

Building a sustainable RBS

“We want to build a really good bank. That means thinking about our financial stability, our customers, the way we use the resources around us and the practices that we have. It’s about looking inward less and outward more, and being a positive part of society.”

Stephen Hester, RBS Group Chief Executive

Sustainability Report

2012

rbs.com/sustainable

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Providing an accessible and innovative service for our personal banking customers

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We are here to support the growth of viable businesses in our areas of operation

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Employee engagement
Being a good employer is fundamental to our success as a business

Safety and security
Managing the safety and security of data, employees and customers

RBS around the world

The RBS Group (RBS) is a UK-based banking and financial services company. Headquartered in Edinburgh, the Group serves over 30 million customers worldwide.

The Group operates retail and commercial businesses with a focus on the United Kingdom, Republic of Ireland and the United States.

Our investment banking, wealth management and payments network has a wider international presence, operating across Europe, the Middle East, the Americas and Asia.

The RBS Group provides a wide range of products and services to personal, commercial, large corporate and institutional customers.

Worldwide: 138,000 employees, 33m customers

Brands	
● UK	RBS NatWest Ulster Bank Coutts Adam & Company Lombard Direct Line Group*
● Europe	Coutts Ulster Bank RBS RBS International Isle of Man Bank Lombard
● USA	RBS RBS Citizens Financial Group, Inc. (RBSCFG) is the US holding company which includes: RBS Citizens (Commercial) Citizens Bank (Retail and Business Banking) Charter One (Retail and Business Banking)
● Asia	RBS Coutts



* Initial IPO in 2012

This information is an approximation and based on information collected in 2012. It is not representative of our entire global footprint but presents approximate numbers for our largest areas of operation.

Building a really good bank

The past year has perhaps been the most difficult the banking sector has experienced in reputation terms since the financial crisis. From LIBOR to payment protection insurance (PPI), bad practices from the past have rightly been exposed and punished. Those issues are addressed in detail within this Report, but it's fair to say for everyone at RBS, it's been a humbling, and in many ways, frustrating time. That's because it has impacted on what must be our central aim going forward – serving our customers well. For RBS, that is what being a responsible business is about – serving our customers and communities well, and putting them at the heart of everything we do.

Philip Hampton
Chairman

Stephen Hester
Group Chief Executive



It's fair to say that the RBS of four or five years ago was too concerned with short term success and looking after its own priorities. Sustainability means building our future on long term thinking that focuses on our customers and supporting the communities in which they live. That aim rests not just on our direct community investment, but begins at a much more fundamental level.

Our core duty is to be safe and strong, so that we will never again need to rely on taxpayer support for our survival. Over the last four years, that imperative has seen us shrink our balance sheet by £700bn, build up a safer cushion of capital and get our loans and deposits back into kilter.

Connected to that is our central role of providing the 'financial plumbing' that enables people to run their daily lives and businesses. By that we mean the smooth operation of the millions of transactions carried out each day which support people to pay bills, manage loans, swipe their cards, and so on. As technology advances, and people's habits change, we know we must keep up if we want to provide the services our customers need.

Another key role we play is to support and enable economic growth. The successful running of RBS can provide wider benefits through employment, tax contributions, and, of course, the provision of liquidity in the economy through our lending to business. In that sense, where we grow and prosper, so does society.

These are all at the heart of what banks can, and should, do. Doing these things well brings very clear benefits for society, and are part of being a sustainable bank. But there's another layer to being a sustainable business. It is about how we choose to operate, and how we can go further to shape the world in a positive way. Smart products, innovative lending models, progressive employment practices, supporting low carbon solutions – these are all big opportunities for us, but also for our customers and the communities we all live in.

It's also worth acknowledging how crucial we believe transparency and stakeholder engagement is to our sustainability. Throughout 2012 the RBS Group Sustainability Committee continued its programme of meetings with a broad range of external partners. We think it's vital our Board members and senior executives hear from our stakeholders first hand and use their insights to inform how we can operate in a more sustainable way. For the readers of this Report, whatever their relationship with RBS, we have also sought to go further than ever before in providing the facts and figures that illustrate our sustainability performance.

As you go through the contents of this document, we hope you will see how we are moving forward in all of the areas mentioned here. Together we think it adds up to significant progress, which we're determined to continue. However, our success is best judged by our customers and wider stakeholders, so we'd like to encourage your feedback on the Report and its contents.

Sustainability governance

RBS has a robust governance structure to oversee its sustainability agenda. In recognition of the challenges being experienced in the sector, the company is now taking the next step. The Group Sustainability Committee has been given a significantly enhanced remit, bringing in broader sustainability issues including conduct, culture, reputation and, most importantly, how the bank deals with customers.

Sandy Crombie
Senior Independent Director, RBS Group
Chair, Group Sustainability Committee

Sustainability at the RBS group has been governed by our Group Sustainability Committee (GSC) since its inception in 2009. The GSC oversees all sustainability issues faced by the Group, and is chaired by our Senior Independent Director, Sandy Crombie. Membership includes non-executive directors and all key business divisions are represented at GSC meetings, which the Group Chairman regularly attends.

The scope of the GSC's work is widening in 2013 to include: sustainability and reputational issues related to customers and citizenship activities; oversight of the Group's purpose, vision and values and cultural and behavioural change; and reviewing sustainability issues relating to employees. In addition, the GSC will be responsible for overseeing and challenging how management is addressing sustainability and reputation issues relating to all stakeholder groups. The GSC will now meet six times a year, rather than four, as well as hosting six stakeholder engagement sessions. Details of these sessions are below. The GSC Terms of Reference are available on rbs.com.

The GSC has overseen some important developments since 2009, including the creation of a pro-active stakeholder engagement programme. In 2012, the GSC took part in three stakeholder sessions on our themes of: Citizenship and environment; Supporting enterprise; and Employee engagement. WWF, the Tax Justice Network, Transparency International, Big Issue Invest, the Confederation of British Industry and Unite are just a few of the groups that attended. These sessions are an open forum where advocacy groups can discuss key issues of concern with the senior RBS executives and Board members who sit on the GSC. We do not set the agenda. Our stakeholders do that and we go out of our way to involve people who are highly and constructively critical of RBS. A further six of these sessions are being held in 2013 as a clear illustration of our commitment to openness with our stakeholders.

The GSC acts under authority from the Group Board as shown in the governance structure chart below.



Our CEO discusses key issues

We are committed to being open and transparent regarding the challenges faced by our business, so our stakeholders can see what we're doing to become a more sustainable bank. Here, RBS Group Chief Executive Stephen Hester answers a series of questions that examine how RBS has dealt with some of the biggest issues from the last year:

Q You and your leadership team have been in place for some time now. Four years on, what would you say are the key things you're doing to make RBS more sustainable?

RBS has been producing a version of our Sustainability Report for almost 10 years now, and like all big companies, our approach has become more comprehensive over that time. The contents of this Report will give the detail of what we're doing, but the key thing for me is that the bank is increasingly aware of how our activities impact on our customers and wider stakeholders. I describe it as 'thinking outside the bank', which is really a reference to the fact that our long term success will be determined by how well we understand our customers and communities, and how well we can service their needs in a responsible way. 2012 was a very challenging year for the sector, but it certainly served to underline that point.

Q One of the challenges of 2012 was the economy, with the Euro crisis and little sign of growth. The bank also had its own problems, like the collapse of the branch divestment deal. Against this backdrop, how would you describe the bank's financial position?

I'm confident our recovery strategy is working. 2012 saw us deliver our strongest operating profit since our restructuring plan began and the weaknesses uncovered by the crisis – of leverage, risk concentration and business stretch – are close

to being fixed. Equally, our strategy will continue to evolve. For example, a much slower economic recovery and a tougher set of regulatory and policy pressures need to be absorbed, but we are heading in the right direction.

Q There is a continuing focus on the amount banks are lending, especially to small business. Is RBS doing as much as it can here?

It's a difficult environment at the moment. Ongoing economic uncertainty has unsurprisingly driven down demand from businesses. SME loan applications were down 19% from 2011. Nonetheless, we continue to provide significant support to customers. RBS advanced more than £74 billion to UK businesses and homeowners in 2012. We're approving a higher proportion of loan applications than ever – 93% in the last quarter of 2012. In general terms, where there is an opportunity to lend we've proved we'll try harder than any other bank to support growth – as is evident in how we have used the various government lending schemes.

Q The LIBOR rate-fixing scandal has caused widespread outrage. How was RBS involved, and what's being done to improve controls?

We utterly condemn the behaviour of the small number of individuals who sought to influence some LIBOR rate settings at our bank and other banks. There is no place at RBS for such behaviour. That's why we're determined to correct the control and risk management failures that originated in RBS during the financial boom years, of which attempted LIBOR manipulation is an example. This is a painstaking task, that's been undertaken over several years and we can't detect and solve every problem as fast as we would like. The aim is to create a safe and secure RBS that serves customers well and that, in the right way, creates value for those who rely on us. Attempted LIBOR manipulation is an extreme example of a selfish and self-serving culture that took hold in parts of the banking industry during the financial boom. We are using the lessons learned from this episode as further motivation to reject and change the vestiges of that culture.

Q Customers across the UK and Ireland were badly affected by the technical failure last summer – how would you reassure them it won't happen again?

The failure of part of our IT systems in June had unacceptable consequences for many of our customers. Since then, we have conducted rigorous and independent reviews of what went wrong, and we have sought to ensure that customers who were affected are appropriately compensated.

Meanwhile, steps have already been taken which means we can now better recover data and can do so independent of each brand. This means, for example, that Ulster Bank would not be so dependent on NatWest being fixed in similar circumstances. We have also strengthened our testing and monitoring procedures.

Q The ongoing issues with PPI, as well as interest-rate swap products for businesses, suggest a disregard for customers. Is that fair?

Staff don't set out to serve customers poorly, but banks too often had other priorities before the crisis. They saw customers as a means of making money. As I've said before, 2012 was a chastening year for RBS. Along with the rest of the sector, we faced significant challenges as we worked with regulators to put right past mistakes – mistakes which we recognise have taken their toll on customers. But I'm clear that our priority and purpose is to serve customers well, and put them at the heart of everything we do. Much of the detail in this year's Report sets out how we're going about doing that. The fact is, the better we do it, the better the results will be for all our stakeholders over time.

Q Inevitably, the problems experienced in 2012 raise fresh questions about remuneration. Are you doing enough to reform pay and bonuses at RBS?

This year the Board has used all the tools available to it to ensure the severity of these issues are taken into account. The investment banking bonus pool has gone down by 20% on last year, despite operating profits in the markets division being up by nearly 70%. In fact, since 2009 our investment banking bonus pool has shrunk by more than 70%. We've also increased transparency around pay. But there's a balance – we need high quality people if we are to achieve the goals we set out in 2008. So we must deliver reform, while not making the business unmanageable.

Q RBS has changed hugely in the last few years, and that kind of restructuring takes its toll on employees. What are you doing to ensure RBS attracts and retains the best people?

Our people are our biggest asset – we have dedicated people at RBS who go to great lengths to ensure our customers are well served. To maintain that, we have to provide an appealing

workplace and we're constantly looking at ways of improving; we have a huge programme in place to expand flexible working; we are working hard to expand diversity and inclusion; we provide support for staff at difficult times; we recruit thousands of young people each year and give them high quality training. Of course, change isn't easy, but we continue to be recognised as a leading employer and our internal research shows staff support what we're trying to do.

Q So, overall, do you think 2012 has undermined RBS's efforts to become a more sustainable bank?

I think what the last year has shown is that the RBS of the past was too focused on the short term and looking after its own priorities. Things like PPI and LIBOR were a symptom of that. We're more focused now on a longer term view which is centred around our customers and the communities they live in. So I would argue that 2012 didn't undermine our efforts to become a more sustainable bank – it actually underlined why sustainability is so important in the first place.

Q Last question. The future – what would you say are the key ways in which the bank will become more sustainable going forward?

Firstly, that focus on customers and communities that I mentioned is being put at the heart of everything we do. My view is that if we properly understand their needs when it comes to making difficult decisions about how we run our business, then we will make the right choices. In practical terms, we have significantly expanded the remit of the Group Sustainability Committee, including around prioritising customer interests. We have made huge progress in providing the additional support and expertise our business customers need in times like these. Retail staff incentives have been changed to switch the focus away from sales to service. We've launched innovative new products to facilitate energy efficiency for our clients, which is part of our wider commitment to low carbon investment. I could list plenty more positive changes we are making, but in general, despite some challenging events this year, we are making good progress, and we will keep on doing that.

Sustainable business principles

Our Sustainable business principles are a public record of our commitment to operate to the highest standards. Embedding these principles in how we run our business is an ongoing process. This section includes information which demonstrates the variety of ways in which we are working towards this goal. As we progress we will increase the range of information and data presented.

OUR SUSTAINABLE BUSINESS PRINCIPLES

Secure

- Maintaining our financial health whilst meeting our responsibilities to customers, employees and suppliers
- Keeping our customers' and employees' data and assets safe
- Protecting against fraud and corruption

Over **98%** of employees completed **Anti-Money Laundering** training in 2012

8m customer downloads of our **free online fraud prevention** software since 2008

Despite a marginal increase in the number of fraud cases, customer losses due to fraud have significantly decreased



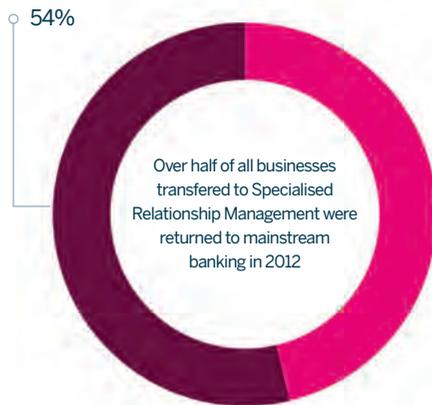
Supportive

- Meeting our customers needs
- Supporting sustainable and inclusive economic growth
- Helping customers in financial difficulty

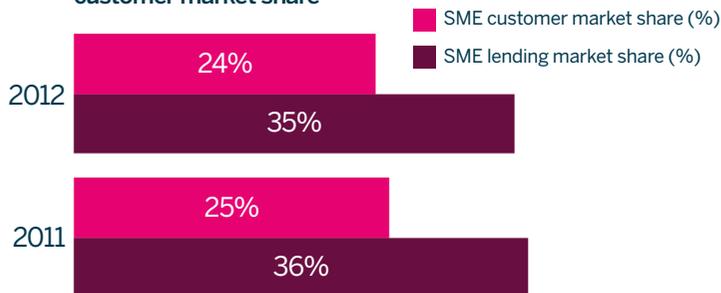
Over **£58bn**
lent to UK businesses

165,000
early warning calls
made to personal customers in danger
of getting into financial difficulty

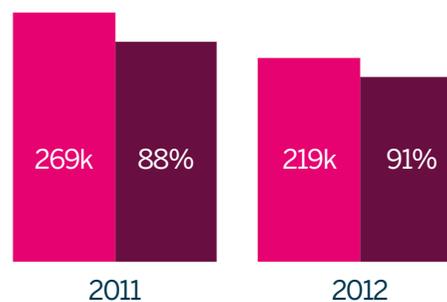
Over **104k**
start-up
businesses facilitated



SME lending market share in correspondence to overall customer market share



Whilst business credit applications decreased, the approval rate increased



By the end of
2015
we will...

...inspire and enable **20,000 women** to explore and unlock their enterprise potential

...help **100,000 young people** to explore enterprise, develop their skills and start up in business, whatever their background

...support **2,500 social enterprises**, working in partnership with the sector to improve access to expertise, markets and finance

OUR SUSTAINABLE BUSINESS PRINCIPLES

Open

- Consulting with and listening to our stakeholders
- Showing transparency in the way we run our business
- Publicly communicating our efforts to be responsible and sustainable

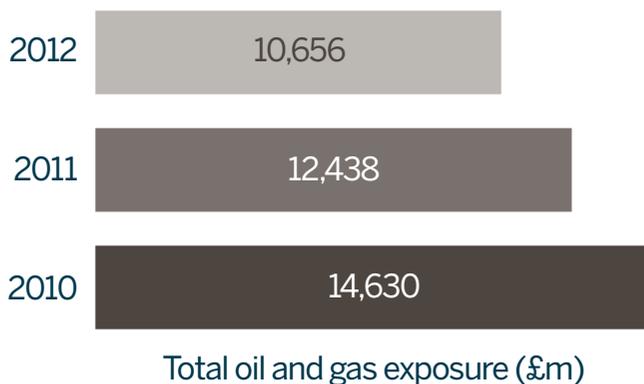
89%

scored for disclosure in
Carbon Disclosure Project Index

14

advocacy groups met directly with our
Group Sustainability Committee

We continue to be open and transparent in our reporting, we have published an industry leading analysis of our lending to the energy sector since 2009



OUR SUSTAINABLE BUSINESS PRINCIPLES

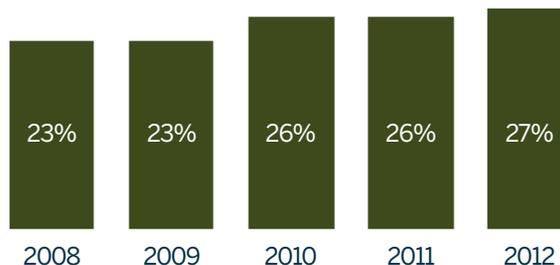
A good employer

- Providing our people with the tools and support to do their jobs effectively and develop their skills
- Valuing and promoting diversity in all areas of recruitment and employment
- Rewarding our people fairly for their work

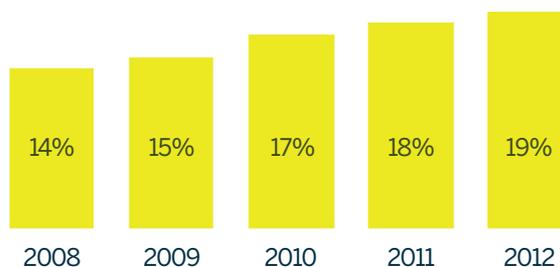
70%

reduction in
investment banking
bonus pool since 2009

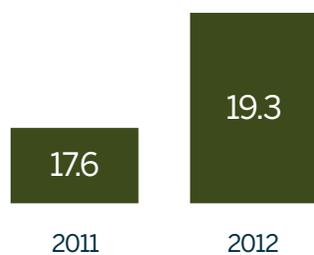
Female senior managers



Female executives



Group employee turnover (%)



OUR SUSTAINABLE BUSINESS PRINCIPLES

A responsible citizen

- o Working within both the letter and spirit of legislation and abiding by relevant codes of practice and voluntary standards
- o Supporting the communities we work in
- o Respecting human rights throughout our sphere of influence
- o Upholding environmental responsibility within the bank, and through our customers and suppliers

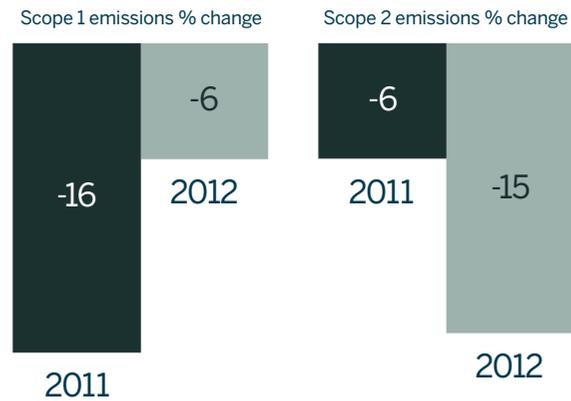
6 ESE sector policies in place

4 implemented in 2012

2 being implemented in 2013

2 new policies being developed in 2013

We continue to reduce our scope 1 and 2 emissions in line with our environmental targets



60%

of secondary schools across the island of Ireland are giving financial education lessons through Ulster Bank's MoneySense programme

In 2012 30% of employees were given time off to volunteer in the community



■ Remaining percentage of employee base

Over 1 million students were reached through MoneySense lessons in the UK, 2010-2012

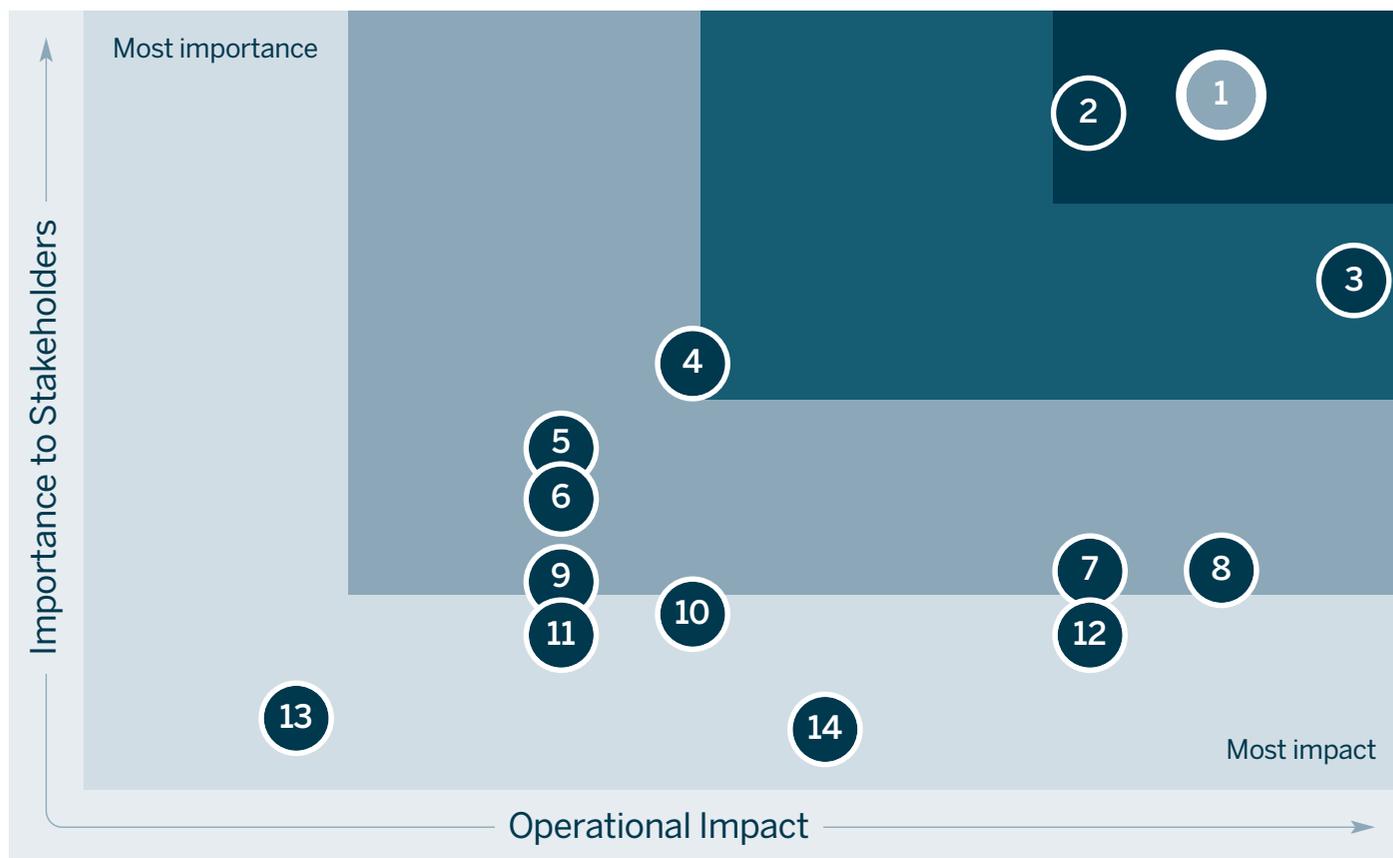


Stakeholder issues

We are committed to engaging with a broad range of stakeholders on an ongoing basis. For us, that includes customers, employees, politicians, the media, NGOs, consumer groups, trade bodies and regulators. Regular and ongoing discussions take place with all these groups, and are used to aid and inform the decisions we take on how to run the company.

Below is a diagram where we have ranked the key sustainability issues raised with us by our stakeholders in 2012, alongside the operational impact these issues have had on the bank. The sources used to compile the chart include; a comprehensive media review; the issues raised by invitees to our Group Sustainability Committee stakeholder engagement sessions; notes compiled from stakeholder meetings; a survey of Sustainability personnel across the Group; and analysis provided by key external affairs teams who deal with specific stakeholder groups on a daily basis e.g. public affairs and regulatory affairs.

The chart does not act as an exhaustive list of topics raised by stakeholders, instead it highlights the issues of most concern.



1 Customer Trust

2012 saw a number of issues impact on overall trust levels among customers, including PPI, interest-rate swap products and packaged accounts. We have taken steps to ensure we provide customers with the right products to meet their needs, and have re-balanced how we incentivise our staff so it's more about service and less about sales.

- ▶ [Read more about how we are re-building customer trust for our personal banking customers in the Fair banking section and for our business banking customers in the Supporting enterprise section.](#)

2 Business Lending

Business organisations, politicians and the media have continued to challenge the banking sector over levels of lending to business. We are determined to support economic growth through prudent lending, and have been active participants in government schemes to boost lending.

- ▶ [Read more about business lending in our Supporting enterprise section.](#)

3 Culture and Reputation

Negative issues like LIBOR, PPI and interest-rate swap products have led to widespread scrutiny of the culture that exists within the banking sector. We are taking significant steps to strengthen our culture, with a commitment to become more customer-focused than ever.

- ▶ [Read more about our culture and reputation in the Chairman and CEO review; in our CEO question and answer page and the governance sections.](#)

4 IT Incident

In summer 2012, a technical issue with our computer systems affected customers throughout the UK, and particularly, Ireland. We have since commissioned an independent report into what went wrong, and have put in place a compensation scheme for Ulster Bank customers.

- ▶ [Read more about the IT incident in our Fair banking and CEO question and answer sections.](#)

5 Diversity

We are engaged with a range of social partners on how we can ensure RBS is a diverse and inclusive employer. We are also committed to supporting minority customer groups.

- ▶ [Read more about diversity in our Employee engagement section.](#)

6 Mortgage Lending

Buying a home is the biggest financial commitment most people will ever make, which means there is always widespread scrutiny on the level of support we give to mortgage customers. We have a range of measures in place to support our position as one of the UK's leading mortgage lenders.

- ▶ [Read more about mortgage lending in our Fair banking section.](#)

7 Remuneration

Pay and bonuses remain very high profile issues for the banking industry, and for RBS as a majority state-owned organisation. We have implemented a series of changes to our remuneration systems to ensure we do not reward failure, and have introduced measures to claw back bonuses where appropriate.

- ▶ [Read more about remuneration in our Employee engagement section.](#)

8 ABC (anti-bribery and corruption) and AML (anti-money laundering)

Several instances of fraud and corruption in banking came to light in 2012, and were rightly subject to extensive scrutiny in the media and among regulators and politicians. We have overhauled our risk management systems, and have extensive policies in place to guard against these practices.

- ▶ [Read more about ABC \(anti-bribery and corruption\) and AML \(anti-money laundering\) in the Safety and security section.](#)

9 Environmental Impacts

Concerns over climate change continue to inform widespread interest in environmental issues, and what impact business is having. This includes both our own carbon footprint, as well as the suppliers and clients we choose to partner with. We have set out ambitious targets to reduce our outputs, and are looking at new ways to support our clients to reduce theirs.

- ▶ [Find out more about our environmental impacts in the Citizenship and environment section.](#)

10 ESE (Environmental, Social and Ethical) Policies

Many of our stakeholders take a close interest in who we choose to do business with, where and on what terms. We have an expanding range of sector-specific policies for the most sensitive sectors to which we lend.

- ▶ [Read more about our ESE policies in the Citizenship and environment section.](#)

11 Fees/Charges

Account fees and overdraft charge levels are often raised as an issue by customers and consumer groups. We have worked to simplify our fee structure and make it more transparent. We're also doing more to help customers avoid fees in the first place.

- ▶ [Read more about our fees and charges in the Fair banking section.](#)

12 Financial Health

We can only support customers, employees, and communities from a sound financial position. In recent years RBS has undergone one of the biggest corporate turnarounds in history as we return to standalone strength. We have made good progress against our targets.

- ▶ [Read more about our financial health on the financial summary page, or visit \[rbs.com\]\(http://rbs.com\) for our full financial report and accounts.](#)

13 Community Finance

For some individuals and businesses in our communities, accessing mainstream finance can be difficult. We are finding ways of addressing that problem through the support we give to the community finance sector.

- ▶ [Read more about community finance in the Supporting enterprise section.](#)

14 Tax

A number of large multi-nationals have been criticised, and even brought before parliament in relation to how they organise their tax affairs. At RBS, we are a significant contributor to government revenues in numerous jurisdictions. This year, we are going further than ever before with regard to how much tax information we disclose.

- ▶ [Find out more about our tax contributions in the Citizenship and environment section.](#)

Our performance, commitments and indices

RBS is signatory to a number of voluntary sustainability commitments and standards. We understand that implementing commitments is not a static process, and we are continuously working to integrate these into how we run our business.

Each year RBS Group receives ratings for its environmental and social performance by external indices, and the results of these are listed here.

Commitments

The Equator Principles (EP) are a voluntary set of standards adopted by banks for determining, assessing and managing social and environmental responsibilities in project financing. RBS is a member of the EP Association steering committee and in 2012 we were heavily involved in the ongoing work on "EPIII", the latest iteration of the Equator Principles.

We are members of the UN Global Compact and chaired the UK Network from 2010-2012. The UNGC is a leadership platform for the development, implementation, and disclosure of responsible policies and practices in the areas of human rights, labour, environment and anti-corruption. It is the largest corporate sustainability initiative in the world.

The United Nations Environmental Programme Finance Initiative (UNEPFI) is a partnership between the United Nations Environment Programme and the global financial sector. Its mission is to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. RBS is a signatory to the UNEP FI Statement (1997).



Indices

The Dow Jones Sustainability Index (DJSI) tracks the performance of the world's leading companies in terms of corporate sustainability performance. It acts as a benchmarking tool for companies to measure their progress against best practice in the field and as a data source for asset managers. We have been included in the DJSI since its inception in 1999, placing us in the top 10% for our sector.

The FTSE4Good Index series is designed to measure the performance of companies that meet globally recognised corporate responsibility standards, and to facilitate investment in benchmarking of those companies. The Group has been included in the index since its launch in 2000.

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. The Group has taken part in the project since its launch in 2002. In 2012 we scored 89% for disclosure and B for performance.

Reporting

RBS were the first bank globally to obtain the independent AA1000 AccountAbility Principles Standard for transparency and disclosure, and have implemented and been assured against it for the past four years. AA1000 is a principles-based framework for managing and reporting sustainability performance.

We also follow the reporting principles of the Global Reporting Initiative (GRI) a sustainability reporting framework that is widely used around the world. This framework enables all organizations to measure and report their economic, environmental, social and governance performance.

The 2011 Sustainability Report was rated 5th in the FTSE350 for best practice assurance by Carbon Smart, a sustainability consultancy which works with companies to provoke sustainability action in a way that is positive, practical and smart.

Our financial strategy and progress

RBS is four years into its recovery plan and good progress has been made. We are a much smaller, more focused and stronger bank. Our target is for 2013 to be the last big year of restructuring. There is important work still to do, but an increasingly sound base from which to work.

Key performance indicator	Why?	How are we doing?	Medium-term target
Return on equity ⁽¹⁾	We need to earn solid returns that consistently cover our cost of capital in the long run in order to justify our shareholders' support	<p>10.4% 2011, 9.8% 2012</p>	Core >12%
Cost: income ratio ⁽²⁾	What it costs us to generate each unit of income is a key measure of efficiency affecting how we price our services and meet shareholders' need for profits	<p>60% 2011, 59% 2012</p>	Core <55%
Core Tier 1 ratio	This is the most important measure of capital strength. We need to meet society's expectation of a safe and sound banking system by maintaining a strong capital ratio	<p>9.7% ⁽⁶⁾ 2011, 10.3% 2012</p>	>10%
Loan: deposit ratio	We want to fund our customer lending with stable deposits from customers in order to maintain a sustainable balance sheet	<p>108% 2011, 100% 2012</p>	c.100%
Short-term wholesale funding ⁽³⁾	We want to have proportionately low reliance on more volatile short-term money market funding	<p>£102bn 2011, £42bn 2012</p>	<10% TPAs ⁽⁷⁾
Liquidity portfolio ⁽⁴⁾	We want to hold a strong liquidity buffer to guard against unexpected funding emergencies	<p>£155bn 2011, £147bn 2012</p>	>1.5% STWF ⁽⁸⁾
Leverage ratio ⁽⁵⁾	A useful cross check to ensure that we are protected against risks that might turn out to be greater than we calculate	<p>16.9x 2011, 15.0x 2012</p>	<18x

(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (83% of Group tangible equity based on risk-weighted assets at 31 December 2012).

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

(3) Excluding derivatives collateral.

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

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

(6) Core Tier 1 ratio excluding benefit from the Asset Protection Scheme of 90 basis points in 2011.

(7) Third Party Assets.

(8) Short-term wholesale funding.

Fair banking

We've laid solid foundations with Helpful Banking, and the key elements are in place to build a sustainable retail bank. Our priority is to make it simple and easy for our customers to do business with us by leading the way on availability, accessibility and service. We'll give back to society and reduce our environmental footprint.

It is a tough economic and regulatory environment, and we will be safer if we do business properly. That is why we are working to improve the advice we give, the products we sell and the services we provide.

Ross McEwan
CEO, UK Retail

We remain committed to what matters most – our customers, colleagues and communities. In 2012 we continued to invest in activities that will make it easier for us to serve our customers; we took steps to develop a high-performing and engaged workforce; and we volunteered more than 60,000 hours in our local communities. We know that if our colleagues are engaged, if our customers are satisfied and if the communities we do business in prosper then our business will prosper.

Ellen Alemany
Chairman and CEO, RBS Citizens Financial Group, Inc. (RBSCFG)

Building a good bank that serves customers well

Banking is central to people's daily lives, and with that comes a responsibility to serve our customers to the highest standards.

It has been a difficult year dealing with the legacy issues faced by the Group, especially due to the increased volume of complaints with regard to Payment Protection Insurance (PPI) and the issues with our IT systems. Despite the challenges we have faced, we have made progress – and we want to go further – building a bank that is trusted for being helpful. This means simplifying our product range, reducing the number of processes we have and developing our people so they can serve customers better.

We are creating an accessible, focused, service orientated bank that puts customers and communities at the heart of everything it does.

Changing our culture

Our people are vital in helping us build the best retail bank in the UK. We're changing our culture to ensure our people and the business is focused on the needs of our customers. That starts with recruiting people who have the right approach to helping customers and through our induction process, making our commitment to customers clear and explaining their role in meeting customers needs.

We no longer reward our frontline staff on the basis of product sales. Our incentives approach rewards staff for meeting high standards of customer service, and for the contribution to the

We're **changing**

our culture to ensure our people and the business is focused on the needs of our customers



**CASE
STUDY**

Helpful banking



Katy Marsh,
Customer Service Officer,
Leominster, England

When a 92-year-old pensioner arrived at the counter and asked to withdraw £10,000 in cash, alarm bells began ringing for Katy. Worried by what might lie behind this unusual request, she gently asked the customer some key questions. When she discovered he intended to pay the money just to have his flat cleaned, she stepped in. Taking the customer into an interview room for a private chat, she learned that the man had already paid the “cleaners” some money, yet they hadn’t done any cleaning at all. Sensing something was amiss, Katy explained to him that it wasn’t safe to carry that much money and that she’d try to make alternative arrangements to have his flat cleaned. She then contacted Age Concern to arrange for one of their specialists to get in touch with the customer and provide further support. Katy’s example is proof that Helpful Banking is much more than a motto. It’s the way we want to do business.

financial performance of their overall business. This was launched in 2012 and is designed to drive the right behaviours to ensure that customer service is the top priority for all of our staff. This approach goes across our whole business, including our response to the FSA’s Retail Distribution Review, where we’re building a simpler, nimbler, more customer focused advice business.

Every day, our people go to great lengths to help our customers. We recognise them through our Helpful Banking Hero awards scheme. Across our business our people nominate their colleagues and winners are selected by a panel of frontline employees. They are our role models.

Customer Service

Our Customer Charter looks at ways in which we can improve our customer service, paying attention to customer feedback. In 2012 we made changes that make it simpler and easier for customers to do business with us:

- o We want to put our customers’ needs first by providing them with the skills, knowledge and expertise that they require. In 2012, a new accreditation programme was launched to provide staff with additional training to equip them with expertise to help them better meet customer needs. This is accredited by the Chartered Banker Institute and in 2012, more than 1,500 members of staff received this training. This will continue throughout 2013 until all of our customer service officers have been accredited.
- o Help when they need it most. Our unique Emergency Cash service, launched last year, allows customers to get cash if their cards are lost or stolen. More than 90,000 people used the service, withdrawing £7.5m in 2012.

Quick and convenient service

Branch

- o We cut average branch queuing time from almost five minutes to less than three and a half minutes.
- o 1,263 branches are open on Saturday and 254 are open until 6 pm on weekdays.
- o It used to take three weeks to open an account with us in branches, now it only takes a day.
- o We made changes to our branches to make life easier for customers. We refurbished or refreshed 491 branches in total, including 59 this year.
- o By introducing 352 Banking Hall Coordinators, and 119 Cash and Deposit Machines, we moved 28.5 million transactions away from branch counters, giving our people more time to talk to customers.

Online

- o We also made it quicker to set up Online Banking. Customers now receive log in details within 48 hours via text message and email.

Mobile

- o Over a quarter of adults and nearly half of all teens now own a smartphone, according to Ofcom. We now have 2 million regular users of our helpful banking app, who carried out an astonishing 57,908,936 transactions since its launch in late 2011.
- o Offering clients further choice and flexibility in the way they manage their day-to-day banking needs, Coutts mobile offering was launched in 2012. It provides clients with the same access and convenience of Coutts Online, including the ability to view balances

and transactions for the last four weeks, make a full range of payments to payees that have been paid before and transfer money between their accounts. Coutts came highly commended as the Best Private Bank for Innovation for its digital offering at the Global Private Banking Awards 2012.

In 2012 the FSA challenged our Customer Charter commitment on fraud: 'We will refund money lost from your account if we find you have been a victim of banking fraud'. They felt the commitment suggested the protection was an account benefit of banking with NatWest or RBS when, in fact, customers are automatically entitled to this protection from any bank. The commitment has been changed to 'We will refund money lost from your account if you have been a victim of banking fraud, in keeping with our obligations'.

There were 3 areas of the Customer Charter where we didn't meet our targets:

- reducing branch queuing times: 87% of customers were served in 5 mins vs a target of 90%.
- telephone handling: 89% of calls to our UK Call centres were answered in less than 1 minute vs a target of 90%.
- replacement lost and stolen cards: 5,823 customers (less than 1%) did not have their card issued the next day.

Further information on our Charter Commitments and the progress made in 2012 is available at rbs.com.

We listen to our customers in ways that work for them. Regular focus groups together with our social media channel – Ideas Bank – have been successful in keeping us close to customers with direct and timely feedback. In 2012, we made online banking changes that received criticism through our digital channels. We took this on board and reversed the changes.

A significant number of RBS and NatWest customers are using our online banking services every month. In response to feedback received through Ideas Bank, we launched a phone app designed specifically for Windows. Within five weeks, 42,000 customers had downloaded the app, and it is currently rated 4.5 out of 5 by over 500 of our online customers.

Requests to be able to view more transactions on our mobile banking app were also taken into account. Our regular user base has grown from 1.4 million to 2 million and so far, customers have transferred more than £11bn using the app.

The app also includes the innovative 'Get Cash' service that allows customers to withdraw up to £100 from any NatWest, RBS or Tesco ATM, without using a debit card. As often happens with new technology we have had some minor problems and identified technical issues which related to fraud. These have now been rectified.

We continue to ask what customers are looking for from their bank. This is why we have our Customer Charter and in 2013, having listened to their feedback, it will be simplified to re-affirm our commitment to our customers.

Access to financial services

As a company, we have had to respond to regulatory directives, one of which was an order to sell 309 RBS branches in England and 6 NatWest branches in Scotland. Santander was due to purchase these branches in 2012 but unfortunately this deal did not complete. We are currently considering alternatives and will keep our customers informed.

We want to make our banking services accessible to all our customers, regardless of their circumstances. In addition to our 4,000 RBS and NatWest ATMs, every week the 19 Mobile Branches which operate in Scotland, England and Wales cover approximately 7,000 miles, making 425 stops, serving 357 communities. Over the last 12 months we have increased the number of stops by 5 and the number of communities served by 5. No other banks service the Scottish Isles, so our flying bank service is vital to customers living in these communities. We have made a commitment to maintain banking services where we are the last bank in town and this covers some 247 communities.

This year we engaged with organisations representing people who are affected by cancer, mental health issues, dementia, as well as sight, hearing and mobility impairments. We also work with charities who promote the interests of the elderly.

For those customers who require it, we provide additional or alternative means of accessing our services. In the UK in 2012 we fitted over 192 new counters in 65 branches which are accessible to wheelchair users. All of our UK branches have at least one portable hearing loop, and in 2012 we increased this by fitting 493 additional hearing loops at consultation desks and counters.

We have discussed the introduction of 'Talking ATMs' across Great Britain with the RNIB. We are pleased that we will be able to do this whilst we are upgrading our ATM network with roll-out beginning in 2014.

In the US, RBSCFG made significant strides in 2012 to ensure banking services are made accessible to customers, regardless of their circumstances. Over 800 ATMs were replaced and others upgraded to ensure that all ATMs now have speech output to assist the visually impaired. The physical requirements of the Americans with Disabilities Act (2010) are also being considered as the upgrade to the branch ATM network continues.

The Group now has an internal Disability Working Group that aims to identify gaps in our existing customer provision and implement solutions.

Customers rely on the bank's systems to give them access to their money and make payments. In June, we let our customers down when our IT systems failed. We are sorry for that. We've investigated and understand where we need to improve. Our people rose to the challenges faced and we had our customers in mind at all times.

Many of our customers in the UK and Ireland were affected by problems with payment processing. We recognise the severe impact this had and were quick to commit to ensuring that no customer was left out of pocket, setting up redress schemes. We also offered redress to customers of other banks that were impacted. Due to the design of our IT systems, our Ulster Bank customers were particularly badly affected. Ulster Bank wrote to all its customers to apologise, providing detailed information on how customers could claim reimbursement for any out of pocket expenses and inconvenience caused by the payment delays. Ulster bank set aside a £82m redress fund for this purpose, and continues to accept claims from affected customers on an open ended basis.

We created a team dedicated to solving the complaints – giving customers answers in days or a few weeks. Details of the scheme can be found on rbs.co.uk.

As well as our own investigation into the incident, the FSA is currently carrying out a review. We remain committed to publishing the key findings.

Basic bank accounts – We currently provide 1.1 million basic bank accounts in the UK which are for customers who have no banking history and poor credit ratings. We opened 102,000 basic bank accounts in 2012. These accounts are not profitable for us but in providing these accounts we understand that we are meeting a consumer need that is part of our wider obligations to society.

Our products

Savings – We want to help customers budget to create the opportunity to save and then help them focus and plan to be able to achieve their goals in life. One of the ways we provide this support is through our Savings Goals Tool which received a 4* Fairbanking accreditation in 2012 (up from 3* in 2011). We have helped over 200,000 customers set up savings goals and have simplified our adult instant access savings range by reducing the number of products from 8 to 3. This has contributed to a 50% uplift in accounts being opened in branch.

Citizens and Charter One Bank also worked to simplify and standardise their range of savings products throughout 2012, to increase clarity for the consumer. They continue to offer customised savings products to help and encourage customers to save towards whatever is important to them. For example the HomeBuyer SavingsSM product gives \$1,000 credit towards the closing costs on a mortgage. The bank's savings product suite has a range of products to support individual savings goals, including GoalTrack SavingsSM, CollegeSaverSM, Steady Save[®] and Individual Retirement Account Savings Plan.

Green Banking products – In the US, RBSCFG offer eligible homeowners an Energy Efficiency Loan with low interest fixed rate terms and no fees or closing costs. Often projects to improve a home's energy efficiency are either postponed until the necessary

funds can be saved or financed through a more expensive loan. This product enables customers to make small or larger scale home improvements to increase their homes energy efficiency and may increase the value of their home.

How we sell our products

We are acutely aware of the importance of responsible marketing and have strict controls in place. Our aim is to produce clear, fair and transparent product information. The banking sector has come under scrutiny in relation to how products are sold, and to whom. By far the biggest example of this is in relation to Payment Protection Insurance (PPI). There is further coverage of this issue in the following section on responding to complaints.

The FSA has been examining how banks are selling packaged accounts. We are supportive of the FSA's recent consultation and recommendations on packaged account sales and have implemented all FSA requirements. We have simplified our range making products easily differentiated with fewer, more valuable benefits and less restrictions. Currently, around 18% of all NatWest and RBS current accounts are packaged accounts.

Responding to customer complaints

One of our top priorities as a company is to minimise any issues faced by our customers and avoid making mistakes. When unfortunately such an event does occur, resolving the issue fairly and promptly is of paramount importance. Resolving complaints is a fundamental aspect of good customer service and we have made changes to both simplify the process for our staff and improve the experience for customers.

We ask our staff to welcome a customer complaint, own and resolve it. To support this, all aspects of our complaint handling process (from our complaint handling staff, to our policy, process and management information teams) now report to a single Director.

We continue to provide training for our staff to improve complaint handling. In the UK, we have implemented a new simplified process, centred on delivery of consistent and quality outcomes. In the second half of 2012, this led to a 3% improvement with 73% of customers being satisfied with how their complaint was handled.

In addition to the improvement in the handling of each individual complaint, we have maintained a strong focus on the root causes and have put in place actions to fix the issues that cause customers to complain in the first place.

During 2012 in the UK, the top 5 complaint areas were: PPI, Credit Card Fees, Staff (service and information provision), Collections Processes and Current Account Charges.

Historic sales of PPI remain the biggest source of complaints from our customers. We are dealing with significant numbers of new cases daily and turn these around as quickly as we can. However, the number of customers complaining of their own volition has declined by around 20% in recent months. We resolved complaints relating to

814,197 policies in 2012. In September 2012, we commenced a proactive customer contact exercise for around 500,000 customers we believe may have experienced issues with the sale of PPI. This will continue into 2013 to ensure that any historical issues or complaints are fully dealt with. As at 31 December, we had written 45,461 letters to customers, and received responses from 24%. We have made a provision of £2.2bn to settle PPI claims and so far we have paid out £1.3bn to customers.

Preventative actions taken to address the other top 5 issues include:

- introducing customer literature which explains how to avoid credit card and current account fees and amending direct debit letters to remind customers to make interim credit card payments.
- simplifying processes and product ranges to make it easier for staff to provide consistently correct information to customers.
- producing Helpful Guides and bespoke training for collections staff to help them avoid common issues that cause complaints.
- introducing the Branch Accreditation programme and improving the Collections Induction Course so that it has a greater emphasis on Helping our Customers.

The issue that drew the next biggest number of complaints was the IT incident that affected NatWest, RBS and Ulster Bank customers in summer 2012. This was a particularly significant issue among Ulster Bank customers. More details on our response to the incident can be found on pages 5 and 16.

We reported 259,119 banking and credit complaints to the FSA during 2011 which decreased to 237,865 in 2012. These are the complaints that we had not resolved by close of business the day after we received them from our customers.

We know that we have more to do and will be investing in new Complaint Management Systems in 2013 whilst delivering significant change that will reduce the issues that regrettably result in our customers having to complain.

Managing customer complaints effectively is a key area of focus for Ulster Bank and an important step in becoming the bank of choice on the island of Ireland. In line with the UK, we implemented a simplified process in 2012 and continue to provide training for our staff to improve their complaints handling. Our objective is to provide fair, consistent and prompt outcomes for our customers and by getting to the root causes of concerns, learn from our mistakes and improve the quality of our products, process and services.

In 2012 RBSCFG took a proactive approach to complaint handling. The Bank created a separate customer experience department to track complaints, review service trends and help implement solutions. Extensive training was rolled out to ensure that team members are enabled to respond to the approximately 850 complaints across 450 issues received each month. Resolution performance has been consistently high throughout 2012 with 80+ % of new cases closed on the same day and 97% closed within 7 days.

In 2012 Coutts had been building a fresh approach to gathering structured client feedback. A rolling survey was launched aiming to gather feedback from approximately 15,000 clients each year. The focus of feedback is on a range of measures including satisfaction with channels, products, services and information. The results indicate that client satisfaction at the end of 2012 was at its highest point since 2007. Coutts operates a relationship managed complaint handling model supported by a central team. The top three complaint issues for Coutts customers in 2012 were payments, online banking services and debit card authorisations. There are service improvement plans in place for each of these issues which are revised at a monthly 'Voice of the client' meeting.

Access to credit

Mortgages

As a significant participant in the UK mortgage market we are committed to providing award winning, affordable products that meet the needs of our customers. In 2012 we loaned over 95,000 new mortgages in the UK, worth £13.5bn.

In the US, the housing market is gradually starting to improve. RBSCFG approved \$7.94bn worth of mortgages in 2012, which is an increase of 21% on 2011. RBSCFG approved 3,124 first time home buyer mortgages, worth a combined total of \$ 459,353,474. The bank is involved in a number of mortgage programmes for first time buyers, offered through investors, such as Fannie Mae, Federal Housing Authority, State Housing Authorities as well as custom programmes and discounted rate programmes through their own portfolio.

In 2012 we lent £2.6bn to first time buyers in the UK, an increase of almost 20% compared with 2011. This enabled over 20,000 customers to get a foot on the housing ladder. We took part in the NewBuy (England) and MI New Home (Scotland) Schemes. These products provide 90% and 95% loan-to-value (LTV) rate mortgages for customers purchasing a new home from participating builders.

Ulster Bank continues to support first time buyers (FTBs) across the island of Ireland. In 2012, Ulster Bank lent £83m to first time buyers in Northern Ireland representing 26% of FTB market (as of Q3 2012). €122.5m was lent to first time buyers in RI, representing 9.7% of the FTB market (as at Q4 2012). Since 2008 the bank has offered a unique product in the Northern Irish market called the Momentum mortgage. Aimed at helping first time buyers get on the property ladder, the mortgage provides support with the deposit as well as a built-in mechanism to protect the borrower from any decline in the property's value in the first five years of the mortgage term. Ulster Bank also offers mortgages through a Co-Ownership scheme, whereby the house purchase is jointly funded by the borrower and the Northern Ireland Co-Ownership Housing Association. Over 60% of co-ownership mortgages in NI are facilitated through Ulster Bank. This year saw an increased focus on interest only mortgages in the media, due to growing concern that some customers may not have adequate plans in place to repay their mortgages when due. RBS

**CASE
STUDY**

Helpful banking


Oliver Morris,
Customer Adviser,
Cardiff

When a regular customer dropped into his branch to ask – as she did on a weekly basis – for a print-out of the transactions on her account, Oliver took the chance to book her in for a comprehensive review. He quickly discovered that she had credit and store card debts totalling £37,000. Balanced against that was the £35,000 equity in her property, which was already mortgaged with us. Oliver took her through a range of options to show the potential savings she could make by reorganising her finances. She was thrilled when he revealed that, simply by switching the borrowing to her mortgage, she could save a considerable amount each month. Since the branch's own adviser was unavailable, Oliver called the Telephony Mortgage Sales team on the customer's behalf and stayed with her to provide support throughout the application process. In total, he helped the overjoyed customer achieve a monthly reduction of £2,134 in her outgoings.

pro-actively contacts its customers a number of times during the life of the mortgage to remind customers of their commitments with an interest only mortgage. For customers who reach the end of the mortgage without the ability to clear the full balance, we have policies in place to give customers more time to settle the mortgage, or to explore other options.

Our Mortgage Toolkit gives customers an indicator of whether they will be eligible to apply for a mortgage, as well as letting them know their borrowing capacity and monthly payments. This has been used by 50,000 customers since its launch in October 2012. We also have a mortgage interest calculator for customers to work out repayments, should interest rates change.

Overdraft charges

In 2012 unarranged overdraft charges paid by customers decreased by around 30%. On an average month, 4.3% of UK current account customers incur one or more overdraft charges.

To help our customers avoid charges, we have 'Act Now Alerts' in the UK. This helps customers manage their accounts by sending them a text or email when, for example, their accounts have insufficient funds to cover a payment.

1.45 million customers have signed up for these alerts. We send on average over 250,000 account activity text alerts every day, of which 19,400 are Act Now Alerts. We estimate that customers who have registered for Act Now Alerts have saved £17m in potential overdraft charges in 2012.

In April 2012 RBSCFG settled a class action lawsuit related to

overdraft charges. In response, as part of our commitment to our customers, we will be implementing changes to our transaction processing procedures and revising our approach to customer communications.

Supporting customers in difficulty

We recognise that to support customers in financial difficulty we must also support the organisations they turn to for help. In 2012 we funded the free money and debt advice sector with over £11m. We have built a relationship of trust with the sector and are open and collaborative in both addressing problems and finding solutions. In 2012 we promoted the uptake of CASHflow, a tool created by the Money Advice Trust to help clients take better control of their debt. We also supported the development of Wiser Adviser, the industry training tool for 5000 money advisers. And we continue to work with Citizens Advice to improve their services including their national Adviceline service by sharing best practice from some of our largest call centres.

We have a long standing relationship with the Citizens Advice Bureau (CAB) and have been working with them to improve the way they help people in financial difficulty. When customers face financial troubles, help is offered in a number of ways.

We catch early warning signs of impending problems through our monitoring systems. This year, our pre-emptive Debt Management team sent out nearly 155,000 letters and had 165,000 calls with customers. We discuss budget setting, existing spending patterns and give details of free independent money advice agencies. Our services and products are also available to help customers to avoid/manage debts:

- SMS Alerts,
- Repayment Plans,
- Overdraft/Credit Limit Reductions and
- Consolidation Loans.

We provide 30 days breathing space if customers are unable to make a repayment on a loan and help the customer develop a repayment plan. A further 30 days can be provided where there is evidence that progress is being made.

In the Republic of Ireland, Ulster Bank has a dedicated team who are available to meet customers who are in arrears. A member of the team will support the customer in carrying out an income and expenditure analysis, at the request of the customer, in the privacy of their own home. Ulster Bank continues to support customers through its mortgage forbearance process, with 25,311 customers undertaking the process in 2012. Less than 10% of customers who go through this process fail to come to an arrangement with the Bank.

In 2008 UK Retail committed not to initiate repossession proceedings for a full 6 months after a customer first falls into arrears – a commitment which we continue to honour.

Repossession is always a last resort, and a number of alternative solutions are considered to provide customers with the short term help they require. In the UK we provide an Assisted Voluntary Sales Service (where an asset management company and solicitor from the bank's panel oversee the sale of a property and the bank provides assistance with sales fees) where appropriate. Repossession levels remain low but constant: in 2011 there were 1,426 and in 2012, 1,671. We always look at ways in which we can meet our customers financial needs and how looking afresh at their finances can often provide solutions to financial challenges.

Similarly in Ireland and Northern Ireland repossession levels remain low in comparison with the overall market share of mortgages. We repossessed 131 properties and 63 properties in the Republic of Ireland and Northern Ireland respectively. Ulster Bank in Ireland has developed a Mortgage Arrears Resolution process which outlines its approach to dealing with customers in financial difficulty. Following a financial assessment, there are a number of potential outcomes for customers who are currently unable to meet their mortgage obligations. These outcomes include postponement of monthly repayments for a defined period of time, lengthening the mortgage term or changing the type of mortgage. These options offer our customers greater flexibility in finding the most suitable repayment arrangement for their circumstances.

In the US, RBSCFG referred 2,124 mortgages for foreclosure, a similar figure to that of 2011. The 'Citizens for Homes' strategy is based on clear terms, manageable debt and appropriate guidance, resulting in Citizens becoming a top mortgage lender nationwide. It has one of the lowest default and foreclosure rates in the industry. In certain cases, the Bank offers forbearance or short term payment plans to

customers who are experiencing short term financial hardship. This was offered to 77 customers in 2012. RBSCFG are also participating in the US Government run Home Affordable Refinance Programme (HARP). This programme enables qualifying customers in negative equity to explore refinancing options and potentially lower monthly repayments. In addition, the Bank has introduced a Single Point of Contact to manage property secured borrowers who are experiencing financial hardship. This simplifies communication between the Bank and the borrower.

Financial Education

Financial capability is the key to healthy finances and we believe we have a vital role to play in schools, teaching children about money management. We've been delivering free financial education in schools since 1994. This year we've achieved even more.

MoneySense, our impartial education programme for secondary schools, continues to be a helpful tool to teach young people how to manage their money. In 2012 over 40,000 lessons were delivered to 341,063 pupils in 1,250 schools. Since 2005 over 2.5 million school children have benefited from lessons in secondary schools in Great Britain. For the past five years we've assessed the impact of our MoneySense lessons on young people and the changes in attitudes over that time. For more information on our MoneySense Report visit rbs.com/communityinvestment

We also want to help establish the financial basics early so have continued to provide our online magazine, Pocket Money, to engage 7-11 year olds and their families and introduce them to money. We have also created downloadable materials for primary school teachers to use and they will be launched in early 2013.

MoneySense for Schools has also been going from strength to strength in Ireland, with the programme now being used by teachers in over 60% of secondary schools island-wide to teach students about budgeting, banking and how to start their own businesses. 200 Ulster Bank volunteers have delivered over 800 MoneySense lessons alongside teachers in schools across Ireland and Northern Ireland.

The programme has won two high profile awards in Ireland in 2012: the Best Cause - Charity and Community award at the Irish Sponsorship Awards as well as the Community Programme Award at the Chambers Ireland Corporate Sustainability awards, recognising its value to the community.

2012 Priority

Supporting customers in difficulty

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

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

Progress made in 2012

Throughout 2012 we supported customers at risk of getting into financial difficulty in a number of ways:

- we worked with the Citizens Advice Bureau to improve how we help customers
- we gave details of free independent money advice agencies to customers
- we caught early warning signs of problems through our monitoring systems
- we discussed budget setting and spending patterns

Examples of the products and services that helped support customers in difficulty are:

- SMS Alerts
- Repayment Plans
- Overdraft/Credit Limit Reductions
- Consolidation Loans

We also provided 30 days breathing space if customers were unable to make a repayment on a loan and helped them develop a repayment plan. We do not initiate repossession proceedings for a full 6 months after a customer first falls into arrears. Repossession is always a last resort, and we provide an Assisted Voluntary Sales Service.

Financial Inclusion, access to credit

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

We continued to offer basic bank accounts which are for customers who have no banking history and poor credit ratings.

Our affordable mortgage products also met the needs of our customers.

We supported first time buyers to get a foot on the housing ladder.

Our Mortgage Toolkit helped customers apply for a mortgage. We provided a mortgage interest calculator which helped customers work out the cost of repayments.

We helped our customers avoid overdraft charges through 'Act Now Alerts' in the UK.

Financial Education

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

We have taught children about money management through free financial education in schools since 1994.

MoneySense for secondary schools continued to be a Helpful tool to teach young people how to manage their money.

Our staff volunteered to deliver MoneySense sessions in secondary schools.

We assessed the impact of our lessons on young people and the changes in attitudes over that time.

We provided an online magazine, Pocket Money, to engage 7-11 year olds and their families and introduce them to money.

We developed downloadable materials for primary school teachers to use.

Community Support

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

We worked with customers and staff to strengthen the communities in which we live and work.

Our customers and other LINK debit card customers donated to charity through our ATM network and we also co-ordinated support for national charities.

Our UK Retail staff were allocated at least one day off to volunteer in their community.

2013 Priorities

1. Accessibility: We will ensure our products and services are accessible to all our customers including those with additional needs.
2. Basics Right: We will serve our customers well by getting the basics right.
3. Community: We will support the communities where we live and work and reduce our environmental footprint.

Supporting enterprise

RBS seeks to help in building vibrant business communities that will drive the UK economy forward. We want to inspire our customers as well as help tomorrow's entrepreneurs to achieve their ambitions. That's why we are focussed on a programme to inspire and support today's youth as well as women in business and social entrepreneurs. This report sets out some of 2012's key achievements and lays the foundations for us to do even more in 2013.

Chris Sullivan
CEO, Corporate Banking Division

RBS is a leading business bank, supporting businesses of all shapes and sizes to flourish and grow. Maintaining our lead position in our core market has meant taking huge steps to strengthen the service we offer to our business customers. Feedback from them showed they wanted a closer working relationship with the people they deal with from RBS. This section sets out the wide range of measures we're putting in place to address that demand. Of course, our commitment to supporting economic growth isn't limited to companies who've already established themselves. We're also doing more to help people start up in business and grow their contribution to the economy. Creating liquidity and ultimately supporting economic growth is a fundamental responsibility for any bank. In fact, our success depends on it. As described here, over the last year we have continued to do all we can to lend to business, big and small.

UK Business lending

Whilst 2012 remained a challenging year for the economy, we continued to play a vital role in supporting the economic recovery and making access to finance easier for our business customers. We were first out of the blocks on the Government's Funding for Lending scheme; we continue to lead the way with the Enterprise Finance Guarantee (EFG) scheme and continue to deliver above our market share in terms of gross lending to business. Beyond access to finance, for RBS that also means doing all we can to help businesses manage their cash flow, understand and manage their risks, and help them grow their

We're **doing more**
to help people start up in business and
grow their contribution to the economy



Lending to UK businesses, 2010-2012 (£bn)

	Gross new lending	Lending to SMEs
2012	58.7	30.4
2011	67.8	31.5
2010	55.3	30.3

business if they decide to. As well as commercial businesses, we play a vital role in our communities by focusing support towards not-for-profit and micro businesses that serve under represented segments of society.

Overall, our gross lending to business during 2012 remained strong, despite a faster rate of debt repayment by our customers. Gross new lending to UK businesses was stable at £58.7bn of which £30bn was to SME customers. Given the continued economic nervousness, loan repayments remained strong, with many customers continuing to focus on paying off debt. That said, our commitment to supporting business has also been demonstrated by our ongoing involvement in a range of government schemes aimed at meeting our joint objective of increasing the flow of lending. Our Irish business, Ulster Bank, completed £1.6bn (€1.6bn in the Republic of Ireland and £327m in Northern Ireland) of new lending to businesses in 2012, of which £724m was to SMEs.

In the US, RBSCFG is dealing with many of the same economic challenges faced in the UK. RBSCFG has also had to respond to increased regulation in the US.

Being open and transparent about how we do business and the issues we face is not only helpful to our customers but also the least they should expect from their bank. In 2012 we were challenged on the appropriateness of selling products known as interest rate swaps to our business customers in the UK. These are complex products and it is essential that whenever we are providing any service to our customers that it is explained fully. We have reached an agreement with the FSA and are currently carrying out a review, approved by an independent reviewer, that will help bring the clarity and certainty that our customers need on this specific matter; where the customer has suffered detriment as a result we will provide fair and reasonable redress to them.

Serving Small and Medium Sized Enterprises (SMEs)

SMEs make up a significant part of our business, with 1.1 million SME customers in Great Britain and around 200,000 in Northern Ireland and the Republic of Ireland. We want to lend to viable businesses and have the capital to do so. However, demand for borrowing has fallen across all UK Banks and, on average, our customers in the UK are using less than 50% of the overdraft facilities available to them.

Credit applications from SMEs in the UK decreased from 269,000 in 2011 to nearly 219,000 in 2012 – a reduction of 19%. We approved over 90% of these applications. We accounted for 35% of all loans

and overdrafts outstanding to SMEs as at the end of 2012, well above our overall customer market share of 24%.

Ulster bank approved 87% of loans in the Republic of Ireland and 88% of loans in Northern Ireland. RBSCFG lent \$6.67bn, and the average approval rates were 90.5% for Commercial Enterprise Banking (\$5m-\$25m turnover) and 45.4% for Business Banking (up to \$5m turnover).

We also work to support hard to access and reach areas and in 2012 we lent £2.3bn to the most deprived wards in the UK, an increase from £2.2bn in 2011. For a breakdown of our lending from 2009-2012 please see the below table. Due to a re-organisation of the business in 2011, some of our larger business banking customers were transferred to commercial banking. This explains the significant difference in lending figures for business banking from 2010-2011.

Lending to deprived wards (£m)

	2009	2010	2011	2012
Business banking	622	626	400	396.7
Corporate banking			1,839	1,933.7
Total	622	626	2,239	2,330

Ahead for business

Our SME Customer Charter, launched in 2009, set out some key commitments to our customers. Building on the customer charter, in 2011 we introduced our 'Ahead for Business' customer promise which intrinsically links our support for SMEs to customer feedback. Specific feedback from customers identified 3 key areas where we could offer value:

- better understanding of their business.
- in-depth business knowledge and commercial acumen.
- easier to use services.

These three pillars now underpin our customer promise and form a consistent basis upon which we approach our business banking.

To ensure our Relationship Managers (RMs) understand their customers better we have implemented an initiative that sees them spending dedicated time working in customers' businesses. RMs build a better understanding of the challenges businesses face and learn how to help them achieve their long term ambitions. We are the only bank to do this. This initiative is not just restricted to our RMs but has seen employees of all levels participate. During 2012, over 5,000 such 'Working with You' visits were completed, with RMs spending at least two days 'rolling their sleeves up' working with customers at their premises. This brings the total number of visits to over 10,000 since the initiative launched in June 2011. In 2013, we are working towards increasing the time that our RMs spend with their customers to at least 60% of their working week.

We aim to be as transparent as possible in communicating our lending decisions to our customers. Where we are not able to meet a request for finance we will always look to advise on alternate sources of finance beyond mainstream bank lending and offer mentoring support as appropriate. If an SME customer still feels they would like an independent opinion on a lending decision or feel an unfair condition to lending has been applied, we offer an appeals process where SMEs can appeal to an independent panel. This appeals process is further governed by an independent reviewer appointed by the BBA.

Participation in UK Government Lending Schemes

In order to help bridge the gap between demand and affordability of credit, we participated in and often took the lead on a number of government backed lending schemes to help stimulate the environment for borrowing.

- The Bank of England Funding for Lending Scheme (FLS) gave banks access to funding at low rates of interest which could then be passed on to customers. We were the first bank to cut interest rates on £2.5bn of SME loans by an average of 1%, with larger reductions for the smallest businesses, and removed arrangement fees on new loans. Between its launch in August 2012 and December year end 2012, we allocated almost £1.6bn of funds to almost 11,000 customers and have continued to extend FLS funding to customers in 2013.
- The National Loan Guarantee Scheme (NLGS), subsequently replaced by the FLS, allowed us to offer loans from £1,000 upwards with reduced rates to customers. A total of £1.19bn has been lent through this scheme.
- We also launched a Fixed Rate Business Loan (FRBL) with a 1% discount on interest rates in November 2011, and extended this into 2012. Since launch, we have provided 2,422 FRBLs totalling £173m.
- We have long been a significant contributor to the Enterprise Finance Guarantee (EFG) scheme. Since January 2009, we have made a total of £693m available to SMEs, 40% of all lending under the scheme, making us the largest contributor of all the banks.
- We have also distributed £60m funds through the Regional Growth Fund (RGF) since it launched in November 2011, 86% of the committed £70m. The RGF enables us to lend to customers where they don't have enough contribution themselves to invest in a deal which would ultimately allow them to either preserve existing jobs or create new ones. Through this fund, our customers have told us that almost 9,000 jobs have been safeguarded and over 2,300 created.
- In September 2012 our Manufacturing Fund specifically targeted mid-sized businesses. Mid-size manufacturers are key in helping the UK grow and export out of recession. Due to the Funding for Lending Scheme we are able to offer the most competitive terms that have been on offer for several years.

- In the mid-sized business segment, we have supported the residential market by targeting £0.6bn of FLS lending to housing associations and regional house-builders. The majority of this funding has now been allocated.

Supporting customers in difficulty

We want to be able to help our customers when they get into difficulty but more importantly, help prevent them from getting into this situation in the first place.

All of our UK RMs have 'Credit Stewardship Responsibilities' which means that they have a duty to identify and help customers when they are facing significant challenges in their business. In these circumstances, we have strategies in place specifically aimed at either understanding where any issues may be temporary in nature with sound longer term prospects, or alternatively beginning the process of arranging customers to be looked after by our Specialised Relationship Management team, Product Managers or Global Restructuring Group Team.

Specialised Relationship Management

If a customer's problem cannot be solved within the mainstream banking function, they are transferred to our Specialised Relationship Management (SRM) experts. In 2012 we changed this system to ensure our most experienced staff handled these cases. This means that customers most in need of support were looked after by one of the 500 RMs in our teams that have experienced similar economic downturns in the past. Currently around 8,000 SME customers are managed by the SRM team in the UK and 6,500 within Ulster Bank. In 2012, nearly 4,000 customers were returned to mainstream banking from the SRM function in the UK.

Global Restructuring Group

The aim of our Global Restructuring Group (GRG) is to work with distressed customers to develop and implement innovative rescue and recovery strategies. GRG focus on the underlying business, jobs and strategy to try and help the business recover and survive in the long term. Currently nearly 6,500 business customers are sitting within GRG in the UK, 2,744 within Ulster Bank and 1,625 within RBSCFG.

Supporting start-ups

As well as lending and support for established businesses, we aim to support economic growth through our support for start-up companies. We introduced a number of measures to make it easier for new businesses to begin their banking relationship with us in the UK, helping 104,650 start-ups get off the ground in 2012. This compared with 119,000 in 2011.

Some of the support measures we offer start-ups include;

- Two years free Business Banking.
- Mentor Aware, a service to help new customers manage risks with our Employment Law and Health & Safety support tool.
- £500 fee-free overdraft in the first year to help customers manage cash flow.

CASE STUDY

Hurricane Sandy in the US



There are often circumstances where our customers are thrown into turmoil due to natural disasters and events and may need some extra help.

The effects of damage and disruption caused by Hurricane Sandy were devastating to many businesses and individuals. In response, our US Bank RBSCFG announced a suite of emergency lending products and other services to help customers and support the recovery network. This included unsecured small business loans being offered at special rates. An Emergency Flex Loan was offered to small businesses that provided the convenience of quick credit for the first six months, and the stability of a loan thereafter. A 0% interest credit card for six months was also made available that could be delivered to customers the next day. Funding to assist with the recovery and clean-up process was also made available to the community. In addition, RBSCFG announced a \$150,000 pledge to support Hurricane Sandy relief efforts to help those most affected by the storm.

- A fee-free credit card for the first 12 months.
- Online start-up courses with free guidance and help on starting a business.
- Start-up hotline which provides advice and guidance through direct access to a team of managers.

We also launched some bespoke initiatives for start-ups in 2012 in the UK.

- The Mobile Business School travels to local universities and organisations that support would-be entrepreneurs to bring enterprise education to young people. This provides business advice in a different setting that can be more accessible to some young people.
- The Business Academy partners with local Business Support Groups to help businesses to develop and grow through education, access to resources, subject matter experts and networking events. This has been rolled out across the UK.
- Start-up surgeries hosted in local communities to help prospective entrepreneurs get information on starting their own business.
- A scheme providing our people with training and an opportunity to mentor small businesses and eventually become an accredited mentor through the Institute of Enterprise and Entrepreneurs.
- Recognising our support to enterprise through our education programmes, RBS was awarded the “Financial Innovation Awards 2012” under the Supporting Enterprise category.

Other activities to support start-ups and partnerships include:

- Over 40 events across UK and Ireland targeting around 35,000 would be entrepreneurs during Global Entrepreneurship Week.
- Supporting third sector organisations including LandAid, Eaves

and Afrikids through our community and skills sharing programme.

Ulster Bank has had a support package for start-ups in place for the last two years which includes some similar features to our UK offering. Ulster Bank gained 4,000 new start-up customers in 2012, bringing the total number of new businesses to 10,000 over the last two years.

Developing business expertise

Feedback from customers has shown the importance of having well trained and experienced staff that understand customer needs. In response, we have significantly strengthened our accreditation programme for RMs and their teams which provides training to promote the right skills, behaviours and knowledge to deliver the service required. This accreditation programme has been developed in association with the Chartered Institute of Bankers and we are currently the only bank in the UK to have independently accredited RMs.

In the UK, this is now fully embedded across our business with 90% of RMs formally accredited with plans in place to develop this further in 2013. 350 of our RMs are also sector specialists, enhancing the bespoke technical expertise they can offer customers. Following accreditation, RM competence is tested annually. We also have specifically tailored accreditation schemes for the Specialised Relationship Management team in the UK who deal with customers who are in difficulty.

Ulster Bank has also been working in conjunction with the Institute of Bankers in Ireland to develop its accreditation programme and has rolled this out across the business. The Ulster Bank course includes

risk, credit skills (accredited by Institute of Financial Services), customer insight, customer needs and solutions content.

We also launched trade clinics to help our customers trade internationally more successfully. These clinics deliver high quality training and advice for our clients to help them achieve international business success. In 2012, over 90 clinics took place reaching over 3,000 customers.

RBSCFG launched the Commercial Banker Development Programme and redeveloped its Commercial Credit Training Programme in 2012 which involve accountancy skills and credit analysis training for new and current employees respectively. Relationship Managers also took part in corporate finance strategies learning to improve their ability to bring valuable ideas to customers. This is on top of the regular business training run for all new members of staff.

Realising customer ambitions

Our customer promise is that 'by banking with us, our customers can be more confident about realising their ambitions'. To deliver this experience for our customers, we have made it easier for them to access quality business expertise and support and we've provided them with the choice of how and when they interact with us at a time of their choosing.

Business Connect supports 210,000 UK Business banking customers in the following ways:

- **Connect Local customers** – the Connect Local team is able to deliver our customers' solutions effectively over the telephone without the time constraints of meeting face-to-face. If a Business Specialist isn't available, the customer will be put through to one of the Connect Local Business Managers who will be able to serve the customer or, if the customer would rather speak to someone face to face, they can book an appointment with the Business Specialist.
- **Connect Central customers** – the Connect Central teams in Birmingham (NatWest) and Edinburgh (RBS) manage any overflow and out of hours for Connect Local calls between 8am-9am and 5pm-8pm.
- **BusinessLine** – our telephone service for business customers, has around 200 dedicated Service Advisors and a team of 30 Business Managers serving NatWest customers with less complex needs in Business Connect portfolios. A Business Telephony Centre for our RBS customers was created in Edinburgh. We interviewed 11,000 customers to ask them if the BusinessLine service was meeting their needs and 79% said they were very satisfied.

Webchat allows our website users to have a conversation by simply typing a query into the Webchat box and receiving a typed response from an advisor. In addition, our Webchat functionality has now gone mobile and customers can chat and raise account queries via their iPhone app. This is a first for any business bank in the UK. Furthermore, **Call Me**, is a new service where customers can choose a time that suits them to be called back by one of a team of dedicated Business Managers.

Mobile Banking app – our customers are increasingly using their mobiles to access the internet and stay in touch wherever they are. They want to be able to use their phones to stay in control of their finances too.

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 – putting us ahead of the competition in the choice we offer customers.

Customers can benefit from the ability to manage multiple business accounts, check balances, make payments, view transactions and statements and make intra-account transfers, all in one safe, secure and easy to use app.

The app is available to customers on iPhone, Android and Blackberry. Currently 70,000 users are using this app twice a day.

We also look to connect businesses using modern means:

Bizcrowd (www.bizcrowd.com) is our new online business-to-business community. It helps businesses find new customers, suppliers or answers to questions. We are the first UK bank to support customers in this way.

- It generates tangible results and allows customers to find other businesses that can support them in achieving their ambitions – whether that's to grow, to diversify or to become more efficient.
- It's open to all UK businesses – not just our customers – because our customers get the most benefit if everyone can join.
- By contributing to Bizcrowd and being rated by others, users can help to build their business' reputation online; this will help them differentiate themselves and respond to their changing needs by adapting to user feedback.

Small Business Can is a business community network established by Ulster Bank which provides support and advice on how to build business cases and how to access funding and credit. It is now the busiest business social media site in the UK and Ireland.

RBSCFG implemented customer and client commitments across the business to help colleagues deliver a consistent high-level of service. A separate customer experience department was created to track complaints, review service trends and help implement solutions. These efforts, along with a continued focus on the Good Banking is Good Citizenship brand, helped us improve our reputation and brand according to industry experts. *The American Banker* ranked RBSCFG as number 10 for its reputation out of the top 30 banks in the US in 2012, up from number 18 in 2011. RBSCFG also launched a small business credit card in 2012 that can monitor and track employee purchases and allows customers to set spending controls on their staff cards. This is a free service for small business customers.

Investing in renewable energy

We are committed to helping with the transition to a low-carbon economy. As well as being a leading provider of UK renewable energy generation project finance we are committed to developing finance

solutions to help our corporate customers fund energy efficient measures. We have a significant presence in the market and predominantly lend to onshore wind and solar projects. Latterly this has expanded to include biomass and offshore wind projects. In 2012, we launched a £200m Carbon Reduction Fund as part of a push to promote energy efficiency measures to our Corporate and Institutional banking customers. More information can be found in the Citizenship and Environment section on page 35.

Growing enterprise beyond our existing customer base

RBS Inspiring Enterprise

In October 2012 we launched RBS Inspiring Enterprise. This new initiative draws together all of our activity to inspire, enable and support three groups who could play a stronger role in the entrepreneurial economy; young people, women and social entrepreneurs. For each group, we aim to partner with other organisations who can support our agenda, provide tailored products and services, and commission research that can help drive forward positive change. We think it's an approach that will help us reach some ambitious targets over the next 3 years.

Inspiring youth enterprise

Target: By the end of 2015 we will help 100,000 young people to explore enterprise, develop their skills and start up in business, whatever their background.

We aim to help young people (those under 30) to explore enterprise, develop their enterprising skills and start up in business, whatever their background. RBS Inspiring Youth Enterprise has a funding pot of £1.5m (£500,000 per year) to provide grants of up to £50,000 to organisations across the UK that encourage and support youth enterprise.

Inspiring Youth Enterprise also includes our student enterprise programmes – RBS Enterprising Student Societies Association (ESSA) and RBS EnterprisingU, to encourage, reward and recognise undergraduates' enterprising activities across the UK.

We also have a variety of long-term partnerships focused on encouraging and developing enterprise across the UK. RBS has partnered with The Prince's Trust for over a decade, supporting a number of initiatives with funding of more than £18m to date. In March 2012 our partnership with The Prince's Trust won the prestigious Corporate Sponsorship award at the Hollis Sponsorship Awards.

In 2012 The Prince's Trust, in partnership with RBS, won a £1.6m bid to become a delivery partner for the pilot of the Department of Business, Innovation and Skills (BIS) Youth Enterprise Loans scheme. The Trust will support 649 young people in England with start-up funding and mentoring by March 2013.

The Prince's Trust and RBS ran an A-Z of Young Businesses campaign to raise awareness of the Inspiring Enterprise programme. This showcased self-employment as a route out of unemployment for young people, and publicised the joint commitment, of both RBS

and The Prince's Trust, to support unemployed young people into self-employment.

In an effort to further our knowledge of the sector we have established the RBS Youth Enterprise tracker, which provides a quarterly view on young peoples' attitude to entrepreneurship. We are also working in partnership with the RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) on research due in summer 2013 that will look at some of the challenges encountered by young people starting a business.

Inspiring women in enterprise

Target: By the end of 2015, we will inspire and enable 20,000 women to explore and unlock their enterprise potential.

Our ambition is backed up by £1.5m of funding over three years to provide grants of up to £50,000 to organisations across the UK that encourage and support women into enterprise. We are working with the recipients, as well as existing partners, to remove barriers and help women explore enterprise, develop their skills and start up in business.

On top of our work with women's enterprise support organisations, we have 120 specialist Relationship Managers across the UK, who work specifically with women owned or managed businesses. Our success in this area was recognised, when we won "Women of the Future Corporate Award 2012" for organisations that support and nurture young women in business. Chris Sullivan, CEO Corporate Banking Division is the Chairman of the Global Banking Alliance for Women which drives women's wealth creation worldwide. Our key partnership alliance also extends to An Inspirational Journey and Asian Women of Achievement Awards.

To better understand the challenges facing women who wish to start a business, we partnered with Global Enterprise Monitor to examine some of the underlying factors which can explain why fewer women than men make this choice. Our report 'Women in Enterprise: A Different Perspective' was published in October 2012 and is available at RBS.com.

2012 marked the 10th anniversary of the NatWest everywoman awards which recognises the achievements of female entrepreneurs who have established successful businesses and in many cases, overcome major challenges along the way.

In order to respond to the added support required to help women in business, Ulster Bank set up a Business Women Can website at the end of 2012. Women can collaborate, share, give advice or access support through this website. We want to understand the particular needs of female entrepreneurs in business in order to help them become a success.

Supporting social enterprises

Target: By the end of 2015, we will support 2,500 social enterprises, working in partnership with the sector to improve access to expertise, markets and finance.

**CASE
STUDY**

Enterprise through Self Help Groups (SHGs) in India



The RBS Foundation India has supported enterprises for 76,000 families. Enterprises have been set up through SHGs in over 600 villages across India since 2007.

An SHG is a group of women that facilitate social and economic empowerment. The women of the SHGs save small sums each month and gradually build up a pool of funds which is then used to provide small loans for women to set up micro enterprises in their village. This reduces the dependence on costly local money lenders and helps families become self-sufficient.

We have a long held commitment to working in partnership with the social enterprise sector to improve access to expertise, markets and finance. RBS Inspiring Social Enterprise builds on that legacy.

The social enterprise sector is made up of over 64,000 businesses with a combined turnover of £24bn. The long term aims of our support for social enterprise are to increase the size and strength of the sector as well as our share of this market – an example of how we seek to address social and economic challenges whilst growing our own business.

Social enterprises, charities, community interest companies and co-operatives who find it difficult to get sufficient mainstream finance to expand their business, can apply for a specifically designed Community Business Loan from the RBS Group MicroFinance Fund. This Fund is an independent charity supported by RBS. During the course of 2012 the charity committed £3.1m of the £5m available in Community Business Loans. In 2012, our social enterprise microfinance was listed on the Guardian Sustainable Business Best Practice Exchange.

In the UK, we have teams who work specifically with the not-for-profit sector. These Relationship Managers have specialist social enterprise knowledge and access to specific accreditation schemes – helping them to gain a good understanding of the sector and its challenges. Ulster Bank's commitment to helping the not-for-profit sector was demonstrated in 2012 by the help given to further educate organisations through workshops and sharing knowledge about business skills.

We also lead the RBS Social Enterprise 100 (SE100) Index which tracks the sector and celebrates the success of the fastest growing and most impactful social enterprises in the UK. We are the sole funder of the Community Development Finance Association (CDFA) 'Change Matters 2' framework and associated Capacity Building

Fund, designed to improve the strength and sustainability of individual community development finance institutions (CDFIs).

Like for young entrepreneurs, and women in enterprise, we are also working to better understand the challenges that still face the community finance and social enterprise sectors. In conjunction with the Community Development Finance Association, we recently commissioned independent research to examine the level of potential demand for affordable community finance options.

In the UK market, Coutts offers a range of services to social enterprises including: helping clients establish appropriate structures for their philanthropy through Trusts services; managing endowments for private foundations and charitable organisations and Charity banking - servicing the day-to-day banking needs of charitable organisations.

Supporting enterprise in India

The RBS Foundation India (RBSFI) supports enterprise development for rural families across the country. Through RBSFI, the economically challenged families have the opportunity to enhance their incomes, access finance from Banks and develop links to the market. As a result, they are also able to access better education facilities and healthcare for their families. Since 2007, RBSFI has supported close to 76,000 families through 26 projects in 17 states in India. This includes 4 new projects added in 2012 where we worked closely with local charities and government agencies.

The RBSFI also runs an initiative that recognises the best in the field of wildlife conservation and celebrates people in India who are 'Earth Heroes' defending the wilderness and natural resources. The 12th RBSFI 'Earth Heroes' Awards took place in 2012.

2012 Priority

Progress made in 2012

We will improve our products and services for SMEs to help us deliver our Ahead for Business Customer promise.

We have made good progress against the three pillars underpinning our customer promise:

1. Sharing customers' ambitions – Our Working with You initiative has been seen as a success with both customers and our staff with over 10,000 staff to customer visits since launch;
2. Delivering Business Expertise – overall Accreditation was 90% across our business;
3. Making it simple – progress continues to be made in the speed of our account opening process and our mobile phone apps are recognised as being best in the market for making banking simpler.

We will accredit all our RMs and increase the time they spend in customer businesses.

90% of our RMs in the UK have been accredited in 2012 through the Chartered Banking Institute approved Relationship Manager Programme and we have accreditation programmes in Ireland and the US also. Over 5,000 'Working with You' visits took place in customer businesses in 2012 in the UK.

We will increase our direct support to the Social Enterprise Finance sector to help the sector improve its capabilities and increase its capacity.

We launched RBS Inspiring Social Enterprise. The RBS Group Micro Finance Fund is an independent charity that we set up to lend directly to the social enterprise sector. It approved over £3m of loans in 2012.

We will broaden our support for the green economy by developing products to help clients with energy efficiency. We will continue to be a proactive funder of environmental projects.

We launched a £200m Carbon Reduction Fund in 2012 to finance the introduction of energy efficiency measures for our customers.

Coutts will internationalise their online and events platform 'Knowledge Exchange' to enable knowledge sharing and expertise amongst entrepreneurs.

Coutts has produced a number of resources which enable knowledge sharing amongst entrepreneurs and reflect the international markets the company operates in. These resources include business and economic updates from around the world, available on video content, reports on philanthropy and how cultural trends affect family businesses and the establishment of a peer network.

We will increase our commitment to helping more young people start up in business.

We launched RBS Inspiring Youth Enterprise committing to support 100,000 young people over the next 3 years. This included renewing our partnerships with The Prince's Trust and Find Invest Grow, and launching grant funding for non-profits that support youth enterprise.

As part of the livelihoods programme, the RBSFI will implement a financial literacy programme to build financial capability in communities.

In 2012, the RBS Foundation India (RBSFI) strategy was reviewed and revised in the context of the sale of retail banking branches. With the RBS India retail banking business on sale, it was decided that we would not pursue the financial literacy programme. However, functional financial literacy is delivered through our Supporting Enterprise projects in India.

2013 Objectives

1. We will improve our products and services for SMEs to help us deliver our Ahead for Business Customer promise and we will continue to support client propositions for the Youth, Women, Social and Charity Agenda.
2. We will deliver a strategic community programme that will not only support our people's personal development but also generate positive economic and social impact in our local community.
3. We will maintain a competitive market position in the UK renewable generation market whilst developing the energy efficiency proposition within the business.
4. We will deliver high standards of professional service to our business customers through accreditation and training of our Relationship Managers and increase the time they spend in customer businesses.
5. We will increase our direct support to the Social Enterprise Finance sector to help the sector improve its capabilities and increase its capacity.

Citizenship and environment

At RBS we are now approaching the completion of our restructuring and the rebuilding of a bank that will be safe, strong and sustainable. Our attention is now turning to building a really good bank and one that has customers and community at the heart of what it does. Well integrated Environmental, Social and Ethical (ESE) considerations are important components of how we manage risk. Doing the right thing and thinking for the long term will be essential in supporting our customers to achieve their aims and ambitions and those of wider society.

Andrew Cave
Head of Group Sustainability

Good citizenship is about doing business in a responsible way that recognises our wider influence as a company. This section contains information on how we manage our impacts on society, from our tax contributions, the way we govern our environmental, social and ethical risks and our environmental impacts. Being a good corporate citizen also means playing a positive role in society and contributing financial and volunteering support to the communities we operate in.

Citizenship

Tax, Political donations and legal action

Tax has become a prominent topic in 2012. There are plans for a financial transaction tax in some EU countries and there is ongoing consideration of the taxation of multinationals by the UK Public Accounts Committee and also by the Organisation for Economic Cooperation and Development.

RBS Group in the UK contributed £1.5bn of total tax to the UK government in 2011, making it the largest taxpayer in the UK according to PwC's most recent survey. 2012 was similar, with RBS Group contributing £1.4bn of total tax to the UK government. Despite a fall in UK corporation tax payments since the financial crisis, overall taxes paid in the UK are not substantially below their level before the financial crisis.

Good **citizenship**
is about doing business in a
responsible way that recognises
our wider influence as a company



Group tax payments are analysed as follows:

Global tax paid (£m)	
<i>In total, the Group paid £2.2bn in tax globally in 2012</i>	
Corporation tax	290
Irrecoverable VAT/sales tax	830
Bank levies	199
Employer payroll taxes	655
Other taxes	185

UK tax paid (£m)	
<i>In total, the Group paid £1.4bn in UK tax in 2012</i>	
Irrecoverable VAT	717
Bank levy	194
Employer payroll taxes	385
Other tax	114

Analysis of 2012 tax paid by geographical region (£m)	
UK	1410
EMEA	261
Asia-Pacific	110
Americas	378



RBS also collects taxes relating to employees and customers on behalf on national governments and pays these taxes to the governments.

RBS manages its tax affairs responsibly and in accordance with the tax law in each country in which it operates. RBS is open and transparent in its interaction with tax authorities. In the UK, RBS has signed up to the Government's Code of Practice on Taxation for Banks which commits us to obeying the spirit as well as the letter of the law and to maintaining an open dialogue with HM Revenue & Customs.

RBS operates in some offshore countries including the Channel Islands and the Isle of Man where it has significant local businesses. Income from offshore operations is less than 2% of Group total income and RBS is reducing the number of companies in offshore countries.

Political donations

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

Legal action

Details of litigation, investigations and reviews are available in our full annual results announcement, from page 126.

Environmental, Social and Ethical Risk

As a multinational bank, RBS has links to a wide range of sectors. The activities of RBS and those of our clients can present a number of Environmental, Social and Ethical (ESE) risks. It is our responsibility to minimise these risks and to enter into lending relationships with companies who share our commitment to responsible business practices. Our ESE policies are based on extensive and ongoing research into the environmental, social and ethical issues facing each sector. They outline the extent of our appetite to support companies operating in sensitive sectors.

Our ESE reviews involve an assessment of a company's commitment, capacity and track record in managing ESE risks. The following factors are examined:

- Availability of policies or management plans covering: environmental performance, biodiversity, health & safety, energy use and labour/human rights
- Ability to implement policies and procedures and senior level responsibility for management of ESE risks
- Experience and general compliance with international and local environmental and social legislation
- Recent track record of ESE-performance, including whether the company has had any major environmental and social-related incidents or been subject to material campaigns

Our current suite of ESE policies is set out in the table below, with an outline of enhanced due diligence undertaken on companies involved in higher ESE-risk activities specific to that sector. The appetite statements for each policy are publicly available on rbs.com/sustainable.

Sector Enhanced Due Dilligence

NEW

Power Generation

Covers nuclear, thermal, renewables, hydropower and electricity transmission and distribution. Restrictions on the provision of finance to companies operating nuclear power plants and uranium enrichment facilities in high risk jurisdictions.
No 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 for supporting clients involved in the operation of nuclear power plants, uranium enrichment plants and hydropower projects.

NEW

Gambling

Covers companies involved in online and non-online gaming including restrictions on the provision of finance to online gaming companies operating in high risk jurisdictions where online gaming activity could represent a legal or regulatory risk to the client or bank.

Defence

No funding or financial services to companies involved in either 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 around companies involved in the manufacture or sale of other controversial weapons including nuclear weapons and depleted uranium weapons.

Oil & Gas

In 2012 we strengthened our position to include further due diligence around companies involved in oil exploration and production operations in Arctic or Antarctic Waters.
Enhanced due diligence is applied for companies primarily involved in the following technologies: oil sands; oil shale; shale gas; coal-bed methane; coal to liquid.

Mining & Metals

Enhanced due diligence for companies involved in: mountain top removal; the use of cyanide or other harmful chemicals; the extraction of precious metals outwith agreed environmental and social risk standards such as the Kimberly Process for diamond extraction.

Forestry

Extended due diligence for companies involved in: palm oil plantations; rubber plantations; clearance of High Value Conservation forests; the use of elemental chlorine or other harmful chemicals in pulp and paper manufacturing.

Sector ESE Risk Appetite Positions are approved by a senior risk Committee and are endorsed by the Group Sustainability Committee (GSC). These positions are reviewed by Group ESE Risk at least every two years, often more frequently, depending on wider developments within the relevant sector. Under our risk management system, wherever individual customers or transactions are considered to be "Sensitive" and "High" risk, they are required to be escalated to divisional Reputational Risk committees or to Senior Group Risk Executives.

In addition to the Sector ESE Risk Appetite Positions, staff and businesses are required to consider if a client (outside the above sectors) may represent an ESE risk and require additional due diligence and escalation.

A full web-based training tool around existing ESE policies was launched in 2012. This training is compulsory for all staff working in relevant divisions and can be accessed by all RBS Group staff to ensure they understand the Group's ESE policies and the issues that sit behind them. Group ESE Risk work closely with divisions to strengthen training of business and risk staff on ESE risk policies and wider related reputational risk issues.

We engage with a range of stakeholders when developing sector ESE Policies. For example, in 2012 work to develop our power generation ESE policy involved active engagement with industry regulatory bodies, NGOs, RBS clients and peer banks. We also regularly attend conventions and roundtable discussions on various sector ESE issues arranged by banks, consultants, environmental and intergovernmental organisations and clients. Meeting topics in 2012 included specific issues such as shale gas 'fracking', as well as broader issues on human rights. Effective stakeholder engagement is very important to RBS and it has led to changes to ESE policy to ensure significant stakeholder issues are addressed. It also plays an important role in highlighting emerging ESE issues so they can be more effectively identified, assessed and managed.

Within our Markets & International Banking (M&IB) business, we have a specialist ESE advisory team who help RBS deliver strong financial performance backed by a clear commitment to principles of good business practice. We have integrated the consideration of ESE advisory factors into the investment decision making process and the SBA team acts as a centre of expertise to provide advice and guidance on these broad factors as well as conducting regular reviews of clients against the ESE policies and the Equator Principles.

Equator Principles

The Equator Principles (EP) are a voluntary set of standards adopted by banks for determining, assessing and managing social and environmental responsibilities in project financing. RBS is a member of the EP Association steering committee and in 2012 we were heavily involved in the ongoing work on "EPIII", the latest iteration of the Equator Principles.

The table below sets out project finance deals from 2012, and how they were categorised under the Equator Principles (where A is considered highest risk). In recent years, project finance has not been a core part of our business activity, which accounts for the relatively small number of deals assessed:

2012 project finance deals by industry sector and regions				
	A	B	C	Total
Oil & Gas	0	0	0	0
Infrastructure	0	1	1	2
Power	0	9	3	12
Total	0	10	4	14

	A	B	C	Total
EMEA (UK)	0	5	4	9
APAC	0	0	0	0
Americas	0	5	0	5
Total	0	10	4	14

Business and human rights

RBS Group is committed to upholding and respecting human rights, and is signatory to the United Nations Global Compact (UNGC), which includes commitments to support and respect the protection of human rights, and ensure we are not complicit in human rights abuses. The UNGC is formally incorporated into our ESE policies and our Ethical Code for Suppliers. The RBS Position Statement on Human Rights protects the human rights of all RBS employees as well as ensuring that human rights are a key consideration in our lending decisions. These are available on our website at rbs.com/sustainable.

In 2012, we engaged with stakeholders on human rights issues through involvement in the Equator Principles, UNEP FI, and other industry organisations. RBS has also worked with other multinational banks to contribute to a sectoral discussion paper around the UN Guiding Principles for Business and Human Rights (also known as the 'Ruggie Principles' after creator Professor John Ruggie).

Human rights modules have been built into relevant compulsory online training programmes for RBS employees. In addition, client specific human rights risk training is delivered to risk professionals and appropriate employees across the Group. Additional workshops are available for relationship managers with exposure to sensitive clients or countries. The approach to human rights is continually reviewed, and the Board level Group Sustainability Committee receives updates on human rights from across the business.

Sourcing of ethical suppliers

The RBS Group Ethical Code for Suppliers is based on the UN Global Compact, and informs all of the Group's supplier relationships. This code outlines a commitment to engaging only with suppliers who run their operations to the same high standard that RBS does, including in relation to human rights. As a minimum, RBS expects that suppliers should support and respect the protection of internationally proclaimed human rights and make sure they are not complicit in human rights abuses. They should not be complicit in discrimination, child labour, or any form of forced or compulsory labour. These expectations are built into RBS Group's supplier on-boarding, and annual supplier review processes by means of risk evaluation.

Supplier diversity

As a large organisation with thousands of suppliers RBS is committed to developing a diverse and inclusive supply chain that is reflective of the markets we serve. We are developing a Supplier Diversity Programme and adopting an associated Supplier Diversity & Inclusion Code of Conduct, which are aligned with our guiding principles of Inclusion, Development, Compliance and Continuous Improvement.

In the UK market, small to medium sized enterprises (SMEs) make up a significant part of our business and play a vital role in supporting the economic recovery. We support them in a myriad of ways, and to this end are committed to understanding the role and value SME's can bring to our supply chain. Over 3,000 out of our 12,000 UK based suppliers are SMEs, and we spent approximately £364m with them in 2012.

We are at the start of our journey in this area. By voluntarily adopting this Supplier Diversity & Inclusion Code of Conduct, RBS affirms its commitment to providing a level playing field for minority and under-represented suppliers in our communities. We believe that this will strengthen our marketplaces, promote competitive advantage and enable business sustainability in the communities we serve and support.

RBS in the community

As well as our Group-wide community programmes, there is also a range of activity that is led from within our separate business divisions around the world.

RBSCFG invested more than \$14 million in 2012 through charitable grants and community sponsorships to support more than 1,000 non-profit organisations that fight hunger, provide shelter, strengthen communities and teach money management in the communities where colleagues live and work. The bank also introduced Citizens Helping Citizens, a comprehensive community program focused on strengthening communities through charitable giving, sponsorships and colleague volunteerism. Colleagues contributed over \$1 million through the Matching Gift programme which means that every dollar was matched by RBS Group, to more than 1,100 non-profit

organisations; a 28% dollar increase compared to 2011. RBSCFG employees also logged more than 60,000 hours of volunteer time, which was a 40 % increase from last year, motivated by the new Volunteer Honor Roll initiative to reward volunteering.

Our Markets and International Banking (M&IB) division focuses its activities on helping disadvantaged children and young people in a variety of ways. Almost 4,500 employees volunteered around 45,000 hours in 2012. M&IB have strong links with local communities in every area where we operate around the globe. In the UK employees spent nearly 6000 hours sharing their skills, developing employability and enterprise skills, and helping primary school children develop their numeracy and literacy skills. In the Netherlands we fundraised and volunteered to help support young carers, in North Asia we prepared and distributed meals to hundreds of disadvantaged families and helped rebuild a local village, in South East Asia we taught technology skills to young people through the Asian Women Welfare Association, and in India we set up libraries and computer centres to support the education of local children. Almost £5.9 million was invested in the community by M&IB globally, through time, cash and in-kind support. £1.7 million of this total was directly from employees, and the rest was invested by RBS M&IB. Around 50,000 children and young people were reached in 2012.

Building stronger communities is at the heart of Ulster Bank's community strategy. Through the Bank's long-standing charitable programmes we help fund and support a wide range of voluntary and community organisations. Our MoneySense Financial education lessons were delivered in 600 of the 1,000 secondary schools in Ireland and Northern Ireland in 2012, by more than 200 Ulster Bank volunteers. These volunteers also delivered MoneySense lessons to civil society organisations including the Boys Brigade, Regional Training Units and at Princes Trust events. The success of the MoneySense for Schools programme in Ireland was recognised at the Chambers Ireland Corporate Sustainability awards where we won the CSR Excellence in Community Award. MoneySense was also shortlisted for the Education Partner Award in Business in the Community's (BITC) Regional Recognition Awards in Northern Ireland, and also won Best Cause Charity and Community award at the Irish Sponsorship Awards in the Republic of Ireland. For full details of the MoneySense programme see page 20.

Coutts Charitable Trust and the Coutts Foundation supported UK charities to make a difference to a diverse range of causes throughout 2012. Coutts staff fundraised in locations around the world. For example the iconic Coutts window at 440 Strand in London provided a unique opportunity to serve as an auction site to raise funds for the London Air Ambulance service. Elsewhere, Coutts staff in Hong Kong and Singapore assisted charities through a variety of volunteering activities.

Coutts Philanthropy Advisory Service is offered to clients in all key markets (UK, Russia CIS, Switzerland, Asia, and the Middle East) to

help clients develop their philanthropy strategy and understand the causes they wish to support. Coutts doesn't charge for this service, maximising the amount that can be donated to the charity. We also inspire our clients to get involved in philanthropy and social investment through the Coutts Forums For Philanthropy.

The Coutts Million Pound Donor Report aims to capture and track trends in major giving, including the size of donations above a million pounds, the type of donors making gifts of this size and the causes that are benefiting. It is a valuable source of information for charities, as well as an opportunity to showcase their work through case studies contained in the report.

In our Corporate Banking Division we launched a skills-based volunteering scheme at the end of 2012 which offers our employees up to five working days (35 hours) each year to volunteer their skills in their local communities.

In June 2012, we were one of the first UK high street banks to respond to the Government's paper on Giving. We enabled our customers and other LINK debit card customers to donate to charity through our ATM network across the UK and Ireland. Ulster Bank is the only bank that offers this service to customers in Northern Ireland and the Republic of Ireland. People have the option of donating to the following charities in a quick and easy way: Age UK; Barnardo's; Cancer Research UK; Children In Need; Disaster Emergency Committee (when an appeal is announced); Oxfam; RNIB; RSPCA (NatWest only) and STV Appeal (RBS only). In 2012, £233,000 was donated.

Our UK Retail staff are allocated at least one day off to volunteer in their community each year, and in 2012 they volunteered 9,500 days. As well as supporting charities of their own choice, we also co-ordinate support for national charities such as Macmillan. At their annual coffee morning a total of over £300,000 was raised. In 2012 we were recognised externally for our contribution and awarded the Global Business Excellence Award for Outstanding Community Initiative for our support of Children in Need. Our people in Ulster Bank volunteered 950 days in the community and were recognised by Chambers Ireland when we won the 2012 Community Volunteering Award.

RBS is committed to supporting the charitable endeavours of its employees including financial, time and in kind contributions. The below table provides a breakdown of this information for 2012.

2012 Community Investment by type (£)	
Cash support	25,839,757
Total value of staff time	4,786,054
In-kind contributions	23,689,202
Management costs	2,943,161
Total	57,258,174

**CASE
STUDY**

Topaz Solar Farm Project



In November 2011 construction began on the Topaz Solar Farm project, located in San Luis Obispo County, California. It is currently the largest single solar project under construction in the world, and is expected to be completed by early 2015.

It's an important project for the local community, creating approximately 400 construction jobs and infusing \$417m into the local economy. Additionally, it's helping California meet its mandate to generate 33% of its power from renewable sources by 2020. The solar farm will generate enough renewable energy to power 160,000 homes for one year.

RBS were one of the underwriters for the bond issuance which financed the first stage of the project. It is first bond issuance for a renewable energy project to be rated by all three major rating agencies, demonstrating the size and profile of the deal.

To make sure our community investments are as effective as possible we focus our resources on a small number of substantial strategic programmes that focus on issues which are critical to our business and where we have a role and a responsibility to do so. Read more about our MoneySense programme on p20, our work with Youth Enterprise on p27 and our global campaign to improve the lives of girls around the world on p45.

Community sponsorship

In 2012 we have made a significant effort to ensure that our sponsorships provide greater value to communities and society as a whole.

Our RBS 6 Nations sponsorship has been renewed for a further four years, until 2017, with activation focussed on the growth and promotion of our RugbyForce programme. Our RugbyForce programme helped more than 600 local rugby clubs to engage with the local community and improve their facilities in 2012. NatWest CricketForce engaged more than 80,000 volunteers while helping circa 1,500 local cricket clubs in England and Wales. In Ireland, our RugbyForce programme is complemented by GAA Force which helps improve the clubs of Ireland's most popular sport, Gaelic football.

Through our partnership with tennis superstar Andy Murray, his brother Jamie and mother Judy, we were pleased to continue to drive awareness and participation in Set4Sport – a programme set up by the Murrays to encourage families with young children to play a series of simple games which contribute to good physical health and development of core sporting skills. Set4Sport was promoted through a series of community events and with the launch of a new mobile app which brings the games and ideas for effective play to parents' fingertips.

In the US, our long-standing sponsorship of the Philadelphia Phillies

and Citizens Bank Park has been the catalyst for our extremely successful 'Phans Feeding Families' programme which raises money and collects food to help feed the 900,000 people in the Delaware Valley region who are at risk of hunger.

Environment

We aim to be recognised as a leader among large global financial institutions in managing our own environmental impacts and developing financial services that support sustainable development, by 2015. In order to achieve this, the Group Sustainability Committee agreed to support work in the following key areas.

Greener mainstream banking services – delivering a low carbon economy

We are committed to supporting the transition to a sustainable low carbon economy through the provision of tailored finance to help our customers become more energy efficient or to generate their own energy through renewable technologies. A dedicated team was established within our Corporate Banking Division in 2012 to develop our Sustainable Energy proposition.

RBS has a market leading presence in the Structured Finance renewable energy generation market, with over 20 years experience. The independent industry periodical, Infrastructure Journal, has recognised RBS as the number one provider of structured finance to renewable energy projects in the UK for the second consecutive year in 2012. This covers large scale onshore wind, offshore wind, solar and biomass projects.

RBS also supports small scale renewable generation through our £50m Small Scale Renewable Energy Fund. To make the fund available to more customers we widened the scope from focusing on agricultural customers to include all SMEs.

RBS has up-skilled over 300 staff to deliver this fund by providing training on renewable energy, accredited by the Chartered Institute of Bankers. Through RBS Asset Finance business Lombard, we are also expanding our woodchip biomass proposition using the Renewable Heat Incentive.

To further support our corporate customers in reducing their environmental impacts RBS launched the Carbon Reduction Fund in 2012. This £200m fund is designed to help UK corporates finance their sustainable energy projects – both energy generation and energy efficiency. This Fund utilises the Government’s Funding for Lending Scheme and hence provides corporate customers with reduced cost funding. Alongside the launch of the fund, the Corporate Bank launched an energy efficiency initiative in order to raise awareness around energy efficiency in the market through its corporate customers and make finance available for the implementation of energy efficiency measures. This initiative is planned to be rolled out to our SME customers in 2013.

Our Asset Finance business, Lombard, was the first to market offering domestic solar installations which utilised the Feed in Tariffs. Lombard is now expanding their woodchip biomass proposition based on the Renewable Heat Incentive. In the US, the Energy Efficiency loan is designed to help borrowers make their homes more energy efficient, with no associated fees or closing costs.

In the US, RBS arranged and distributed \$2.8bn of debt capital to finance assets that directly support renewable energy. This included the Topaz Solar Farm project in California which was financed through a bond issuance. Once complete, it will be among the world’s largest solar farms.

Our financing of the energy sector

We undertake substantial analysis of our financing of the energy sector and produce a report on the topic, available on rbs.com/sustainable, each year. We need to understand climate related risks in our lending and our stakeholders have fed back that they find this transparent analysis helpful. Here are some key findings from this year’s report:

- o Across the whole of RBS, approximately 2.8% of our lending (measured by total credit risk assets) is committed to the power and oil and gas sectors combined.
- o Over half of all our structured finance deals to the energy sector in 2012 were to Wind Power projects.
- o Since 2008, our lending to the energy sector has dropped by more than half, based on committed exposures at the end of each year.
- o We provide general corporate finance to a small number of companies who have some oil sands extraction and production operations. For most of these clients this forms a relatively small part of their overall business, but for others it forms a more significant part of their operations and income.

Overall, 7.2% of our total oil and gas lending is to companies who derive more than 10% of their income from oil sands operations.

Energy Structured Financing

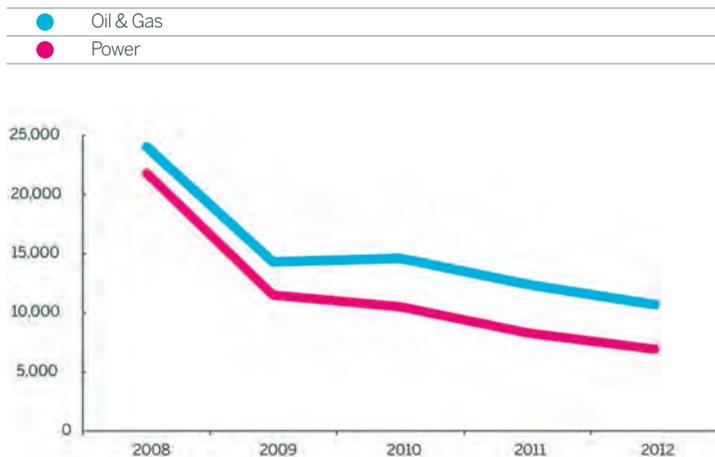
January-December 2012 (by amount lent)

● Wind	53%
● Combined Cycle Gas Turbine (CCGT)	15%
● Oil	13%
● Solar	13%
● Short Term Operating Reserve (STOR)	4%
● Fuel Cell	2%



Changes in lending to the Power and Oil & Gas sectors 2008-2012

Credit Risk Assets (£m)



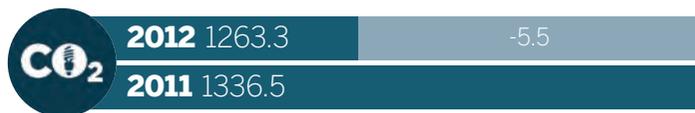
Environmentally efficient operations

2012 was the first full year of measuring progress against our targets to reduce our own environmental impacts. The graphics below show clearly that we have made a strong start towards achieving these challenging aims by the 2014 and 2020 target dates. We aim to cut £200m from our costs by 2020 through achieving these environmental goals.

Energy

In 2012 we achieved a 5.5% reduction in our energy use which puts us on track to achieve our 2014 target of -15%. This achievement is due to improvements in the efficiency of our data centres and monitoring of performance by our dedicated energy team. We continue to purchase electricity from renewable sources in the UK – 66% of our electricity was from renewable sources in 2012.

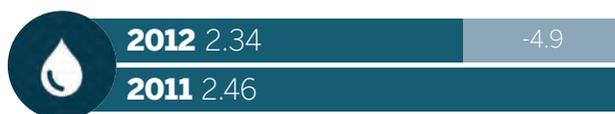
Target: 15% reduction in energy and associated CO₂ emissions (GWh) by 2015



Water

In 2012 we reduced water use by 4.9% which also puts us on track to achieve our 2014 target of -12%. This was achieved through a range of initiatives in our buildings like waterless urinals, tap flow restrictors and water displacement devices.

Target: 12% reduction in water use (mil m³) by 2015



Waste

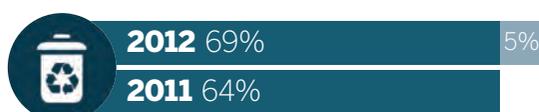
We are also on track with waste recycling, with 69% of waste recycled, reused or recovered. This improvement is due to our proactive work with our waste management contractors in the UK and the US. Waste segregation is a requirement of our contracts with them.

We have significantly improved our waste data collection processes during 2012 which has meant we are unable to compare 2012 against the 2011 baseline. We will therefore adjust our waste to landfill target to a 10% reduction over the next 2 years, using 2012 data as our new baseline. This will enable us to more accurately reflect performance. We also commit to increase the number of waste streams we report which will help us set new targets during 2014.

Target: 15% reduction in waste, disposed to landfill (tonnes) by 2015



Target: 70% of waste recycled, reused or recovered by 2015



Paper

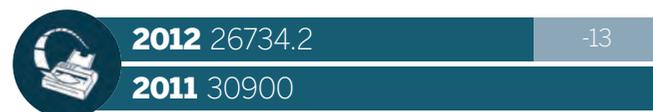
Our target is to reduce paper use by 50% by 2020 – we achieved a 13% reduction in 2012. This accomplishment was due to a full scale shift towards paperless services for customers, with electronic statements and welcome packs as the default service. We are also implementing intelligent marketing - with a shift towards digital marketing strategies – and technology enhancements including automatic double-sided printing. We are reducing waste by requiring staff to log in to each printer as they use it.

We continue to work towards our global target of ensuring all paper products we use hold a recognised source certificate or are made from at least 85% recycled material. 98% of the paper we use in the UK meets these requirements.

Target: All paper either certified or 85+% recycled by 2015



Target: 50% reduction in paper use (tonnes) by 2020

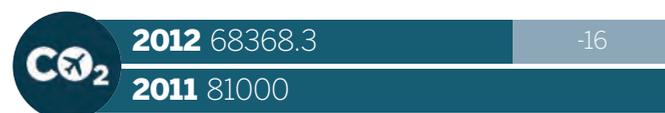


Travel

We reduced our business travel emissions by 16% in 2012. Air travel has reduced by 33% as has train travel. This is due in part to cost saving measures put in place by the company. In addition this reduction was facilitated by encouraging our people to use other means of communication to host meetings. A significant achievement for us in 2012 was improving our technology to enable an increased number of staff to access virtual meeting technology or work from anywhere on their own devices, including on the train.

We drove a cultural shift towards low-carbon alternatives to travel through our messaging and staff engagement, including configuring our online travel tool to highlight the benefits of rail travel.

Target: 50% reduction in CO₂ emissions from business travel (tonnes) by 2020



Our efforts to manage and reduce our environmental impacts have achieved external recognition. We were given two Gold awards by the Green Apple Awards, one for our partnership with WasteMatch (a social enterprise that helps organisations find ethical and cost effective solutions for their excess assets) and one for our transition from paper to electronic invoicing for all customers. The Banking and Finance Awards also gave us a Gold Award for our transition from paper to digital communications, while the RBS Group headquarters at Gogarburn, Edinburgh was shortlisted for the Environment Management 2012 VIBES Award.

The UK is the first country to introduce mandatory reporting of emissions, with the new rules coming into force from April 2013. We are reporting one year ahead of the UK Government mandate by including all the relevant emissions data in this report as well as our Group Annual Report and Accounts.

RBS environmental impacts table	2011	2012	Change (%)
Carbon Footprint (aligned to the Greenhouse Gas Protocol)			
Scope 1 CO ₂ e emissions (tonnes)	71100	66586	-6.3
Scope 2 CO ₂ e emissions (tonnes)	584400	497763	-14.8
Scope 3 CO ₂ e emissions (tonnes)	81000	68368.33	-16
Total Scope 1 and Scope 2 CO ₂ e emissions (tonnes)	655400	564349	-13.9
Emissions of ozone-depleting gases	Not measured	10190	NA
Energy			
Total energy consumption (GWh)	1336.5	1263.3	-5.5
Energy consumption per FTE (KWh per FTE)	8998	8906	-1.0
Percentage of electricity consumed from renewable sources (% of total electricity)	61	66	5
Water			
Water consumption (mil m ³)	2.46	2.34	-4.9
Water consumption per FTE (m ³)	16.6	16.5	-0.6
Waste			
Total waste generated (tonnes)	46000	39146	-14.9
Waste generated per FTE (kg)	309	276	-10.7
Total waste to landfill (tonnes)	13300	11399	-14.3
Waste to landfill per FTE (kg)	89	80	-9.7
Percentage of waste recycled	64	69	5
Paper			
Total paper used (tonnes)	30900	26734.20	-13
Paper used per FTE (kg)	208	188	-10
Travel			
Total CO ₂ e emissions from business travel	81000	68368.33	-16
Total CO ₂ e emissions from air travel (tonnes)	58263.11	39060.69	-33
Total CO ₂ e emissions from rail travel (tonnes)	4640.07	3117.11	-33
Total CO ₂ e emissions from road travel (tonnes)	17861.76	26190.53	32
Incidents			
Total number of environment incidents, fines and legal non-compliance	0	0	NA

Notes: The boundary used in reporting Global RBS environmental data is operational control aligned to the Greenhouse Gas Protocol. Scope 3 emissions currently only includes business travel emissions. For the 2013 report we aim to include emissions from other sources. Our 2012 environment data includes Q4 2011 and Q1, 2 and 3 of 2012. Our 2011 data is full year data.

2012 Priority

Progress made in 2012

Environmental Social and Ethical Risk (ESE) policies under consideration in 2012 are: chemicals, gambling, agriculture and power generation.

Two new sector policies have been developed and approved: (i) Power Generation (covering nuclear, thermal, renewable power and electricity distribution and transmission), and (ii) Gambling. Work has also begun on developing an Agriculture Sector ESE Policy.

We will implement the new ESE policy framework through training key stakeholders and increasing awareness among all relevant business divisions.

A full web-based training tool around existing ESE policies was launched in 2012, which is mandatory for all RBS Group employees working in divisions covered by the ESE policies.

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

We have made significant progress in improving our coverage of data capture, moving towards greater use of actual data and a reduction in our reliance on extrapolations.

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

We have run several employee engagement projects over the year on environment topics, particularly on our operational environment impacts such as our energy consumption and travel emissions, and also around how we support the low carbon economy. This has included awareness raising around air travel, reducing energy use in the office environment and encouraging employees to consider more efficient energy options in their own homes.

We will deliver the first phase of the environmental targets across the RBS Group.

We are already making significant progress against our 2014 targets with a reduction of 13% in paper use and an increase of 5% in waste recycling.

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

We have expanded the scope and availability of products that support the low carbon economy, and upskilled our staff so that they are able to recommend energy efficient products and services to customers.

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

Our Global Country Risk team has recently worked on incorporating reputational risk factors into its consideration of country risk using various indicators. This includes scoring on political risk, governance and corruption as well as human rights.

2013 Priorities

1. Develop further sector specific ESE policies and continue to monitor existing sector ESE policies and update when necessary, and continue to strengthen implementation and training.
2. Continue to support the transition to a lower carbon economy by providing finance which will aid our customers to reduce their environmental impacts – through both renewable energy generation and/or energy efficiency projects.
3. Build on and improve our Sustainable Sourcing strategy.
4. We will continue to drive improvement in our performance to meet our environment targets.

Employee engagement

Our people are uniting behind our purpose of serving our customers well. Our job is to make sure every aspect of what it means to work at RBS is geared towards helping them be successful in that. That kind of simplicity and focus is what drives employee engagement and what builds a really good company.

Elaine Arden
Group Human Resources Director

Engaged employees are a vital part of any successful company, and we recognise that our people are central to re-shaping our business and delivering on our strategic plan. We work to attract and retain the best people, promote flexibility and diversity in the workplace and undertake comprehensive activity to understand and respond to our employee's feedback. We also acknowledge the wider stakeholder interest in our employee offer, particularly in relation to pay, where we continue to make substantial reforms.

Remuneration

In the context of the Group's business strategy, our overall objective is to provide remuneration in a form and amount which will motivate, reward and retain our employees to deliver superior long-term business performance. Pay for performance is at the centre of our Remuneration Policy. We fully understand the economic and political environment in which we operate when it comes to remuneration, but it is also important that our people believe they will be rewarded fairly and competitively, based on the performance they deliver and the markets in which they operate.

Our Remuneration Policy is explicitly aligned with effective risk management and the long-term interests of the Group and its stakeholders.

We take account of feedback received from stakeholders, including our shareholders and our employees.

Stephen Hester took the decision to waive his performance award for 2011 following considerable attention from the media and

We **recognise**

that our people are central to re-shaping our business and delivering on our strategic plan



politicians. The decision to make performance awards to employees, including Stephen Hester, is aimed at serving the long term interests of our shareholders.

Last summer, Stephen Hester and the Ulster Bank Chief Executive, Jim Brown, made the decision to waive their performance awards for 2012 in the wake of the IT incident which impacted customers in the UK and Ireland.

The changing regulatory environment and continued scrutiny on remuneration in our industry means that how we manage employee remuneration remains an important focus for the RBS Group.

In 2012, we carried out a full review of our incentive schemes globally to ensure that they encourage responsible behaviours. RBS has a responsibility to ensure that reward mechanisms reflect our priority on customers and that reward plans are used to positively influence the development of effective customer metrics and do not undermine the focus on customer service. As an example, building on changes implemented over the past two years, we now have over 21,800 employees who are on a new style incentive scheme that is more balanced and includes a focus on retaining, growing and acquiring customer relationships based on great service and sales fully aligned to the customer's needs, and our strategy of becoming the UK's most helpful bank.

In terms of performance awards, it is important that we retain the ability to reduce (or 'clawback') awards either in part or completely if it is appropriate to do so. As a result, all performance awards are made with this clause attached. In 2011 we developed the Accountability Review to support this, driving a culture of individual and collective accountability for actions. This means we are able to clawback performance awards, and/or adjust current year performance awards, if for example, it transpires the performance on which an award was based was not as thought, or where a business suffers a material downturn or risk management failure.

During 2012 we made changes to some final salary pension plans for RBS Group employees based in the UK, increasing the normal pension age from 60 to 65. The change brings RBS Group in line with most other UK banks and other employers and ensures that the group can afford to maintain the final salary pension scheme in the context of changes in the economic climate and continued

improvements in life expectancy.

In our annual 2012 Pay Review we demonstrated restraint in how we managed fixed pay and as a result more than 10,000 of the Group's most senior employees did not receive a salary increase.

As we determine levels of pay within RBS, external benchmarks and levels of wage inflation are monitored in all the countries in which we operate. In the UK this review process includes assessing the London and National Living Wage benchmarks and since 2010 RBS has ensured that relevant salary ranges in the UK are above the London Living Wage. Any changes to salary ranges as a result of this process are effective in April each year when our Annual Pay Review has been completed.

During 2013 RBS will be increasing salary ranges used for permanent employees in the UK to ensure that the minimum level of our salary ranges are above the relevant benchmark i.e. the National or London Living Wage.

Supporting our people during restructuring

In 2012 we continued with the restructuring programme designed to restore RBS to standalone strength. This resulted in almost 7,000 of our people leaving through early retirement, voluntary or compulsory redundancy.

UK legislation, known as Retail Distribution Review (RDR), took effect in 2012 changing how financial institutions deliver advice to customers regarding retirement and investment planning. In line with the requirements of RDR, we reviewed and simplified our business, reducing the number of staff required to run the Advice business. RBS reduced the number of roles by 612 across the UK, whilst creating 351 new roles.

Whenever any employee is at risk of redundancy, we offer a range of support such as guidance on finding a role both internally and externally, as well practical support through 'Lifematters' – our employee assistance programme. We also provide services including advice lines and skills workshops. In the UK, 13% of those at risk of redundancy have found alternative roles in RBS through the redeployment process since the beginning of 2009.

Diversity and Inclusion

It is important that everyone in the Group feels valued and supported, and that we appreciate the unique perspective and skills that individual staff can bring to our business. In 2012 we continued to progress diversity initiatives across the main protected characteristics (Sexual Orientation, Disability, Race and Gender) and the strategy for Diversity & Inclusion (D&I) continues to sit with the Group Board and Group Executive Committee. We publish our Group Diversity Policy Standard online enabling current and prospective candidates to review the Diversity & Inclusion standards we commit to as a Group.

RBS is firmly committed to increasing the number of women in senior roles. We are the lead sponsor of 'An Inspirational Journey'

2012 Redundancy figures

Location	Compulsory Redundancy	Voluntary Redundancy	Early Retirement	Total
UK	1,824	1,780	899	4,503
Rest of world	1,696	502	24	2,222
Total	3,520	2,282	923	6,725

– a multi organisation initiative which brings together senior women from across the UK and promotes networking, up skilling and confidence building.

Percentage of male and female employees within RBS Group by employment level

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

2012 year end figures exclude Direct Line Group following the IPO.

The RBS 'Strategies for Success' personal development programme offers female employees at middle management level opportunities to achieve their potential and enhance their career. Over 750 female employees have participated in this workshop over the last two years which emphasises the importance of personal brand, networking skills and increased self awareness. Additional data relating to diversity is available at rbs.com/sustainable.

Our employee-led networks are two of the largest within the Banking industry. The RBS Focused Women's Network supports the development of all employees through events, mentoring and training. In 2012 its membership has grown from 5,000 to 6,000 across 31 locations worldwide, reflecting its growing popularity and stature in the organisation. This has helped to drive steady improvements in terms of gender balance in the workforce since the network was established in 2007. The success of the network was recognised recently when a case study was published by the Equalities Office under their Think, Act, Report initiative.

At board level, female representation has increased to 25% in 2012, meeting the commitment set out within Lord Davies report on 'Women in Boards'.

The Rainbow Network is our employee led network for Lesbian, Gay, Bisexual and Transgender (LGBT) staff. In the last two years membership has grown from approximately 500 to around 1,500 members across the RBS Group globally. The Rainbow Network provides ongoing support and advice to its members as well as to the Group, particularly regarding any intended changes to policy and practice, to ensure it is fully inclusive.

Recognition

In 2012, our collective progress and commitment to building a better organisation for our employees and our customers was recognised by leading external awards bodies when we achieved a number of benchmarks, including:

- Listed in Times Top 50 Employers for Women.
- Gold rating from Opportunity Now: aimed at transforming the workplace by ensuring inclusiveness for women (Top 10 placing).
- Silver rating from Race for Opportunity: committed to improving employment opportunities for ethnic minorities (Top 10 placing).
- Stonewall Top 100 Best LGB Employers (97th placing).
- 'Best Diversity Recruitment' at the National Graduate Recruitment Awards 2012.
- Top 10 Employer for Working Families, supporting the work-life balance needs of all employees.
- Workingmums.co.uk Top Employer Award for Employee Engagement.
- Timewise Jobs' Power Part Time Top 50 list.
- RBS placed 22nd in the Times Top 100 graduate employers.

Employee representation

We estimate that just over half of employees globally are represented by social partners in the RBS group through collective labour agreements we have with over 40 trade unions, the European Employee Council (EEC), works councils or employee representative bodies.

Ongoing communication and consultation with these bodies remain important to the Group and it is recognised that investing in these relationships is important to our business, our people and our results. For example, we successfully delivered a major change in employing entities across many countries, which involved engagement with our social partners globally. It was the first time a corporate structure change had been achieved on this scale with a global company using the Cross Border Merger Regulations and across many jurisdictions requiring extensive information sharing with our social partners.

We continue to have challenging and open discussions with some social partners regarding pay, changes to pensions, redundancy arrangements in addition to discussions that have taken place on the restructuring within the Group.

Listening to our people

We listen to our people in a variety of ways including focus groups, opinion surveys and conferences. Our people are increasingly using interactive discussion boards on a range of topics from improving customer experience to the Group's annual results.

Nearly 100,000 (81%) people shared their views in our annual employee opinion survey (Your Feedback). The results are set out in the table opposite.

Category	Diff vs. 2011	Diff vs. GFS Norm	% Favourable
Collaboration & Working Relationships	1	5	85
People Leadership	1	7	82
Innovation and Empowerment	1	3	78
Managing Change	1	3	51
Customer Focus	0	1	84
Risk Management	0	9	84
Job Satisfaction & Engagement	0	-4	77
Respect & Diversity	-1	2	82
Efficiency and Effectiveness	-1	6	70
Strategic Leadership	-1	1	67
Developing People	-1	3	64
Reward and Performance Management	-1	6	64
Image, Reputation and Communications	-2	-1	76

GFS: Towers Watson Global Financial Services Norm 2012 comprises 106 companies, including Barclays, Lloyds Banking Group, Santander, Goldman Sachs and UniCredit Group.

After two successive years of improvement, our employee opinion survey scores broadly stabilised. The Group maintains its positive position vs. the global financial services norm.

The results indicated our people have a stronger belief in the goals and objectives of RBS Group and a greater understanding of how they can help achieve them. There were encouraging signs that our people are feeling increasingly confident about the future. Despite this, the proportion of employees considering leaving the Group has marginally increased.

Each business uses the results to support ongoing engagement with their people and to focus on the issues that it raises.

Developing our People

RBS Group offers learning and development opportunities through a broad range of channels and across a wide range of subjects. Learning needs are met through formal training and development programmes as well as coaching and learning on-the-job. Every permanent employee has a personal development plan, agreed with their line manager, and formally reviewed twice a year. In our annual employee opinion survey, 81% of our employees agreed that they had received the training they needed to perform their role, 9% above the Global Financial Services norm.

A new development programme introduced in 2012 was the Helpful Banking accreditation programme, the result of collaboration between RBS and the Chartered Banker Institute. The programme includes an assessment in order to ensure high standards for our

retail staff, ultimately equipping them to deliver a better service to customers. In our Retail division, over 2,000 Retail Banking colleagues have been accredited in the Helpful Banking Programme. In **Corporate Banking** 4,327 colleagues have been accredited through the Chartered Banking Institute approved Relationship Manager Programme and will be re-accredited annually.

Developing the leaders of tomorrow is a continuing focus for our business. The Drive for Future Leaders Programme has provided training for over 1,500 new line managers in Retail Banking – driving improvements in customer satisfaction and employee performance.

A series of Leadership Engagement Workshops were also attended by the 300 of the most senior people in the bank throughout the year and examined plans for the next phase in RBS's recovery, in particular identifying and focussing on those areas that have a disproportionate impact on performance and culture.

To maintain sector specific knowledge there are mandatory compliance modules for all RBS Group employees, in 2012 over 2.2 million GPL modules were successfully completed. This includes modules on regulatory issues including anti-bribery and corruption, health and safety as well as fraud awareness training. In 2012, we also introduced enterprise wide eLearning catalogues which has made a suite of technical, behavioural and leadership development training available to all employees globally on demand.

In recognising the effectiveness of the Group's GPL portal, it won the "best use of e-learning to ensure compliance with external regulations or internal policies" at the National e-learning Awards in 2011.

Employability

We are committed to supporting employment and social mobility. We do this in several ways, including through our many entry points into working with RBS Group as well as our programmes which provide employability skills. In 2012 over 8,000 people joined the Group, we have been developing our apprenticeship strategy, and we are working closely with Job Centre Plus on initiatives designed to support unemployed people to return to the workplace.

Youth unemployment is a high profile issue in the UK. The RBS Group is a significant employer in the 18-24 age group, with 46% of our 8,000 new staff coming from this population in 2012. The majority of our new employees in this age bracket joined us at our entry-level positions, such as at our customer centres, where we provide comprehensive training and development. This was rated as the top reason for joining the RBS Group.

Furthermore, we offer approximately 300 paid internship/work experience placements to undergraduates annually with the aim of preparing them for the working world.

Wellbeing

We are committed to ensuring the appropriate resources and support are available to our employees to help maintain and improve wellbeing.

**CASE
STUDY**

Flexible working solutions



Providing flexible working arrangements to employees is crucial for attracting and retaining the best people. In 2012 we started to roll-out a flexible working programme called RBS Choice. RBS Choice is an integral part of the Group's journey to becoming a really good bank and supports the culture and behaviours that allow us to be totally focused on serving customers well.

This award winning programme is focused on providing flexible working options for all employees which can be altered as work-life circumstances change. A core principle of the initiative is that everyone has the right to request flexible working. This broadens the flexible working agenda from primarily focusing on parents' needs to be more inclusive.

In recognition of the diverse make-up of the RBS Group workforce, RBS Choice was created by a global cross-divisional team including colleagues from Property Portfolio Strategy, HR and Technology Services. The Group currently supports around 20,000 employees to work flexibly and measures impact through various metrics, including engagement scores. Research carried out in 2012 found that part-time female workers are the most engaged segment of our employee base.

RBS Choice also helped RBS Group secure a place in the top 10 Employers for Working Families 2012 list, achieving our aim of gaining recognition as an industry leader for individual and family-friendly flexible work practices. Founded by Working Families, a work-life balance charity, in partnership with the Institute for Employment Studies, the Top Employers for Working Families list recognises organisations across the UK that do the most to support the work-life balance needs of all their employees.

We provide Occupational Health services that are aligned with local legal requirements in every country in which we operate, and use external Occupational Health providers to ensure that employees with health conditions receive the specialist support they need. In addition to providing support for those employees who are ill, we have committed to adopting a proactive approach to helping our employees identify and manage health risk. In 2013, we will implement Health Risk Assessment across our priority areas.

One area of important focus is musculoskeletal health. This year we introduced Fast Track Physio in the UK, enabling employees to access treatment, advice and exercise without having to pay the excess on their Private Medical Insurance policy. The service is designed to encourage employees to seek appropriate medical help for injuries as well as facilitating return to work for those absent due to musculoskeletal problems. In the first three months of the service, launched in October 2012, 1,482 employees accessed physiotherapy support.

Management of stress and development of resilience are also key areas of focus for us. In 2012, stress absence accounted for 24% of all absence in the UK and Ireland and resulted in 145,355 days lost. The stress absence rate has remained constant at circa 24% in 2011 and 2012. However, we have seen a 10% increase in anxiety and depression of those using our Employee Assistance programme "Lifematters", indicating that more people are accessing the service for emotional support as they juggle the challenges of both their home and work lives.

In response to this issue, we have committed to support good practice in identifying and managing stress across the Group and proactively promoting the resources available to employees to help them to maintain mental wellbeing and to build resilience.

In 2012, Lifematters supported 7,712 of our employees globally. Uptake of counselling services was at 8.1%, which represents a 9% increase when compared to 2011. We also saw 23,032 unique logins to Lifematters Online in addition to telephone helpline use. Results

CASE
STUDY

RBS employees unite to support one campaign



In 2012, we launched our first ever global employee engagement campaign to bring staff from across the RBS Group to support a single charitable cause – helping girls in poverty.

Studies show that educating girls is the most effective way to improve not only their lives but the communities in which they live. 22,164 colleagues from across the RBS Group signed a pledge in support of the campaign, and RBS donated £20 for each signature received. Together we have raised £443,280 which will be used by the following charities to help girls living in poverty transform their lives and be part of creating a lasting change in the world around them:

- Barnardo's
- Oxfam
- Plan UK
- Room to Read
- World Association of Girl Guides and Girl Scouts

from follow up surveys indicate 84% of Lifematters service users reported an improved well-being following counselling.

For the first time, we participated in the Business in the Community (BiTC) Public Reporting on Employee Wellness and Engagement. RBS is a member of the BiTC Steering Group that developed the survey, and provides thought leadership and input into the BiTC's 'Workwell' model for human capital management. Results of the Public Reporting Survey will be published in April 2013.

Employee volunteering and giving

We have a well established employee volunteering and giving programme in RBS Group. As well as matching employee donations and fundraising, we also support volunteering during work time. In 2012 we gave over 40,000 employees time off to volunteer over 185,000 hours in their local communities.

Through our payroll giving scheme, we match our employee's charitable donations. In total £7.6m was donated to more than 4,000 charities across the globe in 2012. The fundraising efforts of employees are also supplemented through our Community Cashback scheme – in 2012 over 2,700 charities received £3.5 million. Our 'Community Stars' awards scheme recognises our employees who go the extra mile in terms of making a difference in their communities - whether through volunteering or fundraising.

RBS employees have a long history of supporting communities around the world in times of crisis and our people have raised millions

of pounds to help international relief programmes. In 2012 the RBS Group donated £150,000 to three disaster relief organisations; Save the Children, The British Red Cross and Oxfam to support projects that reduce the risk of disasters, while also focusing on women and their families.

In 2012, we refreshed our Community Affairs strategy to respond to key societal issues at global and local levels. This included the launch of two new programmes; a global employee engagement campaign and Community Partnerships.

Empowering local change

Community Partnerships provide financial and volunteer support to communities where RBS Group is a major employer. Community Partnership Boards were piloted in Edinburgh, Glasgow and Manchester providing RBS employees with the opportunity to make a difference in their own backyard. Any RBS employee can apply to their local board for funding of up to £15,000 for a cause that matters to them.

Location of Community Partnership Board	Number of donations 2012	Value of donations 2012 (£)
Manchester	22	122,118
Glasgow	19	90,600
Edinburgh	20	91,925
Total		304,643

2012 Priority	Progress made in 2012
<i>Manage change and associated people risk</i>	<p>In 2012 the Group carried out over 150 projects associated with restructuring and change activity, demonstrating the need to focus on managing change in a sustainable and engaging way. We deliver training to our managers to help them during these times and to ensure we provide the best support to their people.</p> <p>We provide resources and support to employees who are impacted by the changes to help them find new roles inside RBS and externally.</p> <p>Success in managing these changes is reflected in our Employee Opinion Survey (EOS) results which show that perceptions of employment security over the last year have improved along with our employees opinions on how change has been managed.</p>
<i>Listen, act and keep improving employee engagement</i>	<p>8 out of 10 colleagues took part in the annual EOS. Our results show that RBS maintains its positive position versus the global financial services norm and despite a challenging year for the bank our engagement scores remain stable. As well as our opinion survey in 2012 we increasingly used interactive discussion boards to listen and respond to what our people think about key topics.</p>
<i>Develop and reward our people</i>	<p>Our EOS results tell us that we continue to provide sector leading training to our people, with 81% of employees reporting that they feel they receive adequate training and development for their roles. 6000 of our front line employees completed accredited learning to support them in providing professional service to our customers. Nearly 5000 of our Executives and Senior Managers participated in our annual '360 feedback' process. Based on their colleague's feedback, the process provides them with detailed feedback on their strengths and development areas to support their development plans.</p> <p>There has been a decline in employee perception of reward at RBS although we still perform above the norm in this area.</p>
<i>Attract and retain the best people</i>	<p>We aim to take an inclusive approach to ensure we attract the best talent to RBS. We use a range of channels to drive recruitment including social media campaigns; job postings on career sites; pro-active networking as well as press advertising.</p> <p>Retention of high-performing employees is strong in our customer-facing UK and Ireland businesses. Within our Group functions and overseas businesses there is a higher level of turnover among high-performers.</p>
2013 Priorities	<ol style="list-style-type: none"> 1. We will build a capable and professional workforce through the provision of appropriate learning, development and accreditation opportunities. 2. We will be recognised as an inclusive employer, where people know what is expected of them and are valued for their contributions. 3. We will ensure that our leaders are strong and diverse, and build the right culture across the bank.

Safety and security

Protecting our people and customers is fundamental to the way we do business. We continuously assess threats to help us prevent and manage incidents, and we are committed to being a safe and secure bank.

Ron Teerlink
Chief Administration Officer

Our customers have told us that keeping their money and information secure is the single most important service a bank must perform. With that in mind, we review and strengthen our policies, systems and controls on an ongoing basis to promote the highest level of security.

The increasing pace and complexity of technology developments means we must constantly innovate security controls to prevent financial crime, whilst also enabling constant and secure access for our customers.

This year, there has been extensive scrutiny of the sector in relation to the effectiveness of controls put in place by banks to guard against fraud, money-laundering and corruption. 2012 saw a range of financial institutions receive regulatory fines, with others still under investigation. The RBS Group takes a zero tolerance approach to any form of corrupt activities and will act accordingly to bring perpetrators to justice.

Protecting the safety, health and wellbeing of our employees is also a vital part of being a good employer. Please refer to rbs.com/sustainable for more in-depth detail on our approach to safety, health and wellbeing.

Fraud prevention

According to a report issued in July 2012 by the UK's Fraud Prevention Service, identity theft is at an all time high and now accounts for two thirds of all frauds. Identity theft can take many forms, including the theft of credit card details and online log on credentials and the stealing or manufacturing of counterfeit identity documents for the purposes of obtaining loans.

We **must**

constantly innovate security controls to prevent financial crime, whilst also enabling constant and secure access for our customers



**CASE
STUDY**

Detect and protect



Protecting customers and the bank from increasingly sophisticated methods of fraud, our fraud operations team identify, investigate and prevent fraud activity whilst engaging with the law enforcement agencies across the UK and Ireland. Fraud operations consists of 800 people across the UK, and two of the team outline their roles and responsibilities here:

Murray Barbour,
Customer Service Manager,
Profiling, Edinburgh

We have four teams taking customer calls 24/7. Calls can range from reporting online fraud to somebody who's having trouble making a secure transaction. During the day, these are split between our three Edinburgh and two Manchester sites. To counter growing levels of fraud we recently launched a recruitment and training programme for around 65 full-time employees.

Jonathan Ditchfield,
Team Manager,
Manchester Centre

We deal with around 7,000 credit card fraud prevention cases a week and we protect our customers by being proactive. We monitor accounts and if anything suspicious occurs we can put customers in touch with the right team. Online and telephone banking is on our radar, and a whole new fraud tracing process has come about since the launch of the RBS Mobile Banking app.

We support our customers in protecting their identity and providing advice and guidance on our online pages. This includes providing our free downloadable security software 'Trusteer Rapport'. Our customers downloaded Trusteer Rapport over one million times during 2012 and nearly eight million times since 2008. We also operate a dedicated 'identity theft' telephony team. The Fraud Prevention, Technology Services and Information Security teams are continually working on ways to protect our customers from criminals who attempt to use malicious software (malware) to commit fraud.

Across the RBS Group, losses in relation to fraud decreased by 22% compared with 2011, despite the volume of cases increasing by 1%.

Malware is designed to manipulate the transactions of compromised customers and is becoming more complex and harder to detect. Organised Crime Groups (OCGs) who are targeting corporate as well as personal customers are increasingly using it.

In 2012 we reported malware attacks on our internet banking platform to the Financial Services Authority (FSA) and outlined to the

FSA our continued investment in controls. We continue to invest in additional controls and tools to detect malicious software to protect our customers and the Group from financial loss. Over the last year the industry as a whole witnessed an increase in this type of attack.

As the product and service offerings for mobile banking evolve, and they become more widely used, the likelihood these channels will be targeted by fraudsters may increase. We continually work with our internal and external partners so that security underpins and enables secure product design and development.

Anti-Money Laundering (AML)

Compliance with Anti-Money Laundering (AML) regulations and controls is an essential part of what we do. We have an anti-money laundering programme which consists of a policy framework, related procedures and internal systems and controls which is being enhanced through a comprehensive change programme of work. We endeavour to be fully compliant with national and international laws concerning the prevention of money laundering and terrorism

financing. Our AML statement and supporting policies are available on rbs.com.

We constantly monitor our exposure to AML risks in our banking activities and have customer identification and verification processes in place. We are in the process of implementing more robust risk rating models for both our customers and our businesses that will allow us to manage our AML risks more effectively. We screen all of our customers on a daily basis against both Sanctions and Politically Exposed Persons lists to ensure that we manage our obligations and risks in these areas.

As part of knowing our customers we have a process in place for undertaking both periodic and event driven reviews to update customer information and keep it fresh so that we can manage the relationship more effectively. We have transaction monitoring capability in place across the bank that provides us with the ability to monitor tens of millions of transactions on a daily basis. This capability is being enhanced significantly in 2013 as we look to bring all of our businesses onto a common platform.

RBS also has the ability to track millions of payments on a daily basis and to monitor activity with high risk and sanctioned countries. This is supported by internal reporting which raises potential risks and issues that have been identified.

We have a well established training infrastructure to promote effective compliance behaviours. This includes a training module for all employees of the Group on the risks of AML and how to identify and report suspicious behaviour. This awareness training was completed by over 140,000 employees (this includes part time and contract employees) – equating to over 98% of the target audience in 2012. Over 60,000 staff have completed 72,000 Targeted Training courses in 2012 with the feedback from staff on the quality of this learning being very well received and achieving the more detailed and targeted learning hoped for.

However, whilst we have a comprehensive AML programme, there have been incidents where we have not met some core regulatory standards and expectations of the regulators. In such cases we work with regulators to investigate and remedy any deficiencies. In March 2012, the Financial Services Authority (FSA) fined one of our businesses, Coutts & Co, £8.75m for failing to take reasonable care to establish and maintain effective AML systems and controls in relation to high risk customers, including Politically Exposed Persons (PEPs). However, although weaknesses were identified, following the investigation, it was found that no money laundering had taken place. In response we have taken steps to improve our systems and controls.

During 2012, we designed and tested a new 'AML Country Risk Rating Model' to provide a more accurate approach to calculating country risk ratings with regard to AML. This new system pulls together key up to date country information from around 200 independent sources on: the levels of crime and corruption, economic and political

stability, effectiveness and enforcement of laws and regulation. A risk rating is then calculated. This has proved to be an incredibly useful tool for the business.

Anti Bribery and Corruption (ABC)

There has been extensive scrutiny of the sector in relation to ABC controls owing to the ongoing investigations and imposition of regulatory fines against financial institutions throughout 2012. The RBS Group takes a zero tolerance approach to any form of corrupt activities and has not been subject to any fines or legal action in 2012.

We have continued to enhance our ABC control framework throughout 2012. Corruption remains a fundamental issue which we need to continually address in order to manage the risks that come with operating a company of our size.

The Group Anti-Bribery and Corruption (ABC) Policy was revised during 2012 to fully reflect current regulatory guidance and to more clearly articulate the risks and requisite controls required in our business. It is underpinned by a series of mandatory minimum standards describing the required procedures and controls for controlling the bribery risk that can arise with associated parties, gifts and hospitality, and charitable donations and sponsorships. The ABC Group Policy Learning module, mandatory for all employees, was also significantly enhanced in 2012. The new module gives employees a better understanding of the processes and controls required to properly manage current bribery risks and advises them of the zero tolerance expectations on them that RBS group has.

Information security

Protecting customer, employee and Group information is a fundamental responsibility of the Group. To protect our systems and information, and mitigate against new and emerging threats, the Group has implemented layers of technical, physical and system access controls. Employee awareness training is delivered annually to all staff so employees are aware of our security requirements and their own responsibilities.

The RBS Group continues to undergo major change in terms of our size and scale. Our security teams work closely with colleagues to define Information Security requirements and to embed them during the design and delivery phase of our change programmes. This involves protecting customer data and securing the channels that customers use, such as mobile technology.

The Information Security threat landscape is complex and constantly changing. Our security teams work with government, regulators, law enforcement and peer organisations to understand current threats and develop any responses that are required to protect customer and Group information.

Cyber security

The financial services industry faces a serious and increasing threat of cyber attack. The recent trend of "Hacktivism", where online protest groups carry out cyber attacks in support of their ideological

aims, continues to increase. Hacktivists seek to illegally damage or breach computer networks, or make them unavailable, to generate publicity in order to promote their cause. We constantly review the changing threat landscape and implement appropriate controls to maintain the availability and security of our online services, protecting our customers and the Group from cyber attacks.

Perhaps the most widely reported cyber security related threat to the financial sector in 2012 was a series of denial of service attacks against US based financial institutions. These attacks, which can prevent customers from accessing online services for hours or days at a time, have increased significantly against financial institutions over the past six months. They are favoured by hacktivists seeking to damage the reputation of the targeted company, and employed by financially motivated criminal groups to mask fraud attempts or for extortion purposes. RBS Group, in common with the majority of major financial institutions, experienced a small number of these attacks during 2012. In response, we have introduced further technical measures on our online channels and have carried out a review of our denial of service mitigation procedures and processes. Our aim is to protect the Group and our customers by deterring and preventing cyber attacks whenever possible and improving our recovery time when prevention is not possible.

Physical Security

The safety of our staff and customers is paramount and we are constantly monitoring and assessing our security measures. All RBS Group premises maintain a minimum standard of security. Our security advisors regularly visit our branches and buildings, assess the security measures in place against the current environment, identify gaps and propose mitigating action where necessary. These visits also provide an opportunity for RBS security advisors to engage with employees about their security concerns and those of our customers.

RBS buildings continue to be at risk of being a target for protest activity in the UK. However, the number of reported protests affecting RBS and other financial institutions decreased in 2012 compared to 2011. We continually monitor the threat landscape, regularly reviewing our security environment and engaging with law enforcement and intelligence agencies where the Group may be directly impacted. Our security teams work to heighten awareness amongst our employees of possible protests and provide support and advice when these instances occur.

Location	Number of robberies 2012	% change from 2011	% losses compared with 2011
UK retail branches	23	+ 75%	- 41%
Ulster Bank ROI & NI	5	- 18%	+ 78%
US retail branches	96	+ 25%	+ 25%

There has been a significant increase in the number of robberies in 2012 for RBS in the UK and across the financial industry. Despite this, the total value of losses has reduced compared to 2011. This is the result of an increasing number of incidents being “counter demand”, generally resulting in lower losses, and previous investment in physical security measures, which have been effective in helping control our risk exposure to high value cash robberies.

In Ulster Bank the incidence of robbery is down on last year and although the value of losses has increased significantly on 2011, overall the value of losses remains low. In the US, the incidence and monetary value of robberies has increased from 2011, in line with the financial industry. We believe this is attributable to the current economic climate and high levels of unemployment across the US.

Health and safety

Our goal is to minimise work related injuries and incidence of ill health among our staff members. The majority of our employees work in lower risk environments and are not exposed to significant occupational health and safety hazards. Nevertheless, we have a programme of initiatives in place to ensure that we continually improve our health and safety performance. In 2012, the total number of incidents (accidents, occupational diseases, dangerous occurrences, fires, near misses and natural cause incidents) rose by 6.98% compared with 2011¹. This increase is due to our cash and coin business reverting to recording ‘near misses’ which had previously not been recorded.

¹ RBS Insurance (DirectLine Group) incident data was no longer included in Group data from 1 October 2012.

Health and safety incidents are reported to the relevant authorities as required by legislation. In 2012 we saw a 57% decrease in the number of reportable major injuries.

In the UK, changes in regulation that came into effect on 6 April 2012 mean that employers are now required to report over 7 day injuries and are no longer required to report over 3 day injuries. The total number of reportable injuries are therefore not comparable with those reported in previous years. RBS continues to record the number of three day injuries, however, and the figures show that the number of these injuries has decreased from 89 to 84, representing a reduction of 6%.

In 2012 the number of accidents on RBS premises that resulted in members of the public attending hospital increased from 14 to 19. The majority of these accidents, and reportable incidents involving employees, were due to slips, trips and falls. We have preventative measures in place to reduce these types of injuries for our staff. All employees are required to complete mandatory online health and safety training which includes a module of slips, trips and falls.

In 2012 we created an integrated Health and Safety Team, bringing together expertise from across the Group divisions into one combined team to improve efficiency. We also made improvements to the assessment and management of contractors, including greater

visibility of health and safety performance. The health and safety considerations for all contractor activities are now embedded in the Group's Contractor Management Reference Handbook.

We continued to develop processes used to identify and control the potential health and safety risks of our employees and third parties. For example, in West Register, the part of the business that manages distressed assets, we continued to roll out improved health and safety

protocols in 2012, including health and safety training for all levels of management.

In 2012, we achieved OHSAS 18001 (an internationally recognised safety management standard) accreditation in 3 sites in India for Property Services. In addition, we achieved OHSAS 18001 re-accreditation in our UK cash and coin centres.

All incidents	2011	2012	% change
All incidents	1,921	2,055	+6.98%
Reportable incidents (UK and Ireland) involving employees	2011	2012	% change
Major injuries	28	12	-57.14%
Over 3-day injuries*	89	31	-6%
Over 3-day injuries (recorded)		53	
Over 7-day injuries**	NA	33	NA
RIDDOR*** reportable injuries to employees	117	76	-57.14%
Injury rate involving employees (based on reportable Major Injuries and reportable / recorded Over 3-day injuries)	133.2	116.8	-12.29%
Occupational diseases	13	3	-76.92%
Members of the public taken to hospital	14	19	+35.71

* Over three day injuries were reportable under RIDDOR until 6 April 2012.

** Over 7-day injuries reportable were under RIDDOR from 6 April 2012.

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

2012 Priority	Progress made in 2012
<p><i>Prepare for and manage the business ahead of, during and after the London 2012 Olympics, where the threat of terrorism is expected to rise along with public protest and the risk of crime</i></p>	<p>The London Olympic and Paralympic Games took place without any major incidents for the Group. Security planning took place over 18 months and included establishing a dedicated RBS Olympics security planning team, implementing an exercise programme to test the Group's security capability and working closely with stakeholders across the financial industry and law enforcement.</p> <p>An RBS employee has been honoured with a Commendation from the Commissioner of the Metropolitan Police Service for their work on security planning at the time of the 2012 London Olympics.</p>
<p><i>Extend online security software to mobile banking applications in the UK and US</i></p>	<p>Various enhancements were made to mobile banking enrolment to improve the security process, including the introduction of partial pin and password, text and verification checks and implementation of Trusteer Pinpoint - Malware Detection - that accurately detects malware infected devices and determines both the nature of the threat and the risk it represents.</p>
<p><i>Upgrade and enhance our existing debit card profiling technology in order to tackle fraud</i></p>	<p>In 2012 we upgraded our debit card profiling technology (ie the analysis of every transaction to assess the potential fraud risk) and are continuing to invest in further upgrades for the future.</p>
<p><i>Develop security awareness training for our people as well as business and personal customers</i></p>	<p>Corporate Security Services (CSS) delivered extensive security awareness training and support to our employees as well as business and personal customers throughout 2012..</p> <p>The team delivered high profile, global campaigns to all Group employees on Physical Security, Information Security, Records Management & Fraud Prevention. A variety of communications channels were used to engage employees, such as online learning, comments boards, newsletters, security clinics, team presentations, competitions and audios.</p> <p>Externally, CSS played a key role in designing a cross industry fraud awareness campaign in the UK, named 'The Devils in Your Details.' In Scotland, RBS Group are working in partnership with police, local authorities and trading standards to develop a pilot programme with the aim of protecting vulnerable adults from fraud attacks.</p>
<p><i>Work with Divisions to maintain security during significant divestment and change programmes e.g. the floating of the Direct Line Insurance business and the sale of branches known as Project Rainbow (NatWest in Scotland and RBS in England)</i></p>	<p>Our Information Security and Records Management teams worked to secure customer data during the Direct Line Group separation and flotation this year.</p> <p>Since the planned divestment of branches to Santander was withdrawn we have worked to secure customer information and maintain access to services to support information reverting back to RBS systems.</p>

<p>2013 Priorities</p>	<ol style="list-style-type: none"> 1. Develop a global authentication strategy (ie verification of customer identity) for the Group. This new strategy will seek to make the customer experience consistent, simple and safe. At the same time it will better protect our customers and the Group from criminals attempting to undertake fraudulent activity. 2. Implement further technical solutions to protect the Group's customers from data loss, security threats and the associated fraud losses. 3. Find new ways to support the small and medium enterprise (SME) sector in improving security awareness.
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Reporting principles

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

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

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

Inclusivity

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

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

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

Materiality

Determining what issues are important to RBS and our stakeholders

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

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

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

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 2012 priorities is covered in the preceding review of our five sustainability themes.

Independent assurance statement

Independent assurance statement by Deloitte LLP ('Deloitte') to The Royal Bank of Scotland Group plc ('RBS') on the 2012 Sustainability Report ('Sustainability Report') for the year ended 31 December 2012.

What we looked at: scope of work

RBS has engaged us to give assurance on:

AA1000 APS assurance: managing and reporting sustainability performance – RBS's description on application of AA1000 of using the principles of:

- Inclusivity – how they have identified and engaged with stakeholders to gain a full understanding of issues;
- Materiality – how they have assessed the relative importance of each issue; and
- Responsiveness – how they have responded to stakeholder issues and how this is reflected in the Sustainability Report as set out in the AccountAbility 1000 Assurance Standard (AA1000 AS 2008)

ISAE 3000 assurance: selected sustainability performance data – for the year ended 31 December 2012. The assured data appear in the 'Sustainability Report 2012' (the 'Report').

Our conclusions

1. Based on the scope of our work and the assurance procedures we performed conducting Type 1 limited assurance using the AA1000 Assurance Standard 2008 ('AA1000AS'), we conclude that RBS have applied processes and procedures, as described on page 53, that adhere with the principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008 ('AA1000APS'); and
2. Based on the scope of our work and the assurance procedures we performed using the ISAE3000 assurance standard we conclude that nothing has come to our attention that causes us to believe that the selected key performance data are in all material aspects not fairly stated.

Our observations and recommendations regarding the application of the AA1000 APS

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

Inclusivity:

- The Sustainability Report this year includes a clearer rationale for reporting on material issues, as demonstrated by the materiality matrix and issues prioritisation on pages 10 and 11, with the Group Sustainability team establishing processes to identify and prioritise material issues. This was supported by a balanced appraisal of performance strengths and shortcomings. To this extent, sustainability reporting has continued to mature.
- Engagement with stakeholders has taken place at both a Group and Divisional level. This is an indication of how engagement has become embedded throughout the Group as standard practice. However, Divisional engagement was not always reported up to the Group Sustainability team in a systematic format on a regular basis which had an impact on Group level responses to materiality issues. This could be overcome by ensuring that each Division or region formally maps engagement with key stakeholder groups and the outcomes of this engagement to material sustainability issues to ensure that engagement practices systematically feed into Group level decision-making.

Materiality:

- The Sustainability Report addresses RBS's identified material issues and report content has been developed in consultation with key business Divisions to reflect the range of materiality issues that impact the Group. In the future it is recommended that the Group Sustainability team further involve the business Divisions and / or issue owners in the identification and prioritisation process to ensure that the key materiality issues are formally and regularly captured at the Group level. This will ensure that material impacts or issues specific to individual Divisions are identified and incorporated into Group level assessments and decision making processes.
- Sustainability governance at a regional level should continue to develop where structures and systems are currently less advanced and strategy should be developed and

implemented in a way which reflects regional sensitivities and market norms. The Group Sustainability team should continue to strengthen the relationship between regional counterparts and regional capacity should be examined to ensure that local resourcing needs are adequately addressed. This local management of sustainability issues will enable regional embedding of sustainability into practices and behaviours.

Responsiveness:

- Extensive stakeholder engagement was conducted with key internal and external stakeholders throughout the year, collaborations which has added value and a greater diversity to ideas and solutions. In future reports we recommend further disclosure on how stakeholder engagement impacts RBS's response to material sustainability issues. In particular, the work undertaken by the Group Sustainability Committee.
- RBS had continued to be responsive in a rapidly changing external environment, for example the Sustainability Report provides a CEO question and answer section and by increasing disclosure on key issues such as tax, fraud and corruption. In future reporting, RBS should continue to transparently discuss issues and events that have had an impact on the culture of UK banking over the reporting period. Such disclosure will continue to strengthen RBS's commitment to accountability and their wider impact in the UK marketplace.
- Annual priorities and progress were set out for each of RBS's five sustainability themes. In future we recommend that priorities are aligned to each of the identified sustainability issues. The priorities, where possible, should include metrics that demonstrate performance against the material issue on an annual basis.

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

Scope of our work and the assurance standards we used

RBS's Group Sustainability team engaged us to:

1. Provide Type 1 limited assurance in accordance with the AA1000 Assurance Standard 2008 ('AA1000AS'):

- Inclusivity – how they have identified and engaged with stakeholders to gain a full understanding of issues;
- Materiality – how they have assessed the relative importance of each issue; and
- Responsiveness – how they have responded to stakeholder issues and how this is reflected in the Sustainability Report.

2. Provide limited assurance in accordance with the ISAE3000 Assurance Standard on the following selected key performance data:

- Scope 1 CO₂e emissions (tonnes) (Global) see page 38
- Scope 2 CO₂e emissions (tonnes) (Global) see page 38
- Total energy consumption (GWh) (Global) see page 38
- Renewable electricity use (Global) see page 38
- % reduction in fraud losses in 2012 against a corresponding % increase in fraud cases, compared to 2012 (Global) see page 48
- Number of Start-up business accounts opened in 2012 (UK Business and Commercial) see page 24
- Number of stressed relationships returned to a mainstream banking relationship (UK Business and Commercial) see page 24
- Number of SME businesses that have been lent money through RBS participation in government FLS scheme (UK Business and Commercial) see page 24
- Number of project finance deals per Equator Principal Category and industry sector (Global) see page 33
- Number of voluntary and compulsory redundancies (Global) see page 41
- Employee diversity gender, age and ethnic profile (Global, excluding ethnic profile which is UK only) see page 42. Further data available at rbs.com/sustainable.
- Number of absences in 2012 due to stress (UK and Ireland) see page 44
- Community spend by type including cash donations, gifts in kind, management costs and employee time in £ (Global) see page 34
- Amount lent to First Time Buyers in the Republic of Ireland (€) and Northern Ireland (£) (Ulster Bank) see page 18
- Number of mortgages provided to FTBs in 2012 (UK Retail) see page 18
- Volume of Employee volunteering days (UK Retail) see page 34

Our key assurance procedures (AA1000 APS)

We carried out Type 1 limited (i.e. moderate) assurance in accordance with AA1000AS. A Type 1 engagement requires us to report on the nature and extent of adherence to AA1000 APS. To achieve moderate-level assurance we have used the criteria in AA1000AS to evaluate adherence

to AA1000APS in combination with our approach to professional, independent assurance. To form our conclusions, we undertook the following procedures:

- Analysed and tested on a non-statistical sample basis the processes related to stakeholder identification and engagement, including review of a sample of engagements and the outcomes of engagement;
- Reviewed the process that RBS used to identify and determine material issues to be included within the Sustainability Report. This included a review of external media coverage and peer reporting on sustainability in 2012 to corroborate issues identified by RBS;
- Interviewed a selection of RBS executives and senior management who have operational responsibility for sustainability issues, including the RBS Group Sustainability team to understand the governance structures used for managing sustainability, engagement with stakeholders on sustainability issues, as well as implementation of sustainability related policies and initiatives in 2012 and the monitoring of these activities;
- Reviewed information and reasoning about the reports assertions regarding sustainability performance in 2012; and
- Reviewed the content of the Sustainability Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

Our key assurance procedures (ISAE3000)

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

- Understanding, analysing and testing on a non-statistical sample basis the collation, validation and reporting of the performance data by RBS in accordance with their definitions and basis for calculation which can be found at www.rbs.com/sustainable.

Our independence and competencies in providing assurance to RBS

- We complied with Deloitte's independence policies, in their role as independent auditors, which address and, in certain cases, exceed the requirements of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants and in particular preclude us from taking financial, commercial, governance and ownership positions which might affect, or be perceived to affect, our independence and impartiality

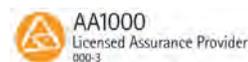
and from any involvement in the preparation of the report. We have confirmed to RBS that we have maintained our independence and objectivity throughout the year and in particular that there were no events or prohibited services provided which could impair our independence and objectivity.

- Our team consisted of a combination of Chartered Accountants with professional assurance qualifications and professionals with a combination of environmental, sustainability and stakeholder engagement experience, including many years experience in providing sustainability report assurance.

Roles and responsibilities

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

Deloitte LLP
London
10 April 2013



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Watch our YouTube channel: [YouTube.com/RBSGroup](https://www.youtube.com/RBSGroup)

Find us on Facebook: [The Royal Bank of Scotland Group](https://www.facebook.com/TheRoyalBankofScotlandGroup)

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



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