

# Building a sustainable RBS

Our goal is to try and be a model for how banks can contribute to society, and make shareholders money along the way.

**Stephen Hester**, Chief Executive, RBS Group

Sustainability Report  
**2011**

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# What's inside

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## Our approach to sustainability

- 01 Our five sustainability themes
- 02 Building a sustainable RBS
- 03 Sustainability governance
- 04 Sustainable business principles
- 05 Our financial strategy and progress
- 06 Stakeholder engagement

## Review of sustainability themes 2011

- 10 Fair banking
- 18 Supporting enterprise
- 24 Employee engagement
- 28 Safety and security
- 32 Citizenship and environment

## Information

- 39 Reporting principles
- 40 Independent assurance statement
- 41 Contact us

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The RBS group is a large international banking and financial services company. Headquartered in Edinburgh, the Group operates in the United Kingdom, Europe, the Middle East, the Americas and Asia, serving over 30 million customers worldwide.

The Group provides a wide range of products and services to personal, commercial and large corporate and institutional customers through its two principal subsidiaries, The Royal Bank of Scotland and NatWest, as well as through a number of other well-known brands including Citizens, Charter One, Ulster Bank, Coutts, Direct Line and Churchill.

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## Why go online?

[www.rbs.com/sustainable](http://www.rbs.com/sustainable)

If you haven't already tried it, visit our easy-to-use online Sustainability Report. Many shareholders are now benefiting from more accessible information and helping the environment too.

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## Our approach to sustainability

# Our five sustainability themes

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We focus our reporting on five key themes within our business that are of interest to our stakeholders.

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### Fair banking

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We are working to provide an accessible and innovative service for our customers in response to their requirements. Banking is central to the daily lives of almost everyone, and it's important that we understand their needs.

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### Employee engagement

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Being a good employer is fundamental to our success as a business. Our employees are a diverse and talented group which we support and encourage through internal networks and training.

It has been another challenging year for some of our people as we continue to restructure the Group. We value all of our people and seek to support them through this process.

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### Citizenship and environment

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As a large organisation we have a responsibility to manage our impact on society. A core part of this is the way we govern our environmental, social and ethical risks, not only within our own operations, but also in relation to companies we lend to. Being a good corporate citizen also means playing a positive role in society and contributing to the communities we operate in.

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### Supporting enterprise

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Giving support to enterprise in the economies in which we operate is a cornerstone of our customer offering. The health of RBS is directly influenced by the health and success of the businesses it supports. Whether it's continuing to serve our existing clients in the best way possible or working to give start ups the help they need to become successful – we are here to support the growth of viable businesses.

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### Safety and security

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Managing the safety and security of our employees and customers is one of our fundamental responsibilities. We use intelligence to keep up with the challenging and changeable environment that we operate in, and continually review and innovate the way we respond to changes in the threats we face. Internally, we continue to support the health and wellbeing of our people.

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## Our approach to sustainability

# Building a sustainable RBS

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“If we’re to keep managing people’s accounts, offering mortgages, and supporting enterprise, and if we are to repay the taxpayer – then RBS has to be a successful business... The point is, as the leadership of the

organisation, *how* we pursue success – whether it’s done by taking excessive risks and to the detriment of others, or for the mutual benefit of the societies which we serve.”

**Stephen Hester**  
Group Chief Executive



“We’re changing as a bank - and an absolutely vital part of that process is listening to our stakeholders. Establishing new engagement sessions with the Group Sustainability Committee allows organisations who

have a huge interest in how we operate to raise their concerns directly with some of the most senior people at RBS. That can only help improve our decision-making as we seek to become a more sustainable bank.”

**Philip Hampton**  
Chairman

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We are working hard to change RBS for the better, which is why the publication of our annual Sustainability Report is such an important milestone. Firstly, because it allows us to demonstrate our commitment to being open, and offer more detail on the areas of our business which are of interest to our stakeholders. But the other reason is because it gives us an opportunity to show people how much RBS is changing.

Over the last few years, the way we do business has been transformed. Our customer charters put the needs of our customers at the heart of what we do. Our commitment to supporting economic growth has seen us punch above our weight when it comes to business lending. We have established important working relationships with a wide range of stakeholders who have an interest in how, where and with whom we do business. In business terms we’ve overhauled our risk profile, and made our balance sheet safer.

These are changes which recognise our responsibility to be a positive force within the communities in which we operate. 2011 proved to be another challenging year for the banking sector, and saw a number of significant changes within our company. Work to restructure the company continues, as seen with the recent announcement on changes to our wholesale banking arm. Despite that, our drive to become a more sustainable organisation has continued. We hope you agree the contents of this Report are evidence of our commitment.

**Philip Hampton**  
Chairman

**Stephen Hester**  
Group Chief Executive

# Our approach to sustainability

## Sustainability governance



The Group Sustainability Committee exists to promote good governance of the wider issues we face as a company. We have made progress in 2011 and now have a set of Sustainability Principles to guide us on how to operate, and how to embed sustainable values into the organisation.

**Sir Sandy Crombie**  
Senior Independent Director, RBS Group  
Chairman, Group Sustainability Committee

### Sustainability governance

RBS has an established and robust framework in place for the governance of sustainability issues. The Group Sustainability Committee (GSC) was set up in 2009 and is a Board level Committee, chaired by our Senior Independent Director Sir Sandy Crombie. It is responsible for reviewing the sustainability strategy, values and policy for the Group. Some of the key outputs from the GSC in 2011 were;

- the delivery of the company's first ever set of Sustainability Principles
- updated Environmental, Social and Ethical lending policies for a range of sectors

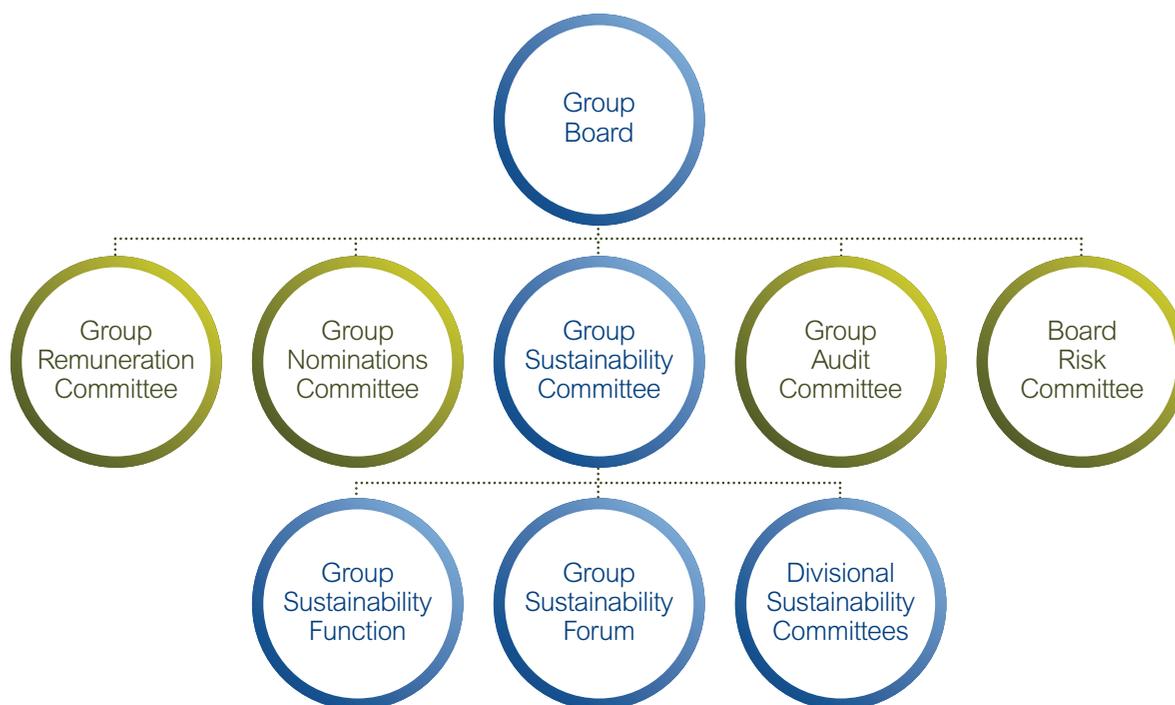
- a programme of engagement events, designed to give key stakeholders the opportunity to meet with some of the most senior people in the bank.

The GSC meets quarterly and has executive representatives from all business areas. It looks at the key areas where we need to do more within the business to become a truly sustainable bank. To further broaden the Committee's expertise, another Board member, Alison Davis, joined the GSC in 2012.

To ensure our wider responsibilities are taken into account when we are doing business, sustainability measures are included

in our CEO's formal objectives and in his current Long Term Incentive Plan (LTIP), a performance related aspect of his remuneration. More detail on this can be found in the Remuneration Report within the 2011 Annual Report.

The GSC is supported by the Group Sustainability Forum (GSF), a network of senior sustainability managers from across the organisation that meets every two months. The GSF is responsible for driving actions agreed at the GSC, and for presenting issues to the GSC when required. This is supplemented on a daily basis by the Group Sustainability Function.



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## Our approach to sustainability

# Sustainable business principles

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The return to profitability and long term growth can only be achieved with a sustainable business model. In 2011, RBS developed a new set of sustainable business principles which provide a public record of our commitment to operate to the highest standards.

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We believe that balancing the needs of all our stakeholders is the best way to deliver sustainable commercial success. That's why we're committed to being...



## Our approach to sustainability

# Our financial strategy and progress

The new RBS is built upon customer-driven businesses with substantial competitive strengths in their respective markets; together our 'Core' business. Each unit is being reshaped to provide improved and enduring performance and to meet new external challenges. The businesses are managed to add value in their own right but also to provide a stronger, more balanced and valuable whole through vital cross-business linkages.

The weaknesses uncovered by the financial crisis – of leverage, risk concentration and business stretch – are being fixed. The primary vehicle for this is the run-off and sale of assets in our Non-Core division though there are many other parallel tasks. RBS's total assets have already been reduced by £712bn from their peak in 2008 – more than any other entity worldwide has achieved.

## Our key financial targets

Key performance indicator	Why?	How are we doing?	Original 2013 target	Revised medium-term target
<b>Return on equity (ROE)<sup>(1)</sup></b>	We need to cover our cost of capital in the long-run and justify our shareholders' support.	<p>13.3% 2010, 10.5% 2011</p>	<b>Core &gt;15%</b>	<b>Core &gt;12%</b>
<b>Cost:income ratio<sup>(2)</sup></b>	We cannot achieve our ROE target without cost control and margin re-pricing to ensure income is generated efficiently.	<p>56% 2010, 60% 2011</p>	<b>Core &lt;50%</b>	<b>Core &lt;55%</b>
<b>Core Tier 1 ratio</b>	We need a strong capital ratio to meet society's expectations of a safer banking system.	<p>10.7% 2010, 10.6% 2011</p>	<b>&gt;8%</b>	<b>&gt;10%</b>
<b>Loan:deposit ratio</b>	We want to put our balance sheet on a more secure footing by lending only as much as we have in deposits.	<p>118% 2010, 108% 2011</p>	<b>c.100%</b>	<b>c.100%</b>
<b>Short-term wholesale funding<sup>(3)</sup></b>	We want to reduce our reliance on short-term money market funding to make our balance sheet less volatile.	<p>£130bn 2010, £102bn 2011</p>	<b>&lt;£125bn</b>	<b>&lt;10% TPAs<sup>(6)</sup></b>
<b>Liquidity portfolio<sup>(4)</sup></b>	We want to hold strong liquidity buffers, to guard against unexpected funding difficulties.	<p>£155bn 2010, £155bn 2011</p>	<b>c.£150bn</b>	<b>&lt;15% TPAs<sup>(6)</sup></b>
<b>Leverage ratio<sup>(5)</sup></b>	We target a much lower leverage ratio than before. A <18x ratio means that our assets are less than 18 times as large as our equity capital.	<p>16.8x 2010, 16.9x 2011</p>	<b>&lt;20x</b>	<b>&lt;18x</b>

(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (c.75% of Group tangible equity based on risk-weighted assets at 31 December 2011).

(2) Cost:income ratio net of insurance claims.

(3) Excluding derivatives collateral.

(4) Eligible assets held for contingent liquidity purposes including cash, Government issued securities and other eligible securities with central banks.

(5) Funded tangible assets divided by total Tier 1 capital.

(6) Third Party Assets.

## Our approach to sustainability

# Stakeholder engagement

As we state in our sustainable business principles, we believe that long term success will best be achieved by balancing the needs of all our stakeholders. That's why RBS seeks to take into account the views of all those who have an interest in our business. As a global operation we have a broad range of stakeholders who we engage with in a variety of different ways.

### Stakeholder engagement

In 2011 we carried out a qualitative study with our major stakeholder groups to determine what issues matter to them, and the results have helped inform which issues we choose to cover in our reporting. Some of the issues identified in the study included lending to small business, our customer service and our ethical lending policies. Comments gathered during the research are included in the table below. On top of this bespoke piece of research, we also continue to measure the views of stakeholders including the general public, opinion formers (politicians,

regulatory and industry bodies, media, NGOs and advocacy groups) and employees through ongoing in-depth opinion research.

One of the most significant developments in our engagement programme has been the establishment of a series of meetings between the members of the Group Sustainability Committee (GSC) and key stakeholder groups. The first of these took place in November 2011, when a number of high profile consumer affairs organisations including Which?, Citizens Advice Bureau and the Money Advice Service, held discussions with the GSC. This meeting reflected our Fair banking sustainability theme.

In March 2012 our second meeting took place on issues regarding the Citizenship and environment theme. Representatives from the World Wildlife Fund, Transparency International, Platform (representing Banktrack), Oxfam and the Tax Justice Network attended the meeting. Sessions on our other themes are planned for the year ahead.

All our engagements play a vital role in informing our decision-making. The table below sets out some examples of how we have engaged on specific issues throughout the year.

Stakeholder group	Engagements and issues	Our response
Investors	<p>We have an established Socially Responsible Investors (SRIs) engagement programme that includes day-to-day contacts, roadshow meetings and events hosted by Board members. We also take part in a number of external indices used by the investment community including the Dow Jones Sustainability Leadership Index, the FTSE4Good Index and the Carbon Disclosure Project Leadership Index.</p> <p>In 2011 the main sustainability issues being raised by investors included; ethical lending policies, remuneration, SME lending, our work with voluntary commitments such as the Equator Principles, and our UK Customer Charter.</p>	<p>We are committed to being as transparent as possible when dealing with these important stakeholders, and have: arranged meetings with groups of investors and senior members of our board. This included breakfast briefings hosted by our Chairman, Senior Independent Director, and Head of Sustainability. We provide investors with regular updates on the Group's activities and hold individual meetings as requested to address investor queries. Last year the proportion of our free stock held by SRI funds increased substantially.</p>
Customers	<p>We regularly carry out customer surveys, and as part of our wider public opinion research in the UK we track and measure customer feedback. We have a comprehensive system to deal with customer queries and complaints. There is also a dedicated response team and process in place to answer the variety of queries regarding sustainability issues that are directed to our Chairman and CEO.</p> <p>Some of the issues identified from customers in 2011 were: dissatisfaction with our collections procedures, pay and bonuses, problems with our lending application process, fraud prevention and localising service provision.</p> <p><i>"In the old days, your bank manager would say – 'look, I've looked over this, you've been spending a bit too much... and you'd listen to him...there was a dialogue."</i></p> <p>Consumer</p>	<p>Our customer charters are a public commitment, which set out our efforts to respond to our customers needs. We regularly report on our progress against these commitments. See the Fair banking section for more information on page 10.</p> <p>In order to keep our customer's money and information safe, we've spent millions of pounds improving branch and data security. See our Safety and security section on page 28 for more information.</p> <p>Our policy on remuneration is explained in full in the employee engagement section on page 25-26.</p> <p>Responding to customer demands for a more local service, we've introduced a network of local Chief Executive Officers across the UK, encouraging more decision-making at a local level.</p>

## Our approach to sustainability

# Stakeholder engagement

Stakeholder group	Engagements and issues	Our response
Employees	<p>Every year we carry out a Group-wide employee opinion survey that assesses the general satisfaction levels of staff. We also carry out regular focus groups and polling to help further understand our employee's concerns. We regularly engage with the Unite union on employee issues in the UK. In addition, trade union consultation on various issues is required by local law in a number of countries where the Group operates.</p> <p>Sustainability issues raised by staff and employee representatives in 2011 include; remuneration, training and development, health and safety, diversity, and the bank's strategy and reputation.</p> <p><i>"I think the policies of the company are correct on diversity and inclusion, in that they encourage everyone to be the same, independent of their backgrounds"</i></p> <p><i>Employee</i></p>	<p>81% of employees responded to our 2011 Employee Opinion Survey with the results showing that we out-perform our peers in the financial services sector in 12 of 13 categories. This year we went beyond these surveys to build new two-way communications channels such as message boards and forums where employees can share their views on the issues affecting them.</p> <p>Our efforts to promote diversity and inclusion are supported by our Focused Women and Rainbow networks which have thousands of members across the Group. They take part in a programme of events aimed at promoting gender and sexual equality. Read more in our Employee engagement section on page 24.</p>
Consumer advocacy groups	<p>We work closely with consumer advocacy groups relating to all aspects of high street banking. We also work with consumer and debt advice agencies on financial inclusion, and regularly engage with the Citizens Advice Bureau regarding how to support customers in difficulty. In addition, a formal stakeholder engagement session was held in 2011 with key consumer groups and our Group Sustainability Committee on Fair banking issues.</p> <p>The issues raised with us include: access to, and availability of, banking services, customer complaints procedures, financial inclusion and dealing with vulnerable customers.</p>	<p>We support the work of many advice services in addition to the Citizens Advice Bureau (CAB). We are one of the largest funders of National Debtline and the largest funder of Business Debtline, run by The Money Advice Trust (MAT).</p> <p>We worked proactively with the Royal College of Psychiatrists, Rethink and MAT to develop an e-learning module and face-to-face training on mental health issues and managing debt.</p> <p>We provided funding, support and technical guidance to the mental health charity MIND to make publicly available guidance on dealing with creditors when coping with a mental health problem.</p> <p>We have also worked with the National Fostering Agency (NFA) to launch a bank account product to help children in foster care save for later life.</p>
Non-Governmental Organisations (NGOs)	<p>We have ongoing relationships with key NGOs and civil society groups from across the globe on a diverse range of issues. These relationships are vital in helping inform our decision-making on policy development and implementation.</p> <p>The issues covered in our discussions with NGOs include: being open and transparent, tax and our lending to sensitive sectors like defence and oil and gas.</p> <p><i>"If the Board of Directors have said we will not invest in projects of this nature...we may not agree with all of their decisions and their policies but at least they have had that very difficult discussion regarding when will we say no."</i></p> <p><i>Opinion former, NGO</i></p>	<p>The Group Sustainability Committee has overseen the development of updated Environmental Social and Ethical (ESE) risk statements which we have made publicly available. These cover four specific sectors that represent heightened ESE risk, and are often referred to by NGO groups.</p> <p>Specifically, in 2011 we enhanced our position with regard to the defence sector following engagement with one of our key stakeholders around the issue of cluster munitions.</p>

## Our approach to sustainability

# Stakeholder engagement

Stakeholder group	Engagements and issues	Our response
Government and regulators	<p>We actively engage with government and regulators through our public affairs team. Senior executives also regularly meet with civil servants and politicians from all sides to discuss regulatory, policy and business affairs, and provide evidence to government inquiries and committees where required. In Ireland and Northern Ireland we've strengthened our engagement with government following the financial crisis. Citizens Financial Group in the US also engages with federal and state policy makers and regulators.</p> <p>Some of the most significant issues raised by these stakeholders include remuneration, legislative and regulatory change and SME lending.</p> <p><i>"What I'd like to see is more engagement with people who are entrepreneurial really...they are creative, they are not business people...for the bank to be part of their business... it's good for the banks to walk alongside those people as they grow into a business. So I would like to see that sort of supporting enterprise really, of really small scale."</i></p> <p><i>Opinion Former, MP</i></p>	<p>This year we did extensive work in conjunction with the Independent Commission on Banking. We also co-operated with the FSA in the production of their report on RBS's actions during the economic crisis. We continue to work closely with government and UK Financial Investment Ltd (UKFI) regarding its shareholding in the RBS Group. UKFI are an active shareholder and we consult with them regularly on a number of issues, as we do with many of our large shareholders. They have publicly committed to managing the UK Government's investment in a commercial way.</p> <p>In terms of our support for business, RBS lends more to SMEs than any other UK bank, and in 2011, we opened over 119,000 start-up accounts in the UK.</p> <p>Read more in our Supporting enterprise section on page 18.</p>
Industry organisations	<p>The company participates in relevant industry bodies in countries across our footprint. In the UK this includes the British Bankers' Association, the Council of Mortgage Lenders and the Association of British Insurers. In the US, Citizens participates in the Financial Services Roundtable and American Bankers Association. In the Republic of Ireland Ulster Bank is a member of the Irish Banking Federation. We are a signatory to the Equator Principles (EP). We are also a member of the United Nations Global Compact (UNGC).</p> <p>These engagements cover a range of issues, including regulatory and legislative change, and industry initiatives.</p>	<p>In 2011 RBS joined the Equator Principles steering committee, and we have been actively involved in the development of the new EP 3 standard – an extension of the existing framework. The Head of Group Sustainability has also continued in his role as Chair of the UK network of the UN Global Compact and will represent the network at Rio+20 in 2012.</p>
Suppliers	<p>In order to ensure we operate as a sustainable business, we have processes in place to assess the suppliers we work with. This is based on our Group Ethical Code for Suppliers.</p> <p>The issues that stakeholders identify regarding our supply chain include the environmental performance of suppliers, their employee relations and wider sustainability.</p>	<p>The Group Ethical Code for Suppliers clearly defines what we expect from suppliers and what they can expect from us. There is a rolling review of our suppliers to check that they meet the required criteria we have set in place.</p> <p>We also insist that all suppliers adhere rigorously to all relevant legislation and regulation in their operations. This includes all applicable employment, health, safety, environmental and bribery and corruption legislation. Regulatory breaches that come to our attention will be taken into account when renegotiating supplier relationships.</p>
Media	<p>We are committed to being open and transparent with the media and disclose a significant amount of information through our quarterly reporting and Annual Report and Accounts.</p> <p>Across the business we work with the media on a daily basis, covering all aspects of the bank's operations. Significant media stories this year have included: remuneration, financial performance, corporate restructuring and lending policy.</p> <p><i>"Be upfront with consumers and completely transparent about where money is invested"</i></p> <p><i>Opinion former, journalist</i></p>	<p>Our dedicated media team deal with queries as they arise and a number of our senior executives regularly engage with the media on the issues they are most concerned about.</p> <p>Our Chairman and CEO did extensive work with the media during our Annual Results announcements throughout 2011 and in 2012. This involved a number of live interviews where they were questioned on the key issues concerning the media at that time.</p>

# Contents

10 Fair banking

18 Supporting enterprise

24 Employee engagement

28 Safety and security

32 Citizenship and environment

## Review of sustainability themes 2011

# Fair banking



We've been working hard to change by listening to our customers; engaging with the communities in which we operate; investing in our people; simplifying the services we offer; and pricing them in an appropriate and sustainable manner.

**Brian Hartzler**  
CEO, UK Retail



A strong bank sits at the heart of a healthy community. We listen to our customers and work to get back to what banking is supposed to be all about: serving customers, serving communities and serving colleagues by facilitating growth and prosperity.

**Ellen Alemany**  
Chairman and CEO, Citizens Financial Group

2011 Priority	Progress made in 2011
We will continue to develop innovative ways to support customers in financial hardship and make real enhancements to help customers avoid problem debt	We have a dedicated team of 84 staff whose role is to identify and help customers who are getting into financial difficulty. During 2011 they contacted over 190,000 customers to provide them with the tools they need to gain better control of their finances.
NatWest and RBS will review the Customer Charter annually incorporating feedback from customers to ensure we continue to deliver 'Helpful Banking'. We will publish a summary of our performance against these commitments every six months	Year 2 of the Customer Charter has been a success achieving 23 of the 25 goals. The full year 2011 report is available on rbs.com.
We will consider the impact we have on the communities we serve and make it central to the decisions we make. This will include such aspects as the availability of our services, employee volunteering and the community initiatives we support	CommunityForce awards totalling £3m were given to 478 local charities and projects. Retail Banking staff gave over 16,000 days in 2011 to volunteer in their local communities. Local Chief Executive Officers were appointed UK wide to ensure decisions are taken at a local level.
We will take an active role in financial inclusion and will work with the government to enhance access to basic banking services and affordable credit	We currently have 1.1m basic bank accounts in operation. We run a Trusted Partner programme that allows third party organisations to open NatWest and RBS Basic Bank Accounts for customers who would rather go through a trusted intermediary than deal directly with a branch. We have upgraded all our Solo cards to Visa debit cards which are accepted at a wider range of shops and offer greater protection. All of our customers can now access their cash and balances via 11,000 Post Offices throughout the UK.
We will remain committed to providing financial education to our communities and our customers and aim to increase financial capability for all	MoneySense continues to be the largest financial education programme in the UK and reached over 386,000 school children during 2011. Pocket Money magazine, aimed at 7 to 11 year olds, is a mix of money saving tips and activities designed to get children thinking and learning about money. It has reached over 1,000,000 families.
We will work in partnership with free money advice providers to create industry enhancements to advice services	During 2011 we worked proactively with the Royal College of Psychiatrists, Rethink and Money Advice Trust (MAT) to develop an e-learning module and face-to-face training on Mental Health issues and managing debt. We provided funding, support and technical guidance to Mind to develop a public leaflet on dealing with creditors when coping with a mental health problem that is available in 10,000 GP surgeries across England and Wales. We have also worked with the National Fostering Agency (NFA) to launch a bank account product to help children in foster care save for later life.
Markets and International Banking (M&IB) will deliver MoneySense programmes through their five school partnerships in Southwark and Tower Hamlets in the UK	We have delivered hundreds of MoneySense lessons to the schools we partner with during 2011. Additionally our employees volunteer to support the schools through a range of activities including improving the children's literacy and numeracy skills, providing IT support and building playgrounds.

### 2012 Priorities

We will continue to develop innovative ways to support customers in financial hardship and make real enhancements to help customers avoid unmanageable debt

We will aim to ensure our products and services are accessible to all our customers where suitable. We will take an active role in Financial Inclusion by delivering basic banking services and affordable credit

We will work towards being recognised as the leading provider of innovative financial education to schoolchildren aged 11-18 to help improve financial capability for the future. We will provide financial education to adults

We will promote financial wellbeing by working in partnership with free money advice providers to create industry enhancements

We will work to deliver community initiatives that have a positive financial, social and environmental impact

## Review of sustainability themes 2011

# Fair banking continued

### Our customer commitments

#### Serving customers well in the UK

- Queues – in 2011, 82% of our customers were served in less than 5 minutes in our 300 busiest branches.
- Supporting communities – we continue to serve more than 400 remote communities with our mobile banks. We have remained open in all the 168 locations where we are the last bank in town, and more than 1,200 of our branches are now open on a Saturday.
- Being responsive – for those customers who choose to contact us by telephone, we answered 90% of their calls within 1 minute in our UK based call centres.
- Act Now Alerts – set up in response to customer demand, these alerts let customers know if they are about to incur charges, providing them with the opportunity to take corrective action and avoid the charges. So far we have sent over 2,600,000 alerts.
- Literature – we have rewritten all of our branch literature, over 1,100 letter templates and our main product web pages, providing clear and transparent guidance so that our customers can make informed financial decisions.
- Emergency Cash – we launched our award winning Emergency Cash service for customers who have lost their debit card or had it stolen. We are the only UK banking group to offer this service, which helped more than 50,000 of our customers in 2011. "RBS Group is the winner of the award because it identified a problem faced by thousands of its customers every year and then worked out a solution that helps those customers. Initiatives such as this are – in the eyes of our judges – key to the development of the reputation of the banking sector as a whole, and RBS Group is leading the way." Personal Finance Awards spokesperson.
- Community investment – our CommunityForce initiative provided 478 local projects with a share of the £3m fund, while our UK Retail employees have participated in over 16,000 days of community volunteering.

In 2010 RBS and NatWest made a public commitment to become the UK's most

Helpful and Sustainable Bank. As part of this we launched our Customer Charter – a set of specific commitments based on what our customers told us they wanted from their bank. We pledged to be open and honest about our progress and to publish independently assessed reports along the way.

We have continued to make good progress in 2011, meeting 23 of the 25 goals which we set ourselves. Over and above this, our work towards becoming the UK's most Helpful and Sustainable Bank has also been recognised externally through the awards we have won for our branch network, our call centres, our new mobile apps, our online service and our products.

Our customers have told us they want easier and faster ways to communicate with their bank. In response to this we have launched two twitter accounts: @NatWest\_Help, @RBS\_Help, where we respond to customer questions and complaints. We have also launched an 'Ideas Bank' page on our NatWest and RBS websites, giving customers a new route to share their ideas of how we can improve our service. This will help us to deepen our understanding of what our customers really want from their bank and will enable us to make the changes that really matter to them.

#### Ulster Bank's Customer Commitments

Ulster Bank's Customer Commitments, launched after extensive research in 2010, address the issues that matter most to customers across the island of Ireland. They set out measurable goals to drive service improvements in areas such as – response times for telephone and branch services, provision of Saturday branch service, practical text alerts, prompt and fair complaint resolution and strong local community support (including a commitment to financial education). The latest externally audited assessment shows good progress:

- 90% of customers served within 5 minutes in branches
- 98% of customers satisfied with helpfulness of branch staff and 95% with helpfulness of staff on the phone
- 25% of branches opened on Saturdays; opening hours extended and no branches closed
- 67,000 have registered for text alerts to help stay in control of their finances.

#### Citizens Customer Commitments

Citizens recently launched its Customer Commitments which focus on listening to the customer, making banking accessible and earning trust. A comprehensive mystery shop programme has been created to ensure the Commitments are being met and highlight opportunities for enhancing their service.

- You will be warmly greeted every time you visit our branch
- As your trusted advisor, I will offer a complimentary financial review to help you achieve your goals
- I will show you how you can bank any time and any where
- I will explain the pricing and value of your products and services in clear terms
- Whenever possible I will resolve your inquiry immediately. If I can't, I will update you within 24 hours.

### Responding to Customer Complaints

We reported 259,119 banking and credit complaints to the FSA for 2011. These are the complaints that we had not resolved by close of business the day after we received them from our customers.

We are taking action to fix the issues that cause customers to complain whilst also making the process easier. We've rewritten and reissued the complaints leaflets in our branches and also made it much more straightforward to submit a complaint via rbs.co.uk and natwest.com. We want to make sure that if a customer does complain, we deal with their issue fairly and promptly. In 2011, we trained in excess of 5,500 staff in our revised complaint handling processes that are designed to deliver a fair outcome to customers.

The revised processes emphasise our priority focus to deliver a fair outcome for the customer. As such, our complaints that are deemed to be externally reportable have increased as we have taken greater time to resolve them.

We publish our top five complaints each year as part of our Customer Charter report. Payment Protection Insurance (PPI) remains the cause of most complaints even though we have not sold these products for quite some

## Review of sustainability themes 2011

### Fair banking continued

time. Our focus in this area is to ensure customers receive a fair outcome and so we have invested in additional staff, plus a facility to update customers who wish to track the progress of their complaint by text message.

In addition to addressing each individual complaint we have invested further in our concerted programme of tangible and focused action looking at the root cause of complaints to fix these where we can. All of our top 10 complaint categories have an active programme to reduce those complaints and we are seeing positive results. Figures show RBS and NatWest customer complaints for the early part of 2012 are at their lowest level for over 2 years. Some examples of changes we've made as a result of these programmes are below. We have:

- Made innovations like 'Act Now' text message alerts to help customers manage their money better and so avoid charges on current accounts. More than one million customers have registered for this service
- Clarified our payment timescales and trained our staff to help customers avoid late credit card fees wherever possible
- Introduced a new system that helps staff give customers information on how to avoid charges, together with increased measurement of the quality of customer service we provide, this means we can identify and address any specific issues locally and quickly and so reduce complaints about staff knowledge
- Made changes so our collections team are now assessed on how well they have listened and helped customers to prevent complaints on collection processes. Additionally, from March 2012 we've simplified collections repayment plans.

A detailed breakdown of our complaints can be seen on rbs.com. As a consequence of actions we've committed to, we expect tangible reductions in our numbers of complaints in 2012.

In Ulster Bank three quarters of complaints during the year were resolved within two working days – and further work is underway to ensure increased customer satisfaction with complaint handling. There has been substantial investment in the complaints handling operating model in Northern Ireland. If a complaint cannot be resolved at first point of contact within 24 hours, it is transferred to

the new Complaint Handling Centre (CHC). This was established in 2011 to improve the quality of service we provide to our customers, increase our capability to handle complaints and to provide consistency in complaint handling.

### Responsible lending practices and products

#### Supporting customers in difficulty

Now, more than ever, it is important we support our customers in financial difficulty. At the same time, we must do all that we can to prevent them from getting in difficulty in the first place. As such, we have a dedicated team of 84 RBS and Natwest specialist staff who are there to identify and do all they can to help customers who may be facing financial difficulty. Established over two years ago, this team contacted over 190,000 customers during 2011 to provide them with the tools they need to gain better control of their finances.

We also work in partnership with the debt advice industry to support people in financial difficulty. We continue to provide support for the Common Assisted Self-Help scheme (CASHflow) – a self-help tool which enables customers to agree repayment plans with creditors directly, and which won a Credit Today Award for 'Best New Money Initiative' in 2010. CASHflow has helped the debt advice sector to reduce appointment and waiting times and focus their limited resources on those who need it most.

During 2011 we also established a Senior Steering Group responsible for looking at ways in which we might help prevent vulnerable customers becoming the victims of financial crime. The group have a much needed and timely role to perform and it is one which we hope will offer important practical help for customers in 2012.

#### Access to credit

In the UK we have continued to support first-time home buyers by offering mortgages of up to 90% loan-to-value. We have extended our mortgage offers so they remain open for six months, rather than the usual three months, which can be helpful if there are holdups in the house-buying process. During 2011 we helped over 18,000 first-time buyers into new homes, lending a total of £2.2bn. NatWest was the recipient of the Your Mortgage 'Best First Time Buyer Lender' award in both 2010 and

2011. We also actively support the Government Mortgage Schemes, the Scottish Government's Low-cost Initiative for First Time Buyers (LIFT), Income Support for Mortgage Interest (ISMI) and Mortgage Rescue Scheme.

In Northern Ireland, Ulster Bank helped 321 first-time buyers get onto the property ladder lending £24.6m through the Co-Ownership Mortgage scheme, where mortgages are offered in conjunction with the Northern Ireland Housing Association. Whilst the property market in Ireland continues to be stagnant, in the Republic of Ireland we lent €34m to first-time buyers, representing 40% of mortgages lent to first-time buyers in the Republic of Ireland.

In the US, home ownership continues to be an important financial goal. In line with its prudent approach to lending, in 2011 Citizens launched the 'Citizens for Homes' programme which is based on clear terms and manageable debt. Loan officers and branch staff have undergone training to improve the quality and frequency of mortgage discussions. Citizens has maintained one of the lowest default and foreclosure rates in the industry. For those applying for a mortgage through the Federal Housing Administration, Citizens offers discounted home loan rates, thereby supporting home ownership for those with low to moderate income.



#### Our products

Customers have told us they want fewer, simpler products with easy to understand fees and charges. That's why in the UK we have reduced our range of current accounts and simplified the features and benefits. We have made it easier for customers to understand

## Review of sustainability themes 2011

# Fair banking continued

how their overdraft operates and how they will be charged, halving our range of unauthorised overdraft charges from four to two. We also provide a fee and interest free buffer on unarranged overdrafts, of up to £6, to ensure customers aren't charged for only going a few pounds overdrawn. We value the opinion of our stakeholders and the simplicity of our fee and charging structure has received positive feedback externally.

As well as simplifying our products we've simplified our communications. We have rewritten all the brochures and leaflets in our branches and refreshed the web pages for our main products. We have also rewritten the majority of our customer letters making them more straightforward and easier to understand.

Our packaged accounts offer products and services for customers that can save them money. Defaqto, a leading independent research company, has awarded this range a five star rating. We recognise, however, that these accounts will not be the right choice for everyone and during 2011 we made many enhancements to the way these accounts are sold, as well as the after sales service we provide. Eligibility criteria and exclusions are made clearer at the point of sale, while follow up calls are made to many customers to check they are satisfied with their decision. In 2011, we also wrote to customers who may no longer be eligible for certain account benefits and encouraged them to review the suitability of the product for their needs.

RBS and NatWest have also introduced a new incentive scheme for frontline staff. The scheme has been designed with customer service at its core. It moves the emphasis from product specific sales to acquiring, retaining and growing customer relationships based on quality of service and products that fully align to customer needs. The new scheme represents a significant shift in positioning for our frontline staff and is a great opportunity for us to enhance our customer service offering and further embed a helpful and sustainable banking culture.

Eligibility and suitability of product sales continue to be a point of focus in Citizens. In 2011, Citizens introduced three new plans that customers can pay to have incorporated into their current account package. The plans offer added value and savings for customers with a

choice of optional add-ons including purchase protection, cash back rewards, discounts on shopping, and identity and fraud protection. An online calculator helps the customer determine whether their chosen plan provides the best value possible for their needs. If not, the plan will not be recommended for purchase.

### Support for savers

In 2011 the Fairbanking Foundation awarded the 'Your Savings Goal' tool with a three star accreditation.

This tool allows savers to create a savings plan and monitor progress each time they log into digital banking. The Fairbanking Foundation is a research based charity dedicated to encouraging and helping banking institutions to improve the financial wellbeing of their customers. RBS was the only high street bank to receive an award in an assessment of more than 40 UK institutions.

One of the major changes in the economic landscape since the financial crisis took hold has been a big increase in Irish households' interest in savings products, as many households are now saving a higher proportion of their income than in the pre-crisis period. Ulster Bank's Special Interest Deposit Account offers customers greater simplicity in terms of the interest structure, flexibility and instant access to their cash. It's proven highly popular across Ireland – in 2011 over 35,000 accounts were opened in the ROI and over 22,000 in NI.



### Income protection

The mis-selling of payment protection insurance (PPI) is a key issue for our customers and RBS regrets any loss our

customers have experienced as a result of the sale of a product that may have been inappropriate for them. We have improved our operational structure and recruited hundreds of staff to work on resolving all PPI complaints and repaying affected customers as soon as possible. We are now achieving a turnaround time of 8 weeks from receipt of a complaint to an offer being made, and a further 28 days from acceptance of the offer to payment with customers receiving interest if there is any delay in payment. The RBS group, which includes NatWest and Ulster Bank, has set aside approximately £920m for repayment to customers who were wrongly sold PPI. In 2011 we offered repayment to customers in relation to 157,000 PPI policies.

There is still customer demand for an income protection product that provides safeguards in the event of an individual not being able to work. Our new Income Protection Product has been carefully designed to offer the correct level of protection in the best interests of the customer, and was shared with a number of consumer agencies before launch.

Through the regulated advice we offer to our customers, we have helped over 339,000 people understand their protection and investment needs. By providing them with bespoke advice based on in depth discussions, we can ensure we can provide them with the most suitable product for their needs. We have also paid out £56m to customers with protection policies, helping families and dependants cope at the most difficult of times.

## Access to financial services

### Financial inclusion

Basic bank accounts are designed for customers who have a poor credit rating, who have never had an account before or simply want a current account without an overdraft. We continue to open a significant number of basic bank accounts with 1.1m currently in operation. Over 170,000 of these were opened in 2011.

In addition, we run a Trusted Partner programme that allows third party organisations, such as Credit Unions and Housing Associations, to open NatWest or RBS basic bank accounts for those individuals who would rather deal with a trusted intermediary to guide them through the financial system.

## Review of sustainability themes 2011

# Fair banking continued

In 2011 we opened over 550 basic bank accounts for customers through our trusted partners.

Our basic bank account customers can access their money free of charge at over 8,000 ATMs across the country through RBS, NatWest, Ulster Bank, Tesco and Morrisons. We continued to grow our ATM network in 2011 and installed another 248 machines. In addition to full counter services in branch and full online and telephone banking services, our basic account customers can also access their cash at all Post Office counters, and via cash back at many retailers. We also recently upgraded all our basic bank account Solo cards to Visa debit cards, giving users greater protection from fraud, and freedom of use in a wider range of shops in the UK and abroad.

In light of the wide-ranging access we provide to basic bank account customers, we took the decision in 2011 to prevent withdrawals from competitor ATMs. We pay a charge each time a customer uses another bank's ATM and this change ensures that our free bank account remains sustainable.

We have made provision for the minority of customers who have advised us they are adversely impacted by this step, by providing them with an account which offers full cash machine access.

### Access to banking

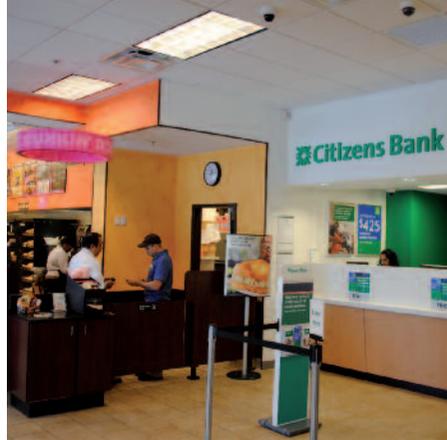
We want to make it easy and convenient for customers to reach us when they want. During 2011 we have broadened the availability of our banking services either through location or technology. By partnering with the Post Office all customers now have an additional 11,000 places that they can access their money across the UK. At the end of 2011, there were 2,121 NatWest and RBS branches in the UK. Our Customer Charter commitment states that we will extend opening hours in our busiest branches. In 2011, we opened 846 of our busiest branches every Saturday and this was increased to 1,271 branches from November onwards. We also extended our opening hours in 244 of our busiest branches. We continue to operate UK-based call centres, 24 hours a day. During 2011 our telephone banking centres won two 'Top 50 Call Centre for Customer Service Awards' – Best Bank and Best Large Contact Centre.

We provide a mobile bank service to rural communities in the UK and Ireland that don't

have access to a local branch. We have a combined total of 21 NatWest, RBS and Ulster Bank mobile branches that make 478 stops in total per week – with NatWest and RBS mobile branches covering 7,000 miles per week. We also have a flying branch service serving the islands of Scotland.

### Convenient banking

In another example of our commitment to convenience, Citizens opened a full service branch inside a Dunkin Donuts outlet, the second of its kind for the Bank. Customers can bank at the branch in the greater Boston area on weekdays between the hours of 6.30 am – 6 pm, as well as Saturdays and Sundays from 9 am – 2 pm. Jerry Sargent, President of Citizens Bank, Massachusetts said "Our customers have very busy lives, and our goal with this and other co-located branches is to make it as easy as possible for our customers to take care of their banking needs when, where and how they want."



### Innovative technology solutions

Advances in technology are also allowing us to improve the customer experience, and RBS is currently the number one provider of mobile banking technology in the UK. RBS recently celebrated the one millionth download of our mobile banking app, which is now available for iPhone, Blackberry and Android smartphones. Every day, hundreds of thousands of our customers use this technology and we have scheduled further enhancements for 2012 to meet their banking needs. Ulster Bank was the first bank in Ireland to introduce a mobile banking iPhone app and this year launched an updated version, providing even greater functionality.

We have also invested in our online banking service, simplifying the online payments

process, enabling customers to make international payments online and also view the amount of interest earned on their account during a tax year. Ulster Bank has also improved its online payments process, making banking easier for customers as the processes are simpler and more streamlined.

Citizens launched a video banking pilot in 17 branches this year – an exciting development which provides customised on-demand professional advice through in-branch video conferencing. The service offers specialised advice on mortgages, wealth management and small business lending. It includes the capability to open accounts, schedule appointments, and sign documents on the spot.



### Working in partnership

We work in partnership with third sector organisations to deliver the best solutions for all our customers, regardless of their needs. During 2011 RBS worked with the charity Mind to look at how we can support customers affected by mental health issues. Research carried out by the charity and funded by RBS found that a high number of people with mental health problems are living below the poverty line as they struggle to cope with managing their money. In response, RBS have funded Mind's 'Money and Mental Health' guide, available in doctor's surgeries, local Mind offices and online, which aims to support people living with a mental health illness to manage their financial affairs.

Further to this, we have partnered with Money Advice Trust, the Royal College of Psychiatrists and industry bodies, to produce both basic and specialist training to better equip our staff, as well as the rest of the industry, to support over indebted customers with mental illness. This training will be rolled out during 2012.

We have also worked in partnership with the National Fostering Agency (NFA) during 2011 to launch a bank account product to help

## Review of sustainability themes 2011

### Fair banking continued

children in foster care save for later life. Foster carers often face administrative barriers when trying to set up savings accounts for children in their care and this unique RBS account means that the NFA can act as trustees on the accounts.

Over the last four years RBS and Macmillan Cancer Support have been working in partnership to help customers tackle the money worries caused by cancer. RBS has supported the founding of a Macmillan Financial Guidance Service, which began its pilot in 2011. The independent service aims to reduce the financial impact of cancer by helping to guide people to plan and make good decisions about their finances through their cancer journey. Currently 2 million people in the UK are living with cancer and half of those see a significant impact on their finances because of the disease.

We support the work of many advice services. We are one of the largest funders of National Debtline and the largest funder of Business Debtline, both of which are telephone based debt helplines run by The Money Advice Trust. RBS also provides funding for a Citizens Advice Creditor Liaison Officer, and financed four new call centres for the Citizens Advice line which is available in England and Wales.

Ulster Bank partnered with Parentline and Parenting NI to support Parents' Week in 2011. During this week Ulster Bank launched a new booklet 'Making the Most of Your Family Budget' that provides sensible and practical tips to help parents budget, manage spending, and indicates where to find out about benefits and how to encourage children to develop good money habits. This booklet has reached over 15,000 families so far.

### Financial education and capability

The RBS group has been supporting schools to deliver financial education since 1994. Our MoneySense programme teaches young people about the importance of good money management and personal finance so that they can become confident in making the right financial choices for their future. In 2011 we delivered 34,838 MoneySense lessons in Great Britain against a Customer Charter commitment of 25,000, reaching 386,604 pupils. Our new 2011 resources received the

Personal Finance Education Group Quality Mark and we were re-accredited with the Big Tick award from Business in the Community. The MoneySense programme also continues to grow in reach and popularity in Ireland. During 2011, there was a 216% increase in teacher registrations and over 16,000 students were reached.



#### Ulster Bank Financial Capability Awards

Over 100 students, teachers and financial education experts attended the first Ulster Bank Financial Capability Awards held in the Great Hall, Queen's University, Belfast during the summer of 2011. Held in association with the Council for the Curriculum, Examinations and Assessments, nine schools received awards for outstanding work in the area of personal financial education taking place in post primary schools across Northern Ireland.

The awards were created following the success of the RBS Personal Financial Education Awards which have been running in England, Wales and Scotland for the past four years.

Una Brennan, Principal of Parkview special needs school based in Lisburn Co. Antrim, outlined what winning an award meant for her and her students "I cannot thank you and everyone involved enough for the absolutely wonderful time both pupils and staff had at the Award Ceremony. When Professor Tony Gallagher spoke about the likelihood of many of the students present that day eventually becoming students at Queens University Belfast, I remember thinking that Parkview pupils will unfortunately never have that opportunity.

But Ulster Bank made it possible for the pupils to be involved and included in that most prestigious event."



In partnership with The Scout Association in England and Wales we have created customised materials so that more young people have access to practical and engaging money management material. The focus of this new partnership is to equip young people with financial skills for later life – an important life skill.

Our MoneySense Research Panel report published its fourth year results in 2011, tracking the financial attitudes and behaviours of young people aged 11 to 18 years. It is the most in-depth survey of its kind in Great Britain and is intended to inform schools, businesses and policy makers on young people's understanding of money matters. The findings also shape the content of our MoneySense programme and online resources so that they continue to be relevant and reflective of students' needs.

The latest report demonstrates the expectation gaps of Britain's young people and the importance of financial education programmes like MoneySense in schools. Over the last five years, 1 in 10 secondary school students in Great Britain have had a MoneySense lesson. Our research has shown that those who have had two or more MoneySense lessons have better knowledge of financial products and services, believed it was important to save and are more likely to keep track of their spending.

NatWest and RBS produce 'Pocket Money' magazine which is aimed at 7 to 11 year olds and their families. It encourages discussion at home, a more positive attitude towards money and finance and provides useful hints and tips for all ages. 53% of readers have told us that they saved more money and 60% used the financial tips. We also launched a new Pocket Money website during 2011.

## Review of sustainability themes 2011

### Fair banking continued

We continue to provide access to wide ranging impartial money management guidance for adults via our website and in-branch brochure. The 'Six Steps to MoneySense' is an action plan to help customers get their finances on track and includes a helpful budget planner. In addition, financial products are explained clearly without jargon and help is provided for a number of life's key events such as buying a home, or dealing with the financial impact of difficult situations like divorce or bereavement. Information is supported by the Consumer Credit Counselling Service and further support is offered by the Money Advice Service.



Dave has also worked with his local MPs and Leicestershire County Council to offer budgeting advice for people moving from weekly to monthly pay. In addition the local branches in his remit are being opened up to visits from the Leicester Education Business Company who create links between business and education. Young people will visit the local branches to learn more about business, working life and banking as a possible career choice. The success of these projects is a testament to the vast network that Dave has built in his local area, as well as the hard work and dedication of his team.

#### CommunityForce

2011 also saw the launch of CommunityForce, a project designed to support local communities by enabling customers, staff and the wider public to vote for the causes that matter most to them, and offer their time as volunteers. Each of our 158 Local CEOs awarded three charities or projects in their communities with a share of the £3m fund, thereby keeping the benefit at a local level. This initiative received over 450,000 votes for the 6,800 charities and projects nominated – a great demonstration of community spirit across the UK.



### Support for our communities

#### Local Chief Executive Officers (Local CEOs)

In 2011 we restructured our Branch Banking model to respond to the demand for a more local level of service. This included the creation of a network of Local CEOs, empowered to make decisions and encouraged to take an active role in the wider success of their local community.

#### Making a local impact

Dave Fawcett has made a big impact in the community since becoming Local CEO for Leicester in June 2011. Firstly, he directed all NatWest sponsored fundraising in the area to the charity 'Wishes 4 Kids.' This charity was created to grant a wish for children and youngsters in Leicestershire with life limiting or terminal illnesses or those who have been the victims of abuse. During 2011 Dave and his team raised a total of £2,900 for the charity.

#### CommunityForce winners

'Silver Birch,' based in the Kelvin Valley and Monklands region of Scotland, provides work experience and skills development to adults with learning disabilities through social and therapeutic horticulture. Through our CommunityForce initiative the charity was awarded £6,000 and has benefitted from the opportunity to increase awareness of the work that they do within the community.

The Chilterns MS Centre was also recognised by its local community as a worthy winner of the £6,000 CommunityForce funding. Lisa Fordred, the Local CEO for the Chilterns, spent a day with the charity which provides the only local and free of charge source of drug-free treatments and therapies for people with Multiple Sclerosis.



Many of our employees are passionate about volunteering and fundraising in their local communities and our RBS and NatWest Retail Banking staff gave over 16,000 days in 2011 to do just that. In addition to a number of nationwide partner charities who offer our employees various opportunities for one day volunteering, over 600 CommunityForce projects have registered an interest in support from the wider public and our employees and we will soon be introducing local staff to these charities.

## Fair banking continued



### Community investment

Our CommunityForce initiative provided 478 local projects with a share of the £3m and our UK Retail employees participated in over 16,000 days of community volunteering.

## Review of sustainability themes 2011

# Supporting enterprise



RBS goes further than any other bank when it comes to supporting SMEs in the UK. We do this on a daily basis by making credit and working capital facilities available to viable businesses. We also want to help customers achieve their ambitions, and believe in providing the best possible breadth and depth of support to them.

**Chris Sullivan**  
CEO, Corporate and Institutional Banking

2011 Priority	Progress made in 2011
We will continue to provide free transactional banking for start-ups, a bank account for all and quicker processing of new account details to Sole Trader and Partnership Customers	As part of our comprehensive support for new business we continue to offer free transactional banking to start-ups. Our Foundation account is open to all businesses and is suited to those who are starting up or may not yet have built up a trading history. We have achieved quicker processing of new account details to Sole Trader and Partnership Customers.
We will provide a range of new online support tools and services to support and build capability in start-up businesses	We continue to deliver on this objective, with refreshed content launched in 2011. The Smarta Business Builder package builds capability in start-ups, providing all the tools businesses need in one place (marketing support, legal support, web design and accountancy).
We will enhance our regular customer satisfaction surveys to allow us to continually focus on improving the service we provide to our SME customers	In 2011 we carried out over 23,000 surveys on a monthly basis with our business and commercial banking customers. Our customer surveys have been improved in terms of format (moved from being e-mail based to phone based) and length (the Business Banking survey has been shortened) in order to help increase response rates.
We will ensure all of our Relationship Managers spend time working in a small business helping them to understand the issues SMEs face	The 'Working with You' initiative was launched in 2011 and sees each Relationship Manager spending a day working with two of their customers a year. 4,620 visits took place in 2011 giving Relationship Managers a deeper understanding of the issues SMEs face.
We will continue to meet our Treating Customers Fairly obligations. In addition, we will fully implement the recommendations from the BBA Business Finance Taskforce including those which increase transparency on lending decisions	As part of our commitment to treating customers fairly we have implemented a number of the BBA Business Finance Taskforce recommendations. These include the establishment of a transparent appeals process for when loans have been declined and letting customers know, a year in advance, if their term loan is coming to an end allowing them time to assess their finances.
We will increase the support we provide to the Community Development Finance Sector	We launched our support for the CDFA (Community Development Finance Association) "Change Matters 2" performance framework and conference. In addition, we provided £5m funding for a new 'Community Business Loan' which was launched in October 2011. Community Development Finance Institutions can apply for loans of between £200,000 and £1m.

## 2012 Priorities

- We will improve our products and services for small and medium sized businesses to help us deliver our Ahead for Business Customer promise
- We will accredit all our Relationship Managers and increase the time they spend in customer businesses
- We will increase our direct support to the Social Enterprise Finance sector to help the sector improve its capabilities and increase its capacity
- We will broaden our support for the green economy by developing products to help clients with energy efficiency. We will continue to be a proactive funder of environmental projects
- Courts will internationalise their online and events platform 'Knowledge Exchange' to enable knowledge sharing and experience amongst entrepreneurs
- We will increase our commitment to helping more young people start-up in business
- As part of our livelihoods programme, the RBS Foundation India will implement a financial literacy programme to build financial capability in communities

## Review of sustainability themes 2011

# Supporting enterprise continued

### Supporting small and medium sized enterprises (SMEs)

We are committed to supporting enterprise, and in the UK we provide banking services to around 1.1m SME customers, accounting for about 25% of the SME market. Our global network means we support businesses all over the world, and have a business presence in 36 countries. Each year we help many thousands of people to start new businesses and support many more who want to see their business grow. In challenging economic circumstances this assistance is even more vital and we place great importance on activities that stimulate economic growth. Our Specialised Relationship Managers work with stressed businesses with the aim of bringing them back to a mainstream banking relationship. In 2011 this was achieved for over 4,400 businesses in the UK.

The availability of credit for small businesses continues to be an important issue for our stakeholders. In 2011 RBS showed a 22% increase in new loans and facilities to UK corporates, exceeding its Merlin stretch lending targets. RBS new lending accounted for 48% of all SME lending reported by the Merlin banks, substantially above its customer market share.

In 2011 our UK Business and Commercial banking division approved 86% of term loan applications. In Ulster Bank the loan approval rate is an average of 86% across both Northern Ireland and the Republic of Ireland with a total of £841m new lending to businesses in 2011. The loan approval rate in Citizens Financial Group is 80%.

The economic environment has continued to influence the number of loan applications received across our business. This is despite the fact that, in the UK, the cost of loans to SMEs has decreased substantially over the past few years. In an effort to stimulate demand and increase lending, in November 2011, RBS introduced the Fixed Rate Business Loan. It is a highly competitive offer with no early repayment charges and no arrangement fees.

**Now is a good time to borrow**  
Josh Parker is the owner of a start-up business, Park Aluminium Ltd, which designs and installs architectural glazing. The RBS low cost fixed-rate loan offer has boosted his young company and helped it grow.



The loan is to help the business expand by taking on 3 additional staff. Josh would have gone for a variable rate loan as he expects to repay the loan early but can benefit from the lower fixed rate on offer with RBS, in his words 'I get all the benefits of a fixed rate but none of the downsides'.

Peter Ibbetson, Small Business Chairman at RBS and NatWest, said, "This is the cheapest I've seen small business lending in my 37 years in banking.... Our job is to help businesses realise now is a good time to borrow."

We also work with Governments to help businesses access credit. The UK Government Enterprise Finance Guarantee (EFG) is a loan guarantee scheme intended to facilitate bank lending to viable SMEs with insufficient or no security. RBS has led the way in lending through this scheme - out of the 27 UK lenders NatWest and RBS have provided over 40% of all loans drawn down.

We have recently agreed to become a provider of the Regional Growth Fund (RGF); a £1.4bn UK Government fund operating across England (excluding London and the South East) from 2011 to 2014. The RGF will help communities that are currently reliant on public sector funded jobs, create private sector growth and employment. The fund is aimed at projects that offer significant potential for long term growth, creating new jobs and re-generating local economies and communities.

In the US there has been a steady increase in the number of Small Business Administration (SBA) loans being provided through Citizens. These loans, geared towards start-ups and established small businesses, are available through a number of financial institutions, including Citizens Financial Group, and are backed by the US Government. They are offered on flexible terms and at competitive rates. Citizens has approved \$74.8m in SBA loan commitments during 2011, an increase of 86% from 2010.

#### Vice President Joe Biden announces banking industry commitment

Citizens Financial Group is one of thirteen banks that have committed to increase lending by \$20bn to small businesses over the next three years. This commitment was announced in 2011 by Vice President Joe Biden at the Ohio headquarters of a Charter One customer.

Wrap Tite is a provider of commercial packaging solutions and secured Small Business Administration (SBA) financing through Charter One Bank, part of Citizens Financial Group.

Ellen Alemany, Chairman and CEO of Citizens Financial Group, commented on the importance of SMEs to the local economy "Smaller companies like Wrap Tite are critical to job creation and to the overall prosperity of our local communities. We are pleased to participate in this SBA initiative, which we see as an important opportunity to highlight the lending activity that we and other banks are undertaking as smaller companies seek to grow their businesses and create jobs."

### Customer commitments

We have listened to our customers and there's one thing they all have in common – they want to feel confident that they can realise their business ambitions. Our 'Ahead for Business' UK customer promise, launched in 2011, is a promise to tune into our customers' ambitions and play a role in helping to deliver them. Our UK Business and Commercial Banking division is focused on:

- Sharing customers' ambitions – understanding our customers' business; recognising their goals and the challenges they face and ensuring our service is relevant to their needs.

## Review of sustainability themes 2011

# Supporting enterprise continued

- Delivering business expertise – being proactive and sharing our business knowledge, and by delivering relevant and practical solutions that truly benefit customers
- Making it simple – we want our customers to find their banking experience straightforward; allowing them to get on with running their business and spend less time banking.

Everything we do as a business is focused on delivering these three commitments. As part of this promise we have embedded continuous training for our Relationship Managers. In the UK our 'Working with You' initiative sees Relationship Managers spending at least two days per year working in a customers' business. 4,620 visits took place in 2011 and feedback received from customers indicates overwhelmingly that they benefitted from the visit.

In Ireland, business customers highlighted three areas of importance and the Ulster Bank Business Commitments are based on this feedback:

- Access to credit and working capital support – we will make credit available to sound businesses and assist with cash flow and working capital by committing to maintain overdrafts (unless there is a breach of the terms). If your small business loan application is unsuccessful then a clearly defined appeals process will be available to you.
- Clarity around where they stand with us – we will clearly explain the terms and cost of your credit as well as the factors that influence the price of your loan. We will tell you how long it is likely to take to process your loan application and give you our decision.
- Understanding and support for their business – we will deliver practical support for new businesses with our start-up and early stage business support package.

### Supporting customers in unforeseen circumstances

Natural disasters or sudden shifts in society can throw up unexpected problems even for the best prepared business. At RBS we recognise that we have a responsibility to support our customers through unforeseen circumstances.

We were the first UK bank to react to the summer riots with the launch of a £10m fund to support affected local businesses with interest free loans of up to £25,000 for up to six months. We also put in place a wide range of emergency measures to support our customers including fast track processing of requests, repayment holidays on existing loans and refunding of overdraft fees incurred as a result of the riots. At the end of the 6 month period, businesses could either repay the loan from these funds or transfer any outstanding amounts onto a flexible loan product.

The response showed our determination to play an important role within the communities we serve. For example, front-line staff from our business banking team in Haringey (London, UK) provided on the spot help and financial advice to businesses in a local support centre set up by the council. At a national level RBS contributed £500,000 to the 'High Street Fund' – a charity established to offer cash support to smaller firms directly impacted by the rioting.

#### Helping customers after Hurricane Irene

In the US Citizens Bank provided a variety of financial products for people and businesses affected by the extensive flood and wind damage caused by Hurricane Irene. Existing customers were offered up to \$10,000 unsecured emergency loans at 5 percent for up to seven years with no prepayment penalty. The bank also offered interest free credit cards for six months with credit lines of up to \$15,000.



### Helping businesses start-up and grow

We believe in fostering entrepreneurship to ensure future growth, innovation and

prosperity. In the UK we opened over 119,000 start-up accounts for new businesses. We continue to offer two years free banking, a £500 fee free overdraft in the first year, a fee free credit card in first year and access to a Hotline support service.

And our support goes beyond providing financial services. Through our partnership with Smarta, an online support network for small businesses, our customers have access to a Business Builder package which provides all the tools businesses need from web design through to accountancy. In 2011 we launched a free online business planning tool and refreshed our free online business course which is aimed at both start-ups and established SMEs.

Our business banking specialists went on the road last year offering free business advice across the UK. Our Ambitions Tour Bus travelled the country to find out just how we can help businesses achieve their ambitions. The bus is kitted out with the latest technology, including demonstrations of our Smarta Business Builder product, online banking facilities as well as our business review planning tool.

Despite ongoing economic difficulties, early stage businesses continue to be an important market for Ulster Bank. 6,000 start-up accounts were opened in 2011 which equates to over a third of all start-ups accounts opened on the island of Ireland. Its early stage business offering includes two years transaction free banking as well as access to an online Start-up Knowledge Centre.

Ulster Bank's online business community proposition – SmallBusinessCan.com continues to go from strength to strength and is now regarded as an integral part of Ireland's SME support infrastructure. Over 20,000 SMEs visited the facility each month to access information and to share insights and ideas with like-minded entrepreneurs. Additionally it enables the sharing of insights and expertise on various aspects of running and growing a business through Ulster bank's award winning 'Start up live' and 'Business Live' events series that are held across the island.

Launched in 2011 'The Knowledge Exchange' is an online resource designed exclusively for Coutts clients. The purpose of the site is to

## Review of sustainability themes 2011

# Supporting enterprise continued

help them seek guidance, build insight and understanding across a range of subjects, such as philanthropy and running a family business. The site features expert articles, video tutorials, case studies and interviews with clients sharing first hand experience.

### Ulster Bank supports SMEs to tap into thriving Irish export market



Record levels of exports were achieved in Ireland in 2011 despite the challenging economic environment. In an effort to help SMEs break into the export market Ulster Bank hosted a series of 'Business Live' events at which hundreds of SMEs learned from entrepreneurs experienced in trading abroad. The series kicked off in Belfast and continued in towns and cities across the island of Ireland. It was organised in association with SmallBusinessCan.com, Ulster Bank's online business community proposition.

The events featured entrepreneurs who are trading successfully cross-border and internationally who shared their experience and knowledge. The audience comprised of potential and established exporters, importers and cross-border traders.

Ian Jordan, Head of Business and Commercial Banking Northern Ireland commented "Exporting and importing aren't just for larger companies with significant resources and cash reserves; we also see lots of potential for small and micro businesses, particularly online. That is a key message of Business Live."

## Social enterprise

RBS has a strong heritage in supporting enterprise with a social purpose; in fact we have a dedicated Business Banking team to do just that. Our Community Banking team works with social innovators who deliver value for society, our customers and the Bank.

Social entrepreneurs can find it difficult to access credit, and so in 2011 we launched a Community Business Loan fund of £5m that will provide an alternative source of finance for social enterprises and community organisations that may struggle to access mainstream finance. Flexible, on highly competitive terms, this fund will issue loans of between £30,000 and £500,000 to organisations and social enterprises that reinvest profits for a social purpose. In the first few months of the fund, over £374,500 has been approved.

### Supporting community businesses

Scottish charity Crisis provides counselling services to more than 2,000 people each year. Recently many of these have been returning British soldiers from the conflict in Afghanistan. Last year their funding from the Government and charitable donations was drastically cut.

The charity secured a Community Business Loan of £30,000 over 5 years to enable the organisation to restructure itself as a social enterprise – marketing their range of training and employee services to a range of new business partners. The profits made from these private contracts are then reinvested back into the organisation. Crisis Chief Executive Jean Cumming says the change has made the organisation even stronger "It is much better to run ourselves as a straightforward ethical social business. It means we are much more independent and we can really effectively and confidently get the job done."

The Community Development Finance Association (CDFA) is the trade association for Community Development Finance Institutions (CDFIs), which lend to businesses, social enterprises and individuals that find it difficult to access mainstream finance. They can play a key role in creating economic development in the most deprived areas. We are committed to helping this sector grow and flourish, which is

why we have sponsored the CDFAs 'Change Matters 2' performance framework, aimed at raising professional standards. The framework is one of the CDFAs five priority commitments to build the CDFI sector, attract more investment for their members and in doing so increase access to affordable finance across the UK.

The RBS SE100 Index was developed by SocialEnterpriselive.com in partnership with RBS to track the performance of social enterprises across the UK. The index examines both their growth and their social impact. According to the latest index results, social enterprises across the UK reported rapid growth for the second year running and the total combined revenue of the RBS SE100 top 100 enterprises grew by 51%.

Coutts have drawn on this success during 2011 and hosted a series of events which bring together social entrepreneurs seeking funding and investors. These events form part of UK's first social enterprise advisory service, launched by Coutts in 2010, in conjunction with ClearlySo. Following the success of events in London, the service has expanded across the country. According to Rodney Schwartz, CEO of ClearlySo, "We are increasingly coming to a view that social enterprise might be the right way to get the economy rolling. However these enterprises require investment and Coutts have been instrumental in bringing their high net worth clientele in front of these businesses and helping them get off the ground."

## Supporting youth enterprise

Another aspect of our commitment to helping economic growth is the support we give to the next generation of young entrepreneurs. Through our strategic partnerships with organisations such as The Prince's Trust, The Prince's Scottish Youth Business Trust and Youth Business International we help thousands of young people get access to the business advice and finance they need to start up and succeed.

RBS has been the largest corporate supporter of The Prince's Trust since it first entered into partnership in 2001, with total funding of over £17m. We help fund the Trust's Enterprise Programme which offers young entrepreneurs loan funding, advice and the support of a business mentor. 140 entrepreneurs were directly helped through our support of this

## Review of sustainability themes 2011

# Supporting enterprise continued

programme in 2011. The charity is also backed by our employees who volunteered 426 days and raised £266,823 for The Prince's Trust last year.

Youth poverty is a growing problem in the UK. Around one in five young people are not in work, education or training. In 2011 we sponsored a flagship piece of research carried out by The Prince's Trust 'Broke, not Broken: tackling youth poverty and the aspiration gap' which looked into the differences in the attitudes and beliefs between young people from affluent backgrounds compared to those from poor backgrounds. The approach and support offered by The Prince's Trust helps to bridge this disparity. Even in these tough economic times, more than three quarters of young people helped by The Trust go on to work, education or training.

### Supporting enterprise through The Prince's Trust



RBS is a long-term supporter of The Prince's Trust, which runs programmes to give young people from disadvantaged backgrounds the skills, confidence and support they need for work and to lead successful lives. One such success story is Paul – a graduate of the Trust's Enterprise Programme. At 15 years-old Paul was forced to hide his homelessness from authorities so he could sit his GCSEs. After University Paul struggled to find full-time work, and remained unemployed for eight months, before seeking support from The Prince's Trust. Paul received advice from his business mentor regarding writing a business proposal and, after receiving a £3,500 loan, he set up his business called 24-7 Locksmith. Since then Paul has secured many contracts with both regional

and national companies. He now employs five full-time staff and the success of his first venture has led to expansion plans. Paul said: "My life has been transformed and my confidence and quality of life has improved immeasurably. Key to my success has been the support element offered by The Prince's Trust with regards to my business plan – it didn't just provide me with funding. I'm now proud to be creating jobs in my local community, so I can help other people to change their lives as well as changing my own."

RBS and The Prince's Trust were proud winners of the overall 'Best Corporate Partnership' plus three gold awards and one bronze award at the 2011 Corporate Engagement Awards hosted by Communicate Magazine. Judged by a panel of sponsorship and Corporate Social Responsibility experts, communications practitioners and academics, the partnership was recognised as the 'benchmark for corporate organisations supporting charitable enterprise' and a 'blueprint for long term, successful corporate sponsorship'.

We are the headline sponsor of two UK-wide student enterprise competitions run by Find Invest Grow – an organisation that supports undergraduates and recent graduates to start businesses in the UK. The RBS Enterprising Student Society Accreditation (ESSA) has been developed to highlight, benchmark and reward enterprising activity in undergraduate clubs and societies. RBS EnterprisingU is a national competition to find, encourage and invest in students' business ideas. Together the competitions represent the largest, most comprehensive student enterprise programme in the UK. The RBS ESSA was launched in October 2011 and has engaged more than 144 universities, held enterprise workshops with 5,500 students across the UK and recognised 204 societies' enterprising activity around the country.

Our focus on enterprise doesn't end in the UK. Youth Business International (YBI) is a global network of independent organisations that help young people start and grow their own business. Through our partnership we continued our support for youth enterprise programmes in Hong Kong, Russia and France during 2011, reaching 694 young people.

Global Entrepreneurship Week is a worldwide initiative that provides opportunities for budding entrepreneurs to connect with established business men and women who can give them practical support, and help them turn their business ideas into reality. A worldwide movement of entrepreneurs which covers 115 countries and 37,000 activities, the RBS group were headline sponsors of this year's event in the UK.

Not many people experience the challenges and rewards of setting up and running their own business. Ulster Bank and Young Enterprise Northern Ireland facilitated over 700 students to do just that through the 'QuickStart Programme' which provides students with an opportunity to set up and run a real company over a 10 week period.

### Using enterprise to tackle poverty and environmental degradation

The RBS Foundation India (RBS-FI) supports the development of sustainable livelihoods in the rural communities of India. We do this through various channels. Access to credit is of fundamental importance, and our 'Technical Assistance' programme helps create more robust, sustainable microfinance institutions located in the under-banked regions of the country. In 2011 37 small MFIs underwent an 18 month structured programme which made it possible for them to scale up their operations, access bank funds and increase the number of loans provided to unbanked communities. In January 2011 New Economy magazine pronounced RBS India the 'Best Sustainable Financial Institution' in India.

Enterprise has the power to change lives. Our livelihood projects, which are delivered in partnership with NGOs, provide practical support and advice which can range from sharing agricultural expertise to creating an eco-friendly tourist attraction. Over 64,000 households have benefitted from this programme.

## Review of sustainability themes 2011

# Supporting enterprise continued

### Supporting local enterprise in India

A proportion of the Indian population are dependent on the country's natural resources to make their living. Critically the RBS-FI helps these communities find prosperity whilst becoming environmentally sustainable too. "We must strive continuously to understand the role of business in tackling the critical issues of human development and environmental sustainability in developing countries."

*Meera H. Sanyal, Country Executive, India*

Barley is the only grain crop that is grown in the trans-Himalayan area. The water needed for cultivation would have been traditionally

provided by the melt water from mountain top glaciers. Climate change, however, has meant that the natural rhythm of this ecosystem has been altered, proving problematic for local farmers.

"The glaciers are receding which means at the time of sowing the farmers don't have any water," explains N Sunil Kumar, head of the RBS Foundation, India.

The solution to this problem is as simple as it is innovative; snow is impounded in December and January in a series of check dams close to the villages. The snow compacts and then melts at the right time to be used for sowing the barley.



"This is a typical case of a local response with very low cost technologies, to meet a local need that has been forced on them by the changes of global warming. It's ingenious." says Sunil.



### Supporting SMEs

We are committed to supporting enterprise, and in the UK we provide banking services to around 1.1m SME customers, accounting for about 25% of the SME market.

## Review of sustainability themes 2011

# Employee engagement



Long-term, sustainable success for RBS relies on recruiting, developing and retaining people who can deliver for our customers. That's why we value our people so highly, and are committed to offering them a great working environment.

**Elaine Arden**  
Group Human Resources Director

2011 Priority	Progress made in 2011
Listen to our employees and set the Group culture	<p>As the Group continues to make difficult but necessary adjustments to its structure and business model we have further strengthened our efforts to engage with, listen to and create an environment for dialogue between our employees. Our Group wide Employee Opinion Survey (EOS) tells us how our people feel about working at RBS. In 2011, 117,000 of our employees responded. The results were very encouraging, particularly given the environment they were achieved in, we out-perform our peers in the financial services sector in 12 of 13 categories. This year we went beyond surveying employees to build new two-way communications channels such as message boards and forums where our people can share their views on the issues affecting them. These Boards can have over 30,000 readers.</p> <p>This year we launched an 'Ambassadors' programme, open to all staff, which offers members the chance to receive extra information and insight on corporate developments and have their say on them. From a standing start we ended the year with almost 2,000 employees signing up to the programme. We also have a number of employee networks, for example, the Focused Women's Network that has over 5,000 members across 30 countries.</p>
Attract the best people	<p>Despite a period of intense restructuring across the industry and high levels of redeployment within RBS we remain a large recruiter in our key markets. We recruited over 25,000 people across the globe in 2011, helped by 2.5 million unique visits to our careers website demonstrating that RBS continues to be a highly attractive employer. The website is one of the most significant tools we have to attract talent, and has undergone a number of enhancements to improve candidate experience. We also hired over 1,200 graduates and interns across the Group in 2011, winning a number of industry awards and coming in the top 20 of The Times 100 Top Graduate Employers.</p>
Develop and reward our people	<p>Over 1.5 million learning modules were delivered to employees in 2011 as part of our comprehensive employee development programmes. This includes over 100,000 employees globally completing training in customer service and anti-money laundering. At a senior level, 1,000 employees undertook leadership courses at the RBS Business School which have been recognised with an award for Excellence in Practice from the European Foundation for Management Development.</p> <p>On reward, in 2011 we carried out a review of our structures and took steps to streamline our key reward processes.</p>
Manage change and employee risks	<p>As we continue to work through the comprehensive restructuring of the RBS group we have placed an emphasis on building our capability and capacity to manage change across the organisation.</p> <p>Employees impacted by structural changes to the company were supported with a range of tools and services to help them find alternative roles either inside or outside of RBS. Our employee assistance programme, Lifematters, which provides support with emotional and practical issues was expanded to new parts of the business.</p>
Increase the profile and participation in our employee volunteering programme	<p>In 2011 we offered a number of team based volunteering activities and successfully engaged more employees across the business divisions, with number of hours volunteered increasing from 170,000 to 235,000. We also began to look at ways to provide a broader range of fundraising and volunteering options with more opportunities for employees to offer their business skills and increase the impact they can have in local communities.</p>

### 2012 Priorities

Manage change and associated people risk (measured through the EOS)

Listen, act and keep improving employee engagement (measured through the EOS)

Develop and reward our people (measured through the EOS, leadership 360 and assessment scores)

Attract and retain the best people (measured through the EOS and high performing turnover rates)

## Review of sustainability themes 2011

# Employee engagement continued

### Listening to our people

While 2011 was another difficult year for RBS, the banking industry and the wider economy, overall employee attitudes have improved and people are feeling more positive.

The outcome of our annual Employee Opinion Survey (EOS) reflects our progress. Our focus on customer service, commitment to employee development, good management and leadership training, and to ensuring our people are satisfied and engaged at work, is demonstrated in the results below.

	2011 Group	2011 vs. 2010*	vs. Norm**
Customer Focus	83	2	+3
Risk Management	84	1	+9
People Leadership	79	1	+5
Collaboration and Working Relationships	80	0	+5
Respect and Diversity	80	2	+6
Image, Reputation and Communication	78	2	+1
Strategic Leadership	69	-1	+2
Job Satisfaction and Engagement	72	3	-3
Innovation and Empowerment	65	0	+4
Efficiency and Effectiveness	72	0	+5
Developing People	65	2	+5
Reward and Performance Management	66	2	+7
Managing Change	50	0	+3

\* only questions which the 2011 survey had in common with the 2010 survey are compared

\*\* Towers Watson Global Financial Services Norm – only questions which the RBS EOS has in common with the Norm are compared

### Developing our people

Delivering strong, sustainable business performance is dependent on providing our people with the right skills. In this year's Employee Opinion Survey, 81% of respondents agreed that they had received the development they needed to perform their roles.

At a senior level, robust succession planning for the Executive Committee and their direct reports takes place to ensure business continuity and success on a long term basis. This is backed up by a programme of talent management that runs throughout the rest of the organisation.

Promoting professional studies and external qualifications is another measure that helps to make sure our people have the skills they need. In 2011 we helped develop the Chartered Banker Professional Standards Board which will define and assure professional standards in the UK Banking industry.

Other examples of how we have developed our people include our Drive for Future Leaders programme that provided training to over 1,500 new line managers in Retail Banking and in our Corporate Banking division over 2,500 Relationship Managers have been externally accredited by the Chartered Institute of Bankers.

Last year also saw the 34th group of senior employees complete our award-winning Leadership Development Programme. The programme's two core modules are Managing for Value Creation and Strategic Risk Management – both integral to achieving the Group's long term objectives. An independent survey has shown that after the training, 91% of attendees felt they were better equipped to take accountability and ownership for delivery of the Group's strategic business plan.

### Flexible working solutions

As an employer the RBS group is committed to offering flexible working. A Group-wide change programme was launched in 2011 to encourage greater flexibility by bringing together solutions involving technology, human resources and the management of our properties.

The Group is in the process of rolling out new technology to make it easier to work from home or in different locations. The maternity, paternity, parental and adoption leave policies in the UK and Ireland were reviewed and adapted to ensure equal levels of support and information for all employees who want to take time out to care for their family.

### Supporting our people during restructuring

In response to the financial crisis and regulatory demands, the RBS group has undertaken a major restructuring programme. As a result the company has continued to reduce in size, inevitably leading to changes to the overall number of employees.

2011 was another year of significant change for the Group, which included a number of internal restructures. The consequence of this was a 2% reduction in headcount across the Group. Our total headcount was 142,644 at the end of 2011, compared with 145,500 at the end of 2010. We aim to avoid making people redundant wherever possible, however 2,883 people left the Group due to compulsory redundancy in 2011. The below table has further details of the number of employees who have left through redundancy or early retirement.

Redundancies in 2011*				
	CRs	VRs	ERs	Completed exits
UK	1,828	1,552	434	3,814
Rest of World	1,055	694	9	1,758
Total	2,883	2,246	443	5,572

CR = Compulsory Redundancy VR = Voluntary Redundancy  
ER = Early Retirement

\*In January 2012 we announced the restructuring of our wholesale banking division. Regrettably, this may eventually lead to a reduction of around 3,500 employees. We will continue to consult with our various social partners and work hard to minimise the impact of these proposals.

A priority for us through all of this change has been to manage the impact of job losses. Employees affected by redundancy are supported with a range of services, such as our in-house redeployment and outplacement services for clerical and appointed level staff. They help employees to find alternative roles inside and outside of the Group and more than 4,000 people were referred to these services in 2011. 'Lifematters', our employee assistance programme, is a separate service which is on hand to support employees with emotional and practical issues, including the pressures associated with job changes.

### Remuneration

The way we pay and incentivise our employees continues to attract intense scrutiny from our stakeholders. In response, we've increased our disclosure of remuneration information and we believe we are now one of the leading organisations within the sector in this regard. Full details can be accessed through our annual remuneration report in our 2011 Annual Report and Accounts.

It's acknowledged that getting this issue right

## Review of sustainability themes 2011

# Employee engagement continued

means striking a fine balance. On the one hand, we must have plans in place which attract, retain and motivate employees in order to drive business success. However, we have an equal commitment to our shareholders to ensure that pay is restrained and firmly linked to performance.

The management of this process is driven from the top of the business, in tandem with a highly robust governance system. This involves the Group's Remuneration Committee overseeing a Group wide Remuneration Policy which is explicitly aligned with effective risk management. To underline the link between pay and performance the Board agrees Group and divisional targets which are determined by the risk appetite and long-term interests of the business. These targets – once approved by the Remuneration Committee – form the basis of objectives given to our senior executives. They are then cascaded through the divisions and functions.

We have made a number of enhancements to the deferred award process and claw back guidance. This details the way in which performance awards are granted to employees over time and details our approach to and the circumstances in which we could withhold or claim back awards previously made. This has clarified levels of accountability and has given a more concise and clear process for future years.

We continue to review the compensation structure to make sure the fundamental pieces of our remuneration strategy remain fit for purpose – that we're rewarding both performance and responsible behaviour.

One remuneration issue that has drawn particular attention is the company's bonus pool. We have a rigorous process in place to determine this, which looks at a wide range of financial and non-financial performance factors, in conjunction with considerations of market competitiveness and franchise protection – ultimately producing a robust assessment of the appropriate level of bonus funding. The Remuneration Committee's discretion is fundamental to this process, giving a high degree of flexibility.

## Diversity and inclusion

At RBS we strive to be an inclusive employer that values differences and embraces diverse thinking.

Within the company, diversity initiatives on gender and lesbian, gay, bisexual and transgender (LGBT), disability and race are led by Executive sponsors. Responsibility for our strategy in this area rests with the Board and Group Executive Committee.

Efforts to improve gender diversity have focused on offering support networks and training. Our Focused Women's Network supports the development and career advancement of all employees, and anyone can join. Members are given opportunities to network internally and externally; get involved in activities that will help them excel and challenge themselves, and gain access to additional personal development. The network has increased its membership on a global basis to over 5,000 in the last year.

At Board level the percentage of female members increased from 9% to 23%, bringing us close to the recommended industry target of 25% in the UK. The changes have ensured there is a vast range of experience and expertise on our Board, making it stronger as well as more diverse.

The percentage of female executives increased to 18% in 2011, while senior managers remained the same at 26%.

We introduced a number of new leadership programmes for women during the year.

2011	Female	Male
Clerical	66%	34%
Appointed	47%	53%
Manager	33%	67%
Senior Manager	26%	74%
Executive	18%	82%
Group gender split	53%	47%

Recognition of the progress the bank is making on providing opportunities for women in the workplace came with inclusion in *The Times* Top 50 Employers for Women in 2011.

Our work on diversity also means we now have one of the largest LGBT employee networks in the banking sector. The Rainbow Network has been in operation for 7 years and is open to all employees. In 2011 its membership grew from 878 to 1,096. One of the biggest events run by the Network last year was the sponsorship of Manchester Pride.

## Employee volunteering and giving

Our people tell us that one of the things they like most about working for RBS is the opportunities they're given to support good causes. As well as matching employee donations and fundraising, we also support employees to get involved in the community. In 2011, nearly 56,000 employees contributed over 235,000 hours in working time, making a huge difference to communities across our operational footprint.

We also recognise the things that matter most to our people by matching their charitable donations through our payroll giving scheme, which means that, in total, £6.55m was donated to 3,500 charities across the globe in 2011. In addition, the fundraising efforts of employees are also supplemented through our Community Cashback scheme – in 2011 over 3,000 charities received £1.43m. And for our most committed fundraisers, we have a 'Community Stars' awards scheme that recognises where exceptional effort has gone into supporting good causes.

As a global business with employees across numerous countries, we also try to offer support to areas of the world where devastating natural disasters can cause havoc. Following the tsunami in Japan, we launched an employee appeal, with a simplified donations process. Over £149,000 was given by employees and with the Group's support the total raised for the relief effort was over £282,000. These funds were split evenly between three disaster relief organisations; Save the Children, The British Red Cross and Oxfam.

Last July, the severe droughts that hit East Africa threatened to affect 12 million people. We launched an appeal and employees donated over £47,000 which, with our support, meant that a total of £91,000 went to help Oxfam's work in the region.

### Helping the local community

Gary Beggs is on the board of AFC Liverpool – a not-for-profit football club owned by the fans. Part of Liverpool Football Club, it aims to give something back to the local community and their families through health and fitness education and training courses. It also works with the homeless

## Review of sustainability themes 2011

# Employee engagement continued

providing gym sessions and football training. One of the many people Gary has helped became homeless following a family bereavement. AFC Liverpool worked with Liverpool Homeless FC to get the young man into the first team at the AFC Liverpool where he has emerged as a talented footballer and become a star player for the club. His life has improved immeasurably and he is no longer homeless – a testament to his own determination as well as the support he received from Gary and the club.

### Employability

Beyond our internal commitments, the RBS group recognises its responsibility to be a positive force within the societies in which we operate. As an organisation we aim to play our part in supporting the economy.

We're particularly proud to have a strong record in employing young people. In 2011 RBS recruited over 8,000 16-24 year olds across the Group. Other activities we undertake in this area include: work placements, business mentoring, apprenticeships, internships and graduate resourcing programmes.

We also work with external partners to help young people gain valuable skills to increase their employability. We have a long standing partnership with The Prince's Trust to help young people into work or to start their own business. A number of our employees also volunteer with The Trust to provide direct support to young entrepreneurs as business mentors. More information on our support for youth enterprise can be found in the 'Supporting enterprise' section of this report.

### Employee representation

More than half of our employees are covered by collective labour agreements or formal collective employee representation such as Trade Unions or Works Councils. We are committed to building positive and constructive relationships with our social partners. In 2011, we established a new European Employee Council (EEC), replacing the two European Works Councils previously in place. The EEC represents the views of employees based in all European Union and European Economic Area countries where the Group has a presence, and Switzerland. RBS informs and consults the Council on economic, financial, commercial, human resource and structural development issues that affect people in at least two EU/EEA countries, or the Group as a whole.

### Diversity and inclusion

The percentage of female executives increased to 18% in 2011, while senior managers remained the same at 26%. We introduced a number of new leadership programmes for women during the year.



## Review of sustainability themes 2011

# Safety and security



Protecting our people is a core principle of the way we do business. We use intelligence to help us prevent and manage incidents, and we are committed to creating a safe and secure environment for our staff and our customers.

**Ron Teerlink**  
Chief Administrative Officer

2011 Priority	Progress made in 2011
<b>Corporate Security Services</b>	
Continued global use and implementation of strategic technology solutions to mitigate the ongoing threats posed by organised crime gangs	We piloted a system which identifies fraud networks, and will now be implemented across our high risk businesses in 2012. We also installed the latest anti-skimming technology in high risk ATMs, enhanced our fraud profiling system for debit and credit cards, and improved protection for customers shopping online.
We will further extend the use of the online banking security tools across regions and businesses. In addition we will initiate a programme of work to enhance the e-commerce transaction security and customer experience	We extended the existing UK Retail online banking security tools to cover payments made through mobile banking applications. Trusteer Rapport, our online protection software, was made available for free download by personal, business and corporate customers in the US (this has been available to our UK & Ireland customers since 2009).
Delivery of our strategic solution to roll out identity document scanners in our UK and Ireland branches will commence	We deployed identity document scanners to 170 high risk branches within the UK and Ireland.
Further investment in risk management tools and techniques to enhance preventative activity and continue to improve management control awareness	We have an investment plan in place to enhance our fraud prevention. We delivered a Threat Management Framework across the Group to assess new threats, their impact to the Group and plan any necessary action. We carry out assessments of emerging threats to better enable risk based decisions.
Continue to improve the use of information in developing systems and training for staff so that the Group leverages its own knowledge of criminal activity	We developed training so that staff can effectively manage the key threats faced by the Group. Regular communications on fraud threats are sent to all Retail staff in the US, UK and Ireland. In 2011 training sessions were also given to over 1,200 employees in Europe and Asia. We carry out scenario planning exercises, which include threat inputs, to assess our capability to manage threats and inform decision-making.
We continually assess any threats to our people, business and assets; we will use these threat assessments to enhance our physical security capability	We have established a Physical Security Strategic Threat Management Group to review threats, assess impacts and drive mitigation activity on behalf of the Group.
<b>Anti-money laundering, sanctions and terrorism</b>	
Continue to enhance our prevention and detection technologies to detect, disrupt and report instances of possible money laundering and terrorist financing	Considerable progress made through system rationalisation and upgrades.
Further development to our Anti-Money Laundering (AML) and Sanctions and Terrorist Financing (STF) operating model	New organisational structures implemented to enhance oversight and control around AML/STF risks.
Further improve and standardise the enhanced baseline training for those who work in AML/STF operations functions globally	New AML/STF mandatory training launched to be completed by all staff.

### 2012 Priorities

Prepare for and manage the business ahead of, during and after the London 2012 Olympics, where the threat of terrorism is expected to rise along with public protest and the risk of crime

Extend online security software to mobile banking applications in the UK and US

Upgrade and enhance our existing debit card profiling technology in order to tackle fraud

Develop security awareness training for our people as well as business and personal customers

Work with Divisions to maintain security during significant divestment and change programmes e.g. sale of branches (NatWest in Scotland and RBS in England)

## Review of sustainability themes 2011

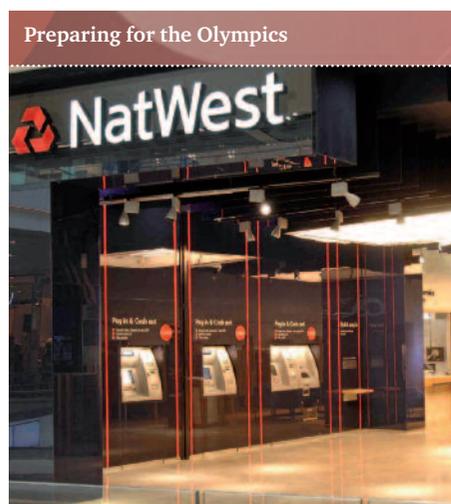
# Safety and security continued

### Physical security

Banks operate in an increasingly challenging context for physical security. We have responded to global economic instability, regime changes and political uprisings, the ongoing threats from domestic and international terrorism and emerging threats from domestic extremism and 'hactivism' (the act of hacking, or breaking into a computer system, for a politically or socially motivated purpose), throughout 2011.

The safety of our employees and customers is paramount. In 2011 we strengthened the resilience of our building stock internationally. To enable effective local management, we delegated control to 'Chief Building Officers' (CBOs) who received extensive training. The CBOs are senior business leaders who co-ordinate and drive local decision-making in the event of an incident. There will be CBOs appointed in all of our buildings globally in 2012.

We continue to strengthen the security of our branches across the globe on an ongoing basis. In the US, we invested \$1.4m in improved physical security for 215 branches. In the UK and Ireland, we spent £2.8m. These improvements included upgrades to cash transfer units, branch counter screens, CCTV and alarms.



Preparing for the Olympics

In response to the heightened risks associated with the Olympics, we've designed a new, more secure branch located at the gateway to London's 2012 Olympic park. The NatWest branch in Stratford is the first to use this innovative

design, which succeeds in joining improved security with a better customer experience. During 2012, we will roll out these design changes to improve our customer experience and enhance the security of other branches as part of our Retail investment strategy.

We also improved our incident management process so that we remain vigilant to potential threats. We launched a global Group Policy Learning Module for all staff in April 2011, highlighting the key security requirements that our employees need to understand and follow to protect themselves, our customers and our assets.

In 2011, the economic recession and geopolitical events across North Africa and the Middle East led to public disorder and protests in several regions where we operate. Coupled with the unrelenting threat from international terrorism, this led us to create a number of new processes and controls to manage our employees' safety. These included the introduction of travel bans and more stringent travel policies and the design of evacuation plans where it's decided any employees should make an immediate exit from a country.

The RBS group continues to be a target for protesters and there were a number of instances of direct action against RBS in the UK in 2011. While we fully support the right to legal protest, it's also incumbent on us to ensure that does not threaten the safety of our staff, buildings or operations. As such, we continually monitor possible threats of direct action, engaging with local police, law enforcement and intelligence agencies on a regular basis. We pro-actively assess the risks associated with protest events, so that we have an appropriate response in place.

A number of natural disasters had devastating effects across the globe in 2011. Our physical security team worked extensively with parts of the Group which were affected, helping to overcome the difficulties faced by our staff and operations.

#### Japan earthquake and tsunami

Following the earthquake, tsunami and resulting nuclear threat in Japan, we worked with the affected businesses to validate the safety and security of our 400 staff in Tokyo, minimise the operational impact of the incident, and enable business activity to continue as safely as possible.

Concern regarding the radiological threat to Tokyo led to the voluntary evacuation of a number of expatriates and international assignees, as well as local staff. We worked extensively with local and RBS incident management teams to provide real-time advice on evacuation strategies and to develop plans and provide guidance relating to the securing of assets in the event of evacuation.

### Information security

Protecting customer and employee information is a fundamental responsibility of the Group. In 2011, we invested £10m on data protection and further investment is planned in 2012.

An updated Information Security Policy Standard was launched in 2011 to take into account new threats and changing technology. The Policy Standard sets out minimum controls to enable Group information to be protected securely.

We use third parties to host some of our data. These arrangements are covered by strict contracts covering information security. The RBS group demands that third parties provide the same level of control as if we hosted the data internally and we carry out assurance activity to validate this.

It is imperative that we also manage our records safely. A new Records Management Policy Standard was launched in 2011 focusing on the controls required to manage high risk records – those that include customer information. These controls improve the sustainability of our records systems to reliably create, maintain, retrieve and dispose of our records in accordance with the expectations of our key stakeholders and legal and regulatory obligations.

## Review of sustainability themes 2011

# Safety and security continued

### Fraud prevention



We are constantly working to improve our fraud prevention measures. This includes increasing the security of our ATMs, cards and online banking.

Across the Group, losses in relation to fraud decreased by 9% compared with 2010, despite the volume of cases increasing by 2%.

We continue to invest in the protection of our customers, minimising the losses to customers by implementing a range of initiatives. These include the use of fraud detection software, enhanced security chip cards, protection when shopping online and the use of Chip and PIN abroad. In order to pro-actively respond to card threats, we have invested in a more advanced fraud profiling system to help us detect fraud more easily.

ATMs are still under threat of being targeted by card skimming (devices which read information from customer's cards). In response, we've installed the latest anti-skimming technology in high risk ATMs across the UK, Ireland and the US, minimising the opportunity for criminals to counterfeit customer cards.

Online crime remains a major threat to the Group. The most pronounced threat comes from malware – computer viruses and deceptive forms of communications which try to access customer information. In 2011, we extended the availability of Trusteer Rapport, our online protection software, making it available for free download by personal, business and corporate online banking customers in the US. Globally, Rapport has been downloaded over 6.4 million times since 2009.

Online banking fraud losses fell 24% in 2011 compared to 2010. Factors contributing to this fall include: customers better protecting their own computers with up-to-date anti-virus software; banks' use of sophisticated fraud detection systems; and banks providing customers with additional software and hand-held devices to log on to internet banking. This decrease has occurred despite a continuing rise in phishing attacks and attacks involving malware. Phishing attacks are up 80% from 2010. Due to our continued investment in online defences, the impact on our customers has been kept to a minimum and we will continue to investigate additional authentication technologies to protect our online banking customers.

In 2011 we launched a range of SMS text alerts to UK Retail customers. Now customers are sent text messages after specific activities take place on their account, keeping them informed and secure. We launched new mobile banking applications that have delivered new services to over one million customers. To help keep our mobile banking customers safe we have provided best practice advice for customers using mobile banking.

Identity (ID) theft continues to be a major concern for our customers, with the number of victims increasing across the industry in 2011. To help prevent this, we continue to develop ways to identify fraud networks and disrupt attempts by criminals to use counterfeit ID documents. We also installed new identity document scanners in key branches in the UK and Ireland. To underpin these technical changes we implemented a programme to enhance the awareness of identity theft among both customers and staff.

### Anti-money Laundering

In 2011 we continued to enhance our overall controls and governance around Anti-money Laundering (AML) and Sanctions and Counter Terrorist Financing (STF), supported by a Group-wide change programme. We also enhanced our Group-wide controls against Anti-Bribery and Corruption (ABC) to comply with the UK Bribery Act which was launched in July 2011.

In 2012 we will continue to embed our enhanced AML, STF and ABC programmes

across the Group to ensure they best serve the evolving structure of RBS group, and remain in line with regulatory expectations.

### Safety, health and wellbeing

Part of making sure RBS is a great place to work, bank and do business is ensuring the safety, health and wellbeing of our employees and customers.

#### Safety

The majority of our people work in low risk environments and are not exposed to significant occupational health and safety hazards. However, incident and accidents do happen and in 2011 we set out to reduce the number of them through a targeted programme of initiatives.

As a result of these initiatives, the total number of incidents (accidents, occupational diseases, dangerous occurrences, fires, near misses and natural causes incidents) was reduced by 18% and our reportable injury rate fell by 43%, bringing us below the industry sector average.

All incidents	2010	2011	% change
	2,329	1,921	-18%

Reportable incidents (UK and Ireland) involving employees	2010	2011	% change
Major injuries	50	28	-44%
Over three day injuries	165	89	-46%
RIDER* reportable injuries to employees	215	117	-46%
Reportable injury rate	233.7	133.2	-43%
Occupational diseases	28	13	-54%
Members of the public	9	14	56%

\* Injuries reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995

In 2011 the number of accidents that resulted in members of the public attending hospital increased from nine to fourteen. The majority

## Review of sustainability themes 2011

# Safety and security continued

of these accidents, and reportable accidents to our employees, were due to slips, trips and falls. We have implemented a number of actions to reduce these types of injuries. For example, within our UK Retail division, employees were given training sessions to help them better identify slip, trip and fall hazards. This complements the mandatory training given to all employees on this subject.

In addition to driving down incidents, we have also focused on improving our systems and controls. In 2011 we reviewed our approach to incident reporting, making changes which have improved the accuracy of reporting and investigation. We also revised and updated our safety and health learning modules that all employees are required to complete each year.

We have continued to develop the processes we have in place to identify and control the risks to the safety and health of our employees. In some of our higher risk areas, such as vehicle accident repair centres run by RBS Insurance, and cash and coin operations in Business Services, our employees are exposed to a range of potential hazards including hazardous substances, noise and vibration as part of their work. We have an annual health surveillance programme in place in these areas. The strength of our approach to

managing the risk of hand arm vibration within accident repair centres is recognised by the UK Health and Safety Executive and we are working with them to share our practices with the rest of the motor vehicle sector.

### Health and wellbeing

The Group has a wide range of health benefits and services designed to help our employees to maintain good physical and psychological health, and support them when they do become unwell. Our Occupational Health services and employee assistance programme, 'Lifematters', are established parts of our support system for employees.

Lifematters provided direct support on emotional and practical issues to 5,225 UK and Ireland employees in 2011. The 'Lifematters' programme was also extended to the US, broadening the range of benefits available to our employees. The new service offers a wider choice of consultancy services including childcare and eldercare support, legal and financial information and counselling sessions to help people deal with issues and challenges they are facing at home or at work.

These schemes are complemented by the ongoing promotion of healthy living across the organisation. The Ulster Bank Group exemplified our approach to the promotion of

healthy living with their focus on better physical health for employees in 2011. This involved showcasing a range of health services available to employees, from 'Lifematters' to advice from health charities like the British Heart Foundation and the Chest Heart and Stroke Association. Employees were provided with information on the benefits of regular exercise as well as having health checks, including measurements for Body Mass Index and cholesterol levels.

The provision of Occupational Health services is a legal requirement in many of the countries that we operate in. During 2010, a review of compliance with local legal requirements for Occupational Health was undertaken. This was followed up with work in 2011 to augment the existing level of service provision and implement any necessary improvements.

Safety, health and well-being is something we want all of our employees to take seriously. We are pleased with our progress during 2011 but recognise that we have more to do. In 2012 we will continue to drive improvements in our safety and health performance and support the health and wellbeing of our employees.

More detail on Safety, Health and Wellbeing can be found online at [rbs.com/sustainable](http://rbs.com/sustainable).

### Health and wellbeing

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# Review of sustainability themes 2011

## Citizenship and environment



**John Hourican**  
Chief Executive,  
Markets &  
International Banking

We want to be a bank that is socially useful. Lending responsibly is absolutely what we need to do. We took significant steps in 2011 to promote sustainable business practices internally.

As part of the wider responsibility we all have to our communities, our people should be out there getting involved to give something back. And that's what we encourage at RBS.

2011 Priority	Progress made in 2011
Develop external environmental, social and ethical (ESE) risk statements and internally implement ESE policies for: oil and gas; mining and metals; forestry and defence	Policies have been developed and approved for oil and gas, mining and metals, forestry and defence. External position statements are currently available online at <a href="http://rbs.com/sustainability">rbs.com/sustainability</a> .
Develop ESE policies for energy generation and chemicals	We continue to re-assess how we prioritise the development of ESE sector statements. Work has begun on a gambling policy and energy generation policy and we will revisit the progress of our chemicals policy once these are complete.
Implementing the new ESE policy framework through training key stakeholders and increasing awareness among all Markets and International Banking employees	ESE learning tools have been launched for our Markets and International Banking (M&IB) and for risk employees across all divisions. Expansion of this training to other business areas will be completed in 2012.
Launch and embed the response to the UK Bribery Act 2010 including staff training	Anti bribery and corruption (ABC) training is now part of our Group Policy Learning which all employees are required to complete.
Continue to improve the use of information in developing systems and training for staff so that the Group leverages its knowledge of criminal activity in the financial services sector	In relation to ABC, we provided guidance on requirements for Gifts and Hospitality. Divisions also provided special training to some staff identified as working in high risk areas. In addition, Group ABC provided face to face training for Country Executives in a number of higher risk countries. Regular ABC awareness was provided alongside any requisite control changes such as a revised Gifts and Hospitality Register with detailed information on Public Official definition for Group Compliance and Regulatory Affairs.
Implement our five year Group strategy for managing and reducing our environmental footprint	We have achieved significant reductions through improved efficiency and due to changes in our building portfolio. Our goal is for RBS to be a leader among our peers by 2015 and we have set ourselves some ambitious and far reaching targets in order to achieve this.
Set new 2011-2015 targets set for energy, paper, waste and business travel	We have launched a new set of targets for 2014 and 2020, covering all impact areas. These mid and long term targets are detailed in this section of the report.
Continue to expand and develop our environment champions network	We have improved on this priority by creating a new strategy – one that seeks to engage the majority of employees on environmental messaging rather than the select group of the champions network.

### 2012 Priorities

ESE policies under consideration in 2012 are: chemicals, gaming, agriculture and energy

We will implement the new ESE policy framework through training key stakeholders and increasing awareness among all relevant business divisions (the 2011 priority focused on implementing the defence, oil and gas, mining and metals and forestry which we will build on in 2012)

We will continue to improve our capture of key environmental data regarding our own environmental impacts

We will continue to improve our employee engagement model to involve employees in our efforts to decrease our environmental impacts

We will deliver the first phase of the environment targets across the RBS group

We will foster the continued development of green products and services across the RBS group

We will begin to embed social and ethical criteria into our country risk assessments

## Review of sustainability themes 2011

# Citizenship and environment continued

## Citizenship

### Environmental, social and ethical (ESE) risk

RBS is committed to being a responsible global business. The work we are doing to address risks arising from ESE issues is an integral part of meeting that commitment.

As a global business with links to a wide range of sectors we recognise that our actions and those of our clients present a number of ESE risks. Given these potential risks, we continually assess our lending in relation to sensitive sectors, and apply the appropriate lending appetite and review processes.

The management of ESE risk is governed by our Group Sustainability Committee. At an operational level, policy adherence is the responsibility of all relevant divisions within the Group. These divisions gain the support of Group ESE Risk and a central ESE Advisory Unit.

Internally, an ESE Risk Policy has been developed to inform our appetite for providing banking services to relevant companies that operate in sectors that present higher ESE risks. For these companies, the RBS group requires a review of the company's commitment, capacity and track record in managing environmental, social and ethical risks.

In 2011, we also developed specific ESE Risk Policies for four sectors: oil and gas, mining and metals, defence and forestry. All relevant staff are subject to completion of the ESE training course regarding these policies and our approach.

RBS Divisions received support from Group ESE Risk to ensure the ESE Policy Statements developed could be implemented across the divisions. This support included: helping divisions establish systems and processes to operationalise the policies, training staff on how to use the ESE policies and creating databases to capture management information. The Central ESE Advisory Unit also supported divisions in terms of reviewing ESE assessments undertaken on clients and transactions in sectors where policies have been developed and providing advice to divisional staff on how to screen and assess clients and transactions using the ESE policies.

Our policy making has also incorporated a number of voluntary global standards such as the Equator Principles and the UN Global Compact into our approach. We have also improved the management of reputational risk internally across the Group through the establishment of reputational risk forums.

Externally, we are in regular contact with stakeholders who are directly impacted by, or have an interest in, our operations. This engagement supports the Group's decision making process and helps shape our ESE policies.

### Lending to the defence sector

Lending to the defence sector raises a number of potential ESE risks. One example relates to the production and use of cluster munitions.

Last year, engagement with one of our stakeholders highlighted concerns regarding our lending in this area. After careful consideration we decided our approach should be updated.

As a result, our policy on defence sector lending now clearly states that we will not support any application for funding or financial services to companies involved in either the production and stockpiling of cluster munitions or bespoke components that are known to be primarily developed or designed for the production of cluster munitions.

We will continue to monitor, assess and respond to issues concerned with our lending to the defence sector. We highly value feedback from concerned stakeholders with regard to our wider impacts on the society and environment we operate in. It is only through collaboration on these issues that we are able to implement a fully considered approach to a very sensitive issue.

### Equator Principles

RBS was one of the initial signatories of the Equator Principles (EP), which we continue to apply. Since 2003 these principles have provided an international framework for financial institutions to assess environmental and social risks in Project Finance. The lending criteria covered may be extended in 2012 as part of the development of the upcoming EP 3 guidelines. We are represented on the EP steering committee and will continue to be involved in shaping the new framework.

The table below sets out project finance deals from 2011, and how they were categorised (where A is considered highest risk).

2011 Project finance deals by industry sector and regions				
	A	B	C	Total
Oil & Gas	–	1	–	1
Infrastructure	1	3	–	4
Power	–	10	1	11
<b>Total</b>	<b>1</b>	<b>14</b>	<b>1</b>	<b>16</b>
EMEA (UK)	1 (1)	8 (7)	1 (1)	10 (9)
Americas	–	6	–	6
<b>Total</b>	<b>1</b>	<b>14</b>	<b>1</b>	<b>16</b>

In light of the upcoming revised Equator Principle's guidance, we are currently in the process of updating our Group wide policy to improve the guidance around our application of the EP. The policy will set formal requirements for appropriately assessing, categorising, monitoring and recording transactions against the requirements of the Equator Principles.

### Business and human rights

The human rights of RBS employees are protected through a range of activities. Group Legal and Group Human Resources oversee internal policy and regulatory compliance in this area. All employees are required to undertake training on human rights with regard to issues such as inclusion and diversity. For more detail see the Employee engagement section on page 26.

Externally, our risk policies ensure human rights are a key consideration in our lending decisions, with regular reviews to reflect any new human rights provisions. A training tool has also been distributed to all relevant staff working in Risk to highlight how human rights considerations relate to decision making.

We will always endeavour to adhere to the ten principles of the UN Global Compact.

### Sustainable sourcing of suppliers

Our sourcing process has built-in sustainability practices, tools and guidelines. These are used alongside the Group's Environmental Policy when making sourcing decisions.

## Review of sustainability themes 2011

# Citizenship and environment continued

In 2011 we carried out training in sustainable sourcing across our global footprint.

We also carry out 'vendor performance assessments' on our key vendors who cover some of our most strategic and critical business services. Sustainability is covered in these assessments and feedback is collated and managed so that we can understand what is working well, and drive improvements through our engagements with vendors.

We also expect all of our suppliers to adhere to the ten UN Global Compact principles and encourage suppliers to become signatories of the Compact themselves. In 2011 we also updated our approach to suppliers to reflect the provisions of the UK Bribery Act, this included reinforcing Procurement Services' strict Gift and Hospitality process and the drafting of an Anti-corruption clause for use in supplier contracts.

We were recognised by Carbon Smart last year for our work on developing and implementing sustainable sourcing into the bank's sourcing approach.

### Tax, political donations and legal action

RBS is headquartered in the UK, where PAYE and National Insurance Contributions paid in 2011, along with VAT suffered and business rates and bank levy paid amounted to £2,945m.

The RBS group policy on political donations is that no contributions are made, either directly or indirectly (e.g. via a consultant), to a candidate for public office, an elected official, a political party or political action committee, on behalf of the RBS group. The Group prohibits directly or indirectly paying, giving, offering, or promising to pay or give money or anything of value to a public official. This policy does not prohibit contributions made in an individual's own name - either directly or through any formal RBS arrangement e.g. a political action committee, where this is permitted by local law.

Group companies have been named as defendants in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. With respect to the current claims, available in further detail in our annual report, the Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously.

### RBS in the community

Our employees' support of good causes has a positive social impact in the communities in which we operate.

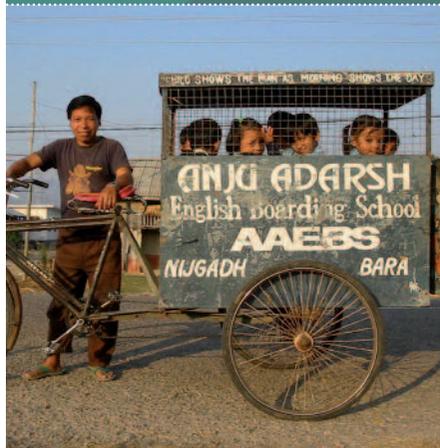
The below table provides a breakdown of our Group community investment in 2011. Nearly 56,000 employees volunteered in their community and we supported them by giving a total of over 235,000 hours in paid time off from work.

2011 Community investment by type (£m)	
Cash support	39.0
Time value	6.2
In kind	24.1
Management costs	2.7
<b>Total</b>	<b>72</b>

Our tailored community programmes are broadly focused around supporting enterprise, community engagement and financial education and inclusion.

Read about what we are doing with The Prince's Trust and through our Foundation in India to help businesses get started on page 21-22. On page 14, find out more about what we have done to broaden access to our financial education programme, MoneySense.

### How one man from the UK is helping educate girls in Nepal



Since joining RBS in 2004, Douglas Hill and his colleagues have helped raise donations for the charity 'Room to Read' from £1,500 per year to over £20,000 in 2011. This investment from our people is supplemented through the Group's 'Payroll Giving' scheme where the business matches employee donations up to a prescribed level. In this

instance, the scheme has enabled 167 girls in Nepal to receive an ongoing primary education.

"The Groups Payroll Giving scheme has been a powerful way to positively impact the lives of girls in Nepal who otherwise wouldn't have an opportunity to attend school." Douglas Hill, UK Retail

### Divisional community initiatives

As well as our tailored Group community programmes, there are also a wider range of community initiatives that are led from within the different businesses across the organisation. These have had a great impact in 2011:

- Our business in the US, Citizens Financial Group, focuses on three areas: human services (food and nutrition, family support, domestic violence protection and community healthcare), housing and economic development, including financial literacy. In 2011 Citizens invested more than \$16m through charitable giving and community sponsorships to support more than 1,200 non-profit organisations. Citizens also launched the TruFit Good Citizen Scholarship programme, offering 20 scholarships totaling \$50,000 to students whose volunteer efforts have made a difference in their communities. The Citizens Charitable Foundation invested \$1.5m in financial education, training adults and young people in basic banking, budgeting, credit, home ownership, debt management, and retirement planning.
- Markets and International Banking (M&IB) focus their activities on helping children and young people in a variety of ways. More than 3,500 employees volunteered in 2011, supporting 21,000 disadvantaged young people. 400 employees acted as business advisors, coaches and mentors and hosted workplace visits to raise the aspirations and employability skills of local young people. Over 3,000 employees took part in initiatives to improve access to play facilities for disadvantaged children and their families. This included 1,000 UK employees, who rebuilt and improved two London-based adventure play areas for disabled young people in 2011. In addition, M&IB have strong links with schools in the UK, US and Hong Kong where employees help primary school children develop their numeracy and literacy skills. M&IB employees also support

## Review of sustainability themes 2011

# Citizenship and environment continued

disaster relief efforts through volunteering, for example 40 employees in Japan volunteered time to help rebuild Minamisanriku-cho, a town that had been hard hit by the tsunami.

- Ulster Bank continued to expand their MoneySense programme in 2011, providing financial education to more people in Ireland than ever before. Over 30 schools are also participating in the Ulster Bank QuickStart initiative which provides school children with the opportunity to learn about setting up their own enterprise. The Chief Executive of Young Enterprise Northern Ireland, Carol Fitzsimons, spoke highly of the programme and said that 'QuickStart is designed to give students their first experience of enterprise, to develop themselves in preparation for the world of work. It will go a long way towards ensuring that the students have first-hand experience of the process of setting up and running a business.'
- Coutts support clients who would like to use their wealth towards a social cause. It is one of the few private banks in the UK that has an established and dedicated philanthropy team. Coutts offers families and individuals, bespoke advice as well as practical guides to ensure their philanthropy is as effective as possible. Coutts have also been supporting entrepreneurs for a number of years through bursary programmes and have been promoting enterprise through sharing knowledge and experience amongst the entrepreneur community. In 2011 Coutts sponsored the London Fashion Week, the London Design Festival, and MADE, the entrepreneur festival in Sheffield. Coutts was also heavily involved with the Global Entrepreneurship Week in the UK in 2011.
- As part of our UK Customer Charter, CommunityForce was launched in 2011 to help support local community projects, where £3m was given to 478 local charities in 2011. See our Fair banking section on page 15 for more detail.

### Community sponsorship

Over the past two years we have refocused our approach to sponsorship, making it much more centred on supporting communities.

Through our RBS RugbyForce initiative the facilities of over 400 local rugby clubs were improved in 2011. NatWest CricketForce brought together around 85,000 volunteers

who helped to improve more than 1,500 cricket clubs in the UK. Citizens' sponsorship of the Philadelphia Phillies in the US also includes support of an initiative to help feed those in need in the greater Philadelphia area.

In 2011 we created 'Set4Sport' with Andy, Jamie and Judy Murray – a programme designed to encourage parents and younger children to get involved in sport and healthy lifestyles.



## Environment

### Supporting the green economy

We are committed to supporting the renewable energy industry through both financing and advisory services. In 2011 we loaned more than any other bank to large-scale renewable energy projects in the UK. Rankings compiled by Infrastructure Journal showed RBS loaned more than double the amount of the next biggest lender. Infrastructure Journal uses industry data to monitor all major project finance deals around the world.

In the US RBS arranged and distributed \$1,782m of debt capital directly to renewable energy companies, or to finance assets that directly support renewable energy. We co-led the largest ever solar-related equity deal in Asia-Pacific. Our broad product offering and depth of experience means we are involved in some of the most complex and large scale renewable energy projects across our global footprint.

### A world first – a heat and power plant using by-products of whisky distillation to generate energy

RBS have acted as lead arranger and hedging bank for a £42m deal to finance the construction, commissioning and operation of a 7.2MW Biomass project in Rothes, Morayshire, Scotland. The project will help Scotland's whisky industry meet a commitment to reduce its reliance on fossil fuels, whilst generating enough electricity to power 9,000 homes. By providing greenhouse gas savings of over 46,000 tonnes, the plant will contribute substantially to Scotland's statutory obligations around carbon emission reduction. The project will create approximately 100 jobs during construction and employ around 20 people full-time once operational.

This innovative project demonstrates what can be achieved by bringing different parties together to pool their expertise and resources. Not only will this plant help reduce the environmental impact of energy production, its construction and operation is creating jobs and safeguarding industries which are vital to Scotland's future.

### Energy efficiency financing

In 2011 we have launched energy efficiency propositions allowing RBS to be a proactive funder of environmental projects for a wider range of customers.

London Mayor Boris Johnson announced a plan to radically reduce the UK capital's carbon emissions by 2020. The London Energy Efficiency Fund (LEEF) was launched in October 2011. It provides affordable, flexible and repayable loans for public sector organisations looking to reduce the energy consumption of their assets by at least 20 per cent. Fifty percent of the £100m funding has been made available through RBS. The fund is available to local authorities, higher education bodies, housing associations, NHS foundation trusts and charities, with the aim of being fully invested by 2015. London's public sector spends £750m a year on energy, and public sector buildings contribute 10 per cent of the capital's carbon footprint. With carbon reduction commitments and increasing energy costs there is a strategic and financial case for dedicated low cost finance for energy efficiency.

## Review of sustainability themes 2011

# Citizenship and environment continued

### RBS and NatWest Green energy fund

There is a natural synergy between agriculture and renewable energy. The increasing number of UK farmers investing in this sector are attracted by a reduction in their energy bills, a reduction in their farm's carbon footprint and the opportunity to have another income source for their farm business. Although most projects usually require a high capital investment, the payback potential can be impressive. With this trend set to continue RBS and NatWest launched a £50m renewable energy fund in 2011. To complement this there is a team of trained renewable energy specialists available to offer guidance and discuss options open to agricultural businesses.

### GreenSense

Within Citizens, at the end of 2011 there were 652,000 consumer checking accounts enrolled in GreenSense – a programme that rewards customers for making online payments instead of using a cheque. Over the past three years GreenSense checking customers have made over 3.5bn paperless payments and have been rewarded with a total of \$32m in cash payments.

### Overview of our financing of the energy sector

Because of the relevance of the energy sector to climate change, and the need for us to understand climate-related risks in our lending, we have undertaken further analysis of our financing of the energy sector in 2011. This research is outlined in a separate report available on [rbs.com/sustainable](http://rbs.com/sustainable). The key findings are as follows:

- Across the whole of RBS, approximately 3% of our lending (measured by total credit risk assets) is committed to the oil and gas and power sectors combined
- We have loaned more than any other UK bank to renewable energy projects in the UK in 2011
- We provided more finance to wind power projects than any other type of energy project in 2011
- On average, our top 25 power clients are less carbon intensive than the industry norm
- Over the last three years, our lending to the energy sector has dropped by almost half, based on committed exposures at the end of each year

### Oil Sands

Unconventional oil production, such as the oil sands developments in Alberta, Canada, have additional environmental impacts not normally associated with conventional oil extraction. These include additional CO<sub>2</sub> emissions from production and impacts on the local landscape, ecosystems and communities.

We provide general corporate finance to a small number of companies who have some oil sands extraction and production operations. For most of these clients this forms a relatively small part of their overall business, but for others it forms a more significant part of their operations and income.

Overall, less than 7% of our total oil and gas lending is to companies who derive more than 10% of their income from oil sands operations.

### Our environment targets

In 2011 we completed our first five year programme to manage and reduce our environmental footprint. We have achieved significant reductions through improved efficiency and changes in our building portfolio.

Our new goal is for RBS to be a leader among our peers by 2015 and we have set ourselves some ambitious and far reaching targets in order to achieve this. We've set the following Group targets from a 2011 baseline\*:

#### By 2014...

- 15% reduction in energy and associated CO<sub>2</sub> emissions
- 12% reduction in water use
- 15% reduction in waste disposed to landfill
- 70% of waste recycled, reused or recovered
- All paper either certified or 85+% recycled
- All staff have access to virtual meeting technology

#### ...by 2020...

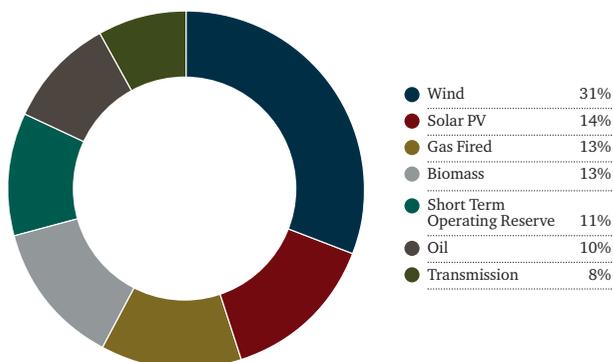
- 50% reduction in CO<sub>2</sub> emissions from business travel
- 50% reduction in paper use

\*These targets are for relative reductions, which take account of changes to the size of the Group.

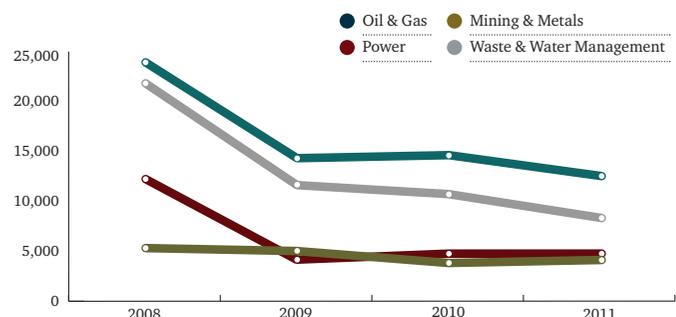
### Our environmental performance in 2011

We have made continued progress in reducing our operational impacts on the environment (see table on page 38). The results can be

RBS Energy Project Financing January to December 2011



Changes in RBS lending 2008 to 2011: Energy and related sectors



## Review of sustainability themes 2011

# Citizenship and environment continued

attributed to the success of programmes to reduce our consumption and emissions as well as reductions in the size of our building portfolio during 2011.

### Energy

The total amount of energy we used in our buildings continued to fall in 2011 reinforcing the success of our energy reduction programme. This programme included elements such as:

- Using metrics to analyse the performance of each property in the Group and using the results to improve the building's efficiency
- Improving the efficiency of our IT data centres
- Upgrading lighting to be more efficient

Some key examples of energy management include:

- RBS Americas Headquarters in Stamford reduced its use of electricity by 13% between January and October 2011 compared to the same period in 2010. This was largely due to the installation of more efficient garage lighting and improved tuning of building systems.
- A new Building Management System (BMS)

installed in early 2011 into Donegall Square East offices (Ulster Bank, Belfast) has delivered a 5% decrease in electricity consumption.

- The RBS group was ranked ahead of our peers from the financial sector in the Environment Agency's first Carbon Reduction Commitment (CRC) Performance League Table. This is the first time that the UK's largest energy consuming organisations have been ranked on energy performance through a mandatory regulated scheme.
- We continue to purchase electricity from renewable sources in the UK and we buy renewable energy certificates in the US - 61% of our energy was from renewable sources in 2011.

### Business travel

We have seen a noticeable drop in the amount of business travel in 2011. Cost challenges and the reduction in the size of our business have contributed to this reduction. We aim to continue the trend for decreasing travel within the Group and are promoting the use of virtual meeting technology such as web conferencing and desk top video.

### Waste

The reduction in waste to landfill is a consequence of collaboration in 2010/11 with a new waste contractor in the UK. This has led to improved accuracy of data as well as a new recycling recovery system which has helped us to recycle 64% of our waste.

### Water

Our water consumption has fallen by 7% due to a range of initiatives installed in our buildings to maximise the efficiency of water use, such as waterless urinals, water displacement devices in cisterns and tap flow restrictors.

### Carbon management

Our carbon footprint is reported in terms of scope 1, 2 and 3 emissions as per the Greenhouse Gas Protocol. As we improve our data collection we will increase the breadth of what we include in our scope 3 emissions. We are committed to continually monitoring and reducing our environmental impacts.

Within the financial sector RBS achieved 9th in the world for our disclosure score and 2nd highest among UK peers in the Carbon Disclosure Project. We scored 91 out of 100 for disclosure and a band 'B' for our performance.

## Supporting the green economy

We sponsored the Scottish Low Carbon Investment Conference where the key note address was given by Former US Vice President Al Gore. Mr Gore praised Scotland's renewables potential and urged the world to follow Scotland's lead on low carbon emission targets.

Mr Gore described the renewable energy potential as "enormous". He warned of the dangers of carbon emissions and claimed we face "catastrophe" if action is not taken.

Andrew Cave, Head of Group Sustainability said "Every professional scientific organisation in the world now agrees that climate change is happening. As a business we need to take account of this."

In 2011 we lent more than any other bank to large-scale renewable energy projects in the UK.



## Review of sustainability themes 2011

# Citizenship and environment continued

Operational Impacts table	2010	2011	Change 2010-2011 (%)
<b>Carbon Footprint (aligned to the Greenhouse Gas Protocol)</b>			
Scope 1 CO2e emissions (k tonnes)	84.3	71.1	-16%
Scope 2 CO2e emissions (k tonnes)	624.0	584.4	-6%
Scope 3 CO2e emissions (Business Travel) (k tonnes)	93.6	81.0	-14%
Total Scope 1 and Scope 2 CO2e emissions (k tonnes)	708.3	655.4	-7%
Total Scope 1 and Scope 2 CO2e emissions per FTE	4.5	4.4	-3%
<b>Energy</b>			
<b>Total energy consumption (GWH)</b>	<b>1,444.1</b>	<b>1,336.5</b>	<b>-7%</b>
Energy use per FTE (kWh per FTE)	9,246	8,998	-3%
Renewable electricity use (% of total electricity)	57%	61%	1%
<b>Business Travel</b>			
<b>Total Travel (mill Km)</b>	<b>843.5</b>	<b>751.6</b>	<b>-11%</b>
Total Km per FTE	5,400	5,060	-6%
Total Air (mill Km)	621.5	523.6	-16%
Air travel per FTE (Km)	3,979	3,525	-11%
Total Road (mill Km)	159.0	154.9	-3%
Rail travel per FTE (Km)	1,018	1,043	2%
Total Rail (mill Km)	63.0	73.1	16%
Road travel per FTE (Km)	403	492	22%
<b>Other Impacts</b>			
<b>Water</b>			
<b>Water consumption (mil m3)</b>	<b>2.6</b>	<b>2.5</b>	<b>-7%</b>
Water consumption per FTE (m3)	16.9	16.6	-2%
<b>Waste</b>			
<b>Total waste generated (k tonnes)</b>	<b>57.8</b>	<b>46.0</b>	<b>-20%</b>
Waste generated per FTE (kg)	370	309	-16%
Total Waste to landfill (k tonnes)	28.2	13.3	-53%
Waste to landfill per FTE (kg)	180	89	-50%
Percentage of waste recycled	39%	64%	29%
<b>Resource Consumption</b>			
<b>Total paper used (k tonnes)</b>	<b>31.2</b>	<b>30.9</b>	<b>-1%</b>
Paper used per FTE (kg)	200	208	4%

**Notes:**

All figures include data from offices, branches and data centres.

Energy use includes electricity, gas, oil and other sources used for heat or power.

Paper use includes office paper, statements and marketing materials.

The Quarterly Average FTE has been applied to the KPI in 2011 to reflect the changing composition of the RBS group in 2011.

# Reporting principles

Our approach to managing sustainability focuses on identifying the issues that matter most to our stakeholders. This Report provides a review of our activities in 2011 and details our future commitments, goals and priorities.

We adhere to the AA1000 AccountAbility Principles Standard (AA1000 APS) which is a principles-based framework for managing and reporting sustainability performance.

The AA1000 APS defines three principles that an organisation should adopt as a framework for sustainability management and reporting. These three principles are inclusivity, materiality and responsiveness. We outline further our application of each of these principles below. In compiling our Report we have also considered the Global Reporting Initiative (GRI) G3.1 guidelines and sought to cover the principles of the UN Global Compact.

## 1. Inclusivity

### Identifying and engaging with stakeholders to gain a full understanding of issues

We consider our stakeholders to be those who have a direct interest in our business and those who have an interest in how we manage our business because of the wider impact of our actions: employees, customers, shareholders, investors, governments, regulators, consumer groups, non-governmental organisations (NGOs) and the media. There are also others whose actions have an impact on RBS, such as our suppliers, who are included in our approach to inclusivity. For more information see the Stakeholder engagement section.

In addition, we have expert consultants who inform our steering groups about specific issues, such as microfinance, so that we can improve our understanding and response to the issues affecting our business.

## 2. Materiality

### Determining what issues are important to RBS and our stakeholders

Our extensive stakeholder engagement process with both internal and external stakeholders allows us to track and manage current and emerging issues. These considerations include not only our own direct impacts but also those of the companies and sectors we lend to, as well as the impact on RBS due to the actions of others.

We determine the relevance and significance of each issue to RBS and our stakeholders. We then prioritise these issues according to the greatest impact on the sustainability of our business and report on the most significant. We continually monitor the changing environment in which we operate to ensure stakeholder concerns are captured and managed on an on-going basis.

This means that the material issues can be very complex with conflicting stakeholder expectations. We endeavour to manage these expectations in a transparent and fair way.

## 3. Responsiveness

### Responding to material issues and being transparent about our performance

The comprehensive identification and prioritisation process allows us to respond to the material issues in a considered and managed way.

Our response to some issues such as promoting financial education and responding to customer complaints are well established and embedded into our business practices. Our response to some new and emerging issues may be less detailed and developed. However, we remain committed to responding to these issues and improving our understanding of them and the impact they have on our stakeholders.

Our progress and responsiveness to the 2011 priorities is covered in the preceding review of our five sustainability themes.

# Independent assurance statement

## Independent assurance statement by Deloitte LLP ('Deloitte') to The Royal Bank of Scotland Group plc ('RBS') on the 2011 Sustainability Report ('Sustainability Report') for the year ended 31 December 2011.

### Our conclusions

Based on the scope of our work and the assurance procedures we performed we conclude that:

1. RBS have implemented processes and procedures, as described on page 39, that adhere with the principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008 ('AA1000APS'); and
2. Nothing has come to our attention that causes us to believe that the selected key performance data which we were engaged to provide assurance on are materially misstated.

### Our observations and recommendations

RBS has made the following key improvements in managing and reporting sustainability performance during 2011:

- Established processes that facilitate dialogue with stakeholders and support the involvement of stakeholders in decision-making processes. In particular, RBS have begun using social media to obtain real time feedback from stakeholders on sustainability issues which will help them more effectively anticipate and respond to the needs of stakeholders; and
- Rolled out across the Group, a number of environmental, social and ethical (ESE) risk policies which are demonstrative of a focus on downstream sustainability impacts.

To improve future management and reporting of sustainability in accordance with AA1000APS we make the following recommendations:

#### Inclusivity:

- Stakeholder engagement, coordinated at Group level, on RBS's five key sustainability themes is well structured and covers a range of stakeholder groups. Engagement also takes place at a local and divisional level, however, this engagement is not formalised and issues are not always prioritised and responded to accordingly. RBS should continue to implement more formal approaches for comprehensively evaluating and processing internal and external feedback received from various stakeholder groups. In addition, RBS should consider how it will use the outputs of social media to identify key sustainability issues and how it will systematically review this on an annual basis.

#### Materiality:

- Remuneration continues to be an area of intense stakeholder scrutiny, in particular bonuses. RBS has reported further information this year on how a variety of financial and non-financial performance factors are considered when assessing bonus funding, however, further transparency on this issue to include information on topics such as longer term and deferred rewards; whether sustainability metrics are integrated into the management incentive structure; and reward based on performance would be valuable for stakeholders; and
- We noted that stakeholders welcome dialogue with RBS but there remains a desire for more comprehensive reporting on how branch staff are incentivised in terms of sales and whether or not this is compatible with the principles of fair banking.

#### Responsiveness:

- RBS sets annual priorities for each of its five sustainability themes. In future reporting RBS should disclose the wider benefits of some of these activities (for example changes in operational effectiveness, financial impact, and business opportunities generated) and the challenges associated with achieving these priorities and how it has overcome them; and
- In future reporting, RBS should disclose how its ESE risk policies have been applied to existing institutional clients and other investment decisions, how compliance is monitored and the impact this has had on decision-making.

The above observations will be raised in a separate report to RBS management. The observations and recommendations have been taken into account in forming our conclusions on the Sustainability Report as set out in this assurance statement.

### Scope of our work and the assurance standards we used

RBS's Corporate Sustainability team engaged us to:

1. Provide Type 1 limited assurance in accordance with the AA1000 Assurance Standard 2008 ('AA1000AS'):
  - Inclusivity – how they identified and engaged with stakeholders to gain a full understanding of issues;
  - Materiality – how they assessed the relative importance of each issue; and
  - Responsiveness – how they responded to stakeholder issues and how this is reflected in the Sustainability Report.
2. Provide limited assurance on the following selected key performance data
  - Progress against Charter Commitments for January - December 2011 (UK Retail), page 11
  - Progress against Charter Commitments for July - December 2011 (Ulster Bank), page 11
  - Number of mortgages provided to first-time buyers in 2011 (UK Retail), page 12
  - Number of stressed businesses returned to a mainstream banking relationship (UK Business and Commercial), page 19
  - Number of start up business accounts opened in 2011 (UK Business and Commercial), page 20
  - Number of voluntary and compulsory redundancies (Global), page 25
  - Employee diversity gender, age and ethnic profile (Global coverage excluding ethnic profile which is UK only), page 26
  - % reduction in fraud losses in 2011 against a corresponding % increase in fraud cases, compared to 2010 (Global), page 30
  - Number of project finance deals per Equator Principle Category and industry sector (Globally), page 33
  - Total community spend in £ (Global), page 34
  - Community spend by type including cash donations, gifts in-kind, management costs and employee time in £ (Global), page 34
  - Total energy consumption (GWh) (Global), page 38
  - Scope 1 and 2 emissions (Global), page 38
  - Total waste (tonnes) (Global), page 38
  - Total water (million m3) (Global), page 38
  - Total air travel (million km) (Global), page 38

We carried out Type 1 limited (i.e. moderate) assurance in accordance with AA1000AS. A Type 1 engagement requires us to report on the nature and extent of adherence to AA1000APS. To achieve moderate-level assurance we have used the criteria in AA1000AS to evaluate adherence to AA1000APS in combination with our approach to professional, independent assurance.

We carried out limited assurance on the selected key performance indicators in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000). To achieve limited assurance the ISAE 3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. This is designed to give a similar level of assurance to that obtained in the review of interim financial information. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls.

### Our key assurance procedures

To form our conclusions, we undertook the following procedures:

- Analysed and tested on a sample basis the processes related to stakeholder identification and engagement, including review of a sample of engagements and the outcomes of engagement;
- Reviewed the process that RBS used to identify and determine material issues to be included within the Sustainability Report. This included a review of external media coverage and peer reporting on corporate

sustainability in 2011 to corroborate issues identified by RBS;

- Interviewed a selection of RBS executives and senior management who have operational responsibility for sustainability issues, including the RBS Sustainability team to understand the governance structures used for managing sustainability, engagement with stakeholders on sustainability issues, as well as implementation of sustainability related policies and initiatives in 2011 and the monitoring of these activities;
- Understanding, analysing and testing on a sample basis the collation, validation and reporting of the performance data by RBS in accordance with their definitions and basis for calculation which can be found at [www.rbs.com/sustainable](http://www.rbs.com/sustainable);
- Reviewed information and reasoning about the reports' assertions regarding sustainability performance in 2011; and
- Reviewed the content of the Sustainability Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

### Our independence and competencies in providing assurance to RBS

- We complied with Deloitte's independence policies, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants in their role as independent auditors and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality and from any involvement in the preparation of the report. We have confirmed to RBS that we have maintained our independence and objectivity throughout the year and in particular that there were no events or prohibited services provided which could impair our independence and objectivity.
- Our team consisted of a combination of Chartered Accountants with professional assurance qualifications and professionals with a combination of environmental, sustainability and stakeholder engagement experience, including many years experience in providing sustainability report assurance.

### Roles and responsibilities

- The Directors are responsible for the preparation of the Sustainability Report and for the information and statements contained within it. They are responsible for determining the Sustainability goals, performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
- Our responsibility is to express independently a conclusion on the Sustainability Report as defined within the scope of work above to The Royal Bank of Scotland Group plc in accordance with our letter of engagement. Our work has been undertaken so that we might state to RBS those matters we are required to state to them in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than RBS for our work, for this statement, or for the conclusions we have formed.

Deloitte LLP  
London  
13 April 2012



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## Information

# Contact us

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If you would like a Braille, Large Print or Audio version of the Sustainability Report, please contact us at the above address.



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