests                         | 805                    | 795                       |
| Owners' equity*                                   |                        |                           |
| Called up share capital                           | 11,843                 | 11,823                    |
| Reserves  | 36,863                 | 36,786                    |
| <b>Total equity</b>                               | <b>49,511</b>          | <b>49,404</b>             |
| <b>Total liabilities and equity</b>               | <b>783,275</b>         | <b>798,656</b>            |
| *Owners' equity attributable to:                  |                        |                           |
| Ordinary shareholders                             | 41,650                 | 41,462                    |
| Other equity owners                               | 7,056                  | 7,147                     |
|   | <b>48,706</b>          | <b>48,609</b>             |

The parent company distributable reserves at 31 March 2017 were £7.9 billion (31 December 2016 - £8.0 billion).

## Selected statutory financial statements

### Condensed consolidated statement of changes in equity for the period ended 31 March 2017

|   | Share capital and statutory reserves<br>£m | Paid-in equity<br>£m | Retained earnings<br>£m | Other reserves*<br>£m | Total owners' equity<br>£m | Non controlling interests<br>£m | Total equity<br>£m |
|---|--|----------------------|-------------------------|-----------------------|----------------------------|---------------------------------|--------------------|
| At 1 January 2017   | 41,926                                     | 4,582                | (12,936)                | 15,037                | 48,609                     | 795                             | 49,404             |
| Profit attributable to ordinary shareholders and other equity owners  | -  | -                    | 375                     | -                     | 375                        | 11                              | 386                |
| Other comprehensive income  |  |                      |                         |                       |                            |                                 |                    |
| - changes in fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk | -  | -                    | (20)                    | -                     | (20)                       | -                               | (20)               |
| - other amounts recognised in equity  | -  | -                    | (21)                    | 128                   | 107                        | (1)                             | 106                |
| - amounts transferred from equity to profit or loss   | -  | -                    | -                       | (289)                 | (289)                      | -                               | (289)              |
| - recycled to profit or loss on disposal of businesses (1)  | -  | -                    | -                       | 27                    | 27                         | -                               | 27                 |
| - tax   | -  | -                    | (16)                    | 33                    | 17                         | -                               | 17                 |
| Preference share and other dividends paid   | -  | -                    | (116)                   | -                     | (116)                      | -                               | (116)              |
| Shares and securities issued during the period  | 69   | -                    | (4)                     | -                     | 65                         | -                               | 65                 |
| Reclassification of paid-in equity (2)  | -  | (91)                 | -                       | -                     | (91)                       | -                               | (91)               |
| Share-based payments - gross  | -  | -                    | (38)                    | -                     | (38)                       | -                               | (38)               |
| Movement in own shares held   | 60   | -                    | -                       | -                     | 60                         | -                               | 60                 |
| <b>At 31 March 2017</b>   | <b>42,055</b>                              | <b>4,491</b>         | <b>(12,776)</b>         | <b>14,936</b>         | <b>48,706</b>              | <b>805</b>                      | <b>49,511</b>      |

31 March  
2017

#### Total equity is attributable to:

|                           | £m            |
|---------------------------|---------------|
| Non-controlling interests | 805           |
| Preference shareholders   | 2,565         |
| Paid-in equity holders    | 4,491         |
| Ordinary shareholders     | 41,650        |
|                           | <b>49,511</b> |

#### \*Other reserves consist of:

|                            |               |
|----------------------------|---------------|
| Merger reserve             | 10,881        |
| Available-for-sale reserve | 287           |
| Cash flow hedging reserve  | 888           |
| Foreign exchange reserve   | 2,880         |
|                            | <b>14,936</b> |

Notes:

(1) No tax impact.

(2) Paid-in equity reclassified to liabilities as a result of the call of RBS Capital Trust D in March 2017.

## 1. Basis of preparation

The condensed consolidated financial statements should be read in conjunction with RBS's 2016 Annual Report and Accounts which was prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

### Accounting policies

Ahead of adopting IFRS 9 Financial Instruments from 1 January 2018 RBS has adopted the provisions in respect of the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss from 1 January 2017. Accordingly, a loss of £20 million has been reported in the Consolidated Statement of Other Comprehensive Income instead of in the Consolidated Income Statement. Comparatives have not been restated, however, in Q1 2016 a gain of £108 million was included in the Consolidated Income Statement. Own credit adjustments on financial liabilities held for trading will continue to be recognised in the Consolidated Income Statement, a loss of £29 million was reported in Q1 2017 (Q1 2016 – gain of £148 million).

Apart from the above RBS's principal accounting policies are as set out on pages 297 to 306 of the 2016 Annual Report and Accounts. Other amendments to IFRS effective for 2017 have not had a material effect on RBS's Q1 2017 results.

### Critical accounting policies and key sources of estimation uncertainty

The judgements and assumptions that are considered to be the most important to the portrayal of RBS's financial condition are those relating to goodwill, provisions for liabilities, deferred tax, loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgements are described on pages 306 to 308 of RBS's 2016 Annual Report and Accounts.

### Going concern

Having reviewed RBS's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that RBS will continue in operational existence for the foreseeable future. Accordingly, the results for the period ended 31 March 2017 have been prepared on a going concern basis.

## 2. Provisions for liabilities and charges

|  | Payment<br>protection<br>insurance<br>£m | Other<br>customer<br>redress (1)<br>£m | Residential<br>mortgage<br>backed securities<br>£m | Litigation<br>and other<br>regulatory<br>£m | Other<br>£m  | Total<br>£m   |
|--|--|--|--|---|--------------|---------------|
| At 1 January 2017                        | 1,253                                    | 1,105                                  | 6,752  | 1,918                                       | 1,808        | 12,836        |
| Currency translation and other movements | -  | (1)                                    | (114)  | (13)  | 10           | (118)         |
| Charge to income statement               | -  | -                                      | -  | 32  | 204          | 236           |
| Releases to income statement             | -  | (2)                                    | -  | (3)   | (39)         | (44)          |
| Provisions utilised                      | (78)                                     | (99)                                   | -  | (950)                                       | (164)        | (1,291)       |
| <b>At 31 March 2017</b>                  | <b>1,175</b>                             | <b>1,003</b>                           | <b>6,638</b>                                       | <b>984</b>                                  | <b>1,819</b> | <b>11,619</b> |

Note:

(1) Closing provision predominantly relates to investment advice, packaged accounts (including costs) and tracker mortgages.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided. RBS will continue to monitor the position closely and refresh the underlying assumptions.

## 3. Litigation, investigations and reviews

RBS's 2016 Annual Report and Accounts issued on 24 February 2017 included comprehensive disclosures about RBS's litigation, investigations and reviews in Note 31. Set out below are the material developments in these matters since the 2016 Annual Report & Accounts were published. RBS generally does not disclose information about the establishment or existence of a provision for a particular matter where disclosure of the information can be expected to prejudice seriously RBS's position in the matter.

### 3. Litigation, investigations and reviews (continued)

#### Litigation

##### RMBS-related litigation in the US

RBS is in discussions with the US Federal Housing Finance Agency (FHFA) in relation to its primary lawsuit (which is described in the 2016 Annual Report & Accounts) but there can be no assurance as to whether such discussions will continue or result in a settlement. As it has previously stated, RBS reiterates that in connection with its RMBS litigation matters and RMBS investigations taken as a whole, further substantial provisions and costs may be recognised and, depending upon the final outcomes, other adverse consequences may occur.

##### UK 2008 rights issue shareholder litigation

In December 2016 RBS concluded full and final settlements with four of the five shareholder groups representing 78% of the claims by value. Further, RBS has recently concluded a full and final settlement, without any admission of liability, with shareholders representing around 40% by value of the remaining claimant group. As part of this further settlement, RBS has made available an additional sum in respect of the costs incurred by the remaining group of claimants since December 2016, subject to claim validation. RBS has now reached a resolution with shareholders representing 87% of the original claims by value in the litigation. Should the remaining group's claim not be settled with all claimants, the court timetable provides that a trial of the preliminary issue of whether the rights issue prospectus contained untrue and misleading statements and/or improper omissions will commence on 22 May 2017.

##### London Interbank Offered Rate (LIBOR)

As previously disclosed, certain members of the Group have been named as defendants in US class actions relating to alleged manipulation of various interest rate benchmarks, each of which is pending in the United States District Court for the Southern District of New York. On 10 March 2017, the court in the action relating primarily to over-the-counter derivatives allegedly linked to JPY LIBOR and Euroyen TIBOR dismissed the case on the ground that the plaintiffs lack standing. The plaintiffs are seeking to amend their complaint in an attempt to address the deficiencies identified by the court in its dismissal order.

##### FX antitrust litigation

As previously disclosed, RBS plc is a defendant in an FX-related antitrust class action pending in the United States District Court for the Southern District of New York, on behalf of an alleged class of "consumers and end-user businesses." On 24 March 2017, the court granted a motion to dismiss the complaint in this matter on the ground that the purported class lacks standing to pursue antitrust claims.

##### Claim by the US Federal Deposit Insurance Corporation

On 10 March 2017, the US Federal Deposit Insurance Corporation (FDIC), on behalf of 39 failed US banks, issued a claim in the High Court of Justice of England and Wales against RBS, other LIBOR panel banks and the British Bankers' Association, alleging collusion with respect to the setting of USD LIBOR. The action alleges that the defendants breached English and European competition law as well as asserting common law claims of fraud under US law. The FDIC previously asserted many of the same USD LIBOR-related claims against RBS and others in a lawsuit pending in the United States District Court for the Southern District of New York, though most of the claims in that case have been dismissed as a result of a series of rulings by that court.

#### Investigations and reviews

##### Payment Protection Insurance (PPI)

On 2 March 2017, the FCA published Policy Statement 17/3 containing its final rules and guidance on PPI complaint handling. The Policy Statement made clear the FCA's intention to implement a two year PPI complaints deadline with effect from 29 August 2017, bringing an end to new PPI complaints in August 2019. New rules for the handling of Plevin complaints will also come into force on 29 August 2017. The proposals in the Policy Statement are largely as previously anticipated and RBS does not currently consider that an additional provision will be required.

Recent media coverage indicates that a claims management company may issue judicial review proceedings challenging the FCA's proposed 2019 deadline.

**3. Litigation, investigations and reviews** (continued)

**Supervisory investigation in relation to Coutts & Co Ltd**

On 11 April 2017, the Hong Kong Monetary Authority (HKMA) announced that its supervisory investigation in relation to the Hong Kong branch of Coutts & Co Ltd (a member of the Group incorporated in Switzerland) had revealed breaches of local anti-money laundering requirements for which the HKMA has imposed financial penalties of HKD 7 million.

**Regulator requests concerning certain historic Russian transactions**

Recent media coverage has highlighted an alleged money laundering scheme involving Russian entities between 2010 and 2014. Allegedly certain European banks, including RBS and 16 other UK based financial institutions, and certain US banks, were involved in processing certain transactions associated with this scheme. In common with other banks, RBS is responding to requests for information from the FCA, PRA and regulators in other jurisdictions.

**4. Post balance sheet events**

Other than matters disclosed, there have been no further significant events between 31 March 2017 and the date of approval of this announcement.



### 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 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.

## Forward-looking statements

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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

## Segmental Income statement reconciliations

## Segmental income statement reconciliations

|                                       | PBB          |                          | CPB                         |                          |                            |         | NatWest<br>Markets<br>£m | Capital<br>Resolution<br>£m | Williams<br>& Glyn<br>£m | Central<br>items &<br>other<br>£m | Total<br>RBS<br>£m |
|---------------------------------------|--------------|--------------------------|-----------------------------|--------------------------|----------------------------|---------|--------------------------|-----------------------------|--------------------------|-----------------------------------|--------------------|
|                                       | UK PBB<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | £m      |                          |                             |                          |                                   |                    |
| <b>Quarter ended 31 March 2017</b>    |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| <b>Income statement</b>               |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| Total income - statutory              | 1,377        | 145                      | 865                         | 160                      | 98                         | 488     | (59)                     | 206                         | (68)                     | 3,212                             |                    |
| Own credit adjustments                | -            | 1                        | -                           | -                        | -                          | 20      | 7                        | -                           | 1                        | 29                                |                    |
| Gain on redemption of own debt        | -            | -                        | -                           | -                        | -                          | -       | -                        | -                           | (2)                      | (2)                               |                    |
| Total income - adjusted               | 1,377        | 146                      | 865                         | 160                      | 98                         | 508     | (52)                     | 206                         | (69)                     | 3,239                             |                    |
| Operating expenses - statutory        | (851)        | (142)                    | (550)                       | (124)                    | (46)                       | (420)   | (161)                    | (84)                        | (75)                     | (2,453)                           |                    |
| Restructuring costs - direct          | 20           | 19                       | 39                          | -                        | -                          | -       | 70                       | -                           | 429                      | 577                               |                    |
| - indirect                            | 111          | 15                       | 60                          | 11                       | 3                          | 68      | 16                       | -                           | (284)                    | -                                 |                    |
| Litigation and conduct costs          | 4            | -                        | 3                           | -                        | -                          | 31      | 6                        | -                           | 10                       | 54                                |                    |
| Operating expenses - adjusted         | (716)        | (108)                    | (448)                       | (113)                    | (43)                       | (321)   | (69)                     | (84)                        | 80                       | (1,822)                           |                    |
| Impairment (losses)/releases          | (32)         | 24                       | (61)                        | (3)                      | (7)                        | -       | 45                       | (11)                        | (1)                      | (46)                              |                    |
| Operating profit/(loss) - statutory   | 494          | 27                       | 254                         | 33                       | 45                         | 68      | (175)                    | 111                         | (144)                    | 713                               |                    |
| Operating profit/(loss) - adjusted    | 629          | 62                       | 356                         | 44                       | 48                         | 187     | (76)                     | 111                         | 10                       | 1,371                             |                    |
| <b>Additional information</b>         |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| Return on equity (1)                  | 24.8%        | 4.0%                     | 5.7%                        | 6.0%                     | 12.0%                      | 1.7%    | nm                       | nm                          | nm                       | 3.1%                              |                    |
| Return on equity - adjusted (1,2)     | 32.0%        | 9.3%                     | 8.9%                        | 8.6%                     | 13.0%                      | 7.9%    | nm                       | nm                          | nm                       | 9.7%                              |                    |
| Cost income ratio (3)                 | 61.8%        | 97.9%                    | 62.0%                       | 77.5%                    | 46.9%                      | 86.1%   | nm                       | 40.8%                       | nm                       | 76.1%                             |                    |
| Cost income ratio - adjusted (2,3)    | 52.0%        | 74.0%                    | 49.7%                       | 70.6%                    | 43.9%                      | 63.2%   | nm                       | 40.8%                       | nm                       | 55.8%                             |                    |
| <b>Quarter ended 31 December 2016</b> |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| <b>Income statement</b>               |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| Total income - statutory              | 1,339        | 137                      | 867                         | 161                      | 96                         | 285     | (293)                    | 217                         | 407                      | 3,216                             |                    |
| Own credit adjustments                | -            | -                        | -                           | -                        | -                          | 29      | 8                        | -                           | 77                       | 114                               |                    |
| Gain on redemption of own debt        | -            | -                        | -                           | -                        | -                          | -       | -                        | -                           | (1)                      | (1)                               |                    |
| Total income - adjusted               | 1,339        | 137                      | 867                         | 161                      | 96                         | 314     | (285)                    | 217                         | 483                      | 3,329                             |                    |
| Operating expenses - statutory        | (1,042)      | (226)                    | (1,009)                     | (159)                    | (64)                       | (850)   | (3,340)                  | (97)                        | (567)                    | (7,354)                           |                    |
| Restructuring costs - direct          | 1            | 6                        | 12                          | 6                        | 1                          | 3       | 21                       | -                           | 957                      | 1,007                             |                    |
| - indirect                            | 50           | (2)                      | 34                          | 8                        | 1                          | 43      | (13)                     | -                           | (121)                    | -                                 |                    |
| Litigation and conduct costs          | 214          | 77                       | 407                         | (1)                      | 1                          | 466     | 3,156                    | -                           | (192)                    | 4,128                             |                    |
| Operating expenses - adjusted         | (777)        | (145)                    | (556)                       | (146)                    | (61)                       | (338)   | (176)                    | (97)                        | 77                       | (2,219)                           |                    |
| Impairment (losses)/releases          | (16)         | 47                       | (83)                        | 8                        | 1                          | -       | 130                      | (11)                        | (1)                      | 75                                |                    |
| Operating profit/(loss) - statutory   | 281          | (42)                     | (225)                       | 10                       | 33                         | (565)   | (3,503)                  | 109                         | (161)                    | (4,063)                           |                    |
| Operating profit/(loss) - adjusted    | 546          | 39                       | 228                         | 23                       | 36                         | (24)    | (331)                    | 109                         | 559                      | 1,185                             |                    |
| <b>Additional information</b>         |              |                          |                             |                          |                            |         |                          |                             |                          |                                   |                    |
| Return on equity (1)                  | 13.5%        | (5.8%)                   | (9.1%)                      | 1.6%                     | 8.8%                       | (30.2%) | nm                       | nm                          | nm                       | (48.2%)                           |                    |
| Return on equity - adjusted (1,2)     | 27.8%        | 5.4%                     | 5.3%                        | 4.5%                     | 9.8%                       | (2.7%)  | nm                       | nm                          | nm                       | 8.6%                              |                    |
| Cost income ratio (3)                 | 77.8%        | 165.0%                   | 117.1%                      | 98.8%                    | 66.7%                      | nm      | nm                       | 44.7%                       | nm                       | 230.2%                            |                    |
| Cost income ratio - adjusted (2,3)    | 58.0%        | 105.8%                   | 62.6%                       | 90.7%                    | 63.5%                      | 107.6%  | nm                       | 44.7%                       | nm                       | 66.3%                             |                    |

For notes to this table refer to page 3

## Segmental income statement reconciliations

|                                     | PBB          |                          | CPB                         |                          |                            |        | NatWest<br>Markets | Capital<br>Resolution | Williams<br>& Glyn | Central<br>items &<br>other | Total<br>RBS |
|-------------------------------------|--------------|--------------------------|-----------------------------|--------------------------|----------------------------|--------|--------------------|-----------------------|--------------------|-----------------------------|--------------|
|                                     | UK PBB<br>£m | Ulster<br>Bank Rol<br>£m | Commercial<br>Banking<br>£m | Private<br>Banking<br>£m | RBS<br>International<br>£m | £m     |                    |                       |                    |                             |              |
| Quarter ended 31 March 2016         |              |                          |                             |                          |                            |        |                    |                       |                    |                             |              |
| <b>Income statement</b>             |              |                          |                             |                          |                            |        |                    |                       |                    |                             |              |
| Total income - statutory            | 1,275        | 158                      | 853                         | 165                      | 90                         | 341    | 153                | 205                   | (176)              | 3,064                       |              |
| Own credit adjustments              | -            | (3)                      | -                           | -                        | -                          | (64)   | (108)              | -                     | (81)               | (256)                       |              |
| Strategic disposals                 | -            | -                        | -                           | -                        | -                          | -      | 6                  | -                     | -                  | 6                           |              |
| Total income - adjusted             | 1,275        | 155                      | 853                         | 165                      | 90                         | 277    | 51                 | 205                   | (257)              | 2,814                       |              |
| Operating expenses - statutory      | (750)        | (110)                    | (438)                       | (153)                    | (36)                       | (361)  | (258)              | (118)                 | (196)              | (2,420)                     |              |
| Restructuring costs - direct        | 13           | 6                        | 1                           | 1                        | -                          | -      | 7                  | 20                    | 190                | 238                         |              |
| - indirect                          | 9            | -                        | (1)                         | 15                       | 1                          | 12     | 9                  | -                     | (45)               | -                           |              |
| Litigation and conduct costs        | -            | -                        | 2                           | -                        | -                          | 18     | 10                 | -                     | 1                  | 31                          |              |
| Operating expenses - adjusted       | (728)        | (104)                    | (436)                       | (137)                    | (35)                       | (331)  | (232)              | (98)                  | (50)               | (2,151)                     |              |
| Impairment (losses)/releases        | (16)         | 13                       | (14)                        | (2)                      | (2)                        | -      | (196)              | (6)                   | -                  | (223)                       |              |
| Operating profit/(loss) - statutory | 509          | 61                       | 401                         | 10                       | 52                         | (20)   | (301)              | 81                    | (372)              | 421                         |              |
| Operating profit/(loss) - adjusted  | 531          | 64                       | 403                         | 26                       | 53                         | (54)   | (377)              | 101                   | (307)              | 440                         |              |
| <b>Additional information</b>       |              |                          |                             |                          |                            |        |                    |                       |                    |                             |              |
| Return on equity (1)                | 26.1%        | 8.8%                     | 11.1%                       | 1.5%                     | 16.0%                      | (2.6%) | nm                 | nm                    | nm                 | (9.6%)                      |              |
| Return on equity - adjusted (1,2)   | 27.3%        | 9.2%                     | 11.2%                       | 5.1%                     | 16.3%                      | (4.4%) | nm                 | nm                    | nm                 | (9.4%)                      |              |
| Cost income ratio (3)               | 58.8%        | 69.6%                    | 49.3%                       | 92.7%                    | 40.0%                      | 105.9% | nm                 | 57.6%                 | nm                 | 78.7%                       |              |
| Cost income ratio - adjusted (2,3)  | 57.1%        | 67.1%                    | 49.0%                       | 83.0%                    | 38.9%                      | 119.5% | nm                 | 47.8%                 | nm                 | 76.1%                       |              |

### Notes:

- (1) 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 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.
- (2) Excluding own credit adjustments, gain on redemption of own debt, strategic disposals, restructuring costs and litigation and conduct costs.
- (3) Operating lease depreciation included in income (Q1 2017 - £36 million; Q4 2016 - £37 million and Q1 2016 - £38 million).

Legal Entity Identifier: 2138005O9XJIJN4JPN90