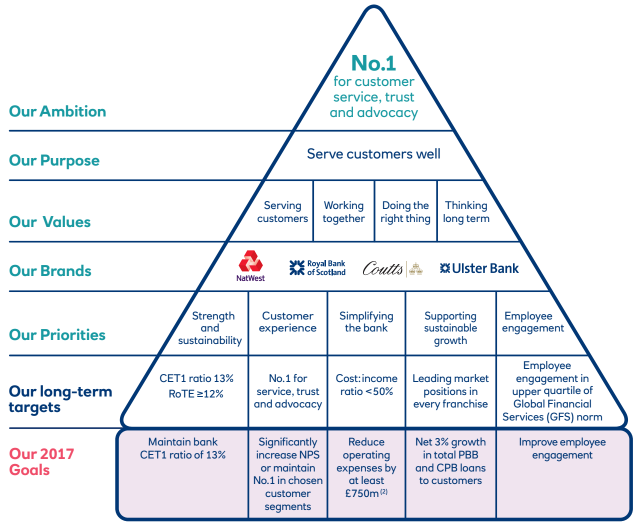
Investor Factbook

24/02/17

Key messages

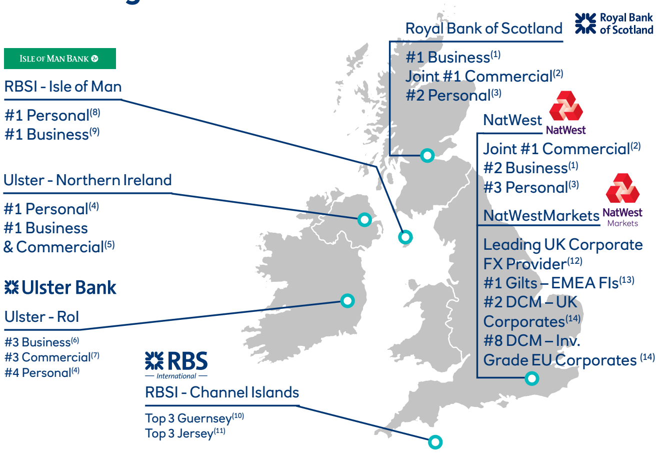
- Fundamentals of our strategy remain unchanged
- Progress in dealing with legacy issues
- Financial targets hit three years running – costs down, capital solid, lending and income growth in core bank
- Further on costs, faster on digital transformation to deliver a better customer experience
- Targeting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

Our blueprint for lasting success



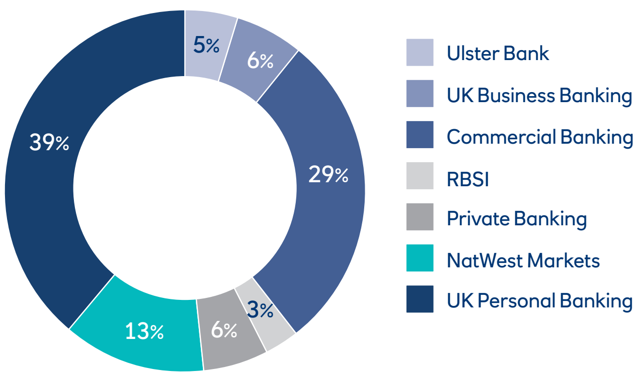
Strong franchises with clear strategies and diversified income streams

Market leading positions across our strong customer brands



(Please see back page for footnotes)

FY 2016 Core Adjusted Income



Progress on our strategy

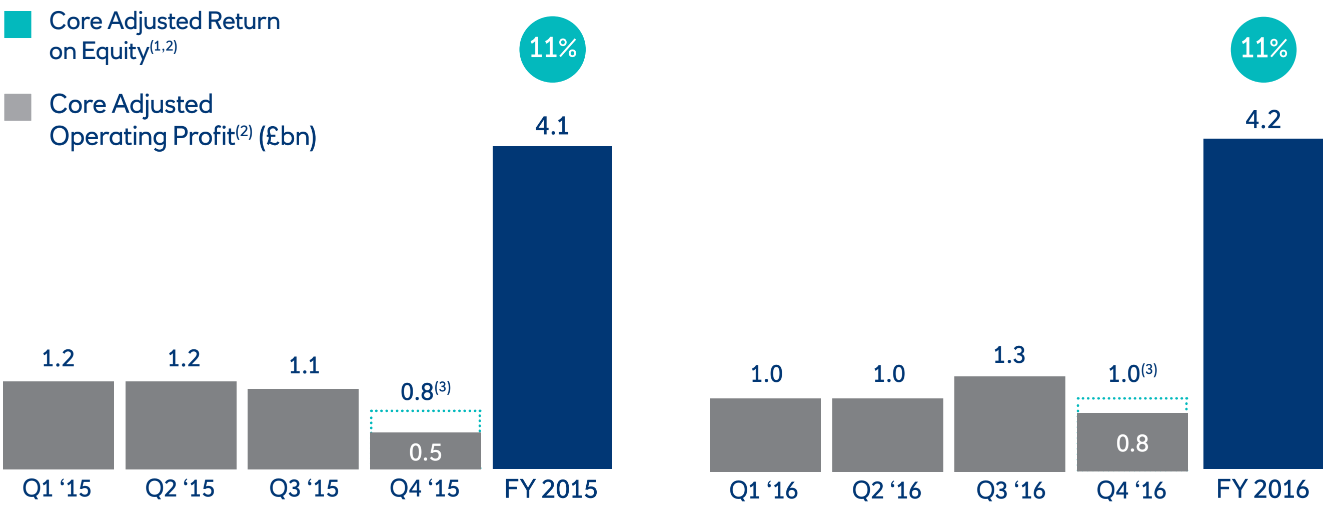
- ✓ Refocused on our core franchise markets, with active operations ceased in 26 countries
- ✓ De-risked the balance sheet, with legacy RWAs down over 75% from peak in Q1 2014
- ✓ Ownership structure normalised with a single class of ordinary shares, via DAS repayment and conversion of B shares
- ✓ Around 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 RoI, REILs are now at 1.5%

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.

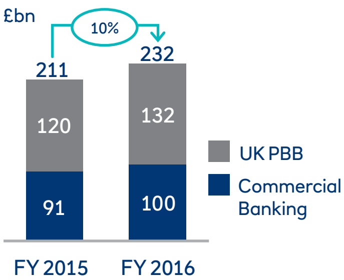
Three core franchises generating stable and attractive returns



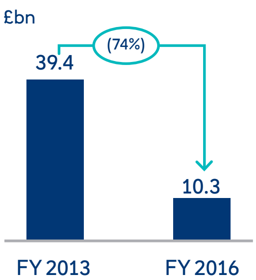
(1) RBS's CET1 target is 13% but for the purposes of computing segmental return on equity (RoE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by notional equity allocated at different rates of 11% (Commercial Banking and Ulster Bank RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after 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, which was £190m in Q4 2016 and £230m in Q4 2015. Note: Numbers may not cast due to rounding.

Improving operating JAWS and balance sheet

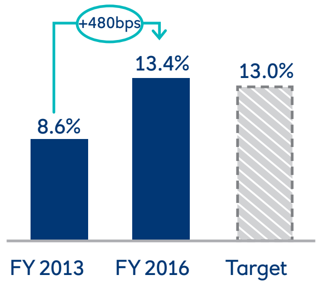
Net Loans and Advances



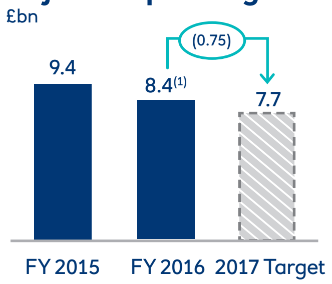
REILs



CET1 Ratio



Adjusted operating costs



(1) Excluding £227m VAT recovery

Our business profile

FY 2016	Core franchises							Total other				Total RBS
(£bn)	UK PBB	Ulster Bank RoI	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 RoI), 12% (RBS International) and 15% for all other segments, of the monthly average of segmental risk-weighted assets after capital deductions (RWAes) *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

Financial Targets – 2017 and 2020

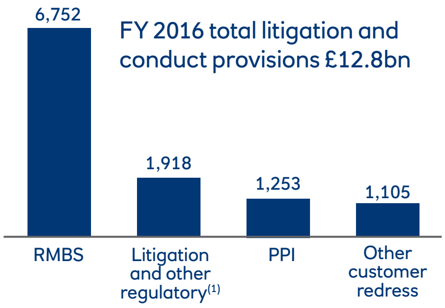
- Net lending growth in PBB/CPB: 3%[1] in 2017; driven by strong mortgage growth and selected Commercial segments
- Operating costs – reduction in operating costs by £750m[2] in 2017, and £2bn over the next 4 years; majority achieved against combined PBB, CPB and NWM franchises
- Capital Resolution – 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 2016 VAT release and the operating costs of Williams & Glyn (3) Previously named Saudi Hollandi Bank.

Four foundations to achieve 2020 targets

1. Resolve legacy issues and expense one-off costs

One-off cost	Comment
Restructuring costs	■ 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	■ £2.0bn of lifetime disposal costs; of which £1.2bn taken by end 2016 ■ Majority of residual expected to be in 2017
W&G	■ £750m restructuring provision taken in respect of the 17 February 2017 update on RBS's remaining state aid obligation
Conduct costs	■ Substantial number of issues progressed in 2016 ■ 2017 expected to be peak of remaining legacy conduct costs



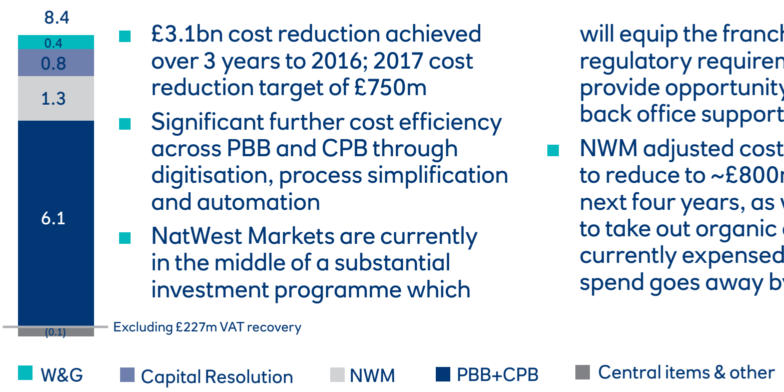
(1) As per note 4 of the FY 2016 results

2. Accelerate income momentum

- NIM: Sharp improvement in 5 and 10 year swap rate reduces forward looking headwinds from roll-off of existing structural hedging; SVR 12% of book
- Volumes: 3% net lending growth target for combined PBB/CPB in 2017 – expect to continue to achieve market share gains in targeted customer segments
- Net interest income: Volume benefit outweighs NIM pressure
- Fees & commission: Headwinds from interchange alleviate from 2017 onwards
- Revenues in NWM: Benefiting from market volatility and continued active customer flows

3. Achieve further significant cost efficiency

Adjusted operating costs (£bn)

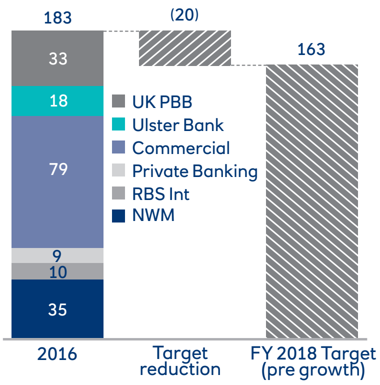


- £3.1bn cost reduction achieved over 3 years to 2016; 2017 cost reduction target of £750m
- Significant further cost efficiency across PBB and CPB through digitisation, process simplification and automation
- NatWest Markets are currently in the middle of a substantial investment programme which will equip the franchise for new regulatory requirements and provide opportunity to reduce back office support costs
- NWM adjusted costs expected to reduce to ~£800m over the next four years, as we continue to take out organic costs and the currently expensed investment spend goes away by 2018

Note: Numbers may not cast due to rounding

4. Improve RWA efficiency across PBB, CPB and NWB

Core Bank RWAs (£bn)



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

Outlook – Medium Term:

- Target achieving our sub 50% cost:income ratio and 12%+ return targets in 2020 on an unadjusted basis, one year later than originally planned
- Expect to be able to grow volumes faster than market growth rates over the coming years underpinned by our ability to grow the PBB and CPB balance sheet
- Plan to reduce adjusted expenses in the order of £2bn in the next four years with around two thirds of this applicable to the Core Bank
- Targeting a gross RWA reduction across 3 core franchises of at least £20bn by Q4 2018 with some off-setting volume growth
- We continue to monitor the ongoing discussions around the potential further tightening of regulatory capital rules and recognise that this could result in RWA inflation in the medium term
- In view of the significant risks and uncertainties in the external economic, political and regulatory environment, including uncertainties around the resolution of RMBS, the timing of returning excess capital to shareholders through dividends or buybacks remains uncertain

Note: Numbers may not cast due to rounding

Contacts

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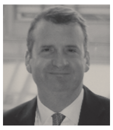

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Forward Looking Statements

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 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 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.