

Fixed Income Investor Factbook

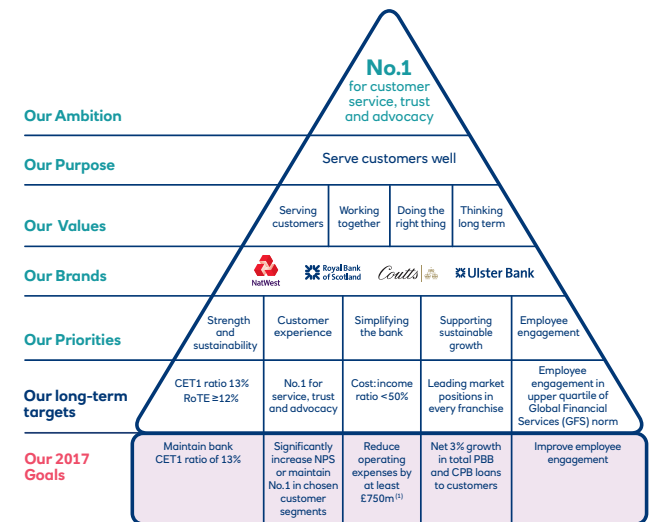


24/02/17

Key credit messages

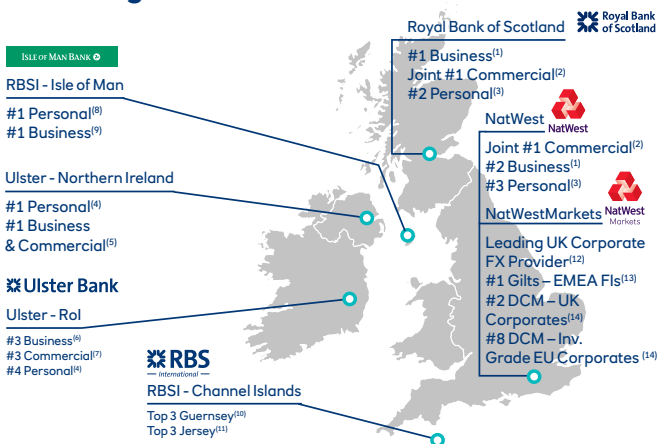
- Diversified income streams
- Three core businesses generating stable and attractive returns
- Well progressed on legacy clean-up and improving balance sheet resilience
- Credit and market risk positioned appropriately for less certain macro outlook
- Target 2017 issuance plan:
 - £3-5bn Senior HoldCo 'MREL'
 - Progressive return to funding markets, including covered bonds

Our blueprint for lasting success



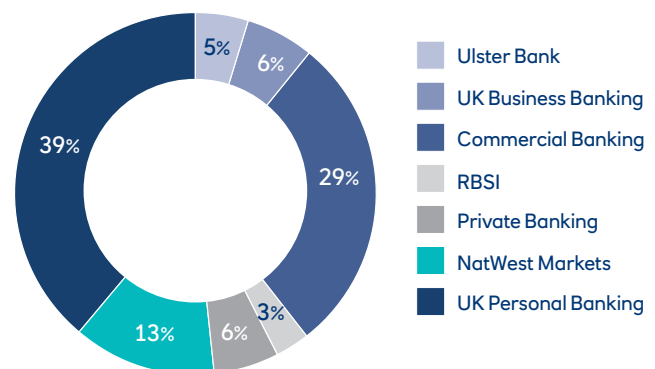
Strong franchises with clear strategies and diversified income streams

Market leading positions across our strong customer brands



(Please see back page for footnotes)

FY 2016 Core Adjusted Income



Progress on our strategy

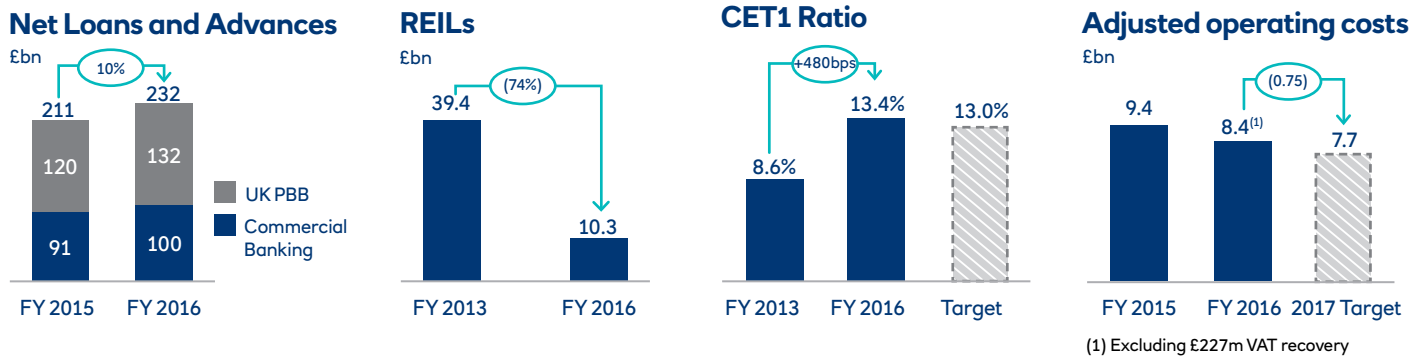
- ✓ Refocused on our core franchise markets, with active operations ceased in 26 countries
- ✓ De-risked the balance sheet, with legacy RWAs down over 75% from peak in Q1 2014
- ✓ Ownership structure normalised with a single class of ordinary shares, via DAS repayment and conversion of B shares
- ✓ Around 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
- ✓ 503 legal entities closed to date, a 45% 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 £10.3bn (3.1%) at Q4 2016; excluding Capital Resolution and Ulster Rol, REILs are now at 1.5%

Further significant challenges include:

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

(1) Excluding litigation and conduct costs, restructuring costs, write down of goodwill and the 2016 VAT release of £227m.

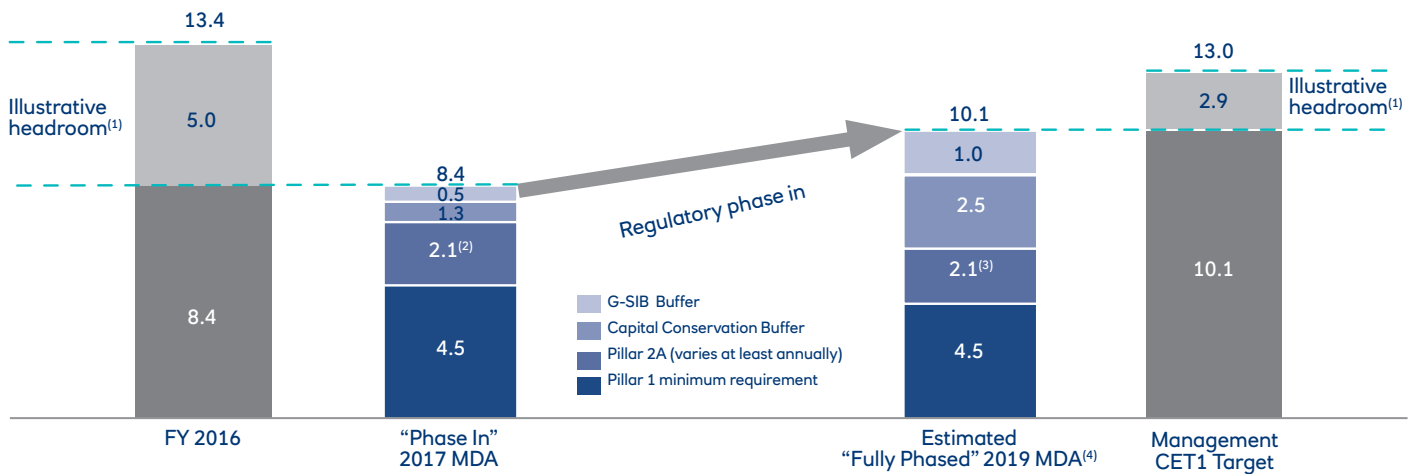
FY 2016 financial progress



Future capital requirements

Target CET1 ratio versus maximum distributable amount ("MDA"), %

Illustration, based on assumption of static regulatory requirements⁽⁵⁾

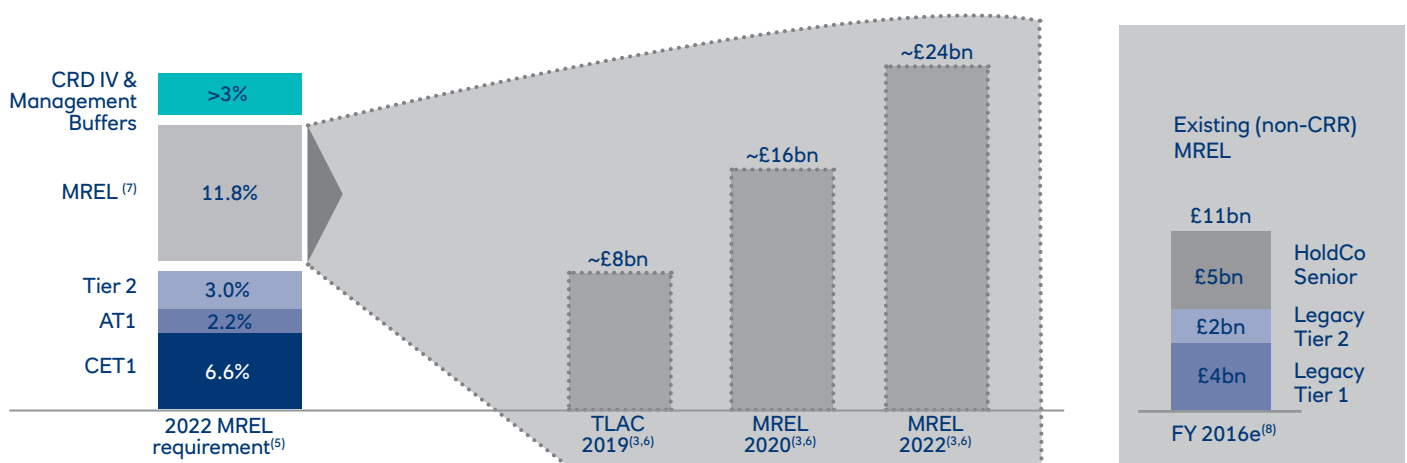


FY 2016 RBSG (HoldCo) distributable reserves €8.0bn vs €16.3bn at FY 2015

It is our intention to implement a capital reorganisation in 2017 in order to increase parent company distributable reserves by ~€30bn, subject to shareholder and court approval.

Illustrative future MREL requirements versus estimated existing position

Based on illustrative €200bn RWA and static regulatory requirements⁽⁵⁾



- Target €3-5bn Senior HoldCo MREL in 2017
- €5.6bn of OpCo Senior maturities in 2017; ~€13bn of maturities 2017-21⁽⁹⁾

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

(1) Headroom presented on the basis of MDA, and does not reflect excess distributable capital. Headroom may vary over time and may be less in future. (2) RBS's Pillar 2A requirement was 3.8% of RWAs as at 31 December 2016. 56% of the total Pillar 2A requirement, must be met from CET1 capital. (3) Pillar 2A requirement held constant over the period for illustration purposes. Requirement is expected to vary over time and is subject to at least annual review. (4) Assumes no material Counter Cyclical Buffer requirement. (5) Illustrative only, both RWA and future capital requirements subject to change. (6) Based on TLAC 1 Jan 2019 = 16% RWA; MREL 1 Jan 2020 = 2 x Pillar 1 and 1 x Pillar 2A, MREL 1 Jan 2022 = 2 x Pillar 1 and 2 x Pillar 2A. End state requirements to be met by 1 January 2022 are subject to review by the end of 2020. For further information on TLAC and MREL, including associated leverage requirements, please refer to 'Capital sufficiency' disclosure in the 2016 Annual Report & Accounts. (7) MREL requirement not required to be met by CRDIV compliant regulatory capital. (8) For further information please see 'Loss Absorbing Capital' disclosure in the 2016 Annual Report and Accounts. (9) For further information please refer to 'Roll-off profile' in 2016 Annual Report & Accounts.

Our business profile

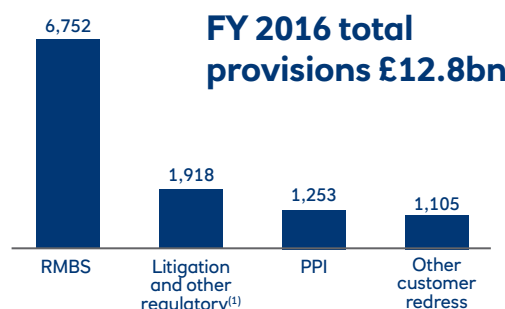
FY 2016 (£bn)	Core franchises							Total other				Total RBS
	UK PBB	Ulster Bank Rol	Commercial Banking	Private Banking	RBS International	NatWest Markets	Total Core Franchises	Capital Resolution	W&G ⁽¹⁾	Central items & other ⁽²⁾	Total Other	
Adj. Income ⁽³⁾	5.3	0.6	3.4	0.7	0.4	1.5	11.8	(0.4)	0.8	0.1	0.5	12.4
Adj. Operating expenses ⁽⁴⁾	(3.0)	(0.5)	(1.9)	(0.5)	(0.2)	(1.3)	(7.4)	(0.8)	(0.4)	0.3	(0.8)	(8.2)
Impairment (losses) / releases	(0.1)	0.1	(0.2)	0.0	(0.0)	-	(0.2)	(0.3)	(0.0)	-	(0.3)	(0.5)
Adj. op. profit ^(3,4)	2.2	0.2	1.3	0.1	0.2	0.2	4.2	(1.4)	0.4	0.5	(0.6)	3.7
Funded Assets ⁽⁵⁾	155.6	24.0	150.5	18.5	23.4	100.9	472.9	27.6	25.8	25.4	78.8	551.7
Net L&A to Customers	132.1	18.9	100.1	12.2	8.8	17.4	289.5	12.8	20.6	0.1	33.5	323.0
Customer Deposits	145.8	16.1	97.9	26.6	25.2	8.4	320.0	9.5	24.2	0.2	33.9	353.9
RWAs	32.7	18.1	78.5	8.6	9.5	35.2	182.6	34.5	9.6	1.5	45.6	228.2
Loan:Deposit Ratio	91%	117%	102%	46%	35%	n.m.	90%	135%	85%	n.m.	99%	91%
Adj. RoE (%) ^(3,4,5)	27%	8%	8%	8%	14%	1%	11%	n.m.	n.m.	n.m.	n.m.	1.6%
Adj. Cost:Income ratio (%) ^(3,4)	57%	80%	57%	78%	45%	87%	63%	n.m.	47%	n.m.	n.m.	66%

(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 CET1 target is 13% but for the purposes of computing segmental return on equity (RoE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank Rol), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAs) *Totals may not cast due to rounding. RBS reported an attributable loss of £7bn for 2016, see the 24th February Company Announcement for the full results

Legacy issues and one-off costs

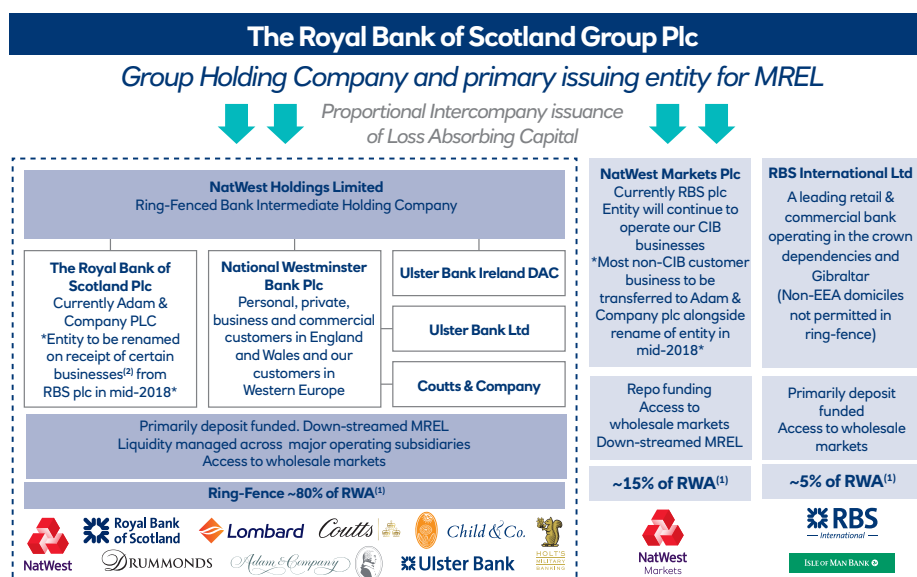
One-off cost	Comment
Restructuring costs	<ul style="list-style-type: none"> c.£2bn over 2017 to 2019 (excluding W&G); of which c.£1bn in 2017 Partially related to exiting head office properties with onerous lease terms
Capital Resolution disposal costs	<ul style="list-style-type: none"> £2.0bn of lifetime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

Litigation and conduct Provisions



(1) As per note 4 of the FY 2016 results

Illustrative future funding structure



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

(Note) Our final ring-fenced legal structure and the actions taken to achieve it, remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. All such actions and their respective timings may be subject to change, or additional actions may be required, including as a result of external and internal factors including further regulatory, corporate or other developments.

(1) Based on RBS future business profile and excludes RBS Capital Resolution.

(2) Most of our existing personal, private, business and commercial customers from The Royal Bank of Scotland plc. Note, RWA allocation based on RBS target future profile, excludes Capital Resolution.

Contacts



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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 Promoter Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group's strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing. The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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

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 Chartherhouse Research 4 quarters ending Q4 2016. Main current account stock market share (business turnover of £0 - 2m) excluding Future W&G. (2) Source: Chartherhouse 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: Chartherhouse 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.