

RBS Sustainability Review 2013

What's in this Review

This Review describes our approach to making RBS a more sustainable business. We outline our approach to sustainability, address our key issues, and provide an update on how we are working to support the long-term future of the economy and society. The Review covers our activity from January to December 2013 and was accurate as at 04 April 2014.

Why go online?



rbs.com/sustainable

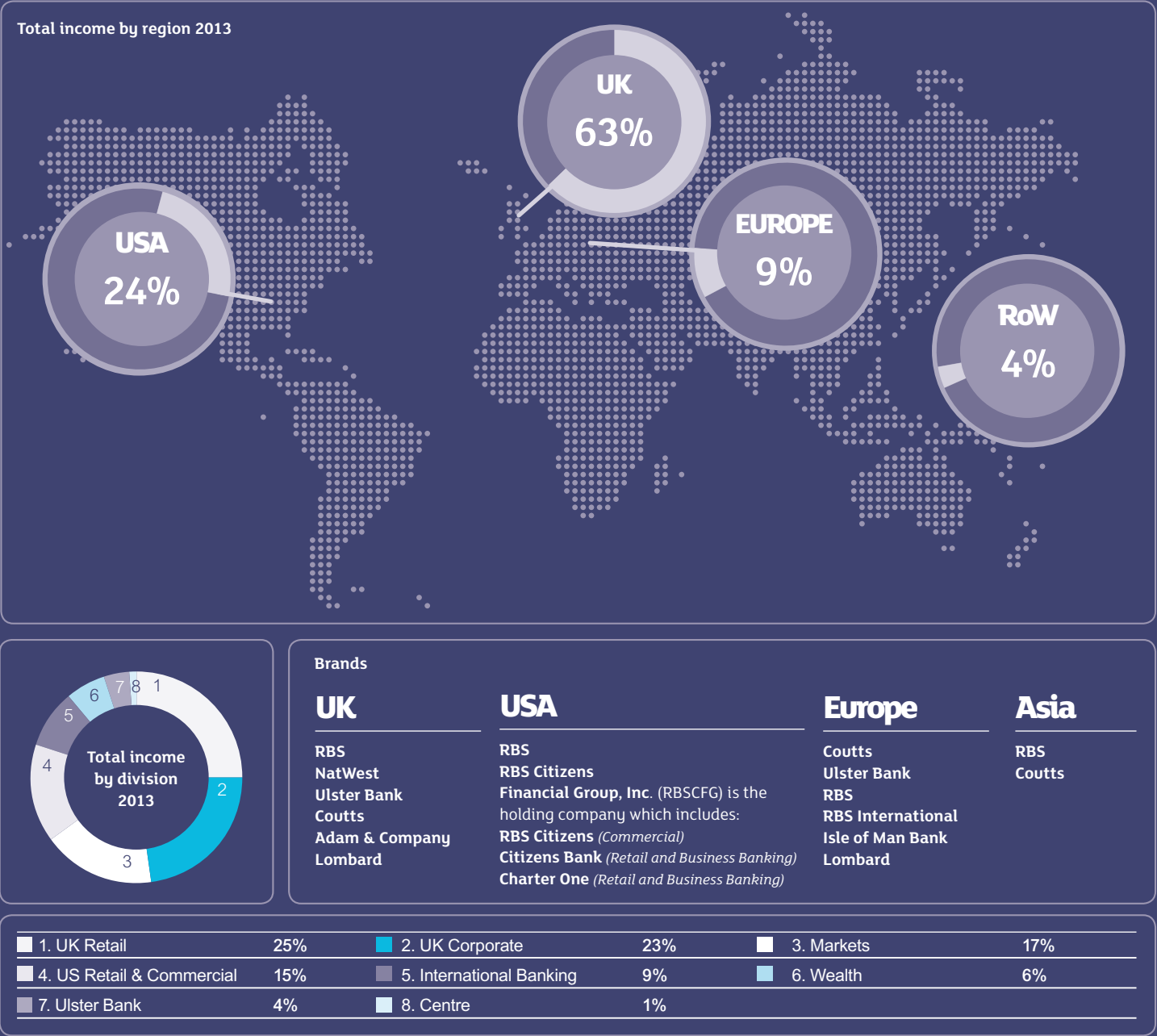
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RBS at a glance

RBS is a UK-based banking and financial services company. Headquartered in Edinburgh, we serve 24 million personal, business and institutional customers in the UK, Europe, the Middle East, the Americas and Asia.

We have almost 115,000 employees⁽¹⁾ and provide a wide range of products and services to personal, commercial and large corporate and institutional customers through our two main 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 and Coutts.



(1) Based on December 2013 global RBS headcount (not FTE), includes active employees only, and excludes contingent workers



Our purpose and values

Our future is not about us, it's about our customers. We need to ensure that this ethos runs through the bank – from boardroom to branch.

In 2013, we spent time with colleagues across the bank debating what should be at the core of our ambition; to build a bank known for its consistent, high quality customer service.

We agreed on a single, simple purpose – to serve customers well. We want to be trusted, respected and valued by our customers, shareholders and communities. To do this we have put a common set of values at the heart of how we do business. Our values are not new, but capture what we do when we are at our best.

Our Purpose: Serve customers well.

Vision: We want to be trusted, respected and valued by our customers, shareholders and communities.

Our Values:

Serving customers

We exist to serve customers.

We earn their trust by focusing on their needs and delivering excellent service.

Working together

We care for each other and work best as one team.

We bring the best of ourselves to work and support one another to realise our potential.

Doing the right thing

We do the right thing.

We take risk seriously and manage it prudently.

We prize fairness and diversity and exercise judgement with thought and integrity.

Thinking long term

We know we succeed only when our customers and communities succeed.

We do business in an open, direct and sustainable way.

All this comes together in Our Code, our revised code of conduct launched in 2013.

The RBS business model is that of a UK-focused retail & commercial bank. Our market leading customer franchises in the UK, serving personal, business and corporate customers, form the anchor of the RBS strategy. Our wholesale banking operations in the corporate and institutional business, enhance and complement the proposition to our commercial customers.



Our business model and strategy

Our business model

Our major source of income in our retail and commercial banking businesses is net interest income. This is the difference between the income we earn from the loans and advances we have made to our personal, corporate and institutional customers and on our surplus funds and the interest we pay on deposits placed with us by our customers and our debt securities we have issued. We also earn fees from financial services and other products we provide to our customers as well as rental income from assets we lease to our customers.

Our Markets business earns income from client driven trading activities particularly Rates, Currencies, Asset Backed Products and Credit.

Our leading customer franchises serve 24 million customers globally, of which more than 70% are in the UK. We aim to provide them with a comprehensive range of products, delivered through a number of channels, which are increasingly digital.

We do business in competitive markets but we have strong franchises and good growth opportunities, and we aim to target our investment to maximise these opportunities.

2009-2013 strategy

Over the period 2009-2013, the RBS strategic approach has focused first and foremost on rebuilding financial resilience:

- reducing total assets, principally through the run-off of the Non-Core division;
- reducing risk concentrations;
- reducing dependence on short-term wholesale funding while achieving a deposit-led funding model;
- reducing balance sheet leverage.

This emphasis was necessary in order to correct historical weaknesses and to set RBS on a sound footing, but it left us

falling short in our ability to build long-term shareholder value on the foundation of serving our customers and meeting more of their financial needs.

In 2013 we have refocused our Markets and International Banking businesses to deliver a targeted wholesale banking proposition to UK corporates and global financial institutions.

2013 strategic review

On 1 November 2013 RBS announced a full review of our customer-facing businesses, our IT and operations, and our organisational and decision-making structures. As a result of this review, we have announced a refreshed strategic direction with the ambition of building a bank that earns its customers' trust by serving them better than any other bank.

Our Strategic Plan

Measuring our performance

In 2014 we will be working across our three newly formed businesses to build a 2020 strategic plan to achieve our ambitions. Our new plan will enable us to build a bank that earns people's trust. We will measure our performance through a number of clear financial and non-financial indicators to achieve our ambitions.

2020 Ambition

Financial	
Efficiency	Cost income ratio ~50% (1)
Returns	Return on tangible equity 12%+ (2)
Capital strength	Common Equity Tier 1 ratio ≥12% (3) Leverage ratio ≥4% (3)
Non-Financial	
Customer	To be number one for customer service and advocacy in each of our businesses (4)
Society	To be the number one bank for trust in the UK
People	To be greater than or equal to the Global Financial Services norm for employee engagement by 2020 (5)

Notes:

(1) Including bank levy, restructuring charges and, from 2015, the EU resolution fund charge.

(2) Calculated with tangible equity based on CET1 ratio of 12%.

(3) Fully loaded Basel III.

(4) Measured by Net Promoter Score, with the exception of Corporate & Institutional Banking, which will use customer satisfaction. NPS nets the percentage of "promoters" (loyal enthusiasts of the company) and the percentage of "detractors" (unhappy customers) to give a measure of customer advocacy.

(5) The RBS engagement index for 2013 was 78%, 3% below the Global Financial Services norm.

RBS will be structured to deliver this ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into business units able to deliver co-ordinated services. The seven existing operating divisions will be realigned into three businesses:

- Personal & Business Banking will serve UK personal and affluent customers together with small businesses (generally reporting up to £2 million turnover), with more business bankers moving back into branches.
- Commercial & Private Banking will serve commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients operating overseas through its market-leading trade and foreign exchange services while connecting our private banking brands more effectively to successful business owners and entrepreneurs.
- Corporate & Institutional Banking will serve our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian

multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients.

Ulster Bank in Northern Ireland will benefit from a closer integration with our personal, business and commercial franchises in Great Britain, while continuing to operate under the Ulster Bank brand. We are continuing to review our business in the Republic of Ireland with a view to being a challenger to the domestic pillar banks in Ireland.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. It will be managed as one bank, with one strategy.

Each of the three businesses is built on franchises that have the potential to be the number one bank for their respective customer groups. Each is designed to:

- Serve customer needs better than the existing operating divisions.

- Help eliminate duplication of costs in front and back offices.
- Position RBS to deliver a sustainable overall return on tangible equity of 12% plus in the long term.

Please see from page 8 of our Strategic Report in our Annual Report and Accounts for more information on our business model and strategy.

Our performance at a glance

2013 Financial performance indicators

Group operating loss (1)	Attributable loss	Short term wholesale funding (2)	(1) Operating loss before tax, own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest. Includes the impact of the creation of RBS Capital Resolution (RCR). (2) Excludes derivatives collateral. (3) On a FLB3 basis, Group RWAs decreased by £66 billion to £429 billion, driven by Markets risk reduction and reshape and Non-Core disposals and run-off. (4) Ratio calculated under requirements in force from 1 January 2014. (5) Net of provisions and including disposal groups. (6) Eligible assets held for contingent liquidity purposes including cash, Government issued securities and other eligible securities with central banks. (7) Please visit rbs.com/sustainable/ reporting for the basis of reporting for our non-financial indicators. (8) The RBS engagement index score for 2013 was 78%.
(£2,303m)	(£8,995m)	£32bn	
2012: £2,952m profit	2012: (£6,055m)	2012: £42bn	
RWAs FLB III (3)	Tier 1 ratio – FLB III (4)	Loan: deposit ratio (5)	
£429bn	8.6%	94%	
2012: £495bn	2012: 7.7%	2012: 100%	
Liquidity portfolio (6)	Group cost: income ratio	Group net interest margin	
£146bn	68%	2.01%	
2012: £147bn	2012: 63%	2012: 1.92%	

2013 Non-Financial performance indicators (7)

New lending to UK SMEs	Lending to UK first-time buyers	Proportion of energy project finance committed to wind and solar	Reduction in scope 1 and 2 emissions
£6.4bn	£2.8bn	65%	6.2%
2012: £6.3 bn	2012: £2.6 bn	2012: 66%	2012 vs 2013
People reached through the Inspiring Enterprise programme	Tax paid globally	Customer-facing employees evaluated against professional standards	Increase in employee engagement (8)
37,000	£1.9bn	c.80%	2%
Since launch in 2012	2012: £2.2 bn	2012: 28%	2012: unchanged from 2011

“The success of a bank depends on a strong financial position, and a reputation for great customer service based on a deep connectivity with the society the bank supports, and is in turn supported by.”

Ross McEwan
Chief Executive



Chief Executive's Q&A

Q: You took up the post of RBS Chief Executive on 1 October 2013, towards the end of another challenging year for the finance sector; what would you say were the biggest issues faced by RBS in 2013?

A: We have taken some important steps forward in 2013, but it's fair to say the sector has continued to deal with some significant challenges. Legacy issues like London Interbank Offered Rate (LIBOR), Payment Protection Insurance (PPI) and Interest Rate Hedging Products (IRHP) are still being worked through, which is a constant reminder of the necessity of the work we are undertaking to strengthen our culture. I'm confident that will drive much better conduct, which in turn will underpin our efforts to become far more customer focused.

At the moment we're a long way from being the great customer bank that we're striving to become, and that was evidenced by a number of issues in 2013.

A failure in our IT systems in December caused major inconvenience to customers, which was simply unacceptable. While the measures we've taken to improve the stability and resilience of our systems meant the problems were much less severe than we experienced during the IT incident of 2012, we can't tolerate that kind of disruption for our customers. That's why we are investing heavily in making sure such events won't happen in the future.

In November, we also had the publication of Sir Andrew Large's report, commissioned by us, into how we deal with our small and medium-sized enterprise (SME) customers. It made for uncomfortable reading, and we have agreed to act on its recommendations (see page 20 for more information). We are the UK's biggest business bank, but we also want to be the best.

Also relating to how we deal with our business customers was a report by Lawrence Tomlinson in which he alleged that we have been systematically seeking to profit from customers in distress. I have said repeatedly that we see no evidence to support that claim, and alongside asking the legal firm Clifford Chance to review the allegations, we have welcomed the Financial Conduct Authority's decision to look into the report's findings (see page 19 for more information).

Over the next few years we will also need to respond to the changes in the way our customers are using our services. Increasingly, our personal and business customers are accessing our services through digital and mobile banking. This has meant that since 2010 we have seen a 30% drop in branch transactions across our whole UK network. We'll continue to respond to what our customers need from us and invest in technology and constantly review our branch network. See page 19 in the Review for more information.

Q: What has been done to address the challenges RBS faced in 2013? In what areas has RBS made the most progress in 2013? How are you building a more sustainable RBS?

A: While the challenges mentioned above underline the need for the big changes we are announcing for the bank in 2014, we shouldn't let them mask the great progress already made. In November, we set out some important steps to strengthen our capital position, including the creation of the Capital Resolution Group to focus on the divestment of our most capital intensive assets. While this meant accepting a negative impact on our bottom line, it will give us a much stronger capital base in the longer term. The expectations of our regulators on capital are clear and it

was important to give all our stakeholders that confidence so we can spend more time focusing on our customers.

A good example of that has been our participation in the UK government's Help to Buy scheme which has allowed us to offer mortgage provision to people otherwise struggling to access the housing market. We also became the first bank to receive a five-star award from the Fairbanking scheme.

While there was more scrutiny of the sector on pay in 2013, the overall bonus pool fell by 15% compared to 2012 and I have said we will do more work to make sure that reward at RBS is closely linked to how well we serve our customers.

Within the bank we've also been examining our values and culture as we seek to become much more outward looking. That has included the introduction of a simplified code of conduct (Our Code) and a simple test we call the YES Check, aimed at ensuring our people apply high standards to their decision-making. See page 34 for more information.

The good work that's been done in recent years to minimise our environmental and social impacts has continued as we've introduced more sector-specific Environmental, Social and Ethical (ESE) risk policies, with others in the pipeline. We've also sought to build on our position as the UK's biggest lender to UK renewables projects with a market leading service for businesses that want to better manage their energy use.

These achievements, combined with the progress made against our priorities outlined in our 2012 report, contributed to our inclusion once again in the Dow Jones Sustainability Index with our highest ever score. This is a reflection of the importance we attach to the sustainability agenda, and the interest and concerns of our very diverse stakeholder groups.

Q: How would you describe RBS's position at the end of 2013?

A: After the near collapse of RBS five years ago, there was an enormous job to do to turn the bank around. As a result, we are now much smaller, and much safer. Our capital trajectory is better. We've instilled a much clearer set of values, and built much stronger governance mechanisms around conduct. We have a well-established Group Sustainability Committee that has overseen the huge improvements in relationships with our stakeholders. All of that

gives us a platform for the next step we want to take, which is to become a great bank for our customers and communities. I don't think many banks can lay claim to that, so there's a huge opportunity out there. We have an obligation to the UK taxpayers who saved us and we can meet that obligation by creating a bank our customers and clients really value. In turn that will drive shareholder value, but I'm clear that only follows on from us doing much better at serving customers, and supporting the communities and the economies we operate in.

Q: How do you see RBS's role in society?

A: The financial crisis has demonstrated the importance of stability in the financial system. Our liquidity is already very strong and in 2013 I announced a series of new measures to improve our capital position. It was important that we end any distractions over capital so we could concentrate on delivering much better service for our customers.

As a bank we play a fundamental role in society. We help to create responsible economic growth and are a committed contributor to the communities where we operate and where our staff and customers live. We are also a large scale employer. We were bailed out by the UK taxpayer at enormous expense, and that means we have a special obligation to create a great bank for customers.

To us, a more sustainable RBS means rebuilding trust, serving our customers well, being a responsible employer, managing our operational impacts, and contributing towards sustainable growth.

Q: What is your vision for RBS and how do you plan to achieve this vision?

A: We are at a very interesting juncture in this bank; we are in a transition, from five years spent focusing on financial recovery to re-purposing ourselves to focus on the customer experience.

At the end of 2013 I announced a full review of our customer-facing businesses, our IT and operations, and our organisational and decision-making structures. As a result of this review, we have a refreshed strategic direction with the ambition of building a bank that earns people's trust.

We now have a strategy to deliver a sustainable bank with a clear ambition: we want to be number one for customer service, trust and advocacy, in every one of our chosen business areas by 2020.

The bank will be re-structured to deliver this ambition by placing the needs of our customers at its centre. Our support functions will be smaller, more expert and dedicated to helping the businesses succeed for customers. We will run highly disciplined and well managed conduct and risk functions to maintain safety and soundness. This will be a highly effective bank. The frontline of this bank is where we'll stand out with accountable, trusted professionals. They will be supported by simple, effective processes on a sound technology platform. We want RBS to be a great place to work.

We have a vision to be trusted, respected and valued by our customers, shareholders and communities and I am confident our new strategy will help us in our journey to achieve this.

Q: What are the top messages you would like the reader to take from this review?

A: Firstly, I'd like the reader to see evidence of our genuine commitment to becoming a bank that earns people's trust. In 2013 we tackled a lot of our legacy issues and set in motion a transformational change programme to rebuild an RBS capable of achieving our purpose.

We understand that part of becoming number one for trust involves transparency and accountability. Our 2013 report aims to give an honest picture of RBS which is reflective of all our strengths and weaknesses. For the first time, we have disclosed our past conduct failings in one place. We also have increased disclosure on how we address our environmental, social and ethical risks. We have made a commitment to shareholders to get the bank on a proper footing and our aim is to be transparent about how this is achieved.

Finally, I would like people to know how we strengthened our stakeholder engagement programme in 2013. For example we increased the number of Sustainability Committee stakeholder engagement sessions, and consulted key advocacy groups on what they see as our most material issues. We recognise our ongoing commitment to engage with our stakeholders is crucial in order to be trusted, respected and valued by our customers, shareholders and communities.

Stakeholder Group	Primary engagement mechanism	Main issues raised during 2013
Customers	Customer surveys, including Net Promoter Score as well as syndicated surveys, focus groups, complaints data.	Access to finance, customer service, selling and lending practices, fees and charges, debt management.
Employees	Our Employee Opinion Survey, regular Pulse surveys, intranet comments boards, team meetings, town halls, all staff audios.	Wellbeing and resilience, job security, leadership development, talent attraction and retention, disability, gender equality, ethnicity, sexual orientation.
Suppliers	Engagement with contract managers.	Timely payment, RBS strategy and impact on marketplace, supplier diversity, feedback on customer service.
Government	Regular monthly interaction audios/meetings, industry forums, policy trend analysis.	Interest rates, branch closures, mortgage arrears (ROI), regulation of bank fees, lending, support for SMEs, lending appeals process, financial education, financial capability, signposting to alternative access to finance.
Regulatory Bodies	Regular meetings.	Culture change, lending, banking reform, responsible tax practices, remuneration.
Civil Society	Forums, meetings, stakeholder engagement sessions.	Technological advancements, youth employability, access to finance, payday lending, self service in a digital world, complaint handling, environmental social and ethical risk management, financing fossil fuels, financial education, financial capability.
Social partners	Regular meetings, annual conferences.	Remuneration, policy, health and safety, restructuring, wellbeing and diversity.
Investors	Investor relations briefings, investor roadshows, stakeholder engagement sessions.	Culture change, remuneration, business model, company financial health, governance and accountability.
Media	Engagement through Media Relations team, media briefings, regular meetings.	Transparency, pro-active communications.

Our approach to sustainability

Engaging our stakeholders

We recognise that effective stakeholder engagement is a powerful tool for improving the way that we do business. RBS has a robust programme in place through which we identify our key stakeholders, gain feedback on material issues and respond appropriately. The effective management of the issues raised is integral as we build a more sustainable bank and work towards our purpose to serve customers well.

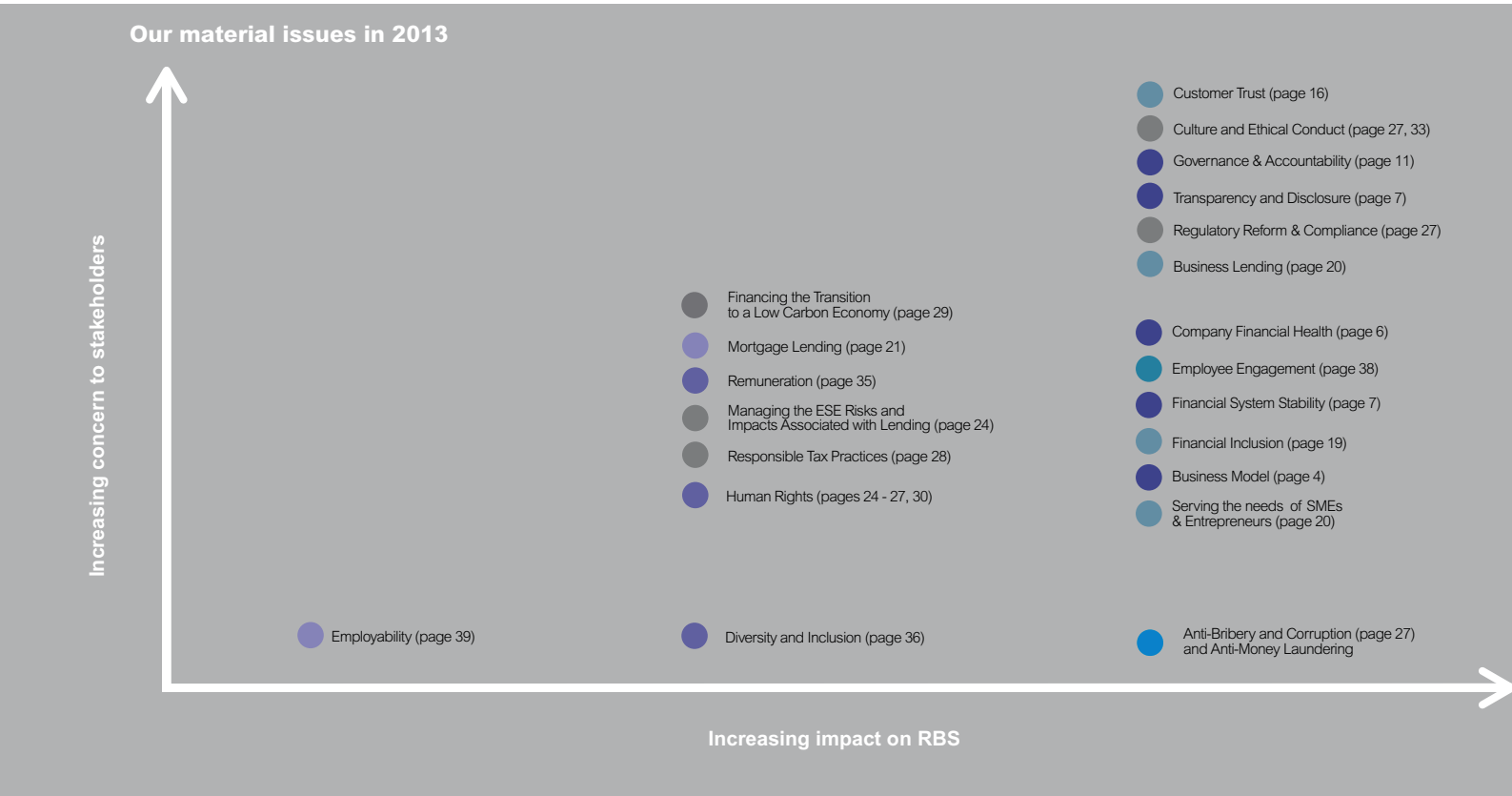
We manage a large number of issues and engage with a wide variety of stakeholder groups.

- Customer satisfaction is measured through surveys, focus groups and online feedback.
- We track our reputation through a quarterly survey of around 2,000 members of the UK public. Our in-depth annual employee opinion survey, ongoing staff pulse surveys, and comments on our intranet message boards represent the employee view.

- Ongoing meetings with Regulators and Government representatives, Employee Unions, Consumer Groups, NGOs and Investors allow us to capture their feedback and perceptions of our organisation.

This helps shape the way we do business as these interactions inform decision making and ultimately improve our company.

In addition to ongoing engagement which takes place across our business each day, our Board level Group Sustainability Committee runs a pro-active engagement programme whereby we invite external stakeholders to meet with, and challenge, the most senior decision-makers in RBS. In 2013 the Committee met with 26 such advocacy groups, including Amnesty International UK, the New Economics Foundation, Federation of Small Business, Royal National Institute for the Blind and Unite.



Identifying material issues

Alongside our ongoing stakeholder engagement we have once again carried out additional research for the purpose of this Review, to help us determine our key issues in 2013. We undertook a thorough materiality assessment, identifying current and emerging issues. The process helps us with the effective management of these issues and helps shape the way we do business.

In 2013, two additional issues were identified as material for RBS: financial system stability and business model. For this Review, financial system stability is defined as the role of RBS in contributing to reducing systemic risk in the sector. Business model is defined as integrating the overall bank’s strategy with the sustainability strategy.

For our definition of our material issues visit rbs.com/sustainable/materiality

Culture and ethical conduct and customer trust remained high priority issues for our stakeholders in 2013.

The sources we used in this process include interviewing our key stakeholder groups, surveying our colleagues (including the Sustainability Committee), a comprehensive media review and an analysis provided by our external affairs teams who deal with specific stakeholders on a daily basis.

For a detailed description of this process please visit rbs.com/sustainable/gri

The diagram above shows how our stakeholders rank our most material issues. The vertical axis represents how our external stakeholders ranked the issues, the horizontal axis represents how our colleagues ranked them based on their perceived importance and business impact. This diagram does not represent a definitive list of issues facing RBS. It is a representation of what our key stakeholders have highlighted as having considerable financial, operational, and/or reputational impacts on our company.

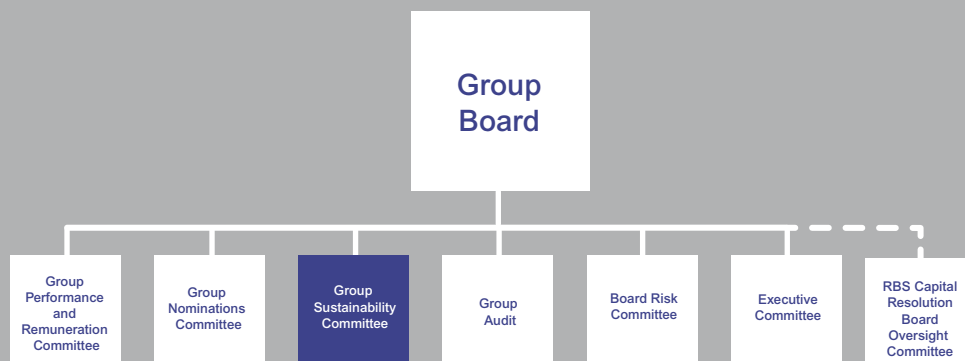
This review outlines what we have done in 2013 to address these issues, as we recognise that they are fundamental to the way in which we serve our customers, local communities and society as a whole. Our response to these material issues is covered both online and throughout the Review, please see the matrix above for page numbers.

“Membership of the Board-level Group Sustainability Committee was strengthened in 2013 with an additional non-executive director. Meeting frequency was also increased, underlining our commitment to the sustainability agenda.

While 2013 presented significant challenges, progress was made by the Committee in overseeing and challenging how management is addressing key sustainability and reputational issues.”

Sandy Crombie

Senior Independent Director,
Chair, Group Sustainability Committee



Sustainability governance at a glance

Sustainability at RBS has been governed by the Board-level Group Sustainability Committee (the 'Committee' hereafter) since 2009. The Committee is responsible for overseeing and challenging how management is addressing sustainability and reputational issues relating to all stakeholder groups, except where such issues are managed by another Board Committee.

Early in 2013, the remit of the Committee was increased to include broader sustainability issues including conduct, culture, reputation and how the bank serves its customers. Chaired by our Senior Independent Director, Sandy Crombie, membership includes non-executive directors and all key business divisions are represented at Committee meetings, which the Chairman attends regularly.

Key areas of work in 2013 included:

- Oversight of the introduction and embedding of the purpose, vision and values work intended to promote behavioural change and strengthen culture;
- Oversight of how the bank was balancing the needs of its stakeholder groups and alignment with the bank's strategic intent, as well as oversight of the development of Environmental, Social and Ethical (ESE) policies.

Other areas supported by the Committee included the adoption of a number of internationally accepted voluntary codes, notably the Equator Principles and the United Nations Global Compact.

There is ongoing commitment to the stakeholder engagement programme through regular face-to-face sessions with advocacy groups, particularly those who are highly and constructively critical of RBS. The sessions were focused on material issues of concern and themed around topics including support for enterprise, fair banking, employee engagement, citizenship and environment, and the investor perspective. Seven of these sessions were held in 2013, allowing for challenge and debate in an open and

collaborative environment. These sessions help inform our decisions, shape future policies and influence strategic priorities.

A priority for the Committee will be to ensure that its strategic direction is aligned with business priorities, and that sustainability is embedded in everything that the company does.

Fixing the past

The banking sector, including RBS, continues to deal with some significant challenges. 2013 highlighted some instances of serious past misconduct which have had considerable financial, operational and reputational impacts on RBS, affecting our journey to recovery.

RBS is currently involved in regulatory investigations alleging past manipulation of interbank borrowing rates and benchmark foreign exchange rates. RBS is also undertaking redress and past business reviews in relation to the sale of certain products and services, including payment protection

insurance (PPI) and interest rate hedging products (IRHP). We are also addressing concerns highlighted around our business banking in light of the recent report of the independent lending review, chaired by Sir Andrew Large. This has meant much of our focus in 2013 has been on addressing these legacy issues.

We take our obligation to the UK taxpayer very seriously and we recognise that we must operate to a high standard. In this report we aim to provide transparency and accountability on these issues, to demonstrate our strong

desire to fix the past, and move forward as a stronger and more sustainable bank which earns our customers' trust.

See below table with a summary of the main current and recent investigations, enforcements and litigation against RBS as at 11 April 2014. In many cases, numerous legal and factual issues may need to be resolved before it can be determined whether a liability exists and the extent of any such liability.

For full details of material matters affecting RBS, please refer to Note 13 of our Annual Results announcement on 27 February 2014 at investors.rbs.com

Investigations, enforcements and litigation

Issues	Details
Card Protection Plan (CPP)	UK: In 2013, the Financial Conduct Authority (FCA)* announced that CPP and 13 banks and credit card issuers, including RBS, had agreed to a compensation scheme in relation to the sale of card and/or identity protection insurance to certain retail customers. The Scheme of Arrangement commenced in February 2014 with a deadline of 30 August 2014 for claims to be received. There is an additional six month period to commence from 31 August 2014 to accommodate exceptional circumstances for e.g customers who may be abroad or long term sick.
Competitions Market Authority (CMA) SME banking market study	UK: In 2013, the OFT announced a market study on competition in banking for small and medium enterprises (SMEs). Following a consultation on the scope of the market study, the Office of Fair Trading (OFT) published an update paper in September 2013 setting out its proposed scope. On 11 March 2014, the OFT set out some competition concerns on SME banking but also announced that its successor body, the Competition and Markets Authority (CMA), would continue the review. On the same day, the CMA indicated that it expected to come to a provisional decision on whether or not to refer SME banking to a more detailed phase 2 investigation by Summer 2014.
Constant proportion debt obligations (CPDOs)	Global: CPDO claims have been served on RBS N.V. in England, the Netherlands and Australia relating to the sale of a type of structured financial product known as a constant proportion debt obligation (CPDO). The Federal Court of Australia decided against RBS N.V. in one such case, finding that RBS N.V. and others committed certain wrongful acts in connection with the rating and sale of the CPDO. This decision is subject to an appeal and may potentially have significance to the other claims served and to any future similar claims.
Credit Default Swap (CDS) Antitrust Litigation	US: In 2013, RBS along with other banks, was named as defendant in a consolidated antitrust class action filed in the US District Court for the Southern District of New York. It is alleged that RBS violated antitrust laws by restraining competition in the markets for CDS.
Credit Default Swap (CDS) Investigation	EU: RBS is party to the European Commission's (EC) antitrust investigation into the CDS information market. The EC has raised concerns that a number of organisations may have jointly prevented exchanges from entering the CDS market.
Foreign exchange trading activities	Global: Various governmental and regulatory authorities have commenced investigations into foreign exchange trading activities apparently involving multiple financial institutions. RBS has received enquiries from certain of these authorities including the FCA, and is cooperating with these investigations. RBS is reviewing communications and procedures relating to certain currency exchange benchmark rates as well as foreign exchange trading activity.
Governance and risk management cease and desist order	US: In 2011, RBS agreed with US authorities to enter into a cease & desist order to address deficiencies related to governance, risk management and compliance systems and controls. This required implementation of various programmes resulting in investments in technology, hiring and training of additional personnel and revising compliance, risk management and other policies and procedures for RBS's US operations.

*On 1 April 2013, the Financial Conduct Authority (FCA) was formed as one of two successor bodies to the FSA.

Investigations, enforcements and litigation

Issues	Details
Interbank borrowing rates	Global: In 2013, RBS reached agreements with the Financial Services Authority (FSA), the US Department of Justice, the US Commodity Futures Trading Commission, and The European Commission in relation to the setting of LIBOR, Swiss Franc LIBOR, Yen LIBOR and EURIBOR. In addition, in April 2013, RBS Securities Japan Limited entered a plea of guilty to one count of wire fraud related to Yen LIBOR and in January 2014, a final court judgment was entered in relation to the conviction of RBS Securities Japan Limited pursuant to the plea agreement. In April 2013, RBS Securities Japan Limited received a business improvement order from Japan's Financial Services Agency requiring RBS to take remedial steps to address certain matters, including inappropriate conduct in relation to Yen LIBOR. RBS Securities Japan Limited is taking steps to address the issues raised in compliance with that order. In June 2013, RBS was also listed amongst the 20 banks found by the Monetary Authority of Singapore (MAS) to have deficiencies in the governance, risk management, internal controls and surveillance systems relating to benchmark submissions following a finding by the MAS that certain traders made inappropriate attempts to influence benchmarks in the period 2007 – 2011. RBS was ordered at that time to set aside additional statutory reserves with MAS of SGD1-1.2 billion and to formulate a remediation plan. RBS has submitted its remediation plan to the MAS.
Interest Rate Hedging Products (IRHP), also known as SWAPS	UK: Under a S166 FCA voluntary mandate, RBS is required to review c13,500 IRHPs (c10,500 customers) sold by RBS between the years of 2001 – 2012 to 'Retail' customers and, where mis-sold, redress clients accordingly. Following a review of IRHP sales RBS expects to provide initial outcomes by the end of May 2014. RBS is committed to ensuring that customers who were mis-sold these products get fair and reasonable redress. We are working hard to process cases as quickly as possible prioritising those businesses that are most in distress.
IT Incident: FCA technology investigation	UK: In 2013 the FCA announced it had commenced an enforcement investigation into the IT incident that occurred in 2012 that caused considerable delay in the processing of certain customer accounts and payments. This is a joint investigation conducted by the FCA together with the UK Prudential Regulation Authority (PRA). The FCA and PRA will reach their conclusions in due course and will decide whether or not to initiate enforcement action following that investigation.
Madoff	US: The trustee of the bankruptcy estate of Bernard Madoff filed a 'clawback' claim against RBS in New York N.V. (formerly ABN Amro) bankruptcy court seeking to recover funds allegedly sent to RBS N.V. from Madoff feeder funds when RBS allegedly 'knew or should have known of Madoff's possible fraud'. A further claim was made in 2011.
Mastercard / Visa – Multilateral interchange fees (MIF)	EU: The European Commission (EC) has considered whether the Multilateral Interchange (MIF) Fees (i.e. fees cardholders pay when using cards abroad) are in breach of competition law. MasterCard is appealing a decision issued in 2007 by the EC that, while interchange is not illegal per se, MIF arrangements for cross border payment card transactions with MasterCard and Maestro branded consumer credit and debit cards in the European Economic Area (EEA) were in breach of competition law. The General Court heard MasterCard's appeal in July 2011 and issued its judgement in May 2012, upholding the Attorney General's (AG) original decision. MasterCard appealed further to the Court of Justice and the appeal hearing took place in July 2013. The AG's opinion (which is a non-binding opinion and provided to the Court in advance of its final decision) was published on 30 January 2014. The AG opinion proposes that the Court should dismiss MasterCard's appeal. The EC has proposed a draft regulation cross-border and domestic interchange fees for debit and credit consumer cards, to be enacted during early 2015 at the earliest.
Mortgage Backed Securities (MBS)	US: RBS is named as a defendant in more than 40 US lawsuits brought by purchasers of MBS. In general, the claimants assert that certain disclosures made in connection with the relevant offerings contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. RBS is also involved in reviews, investigations and proceedings by US federal and state governmental law enforcement and other agencies and self-regulatory organisations relating to issuance, underwriting and trading in MBS.
Payment Protection Insurance (PPI)	UK: In April 2011, the British Bankers' Association lost its Judicial Review action against the FSA (now FCA) and the Financial Ombudsman Service (FOS) in respect of PPI complaints handling. RBS subsequently created a bespoke unit to handle PPI complaints. In addition to customers who complain of their own volition, the unit also deals with complaints from certain customers who we have proactively contacted having identified that they are likely to have potentially been mis-sold PPI (continued overleaf).

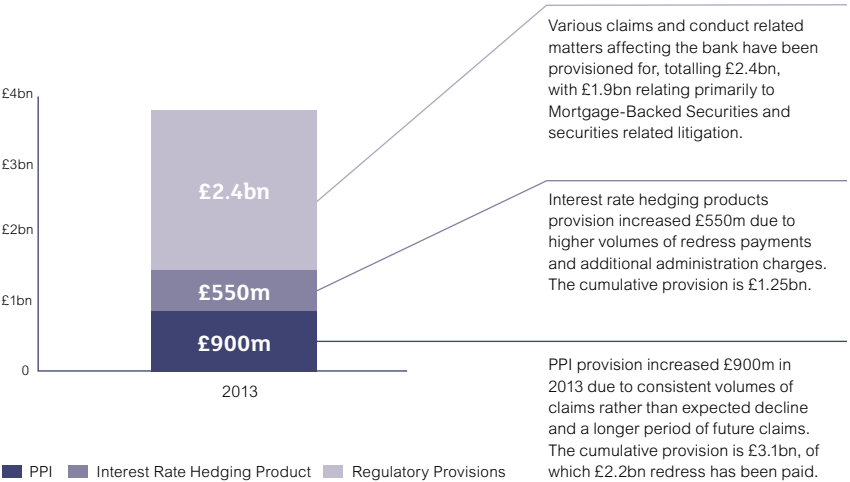
Investigations, enforcements and litigation

Issues	Details
Payment Protection Insurance (PPI) <i>continued</i>	We have increased our provision to its current level of £3.1 billion to reflect our latest view of likely future complaint volumes, including the additional cohorts of customers we plan to pro-actively contact. RBS has drawn a number of lessons from the mis-selling of PPI which have been applied to other relevant products and sales processes within the Bank. Due to the ongoing right for customers to complain, there is no specified end date for PPI at this time.
RBS Citizens Consent Orders	US: In 2013, US Regulators found that RBS Citizens Financial Group had engaged in deceptive marketing and implementation of the bank's overdraft protection programme, checking rewards programs, and stop-payment process for pre-authorised recurring electronic fund transfers. While not denying or accepting any liability Citizens agreed to the payment of civil monetary payments and to cease and desist any operations in violation of certain US federal trade legislation, plus the implementation of a restitution programme.
Shareholder Litigations	UK: In 2013, claims were issued in the High Court of Justice for England and Wales against RBS by sets of current and former shareholders. The claims allege that untrue and misleading statements and/or improper omissions were made in connection with the rights issue announced by RBS on 22 April 2008. On 30 July 2013 these and other similar threatened claims were consolidated by the Court via a Group Litigation Order and the Group's defence was filed on 13 December 2013. US: RBS was named as a defendant in purported class actions filed in the US District Court for the Southern District of New York involving holders of RBS preferred shares (the Preferred Shares claims) and holders of American Depositary Receipts (the ADR claims). The Preferred Shares claims were dismissed both by the lower court and on appeal. The ADR claims were also dismissed and the plaintiffs have been denied permission to re-plead their case. An appeal against this denial of permission is ongoing.
US / Swiss tax programme	US: In August 2013, the Department of Justice (DOJ) announced a programme for Swiss banks (the Programme), to settle the long-running dispute between the US tax authorities and Switzerland regarding the role of Swiss banks in concealing the assets of US tax payers in offshore accounts. The Programme provides Swiss banks with an opportunity to obtain resolution, through non-prosecution agreements or non-target letters, concerning their status in connection with the DOJ's investigations. Coutts & Co AG (Coutts), a member of the RBS Group, has notified the DOJ that it intends to participate in the Programme based on the possibility that some of its clients may not have declared their assets in compliance with US tax laws. The Programme requires a detailed review of all US related accounts.
US dollar processing consent order	US: In 2013, RBS reached a settlement with the Board of Governors of the Federal Reserve System (Fed), the New York State Department of Financial Services (DFS), and the Office of Foreign Assets Control (OFAC) with respect to the bank's historical compliance with US economic sanction regulations outside the United States. As well as paying financial penalties, RBS entered into a Cease and Desist Order with the Fed making various commitments, including agreeing to create a programme to ensure compliance with OFAC regulations by RBS's global business lines outside of the US.
In 2013 legacy conduct provisions totalled £3.8bn.	

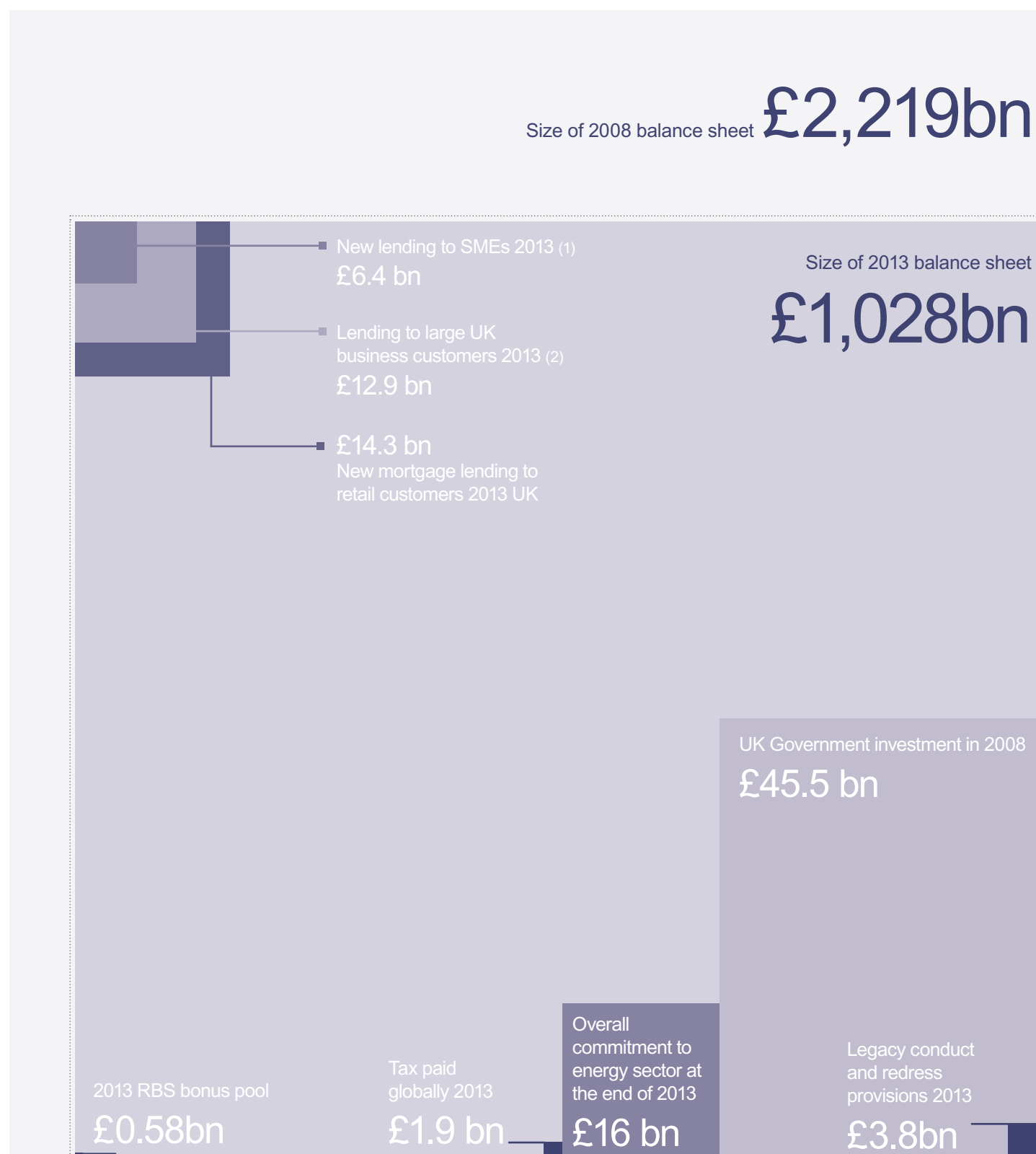
In January 2014, we announced provisions for litigation and conduct-related matters (outlined in the table) made at the end of 2013. RBS suffered more than most banks in the crisis and the provisions represent additional redress of the issues dating back to the run-up to the financial crisis of 2008.

For more information on legacy conduct issues, please see page 7 of our Annual Results on investor.rbs.com.

We hope these provisions made for past misconduct will mark a significant turning point for RBS. While the impact of these past mistakes will continue to be felt, we need to strengthen our internal culture to support our employees in making the right decisions. 2014 will be another important year in our journey to build a more sustainable RBS.



Key numbers in context



(1) New loans drawn down in 2013

(2) Facilities made available to larger businesses in 2013.

Serving customers

RBS has 24 million customers and they are at the heart of everything we do. Our core purpose as a business is to serve them, and our communities, well. That means structuring RBS around our customers, simplifying the way we do business and, ultimately, regaining our customers' trust.

Despite the difficult few years we have had at RBS, we continue this journey from a solid foundation of strong market positions, well-established businesses and high-calibre, customer-focused people.

In our 2012 Sustainability Report, we outlined several customer-focused priorities for 2013, including:

- working to ensure our products and services are accessible to all customers, including those with additional needs;
- improving our products and services for SMEs; and

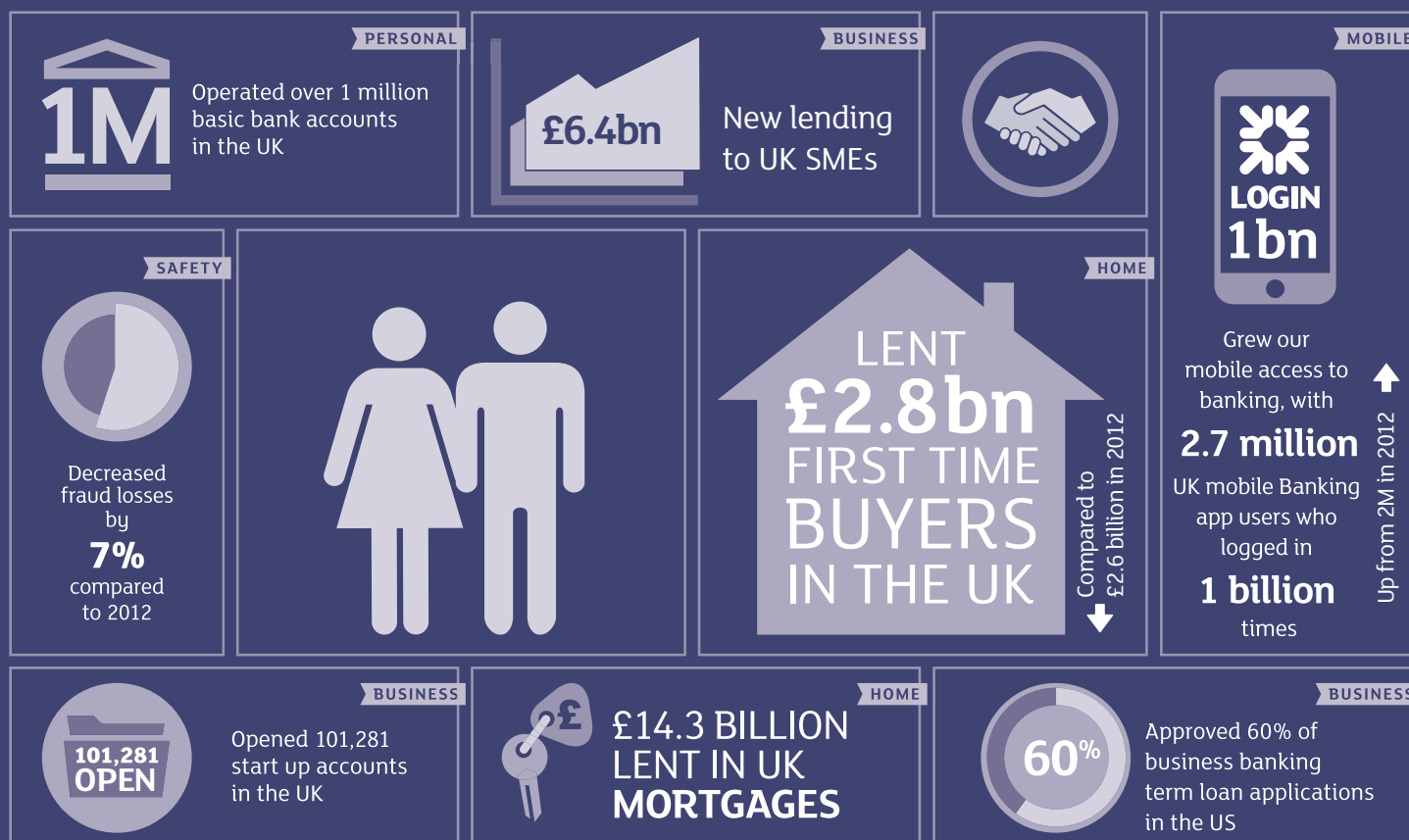
- developing an authentication strategy (the process of identifying an individual) to make the customer experience consistent, simple and safe.

These have been key areas of focus for our customer proposition in 2013 and are detailed over the next few pages. We continue to simplify our business model and processes, develop products and services which meet our customers' needs, and invest in our technology infrastructure.

We are also making progress with other customer-focused priorities – including

developing our renewable energy product offering and supporting the social enterprise sector. Please see the 'Supporting society' section of this Review for details of these.

Our aim is to be number one for customer service and advocacy in each of our businesses by 2020. In 2014 we will outline how we will achieve this.



UK

Our Instant Saver product has attracted over £10bn in balances since its launch in 2013

£10bn+

UK

Our Mobile Business School, Start-up Surgeries and Business Academies reached 8,000 UK businesses in 2013

8,000

	RBS UK Start-up accounts opened	Start-up accounts opened in UK*
2013	101,281	481,280
2012	104,650	536,009
2011	119,349	551,549



Products and services

We want to make it easy for customers to do business with us. We believe that an important part of rebuilding trust is to demonstrate that we have our customers' best interests at heart, whether that's developing products and services that meet their needs, or making sure those products are easy to use.

In 2013, we introduced new products, enhanced existing ones and removed those that were no longer a good fit for our customers. In the UK, we introduced Cashback Plus, where personal banking customers receive money back on everyday spending through their current account. We also reduced our Retail products from 56 to 46, making it easier for customers to choose the right product for them. At RBS Citizens Financial Group (RBSCFG) we introduced One Deposit, a current account which waives the monthly maintenance fee on the condition that one deposit, of any amount, is made each statement period.

In line with other banks in Ireland, Ulster Bank Retail introduced a fee for operating a personal current account in 2013. Customers are provided with options for avoiding the fee, such as making a minimum lodgement or maintaining a minimum account balance.

Our new Instant Saver product and Your Savings Goals tool won the first five-star Fairbanking award this year. The tool enables UK personal customers to set savings goals and can help with motivation. Over 50,000 customers that used the tool completed their savings goals in 2013.

To meet the Payments Council's new requirements, RBS supports the Current Account Switch service, which makes switching current accounts quicker and simpler.

We are committed to supporting entrepreneurs and start-up businesses, which are vital for economic growth. RBS offers two years free banking to all our start-up customers in the UK and Ireland, as well as practical support through our Mobile Business School, Start-up Surgeries and Business Academies. More details on these initiatives are on page 30 of this Review.

Ulster Bank launched a new online application form for business customers in 2013, simplifying the account opening process.

How we sell our products and services

In order to serve customers well, our people need to understand their needs – and that means spending as much time as possible with them. We are simplifying our business and processes, enhancing training and changing our incentive model to encourage excellent customer service.

“Trust in the banking sector is very, very low...We feel that rebuilding trust is closely linked to supporting the economic recovery. Providing useful simple products and supporting customers in difficulty is hugely important.”

Senior Policy Advisor, Business Finance Policy, Department for Business, Innovation and Skills (2013 RBS materiality interview)

Our support for small and medium-sized enterprises (SMEs) centres on providing accessible finance through responsible lending. Responsible lending starts with the right training and development. We have committed to ensuring that all our customer-facing staff in the UK are accredited against professional standards. As part of this we have significantly strengthened our accreditation and professional development programmes for Relationship Managers, developed in association with the Chartered Banker Institute. We are currently the only bank in the UK to have independently accredited Relationship Managers for business.

In addition, our UK Relationship Managers took part in 8,387 Working With You visits, where they spend up to two days on-site with customers to better understand their needs.

Read more about our accreditation, training and changes to the way in which we incentivise our people in line with RBS's long-term goals in the 'Working at RBS' section of this Review.

In 2013 we also focused on making it simpler for staff to understand and explain our products to customers, and in turn for them to make more informed choices about the products to meet their needs. For example, in our UK Retail bank we have improved or removed over 320 processes, enabling our people to spend more time having quality conversations with customers. We have also empowered our telephony teams to make more decisions at the first point of contact, resulting in better customer conversations and outcomes.

Measuring customer satisfaction

RBS has continued to invest in measuring customer experience in 2013, ensuring the customer is at the heart of our strategy as well as our day-to-day priorities.

UK Retail measures customer experience at three levels – the overall relationship our customers have with us; how our customers feel about individual interactions in each of our channels and lastly through how customers are treated throughout their key experiences with us.

Our lead customer metric is the Net Promoter Score (NPS) and UK Retail has set five-year targets to achieve best-in-class performance against our peers. Through this programme, we are guiding every area of our UK Retail bank to focus on actions that drive customer advocacy.

Our Corporate Banking Division also uses NPS to measure satisfaction, as well as customer satisfaction surveys. Almost 65,000 customer surveys were carried out with our UK business customers in 2013. Our aim is to become the number one bank for SME customer service in the UK, as measured in a new industry wide

survey of SMEs' satisfaction with their banks. The survey is independent, with oversight from a panel of stakeholders including the British Chambers of Commerce and the Federation of Small Businesses, and the first wave of results is due in Spring 2014.

Complaint handling

Handling customer complaints well is fundamental to good customer service. We ask our staff to welcome a customer complaint, take ownership and then resolve it, preferably by fixing the problem there and then. Where the issue is more complex, one of our complaint handling experts will own the issue until it is resolved.

We appreciate customers taking the time to tell us what has gone wrong, so we can improve the service we provide. To make it easier for customers to tell us how they feel, we launched a free phone number in Great Britain for customer complaints in 2013. We have also simplified our process so that it is easier to log and resolve more complaints immediately, which our customers have told us is important.

For more complex complaints, a new complaint management system has resulted in an increase in the quality of complaint handling. In the second half of 2013, this led to a 2% improvement with 75% of customers being satisfied with how their complaint was handled.

When we make mistakes it is important that we deal with them well. Root cause identification and action to fix the issues that cause customers to complain in the first place also has strong focus. Examples of improvements include: alerts to help our customers avoid fees and charges; enhancements to internal systems to reduce the likelihood of errors when staff are processing payments; and improved quality and speed of ISA transfers, with better customer communications resulting in fewer errors and delays.

We reported 184,430 banking and credit complaints to the Financial Conduct Authority (FCA) from RBS and NatWest during 2013. This represents a reduction of 22% on the 2012 volume of 237,865 complaints. These are the complaints that we had not resolved by close of business the day after we received them from our customers.

Banking and Credit complaints reportable to the FCA

	2013	2012	2011
RBS and NatWest	184,430	237,865	259,119
RBS Group (all brands)	191,876	256,495	266,177

Historic sales of payment protection insurance (PPI) remains the biggest source of complaints from our customers. Whilst we are dealing with a significant number of cases, we anticipate that the volume of complaints will continue to decline throughout 2014.

In September 2012, we began to contact customers who may have been mis-sold PPI. By the end of 2013, we had written to approximately 500,000 customers outlining factors that may have resulted in a mis-sale, and invited them to contact us to review their case if they had any concerns.

We work closely with the Financial Ombudsman Service (FOS) to manage cases referred to them following our investigation process. In total we have allocated £3.1bn in provisions relating to PPI, and have paid £2.2bn to customers at the end of 2013.

The top five complaint areas for our UK customers in 2013

Personal

- Payment Protection Insurance (PPI)
- Bank charges
- Collection procedures
- Staff (service and information provision)
- Credit card fees

Business

- Staff (service and information provision)
- Account opening and closing
- Interest Rate Hedging Product
- Credits (incorrect or delayed)
- Lending fees

UK

Our 2.7 million mobile customers have logged into our mobile banking app more than 1 billion times

1bn+

UK

Our pre-emptive debt team sent out 123,048 letters and had 162,731 conversations with customers at risk of falling into financial difficulty

123,048

Ulster Bank Customers

Over 10,000 Ulster Bank customers in financial difficulty used our support services in 2013

10,000+

Accessible banking

Increasingly, our UK personal and business customers are accessing our services digitally. Over 50% of our personal banking customers use our online and mobile banking services regularly, this has increased from 5.7m in 2012 to 6.1m in 2013. The launch of our business banking mobile app saw RBS become the first UK bank to offer mobile banking to both Retail and Business customers.

Approximately 55% of Ulster Bank customers are registered for our digital services. In RBS Citizens Financial Group the figure is at 52%. We operate a new multi-channel operating model for our business customers in the UK, which means that they can bank with us online, by telephone or face-to-face. In 2013, we added Business Specialists to 325 branches to support small businesses, in addition to our well-established business centres for larger companies.

We promote financial inclusion and want to make banking accessible to a broad range of customers. We operate Basic Bank Accounts

for individuals who have difficulty accessing mainstream banking services, for example those with a poor or no credit history. We operate these accounts at a loss, as part of our commitment to serving communities well.

Our approach to vulnerable customers

We define vulnerable customers as those who are experiencing financial hardship, long-term sickness or who have a core disability. We aim to support these customers, ensuring they have equal access to our services.

Talking ATMs for blind and partially sighted customers will be rolled out by 2015, and we have hearing loops in our branches for deaf customers.

Our support for customers in financial hardship covers both personal and business customers. In the UK, our 1,700 staff in specialised areas assisted more than 1 million customers experiencing financial difficulty in 2013. We work in partnership with the free money advice sector to help customers find the best resources for help before they fall into financial difficulty. Our relationship with this sector also helps us to improve our strategies, policies and processes for customers experiencing financial hardship.

RBS actively encourages customers in financial difficulty to seek support from free independent money advice organisations. Where they choose to do so, we can provide a 30-day 'breathing space', allowing customers time to complete a common financial statement and work with their advisor to prepare sustainable repayment plan proposals. 56,942 customers benefited from this service in 2013.

In 2008, RBS committed not to initiate repossession actions for a minimum of six months after a residential mortgage customer falls into arrears. To support this, RBS has a range of forbearance measures available to suit individual customer circumstances, including payment deferrals and reduced payments.

In 2013, 3,349 customers benefited from one of these options, helping to keep them in their homes. Repossession remains a last resort and is only considered after forbearance options have been exhausted. In 2013, we repossessed 1,504 residential properties in the UK. This compares with 1,426 in 2012 and 1,671 in 2011.

In the US, RBS Citizens Financial Group offers short- and long-term plans, up to a period of 60 months, for those experiencing difficulty meeting their financial commitments. Approximately 3% of the customer base is on an arranged plan, with between 150 and 200 plans being agreed each month.

Occasionally, business customers require immediate assistance and short-term cashflow

support. Our UK and Ireland customers were offered funds to support businesses adversely affected by the extreme weather in January 2014. The fund is available to new and existing customers.

In the UK and Ireland, our corporate banking customers facing longer term financial difficulty are managed by our Specialised Relationship Managers (SRM) or through the Global Restructuring Group (GRG). In the UK, 8,708 customers are managed by SRMs. This represents less than 1% of our business banking customers. These teams undertake specific training and are experienced in dealing with businesses in financial difficulty. In 2013, 4,260 businesses were moved from a SRM relationship back into a mainstream banking relationship. In Ulster Bank, approximately 10,000 customers are managed by SRMs. This figure is due to the economic challenges in Ireland.

The Global Restructuring Group (GRG) works with businesses in financial difficulty and we help to turn around most of the businesses we work with. 700 companies were restructured in 2013 with over 162,000 jobs preserved including over 23,000 SME jobs. Unfortunately, not all businesses that encounter serious financial trouble can be saved.

In November 2013 Lawrence Tomlinson in his role as Entrepreneur in Residence, Department for Business, Innovation and Skills, published a report entitled "Banks' Lending Practices Review: Treatment of Businesses" (the Tomlinson Report). In response, RBS has instructed the law firm Clifford Chance to conduct an independent review of the principal allegation made in the Tomlinson Report – that RBS, through the GRG division, was culpable of "systemic and institutional" behaviour in artificially distressing otherwise viable businesses and through that putting businesses "on a journey towards administration, receivership and liquidation". Clifford Chance's independent review will focus on UK SMEs.

In addition, the Financial Conduct Authority has announced that a separate, independent skilled person will be appointed to review statements in the Tomlinson Report (and the Independent Lending Review carried out by Sir Andrew Large in relation to RBS).

We lent £14.3bn in mortgages in the UK in 2013, including £2.8bn to UK first-time buyers

£14.3bn

Since the UK overdraft Price Promise was introduced, SMEs have saved £460m in interest costs

£460m



Lending to customers

Lending to business customers

RBS is a leading business bank, supporting businesses of all sizes, creating liquidity and supporting economic growth. In 2013 new lending for UK SMEs was £6.4bn (1). Lending to larger UK businesses was £12.9bn (2).

For further information on our lending across Ulster Bank and Citizens Financial Group businesses, please visit our Annual Results page on investors.rbs.com.

Independent Lending Review

In 2013, RBS commissioned an independent review into our lending practices and the support they offer SMEs. Sir Andrew Large's Independent Lending Review, published in November 2013, found that there is more we can do to expand our lending to SMEs in the UK. The report made eight recommendations covering our objectives and organisational structure, the way we conduct SME lending practices, and the level of our engagement with national authorities.

(1) New loans drawn down in 2013.

(2) Facilities made available to larger businesses in 2013.

It will take some time for us to work through the details of these recommendations, and we will continue to report on these. We have already identified some immediate actions that will ensure we can increase gross lending to SMEs, enhance our services for our SME customers, and support the economic recovery.

Our aim is to become the number one bank for SME customer service in the UK – including in a new independent survey of SMEs by the Federation of Small Businesses and the British Chambers of Commerce – and to grow our lending along the way. We will be addressing the findings of the Independent Lending Review in our comprehensive bank strategy.

Increasing credit availability to UK SMEs

We are changing the model of our business to enable more decisions to be made by empowered local staff. 2013 saw the appointment of Senior Lending Managers and Lending Directors into the regional SME teams to help stimulate lending growth and re-emphasise that responsible lending to viable businesses is a top priority.

In response to the Independent Lending Review, we are implementing the following:

- Enabling our people to make all but the most complex lending decisions in just five days of receipt of all the necessary information.

- Ensuring that two-thirds of our lending decisions are made locally and by sector specialists.
- Writing to thousands of SMEs setting out clearly how much we were willing to lend to their business. We have already offered £6.5 billion of lending opportunities this way, and, following the positive response to these letters, we are now extending the programme.
- Building a dedicated website to show the information RBS uses to make a lending decision and set out simple, clear steps in our lending process. Our loan approval rate for business customers has remained steady in the past three years, at approximately 90%.
- Where we cannot support a loan application, making customers aware of the appeals process and pointing them towards alternative sources of finance.

US
RBSCFG approved 60% of business
banking term loan applications in 2013

60%

US
RBSCFG provided over \$4 billion through
government mortgage scheme initiatives
in 2013

\$4bn+

Amount lent to UK first time buyers

2013 £2.8bn

2012 £2.6bn

2011 £2.2bn



Lending through government schemes

We support a number of UK Government lending schemes to facilitate credit availability to viable businesses. In 2013 RBS allocated £4.4bn to over 20,000 SMEs through the Funding for Lending scheme. Since launch in August 2012, RBS has allocated £5.9 billion to over 30,000 SMEs, of which £3.8 billion has been drawn. The Bank of England Funding for Lending Scheme (FLS) gives banks access to funding at low rates of interest which can then be passed onto customers. Ulster Bank was the first bank in Northern Ireland to join the scheme and has lent approximately £120 million to more than 950 customers to date.

RBS is the leading provider of loans under the UK Government's Enterprise Finance Guarantee (EFG) scheme, and has lent more than £764 million to businesses that lack sufficient collateral for conventional borrowing. This accounts for approximately 36% of the total amount loaned. In Northern Ireland, Ulster Bank accounts for approximately 70% of all financing granted under the EFG scheme. The Regional Growth Fund (RGF) aims to support employment and growth across England. RBS is the leading banking provider for this fund. We have provided £70m of RGF funding to English SMEs and are in the process of distributing a further £25m.

Mortgage lending

We lent £14.3bn in mortgages in the UK in 2013, including £2.8bn to UK first-time buyers. We also support government schemes designed to make it simpler for people to be granted mortgage approval, either as a first-time buyer, a buy-to-let property or to enable people to move homes more easily. We support both phases of the UK Government's Help to Buy scheme, and were among the first UK retail banks to offer a 95% mortgage to those previously unable to buy their first home. We have helped over 1,700 people move into a new home through the scheme.

In the UK we have re-trained our entire mortgage sales force to ensure customers receive the right advice, fair outcomes and an improved customer experience. We have also introduced a new 'mortgage toolkit' which enables customers to receive an initial indication of how much we will lend in minutes.

Ulster Bank is the biggest lender to first-time buyers in Northern Ireland through the Co-ownership Housing scheme, lending £36.2m in 2013. In terms of overall mortgage lending, Ulster Bank facilitated EUR 349m in mortgages in the Republic of Ireland, placing it third in the market, and Ulster Bank Northern

Ireland facilitated £136m, making it the number one provider of mortgages in that market.

RBS Citizens Financial Group offers a broad range of mortgage products through various government entities (such as Fannie Mae and Freddie Mac) designed to meet the needs of the majority of homebuyers, including first-time buyers. RBSCFG provided \$5.8bn worth of mortgages in 2013.

"I see banks as providing the oil to the wheels of the economy – without this companies cannot grow."

Philippa Foster Back, Institute of Business Ethics, (2013 RBS materiality interview)



Over 8m downloads of
Trusteer Rapport since 2008

Number of robberies

Location	2012*	2013	% losses 2012 vs 2013
UK Retail branches	39	18	-72%
Ulster Bank NI & ROI	5	3	-56%
US Retail branches	144	141	-24%

**We have re-stated our 2012 robberies data due to an error in reporting these figures in the 2012 Sustainability report.*

Our systems and technology

Excellent customer service requires robust, safe and secure operations. We are investing heavily in our technology so that our systems provide an efficient platform and an enhanced customer experience.

Towards the end of 2013, our UK and Ireland customers experienced a loss of service due to a systems incident. This is unacceptable. We are investing in new technology and we are working to ensure that our improved platform will not let our customers down in future.

Our security priorities for 2013 were to protect our customers from fraud, protect the bank from security threats, and share knowledge with small and medium sized businesses on security issues. We have made good progress on all three of these priorities.

Fraud prevention

We support our customers in protecting their identity and their computer systems, making sure that security underpins secure product design and development. We provide free security software, Trusteer Rapport, to protect our customers from online fraud. This software has been downloaded over eight million times since 2008. We also invest considerable resources into protecting our own systems. While we saw an increase in the number of fraud cases across RBS (up 15% on 2012) we were able to reduce losses by 7%.

In an independent test in October 2013, the consumer group Which? rated our online banking the highest out of 10 banks in their test of customer facing online security.

We shared our security expertise on fraud prevention with approximately 2,500 business customers at over 40 events in the UK during 2013.

Physical security

Our branches and buildings are protected by 24x7 monitoring. We regularly visit our premises to assess security measures to both assure and improve the level of security. These visits also provide an opportunity for RBS security advisors to talk to employees about their security concerns and those of our customers.

Cyber security

The Bank of England and UK Government regard cyber security as a 'systemic' risk to the UK financial sector. We work with other financial services organisations to share threat intelligence and discuss industry responses. The most widely reported cyber security threat for the financial services sector in 2013 was distributed denial of service (DDOS) attacks. During these attacks our priority was to maintain access to services and accounts for our customers. One of the drivers of this type of attack is by financially motivated criminals to mask fraud attempts. There was a significant increase in these attacks across the US financial sector in 2013, and we introduced further security enhancements in response.

Serving society

To build a more sustainable RBS, we must meet our responsibilities to society. Ethical conduct is at the heart of this and is fundamental to rebuilding trust with our customers and society as a whole.

We have taken some important steps forward in 2013, but we have continued to deal with some significant challenges. At RBS, we are still addressing many of these challenges, which act as a reminder of the need to strengthen our culture for better conduct. In 2013 we launched our new simplified code of conduct (Our Code, see page 34), aimed at ensuring our people apply high ethical standards to their decision-making, right across the board. A copy of Our Code is available on rbs.com. In 2013, we also made progress against the six society-focused priorities outlined in our 2012

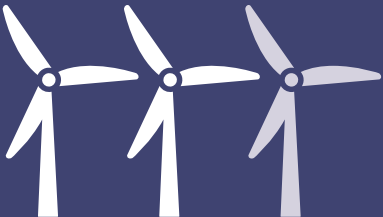
Sustainability Report:

- develop further Environmental, Social and Ethical (ESE) risk policies, continue to monitor and update existing sector ESE and strengthen implementation and training;
- continue to support the transition to a low-carbon economy by financing renewable energy generation and energy efficiency projects;
- maintain our position in the UK renewable energy generation market whilst developing the energy efficiency proposition;
- build on our sustainable sourcing strategy;

- Increase our direct support to the social enterprise finance sector; and
- meet our operational environment targets.

These have been key areas of focus for us in 2013 and our progress is detailed over the next few pages.

Our aim is to be the number one bank for trust in the UK by 2020.



We are supporting the transition to a low-carbon economy
by committing almost two-thirds of energy project finance to wind and solar projects
We were number 1 in the UK for renewable energy projects in 2011–2013⁽¹⁾

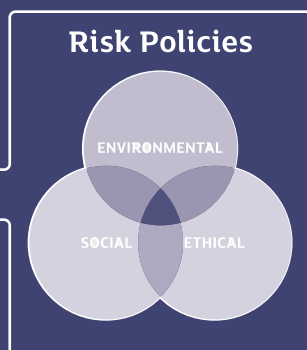


2013:
£1.9bn
in tax paid globally
(£1.3bn UK)

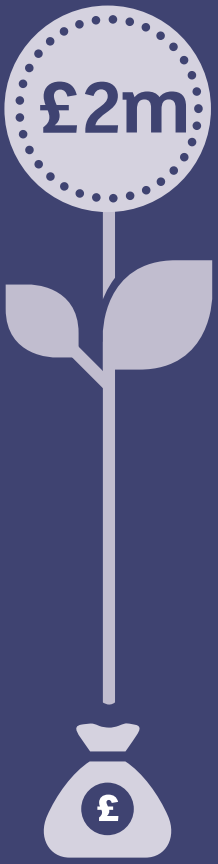
2012:
£2.2bn
in tax paid globally
(£1.4bn UK)

We contributed £1.9 billion in tax payments

We continued to develop the management of our indirect impacts
by implementing two new environmental, social and ethical risk policies and strengthening our existing policies




We reduced our scope 1 and 2 CO₂ emissions by 6.2%
between 2012 and 2013

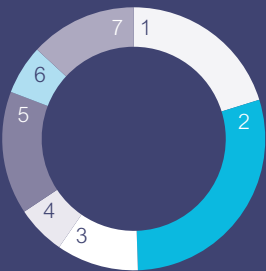


£2m

in grant funding for 72 local enterprise support organisations

(1) According to the independent Infrastructure Journal

Cases assessed against
our ESE policies by sector in 2013



1. Power	20%
2. Oil & Gas	29%
3. Mining & Metals	10%
4. Forestry	6%
5. Defence	15%
6. Gambling	6%
7. Other sectors	13%



Managing environmental, social and ethical risks

As a provider of financial services, we have a responsibility to understand and manage the wider environmental, social and ethical risks associated with the sectors we support. Our stakeholders are often interested in RBS's clients who operate in sensitive sectors with high social and environmental impacts. Our Environmental, Social and Ethical (ESE) risk management framework is one of a number of non-financial risk management systems we operate. It comprises policies and processes to give us better insight into our clients' activities and help minimise the bank's

exposure to credit and reputational risk. It gives clear guidance to staff on the procedures they must follow when dealing with clients in these sectors.

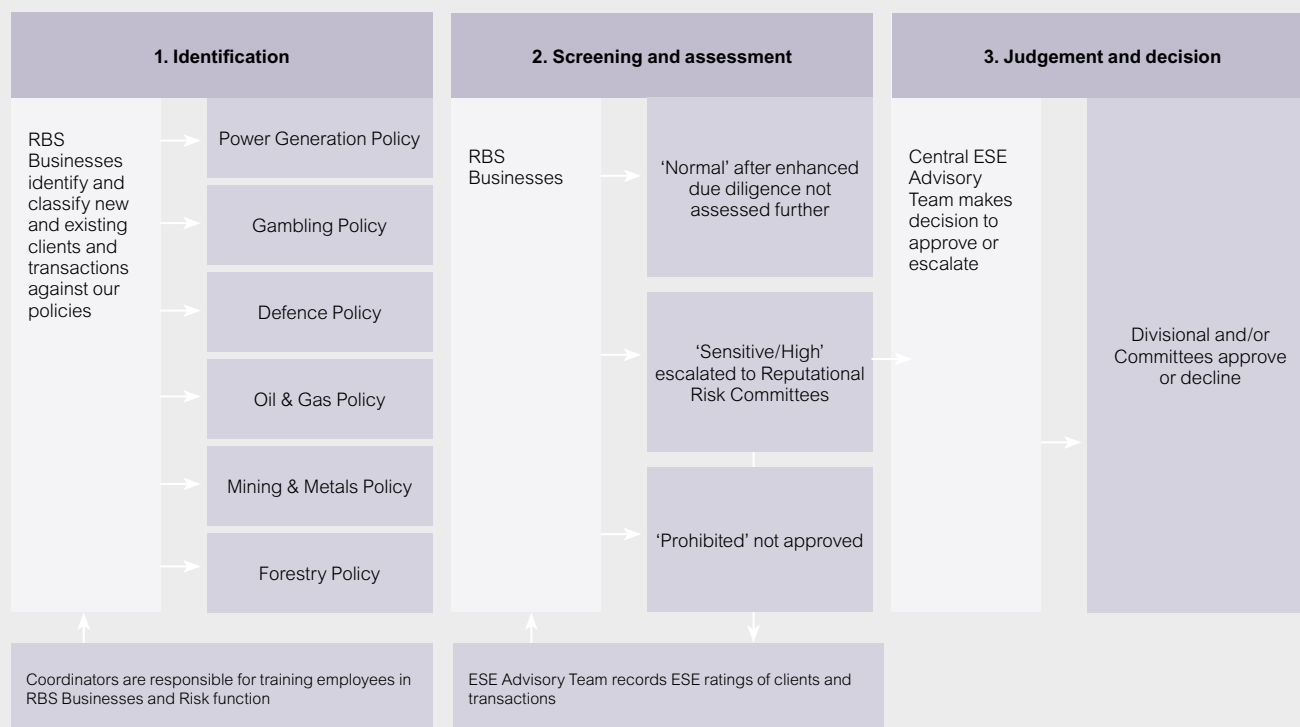
We now have ESE risk policies for six industry sectors. These define the performance requirements that we expect to see as well as the activities which we believe carry high ESE risks. These are reviewed and updated regularly to take account of changes in regulation and good international practice. We conduct enhanced due diligence on clients and transactions involving activities with potentially high environmental and social impacts, and expect our clients to adhere to our standards, for example in the way they approach managing human rights.

During 2013, we implemented two new sector ESE policies, for Power Generation and Gambling, and updated our Oil and Gas policy in areas including oil sands, deep sea oil exploration and Arctic drilling. Our Mining and Metals policy was also updated,

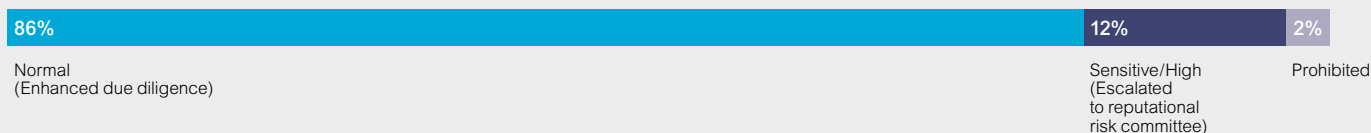
by strengthening positions on Mountain-top Removal (MTR) mining, artisanal mining and deep-sea mining), and we undertook research on short-term unsecured credit providers and the private armed security sector. Work also started on developing ESE positions for the agriculture sector.

We have updated our ESE policy framework to reflect the new requirements of the Equator Principles (EP), EPIII. The EP are a voluntary set of standards adopted by banks for determining, assessing and managing social and environmental risks in project-related transactions. As one of the initial ten banks that launched this voluntary framework within financial institutions globally, RBS has continued to play an active role in the governance of the EP, helping shape EPIII through our role on the EP Association Steering Committee.

How we manage our ESE risks



Cases assessed against our ESE policies in 2013 by classification



RBS does not lend to companies whose activities breach the standards defined in our ESE risk policies. For example in 2013, after extensive research and consultation, we decided that the ESE impacts of mountain-top removal coal mining in Appalachia, US, were unacceptably high, with significant impacts on the environment and local communities. A decision was made not to finance companies with significant mountain-

top coal mining operations in this region. In addition to our policies, our new code of conduct and supporting YES Check framework (see page 34 for more information) also supports employees to make decisions which are consistent with our values. In 2014, we will continue to improve the way we manage ESE risks. We will strengthen our comprehensive ESE risk management framework and its implementation through increased training and

awareness. We will also broaden out the scope of the framework to focus more on cross-sector issues such as human rights and climate change.

See page 26 for a list of our existing policies and how these are implemented.

Our summary positions are available at rbs.com/sustainable/ESE

“The direct environmental impacts of banks are relatively small. Lending is the key lever. This is the lever for positive outcomes that banks can pull, and should pull.”

Geoff Lye, Corporate Sustainability expert, (2013 RBS materiality interview)

2012 & 2013 project finance deals categorised against Equator Principles by industry sector and region

2012					2013				
	A	B	C	Total		A	B	C	Total
Oil & Gas	0	0	0	0	Oil & Gas	0	1	0	1
Infrastructure	0	1	1	2	Infrastructure	0	1	0	1
Power	0	9	3	12	Power	0	6	1	7
Total	0	10	4	14	Total	0	8	1	9

	A	B	C	Total		A	B	C	Total
EMEA	0	5	4	9	EMEA	0	3	0	3
APAC	0	0	0	0	APAC	0	0	0	0
Americas	0	5	0	5	Americas	0	5	1	6
Total	0	10	4	14	Total	0	8	1	9

Our ESE policies

Description/position	
Power Generation	Prohibition on finance to companies operating nuclear power plants and uranium enrichment facilities in certain high risk jurisdictions. Prohibition on project finance for construction of new coal-fired power plants with an efficiency level below 28% for non-OECD or non-high income OECD countries and below 35% for high-income OECD countries. Enhanced due diligence on clients involved in the operation of nuclear power plants, uranium enrichment plants and hydropower projects. All clients and projects must meet appropriate standards covering environmental impact, health and safety, biodiversity, bribery and corruption, labour standards and human rights.
Gambling	Enhanced due diligence on companies involved in online and non-online gaming including restrictions on the provision of finance to online gaming companies operating in certain high risk jurisdictions where online gaming activity could represent a legal or regulatory risk to the bank.
Defence	Prohibition on finance to companies involved in the production, sale or stockpiling of highly controversial weapons, including cluster munitions and anti-personnel landmines (including bespoke components) banned under international agreements ratified by the UK. Enhanced due diligence on defence companies and restrictions on companies involved in the manufacture or sale of nuclear weapons and depleted uranium weapons.
Oil & Gas	Enhanced due diligence for companies primarily involved in the following technologies: oil sands; oil shale; shale gas; coal-bed methane; coal to liquid. In 2013 we strengthened our due diligence for clients operating in the Arctic and in deep-sea environments to include no direct financing to specific oil exploration projects located in the Arctic or Antarctic. We also strengthened our due diligence for clients operating in the extraction of oil sands.
Mining & Metals	Prohibition on finance to companies with significant mountain-top coal mining operations in Appalachia, US. Enhanced due diligence for companies involved in other high-risk activities including deep sea mining, the use of cyanide or mercury in extraction of precious metals and the extraction and processing of diamonds.
Forestry	Enhanced due diligence for companies involved in natural forest, rubber and palm oil plantations.

Conduct

Conduct change

We know and our stakeholders tell us, that culture and ethical conduct are of the highest importance for RBS. Our commitment to address this is fundamental to our recovery if we are to serve our customers well and meet our wider responsibilities to society.

2013 highlighted some serious instances of past conduct failings, for RBS and the banking sector as whole. RBS is currently facing regulatory and legal actions for this with considerable financial, operational and reputational impacts (see page 12 for more information).

In 2013, our senior leaders made a commitment to major organisational change, moving RBS towards a more sustainable, customer-focused culture. We appointed a Chief Conduct and Regulatory Affairs Officer with an explicit remit relating to conduct change and a direct reporting line to the CEO. In addition he sits on the Executive Committee, Board Risk Committee and Board level Group Sustainability Committee.

The challenge for RBS now is to create the right conditions across the business to embed responsible practices to rebuild customer trust. The right policies and procedures, values-driven leadership, and the way we incentivise people are all important factors in creating these conditions.

We have launched our new code of conduct (Our Code) to ensure our people have a clear view on what is expected from them and what they can expect from RBS. It sets out the standards we expect our people to work to, including a clear commitment to respecting human rights. See rbs.com/sustainable for more information.

We have also strengthened and extended our policy framework, with 26 conduct risk standards. These cover employee conduct, corporate conduct, market conduct and conduct towards our customers.

Our businesses are now working to close the gaps between current practice and our new standards. For example, in our Wealth division in Switzerland, we have already improved the way we advise customers in order to meet our new standard for product sales and advice. This is enabling us to deliver improved and consistent service to new and existing clients. We have also put in place a new process which documents the suitability of our products. This is an important step in the right direction for RBS. However, we recognise that strong leadership, effective measurement and a reward system which is underpinned by our values, are all key in order for us to demonstrate meaningful change. See page 34 for more information on remuneration, training and development and how we are strengthening our leadership, to promote behaviours consistent with our values.

Rebuilding trust and customer advocacy through responsible conduct will remain a priority for us in 2014. Our progress will be assessed specifically on how we meet the needs of our customers.

Financial crime

RBS has a zero tolerance approach to bribery, corruption, money laundering, sanctions and terrorism financing. We have a programme in place with governance, policies, procedures, internal controls and systems designed to mitigate the risk of failure regarding compliance with relevant national and international anti-money laundering (AML) sanctions, and bribery and corruption rules, regulations and directives.

In any instance where we fall short of these standards we work collaboratively with relevant regulators and government agencies to remedy any deficiencies. There have been instances where we have not met some regulatory standards and expectations of regulators, see page 12 for more information.

To help us monitor and manage our exposure to AML risks in our banking activities, in 2013 we strengthened our risk rating model for both customers and businesses. This includes customer identification and verification processes with daily screening against sanctions and politically exposed persons lists. Our transaction monitoring capability provides us with the ability to monitor tens of millions

of transactions on a daily basis to identify potential risks.

In 2013, we reviewed and updated our anti-bribery and corruption (ABC) policy and related principles and required practice, to strengthen risk control requirements. These are underpinned by a series of mandatory minimum standards describing the required procedures and controls for managing the bribery risk that can arise with associated parties, gifts and hospitality, and charitable donations and sponsorships.

Visit rbs.com for more information on our AML and ABC statements and supporting policies.

Whistleblowing

RBS has a whistleblowing policy and framework which employees are encouraged to use, without fear, if they reasonably believe they suspect illegal or unethical behaviour within the bank. This includes behaviour that is not in line with our values and policies.

'Right Call' is an independent, confidential, 24/7 telephone and web-based whistleblowing facility which is available to all employees globally. In 2013, RBS was alerted by reports which included possible mis-selling, suspected breaches of customer confidentiality, and legal requirements that may have been contravened. All qualifying reports are investigated. 51 (23%) of the 223 reports that were closed during 2013 were proven and appropriate action was taken.

In addition to whistleblowing, RBS has alternative reporting and escalation processes for specific matters such as money laundering, bribery and corruption, fraud and market abuse, personal issues or grievances. See page 38 for more information on employee representation.

Remediation

Past examples of systems failures highlight the crucial role played by banks in everyday life. Addressing areas where we have not met the necessary standards, such as AML and customer complaints, continues to be a significant focus for RBS. In 2013, we set up a new dedicated Remediation team to improve our management of remediation and ensure continuous improvement of our systems.

“A high trust company will always be a more sustainable company – without exception.”

Geoff Lye, Corporate Sustainability expert, (2013 RBS materiality interview)

Tax contributions

Tax conduct and principles

Responsible tax practices and fairness in the system continue to be debated globally. The Organisation for Economic Cooperation and Development (OECD) along with other bodies, is currently reviewing multinational taxation practices, including transfer pricing between countries, tax information exchange, and financial transaction taxes.

RBS is committed to responsible management of its tax affairs, including a transparent and compliant approach to tax law. We do not see compliance with tax law as optional and believe taxpayers should not seek to exploit weaknesses in the system to gain an advantage. We employ tax specialists in most of the countries in which we operate, seeking specialist external advice in the rest. Our tax specialists ensure we comply with the law in an accurate and timely manner, and our risk-based approach ensures a rigorous review and approval process.

We manage tax in accordance with local laws and we are transparent in our interaction with tax authorities. In the UK, we have signed the Government's Code of Practice on Taxation for Banks which commits us to obeying the spirit and letter of the law, and to maintaining an open dialogue with HM Revenue & Customs (HMRC). We also consult with HMRC on any transactions with tax implications to meet the

principles of the Code and all of RBS worldwide is expected to follow this.

RBS has substantial commercial operations in both high and low tax jurisdictions and we do not divert profits to low tax jurisdictions. Where we operate in low tax locations (such as the Channel Islands and the Isle of Man), we also have a significant number of businesses and employees.

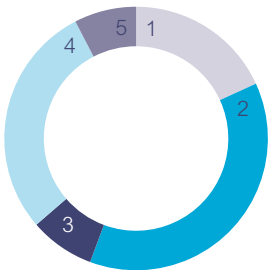
Tax payments in 2013

In 2013, we contributed £1.9 billion in tax globally, £1.3 billion of which went to the UK Government. In 2012, we paid £1.4 billion in UK tax, making us the largest UK taxpayer (ranked against companies participating in PwC's most recent survey). Despite a fall in UK corporation tax payments since the financial crisis, overall taxes paid in the UK are not substantially below pre-crisis levels. The largest tax payment in the UK relates to irrecoverable VAT.

Below is an analysis of our total global tax payments in 2013. Taxes collected on behalf of Governments, such as employee taxes are not included. Our full country-by-country information in accordance with the European Commission's Capital Requirement Directive IV is available at www.rbs.co.uk/sustainability/tax. Please note that because of the way tax law operates, there is often a substantial difference between taxable profits and accounting profits.

Global tax paid (£m)

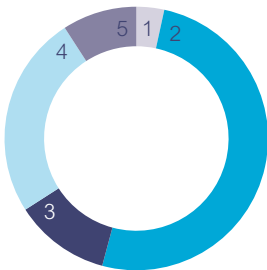
In total, RBS paid £1.9bn in tax globally in 2013



1. Corporation tax	346
2. Irrecoverable VAT/sales tax	714
3. Bank levies	148
4. Employer payroll taxes	547
5. Other taxes	149

UK tax paid (£m)

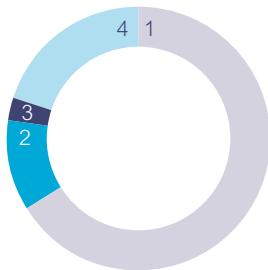
In total, RBS paid £1.3bn in UK tax in 2013



1. Corporation tax	43
2. Irrecoverable VAT/sales tax	639
3. Bank levies	148
4. Employer payroll taxes	314
5. Other taxes	115

Analysis of 2013 tax paid

by geographical region (£m)



1. UK	1,259
2. EMEA	212
3. Asia-Pacific	55
4. Americas	378

Products and services designed to support renewables

We provide large-scale structured finance for onshore/offshore wind, solar and biomass deals. RBS was the leading UK bank in the provision of finance to UK renewable energy projects in 2013.

We provide small scale renewables funding for the agricultural community and SMEs through the £50m Small Scale Renewable Energy Fund and Farm Capital Loans.

£50m

We offer Biomass asset finance to SMEs via Lombard, utilising the UK Government's Renewable Heat Incentive (RHI).

Ulster Bank has a Green Loan, offering preferential rates for home energy efficiency improvements.

RBS offers a Mentor Energy Audit, a face-to-face consultancy service designed for customers wanting to review their business' energy use to reduce consumption, costs and carbon emissions.

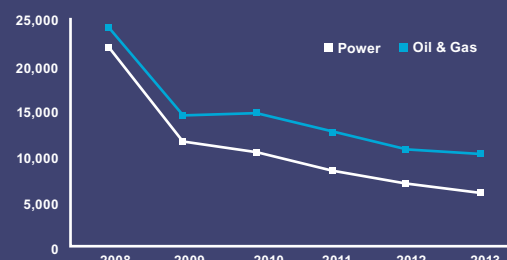
RBS has a £200 million Carbon Reduction Fund, backed by the UK Government's Funding for Lending Scheme, provides low-cost finance to a range of sustainable energy projects for business customers in the UK.

£200m

RBS contributed £50 million to the London Energy Efficiency Fund to help public sector organisations become more environmentally friendly. The Tate Gallery was the first organisation to receive funding.

£50m

Changes in lending to the Power and Oil & Gas sectors 2009-2013 Credit Risk Assets (£m)



Energy financing and the low-carbon economy

Our financing of the energy sector accounts for around 3% of our total lending. But although the percentage may be small, it's a significant part of our business and we play an important role in financing the companies that meet society's need for energy. We're also working hard to support businesses and other organisations that want to reduce their energy use – saving them money and improving their environmental performance.

We publish details of our energy financing in a report available at [rbs.com/sustainable](https://www.rbs.com/sustainable)

Our energy financing is split between general corporate finance, which includes energy efficiency projects, and lending to specific energy generation projects. Last year, almost two-thirds (65%) of our lending to specific projects went to renewable energy developments, with wind projects being the most common. This compares to 66% in 2012. Please see table opposite for more details. Our general corporate finance (which is much

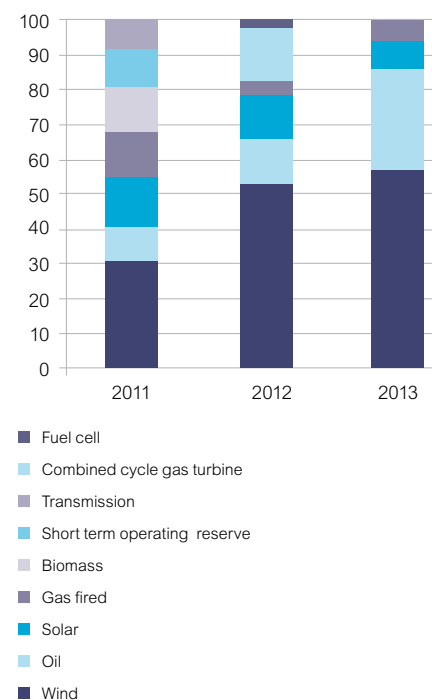
greater) is not tied to specific projects and therefore supports the spread of activities that our clients undertake.

We estimate (using data from Trucost) that 25% of our general lending to our top 25 power clients is funding energy generation through fossil fuels. We also estimate 5% of our general lending to these clients is being used for generation via renewables. On average, our top 25 power clients are approximately 35% less carbon intensive than the industry average, whilst our oil and gas clients are approximately 4% less intensive. This is largely due to the geographical and regulatory conditions that our clients operate in and our preference for lending to well-run, low-risk companies. Even though the volume of fossil fuel generation is reflective of the global energy mix, it is a matter of concern for us given the risks posed by climate change.

Our long-term strategy for the energy sector involves increasing financial support to developers of low-carbon generation and energy efficiency projects whilst working with clients to reduce the environmental and social risks associated with other forms of power generation. This includes prohibitions on lending for certain high-impact activities. Perhaps most importantly, we are also committed to helping our customers save energy themselves through investing in energy efficiency. For example, over 300 UK-based business Relationship Managers have

undertaken accreditation training on renewable energy. The diagram above shows more examples of products and services we have developed.

Energy structured finance 2011 - 2013



Working with our suppliers

The size and reach of our business means we purchase goods and services from approximately 25,000 suppliers across the world. 90% of total spend is concentrated in the UK and the US. Our relationships with our suppliers are based on fairness, transparency and integrity. We expect suppliers to uphold the same values and commitments that we have made in relation to social and environmental impacts and to manage their approach to sustainability effectively and for the long term.

In 2013, we strengthened our Sustainable Procurement Code (available at www.rbs.com/sustainable/policies) which sets out our commitments to, as well as our expectations of, the suppliers with whom we do business.

It states that our suppliers should not be engaged in unethical or unsustainable practices such as breaches of human rights or damage to protected areas. To achieve this we enhanced our procurement processes to include more sustainability related considerations during the supplier sourcing process.

Through our Supplier Performance Assessment (SPA), we ensure suppliers act in a way that is consistent with our expectations of behaviour. The SPA is our measurement framework that brings together data and feedback from sourcing managers and suppliers. We use this information to drive focused supplier improvement activities and recognise supplier excellence. This framework has been realigned to our values. 115 Supplier Performance Assessments were carried out in 2013, representing approximately 30% of supplier spend. In 2012, 154 assessments were carried out, which represented approximately 35% of RBS's annual spend.

Our Supplier Diversity and Inclusion code of conduct affirms our commitment to providing a level playing field for minority and under-represented suppliers in our communities. It commits us to increase access for small and medium sized enterprises (SMEs) to the purchasing power of RBS, specifically those which are women-led, ethnic minority-led or social enterprises. 29% of our UK based suppliers are SMEs, and we spent approximately £280m with them in 2013. We have worked with other large companies to encourage them to sign up, including Accenture, Coca-Cola, Intel, and

Marriott International. We believe that this will strengthen our marketplaces, promote competitive advantage and enable business sustainability in the communities we serve and support.

Supporting economic growth

We seek to encourage sustainable economic growth by supporting our customers and by investing in partnerships and initiatives that encourage enterprise, including access to finance, developing business expertise and encouraging access to markets.

Gaining access to finance is an essential part of any business' growth plans. We help small and medium-sized enterprises (SMEs) to understand the finance available to them. We have written to thousands of SMEs setting out clearly how much we were willing to lend to their business. We have already offered £6.5 billion of lending opportunities this way and, following the positive response to these letters, we are now extending the programme.

In addition to our own lending efforts, we support a number of UK Government lending schemes. These include the Regional Growth Fund, Funding for Lending, the Enterprise Finance Guarantee and the Start Up Loans scheme. In Scotland, we have also been closely involved with the Scottish Government's EDGE fund, which provides grants and support to high-potential SMEs. See page 20 for further details of the ways we provide business support.

We are helping SMEs increase their access to markets to help them grow. With our BizCrowd online community and marketplace we are able to help businesses find suppliers, connect with customers and share advice. Over 30,000 businesses signed up to BizCrowd by the end of 2013, enabling over 11,000 new connections to be made across the year.

We are also working to encourage a more entrepreneurial culture in the UK. We want more people, in more communities, to explore enterprise, build their skills, start up and succeed in business. In schools, our Pocket Money and MoneySense programmes contain information and practical activities to raise awareness of enterprise as a career option.

See rbs.com/sustainable/community for more information on how we are supporting communities with enterprise and employability.

Inspiring Enterprise

Our flagship enterprise initiative is Inspiring Enterprise, which supports three groups who face additional barriers to enterprise success: young people under 30, women, and social entrepreneurs.

By the end of 2015, we plan to:

- Help 100,000 young people to explore enterprise, develop their skills and start up in business;
- Inspire and enable 20,000 women to explore and unlock their enterprise potential;
- Support 2,500 social enterprises, working in partnership with the sector to improve access to expertise, markets and finance.

In its first full year, Inspiring Enterprise supported more than 37,500 people. We are working on a wide range of activities to help people from all backgrounds develop and realise their enterprise ambitions. This includes:

- Helping disadvantaged young people through our partnership with The Prince's Trust;
- £2m of grant funding, distributed to 72 local enterprise support organisations across the UK, from Cornwall to the Outer Hebrides. This funding helped more than 9,500 people on their enterprise journey, and helped start 300 new businesses, creating 327 jobs;
- The RBS SE100 Index, which tracks and celebrates the success of the fastest growing and most impactful social enterprises in the UK;
- Our strategic partnership with Entrepreneurial Spark in Scotland, in support of their mission to create a 'start-up renaissance'.

Supporting communities

RBS invested more than £54 million in the community in 2013 (compared with £57 million in 2012), and more than 40,000 employees volunteered almost 170,000 hours in the community, in company time.

To find out more about how we are supporting communities through investment, disaster and emergency aid, sponsorship, financial literacy, employability and volunteering, please see rbs.com/sustainable/community

Managing our direct environmental impacts

RBS aims to be a leader among global financial institutions in terms of managing our own environmental impacts as well as seeking to influence other businesses on how they manage theirs. In 2011, we set environment targets for our company, covering energy, water, waste, paper and carbon dioxide (CO₂) emissions.

RBS has sold the Direct Line Group (DLG) which operates from large office buildings where we have typically focused our improvement activities. It accounted for around 25% of our office generated environmental footprint in the UK.

Whilst we have adjusted our baseline to account for the change to our footprint, we have not amended our environment targets. This has limited our opportunity to meet these, however, we have taken this decision to ensure they remain stretching.

As four of our environment targets expire at the end of 2014, we will announce new ones in early 2015 which will aim to reduce the carbon footprint of our business.

Energy

Overall, energy use is down by 6% since 2011. We will need to work hard to achieve our target of a 15% reduction by the end of 2014.

In 2013, we cut £4.1million from our energy costs through efficiency measures including optimisation of heating/cooling systems in our larger buildings, and installing more efficient lighting and heating in offices and branches. However, these improvements were offset by the cold winter and warm summer in the UK and US, which meant we used more energy on heating and cooling. We also used more energy in our data centres in the UK and India. Since 2007, 100% of our electricity use in the UK has come from renewable sources. In 2013, 65% of our worldwide electricity use was from renewable sources.

Water

We have achieved a 10% reduction in water use since 2011 (our target is a 12% reduction by the end of 2014). This has been delivered via water reduction initiatives, such as flow restriction and 'waterless' options, and via waste reduction. To monitor our progress, we have automated water meters in our 20 highest consuming properties and carry out 'water audits' across the business.

Paper

For paper, we have achieved a saving of 47% (our target is a 50% reduction by 2020). This is an annual reduction of 11,900 tonnes of paper across the UK, Ireland, and US. Significant savings have been made in marketing and office paper usage, double-sided printing in offices and encouraging consumers to switch away from paper statements. We are working towards ensuring the paper we use holds a recognised certificate of sustainable sourcing, or is made from at least 85% recycled material.

Waste

We have almost met our 2014 target for waste recycling: we now recycle 68% of our waste, and have a target of 70% by the end of 2014. However, our volume of waste is down just

2%, which means we still have a long way to go before we achieve our target of a 10% reduction by the end of 2014. A one-off branch closure programme in Ireland generated additional waste in 2013.

Travel

CO₂ emissions from business travel have been reduced by 5.3% since 2011, and we want to achieve a reduction of 50% by 2020. We emitted more CO₂ from business travel in 2013 than in 2012, as our UK Retail and Corporate businesses increased their travel for customer-facing activity. To maintain progress, we are investing in alternatives to travel, such as webinar and video conferencing facilities, and encouraging our employees to consider switching to lower-carbon options (e.g. air to train).

Engaging employees

We engage our people to help them understand their environmental impact and contribution to our targets. We ran two engagement campaigns in the UK in 2013, each tailored to a subject raised through employee feedback. One campaign focused on reducing and recycling waste, particularly catering waste such as cups and food containers. The second encouraged employees to commute sustainably by logging their journeys via a tool that suggested alternatives such as car sharing, public transport, cycling and walking. Both campaigns received positive feedback.

To understand our employees' opinions, we include the question "RBS Group is an environmentally responsible company" in our annual employee survey. In 2013, 78% of respondents answered favourably, up 1% from 2012 and 2% ahead of the global financial services norm.

RBS environmental impacts table

Assessment Parameters					
Baseline year	2011				
Consolidation approach	Operational control				
Boundary summary	All entities and facilities either owned or under operational control				
Emission factor data source	DEFRA (2013)				
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)				
Materiality threshold	Materiality was set at group level at 5%				
Intensity ratio	Emissions per FTE				
Independent assurance	Limited assurance provided by Deloitte LLP over all Scope 1 and 2 GHG emissions				
GHG Emissions	2011	2012	2013	% change 2011 vs 2013	% change 2012 vs 2013
Total Scope 1 CO ₂ e emissions (tonnes)	73,117	61,880	79,855	+9.2%	+29%
Total Scope 2 CO ₂ e emissions (tonnes)	559,389	486,872	434,816	-22.3%	-10.7%
Total Scope 1 & Scope 2 CO ₂ e emissions (tonnes)	632,506	548,752	514,671	-18.6%	-6.2%
Total Scope 1 & Scope 2 CO ₂ e emissions per FTE (tonnes)	4.7	4.3	4.2	-12.1%	-3.2%
Total Scope 3 CO ₂ e emissions from business travel (tonnes)	79,120	67,109	89,164	+12.7%	+32.9%
Emissions of ozone-depleting gases					
Emissions of ozone-depleting gases (tonnes)	n/a	9,185	23,928	n/a	+160%
Energy					
Total energy consumption (GWh)	1249	1219	1173	-6%	-3.7%
Energy use per Full Time Employee (KWh per FTE)	9320	9527	9473	+1.6%	-0.6%
Renewable electricity use (% of total electricity)	61	66	65	+4%	-1.8%
Water					
Water consumption (mil m3)	2.23	2.11	1.99	-10.8%	-5.7%
Water consumption per FTE (m3)	16.5	16.4	16.1	-2.4%	-1.8%
Waste					
Total Waste generated (tonnes)	n/a	35,742	35,038	n/a	-1.9%
Waste generated per FTE (kg)	n/a	279	283	n/a	+1.2%
Total Waste to landfill (tonnes)	n/a	11,352	11,349	n/a	no change
Waste to landfill per FTE (kg)	n/a	89	92	n/a	+3.7%
Percentage of waste recycled	n/a	68	68	n/a	no change
Paper					
Total paper used (tonnes)	27,988	24,102	14,730	-48.7%	-38.9%
Paper used per FTE (kg)	209	188	119	-43%	-36.8%
Travel					
Total CO ₂ e emissions from business travel (tonnes)	100,248	67,108	94,976	-5.3%	+41.5%
Total CO ₂ e emissions from air travel (tonnes)	61,198	38,420	54,830	-10.4%	+42.7%
Total CO ₂ e emissions from rail travel (tonnes)	3,400	2,498	2,253	-33.7%	-9.8%
Total CO ₂ e emissions from road travel (tonnes)	35,650	26,190	37,893	+6.3%	+44.7%
Total CO ₂ e emissions from business travel per FTE (tonnes)	0.75	0.52	0.77	+2.7%	+48.1%
Incidents					
Total number of environment incidents, fines and legal non-compliance	0	0	0	n/a	n/a

Working at RBS

For RBS, being a responsible business means serving our customers and communities well. Building an engaged, healthy and inclusive workforce is crucial to our company's recovery.

2013 was another challenging year for the industry, exposing widespread misconduct from the past which continues to have an impact on public trust in banking. It's fair to say that this has also had a knock-on effect for our employees. But we have a long-term plan to make significant changes to the way our business works. We will rebuild our people's pride, ensure they are clear on the direction of the business, and understand what's expected of them to achieve our goals. We recognise that our people need to be supported by a strong internal culture, and our stakeholders agree, telling us that culture change and ethical conduct are of the highest importance for RBS.

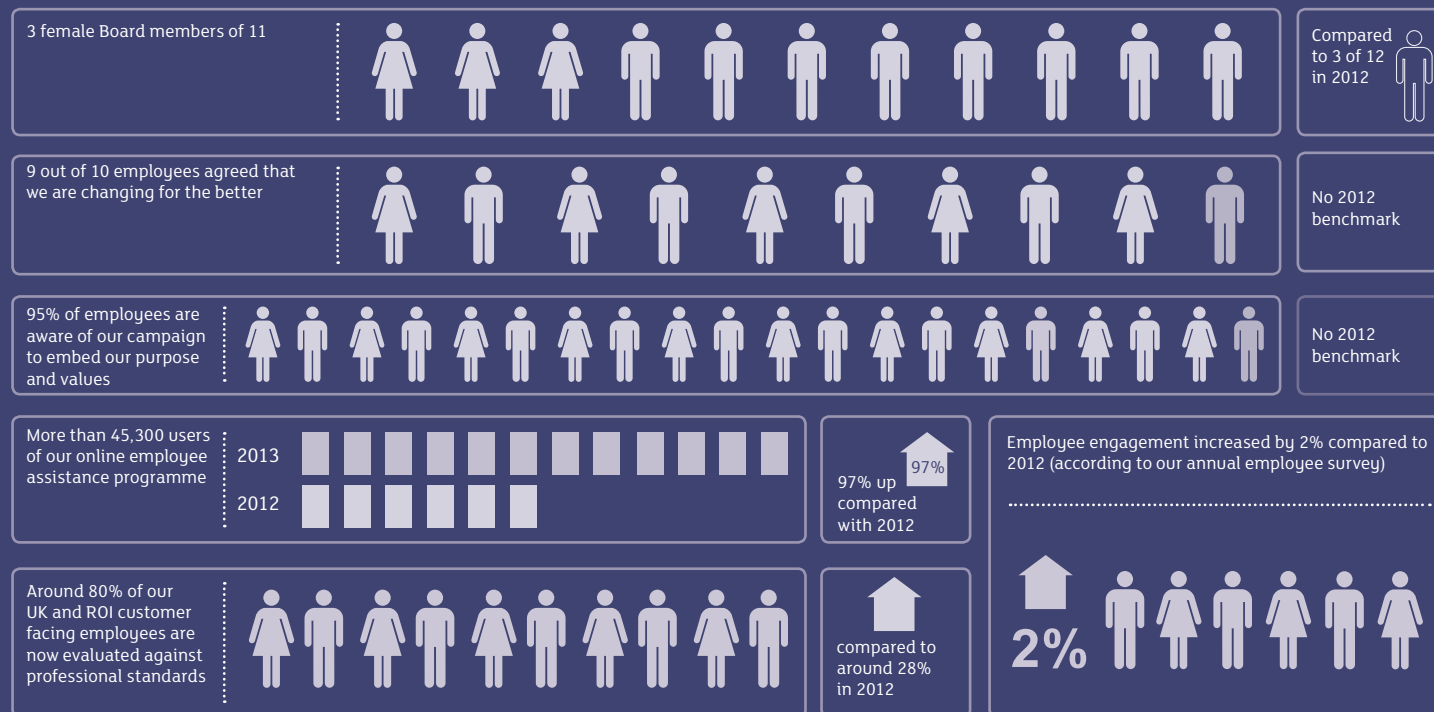
In our 2012 Sustainability Report, we outlined three people-focused priorities for 2013:

- build a capable and professional workforce;
- be recognised as an inclusive employer;
- ensure strong and diverse leadership to build the right culture across the bank.

This year we made good progress on these priorities. We significantly increased the number of customer-facing employees accredited with professional standards, we've achieved recognition from key industry inclusion benchmarks as a top employer, and

we launched a new code of conduct and an RBS-wide programme to embed our values across the business. This will make it easier for employees to serve our customers well and reconnect the bank with its responsibility to society.

Our aim is to be greater than, or equal to, the Global Financial Services norm for employee engagement by 2020. In 2014 we will outline how we will achieve this.



Purpose and values**76%**

of employees globally completed our employee survey

83%

believe strongly in the goals of RBS

89%

agree that they are encouraged to do the right thing at work

50%

of our employees have seen a positive change in how their team works as a result of the campaign embedding our new purpose and values



Embedding our values

Our purpose and values

The scale of the challenge we have faced over the last few years taught us a fundamental lesson; you cannot succeed at your customers' expense. In the past, we were too focused on our own success, rather than the success of our customers. This is why last year, through extensive employee research and debate among our leaders, we agreed on a simple purpose and set of values. Our purpose is to serve customers well.

In 2013, our senior leaders made a commitment to major organisational change, moving RBS towards being a more sustainable business. If we want to earn our customers' trust, we need people who understand our purpose and live our values every day. Engaging people on our purpose will be core to our success as we work to restructure the business in line with customer needs. Although we're at the start of a long journey, RBS employees already agree overwhelmingly that we're changing for the better.

Four values underpin our purpose. These values are the basis for how we lead, how we reward, how we make decisions and how we treat our customers and each other:

- Serving customers;
- Working together;
- Doing the right thing; and
- Thinking long term.

We have also re-written and re-launched our code of conduct (Our Code) which provides employees with a clear view on what is expected from them and what they can expect from RBS. It has moved from being a complex and highly technical document to an interactive and practical tool for employees which supports the wider conduct risk agenda.

This is supported by the YES Check: a simple decision-making framework to help employees translate Our Code into their day-to-day roles. It has been designed to meet the Financial Conduct Authority's standard of conduct and is underpinned by ethical principles.

Our CEO, Ross McEwan, is holding our leaders to account for embedding the values, and the Executive Committee pledged its commitment in a letter sent to 130,000 employees. The largest ever online debate on our values was launched on the back of this and 25,000 employees got involved.

Over the course of the year, we set about communicating and embedding our new values into the business. We ran an internal engagement and communications campaign, a new awards scheme, 15 regional workshops reaching 3,000 leaders, team events involving two-thirds of employees, and developed a behavioural framework, and new leadership standards which will be built into how we recruit, support and reward our leaders. In 2014, we will continue to develop our programme and continue to monitor our progress through a robust measurement framework.

To view Our Code and examples of how we are using the YES Check and living our values, visit rbs.co.uk/sustainable/workingatRBS

Training and development

We are embarking on a significant organisational change at RBS – and that means that training and development are important tools to help our colleagues understand and meet our high expectations.

Our training priorities for 2013 were to ensure the strength and diversity of our leaders, and to build a capable and professional workforce through the provision of appropriate learning, development and accreditation opportunities.

Training and development

40,000

During 2013 we introduced professional standards development programmes to cover all 40,000 customer-facing employees in the UK and Ireland.

94%

94% of our people completed our 15 critical policy e-learning modules to understand the regulatory requirements for their role.

110,000

More than 110,000 enrolments globally on our new learning management system launched in August.

Remuneration and reward

Strengthened

Strengthened existing shareholding requirements for the executive directors and introduced new ones for senior executives, aligned to shareholder interests.

Simplified

Simplified sales incentives through a balanced scorecard with an increased focus on customer service and risk management.

Living wage

Paid all our UK employees at or above the Living Wage.

To strengthen our leadership for the strategic challenges ahead, we developed a new talent strategy (offering external and internal coaching to our leaders) and leadership standards linked to our values. This approach means we can build the long-term capability of our leaders, for example by connecting them to external customer excellence best practice.

Building the capability of our people is also crucial to ensure effective compliance behaviour. For example, RBS also has compulsory anti-bribery and corruption (ABC) and anti-money laundering (AML) training modules for all employees to improve their understanding of the processes and controls required to properly manage risks (see page 27 for more details).

In 2014, we will move towards a single learning model and curriculum across RBS, continue to support the development of our leaders, and ensure that all our customer-facing staff in the UK are accredited against professional standards.

Remuneration and reward

Our stakeholders – including the general public – see executive pay and bonuses as an important topic, and expect RBS to set appropriate levels of reward for our people.

Each year we consult with institutional shareholders (including our largest shareholder, UKFI) on RBS's remuneration approach.

Remuneration plays an important role in underpinning our culture, and we are committed to encouraging a business culture that supports the long-term goals of RBS. 'Pay for performance' continues to be at the centre of our remuneration policy: we aim to attract, retain, motivate and reward high-calibre people to deliver against our business priorities, whilst remaining responsive to the external environment in which we operate.

The performance of RBS's senior executives is measured through a balanced scorecard approach that considers progress against both financial and non-financial key performance indicators. These are aligned to our strategic priorities.

Remuneration at RBS is governed by our Performance and Remuneration Committee. Variable pay is determined through a review of business performance, which includes financial, people, customer, and risk metrics. We continue to drive a culture of individual and collective accountability for decisions. Our Accountability Review process allows us to retrospectively limit or 'clawback' performance awards.

Incentive schemes for our customer-facing UK Retail staff are subject to customer service and risk management minimum standards. Once met, payments are based on a combination of financial and non-financial measures.

Our previous CEO, Stephen Hester (in office until 30 September 2013), did not receive a salary increase in 2013, and our new CEO, on a lower salary, waived any annual bonus for 2013 and 2014 performance. Our Executive Committee will also not receive annual bonuses for 2013.

Compared to 2012, the 2013 RBS bonus pool is down 15% which is in line with the fall in our operating profit.

In 2013 we continued to pay our employees in the UK at or above the Living Wage benchmarks (national and London), and intend to apply for full accreditation from the Living Wage Foundation. This means we will extend it to include agency workers.

In 2014, we will continue to consult key stakeholders on remuneration. We will also refine our remuneration policy where needed, for example, to meet Capital Requirements Directive IV.

More information on reward and remuneration can be found in our Annual Report & Accounts on rbs.com as well as at rbs.com/sustainable/reporting

In 2013

Listed in the Times Top 50 Employers
for Women

50

Top 10 Employer for Working Families

10

Stonewall Top 100 Employers
(Sexual orientation)

100

Platinum rating from Opportunity Now
(for gender equality)



Diversity and inclusion

We want everyone at RBS to feel valued and supported. We also recognise the benefit of maintaining a diverse and inclusive workforce, for the business and for customers. As we build a more sustainable and customer-focused culture, inclusion is more important than ever.

Our inclusion policy exists to promote an environment that is based on merit and inclusion, where all employees can develop their full potential, irrespective of their age, belief, disability, ethnic or national origin, gender, gender identity, marital or civil partnership status, political opinion, race, religion or sexual orientation.

In 2013, we made progress against our priorities to be recognised as an inclusive employer, and to ensure the diversity of our leaders in order to build the right working culture. We reviewed how we influence

organisational processes and practices, increased awareness among our workforce, and launched three new employee-led inclusion networks. Our approach is working: our people rated us favourably for respect and diversity (in our annual employee survey) compared to other financial services companies.

Women at RBS

Women are still underrepresented in the banking sector. RBS is taking steps to address gender equality in representation at all levels, and has been recognised with a platinum rating from Opportunity Now – one of only a very small number of UK employers to achieve this.

In 2013, RBS was listed in The Times Top 50 Employers for Women. Our female representation at executive level increased to 20% from 19% in 2012. Board level representation was at 27% (three of 11) from 25% in 2012. However, these figures reflect a decrease in the number of executives and Board members rather than new female appointments. We remain committed to meeting the recommendations in Lord Davies' report on Women on Boards: www.gov.uk

Networks

Our employee-led inclusion networks provide personal and career development opportunities through networking and training events. RBS has a number of networks supporting female employees and one representing lesbian, gay, bisexual and transgender (LGBT) employees. In 2013, we launched three new networks: Enable for Disability, the Families and Carers Network and the Multicultural Network.

All of our inclusion networks have grown in membership and global reach this year. The Focused Women's Network is one of the largest employee-led women's networks globally, with over 11,300 members spanning 32 locations. The Rainbow Network is recognised as one of the most active LGBT networks in the banking sector, with over 1,400 members globally.

Gender breakdown of our workforce

	2008		2009		2010		2011		2012		2013	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Clerical	33%	67%	33%	67%	33%	67%	34%	66%	33%	67%	33%	67%
Appointed	51%	49%	52%	48%	52%	48%	53%	47%	51%	49%	52%	48%
Manager	64%	36%	68%	32%	68%	32%	67%	33%	67%	33%	67%	33%
Senior Manager	77%	23%	77%	23%	74%	26%	74%	26%	73%	27%	74%	26%
Executive	86%	14%	85%	15%	83%	17%	82%	18%	81%	19%	80%	20%
Total	45%	55%	46%	54%	46%	54%	47%	53%	47%	53%	47%	53%

This data is based on December 2013 global RBS headcount (not FTE), includes active employees only, and excludes contingent workers.

In 2013

27%

female representation at Board level
(three of 11)

28

female managers were nominated to take part
in an internal networking Sponsorship Initiative

2

female executives took part in the FTSE 100
Pipeline Pilot Programme

2

female executives were mentored by CEOs
and Chairmen in the FTSE 100 Cross Company
Mentoring Programme

21

female managers took part in a six-month
reciprocal mentoring programme in our
Markets division

124

female employees attended Strategies for
Success workshop and subsequent learning
programme

407

female managers took part in Pearls to
up-skill future leaders

83%

of our people gave RBS a favourable rating
for Respect & Diversity – 2% higher than other
global financial services companies

250

female undergraduates were signed up to
SPRINT personal development programme –
a partnership with Oxford University and The
Springboard Consultancy

Employability in 2013

4,000 young people engaged through our award-winning Indian Summer programme in partnership with The Prince's Trust since it launched

4,000

Almost 800 employees redeployed within RBS as part of the restructuring of the company

800

Redundancy data 2012/2013

Region	Compulsory Redundancy		Early Retirement		Voluntary Redundancy		Total	
Year	2013	2012	2013	2012	2013	2012	2013	2012
UK	1038	1824	250	899	937	1780	2225	4503
Rest of the world	1959	1696	13	24	644	502	2616	2222
Grand Total	2997	3520	263	923	1581	2282	4841	6725

Employment practices

To support our people to serve customers well, we need to create the best working environment possible, supported by responsible employment practices such as flexible working, employee feedback and wellbeing support.

Employee representation

We estimate that nearly two-thirds (63%) of our employees globally are covered by a collective bargaining agreement and/or local employee representative arrangements, up from just over half in 2012.

In 2013, we were involved in more than 280 change projects across the world. We also engaged our European Employee Council and Unite on the new code of conduct to hear their views and help shape proposals. As well as restructuring and offshoring consultations, meetings with trade unions, works councils and

employee representative bodies raised issues including future strategy, job security, terms and conditions, performance management and culture change.

Employee voice

In 2013, our annual employee survey was completed by more than 89,000 (76%) of colleagues worldwide, making it one of the largest of its kind in UK banking. Overall engagement was up 2% from 2012, and we compared favourably with the financial services sector norm in 13 of 15 categories. However, results also confirmed that 2013 was another tough year for our people, as we continue our journey to recovery. Please see rbs.com/sustainable/workingatRBS for more information on employee engagement scores.

This year, for the first time, we used the survey to track employee perception of the progress being made in driving culture change and embedding our values. The results were cascaded widely for greater transparency. See page 34 for more information.

As well as engaging employees on aspects of their working environment through our annual survey, we are committed to gathering

employee insights to understand how we can build a better bank for our people and our customers, through focus groups, conferences and interactive discussion boards.

Supporting people through restructuring

In 2013, we continued restructuring RBS to become a really good bank that serves customers well. This resulted in 4,841 employees leaving the company through early retirement and voluntary or compulsory redundancy (down from 7,000 in 2012). All employees at risk of redundancy are offered redundancy support, and more than 780 employees were redeployed within RBS as a result of these conversations. See rbs.com/sustainable/employment for our 2013 redundancy data.

Wellbeing

Ensuring the wellbeing of our workforce is an important responsibility for RBS. In 2013, we stepped up our efforts to support employees, raising awareness of our employee assistance programme and delivering targeted health promotions.

2013 has been another challenging year for our people, and we recognise that our restructuring

Wellbeing in 2013

45,300

Increased visits to LifeMatters online to more than 45,300 visits in 2013 from 23,000 in 2012.

97%

Increasing LifeMatters online uptake by over 97%, compared with 2012.

1,450

Supported almost 1,450 employees in the UK and Ireland this year through specialist occupational health services.

800

Launched a LifeMatters mobile app with 800 users in the first two months, making the service more accessible.

20

Delivered more than 20 wellbeing promotions internally.

1,500

Helped our people access fast-track physiotherapy, with an additional 1,500 receiving treatment in 2013 as a result of its 2012 inclusion in the medical insurance benefit.

activity and the volume of transformational change from our ongoing recovery can impact the health and wellbeing of our people. Nearly 25% of absence in 2013 was stress related, up marginally from 2012, and our employee survey revealed that stress remains high, with 42% of our people reporting levels of stress which they believe significantly reduce their effectiveness. To support our employees, in 2013 we made our employee assistance programme more accessible, and saw a 97% increase in LifeMatters online. We take this issue seriously. In 2014, we will offer mental health awareness and resilience programmes in partnership with key charities and experts.

Employability at RBS

As a major employer, RBS supports employability and social mobility in the communities in which we operate. We provide training and employment opportunities, particularly for young people, who in many cases have been badly affected by the global financial crisis.

In 2013, 37% of the 16,500 people who joined RBS were aged between 18 and 24. We also became the first financial institution in the UK to hire external apprentices onto a talent programme, identifying 60 apprentices for roles across the bank. We also took in 600 graduates who received considerable learning and development opportunities.

Through our global community programmes, we work with partners to share our skills and support young people from diverse backgrounds with enterprise and employability.



Find out more at
rbs.com/sustainable/employability

For information on the health and safety of our employees, please visit
rbs.com/sustainable/workingatRBS

Find out more about how we are supporting employability at rbs.sustainable/community

“The core values of RBS have improved the transparency and work culture.”

RBS employee, employee survey 2013

About RBS reporting

In 2013 we have moved away from reporting against our five sustainability themes to reporting under the areas of how we serve customers, how we serve society and working at RBS. This is reflective of our purpose and values as an organisation – we want to demonstrate our work and progress in rebuilding trust with our customers, shareholders, communities and our people. The simplified reporting structure allows us to report in line with our strategic direction (page 5).

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 2013 and details our future priorities.

Independent assurance

We believe that independent assurance ensures the quality of data and data management. We aim to reassure readers that the information published in this Review is accurate and material.

Within this Review Deloitte LLP issued an unqualified opinion using limited level assurance on the following selected subject matters:

1. Application of the AA1000 Accountability Principles Standard (AA1000 APS).
2. Selected sustainability performance indicators against ISAE 3000.

Reporting standards

As outlined above, 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, namely inclusivity, materiality and responsiveness. We outline further our application of each of these principles below

We have also reported in accordance with the latest Global Reporting Initiative (GRI) guidelines, aligning to the 'Core' application level. Our G4 report is available at rbs.com/sustainable/gri. In compiling our report we also sought to cover the principles of the UN Global Compact.

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 Our approach to sustainability on page 9. In addition, we have expert consultants who inform our steering groups about specific issues, such as customer trust and culture and ethical conduct, so that we can improve our understanding and response to the issues affecting our business.

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 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.

We endeavour to manage our material issues in a transparent and fair way.

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 2013 priorities (outlined in the 2012 Sustainability Report) is covered in this Review.

Performance, Commitments and Indices

RBS is a signatory to a number of voluntary sustainability commitments and standards. We understand that implementing commitments is an ongoing process, and we are continuously working to integrate these to improve how we run our business.

We are a member of the Equator Principle (EP) Association Steering Committee. The EPs are a voluntary set of standards adopted by banks for determining, assessing and managing social and environmental responsibilities in project financing. We will not provide project finance where the borrower will not, or cannot, comply with these principles of socially responsible investment.

We have been members of the United Nations Global Compact (UNGC) since 2003, the leading platform for the development, implementation and disclosure of responsible policies and practices in the areas of: human rights, labour, environment and anti-corruption.

Each year RBS receives ratings for its environmental and social performance by external indices. RBS has been included in the Dow Jones Sustainability World Index (DJSI) every year since its launch in 1999, achieving our best ever score in 2013. The Index ranks companies' corporate sustainability performance, based on analysis of economic, environmental and social issues like corporate governance, risk management, branding and climate change.

The Carbon Disclosure Project (CDP) is an independent, investor-driven organisation which facilitates the measurement and disclosure of greenhouse gas emissions for 2,500 organisations in over 60 countries. In 2013 RBS received a disclosure score of 88% and a performance score B.

The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards. RBS has been included in the FTSE4Good since it was launched 10 years ago.

