

NatWest Markets Factbook



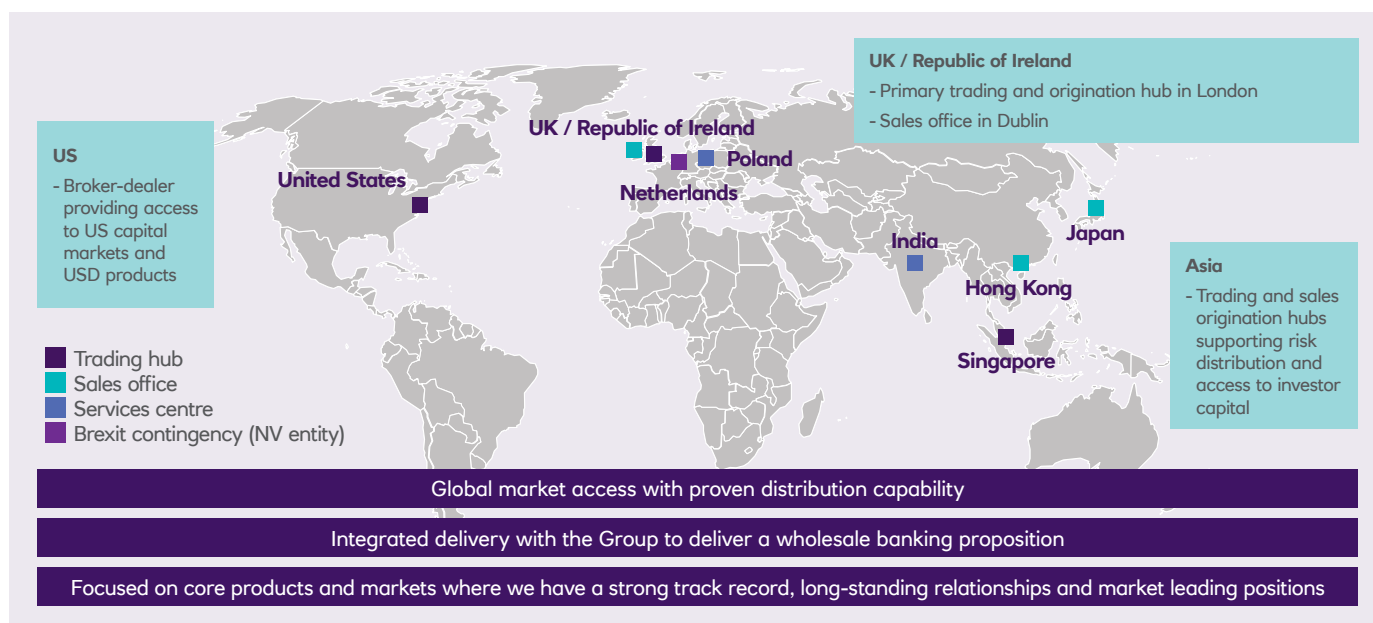
23/02/2018

Key messages¹

- NatWest Markets is the financial markets division of The Royal Bank of Scotland Group plc (RBS Group plc)
- The Royal Bank of Scotland plc (RBS plc) is expected to be renamed NatWest Markets Plc over the weekend of 28-30 April 2018 after which its business will principally comprise NatWest Markets activities
- NatWest Markets is targeting annual income of £1.4-£1.5bn across the Core business
- Core business centred around rates, currencies and financing meeting income targets
- High quality asset mix and balance sheet supporting a targeted investment grade senior unsecured credit rating
- Well capitalised with loss absorbing capacity down-streamed from parent
- Legacy positions continue to reduce in line with market guidance

Business Overview

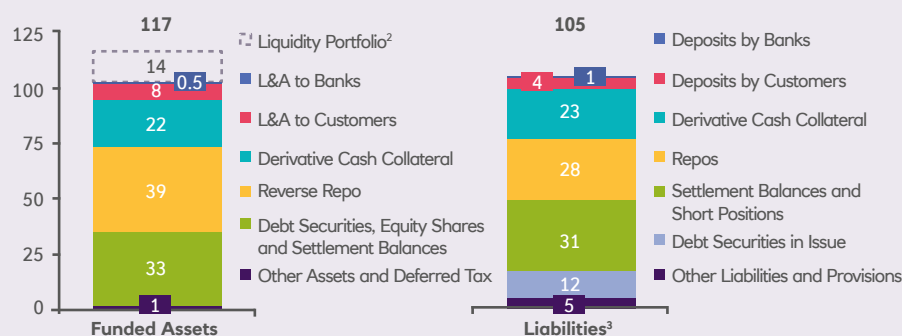
- NatWest Markets is focused on products and markets where it has a strong track record, long standing relationships and market leading positions
- Activities are organised across two business lines to provide financing and risk management services:
 - **Trading & Flow Sales:** provides liquidity and risk management in rates, currencies, credit and securitised products through a combination of voice and electronic delivery
 - **Financing & Risk Solutions:** built around integrated financing, debt capital markets and risk management solutions, on a foundation of insightful content and structuring
- NatWest Markets offers its customers global market access with three trading hubs in London, US and Singapore and sales offices in Tokyo, Hong Kong and Dublin. NatWest Markets plans to repurpose RBS NV (Netherlands) to provide continuity of service to EU customers as a result of the UK's withdrawal from the EU
- NatWest Markets is investing to improve efficiency and transforming into a technology-led business focussed on delivering sustainable returns



Note: (1) This document contains targets, expectations and trends which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and are subject to inherent risks, uncertainties and other factors which are further discussed in the Risk Factors in RBS's most recent Annual Report and other public filings. The forward-looking statements contained in this document speak only as of the date of this document and RBS does not assume or undertake any obligation or responsibility to update any of these statements, whether as a result of new information, future events or otherwise, except to the extent legally required. See Forward Looking Statements on page 5.

Key Balance Sheet and Financial Information

1. Balance Sheet¹



- Balance sheet reflects the simplified business model with assets predominantly liquid government bonds or reverse repos
- Trading assets largely matched by trading liabilities
- Remaining unsecured liabilities are senior to the loss absorbing capacity down-streamed from RBS Group plc

Note: (1) Illustration of the continuing activities of RBS plc Group as at 31 December 2017 after excluding items included in disposal groups. Continuing activities and disposal groups are prepared in accordance with IFRS 5 and presented in the RBS plc Annual Report and Accounts 2017. (2) Post the ring-fence transfers in 2018, NatWest Markets is expected to hold its own separate liquidity portfolio. This has been presented within Funded Assets for illustrative purposes. RBS Treasury holds £93.6 billion of cash and balances at central banks as part of the Group's liquidity portfolio at 31 December 2017, including £13.6 billion relating to NatWest Markets. (3) Liabilities exclude capital expected to be down-streamed by RBS Group plc as part of the 2020 targeted capital base.

2. 2020 Target Capital & Balance Sheet Metrics

2020 Target Capital & Balance Sheet Metrics NatWest Markets (incl Legacy)¹

CET1	~14%
Total Capital	>28%
Leverage	>4%
RWA	~£35bn
Funded Assets	~£100bn
LCR	>100%

- NatWest Markets' segment balance sheet as at end 2017 is similar to the targeted balance sheet of the future NatWest Markets Plc entity (currently RBS plc) after the ring-fence transfer schemes (RFTS)² in 2018
- NatWest Markets is targeting a capital base with a consolidated CET1 of approximately 14%, a leverage ratio greater than 4% and a total capital ratio of at least twice the CET1 ratio, including the benefit of down-streamed internal MREL

Note: (1) The targets and expectations discussed represent management's current expectations and are subject to change, including as a result of the risks described in the Risk Factors on pages 189-222 of the RBS plc Annual Report and Accounts 2017. (2) Ring-fence transfer scheme (RFTS) – the process where the bank will seek court permission to transfer customer accounts across entities within the RBS Group.

3. RWA Mix¹ and Asset Quality

- NatWest Markets has a track record in de-risking the balance sheet and managing legacy positions for value
- By 2020, NatWest Markets targets running down the legacy RWA position to c.£5bn RWA, with a total target of ~£35bn

RWAs (£bn)	2017
Credit Risk - Counterparty	15.3
Credit Risk - Non-counterparty	16.1
Market Risk	16.2
Operational Risk	5.3
Total	52.9
<i>o/w Core</i>	32.3
<i>o/w Legacy ex. Alawwal</i>	14.0
<i>o/w Alawwal</i>	6.6

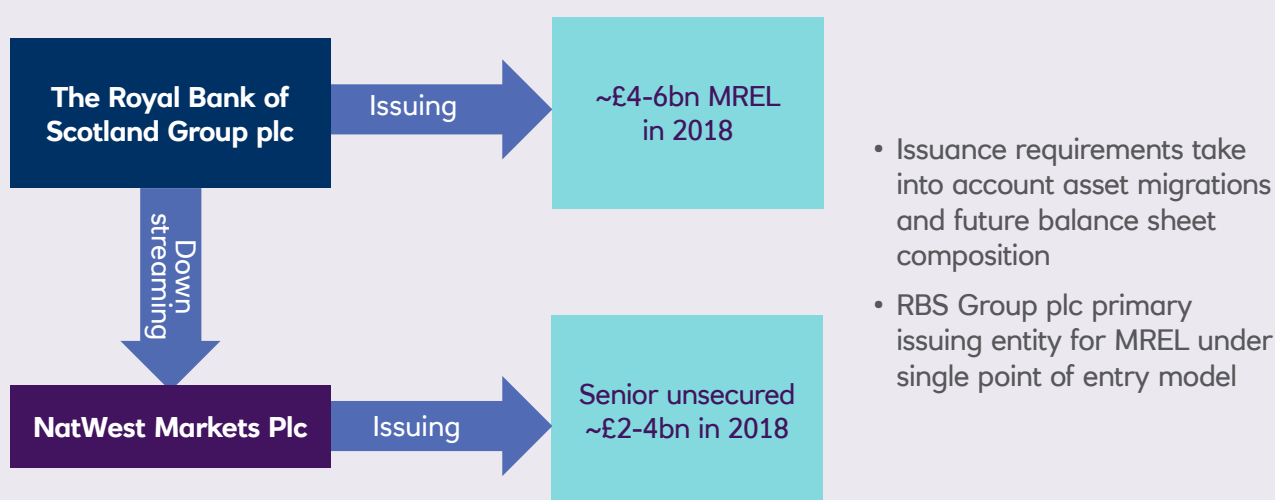
Asset Valuation Hierarchy² (£bn)	Level 1	Level 2	Level 3	Total
Loans and advances	-	58.5	0.1	58.6
Debt securities	20.0	7.2	0.8	28.0
Equity shares	-	-	0.1	0.1
Derivatives	-	157.5	1.7	159.2
Total Assets	20.0	223.2	2.7	245.9
<i>Proportion</i>	<i>8.1%</i>	<i>90.8%</i>	<i>1.1%</i>	<i>100%</i>

Note: (1) NatWest Markets segmental risk-weighted assets. Includes RWAs of £9.9bn relating to RBS NV. (2) Level 1 assets are valued using unadjusted market prices; Level 2 assets are valued using models based on observable market data; Level 3 instruments are valued using models with valuation sensitive inputs not wholly based on observable market data.

4. Funding Sources

The capital and funding structure of the future NatWest Markets Plc is expected to feature:

- Loss absorbing capacity from MREL down-streamed from the parent company, RBS Group plc
- Trading liabilities, including repos, largely matched by trading assets
- As at December 2017, RBS plc continuing operations had short-term wholesale funding of £5bn and the future NatWest Markets Plc will maintain a presence in this market
- The external debt securities in issue currently in RBS plc, excluding covered bonds, will remain in the future NatWest Markets Plc; the covered bonds will be transferred to National Westminster Bank Plc.
- Senior unsecured debt issuance of ~£2-4 billion in 2018 by the future NatWest Markets Plc



5. Ratings Position

	Standard & Poor's	Moody's	Fitch
Future NatWest Markets Legal Entities			
NatWest Markets Plc (currently RBS plc)	BBB+ / Stable	A3 / RUR ¹ Down	BBB+ / Stable
RBS N.V.	BBB+ / Stable	A3 / RUR ¹ Down	BBB+ / Stable
RBS Securities Inc.³	BBB+ / Stable	NR ²	BBB+ / Stable

Note: (1) RUR = Rating under review, Moody's expects to conclude its review by April 2018. (2) NR = not rated. (3) RBS Securities Inc. is expected to be renamed over the weekend of 28-30 April 2018 to NatWest Markets Securities Inc.

6. Key Financials

	NatWest Markets				Core				Legacy			
P&L (£m)	FY17	FY16	Q417	Q416	FY17	FY16	Q417	Q416	FY17	FY16	Q417	Q416
Adjusted income ¹	1,090	1,106	165	29	1,665	1,521	284	314	(575)	(415)	(119)	(285)
Adjusted costs ²	(1,528)	(2,084)	(390)	(514)	(1,268)	(1,320)	(324)	(338)	(260)	(764)	(66)	(176)
Adjusted PBIL ³	(438)	(978)	(225)	(485)	397	201	(40)	(24)	(835)	(1,179)	(185)	(461)
Operating Profit / Loss	(977)	(1,865)	(357)	(1,027)	41	(386)	(159)	(565)	(1,018)	(1,479)	(198)	(462)

Balance Sheet (£bn)	Q417	Q416	Q417	Q416	Q417	Q416
RWAs	52.9	69.7	32.3	35.2	20.6	34.5
o/w Alawwal					6.6	7.9
o/w Legacy RWAs (ex Alawwal)					14.0	26.6

- NatWest Markets is targeting income of £1.4-1.5bn annually across the Core business
- Over 2017 the Core business delivered income growth, whilst reducing RWAs and adjusted costs
- Costs are expected to continue to reduce as we realise benefits from our investment programme to simplify the business and deliver efficiencies
- Legacy positions continue to reduce in line with market guidance provided

Note: (1) Adjusted income – Excluding own credit adjustments, (loss)/gain on redemption of own debt and strategic disposals. (2) Adjusted costs – Excluding restructuring costs and litigation and conduct costs. (3) PBIL – Profit Before Impairment Losses

7. Ring-fencing – Standalone timeline



Q1 2018

22 March** final Court hearing for first RFTS*



Q2 2018

28 – 30 April target date for execution of first RFTS*

28 – 30 April target date for company name changes to take effect

First court hearing for second RFTS*



Q3 2018

Target date for legal separation of ring-fenced bank sub-group from NatWest Markets Plc

NatWest Markets Plc capital structure re-organised

Final Court hearing for second RFTS*

Target date for execution of the second RFTS*



Q4 2018

Intra-group capital and liquidity support arrangements restructured

Ring-fencing implemented

Note: Timeline is indicative and may be subject to change. (*) Ring-fence transfer scheme (RFTS) – the process where the bank will seek court permission to transfer customer accounts across entities within the RBS Group. (**) Expected date

8. 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 RBSG's transformation programme, including the further restructuring of the NatWest Markets franchise; the satisfaction of RBSG's residual EU State Aid obligations; the continuation of RBSG's and the Group'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; and RBSG's and the Group'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 RBS Group and 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 RBS Group's or 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 2017 Annual Report and other risk factors and uncertainties discussed in this document. These include the significant risks for RBSG and the Group presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBSG is or may be subject to and any resulting material adverse effect on RBSG 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 Brexit and from the outcome of general elections in the UK and changes in government policies; RBSG's ability to satisfy its residual EU State Aid obligations and the timing thereof; RBSG'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; RBSG's ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, particularly the proposed further restructuring of the NatWest Markets franchise, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBSG and the Group will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; the dependence of the Group's operations on its and RBS Group's IT systems; the exposure of RBSG and the Group to cyber-attacks and their ability to defend against such attacks; RBSG's and the Group's ability to achieve their capital, funding, liquidity and leverage requirements or targets which will depend in part on RBSG and the Group's success in reducing the size of their 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; RBSG's and the Group's ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBSG, the Bank or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBSG's and the Group'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 the Group's business and will increase as a result of RBSG's and the Group's significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBSG's and the Group's business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; 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 (including by competition authorities) and the increasingly regulated environment in which RBSG and the Group operate as well as divergences in regulatory requirements in the jurisdictions in which RBSG and the Group operate; the risks relating to RBSG's or the Group's IT systems or a failure to protect themselves and their customers against cyber threats, reputational risks; risks relating to increased pension liabilities and the impact of pension risk on RBSG's and the Group's capital positions, including on any requisite management buffer; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if their risk management framework is ineffective; the Group's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in RBSG; the value and effectiveness of any credit protection purchased by the Group; 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 the Group operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBSG's and the Group's financial statements or adversely impact their capital positions; the impact of the recovery and resolution framework and other prudential rules to which RBSG and the Group are subject; the application of stabilisation or resolution powers in significant stress situations; contribution to relevant compensation schemes; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; and the success of RBSG and the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBSG and the Group do 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.