

Building a truly customer centric bank

Ross McEwan, Chief Executive

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Agenda

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Strategy outline

2

Building capital strength

3

Driving sustainable returns

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Growing our franchises

5

Our Investment Case

First priorities – recap

Establish RBS Capital Resolution (Internal Bad Bank), Citizens IPO announced



Articulate capital plan



Reset relationship with HMT, PRA, UKFI and the Chancellor



Set out clear direction on what we want to be



Resolve the Dividend Access Share – underway



Our vision for a bank that earns your trust

- Be reliable, consistent and simple to do business with
- Earn our customers' trust and win more of their business
- Generate reliable returns, positive organic cash flow and pay an ordinary dividend

Our ambition: to be number one for customer service, trust and advocacy in each of our business areas by 2020

We must invest in our customer franchises

We have market leading franchises...

- ✓ #2 UK Retail current accounts
- ✓ #1 UK Small Business Banking
- ✓ #1 UK Wealth Management
- ✓ #1 UK Mid Corporates
- ✓ #1 UK Large Corporates, #4 in Europe
- ✓ #1 UK Cash Management, #4 in Europe
- ✓ Best Trade Finance Bank in UK and Western Europe
- ✓ Focused international platform including strong US and Asian distribution networks
- ✓ Strong capabilities in FX, DCM, Rates - Top 3 in UK, Top 10 in EMEA
- ✓ #1 Northern Ireland
- ✓ #3 Republic of Ireland

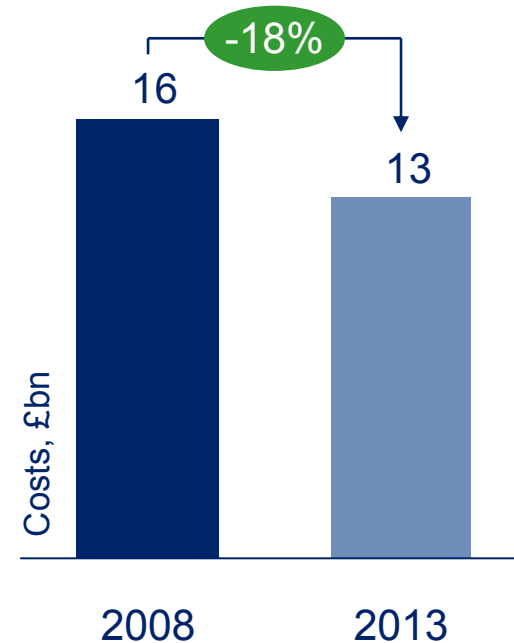
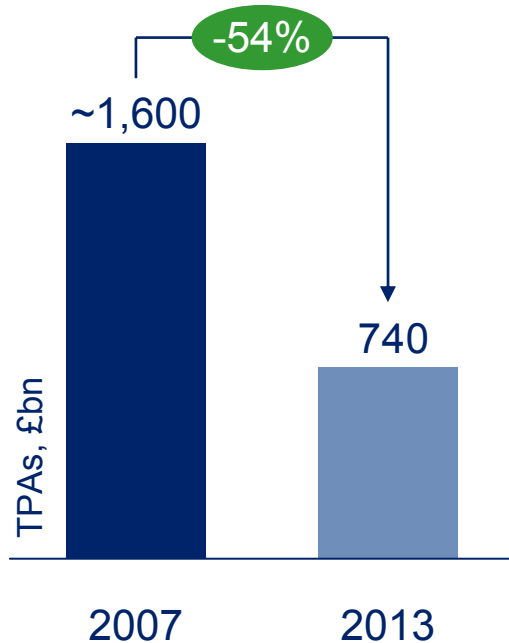
...but they are *vulnerable* if we don't act

- ✗ Customers' expectations are rising and their needs are rapidly evolving
- ✗ We make it too complicated for our customers to do business with us
- ✗ Questions remain around our technology
- ✗ Our reputation has been damaged by misconduct
- ✗ Our market share trend is flat in most franchises and declining in some

We must reduce cost and complexity further

We have made great progress in downsizing and risk reduction...

...but our **cost base** and **organisational model** still reflect our past ambition



- Loan : deposit ratio 94%
- Short-term wholesale funding £32bn
- Liquidity Coverage Ratio 102%
- Net Stable Funding Ratio 122%

- Siloed organisation
- Inefficient and inconsistent support and control functions
- Multiplicity of technology platforms
- Fragmented processes

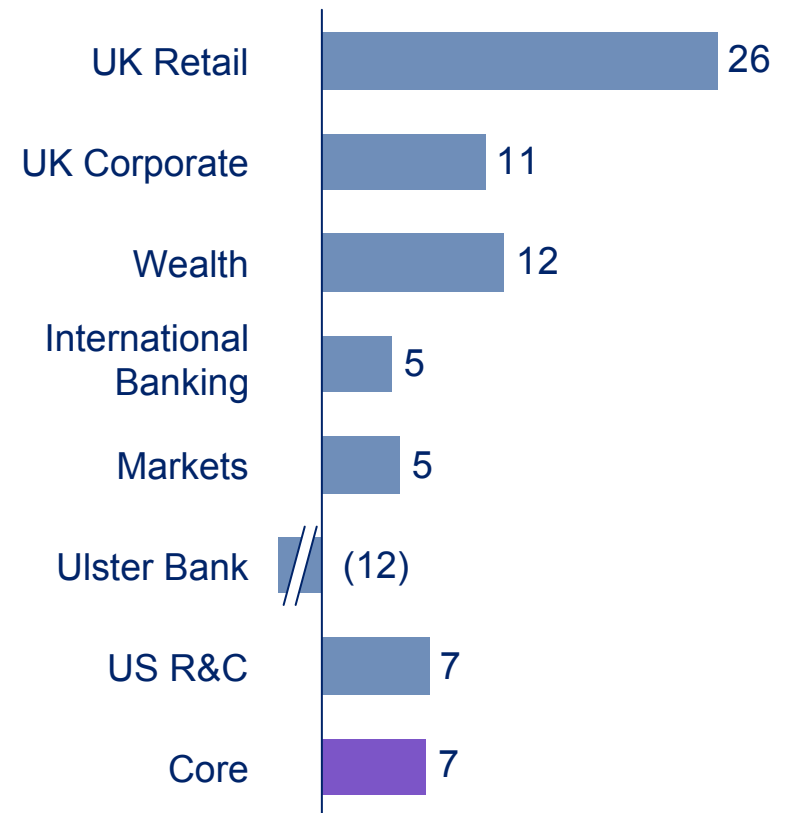
We must generate lower risk, strong and sustainable earnings

We have been pro-active in refocusing on where we have a competitive advantage...

- We made significant progress in rationalising our geographic footprint:
 - Exited 26 countries¹
 - Target client universe from 26,000 to 4,000²
- We have exited a number of businesses and products:
 - Commodities Trading – Sempra
 - WorldPay
 - DLG
 - Asian, EME and LatAm Retail
 - Aviation Capital
 - Wealth in Africa, LatAm & Caribbean
 - Project Finance³, Asset Management, Structured Asset Finance, Non-Conforming ABS, Equities, ECM, Corporate Broking, M&A Advisory

...but most of our businesses continue to generate *sub-par returns*

RBS FY 2013 Core Return on Equity by division excluding RCR impact, %



¹ Markets. ² Markets and International Banking target client universe. ³ Within GBM.

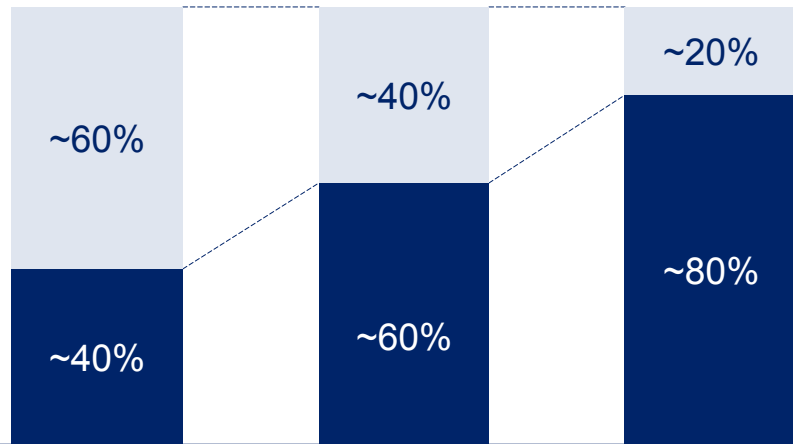
Our strategy: *UK focused Retail & Commercial bank*

With Markets and international capabilities to meet our clients' needs, primarily focusing to support their UK and Western European operations

Business mix shift towards the UK...

Illustrative split by total income

■ Non-UK ■ UK



2008

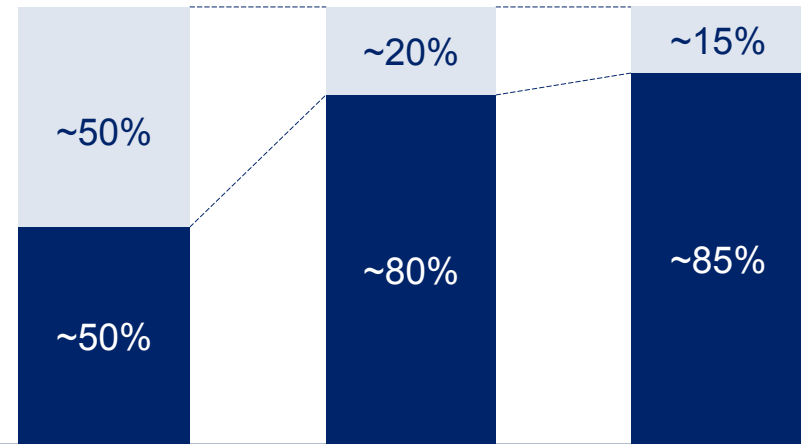
Current

Steady state¹

...with emphasis on Retail & Commercial

Illustrative split by RWAs

■ Wholesale² ■ R&C



2008

Current

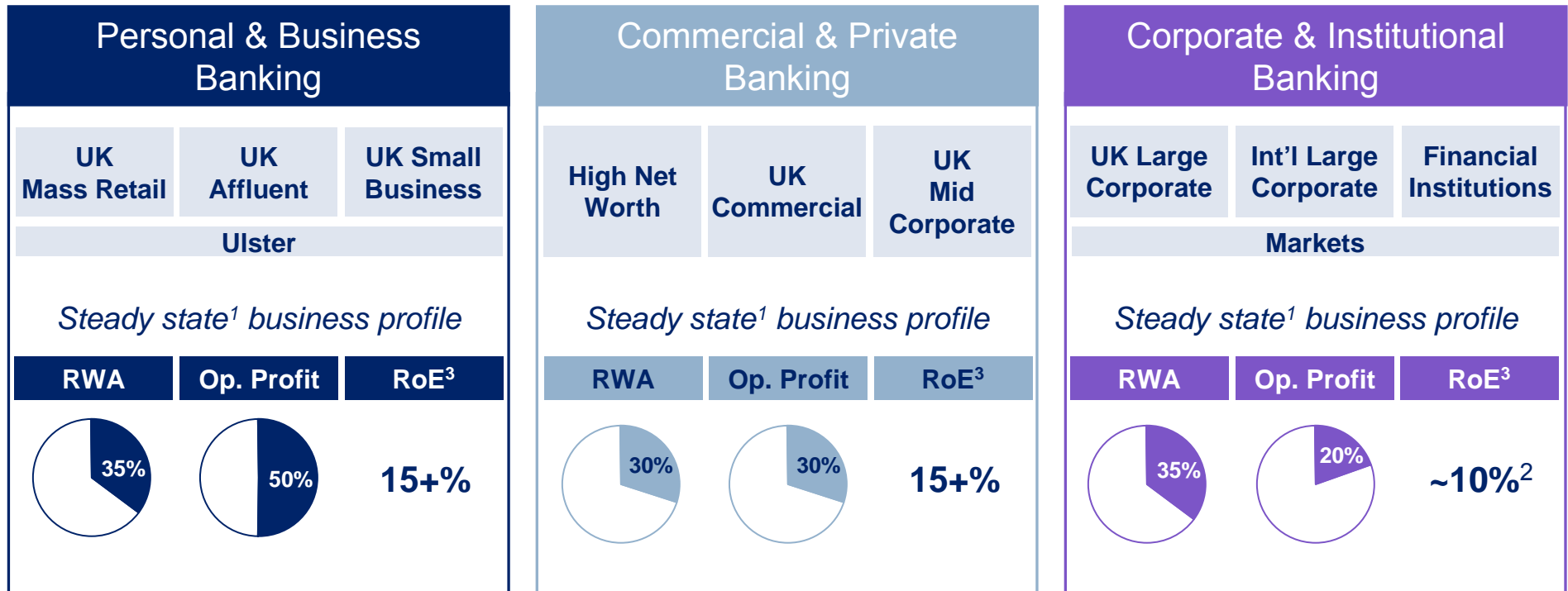
Steady state¹

- UK banking market is among the most attractive globally: 5th highest income, 5th largest profit pool
- Focus on Retail & Commercial will result in a significantly lower risk profile and higher returns

¹ Steady state defined as 2018 to 2020. ² Wholesale defined as GBM in 2008 and Markets for current and steady state

Organised to best serve our customers' needs

- From 7 Divisions to 3 businesses, each serving specific segments of customers with similar needs
- Rebalancing from c.70% of our people in “back office” support and control roles to a majority in customer-facing roles, with remuneration of all staff linked to customer service



¹ Steady state defined as 2018 to 2020. ² 7-8% medium-term target (2016/17). ³ Divisional return on equity target is based on 12% divisional RWAs, adjusted for capital deductions (expected loss, securitisations and pension deficit).

We will remove duplication and complexity

Functions siloed & duplicated across divisions

Divisions							Business Services	Group Centre
UK Retail	Wealth	UK Corp.	Markets	Intl. Banking	Non-Core	Ulster		
Branch & Pri. Banking	Coutts Int'l	Bus. & Com Banking	ABS& Credit	CAO	Finance	Comms & Corp. Affairs	Comms & marketing	Comms & marketing
Customer Exp.	Coutts UK	C&I Banking	APAC	Corporate Advisory	HR	Corporate Banking	Corporate Services	Finance
Direct Dist'n	Finance	Cust. Solutions	Corp. DCM/ Risk	HR	Legal	Finance	Finance	HR
Finance	Legal	Finance	Finance	IB Americas	NC Markets & Solutions	GRG	Group Ops.	Risk
Future Bank strat/dev.	Private Office	HR	Financial Inst. Group	IB APAC	Ops.	HR	HR	
HR	Private Banking	Ops.	Global Sales	IB EMEA	Portfolio Banking	Ops.	Rainbow Programme	
Products & Mkt'ng	Prod., Serv. & Mkt'ng	Risk	Global Americas	IB Logistics	Solutions	Retail Banking	Risk	
Retail Banking Ops.	Risk	Strategy	HR	Legal	Risk	Risk	Strat. & Architecture	
Risk			Logistics	Finance			Tech. Services	

Finance duplicated across Divisions, Business Services and at Group Centre

Current proposition: very complex and duplicative

109

Credit card propositions

7.8m

Manual payments processed annually

1,133

Live websites

5

Mortgage platforms

17

Days to produce a mortgage offer

36

Different retail savings products

Efficient and effective functions across franchises

Personal and Business Banking	Commercial and Private Banking	Corporate and Institutional Banking
Operations		
Ops	Ops	Ops
Group property		
Apps	Apps	Apps
Group IT infrastructure and applications		
Finance		
HR		
Risk		
Compliance		
Strategy, Marketing & Comms		

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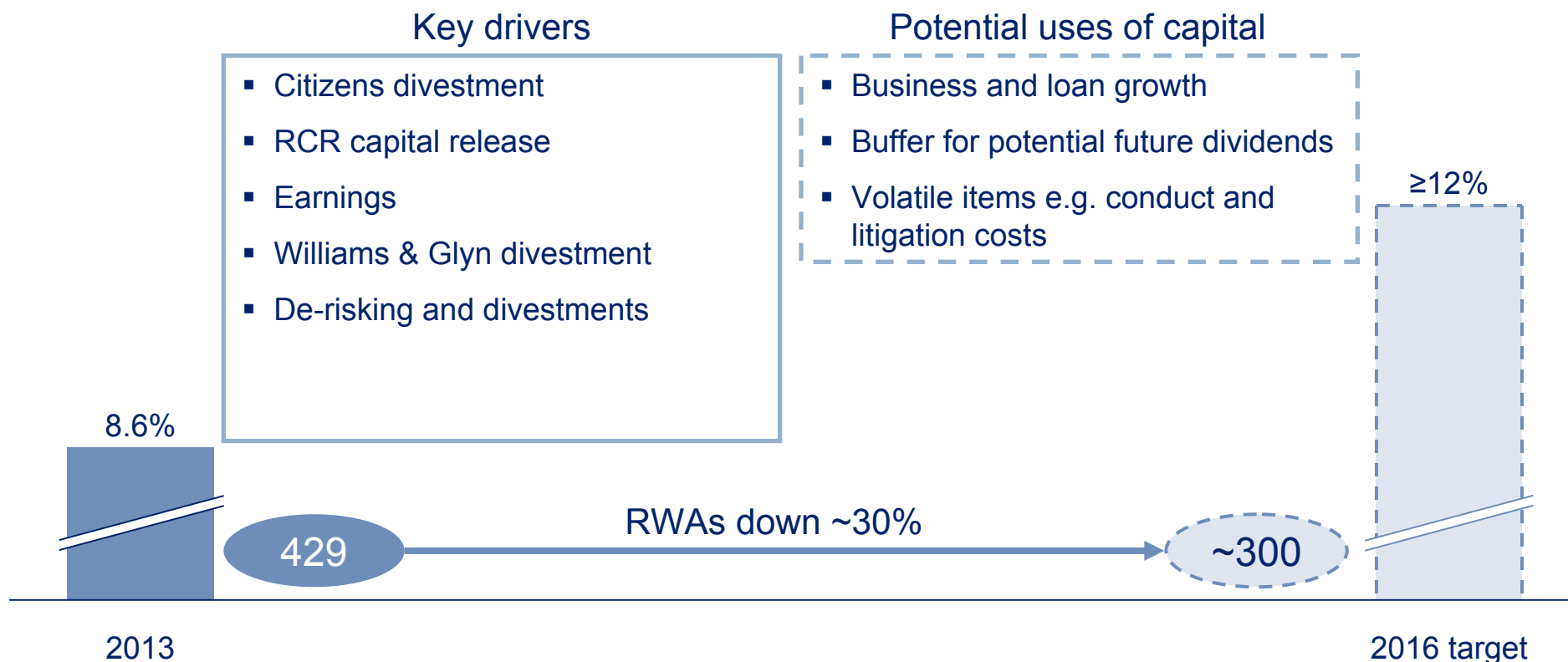
Growing our franchises

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Our Investment Case

CT1 ratio of 12+% by the end of 2016¹

FLB3 CT1 ratio, %



- Strong underlying capital generation in 2013 – **1.8% FLB3 CT1 build pre-exceptional items**
- Citizens IPO and RCR run-down – key capital build drivers; good progress being made
- Citizens – plan to exit the business fully by the end of 2016
- Williams & Glyn – expect to sell a majority stake by the end of 2016

¹ Target.

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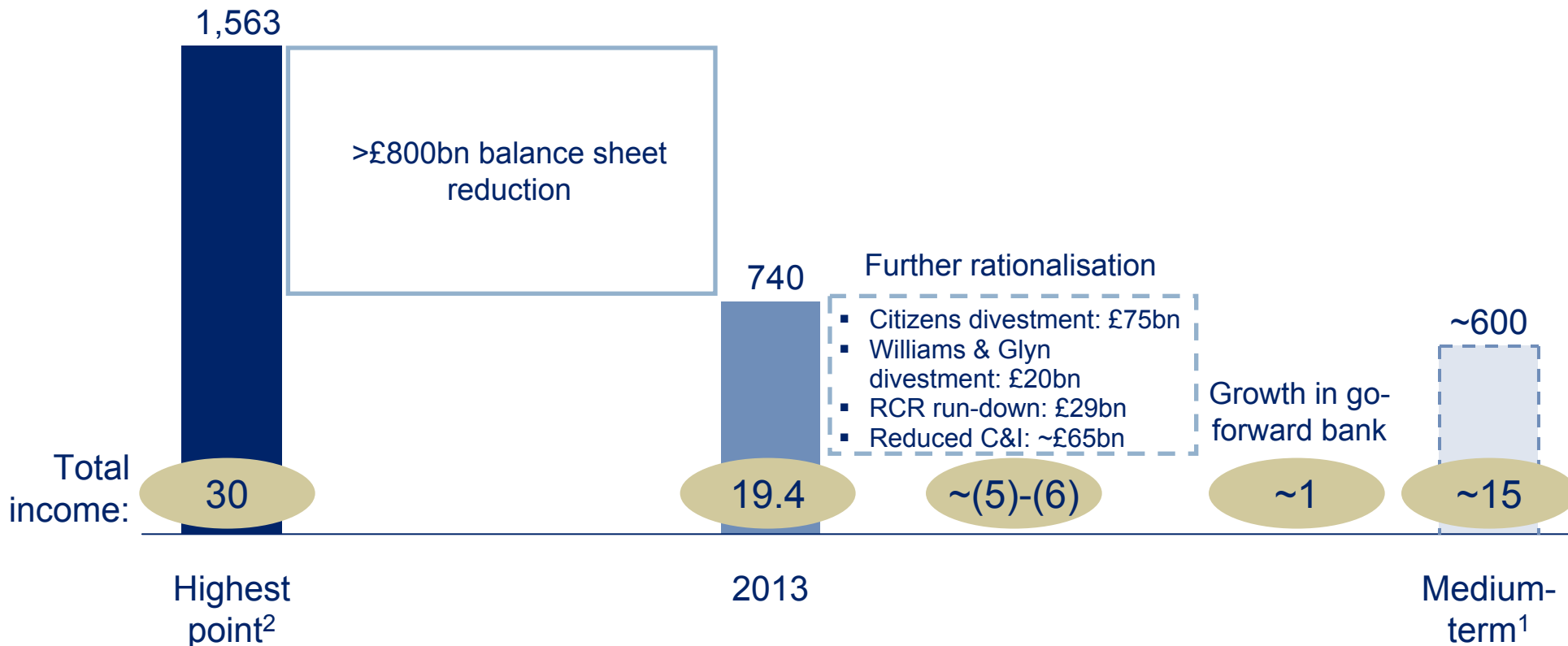
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Our Investment Case

Balance sheet rationalisation nearing successful conclusion

Funded assets and Total income, £bn

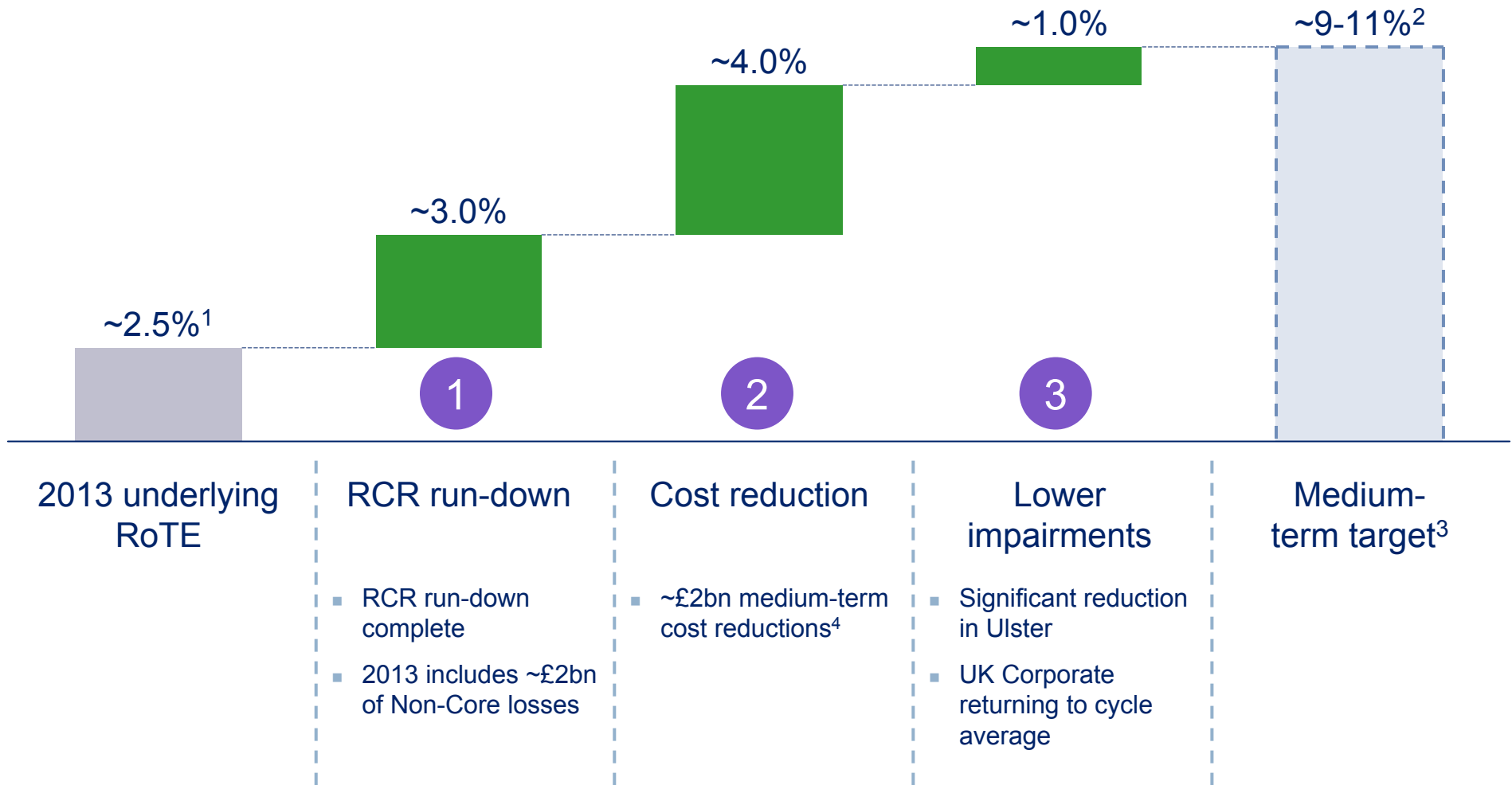


Journey to a UK focused bank with strong international capabilities

¹ Medium term defined as 2016/17. ² FY 2007 total income including ABN AMRO from date of acquisition; statutory funded assets at 31 December 2007.

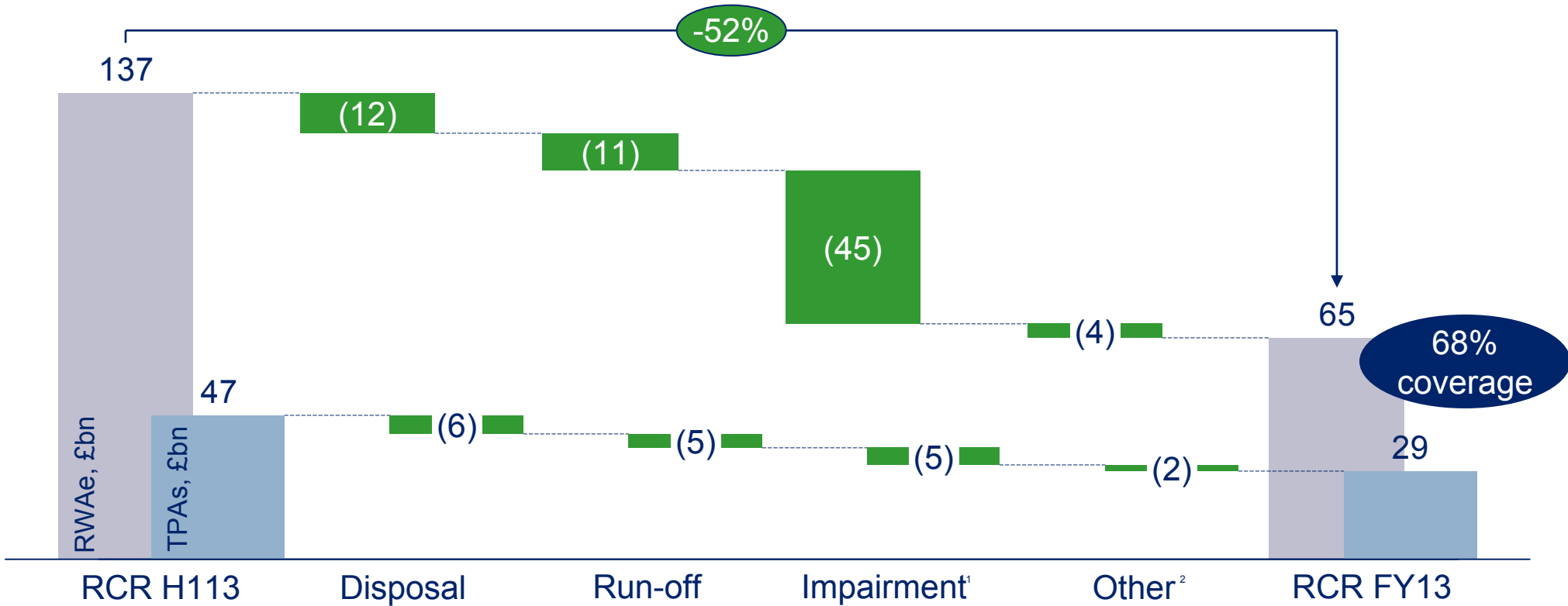
Now we must focus on driving sustainable returns

Return on Tangible Equity, %



¹ Normalised Group Return on Tangible Equity – Operating Profit ex. RCR less bank levy, EU resolution fund, amortisation of intangibles; taxed at 25% less preference dividends. ² Tangible equity based on CT1 ratio of 12%. ³ Medium term defined as 2016/17. ⁴ Ongoing cost reductions excluding disposals and run-off.

1 Good progress in initial RCR run-down; guidance improved

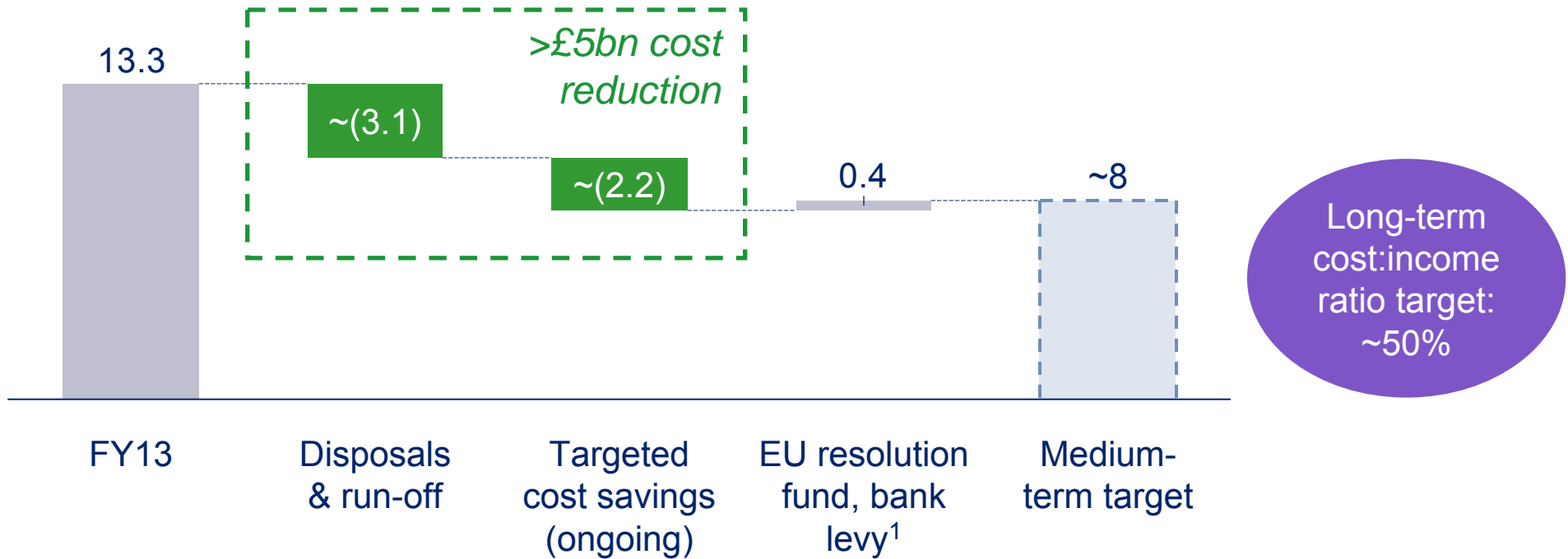


**Firmed up future reduction targets:
TPAs c£23bn FY14, £11-15bn FY15 and ≤£6bn FY2016**

¹ RWA equivalent impairment charge (reduced capital deductions capitalised at 10%). ² Other includes recoveries, fair value adjustments, FX and perimeter refinements.

2 We will make our cost base fit for purpose

Operating expenses, £bn

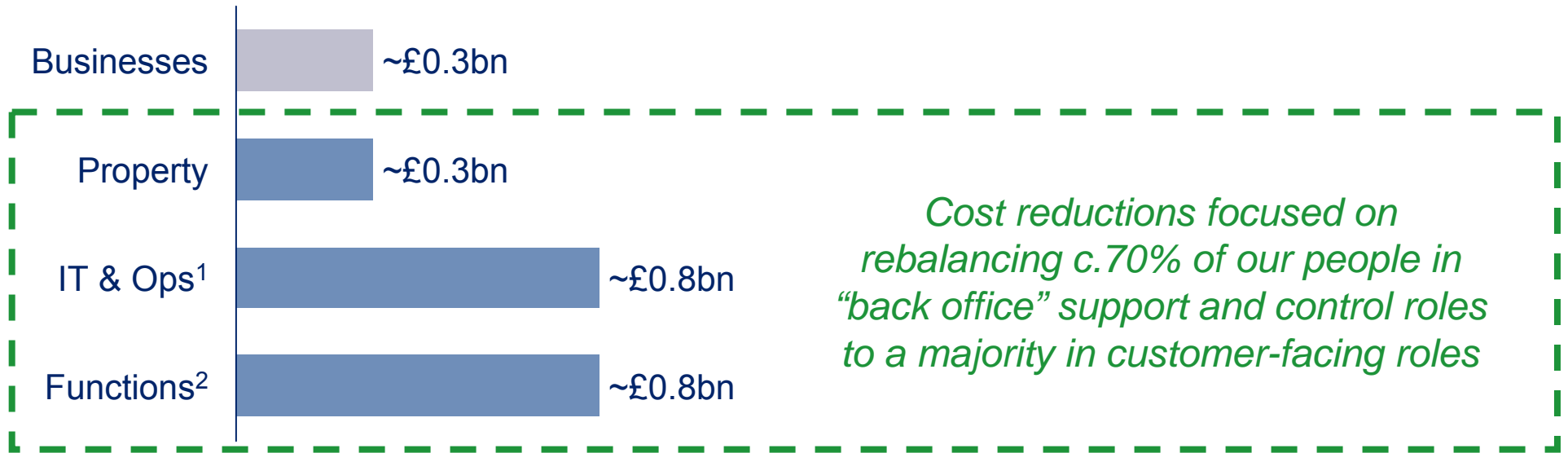


- Our historic scale and complexity has led to inefficiency
- We need to align our cost base to the new more focused and smaller operating model
- Reductions to be delivered over a 4-year period

¹ To be included in the cost base going forward.

2 Targeted cost savings to support the front line

Targeted ongoing business cost reductions, £bn



Targeted ongoing business cost reductions
(mostly back office)

~£2.2bn

Cost to achieve

~£2.8bn

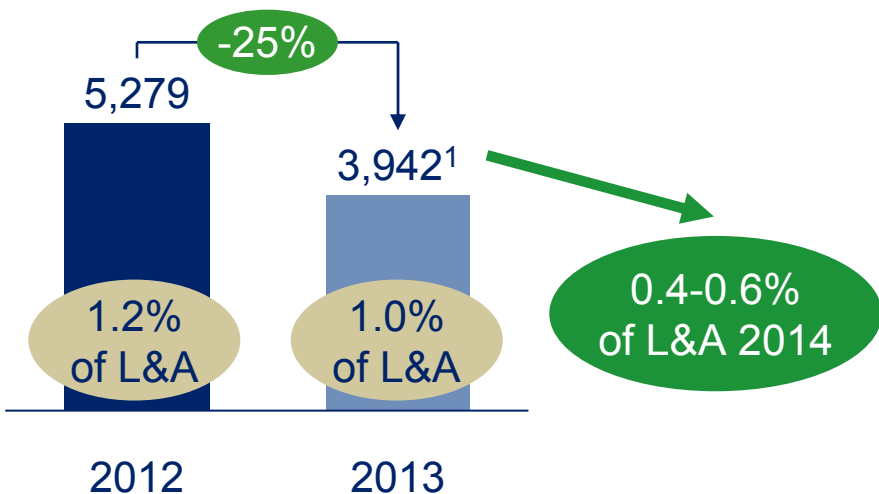
We will continue to invest in the front line while simplifying how we operate

¹ IT & Ops previously included ~£0.3bn of property savings which are now shown separately. ² Head Office support functions. HR, Finance, Risk etc.

3 Underlying impairments starting to come down

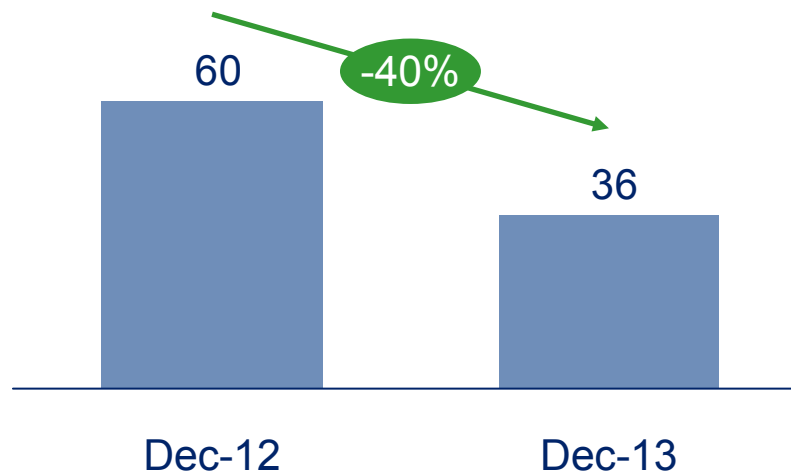
Impairments coming down

Impairment charge, £m



Lead impairment indicators improving

Loans under special monitoring – Wholesale Watch List², £bn



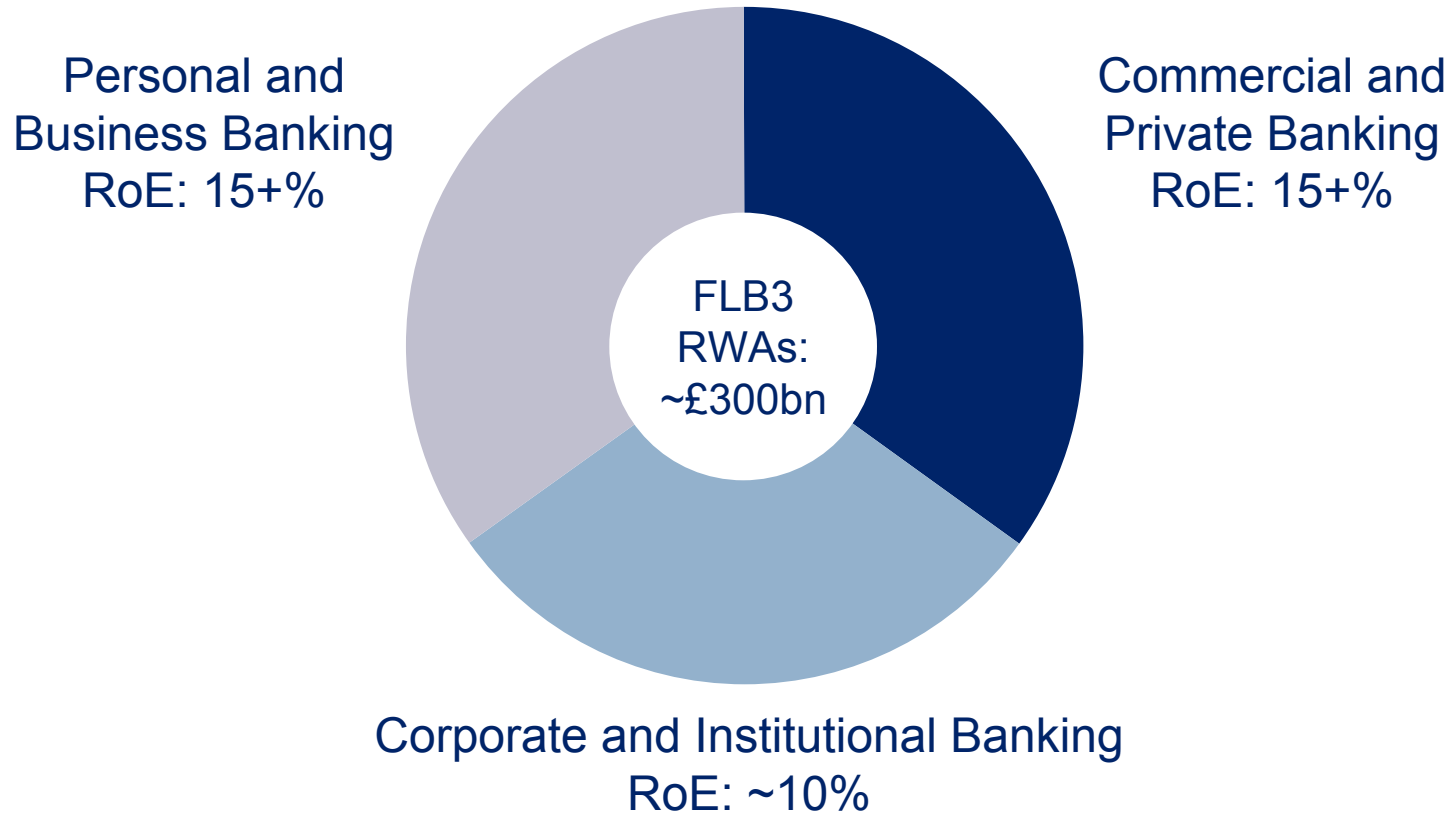
- Reduction driven by Ulster and Non-Core
- Core Ulster reduction reflecting significant improvement in retail mortgages, down £411m Y/Y
- Non-Core reduction of £765m, ex RCR, reflecting continued decline of overall portfolio
- **Wholesale Watch List² down 40% in 2013**

Early signs are encouraging in most areas

¹ Excluding RCR impact. ² Wholesale watch list – performing loans where there are early signs of potential stress or warrant close management plus loans which are actively managed by the Global Restructuring Group.

Efficient capital redeployment will underpin returns

Steady state¹ RoE expectations and capital usage per division



Steady state RoTE target: 12+%

¹ Steady state defined as 2018 to 2020.

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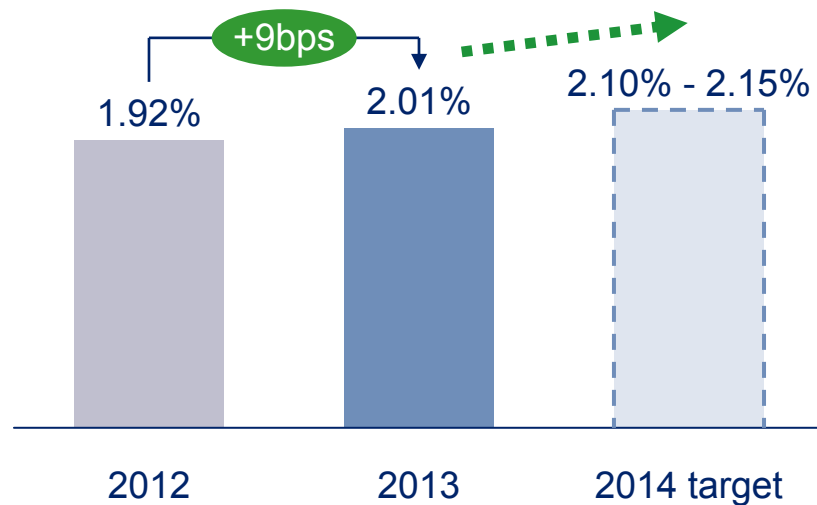
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Our Investment Case

The challenge we face – growth

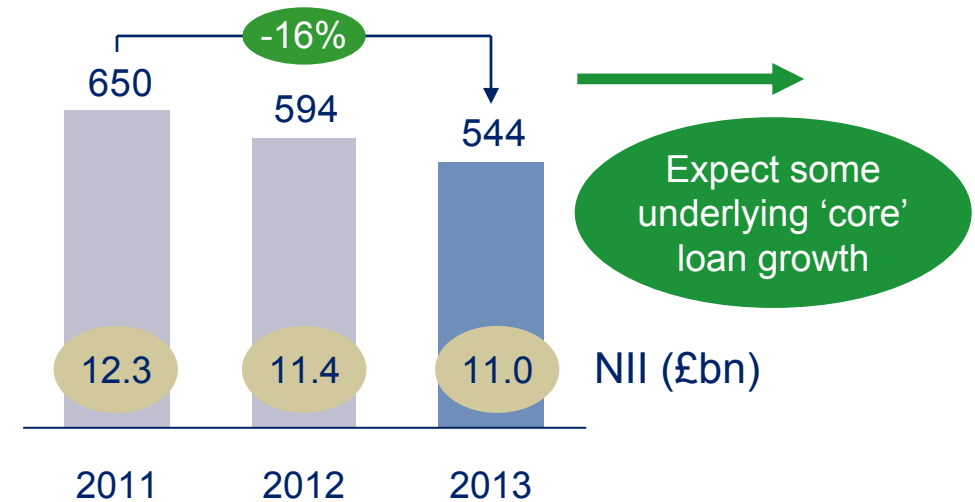
NIM consistently improving...

Group Net Interest Margin, %



...but asset declines led to lower NII

Net interest income and Average interest earning assets, £bn



- Deposit repricing is the key current driver of improving NIM
- Optimistic on UK Retail growth – big mortgage push continuing
- UK Corporate sector seeing 'green shoots'

Income initiatives – highlights

Personal & Business Banking

- Mortgages ‘one and done’
- Offer simpler and more cost effective products
- New credit card proposition in development
- More Business Bankers in branches
- Leverage and further develop mobile banking
- Early signs momentum coming through

Commercial & Private Banking

- Deepen relationships with internationally active Commercial clients through market leading FX and Trade propositions
- £6bn of new loan offers from statement of appetite letters
- Better connect Coutts to successful business owners/entrepreneurs
- Good new business, volumes starting to come through

Corporate & Institutional Banking

- Increase penetration of international products
- Increase connectivity between Markets and Corporate Banking
- Focus on core products – strong product and platform capabilities
- International proposition – joined up, ‘one voice’, one network

Spotlights:

1. Wealth

2. Corporate

3. SME


4. Ulster

5. Markets

6. Citizens

New Management Team to further develop and build out

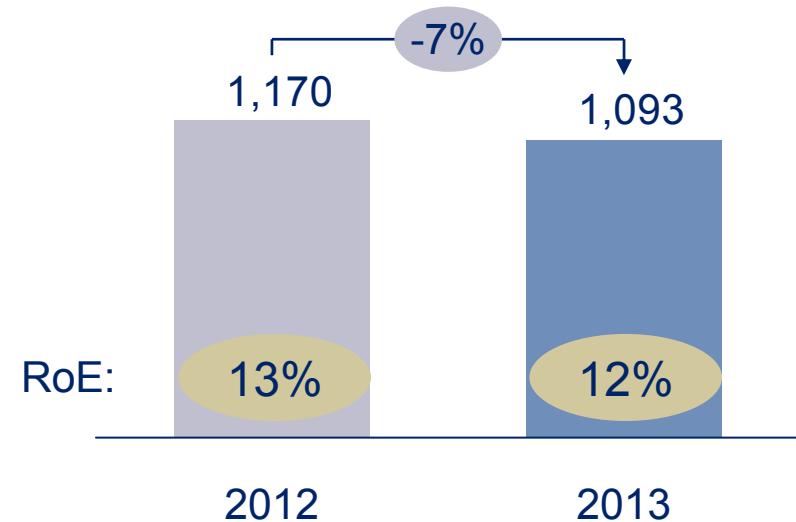
1 Wealth – strong business which needs to be better connected

Coutts |  : Leading UK franchise with international reach...

...but revenues have remained flat and RoE has been declining

- ✓ #1 UK, Assets under Management
- ✓ #2 UK, 70,000 clients
- ✓ Top 20 Switzerland, 20,000 clients
- ✓ #15 Asia, 11,000 clients
- ✓ #1 Channel Islands/Isle of Man, 171,000 clients
- ✓ Over 320 years heritage

Total income, £m

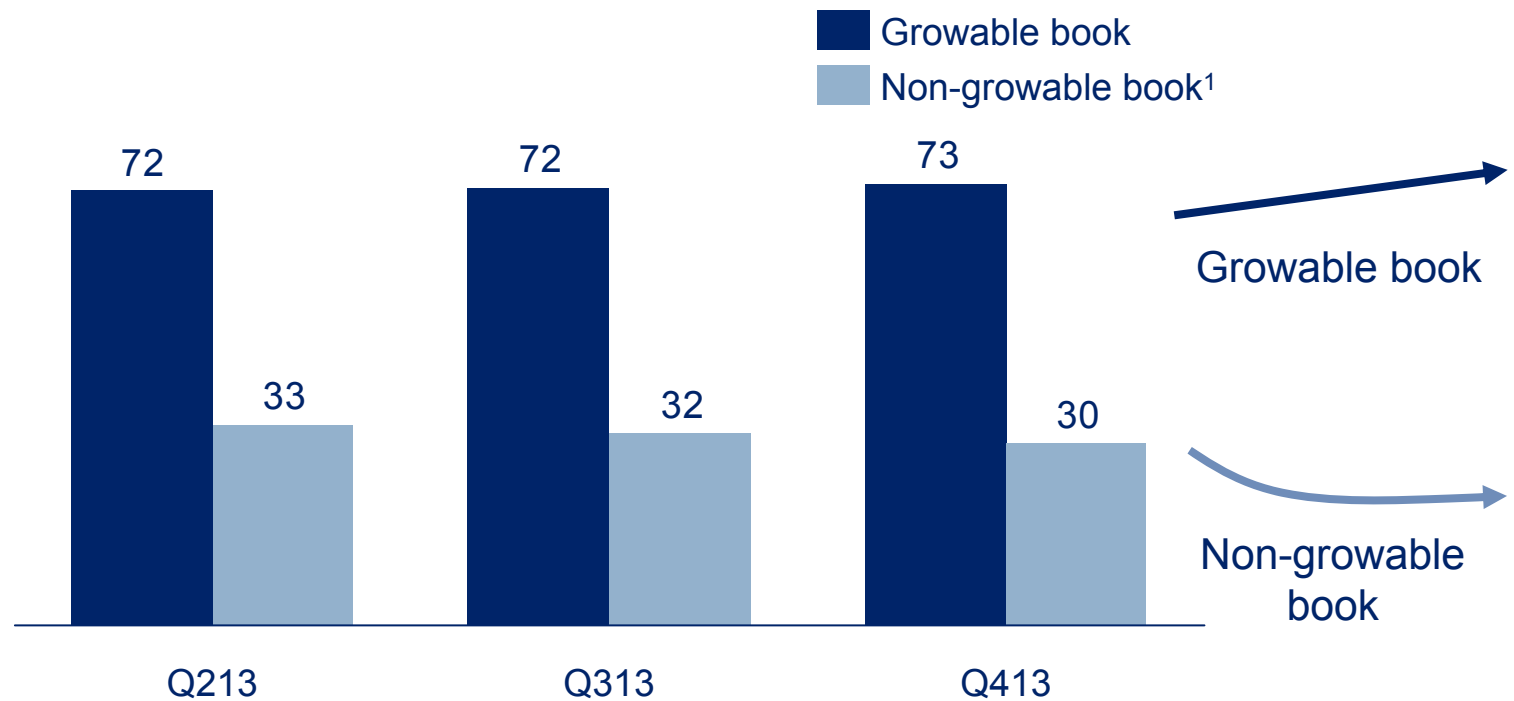


- Making Coutts part of the Commercial and Private Banking offers excellent potential to leverage deep customer relationships

We need to better connect Coutts with successful business owners

2 Corporate showing early signs of growth

£bn



- Gross new lending improving
- NatWest outperformed market for start-ups through H2, increasing market share in a buoyant market
- Close to 'hitting the floor' on non-growable book

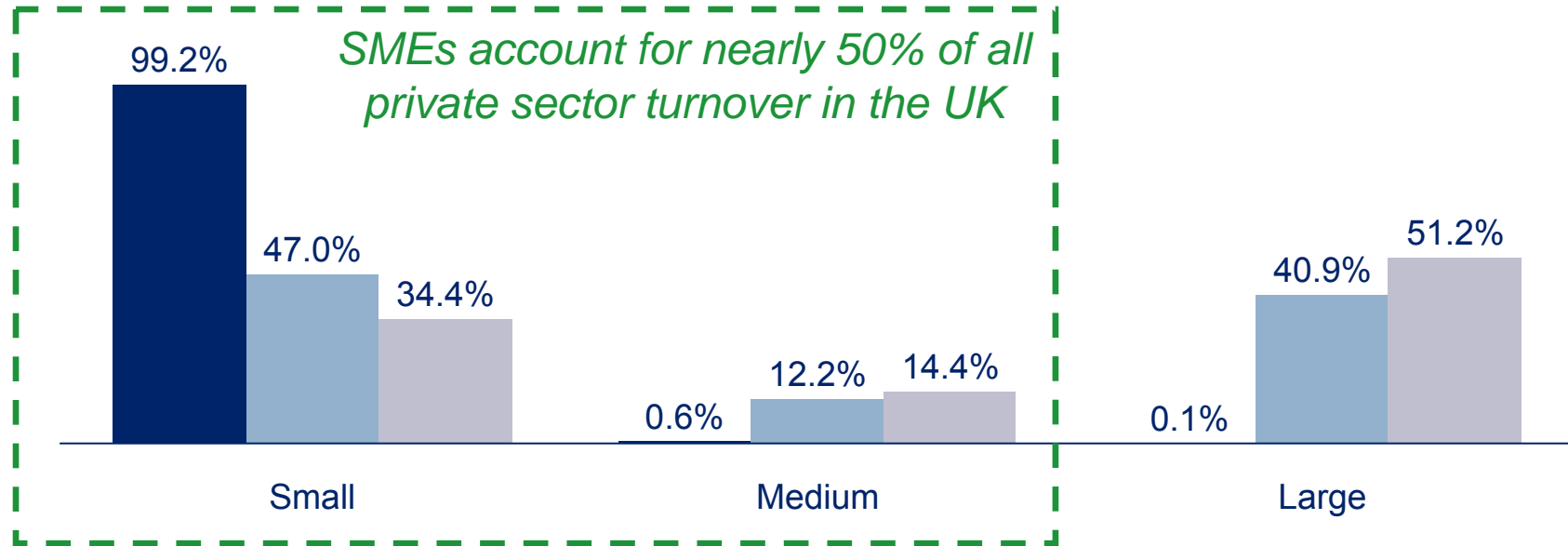
2nd consecutive quarter of growable book growth

¹ Book of loans in areas of concentration being run-down to more sustainable levels.

3 SME sector is a key driver of the UK economy

Share of businesses in the UK private sector and their associated employment and turnover, by size of business, start of 2012

■ Businesses ■ Employment ■ Turnover



- ~60% of all UK workers are employed by SMEs generating nearly 50% of UK turnover
- **5% growth** in New Businesses per annum (2012 and 2013)
- **21% increase** in RBS start-up numbers in Q413 vs. Q412

#1 SME market share – RBS supports c1.2m SMEs everyday

3 We continue to invest in our leading SME franchise

- We are the UK bank best able to support business customers throughout their entire lifecycle

SME franchise

As businesses grow and their needs become more complex, our proposition changes with them

Personal & Business Banking

- Convenience of our extensive multi-channel distribution network
- Easy access to Business Bankers in our branches

Commercial & Private Banking

- Dedicated relationship management
- Access to more sophisticated products and services

- c.30% of UK mid-market companies have international operations
- One in five is expected to expand internationally
- Our focused international footprint allows us to provide them with a product offering they need

Encouraging new business statistics (Q413):

New loan approvals



+39%
vs. Q412



+14%
vs. Q313

Gross lending



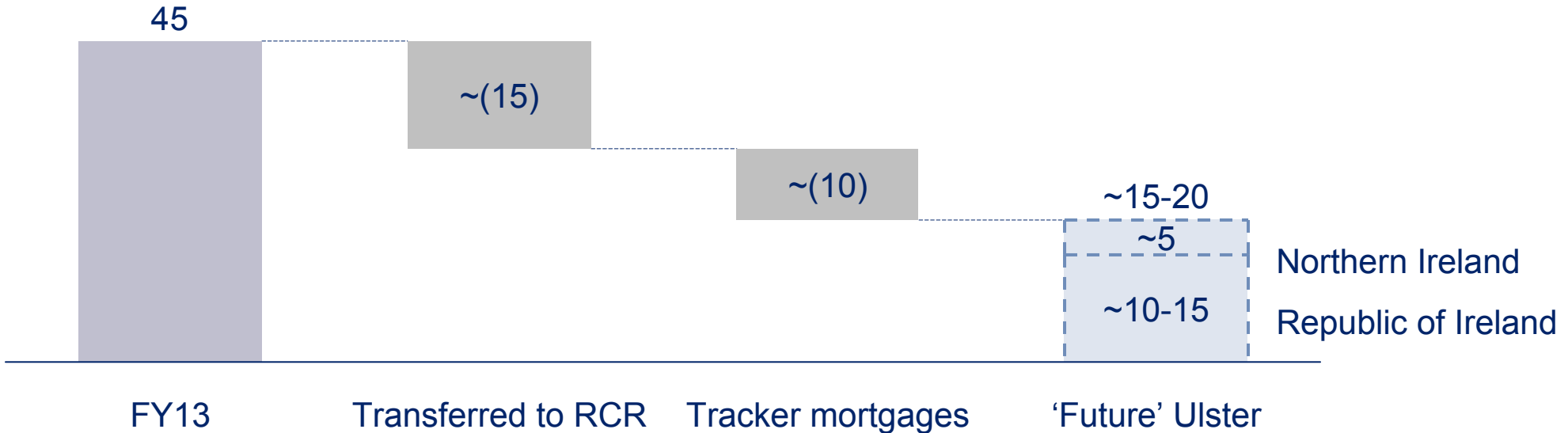
+21%
vs. Q412



+12%
vs. Q313

4 We will continue to transform Ulster Bank

Ulster Gross Third Party Assets, £bn



- Improving business volumes, albeit from a very low base; NIM improving
- Need to rationalise resource allocation and infrastructure to serve a smaller business model
- Connect Ulster NI better with UK Retail: Ulster wrapper, RBS/ NatWest capability
- Reposition and reconfigure Ulster RoI as *the* Irish challenger bank to the systemic banks

Expect to move into profit during 2014¹

¹ Based on current reporting structure.

5 Within C&IB, Markets will become an important product set

	2013	Steady-state ¹
Income	£3.3bn	≤£2bn
RWAs	£99.9bn	~£45bn ²
Connectivity RoE	~10%	

- Industry becoming much more capital intensive (Volcker, ICB etc.)
- Substantial Markets business becoming highly challenged
- UK super-equivalent rules and capital requirements make UK investment banks less competitive

Answer:

- More focused client proposition based on core relationships and core products (Fixed Income)
- Focused international footprint, enhanced connectivity to UK customers

Markets will maintain strong capabilities and platforms within C&IB

¹ 2018. ² Original plan from 2013 was for c.£65bn 'ongoing' RWAs. New plan looks for a further c.£20bn reduction from there.

Citizens – good foundation to deliver improving returns

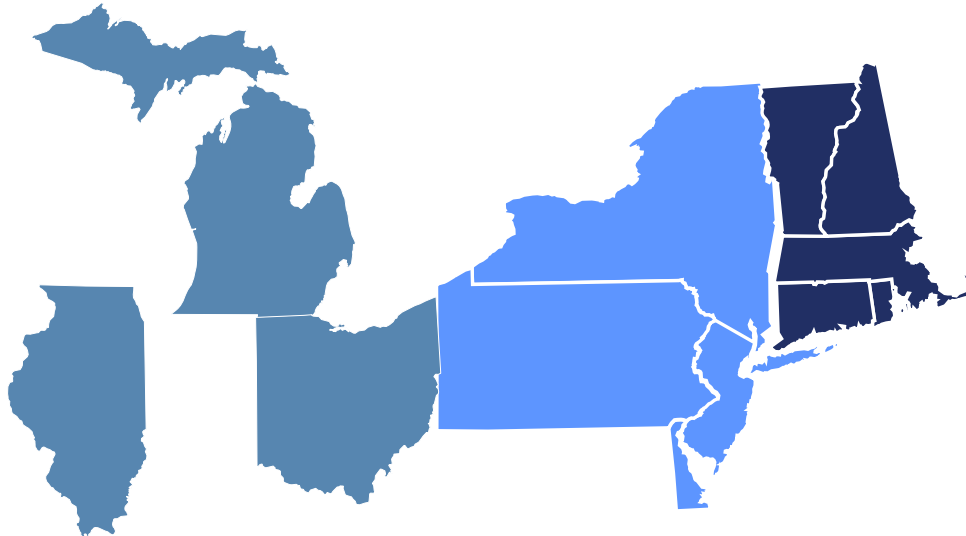
Citizens operates in a 12 state footprint within 3 geographic regions...

...with an established presence within our footprint and nationally

Mid West

Mid-Atlantic

New England



Real GDP: 10%¹
Population: 11%¹
Branches: 331¹

Real GDP: 15%¹
Population: 13%¹
Branches: 559¹

Real GDP: 5%¹
Population: 5%¹
Branches: 476¹

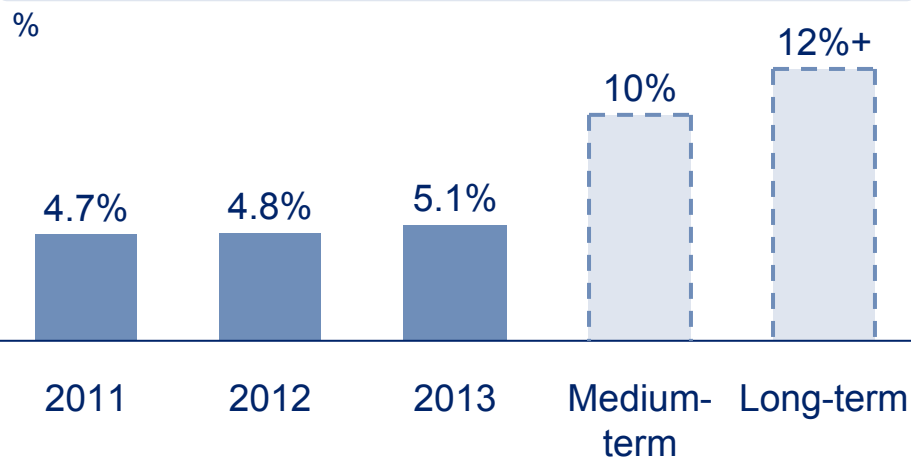
	Dimension	Rank
National	Assets (\$122bn)	#13
	Loans (\$87bn)	#12
	Deposits (\$92bn)	#14
	Branches (1,366)	#10
	ATM Network (3,554)	#7
In - Footprint	Deposits (top 5 rank)	8 / 10 markets
	HELOC (top 5 rank)	10 / 10 markets
	Auto (top 5 rank)	7 / 10 markets
	Mortgage (top 5 rank)	1 / 10 markets
	Middle Markets	#5
	Bookrunner Table	#5

- Strong market positions, building out commercial capabilities
- Need to move from franchise with potential to one that consistently delivers
- Intense focus on improving returns

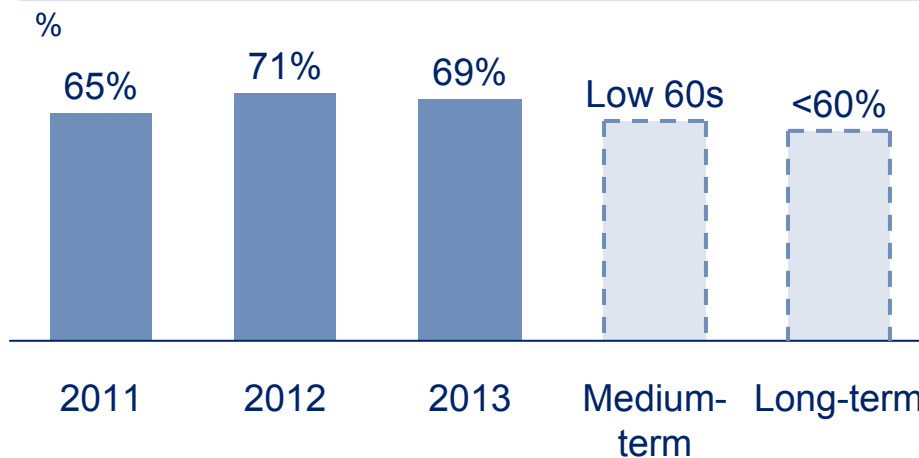
Note: Data includes Illinois branches currently being disposed of (targeting Q2'14). HELOC = Home equity line of credit. Real GDP and Population data as a percent of total US

6 However, there is more work to be done for Citizens

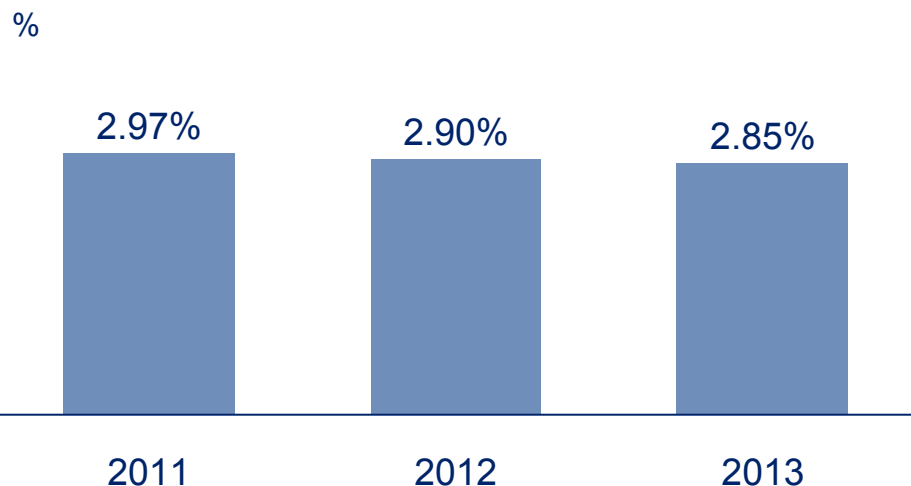
Operating RoTCE



Efficiency Ratio



NIM



- Sizable gap to peer RoTCE remains
- Lower NIM drives RoTCE gap, reflects asset portfolio mix, risk appetite, loan pricing and hedging
- Income level has been impacted by regulation, rate environment and subdued economy
- High efficiency ratio needs both revenue and expense focus

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How we define our long-term success

Customers

Service

#1 Net Promoter Score for each of our segments

Trust

#1 trusted bank in the UK

People

Great place to work

Engagement Index \geq Global Financial Services norm¹

Investors

Attractive and consistent returns

Return on Tangible Equity 12+%

Cost:income ratio ~50%

Unquestioned safety & soundness

CT1 ratio \geq 12%

Leverage ratio \geq 4%

Loan:deposit ratio ~100%

¹ Global Financial Services norm currently stands at 82%. Source: Towers Watson.

Our Investment Case

Market leading businesses in large, attractive markets

Attractive returns delivered medium-term

Lower risk, sustainable retail & commercial based earnings

Robust capital position, model capable of paying dividends

Continued transparency; track and report progress

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', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, including the referendum on Scottish independence, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the Group's structure, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the proposed EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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