

Delivering a leading bank for customers and investors

Ewen Stevenson, Chief Financial Officer

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Investment case



Strong customer-centric core⁽¹⁾ bank, well progressed on legacy restructuring

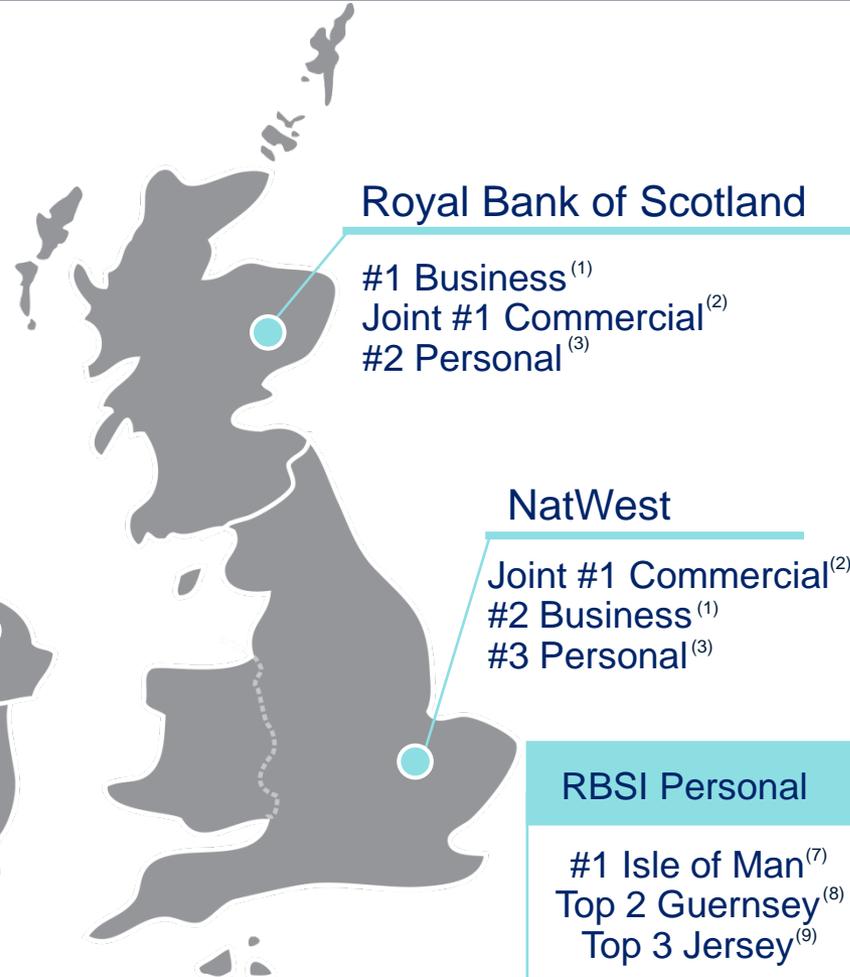
| | |
|--------------------------------------|--|
| Core | <ul style="list-style-type: none">▪ Strong UK / Irish customer franchises capable of collectively generating risk adjusted returns above the cost of equity▪ Building value through a focus on improved customer service and product offering, and above market growth▪ But we recognise it is a tougher interest rate environment / macro outlook |
| Legacy portfolios/ businesses | <ul style="list-style-type: none">▪ Continue to run-down; down to 23% of total RWAs at end Q2 2016▪ On track to wind-up Capital Resolution by end 2017 |
| Legacy conduct issues | <ul style="list-style-type: none">▪ Making steady progress▪ Seeking to materially address residual conduct and litigation overhang during H2 2016 / 2017 |

⁽¹⁾ 'Core' comprises the Personal and Business Banking, Commercial and Private Banking and Corporate and Institutional Banking divisions

Core – customer franchise strength

Q2 2016 core key metrics (£bn)

| | |
|----------|-----|
| RWAs | 190 |
| Deposits | 310 |
| Loans | 286 |



⁽¹⁾ Royal Bank of Scotland and NatWest Business: Main current account stock market share - based on Charterhouse 4 quarters ending Q2 2016 for businesses with a turnover of £0 - 2m; excluding Future W&G (Base sizes: Scotland 2,479; E&W 9,407) ⁽²⁾ Royal Bank of Scotland and NatWest Commercial: Main current account stock market share - based on Charterhouse 4 quarters ending Q2 2016 for businesses with a turnover of £2m - £25m; excluding Future W&G (Base sizes: Scotland 238; E&W 2,153) ⁽³⁾ Royal Bank of Scotland and NatWest Personal: Main current account stock market share - based on GfK FRS 6 months ending June 2016; excluding Future W&G (Base sizes: Scotland 2,546; E&W 26,665) ⁽⁴⁾ Personal: Main current account - based on IPSOS 4 quarters MAT ending Q2 2016 (Base sizes NI 4,000; RI 3,000) ⁽⁵⁾ Business: Main current account - based on IPSOS 4 quarters MAT ending Q2 2016 for businesses with a turnover of £/€0 - £/€2.5m (Base sizes NI 1,425; RI 1,615) ⁽⁶⁾ Commercial: Main current account - based on IPSOS 4 quarters MAT ending Q2 2016 for businesses with a turnover of £/€2.5m - £/€25m (Base sizes NI 1,425; RI 1,615) ⁽⁷⁾ Personal: IoM; Source GfK RBSI Group Market Share Feb 16 (Base size: IoM 500) ⁽⁸⁾ Personal: Guernsey; Source GfK RBSI Group Market Share Mar 16 (Base size: Guernsey 500) ⁽⁹⁾ Personal: Jersey; Source GfK RBSI Group Market Share Dec 15 (Base size: Jersey 501) ⁽¹⁰⁾ Business: IoM; Source GfK RBSI Group Market Share Feb 16 for businesses with a turnover of £0 - 2m (Base size: IoM 100) ⁽¹¹⁾ Business: Guernsey; Source GfK RBSI Group Market Share Mar 16 for businesses with a turnover of £0 - 2m (Base size: Guernsey 100) ⁽¹²⁾ Business: Jersey; Source GfK RBSI Group Market Share Jan 16 for businesses with a turnover of £0 - 2m (Base size: Jersey 103)

Core – strong franchises with clear strategies

| | UK PBB | Commercial Banking | RBS International |
|--|---|---|---|
| Invest to Grow (66% of total core RWAs) | RWAs: 20% Adj. cost:income: 58% Adj. ROE: 24% | RWAs: 41% Adj. cost:income: 59% Adj. ROE: 7% | RWAs: 5% Adj. cost:income: 35% Adj. ROE: 16% |
| Actions | <ul style="list-style-type: none"> Clear customer segment strategies, leveraging products, e.g. Reward Digital transformation, improving customer experience | <ul style="list-style-type: none"> Accelerate simplification and product rationalisation Strong digital investment Enhance CIB connectivity | <ul style="list-style-type: none"> Grow domestic market share (e.g. Jersey, Guernsey, Isle of Man & Gibraltar) Open Luxembourg & London branch to broaden customer offering |
| | Ulster Bank Rol | Private Banking | CIB |
| Reposition for Returns (34% of total core RWAs) | RWAs: 11% Adj. cost:income: 67% Adj. ROE: 9% | RWAs: 4% Adj. cost:income: 72% Adj. ROE: 10% | RWAs: 19% Adj. cost:income: 76% Adj. ROE: 4% |
| Actions | <ul style="list-style-type: none"> New CEO to drive strong and profitable franchise Continue cost reduction Increase mortgage market penetration Increase capital efficiency of legacy book | <ul style="list-style-type: none"> New CEO to drive strong and profitable franchise Continue cost reduction Develop referrals with Commercial Banking Focus on balance sheet and AUM growth | <ul style="list-style-type: none"> Continue cost reduction Stabilisation of income Deepen relationships with Commercial Banking |

Core – stable operating profit with attractive returns

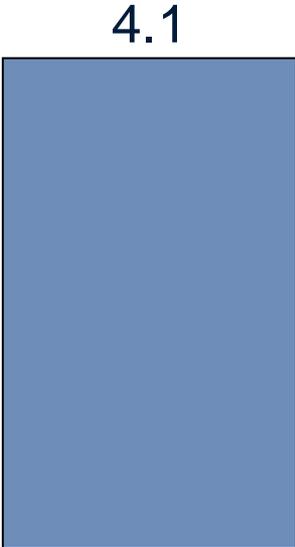
Adjusted
Return on
Equity

11%

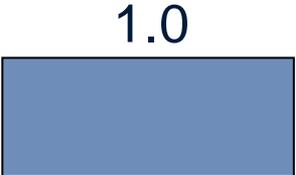
11%

11%

Adjusted
operating
profit
(£bn)



4.1



1.0



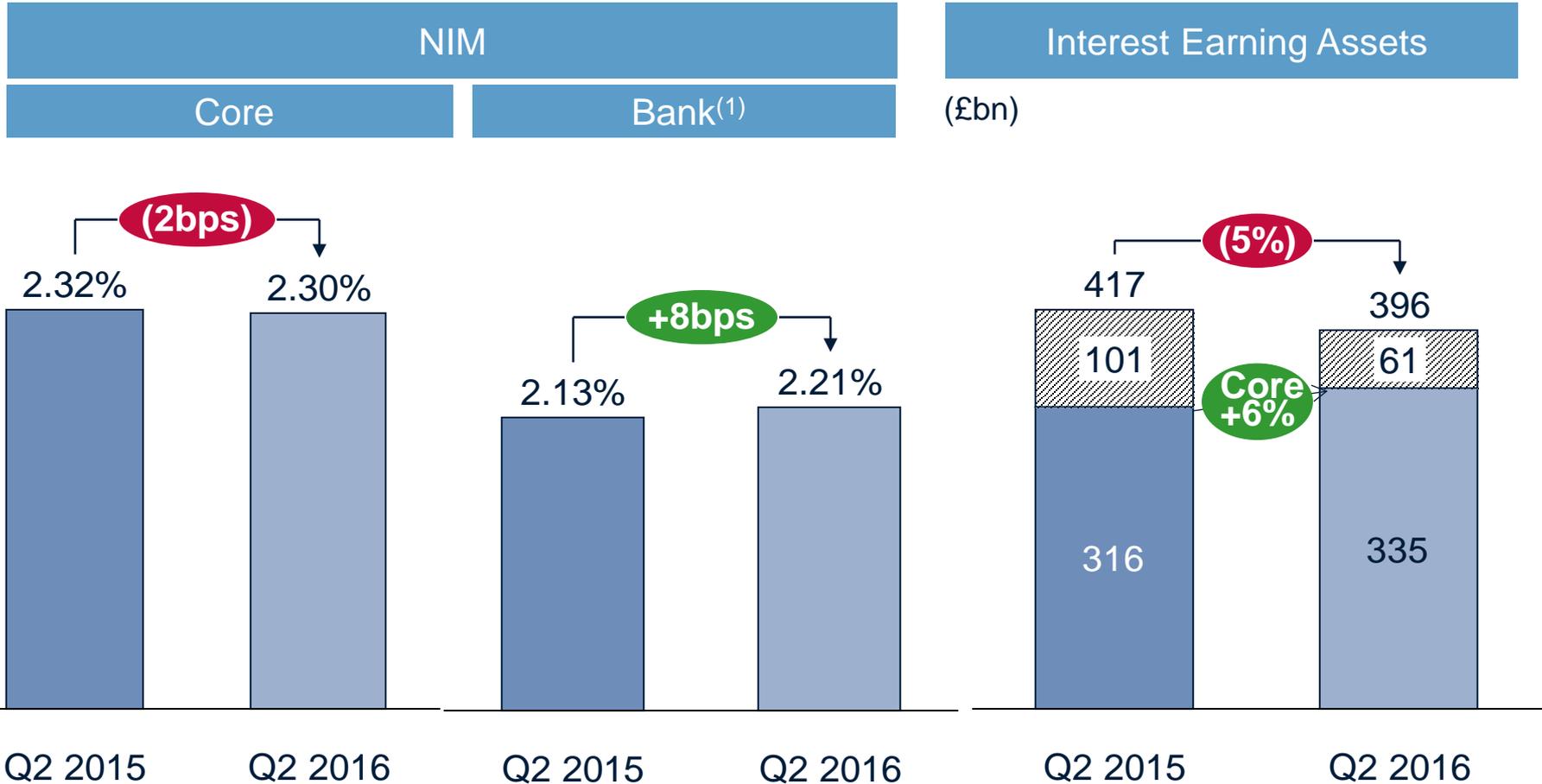
1.0

FY 2015

Q1 2016

Q2 2016

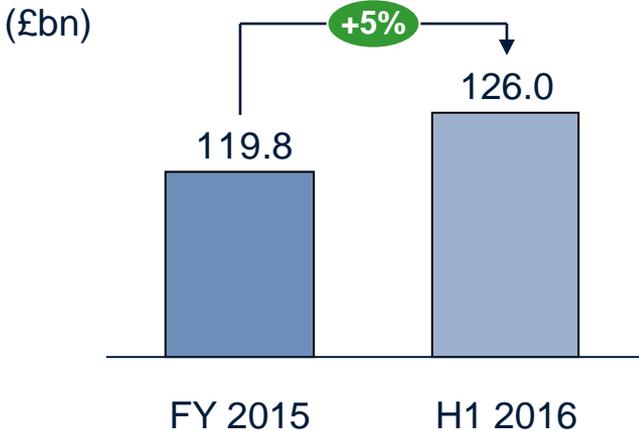
Core – NIM decline offset by non-core run-off and growing IEAs



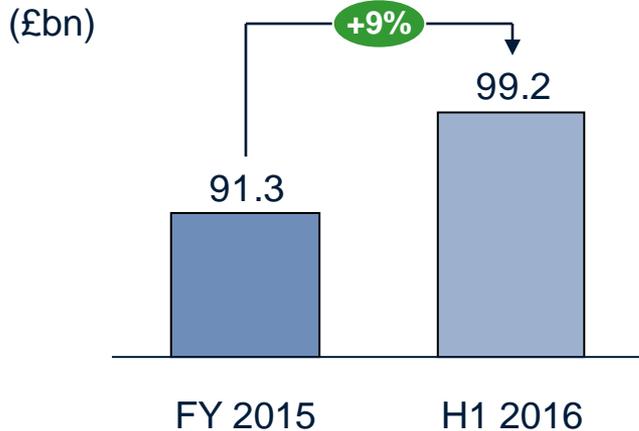
⁽¹⁾ Bank refers to RBS Group as a whole

Core – volume growth⁽¹⁾ achieved across our franchises

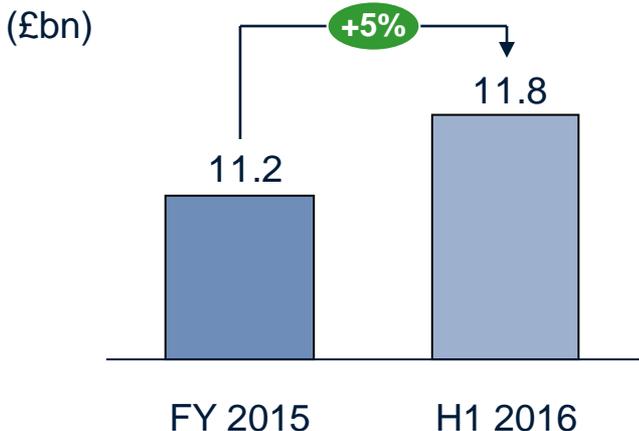
UK PBB



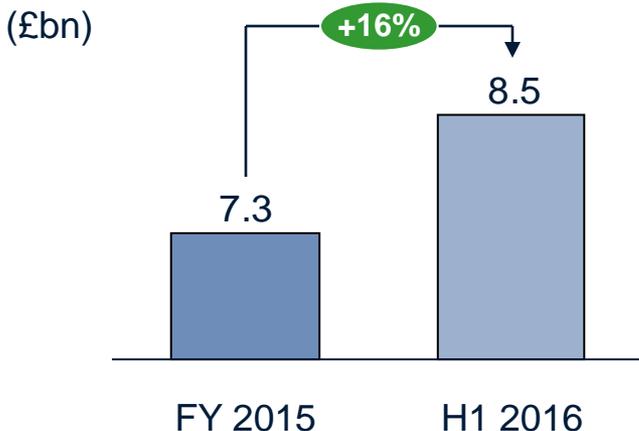
Commercial Banking



Private Banking



RBS International



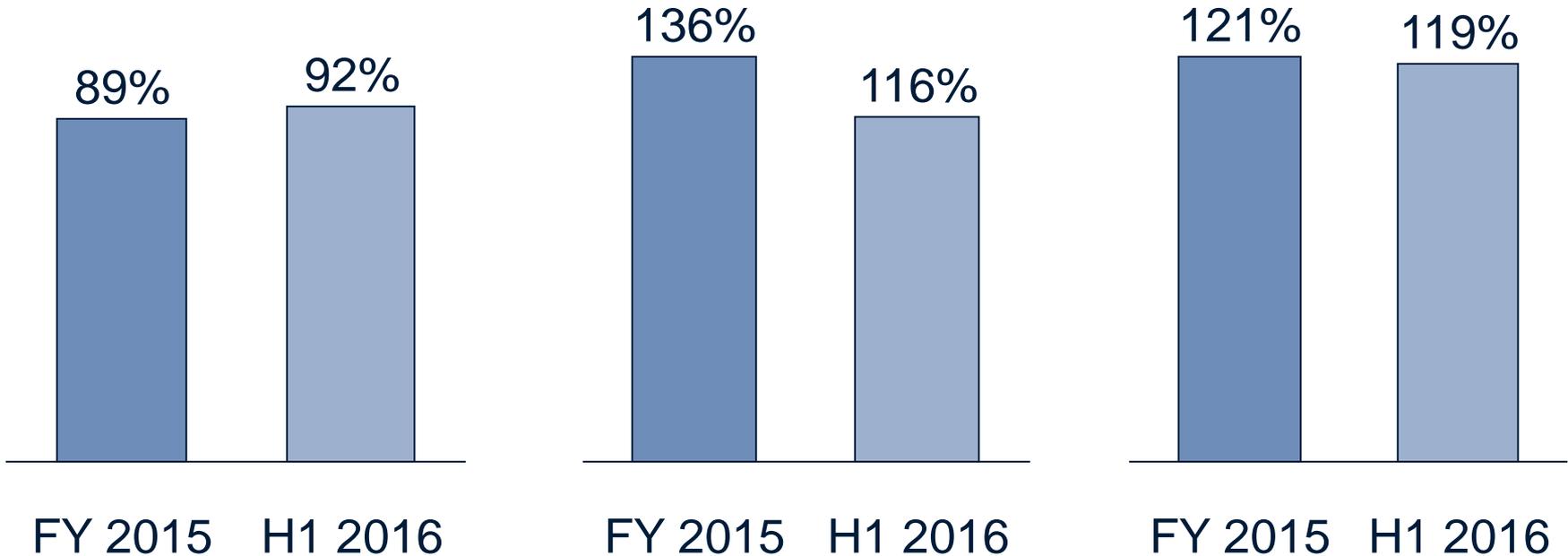
⁽¹⁾ Volume growth based on net loans and advances to customers

Balance sheet – well positioned to support continued growth

Loan : deposit ratio

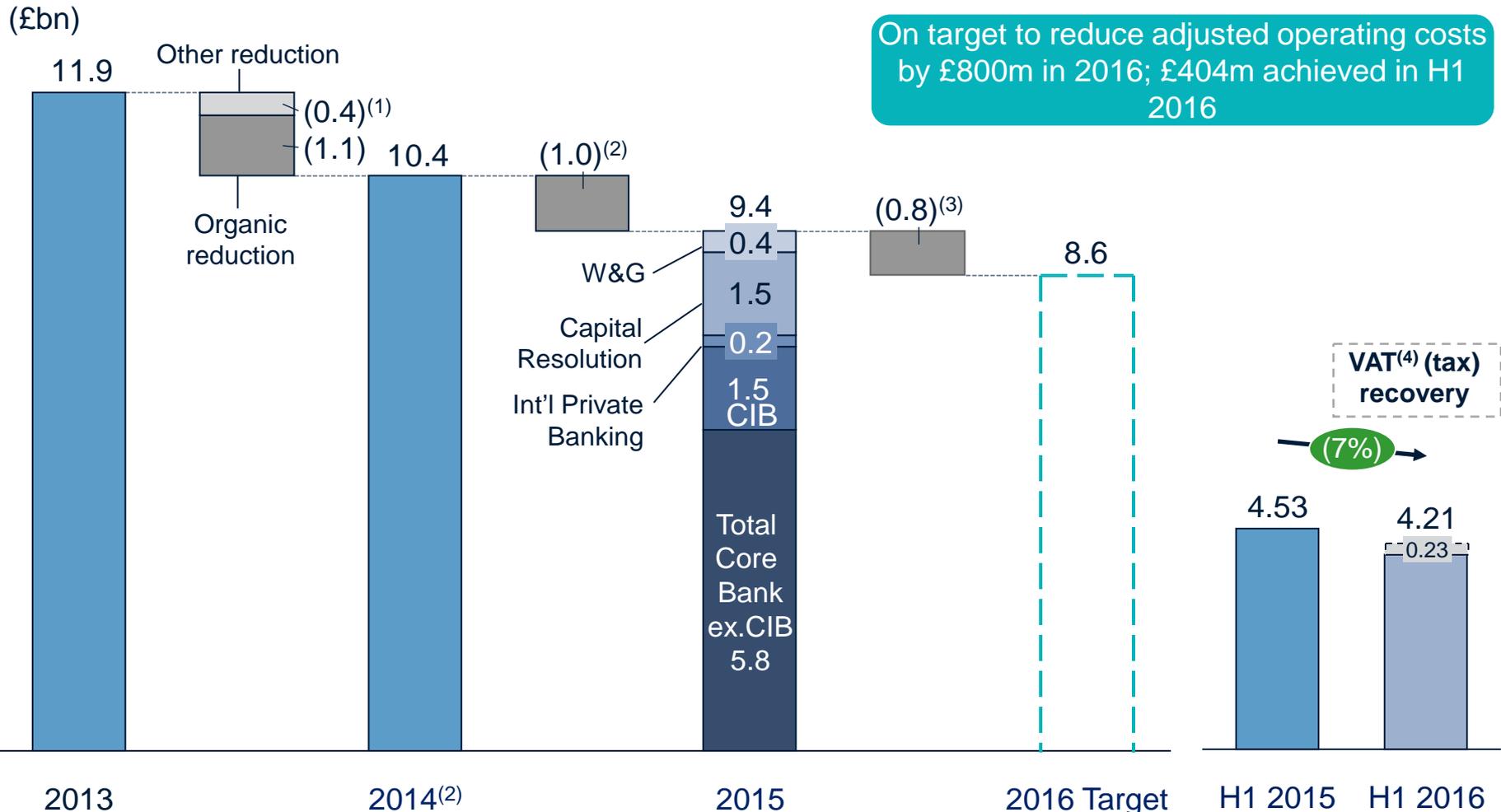
Liquidity coverage ratio

Net stable funding ratio



Operating costs – lowered by >£2.5bn over the last 2.5 years

Reduction in Adjusted Operating Costs from 2013 - H1 2016



(1) £0.4bn is made up of the benefit of lower intangible asset write-offs of 2013-£344m, 2014-£146m as well as the year on year benefit of FX.

(2) This includes £71m lower intangible write offs offset by £29m growth in W&G

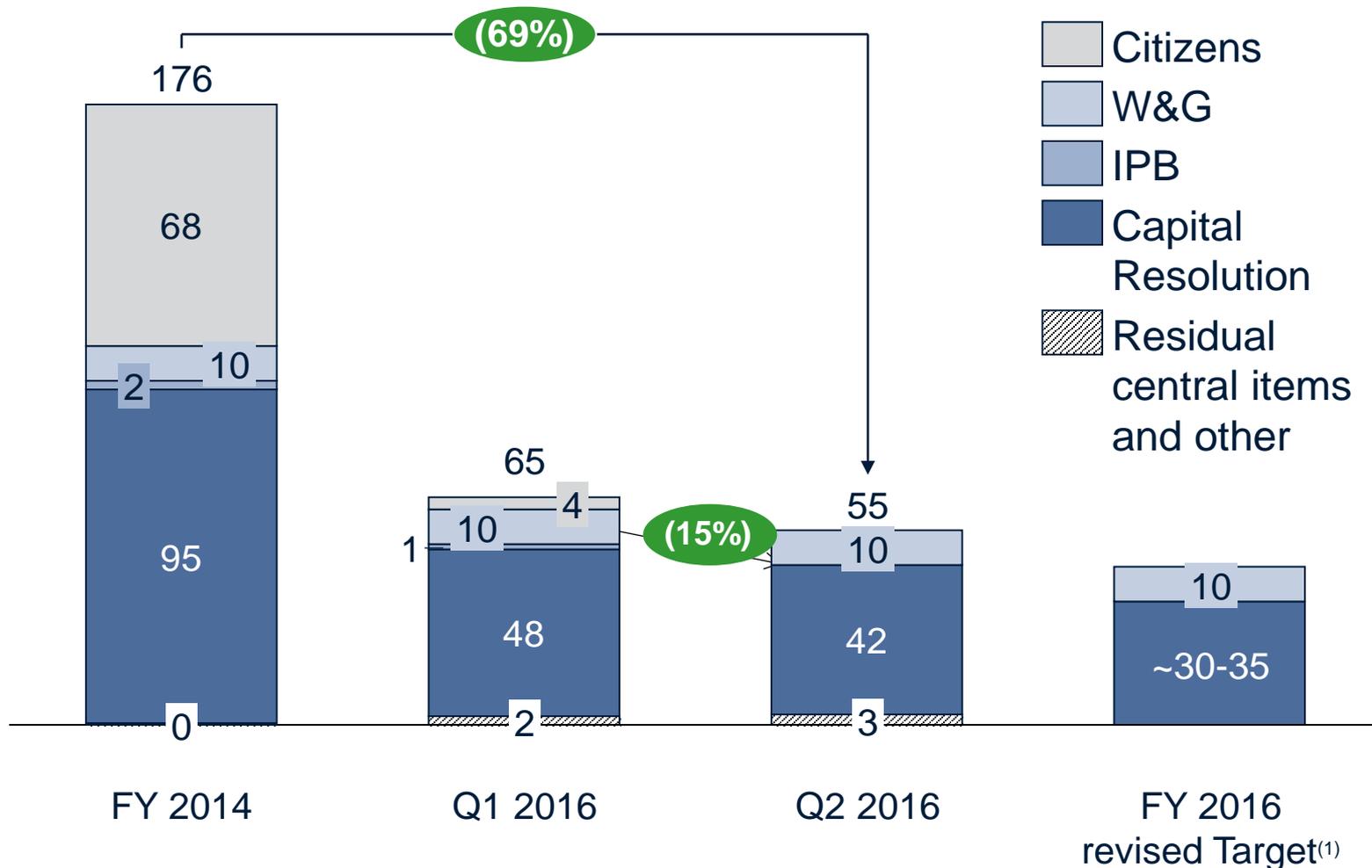
(3) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and other intangible assets and the operating costs of Williams & Glyn

(4) VAT (Value Added Tax) is a consumption tax designed to be multi-stage and recoverable by each supplier through the supply chain until the final charge sticks with the end consumer. It is similar in concept to GST (as levied in Canada), rather than the single stage Sales Taxes levied at State level in the US

Legacy – significant reduction of businesses & portfolios

Legacy business & portfolios (RWAs)

(£bn)



⁽¹⁾ Capital Resolution expected to reduce RWAs to around £30-35bn by the end of 2016; W&G RWAs expected to be broadly stable.

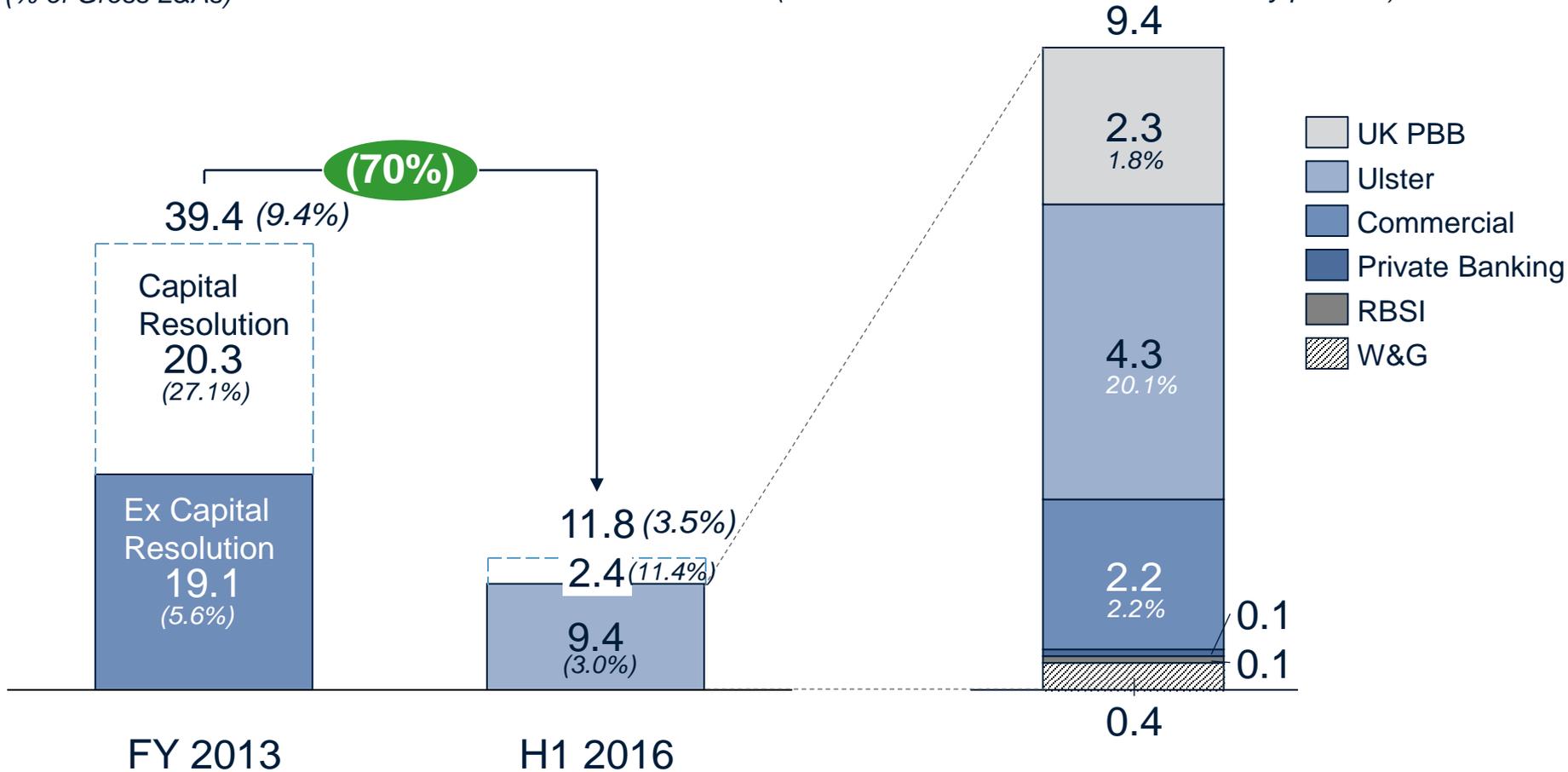
Legacy – Risk Elements in Lending substantially reduced

Total REILs As at end Q2 2016

(£bn)
(% of Gross L&As)

Ex Capital Resolution REILs by portfolio As at end Q2 2016

(£bn)
(% of Gross L&As within the business key portfolio)



Legacy – key conduct and litigation issues progressively getting resolved or provided for

| | Comments |
|--|---|
| US RMBS litigation and regulatory investigations | <ul style="list-style-type: none"> ■ \$5.6bn existing provision for various litigation claims; may require additional provisions in future periods, that in aggregate could be material ■ This provision does not include or reflect potential penalties and compensatory damages that may be imposed by US DoJ, which may be substantial |
| UK 2008 rights issue shareholder litigation | <ul style="list-style-type: none"> ■ Discussions have occurred with the plaintiffs to explore the possibility of early settlement of the claim. These may continue in parallel with the litigation ■ A provision has been recognised |
| FCA review of treatment of distressed SMEs | <ul style="list-style-type: none"> ■ The third party firm appointed by the FCA has submitted a draft report, which RBS has commented on |
| Other various UK and Ireland customer redress issues | <p>Includes:</p> <ul style="list-style-type: none"> ■ PPI: £450m uplift in the provision in Q2 2016 following the August 2016 FCA Consultation Paper, largely driven by the delay to the proposed time-bar on claims ■ £92m (€118m) charge in Q2 2016 for Ulster Bank ROI principally in respect of an industry-wide examination of tracker mortgages |
| FX related investigations | <ul style="list-style-type: none"> ■ Remain in discussions with various Governmental and Regulatory Authorities on remaining investigations |

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Q&A

Forward Looking Statements

Certain sections in this presentation 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', '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 presentation includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group plc's (RBS) restructuring (which includes, the separation and divestment of Williams & Glyn, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme), as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other capital raising plans, funding and credit risk profile; litigation, government and regulatory investigations RBS's future financial performance; the level and extent of future impairments and write-downs, including with respect to Goodwill; future pension contributions, and RBS's exposure to political risks, operational risk, conduct risk and 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, targets 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 and other disclosures are dependent on choices relying on 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 adversely affect our results and the accuracy of forward-looking statements in this presentation include the risk factors and other uncertainties discussed in the 2015 Annual Report and Accounts. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes (including where resolved by settlement); the economic, regulatory and political uncertainty arising from the majority vote to leave in the referendum on the UK's membership in the European Union and the revived political uncertainty regarding Scottish independence; the separation and divestment of Williams & Glyn; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme; as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring-fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from implementing its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank; RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategy to refocus on the UK, the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include: operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to prevent a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; 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; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; 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; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets; and the success of RBS in managing the risks involved in the foregoing.

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