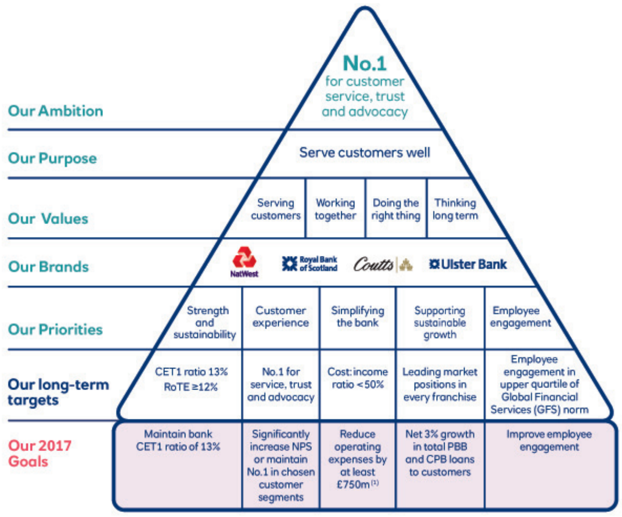
Investor Factbook

28/04/17

Key messages

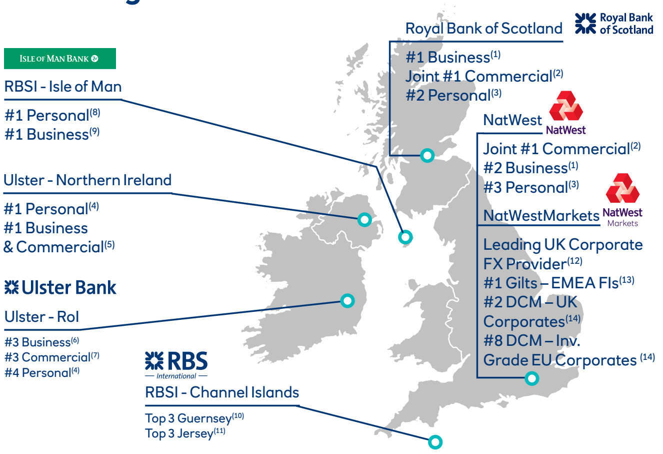
- Fundamentals of our strategy remain unchanged. Further on costs, faster on digital transformation to deliver a better customer experience
- Progress in dealing with legacy issues
- Progress towards our financial targets - costs down, capital solid, lending and income growth in core bank
- Targeting profitability in 2018, and achieving 12%+ RoTE and sub-50% C:I ratio by 2020[1]

Our blueprint for lasting success



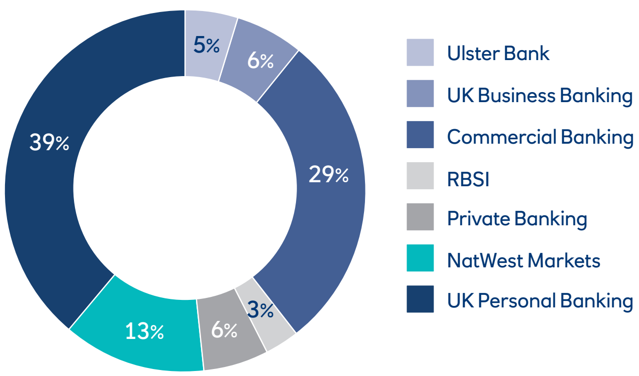
Strong franchises with clear strategies and diversified income streams

Market leading positions across our strong customer brands



(Please see back page for footnotes)

FY 2016 Core Adjusted Income



Progress on our strategy

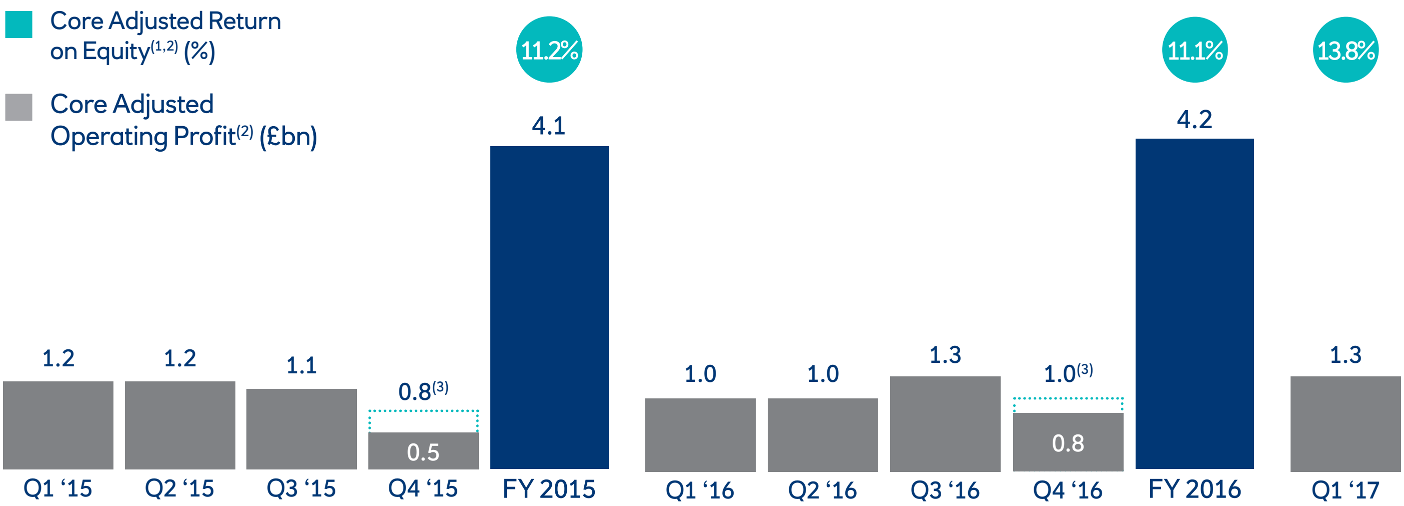
- ✓ Refocused on our core franchise markets, with active operations ceased in 26 countries
- ✓ De-risked the balance sheet, with legacy RWAs down 78% from peak in Q1 2014
- ✓ Ownership structure normalised with a single class of ordinary shares, via DAS repayment and conversion of B shares
- ✓ Around 20 material litigation and investigation matters concluded since January 2014, including resolving a number of LIBOR/FX investigations and RMBS civil claims
- ✓ International Private Banking sold; Citizens divested, the largest US bank IPO in history
- ✓ 546 legal entities closed to date, a 50% reduction; IT systems and applications reduced by 30% since 2013
- ✓ Accelerated £4.2bn contribution into the defined benefit pension plan
- ✓ REILs reduced from £39.4bn (9.4% of gross loans) at Q4 2013 to £9.7bn (2.9%) at Q1 2017; excluding Capital Resolution and Ulster RoI, REILs are now at 1.4%

Further significant challenges include:

- Resolving remaining RMBS matters
- Satisfying final EC State Aid obligations

(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 433 to 464 of the Annual Report and Accounts 2016. These statements constitute forward looking statements, please see Forward Looking Statements.
(2) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and the 2016 VAT release of £227m.

Three core franchises generating stable and attractive returns

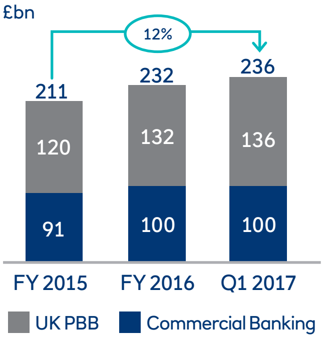


(1) RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 14% (Ulster Bank RoI - 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 (RWAes). (2) Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals. Excluding restructuring costs and litigation and conduct costs and goodwill. (3) Excluding the impact of the Bank Levy. Note: totals may not cast due to rounding.

Improving operating JAWS and balance sheet

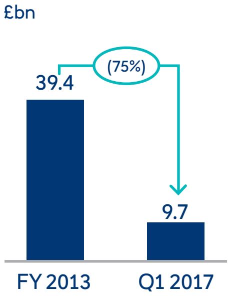
Net Loans and Advances

£bn

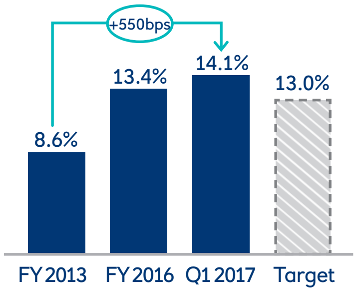


REILs

£bn

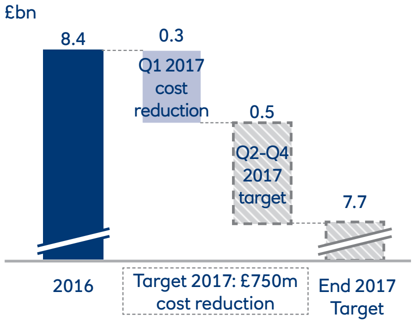


CET1 Ratio



Adjusted operating costs [1]

£bn



(1) Excluding VAT recovery

Our business profile

Q1 2017	Core franchises								Total other				Total RBS	
(£bn)	UK PBB	Ulster Bank RoI	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Y/Y%	Capital Resolution	W&G [1]	Central items & other [2]	Total Other		Y/Y%
Adj. Income[3]	1.4	0.1	0.9	0.2	0.1	0.5	3.2	12%	(0.1)	0.2	(0.1)	0.1	3.2	15%
Adj. Operating expenses[4]	(0.7)	(0.1)	(0.4)	(0.1)	(0.0)	(0.3)	(1.7)	(1%)	(0.1)	(0.1)	0.1	(0.1)	(1.8)	(15%)
Impairment (losses) / releases	(0.0)	0.0	(0.1)	(0.0)	(0.0)	-	(0.1)	n.m	0.0	(0.0)	(0.0)	0.0	(0.0)	(79%)
Adj. op. profit[3,4]	**0.6**	**0.1**	**0.4**	**0.0**	**0.0**	**0.2**	**1.3**	**30%**	**(0.1)**	**0.1**	**0.0**	**0.0**	**1.4**	**212%**
Funded Assets [5]	159.1	24.6	153.3	18.1	25.1	113.9	494.1	6%	29.2	25.8	30.1	85.1	579.2	1%
Net L&A to Customers	135.8	19.0	99.7	12.5	8.9	17.9	293.8	7%	12.3	20.6	-	32.9	326.7	3%
Customer Deposits	146.3	16.6	97.2	25.7	25.3	8.0	319.1	7%	7.6	24.0	0.8	32.4	351.5	(1%)
RWAs	32.7	17.7	77.8	8.7	9.5	34.1	180.5	(2%)	30.5	9.7	1.0	41.2	221.7	(11%)
Loan:Deposit Ratio	93%	114%	103%	49%	35%	n.m.	92%	-	162%	86%	n.m.	102%	93%	+3ppts
Adj. RoE (%)[3,4,5]	**32%**	**9%**	**9%**	**9%**	**13%**	**8%**	**13.8%**	**+3ppts**	**n.m.**	**n.m.**	**n.m.**	**n.m.**	**9.7%**	**n.m.**
Adj. Cost:Income ratio (%)[3,4]	52%	74%	50%	71%	44%	63%	55%	(8ppts)	n.m.	41%	n.m.	n.m.	56%	(20ppts)

(1)'Williams and Glyn' refers to the business formerly intended to be divested as a separate legal entity and comprises RBS England and Wales branch-based businesses along with certain small and medium enterprises and corporate activities across the UK (2) Central items include unallocated costs and assets which principally comprise volatile items under IFRS (3) Excluding own credit adjustments, gains/(losses) on redemption of own debt and strategic disposals (4) Excluding restructuring costs and litigation and conduct costs and goodwill (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 RoI - 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 (RWAes).

Financial Targets – 2017 and 2020

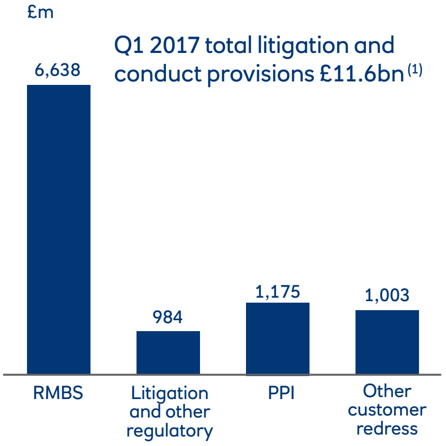
- Net lending growth in PBB/CPB: 3%[(1)] in 2017; driven by strong mortgage growth and selected Commercial segments
- Operating costs – reduction in operating costs by £750m[(2)] in 2017, and £2bn over the next 4 years; majority achieved against combined PBB, CPB and NWM franchises
- Capital Resolution – reduce RWAs (ex Alawwal Bank stake[(3)]) to £15-20bn and wind-up at end Q4 2017
- Significant one-off issues resolved in 2016; 2017 expected to be last peak year of one-offs costs
- 2020 targets – foundations to achieve 12+% ROTE; sub-50% cost/income ratio
- Reduce Core RWAs by a gross £20bn by Q4 2018

(1) Lending growth target is after including the impact of balance sheet reductions with the RWA reduction target across PBB, CPB and NWM are outlined in the outlook statement.
(2) Cost saving target and progress in 2017 calculated using operating expenses excluding restructuring costs, litigation and conduct costs, write down of goodwill and VAT release
(3) Previously named Saudi Hollandi Bank.

Four foundations to achieve 2020 targets – Q1 2017 progress

1. Resolve legacy issues and expense one-off costs

One-off cost	Comment
Capital Resolution disposal costs	■ Further £4.0bn RWA reduction in Q1 2017; £30.5bn remaining including £14.0bn in Markets RWAs and £7.8bn in Alawwal stake ■ Capital Resolution quarterly cost run rate of £69m, is £107m lower than Q4 2016 and £163m lower than Q1 2016
W&G	■ 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 ■ HM Treasury is also market testing the proposed remedy package ■ Target signing a revised term sheet during 2017
Conduct costs	■ US RMBS: In discussions with FHFA, no development with DOJ ■ Potential for further material potential settlement costs for RMBS this year, above and beyond existing provisions of £6.6bn

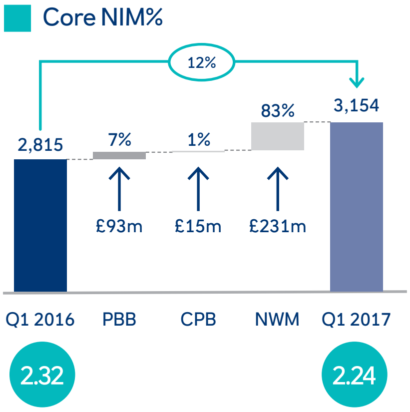


(1) Includes 'other' provisions as per note 2 of the Q1 2017 results IMS

2. Accelerate income momentum

- Q1 annualised lending growth of 6% v. full year target of 3%

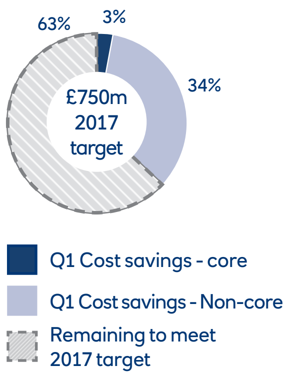
Adjusted income, £m



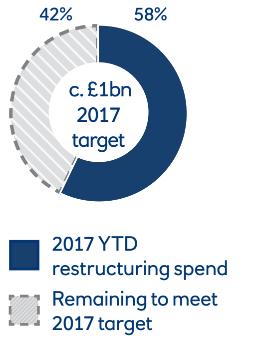
3. Achieve further significant cost reduction

- £278m additional costs out in Q1 2017; excluding £51m VAT recovery
- On track to meet £750m reduction target for 2017, broadly split core / non-core

Source of adjusted cost reduction to date, £bn

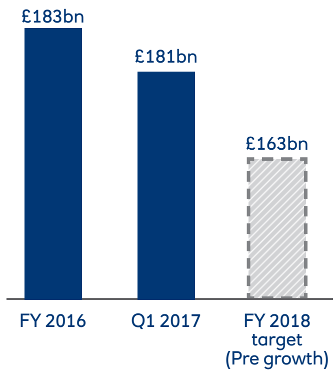


Spend vs. restructuring cost guidance, £bn



4. Improve RWA efficiency across PBB, CPB and NWB

- Target gross £20bn RWA reduction by end Q4 2018, with some offsetting volume growth



Outlook [(1)]:

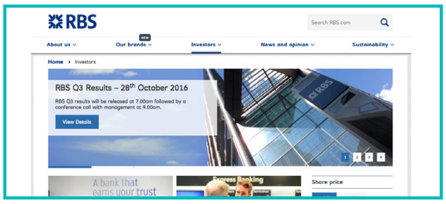
On track to meet all 2020 and 2017 targets outlined at FY 2016

- Subject to providing fully for remaining significant legacy issues in 2017, we retain our expectation that we will be profitable in 2018[(1)]
  - Income: In 2017 will continue to be supported by balance sheet growth across PBB and CPB
  - Costs: Plan to reduce operating costs by a further £750m in FY 2017
  - Capital: Targeting a gross RWA reduction across 3 core businesses of at least £20bn by Q4 2018 with some off-setting volume growth
- **Expect that adjusted operating profit will be lower in Q2 2017 compared with Q1 2017[(1)]**
  - Reflecting reduced income in NatWest Markets, which has had a softer start to the second quarter, coupled with increased adjusted operating expenses, in part due to the Q1 2017 VAT recovery
  - Additionally, we expect to recognise a gain on the sale of RBS's stake in Vocalink of approximately £160 million during the quarter

(1) These statements constitute forward looking statements, please see Forward Looking Statements.

Note: Numbers may not cast due to rounding

Contacts



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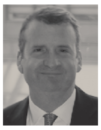

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Forward Looking Statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS's transformation programme, including the further restructuring of the NatWest Markets business; the satisfaction of the Group's residual EU State Aid obligations; the continuation of RBS's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; future pension contributions; RBS's exposure to political risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promotor 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.

Footnotes from page 1: Market leading positions across our strong customer brands

Note: Market share relates to the our geographic share in each region. This geographic share will be fully aligned to branding and legal entity as part of ring-fencing compliance.
(1) Source Charterhouse Research 4 quarters ending Q4 2016, Main current account stock market share (business turnover of £0 - 2m) excluding Future W&G. (2) Source: Charterhouse Research 4 quarters ending Q4 2016 (business turnover of £2m-£1bn) excluding Future W&G. (3) Source: Main current account stock market share holding level - based on GfK FRS 6 months ending Dec 2016; excluding Future W&G. (4) Personal: Main current account – based on IPSOS 4 quarters MAT ending Q4 2016. (5) Source: Charterhouse Research NI main current account market share based on 4 quarters ending Q4 2016 (business turnover £0-£1bn). (6) PwC Business Banking Tracker 2016. Turnover <€2.5m. Named as main financial institution. (7) Source PwC Business Banking Tracker 2016. Turnover €2.5m+. Named as main financial institution. (8) Personal: IoM; Source GfK RBSI Group Market Share Dec 16 (Base size: IoM 500). (9) Business: IoM; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0-2m (Base size: IoM 100). (10) Personal: Guernsey; Source GfK RBSI Group Market Share Dec 16 (Base size: Guernsey 501) and Business: Guernsey; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0-2m (Base size: Guernsey 100). (11) Personal: Jersey; Source GfK RBSI Group Market Share Dec 16 (Base size: Jersey 500) and Business: Jersey; Source GfK RBSI Group Market Share Dec 16 for businesses with a turnover of £0-2m (Base size: Jersey 100). (12) by Market Share and Overall Service Quality – Greenwich Associates, Global FX Services – UK Corporates 2015. (13) by Market Share – Greenwich Associates, European Fixed Income – Government Bonds 2016. (14) by deal value proceeds – Dealogic – 2016.