

# Changing the way we do business

Sustainability Report 2009



“The RBS of tomorrow will be **fundamentally different** – in risk, in focus on customers, and in accountability.”

**Philip Hampton**  
Chairman, RBS Group

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 Why go online?  
[rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)

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

Sustainability is about **understanding the issues** that matter most to our stakeholders and **doing our business with integrity and openness.**

## Our five sustainability themes

We focus on five strategic sustainability themes which we know, from regular consultation, to be of continuing interest to our stakeholders.

### Fair banking

This section outlines some of the work undertaken within our retail businesses in 2009 for 'Responsible lending practices and products', 'Customer service', 'Access to financial services', 'Financial education', and a number of key areas of focus for 2010.



### Supporting enterprise

Enterprise is key to the economies of the countries in which we operate. We highlight how we help businesses get started, support those which get into difficulty and how we invest in social enterprise.



### Employee engagement

2009 was an unprecedented and difficult year for employees. We highlight how we are supporting our people through these challenging times and our work to ensure employee wellbeing.



### Safety and security

The security of our customers' money and safety of our people in the workplace remains an important priority. We highlight what we do to prevent fraud whilst looking after the health and safety of our employees.



### Global citizenship

Global citizenship covers the responsibility we have for our broader economic, social and environmental impacts.



## Chairman's statement

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Philip Hampton, Group Chairman



🎧 Watch or listen to Philip Hampton talking about sustainability at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)

I am pleased to introduce our seventh annual Sustainability Report. The Report is primarily about our work in 2009 on a number of important 'social responsibility' themes which we know from regular consultation to be of continuing interest to our stakeholders: Fair Banking, Supporting Enterprise, Safety and Security, Employee Engagement and Global Citizenship. However, given everything that has happened at RBS, and the fundamental changes that we are making to our business, this Report also sets out what we are doing to ensure that we are once again financially sustainable as a company, the essential platform for all that we do.

2009 was another difficult year for the global economy and for RBS. Our CEO Stephen Hester provides an overview of our challenging, but improving, financial position in the next section of this Report. We have begun the process of restoring the company to sustainable profitability and good health. In this introduction, I outline the positive changes we have made to the governance and culture at RBS, highlight some of the work that we have been doing throughout the period of the financial crisis, and look to the future.

### Governance and disclosure

Accountability for the past has been allocated and accepted. We have made comprehensive changes to the Board and Executive Management. The Board is now smaller and more focused and combines the skills and experience we need to rebuild the company. We have strengthened the Board with four new Non-executive Directors: Sandy Crombie, Phillip Scott, Penny Hughes and Brendan Nelson.

We are introducing new management disciplines to ensure that the RBS of tomorrow will be fundamentally different – in risk, in focus on customers, and in accountability. Our new Board Risk Committee will analyse and advise on the risk profile of the company, and is a good example of these changes. Establishing a focused Risk Committee was one of the recommendations of the Walker Report and we expect to implement all of the recommendations on time. We have also strengthened our oversight of Sustainability, with a new Board Committee in place under the Chairmanship of Sandy Crombie, our Senior Independent Director.

We know that we have to rebuild confidence and trust with investors and other stakeholders. We believe that the best way to do this is to combine clear performance targets with improved disclosure. In other words, 'don't just trust us, track us'. In this spirit, this Report has been independently assured to the AA1000 assurance standard.

### Remuneration

Throughout 2009, one of the biggest challenges we faced was balancing the public and political concerns on bankers' pay with the long-term interests of all our shareholders. We share the public's concerns and we understand that it is impossible to defend some of the historic practices of the industry. Reform is needed. We said we would

lead that reform and I believe we have: our policies on claw-back and deferral of bonuses, announced in February 2009, went further than any other bank in the world and further than the subsequent G20 proposals. Throughout, our approach as a Board has been guided by a policy to pay the minimum necessary to retain and motivate staff who are critical to the recovery of RBS.

### Customers

We are committed to ensuring that the future RBS is relentlessly customer focused in everything that we do. Our customers have stayed with us. Customer numbers across the Group's core customer franchises remained steady or increased during 2009. In the UK, for example, we increased the number of savings accounts by over 1 million, opened 1.1 million current accounts, and added 80,000 mortgage accounts in the year. This indicates the underlying strength that exists in the core businesses at RBS, and demonstrates that our employees' commitment to customer service is reaping rewards. I have always said that if we continue to deliver for our customers on a day by day basis RBS will restore its reputation sooner than some commentators believe.

We have been at the forefront of measures taken to minimise mortgage repossessions and to guarantee overdraft prices for small businesses.

Finally, we are satisfied that we are fulfilling both the letter and the spirit of our lending commitments for 2009, which were to make an additional £9 billion available to the mortgage market and an additional £16 billion to creditworthy businesses. On the former, we have beaten our target. On the latter, we have achieved £60 billion of gross new lending to businesses, including £39 billion to SMEs, but, in the current economic environment, many customers have been strongly focused on reducing their borrowings. Moreover, the withdrawal of foreign lenders has been less pronounced than anticipated, there has been a sharp increase in capital market issuance and demand has been weak in the teeth of the recession. As a result we have not achieved our £16 billion net lending target, but this is rightly a question of customer demand not credit supply. We are ready, willing and able to lend, and approved around 85% of loan applications during 2009, a rate consistent with previous years.

### People

Our people are key to our future success. We needed to make comprehensive changes at the top and throughout our organisation, and we have implemented these changes decisively. The challenges from efficiency measures and business reduction are manifest, and the sheer magnitude of institutional change has, amongst other things, all taken a toll on our people, as we know from our annual employee opinion survey. However, it is also clear that the resilience of our people has been remarkable.

We are only one year into a three-year cost reduction programme. More role reductions will follow, but where possible, we will always seek to lessen the impact of these announcements via redeployment and natural attrition. So far, of those people who have left the Group via redundancy, on average only 1 in 4 has been on a compulsory basis. We have redeployed 1,600 in the UK alone.

Despite all of these challenges, our people new and old are doing their jobs, and doing them well. I am particularly appreciative of this support.

### The future

We are acutely aware of our responsibility to repay the support we've received by ensuring that we return to sustainable profitability, enabling the UK taxpayer to profit from the investment in RBS.

But for the new leadership team at RBS, our time has not just been about fixing legacy issues or responding to the recession. I have been impressed by the many areas of business where RBS has been setting the standard, both before, during and after the credit crisis. There is much to take pride in. I am proud of our long-running programme of work on financial education for example, and the support that we were able to provide to the areas of the UK affected by severe flooding in 2009. I am proud of our Microfinance programme in India, and our environmentally friendly GreenSense bank account in the US. Our broad range of community investment activities conducted across our businesses invested over £63 million in total in the communities we serve. We continue to support and promote important responsible initiatives such as the UN Global Compact, recently taking over the Chairmanship of the UK Network of the Global Compact.

When delivered responsibly and efficiently, financial services provide important economic and social benefits. Credit allows tenants to become homeowners, and supports the growth of enterprise and the creation of jobs. The payment systems that banks collectively provide are the essential infrastructure of the modern economy. Insurance allows people to make a small regular payment to protect against setbacks. Investment banking services enable businesses to raise capital for expansion, support international trade and the exchange of currencies, and help a surprisingly broad range of customers to protect against risks from volatile prices – householders with fixed rate mortgages and UK farmers receiving subsidy payments in euros to name but two.

The challenge for our sector is to deliver these products in a way that society values and that our people can be proud of. I am confident that the changes we are making at RBS are re-establishing this 'social licence to operate'.

It should be remembered that whilst mistakes were made in recent years, these were a deviation from a very long RBS heritage of profitable and responsible banking. Indeed RBS has been profitable for all but 3 years of its 283 year history, and hitherto had a reputation for sound financial management established over that long period. We are all working hard to return RBS to its position of traditional strength, and I am confident that we will succeed.

**Philip Hampton**  
Chairman

# Financial sustainability – from ‘problem’ to ‘opportunity’

Stephen Hester, Group Chief Executive



Clearly the first priority for a company is to ensure that it is financially sustainable. Without this, nothing else is possible. The work that we are doing on sustainability, set out in this Report, is an integral part of the long-term performance of the company, and will contribute to our return to profitability. It is also important for the rebuilding of our reputation, and I believe that it shows a side to RBS that has been out of the spotlight during the financial crisis. But before you read further, I wanted to set out what we have been doing to restructure RBS to ensure that it is once again financially sustainable as an independent organisation.

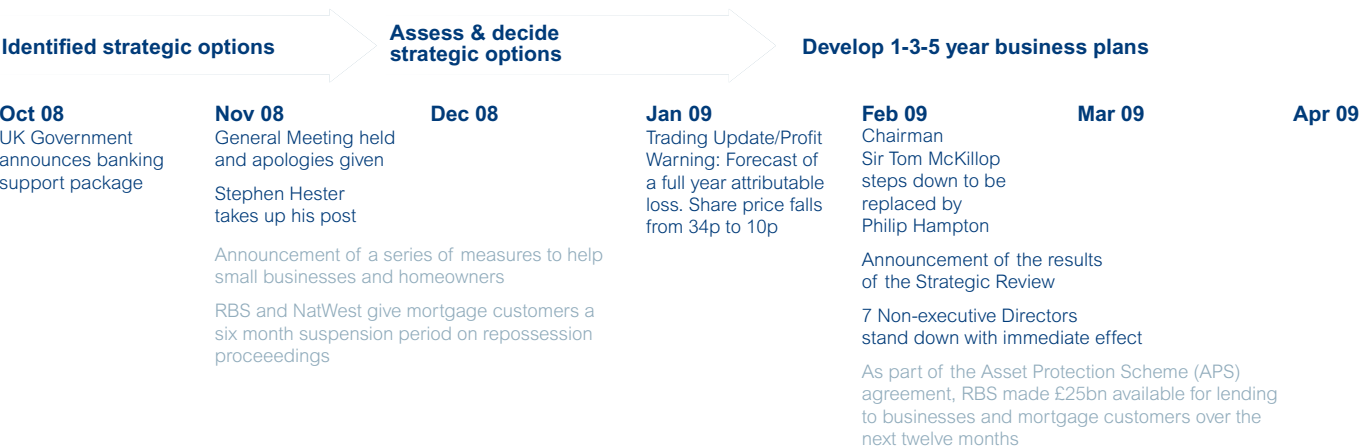
2009 was a year of profound change and substantial challenges for RBS. But, in the course of the year, we have put in place the building blocks of our recovery plan and have begun the process of restoring the company to good health. We have set out the roadmap to recovery, with a clear strategy that is supported inside and outside RBS.

We are very conscious of the responsibilities that lie with us to ensure recovery of the support the Bank has received. In that context, although 2009 was clearly another very challenging year for RBS, it is pleasing to be able to report some big steps on our recovery path, which I outline below. Just as important as 2009's progress, the path ahead for RBS is now well signposted and we have greater confidence in meeting our three overriding objectives:

- To put customers at the centre of everything we do
- To restore the Bank to undoubted standalone strength
- To rebuild sustainable value for all shareholders and in so doing to enable the UK Government to sell its shareholding profitably over time

The riskiest part of RBS's journey is now behind us. There are four years left of our recovery plan. Each year we expect to report strong measurable progress. We aim to remake RBS as one of the world's most admired, valuable and stable universal banks. We are focusing

## Our progress so far





on what we are good at and making it better. At the same time we are reducing our balance sheet, risk and funding exposures through massive restructuring. We are re-engineering cost structures and have embarked on overdue business investment. Cross-cutting management and cultural change have also been comprehensive.

2009 has seen good progress. On every published measure, the Group is ahead of our restructuring timetable. Our Core businesses have sustained their market positions, with customer numbers steady or growing across the Group's major retail and corporate business lines, thereby confirming the essential health and value that underpins RBS. This is also a testimony to the efforts and endurance of our people. We can and must do better still, however. The 'new' RBS will be known for its unswerving focus on customers.

We have also made substantial progress in restoring strength and improving risk management. Our overall balance sheet is already £696 billion below its peak, meaning that 70% of our targeted reduction is behind us. In essence the Bank is already a third smaller. Our funding and liquidity resilience has dramatically improved. Our loan to deposit ratio is down from its 154% peak to 135%, and in our Core business it is just 104% compared with our 2013 target of c.100%. This makes us safer and more self reliant. Our core tier 1 capital ratio is a robust 11%, which we expect to be enough to meet the further challenges we anticipate in 2010 before the expected recovery takes stronger hold in 2011, and to take account of the direction of regulatory change.

UK Government support was also extended to include the Asset Protection Scheme (APS) agreed in November 2009, providing further assurance to investors and customers. We have completed the set-up of the new Non-Core division in the Group to oversee the disposal or wind down of specified assets and lines of business, and reached agreement with the EU Commission on the disposal of assets required under their state aid directives.

Goal number three, restoration of sustainable shareholder value, will take the longest. Nevertheless, progress in 2009 was encouraging. Our Core business posted operating profit of £8.3 billion (up 89% on 2008), offset by losses from our Non-Core division and other exceptional items. After some one-off gains, RBS Group had net attributable losses of £3.6 billion overall, a very significant improvement on 2008.

We see the outlook as cautiously encouraging for RBS. Loan impairments may have peaked in 2009 and our net interest margin has now shown two quarters of improvement. Our progress in 2009 gives increased comfort in our ability to execute the restructuring challenges that remain. Nonetheless, there are important areas of uncertainty that

should become clearer over the course of 2010. Firstly, much depends on the shape and pace of economic recovery. Secondly, prospective regulatory change is likely to be significant in 2010. Thirdly as the recovery of RBS and the plan becomes evident, the prospects for the potential recovery of the taxpayer investment in us over the coming years will be clearer. RBS can, and must, transition from financial 'problem' to 'opportunity'.

We are supportive of changes to regulation which ensure that our industry does not need the level of systemic and specific support called upon in 2008/09 in any future crisis. To enable banks to fail without a seizing up of our financial system or a disastrous domino effect is a complex re-engineering challenge, especially when the scenario in question is not individual bank failure but systemic threat to many banks. We need thoughtful, purposeful dialogue leading to reform that works and we need to avoid rushed measures that distract.

Finally, the financial services industry must do more on the issue of cultural change: reconnection with customers and communities; restoration of management excellence; and reform of pay structures that have become hard to defend. The financial services industry is integral to our economic system. As such its weakening comes at considerable peril to society's broader wealth creation and stability. But our more intangible licence to operate from society is at present rather battered. Our integral role requires that we restore it.

RBS is being restructured and run to serve customers well, to be safe and stable and to restore sustainable shareholder value for all. As confidence in our business grows, we will be able to resolve the complexities in our capital structure and the Government will have opportunities to sell down its stake. At the beginning of 2010 RBS is still a complex story. It will become much simpler and clearer as our strategy actions show more results. We believe that we can do this, to the benefit of all.

**Stephen Hester**  
Chief Executive

**i** Further details of our financial performance in 2009 and the work that has been undertaken to put RBS back on track is available in our Annual Report and Accounts, available at [rbs.com](http://rbs.com).

## Implement plan

### May 09

Quarter 1 Interim Management Statement – adoption of a quarterly reporting cycle with increased disclosure and transparency

Comprehensive changes made to Senior Management team

Sir Sandy Crombie appointed as Non-executive Director

### Jun 09

### Jul 09

RBS and NatWest extend repayment periods for customers in financial hardship

### Aug 09

First half year Interim Results published with 241 pages of financial disclosure

### Sept 09

Charges announced to overdraft charges, significantly reducing the charges for unarranged borrowing

### Oct 09

RBS launches new hotline for all businesses to give general credit advice

### Nov 09

RBS confirms its participation in revised Asset Protection Scheme agreed with the UK Government

RBS publishes its first Small Business Customer Charter

Phillip Scott appointed as Non-executive Director

### Dec 09

European Commission gives formal approval to RBS for the support it has received from the UK Government during the financial crisis

Announcement of successful sale of RBS Asset Management fund assets

“To ensure that we are operating as a sustainable business in every sense of the word, we will have to develop and work to a set of principles which guide our management on the range of social and ethical issues which are manifest in the operations of an organisation of RBS’s size and impact. We have identified areas where there are gaps and we are working to close them.

To strengthen the governance of sustainability at RBS, and ensure that our approach is contributing to the rebuilding of RBS’s reputation, a new Board Committee has been established, and I am delighted to have been given the opportunity to Chair this Committee. This section provides an overview of the Group’s framework for managing social and environmental risks and opportunities across our business. For details about the broader changes that we are making to our other Group Risk systems, see page 28 of this Report.”

**Sir Sandy Crombie**  
Non-executive Director, RBS Group  
Chairman of the Group Sustainability Committee (GSC)

**What are the GSC objectives:**

- 1. Setting and reviewing the Group’s overall sustainability strategy, values and policies, and monitoring performance.
- 2. Reviewing and endorsing priorities and targets on key sustainability issues for the Group.
- 3. Signing off the annual Sustainability Report.
- 4. Reviewing the annual management report of the Group’s sustainability auditors.
- 5. Considering and recommending positioning on relevant emerging sustainability issues.

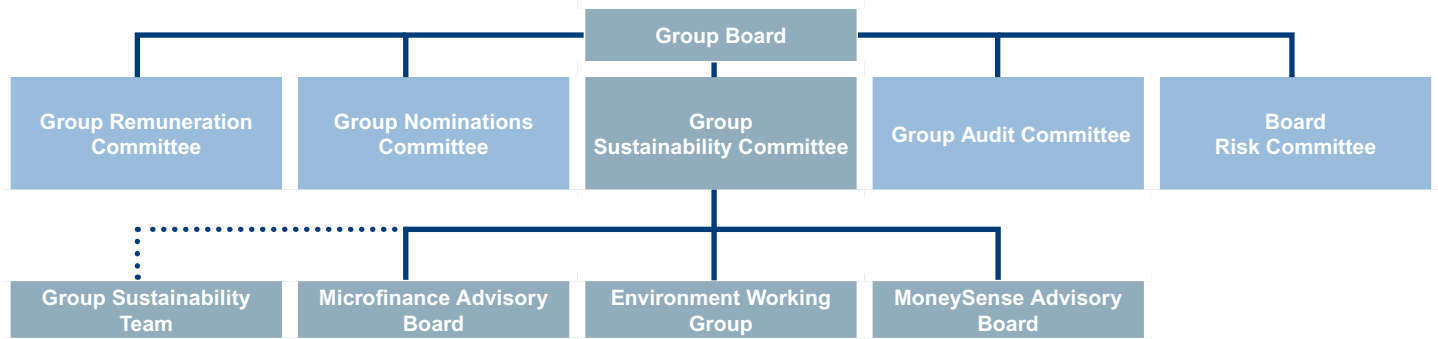


**Sustainability governance**  
The Group Sustainability Committee (GSC) was established in 2009 in order to oversee and align our approach to the range of social and environmental issues and opportunities which confront our business on a daily basis. All key business areas are represented on the Committee. The GSC objectives are to oversee sustainability strategy, set priorities for action and monitor progress. The Group Sustainability Team provides central support to the GSC in order to facilitate this.

To ensure that the agreed sustainability agenda is put into practice, the GSC works with a network of senior sustainability managers throughout the Group, and a number of focused working groups. The Environment Working Group (EWG) has representatives from across the Group and reports into the GSC. The RBS Microfinance Advisory Board (MFAB) provides advice and support to leverage our microfinance programme in India and is exploring options for building an equivalent programme in the UK. MFAB members are drawn from a number of microfinance stakeholder groups and bring a broad range of experience and support to the wider Community Investment programme. Throughout the development of MoneySense we have continuously sought independent counsel. This has now been formalised through the formation of the MoneySense Advisory Board. Drawing on the skills of independent, impartial experts, the Board provides strategic input to the MoneySense programme.

Across our business, we have a number of complementary systems and policies in place to assess and mitigate a range of reputational and sustainability risks. Further detail on this is provided throughout this Report.

**Our Governance Framework**





## 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 2009 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 guidelines and sought to cover the principles of the UN Global Compact.

# 1

## Inclusivity

**identifying and engaging with stakeholders to gain a full understanding of issues**

We consider our stakeholders to be those who have a direct interest in our business and those who have an interest in how we manage our business because of the wider impact of our actions: employees, customers, shareholders, investors, the UK Government, 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 on our stakeholder engagement see page 10.

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

# 2

## Materiality

**determining what issues are important to RBS and our stakeholders**

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

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

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

# 3

## Responsiveness

**responding to material issues and being transparent about our performance**

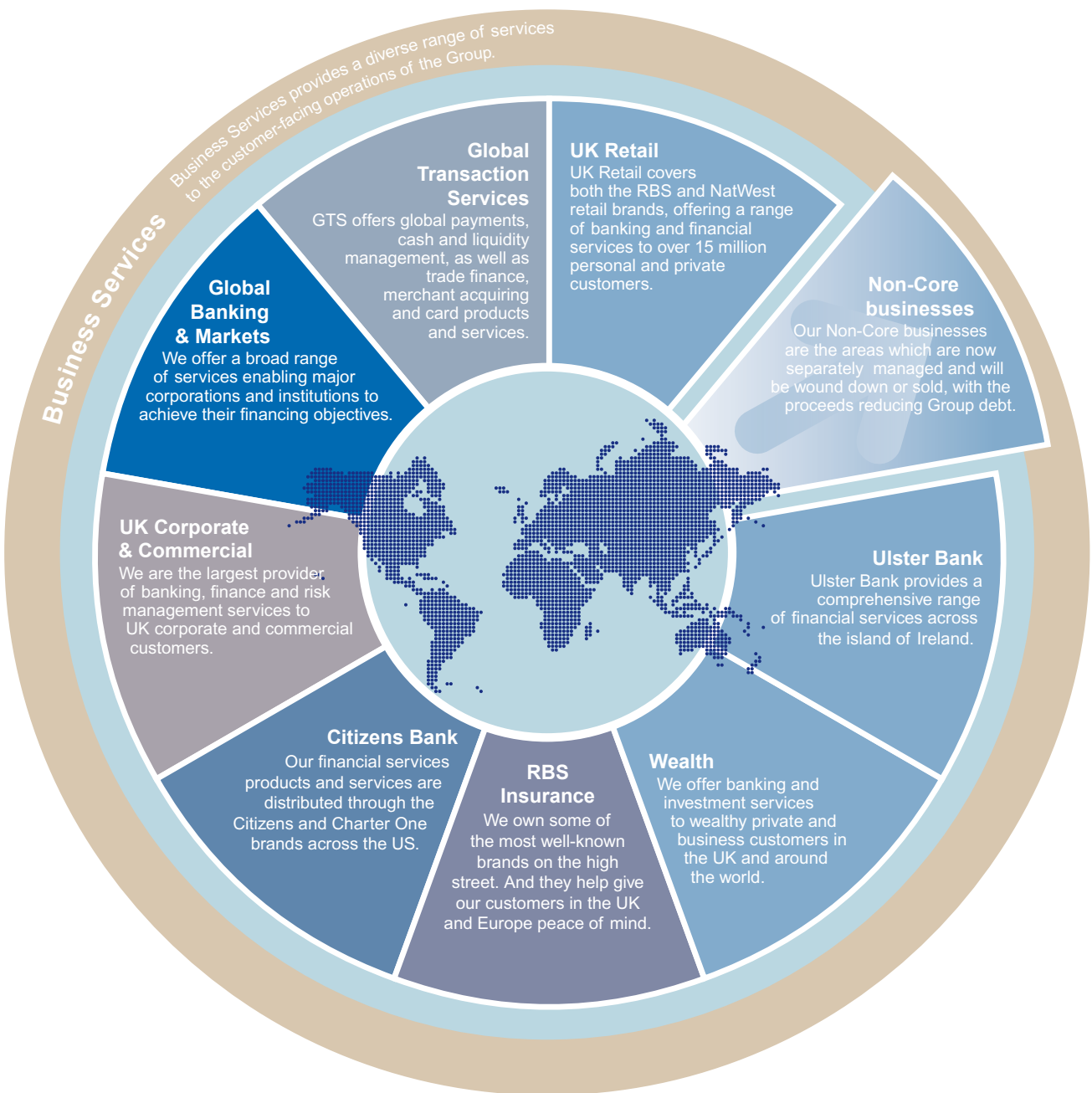
The comprehensive identification and prioritisation process allows us to respond to the material issues in a considered and managed way.

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

To view our progress and responsiveness to the 2009 priorities visit [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)

Our strategic plan

In February 2009 we set out a strategic plan to guide the restructuring of RBS to make it safer, stronger and more efficient for our customers. This is one of the largest corporate restructuring exercises ever undertaken and will take us five years to complete. The plan includes specific targets at both a Group and individual business level which we have published. We will provide updates on our progress each quarter.



The strategic plan's targets, and our progress against these, are set out in greater detail in our Annual Report and Accounts. The plan is built around strengthening our Core businesses and running-down and exiting the businesses we have decided not to retain in the long term (Non-Core).

We have now begun the process of marketing the businesses we are required to divest:

- Global Merchant Services (GTS)
- RBS Insurance
- Williams and Glyn (UK Retail)
- RBS Sempra Commodities (GBM)

## Our 2013 vision

### Enduring customer franchises

- A universal bank, anchored by retail and commercial activities with strong, complementary investment banking capability
- A top-tier competitor in our chosen markets
- Customer franchises reinvigorated by investment and better management

### Safer and more focused

- Capital and liquidity strength meeting the highest international standards
- Profit earned by servicing our customers not by trading our own capital
- Only lending as much as we have in deposits
- Gross reduction in funded assets of £500 billion achieved

### A valuable, private sector bank

- Consistently profitable, with sustainable shareholder returns targeted at 15% on our tangible equity capital
- A leader in transparency and 'investor friendly' orientation
- The Government will have sold or at least begun to sell its shares at a profit

Further details of our strategic review and the work that has been undertaken to put RBS back on track is available in our Annual Report and Accounts, available at [rbs.com](http://rbs.com)

## Our 17 core countries and some sustainability highlights

### Australia

China

France

Germany

Hong Kong

Italy

Japan

### Netherlands

Russia

Singapore

Spain

Sweden

UAE



### India 114,000 households

Our Technical Assistance programme has extended the reach of microfinance to an additional 114,000 households in India.



### UK 1.1 million

With over 1.1 million SME customers in the UK, RBS and NatWest support more businesses than any other bank.



### Ireland 100%

100% of our contracted electricity in Ireland is from renewable resources, as with the UK.



### us \$6.5 million

Citizens customers have received a total of \$6.5 million in rewards and made over 69 million paperless banking payments through the GreenSense account.

## Stakeholder engagement

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‘Stakeholders’ are groups and individuals who have an interest in, and may be affected by, our business activities. Our key stakeholders represent a diverse range of interests, all of which are important to the sustainability of our business.

### Changing the way we do business

Businesses do not just exist to serve shareholder interests. Even if they did, ensuring that your customers are satisfied, your employees are motivated and that you have a good relationship with the communities in which you operate would still be the right place to focus your attention.

Asking for direct feedback from customers and employees, and responding to what you hear, is always a good starting point for any business. When you are a large international organisation that is going through a five year restructuring programme, and when you have been the recipient of public investment, ongoing stakeholder engagement needs to become a fundamental part of the way you do business.

We are experiencing unprecedented levels of stakeholder interest, and we understand and recognise why that is wholly appropriate. We have done a lot of listening in 2009, and incorporated what we have heard into our future business plans. However, stakeholder engagement is about much more than listening. It is an opportunity to develop a relationship, allowing us to communicate directly with interested parties, explaining our approach to a range of issues and the future focus of our company.

The new leadership team at RBS have from the outset made it a key priority that they are accessible. This has included a range of activities such as broadcast and newspaper interviews, visits to business customers’ operations, question and answer sessions with employees, and an ongoing dialogue with our current and potential investors. This programme of communication has been backed up by the publication of more information about RBS than ever before, with enhanced disclosure in our financial reporting and a quarterly update to the markets. All of this activity is not just a response to current circumstances. It is an integral part of the way that we are changing the day to day culture of our business for the long-term.

### Structured feedback

To ensure that we capture the range of feedback and perceptions of our organisation, we have put in place new measures to supplement the long-standing opinion research that we undertake on a regular basis. Current activities include:

- Customer satisfaction surveys, focus groups and online feedback. All of our businesses around the world continuously undertake customer opinion research to track their performance and improve their products and services. As more of our customers go online, we are now receiving more direct, ‘real-time’ feedback via online channels.
- Annual employee opinion survey, ongoing staff pulse surveys, and internet feedback pages and messageboards. Surveys help us to track employee views and levels of engagement, and benchmark against other companies. New intranet feedback sites also allow our staff to feedback questions, comments and ideas.
- UK public opinion research. We are tracking our corporate reputation through a monthly survey of 2,000 members of the UK public.
- MP and investor perception studies.
- Research with Environmental, Social, and Governance (ESG) investment analysts.
- Senior Management meetings with Government Commissions (e.g. the Financial Inclusion Task Force), Employee Unions, Consumer Groups and NGOs.
- Media evaluation and perception studies. This provides us with analysis of the key themes being addressed in the media and the effectiveness of RBS’s communications on key issues.
- Ongoing corporate reputation study. This integrated research will provide an in-depth understanding of our reputation across a range of stakeholder groups, and will include a peer benchmarking exercise.

**For comments on this Report from a range of stakeholders please see [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009).**

### Turning feedback into action

Stakeholder engagement is not just about listening, it is about using feedback to help improve our business. Throughout this Report you will see examples of changes, including:

- changes to the distribution of PIN Notifications
- the launch of Collegesaver in the US, helping make saving easier for customers
- the launch of the RBS online savings tool
- the extension of Ulster Bank’s Direct Telephone opening hours to include evenings and Saturdays
- the launch of Rapport software, dramatically reducing the chance of a customer being successfully targeted by fraudsters
- the successful continued migration of customers to paperless statements, with over 6.5 million accounts switched so far

1	2	3
Identifying our key stakeholders	Employing effective and appropriate engagement with each of the key stakeholders	Identifying and managing the issues raised by stakeholders
Stakeholder group	Types of engagement	Key issues
Customers	We continually monitor customer opinion to identify current and future issues that could impact upon their levels of satisfaction with our service.	<ul style="list-style-type: none"> <li>Fair banking</li> <li>Safety and security</li> <li>Global citizenship</li> <li>Supporting enterprise</li> </ul>
Employees	<p>Our annual Employee Opinion Survey tracks the overall engagement levels of staff. This is supplemented by regular pulse surveys and focus groups.</p> <p>An online 'Have Your Say' mechanism has also been developed to allow employees to feedback to senior management on key issues, as well as a dedicated Sustainability Feedback Forum.</p>	<ul style="list-style-type: none"> <li>Employee engagement</li> <li>Remuneration</li> </ul>
Governments and Regulators	<p>We actively engage with the UK Financial Investment Ltd (UKFI) who manage the UK Government's shareholding in the RBS group. We also meet regularly with the Financial Services Authority (FSA) and with the relevant financial regulators in the other jurisdictions in which we operate.</p> <p>We continue to contribute to a number of governmental consultations and working groups that address sector policy considerations. In 2009 we also participated in a human rights consultation with the UK Ministry of Justice.</p>	<ul style="list-style-type: none"> <li>Financial sustainability</li> <li>Fair banking</li> </ul>
Investors	<p>Our leadership team and the Group Investor Relations team meet regularly with current and potential investors.</p> <p>We also undertake regular meetings with Environmental, Social, and Governance (ESG) investment analysts. In 2009 this engagement included an ESG briefing event for our key shareholders hosted by the Group Chairman. We are currently undertaking an ESG research project to establish the issues of greatest relevance to responsible investors.</p>	<ul style="list-style-type: none"> <li>Financial sustainability</li> <li>Corporate governance</li> <li>Fair banking</li> <li>Global citizenship</li> </ul>
Suppliers	We conduct regular meetings with our key suppliers to discuss our business relationship and we undertake a vendor performance assessment to capture their feedback and assess their performance when doing business with RBS.	<ul style="list-style-type: none"> <li>Financial sustainability</li> <li>Global citizenship</li> </ul>
Industry Forums	We participate in industry wide discussions and adhere to the British Banking Association (BBA) code of standards. In addition, we participate in a number of industry forums focusing on sustainability issues, including the Equator Principles, the UN Global Compact and ClimateWise.	<ul style="list-style-type: none"> <li>Financial sustainability</li> <li>Fair banking</li> <li>Global citizenship</li> </ul>
Employee Representatives	We are engaging on an ongoing basis with a number of unions and employee forums who represent our staff around the world, such as UNITE in the UK and the ABN European Staff Council in Europe.	<ul style="list-style-type: none"> <li>Employee practices</li> </ul>
Consumer Groups	We have responded to the financial difficulties faced by a number of our stakeholders by building upon the long-standing relationship we have with a number of consumer organisations and debt advice agencies.	<ul style="list-style-type: none"> <li>Fair banking</li> </ul>
Non-Governmental Organisations (NGOs)	In 2009 we engaged with NGOs on issues ranging from climate change to the pricing of credit. NGOs offer the Group a valuable insight on a variety of topics and in 2010 we are further strengthening our engagement programme.	<ul style="list-style-type: none"> <li>Global citizenship</li> <li>Fair banking</li> </ul>
Media	Our media relations teams respond on a daily basis to enquiries on a range of issues. In 2009 we also conducted an external media review with the assistance of Media Measurement Limited.	<ul style="list-style-type: none"> <li>Financial sustainability</li> <li>Remuneration</li> <li>Fair banking</li> <li>Global citizenship</li> </ul>







## Our sustainability themes

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### Fair banking

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🎬 To view our Sustainability Film please visit  
[rbs.com/sustainability](http://rbs.com/sustainability)

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#### Microfinance lending programme in India

Our Technical Assistance programme has extended the reach of microfinance to an additional 114,000 households in India

“RBS has always strived to treat our customers fairly, deliver outstanding customer service and develop innovative products which meet our customers’ needs. However, over the last year, RBS has received feedback from customers and external stakeholders that we could improve the way in which we conduct business.

We have listened and are making changes to help us to re-engage with our customers, support our local communities and restore the pride of our staff whilst operating in a commercially sustainable way.

This means that wherever we do business, RBS aims to:

- provide great customer service;
- provide straightforward products;
- communicate clearly;
- lend responsibly;
- support customers in financial difficulty;
- provide an inclusive, accessible approach to banking;
- invest in financial education; and
- listen to our customers and resolve any problems quickly and efficiently.

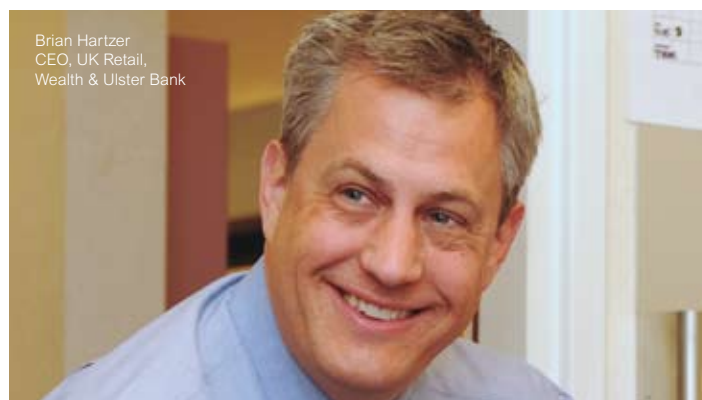
This section of the Report sets out our work in this area in 2009 and our priorities for 2010. **Let us know how you think we are doing at [rbs.com/sustainability](http://rbs.com/sustainability).”**

### Brian Hartzler

CEO, UK Retail, Wealth & Ulster Bank  
Member, Group Sustainability Committee

## What are our 2010 priorities?

- NatWest and RBS will publish a Customer Charter that makes clear commitments about how we aim to deliver ‘Helpful Banking’. We will publish a summary of our performance against these commitments annually.
- We will support our communities through the creation of a UK Community Fund.
- We will continue to support customers in Financial Hardship and help customers avoid Problem Debt.
- Access to financial services – we will continue to take a leading role in Government and community initiatives including the Saving Gateway account and the provision of basic bank accounts.
- Financial education – we will increase the number of school children receiving MoneySense lessons and expand the resources we make available to schools and adults.



## Responsible lending practices and products

Responsible lending continued to be a top priority for all stakeholders during 2009 and the key issues were the availability and affordability of credit and support for customers in financial difficulty.

Worsening economic conditions also highlighted the need for all consumers to be able to understand and manage their finances and in 2009 RBS launched several new initiatives and products to encourage our customers to save and plan for their future.

### Availability of credit

We have supported the rebuilding of the UK housing market, delivering more than £19 billion of mortgage lending during 2009 through a wide range of good value products. We had particular success in the first time buyer market, lending over £3.8 billion to first time buyers during the course of the year. This contributed to our strong net lending growth of £11.8 billion in 2009 and, at year end, we were on target to surpass the £9 billion net mortgage lending commitment. You can read more about how we help customers step on to the property ladder in the Financial Inclusion section of this Report.

### Affordability of credit

It is not in our, or our customers', interests to lend more than they can afford to repay so we continue to make enhancements to our lending processes that aim to help our customers manage their finances and strengthen our ability to be a responsible lender. As part of this ongoing programme we have continued to develop and enhance our customer review processes. We have also looked to leverage developments in Credit Reference Agency data to support our ability to assess individual customer circumstances.

### Current accounts

We know that fees for unarranged borrowing are a cause of ongoing concern for our customers. From 1st October 2009, RBS and NatWest made a series of reductions to charges and fees. The fee for returning a cheque, direct debit or standing order was reduced to £5. The fee for paying an item when overdrawn was cut by half to £15 per day.

### Supporting customers in difficulty

RBS has always been at the forefront of industry developments to identify and pro-actively support customers showing signs of financial stress. The early review of the customer's circumstance allows for a detailed analysis of their own particular situation and ensures that a variety of approaches can be used to help them back to financial strength. We have dedicated teams to educate, help and inform customers on how to improve the management of their accounts and have provided staff



Brian Hartzer

RBS appreciate that some customers prefer to discuss their financial problems with an independent third party and we continue to be very supportive of the important work that the free money advice sector undertakes. RBS is involved in a number of cross industry initiatives and forums such as the development of CASHflow in conjunction with the Money Advice Trust (MAT) – an assisted self-help advice and repayment scheme. We recently announced a near-doubling of our support to MAT for 2010, to £1.5 million, in recognition of the increased demands placed

The UK Competition Commission (CC) published its final report into the PPI Market Inquiry on 29 January 2009. It found a lack of competition in the PPI market as a result of various factors, including a lack of transparency and barriers to entry for standalone providers. The CC therefore announced its intention to impose a range of remedies, including a prohibition on actively selling PPI at point of sale of the credit product, a ban on sales of single premium PPI policies and other measures to increase transparency (in order to improve customers' ability to search and improve price competition).

## Fair banking continued

### FSA Reportable Complaints

RBS	No. of complaints opened	No. of complaints closed	% Complaints closed within eight weeks	% Complaints upheld by firm	NatWest	No. of complaints opened	No. of complaints closed	% Complaints closed within eight weeks	% Complaints upheld by firm
Banking	70,516 *	29,852	98%	84%	Banking	211,327 *	70,522	96%	84%
Home Finance	1,407	1,496	95%	69%	Home Finance	1,057	1,146	96%	69%
General insurance and pure protection	8,049	6,348	72%	18%	General insurance and pure protection	9,076	7,532	75%	24%
Decumulation, life and pensions	86	78	95%	33%	Decumulation, life and pensions	194	230	81%	34%
Investments	154	176	93%	25%	Investments	505	536	94%	29%

\* These figures have increased as a result of the removal of the reporting waiver following the Supreme Court ruling on unauthorised lending charges. For more information visit [rbs.com](http://rbs.com).

Currently, we are waiting for the CC to finalise the details of its remedies, which are expected to be implemented in late 2010/2011. In the meantime we have started to prepare for these changes.

Ensuring that our customers are treated fairly is a very important consideration for us. We acknowledge that some of our customers and regulators have raised concerns about certain features of this type of product. We are taking these concerns into consideration as we strive to offer valued and sustainable products for our customers. We also take care to ensure that our employees are trained to sell PPI in an appropriate manner and in compliance with FSA rules. Branch and call centre staff are given training on the FSA's requirements and our internet and direct mail processes also take account of these requirements. Staff are subject to ongoing assessment through annual testing and monitoring. We carry out regular reviews of PPI sales and undertake customer contact exercises to check on the robustness of our sales processes and the adequacy of our controls.

### Customer service

We know from the feedback that we have received from customers and the intense public scrutiny that has occurred as a result of the credit crisis, that our customers and the wider society expect us to change the way we do business. We have listened to their views and we are making significant changes to ensure that customers are put first, that they receive expert advice when required and that their interactions with us are straightforward.

#### Re-engaging our customers

In the UK, NatWest has launched a 'Helpful Banking' campaign and RBS has launched the 'Here for You' campaign which focus on delivering an outstanding customer experience. As part of this, we are redesigning the customer sales and service experience. This initiative will look at all aspects of how we interact with the customer including the way in which we conduct a customer needs assessment, how we explain our products and pricing, how our branches look, and so forth. At each stage in the process, we are seeking feedback from our customers to make sure that any changes that we implement meet their expectations and are enhancing the service that they receive.

In the UK, we will launch a Customer Charter in 2010 that makes clear commitments to our customers about how we aim to deliver 'helpful banking' and how we will support the communities we serve. The Charter will reflect areas that we know are important to customers with

an emphasis on putting customers first, making day-to-day banking as easy as possible and our role in the community. We will publish an annual summary of our performance against these commitments and will address any areas of short-fall. We recognise that customer expectations and needs will evolve and, to ensure we're focusing on the right issues, we will review our commitments with a panel of customers each year.

In RBS Insurance we are striving to attain the formally accredited World Class status, which is awarded to companies that are global leaders. The World Class Programme is crucial to RBS Insurance as it represents a vehicle which allows us to benchmark ourselves against the very best examples of customer service. We want to be known in the market as exceptional in delivering great customer service, by ensuring the customer is at the heart of everything we do.

#### Responding to customer complaints

We are dedicated to developing lasting relationships with our customers and we make every effort to fulfil their needs and expectations at all times. We recognise that sometimes things go wrong and when this happens we encourage customers to tell us about it. Complaints data is regularly monitored and analysed as it provides valuable insight about our customers' needs and expectations. It also enables us to identify where we need to make improvements so that we can improve the quality of our products, processes and services. For example, customer complaints regarding Personal Identification Numbers (PIN) peaked at 6,043 per month in November 2008 following industry changes to PIN security. We changed our process to distribute PINs by letter, including a foil scratch off panel. Analysis of complaints told us that customers were unable to read their PIN as the instructions were unclear, and we also identified that the type of paper used by our 3rd party supplier compounded the issue. Both matters were resolved, resulting in a complaint reduction of 75%.

Likewise in the US, customer feedback is encouraged and insight regarding the low interest rate environment and consumers' challenges to save money proved invaluable and led to Citizens developing and launching several new savings products. Citizens also implemented a new complaints system at the start of the year, allowing us now to capture customer feedback at every touch point. The business is working hard on embedding the new system, ensuring utilisation and quality of data capture is of a high standard, but already it is providing important feedback, helping to shape a number of future enhancements.

As the Group is committed to transparency and openness we have published early the volume of complaints that are reportable under the Financial Services Authorities regulations. We know that it is important to customers that their problems are dealt with promptly and 96% of all our personal banking complaints are resolved within 2 weeks. However, we





How we are helping  
our customers

603 branches

We changed the opening  
hours of  
603 branches to meet our  
customer needs



recognise that it is equally important that customers' concerns are dealt with in a fair and transparent way and we are reviewing our processes to ensure that complaints are dealt with in a consistent manner and to a high standard. The Financial Ombudsman also publishes, on their website, complaints that they handle on our behalf. Whilst we recognise that we can always improve, it is pleasing to report that every firm in the Group improved their 'change in outcome' ranking in the second half of 2009.

The Institute of Customer Service (ICS) publishes the UK Customer Satisfaction Index (CSI) twice yearly. Results are based on an online questionnaire, completed by 26,000 consumers from various industry sectors, including Financial Institutions and Insurance firms. Both NatWest and RBS fared well in the top ten Financial Institutions coming third and fifth respectively. Churchill and Direct Line also successfully appeared in the Insurance Firms category Top 10. According to the latest MORI Report, Ulster Bank was number 1 for Customer Satisfaction in 2009 in the Republic of Ireland. Citizens were able to break the declining industry trend in customer satisfaction and re-established its significant lead.

## Access to financial services

Ensuring that everyone has access to financial services has always been a priority for the RBS group. Customer needs can differ quite dramatically, especially given the change in recent economic climate, and we strive to serve the requirements of all customers to the best of our ability.

### Financial inclusion

Basic bank accounts are designed for customers who have difficulty entering the banking system and who might otherwise be excluded from financial services. We are one of the largest providers of basic bank accounts in the UK through RBS and NatWest with over 1.1 million accounts. Additionally, in 2010 RBS will be among the first providers to offer the Saving Gateway account, designed to encourage a saving habit among people on lower incomes. For more information on the Saving Gateway account, please refer to page 15.

### Providing access

Whilst in 2009, branch numbers across the Group continued to increase, changes to the branch network were announced towards the end of the year as part of the Asset Protection Scheme and European Commission approval. For more information on the key steps agreed with the European Commission visit [rbs.com](http://rbs.com).

We have in excess of 4,400 ATMs widely available across the UK at both branches and non branch locations. During 2009 we processed over

400 million customer withdrawals with a value of £26 billion. In the US, Citizens added a further 164 ATMs to their network.

We remain committed to meeting our customers' banking needs in ways that support their busy lifestyle. A good example of this is our continued commitment to offering Saturday banking in a large number of branches. In 2009, we changed the opening hours of 603 RBS and NatWest branches so that we could meet our customers' requirements. Another example of meeting our customers' needs is through the re-development of the service we already offer customers through mobile phone banking. Last year the Group launched the UK's first mobile phone banking application for the iPhone for NatWest, RBS and Ulster Bank (NI).

Our mobile branch units continue to serve customers throughout the UK and in Ireland. In 2009 numerous communities were impacted by unprecedented flooding and we took immediate action to send mobile banks to impacted areas so that customers, and non-customers alike, could continue to have access to banking services. In the US, Citizens will introduce mobile banking to customers across the footprint in 2010.

In 2009, we also introduced 443 Cash Deposit Machines (CDMs) to increase our customers' service options in branches. Customers can pay in notes, coins and cheques at our CDMs without having to queue and can even obtain images of the cheques that they have paid in, on their receipt. More customers than ever before are also taking advantage of 24 hour banking through our Online Banking options with active usage growing by over 800,000.

Ulster Bank has also continued to enhance the range of products available to both new and existing customers by telephone or on the Internet. We have extended our Ulster Bank Direct Telephone opening hours to include evenings and Saturdays. Customers also have the option to use the Internet to request a call back at a time convenient to them.

Likewise, in the US, Citizens has also improved the online offering. The online banking upgrade has improved customer access to credit cards and mortgages, allowing them to see more of their relationship in one online view. Citizens and Charter One also work hard to help those with little or no access to banking services and at the Spring 2009 meeting of the Alliance for Economic Inclusion (AEI) in Chicago, Charter One was recognised for their "Extraordinary work toward meeting the banking needs of Chicago's unbanked and under-served communities." The AEI is a national initiative with a focus on basic retail financial services for under-served populations.

In August 2009 the Group commenced a programme to replace all Maestro, Solo and Laser debit cards with Visa Debit cards. The programme is well underway with over 4 million RBS and NatWest Visa Debit cards now in circulation and is on track to complete in December 2010. The Visa Debit card is globally accepted at 29 million retail outlets across 160 countries, providing three



### How we are helping our customers

Ulster Bank's partnership with Habitat for Humanity – helping first time buyers step on to the property ladder

times more acceptance than Maestro. When a customer uses their Visa Debit card to purchase goods and services they are now benefiting from a higher level of purchase protection.

### Working in partnership

Providing Third Sector affordable credit is a critical area where we believe we have made significant progress. However we recognise that more can and must be done.

We believe the need to create a stable first rung on the ladder towards financial inclusion is often best met by Third Sector organisations which work closely with the communities they serve. RBS is working in partnership with community development finance institutions, housing associations, credit unions and government, both locally and nationally, towards a common goal of providing stable, affordable credit to those who need it most.

Through 2009 we continued to support our existing partnerships but also targeted new support at key “red and amber priority” areas – as identified by the Financial Inclusion Task Force – where the provision of affordable credit is unacceptably low.

Our support for the sector centres around the development of partnerships with affordable credit providers. These partnerships comprise the following components:

- Trusted partners – many individuals requiring affordable credit may not have a bank account – another measure of financial exclusion. We are training a number of Third Sector affordable credit providers to undertake account opening and ID verification procedures on their own premises. Scotcash, MoneyLine Cymru, Fair Finance, Midlands Community Finance and Five Lamps now all have Trusted Partner status.
- MoneySense – recognising that financial education is a key driver of financial inclusion, RBS is working with affordable credit providers to provide basic financial capability information and resources to end users. To read more about the Group's MoneySense programme, please visit page 19 of this Report.
- Government and policy engagement – we welcome the Department of Work and Pension's (DWP's) Financial Inclusion champions programme and have been proactively engaging with individual champions across the country.

### Helping First Time Buyers

LIFT is a Scottish Pilot scheme which enhances our support of first time buyers by offering access to lending to those borrowers struggling to find a mortgage deposit. We will offer mortgages to customers purchasing a home as part of the LIFT scheme, where the applicant has fulfilled the requirements of the Registered Social Landlord (a not for profit, private sector organisation that provides affordable housing

to people in the UK) and where our lending criteria is met. RBS and NatWest also participate in Homebuy Direct, an equity loan scheme to help first time buyers or previous homeowners whose circumstances have changed, step onto the property ladder.

In 2009, Ulster Bank furthered their offering to first time home buyers by teaming up with Habitat for Humanity. This programme offers customers with a housing need the opportunity to step on the property ladder in an affordable manner. The customer receives a 5% grant from Habitat for Humanity as a form of deposit and then buys a 45% share in the property using an Ulster Bank mortgage, subject to affordability. Clanmil Housing Association purchases the balance of the property (50%) and then rents it to the customer. The customer is required to participate in the project through volunteering up to 300 hours to self-build and family and friends can help with this, along with Ulster Bank employees.

In the US, Citizens continues to help first time property buyers primarily by supporting existing programmes offered by the Federal Housing Administration (FHA) and State Finance Housing Authorities and through our own portfolio programmes. Citizens leverages the strength of the FHA, as a first time homebuyer programme, by offering the product with a significant rate discount to promote home purchases by low income borrowers.

## Financial education

The Group's long-standing commitment to financial education is evident through the award-winning MoneySense programme which continues to be extended to ensure that everyone, be they customers of the Group or not, has access to sound and impartial money guidance.

### Financial capability for young children

The Group has been delivering financial education in schools for over 15 years. Accredited by the Personal Finance Education Group (pfeg), MoneySense for Schools aims to equip young people with the skills and knowledge they need to understand and manage their finances, whether that be now, or in the future. RBS employees support teachers in the delivery of the programme and in 2009 MoneySense for Schools had a presence in nearly 60% of UK secondary schools. In 2009, over 700 employees delivered over 28,000 lessons to over 335,000 pupils. The lessons cover everything from the importance of saving and budgeting, to how to calculate the cost of borrowing. Given the success of the programme and to ensure that teachers have the support they need to deliver these lessons independently as well, we have developed

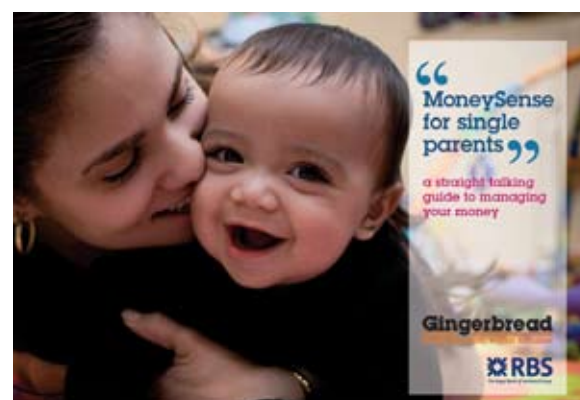




How we are helping  
our customers

28,000

In 2009, over  
700 employees  
delivered over 28,000  
MoneySense lessons  
to over 335,000 pupils



a range of online resources available for download at [rbs.co.uk/moneysenseforschools](http://rbs.co.uk/moneysenseforschools). MoneySense for Schools was given the Highly Commended Award in the website category at the IVCA Clarion Awards and awarded a Big Tick from Business in the Community. The RBS MoneySense programme also won the 'Innovation in Investment in the Community' award at the Scottish Financial Enterprise Awards.

School Money is another Group programme which allows pupils to put the lessons they have learned through MoneySense for Schools in to practice. By setting up their own school bank, pupils can open accounts and pay in deposits at their school. To date, 455 school banks are open for business.

In 2009, Ulster Bank employees became involved in the delivery of MoneySense for Schools for the first time, a programme which is now used by over 160 schools in Ireland. Building on the available website resources, we have developed classroom materials specifically tailored for students aged 15–17 and with the assistance of Junior Achievement and Young Enterprise, have trained over 100 Ulster Bank volunteers to deliver MoneySense lessons alongside teachers. The programme was launched in April 2009, enabling employees to personally bring the MoneySense message to over 1,900 students by the end of the 09/10 school year.

Building on its long-standing partnership with YouthBank Ireland, Ulster Bank last year introduced MoneySense to YouthBank members aged 18–25, many of whom are not in education or full-time employment. With the support of the Citizens Advice Bureau in Northern Ireland, YouthBank members have taken part in financial learning workshops designed to bring the subject of money to life for this age category.

Year two of the UK MoneySense Research Panel findings revealed a generation becoming increasingly aware of the challenging economic times they live in, and preparing for their financial futures in ways their parents never did. This survey of over 9,000 young people, aged 12–19 years, aimed to understand young people's attitudes, behaviours and expectations towards money. With more importance placed on the personal finance curriculum in schools, there is evidence of a more financially capable generation with over two-thirds (68%) of respondents saying they knew more about managing their money than last year.

#### Offering financial education to adults

Coping with the unexpected like redundancy or illness, or dealing with debt – they are all situations that many adults are likely to experience at one time or other. Our MoneySense for Adults web-based programme includes over 100 pages of impartial, practical guidance and information about money management for anyone who finds themselves in a difficult situation or would like help with the day-to-day management of their finances.

MoneySense is also available in UK branches with over 1,300 MoneySense advisers providing free and impartial face to face money

guidance. These advisers received training accredited by The Consumer Credit Counselling Service and provide people with assistance on budgeting and financial management.

Working with Gingerbread, a UK charity for lone parents, we have worked to produce 'MoneySense for single parents', a booklet which contains free and impartial information and money guidance pertaining to the needs of lone parents. Research carried out with Gingerbread involving 1,000 single parents, found that only 8% had received personal money guidance, with money worries making up 55% of the problems raised by callers to Gingerbread's free Single Parent Helpline and advice service.

With the MoneySense programme providing the conduit for financial education initiatives in the UK and Ireland, in the US the programme is different to ensure that the broad footprint is fully covered. In 2009, the Citizens Charitable Foundation provided approximately \$1 million to support more than 400 financial literacy initiatives throughout the US. In addition, more than 1,500 Citizens employees volunteered their time and expertise to support these programmes. Citizens also provides various tools for customers including the online financial guidance resource 'MoneyHelp' which receives 6,000 to 8,000 visits per month. The pilot 'Money Organizer' launched in April 2009 to help customers better manage their money through three separate accounts. The Bills account helps set aside funds for more critical monthly bills, the Spend account manages how much is available for day to day spending and the Save account starts growing funds for the future. 83% of enrolled customers said they would recommend this product. The pilot is expanding to one region in Massachusetts in April 2010 with a full rollout being evaluated for Autumn 2010.

“One of the most important roles of the financial services sector is to support the growth of the economy and the creation of jobs and prosperity. The provision of finance and other services to the business sector, and to SME companies in particular, is therefore a key responsibility for RBS. As well as providing the finance and financial infrastructure that enables enterprises to develop, we also aim to provide useful advice and guidance to business customers through our experienced relationship managers, and support to our clients if their business gets in to difficulty. We are working with a number of partners around the world to help nurture the next generation of entrepreneurs, through programmes such as the Prince’s Trust ‘Business Programme’ in the UK and our Microfinance initiative in India.

This section of the Report sets out our work in this area in 2009 and our priorities for 2010. **Let us know how you think we are doing at [rbs.com/sustainability](http://rbs.com/sustainability).**”

**Chris Sullivan**

Chief Executive, Corporate Banking Division  
Member, Group Sustainability Committee

### What are our 2010 priorities?

- We will help businesses to start-up and grow by offering free transactional banking for the first two years of trading.
- We will provide access to finance via loans and overdrafts to viable businesses.
- We will be fair and transparent on pricing – our overdraft Price Promise is in place until at least the end of 2010.
- We will be transparent when making lending decisions by always explaining our rationale and by offering customers the right to challenge our decision.



### Support for small and medium sized enterprises (SMEs)

With over 1.1 million SME customers in the UK, RBS and NatWest support more businesses than any other bank. In 2009, RBS made new loans totalling £39 billion and provided finance to over 5,000 SMEs a week in the UK.

SME loan repayments increased 37% in 2009 as customers began to repay debt and work their way out of over-indebtedness. This meant that whilst the Group fulfilled its commitment to make finance available (contrary to some media reports), there was an economy-wide fall in demand.

Throughout 2009, we increased our lending in the UK's 5% most deprived electoral wards, giving us a 33% market share. In these areas we are lending £563 million in term loans and £63 million in overdrafts.

As the Group looks to rebuild, our SME customers are as important as ever and in November 2009, we launched the SME Customer Charter outlining our ongoing commitment to this important market. The Charter is a statement of principles that are at the heart of the relationship with our SME customer, focusing on 4 key areas:

- Helping businesses to start and grow
- Providing access to finance for SMEs
- Fairness and transparency on pricing
- Transparency when making lending decisions

### Access to finance

We continue to provide access to Government lending schemes such as the Enterprise Finance Guarantee (EFG) which helps small firms that have been unable to obtain a conventional loan. RBS has led on this particular scheme and by the end of 2009 RBS and NatWest accounted for 42% of the total volume of EFG loans drawn in the UK, lending over £258 million to over 3,400 SMEs. The success and commitment of Ulster Bank to the EFG is also clear with 85% of all EFG loans made in Northern Ireland by value and volume having been provided by Ulster Bank.

In addition, we are a leading provider of discounted funding for SMEs from the European Investment Bank (EIB). Of the £250 million funding RBS obtained from the EIB, £161 million has already been lent to SME customers. We are currently working with the EIB to obtain another £250 million of funding to allow us to continue the discounted loan scheme to SMEs in the UK. In the Republic of Ireland, the EIB has also made €100 million available to Ulster Bank.

### Providing ongoing help

In October 2009, we launched Business Hotline – a telephone service for UK SMEs seeking advice on their banking requirements, whether they bank with us or not. The Hotline offers businesses a second opinion in

## Our SME Customer Charter

**We will help more than 100,000 businesses** to start and grow every year by offering **free transactional banking** for the first 2 years of trading when a new business is started.

**We will provide access to finance for SMEs** by adhering to our Committed Overdraft promise helping

ensure customers' facilities remain in place for at least 12 months.

**We will be fair and transparent on pricing through our 'price promise'** which commits us to not increase the interest rate margin on an SME overdraft at renewal unless there has been a material change in the borrower's

circumstances. We are also committing to charging a maximum arrangement fee on loans of 1.5%.

For a full overview of our SME Customer Charter visit [rbs.co.uk/business/sme-support-charter](https://rbs.co.uk/business/sme-support-charter).

cases where their lending propositions have been declined and each call is provided with a guaranteed response time and a named case manager.

RBS remains the leading private sector funder of Business Debtline and donated £87,000 in 2009. With this secured funding, through our continued partnership with the Money Advice Trust, Business Debtline helped over 17,500 businesses and launched a self help pack which was awarded the Plain English Campaign's Crystal Mark.

Employees from Ulster Bank recognise that the business community itself can also be a great source of leadership, guidance and support. Colleagues worked independently to establish, support and facilitate an e-business engagement platform called [smallbusinesscan.com](http://smallbusinesscan.com). At the initiative's core is a roadmap for growth covering all stages from start-up to emerging, and progressing on to established businesses. 10,000 SMEs per month use the portal, creating a useful one-stop resource centre and networking platform.

Last year we pledged to increase advice to customers through delivery of SME seminars across the UK and publication of advisory reports based on independent research. We have delivered on this and have continued to provide a wide range of additional support.

Specialist help is on hand for businesses who are facing financial difficulties. Our team of Specialised Relationship Managers (SRMs), which includes some of the more experienced Relationship Managers, provide more intense support working with our SME customers to get them back to full health. In addition, businesses facing the biggest challenges are transferred to the Business Restructuring Group (BRG), which focuses on 'rescuing' small businesses and returning them to health. Our SRM and BRG teams focus on improving business practices as well as financial restructuring. External specialists are often brought in to look at the particular issues facing these businesses.

## Investing in social enterprise

We believe that the development of all forms of enterprise, both social and commercial, will be key to the growth of the economies in which we operate.

The RBS SE100 Index is an initiative to put the facts and figures behind the great stories of social enterprise. The Index has created a simple set of questions to establish how effectively social enterprises measure and communicate their social impact and is linked to a campaign to encourage social enterprises to do just that. Key information such as annual turnover is collected from which a ranking is created of the top 100 social businesses according to their growth. With funding from RBS, Social Enterprise magazine launched the Index in 2009. It has been endorsed by the Minister of the Third Sector, Angela Smith, and key representative bodies in the social enterprise movement have signed up to offer their support, such as the Social Enterprise Coalition and Social Firms UK.

Through Coutts Wealth Management, we have one of the largest networks of successful entrepreneurs in the UK. In 2009, Coutts launched a programme to support clients who would like to get more involved and make a significant impact on the social enterprise sector. This started with an educational event which taught clients more about the sector and different ways they could get involved – from providing in-kind support such as mentoring, through to making business angel investments.

## Supporting youth enterprise

We continued to promote and support youth enterprise through a number of programmes and partnerships in 2009. As the first part of a £1 million 2-year pledge, our relationship with the Prince's Trust is now targeted at their Business Programme, which has helped over 70,000 young people to explore and test their business ideas and to achieve their goals in business, education and training of work since its inception.

Similarly, the Group's relationship with the Prince's Scottish Youth Business Trust (PSYBT) has re-focused and is now concentrated on the "hardest-to-reach" – allowing the charity to increase their outreach and support to the most disadvantaged young people in Scotland who aspire to work for themselves but who face particular challenges in achieving their goal. In 2009, 46 RBS employees provided direct support to young entrepreneurs across Scotland either as volunteer Panel Members or Aftercare Advisers with PSYBT.

## Developing microfinance in India

The microfinance lending programme in India continues to go from strength to strength. Widening financial access in rural areas relies on robust and creditworthy Microfinance Institutions (MFIs) as a distribution network. Through the Microfinance Technical Assistance programme, RBS provides 12–18 months of support to nascent MFIs across India. This helps to ensure a more even distribution of microfinance throughout the country. To date our loan portfolio of INR 1,900 million reaches out to more than 420,000 poor households and collectively our MFI clients make services available to a population of 10.48 million.

The RBS group Microfinance Advisory Board (MFAB) was set up in 2009 to provide the Group with advice and support to leverage the lessons learned from the microfinance programme in India. MFAB is currently exploring options for building an equivalent programme in the UK. MFAB members are drawn from a number of microfinance stakeholder groups and bring a broad range of experience and support to the wider Community Investment programme.

“Our business is about relationships and it is our people that make and deliver these be it with an individual customer, a small business or a large company. Our people make the difference for our customers and it is important to us that we do our best for them.

At RBS, we have had another challenging year in 2009 as we worked through the restructuring that is required to return the Group to long-term profitability. A number of employees had to leave us, and for many more the uncertainty of working in a business unit that is scheduled for disposal and cost cutting remains.

Engaging our employees in the rebuilding of RBS is our key challenge, but we have made a good start. The resilience of our employees is evident in their determination to see the business return to its position of traditional strength.

This section provides information on our approach to key issues for our employees in 2009, how we have worked with them through this unsettling time, and our priorities for 2010. **I welcome your views on this at [rbs.com/sustainability](http://rbs.com/sustainability).**

**Neil Roden**  
Group Director, Human Resources  
Member, Group Sustainability Committee

### What are our 2010 priorities?

- Develop our Performance Management Capability to ensure every employee's contribution is aligned to our strategic plans.
- Wherever possible, we will endeavour to mitigate the need for compulsory redundancies.
- Improve employee engagement using non-financial means.
- Build our internal bench strength through more rigorous assessment and development of our talent whilst recognising the diversity of our talent.
- Implement the Diversity & Inclusion strategy.



### Redeployment and redundancies

The Group has endeavoured to keep job losses and compulsory redundancies to a minimum. However, due to the necessary changes throughout the Group, there has been a need to cut jobs across the organisation.

A number of initiatives were undertaken to minimise compulsory redundancies, and to support staff and managers through these challenging times. Advice was provided for line managers going through a departmental restructure, staff could apply for voluntary redundancy, or redeployment and outplacement support.

The total employee population was 160,000 at the end of 2009, a 14,000 reduction from the end of 2008. Since the beginning of the financial crisis, we have announced a planned reduction of approximately 20,000 jobs, of which some are still being progressed.

An employee financial hardship project was launched in 2009 to support employees in financial difficulty and financial advice and counselling was also provided.

The Group works with over 40 social partners globally including trade unions, works councils and two cross jurisdiction European Works Councils. Ongoing communication and consultation remains important to the Group and it is recognised that maintaining these relationships influences our business, reputation and results. Each relationship is different depending on jurisdiction and issue; we are currently in the process of discussing the future European structure with both the RBS European Employee Communication Council and the ABN European Staff Council.

### Remuneration and reward

Remuneration is one of the most challenging issues that RBS currently faces. During 2009, the Remuneration Committee sought to reflect public sentiment on this issue while ensuring that RBS remains competitive and retains individuals that are central to its future success.

The approach used to generate and distribute bonus pools has changed to be aligned with effective risk management – where the needs of our stakeholders are balanced with the ability to reward employees appropriately. The Group's 'control' functions (HR, Risk Management, Finance) now have a more explicit role in challenging divisional recommendations prior to submission and provide the Remuneration Committee with context of divisional performance. A rigorous process to determine bonus compensation is also carried out to establish criteria in line with shareholder interests and long-term risk adjustment.

A review of the executive remuneration framework was undertaken in 2009, which will strengthen performance management processes and ensure that the Board's requirements for the management of risk is reflected in reward policy and practice.



### Employee & Community Engagement

The Employee & Community Engagement programme makes a difference in the communities in which we operate by supporting the good causes that matter most to our employees in three ways.

First, we run an **employee volunteering programme** where employees can participate in team building opportunities in work time, where we partner with a range of charities to deliver the skills, services or fundraising that they need.

Second, we **match the donations** they make to charity via their salary.

Third, we make **cash grants** to the 3,800 charities that employees give their time to, either as volunteers or fundraisers. Last year more than 50,000 RBS employees were given almost 155,000 hours off work to volunteer.



The Remuneration Committee have ensured that remuneration policies, processes and practices support the aims of the strategic review and complies with the standards required by its regulator, the FSA. In addition, it has taken into account recommendations on remuneration made by the G20, the Financial Stability Board (FSB) and the Walker review and is working towards full implementation.

#### Listening to employees

The Group Employee Opinion Survey (EOS) is an integral part of how we manage our employees and we use this survey to identify where we need to invest more time and energy in order to create a positive workforce. We also use this survey to benchmark the Group against the industry standard. We continue to achieve a strong response rate with 87% of employees taking part in the survey in 2009, significantly higher than the average industry response rate.

Due to the unprecedented change and uncertainty at the Group over the last 2 years, our staff feeling has declined. This is evident in the employee security score which has fallen 14 points since 2008. However, there was a general downwards shift in the industry as the Group remains at 16 points below the Global Financial Services norm. The effect of continued disruption at RBS is also evident in the job satisfaction and engagement score, which sits at 12 points below the norm.

However, we are very much aware of this and the Group has responded by fully explaining the decisions of the leadership and launching a number of initiatives to engage and develop our staff. There are some encouraging scores within the feedback responses this year, including the workload and worklife balance score which is 9 points above the norm, and the communication score which is 6 points above the norm. For a full breakdown of the EOS results, please visit, [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009).

#### Employee pensions

During 2009 the Group made two changes to retirement provision impacting the UK and the Republic of Ireland. Firstly, the extent to which increases in salary could count towards the employee's pension in the final salary pension plan was limited to the rate of inflation or 2% each year, whichever is lower. In the view of the Group Board, this change was necessary to control the cost and risk of operating such plans and by doing so we are able to keep these plans open to existing members.

Secondly, for those who are eligible for company contributions made to a defined contribution plan in the UK, we introduced a default contribution of 2% of pay with the intention of increasing this gradually to 7%. Employees have the ability to choose the level of contribution that is appropriate for them, and detailed information and support is being provided. The introduction of a default level of contribution reflects the importance of employees making provisions for their retirement. Contributions from RBS to the Group Pension Fund in respect of the main UK defined benefit scheme for 2009 totalled £536 million.

#### Diversity and inclusion programme

We value the diversity of our employees and are committed to creating a working environment that is inclusive to all. In order to attract and retain talent and enable employees to reach their full potential we need to embrace people's differences, whether they are related to physical characteristics, such as gender, race, age or disability, or related to their personality, opinions, preferences and beliefs. For an overview of the Group's Workforce Composition Statistics, please visit [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009).

Gender equality is a key focus and in order to reflect a more robust gender equality policy, the Executive recruitment process has been reviewed to ensure that a female is included on all shortlists. A new Diversity training module will be implemented in 2010, which highlights the issue and impact of unconscious biases in decision making.

To promote gender equality internally, the Focused Women Network (FWN) aims to inspire, lead, coach, motivate and create opportunities to fulfil employees' potential. FWN organises events such as networking conferences and personal development sessions in the UK, with the aim of going global.

In 2009 the Group won the Gold Standard Award from Opportunity Now and ranked first place for Financial Services in the Race for Opportunity. We are in the Stonewall Top 100 Employers Workplace Equality Index for Lesbian, Gay and Bisexual people and are in The Times top 50 'Where women want to work'. Three female employees were also shortlisted in the 2009 Women in Banking and Finance Awards for Achievement.

#### Employee development

It is beneficial to the Group, the overall working environment and individual employees to have motivated and challenged staff. It is important that employees are given the opportunity and the capacity to develop and there are a number of initiatives in place to promote this.

In 2009, the Harvard Business Publishing Online product was launched, enhancing our online and on-demand learning. The courses are tailored for non-managerial staff, middle managers and first line managers. Over 12,000 employees have registered and it has proved to be a comprehensive and useful tool.

In order to equip the senior employees of the Group to understand, execute and sustain the strategic business plan, a new Leadership Development Programme was launched in 2009. Two modules were integral to delivery of the Group's strategic plan: Managing for Value Creation and Strategic Risk Management, which 50 executives and senior managers attended in 2009. This provided a forum to challenge the business plan and develop analytical and strategic thinking. This helps build a culture of collaboration aimed at improving business performance.

“One of the most basic responsibilities of a financial services business is to keep our customers’ data and assets secure. This is, after all, the premise on which our industry was founded. Whilst confidence in this area was rocked for savers across the industry during the financial crisis, RBS’s strengthened capital ratios as a result of UK Government support has helped to ensure that our retail deposits increased during 2009. And we are once again seen in our traditional position as one of the safest places to do business.

On a day to day basis, we have continued to invest in our systems to prevent financial crime, and we have implemented a number of important new initiatives in 2009, outlined in this section alongside our priorities for 2010.

The safety, health and wellbeing of employees and customers is another fundamental responsibility for any business. We are committed to managing our health and safety risks across our enlarged international business. Our progress in 2009 and future areas of focus are detailed below.”

**Ron Teerlink**  
Chief Administration Officer

### What are our 2010 priorities?

- Enhance and continue to supplement key prevention and detection solutions which will enhance the protection of the Group and its customers.
- Continue to develop and implement market leading systems to protect our customers in the online banking and E-commerce environment.
- Continue to roll out leading edge identity document scanning solutions to validate customers identity documents in more branches across the UK.
- Focus upon compliance, governance and managing risk across all jurisdictions in terms of Health, Safety & Wellbeing.



### Protecting customers

Online data protection for our customers was a key area of focus in 2009. Some 21 million people bank online in the UK alone, approximately 5 million with RBS and NatWest, so it is imperative that robust security measures are in place. In response to the potential vulnerability of online customers due to a general rise in online crime throughout the industry, the Group launched Rapport, a fraud prevention software package that customers can download free of charge. Rapport provides customers with enhanced online security to protect them from 'Trojan' attacks (unauthorised attempts to remotely access accounts) and 'phishing' attacks (unauthorised attempts to acquire sensitive information by masquerading as a trustworthy source). See above case study for more information.

We also continue to work hard to close down any bogus RBS sites as soon as possible. We currently achieve a 90% success rate at taking down such sites within 48 hours; an improvement on 2008 (83%).

### Data security

Every day, the Group handles vast amounts of information in a variety of forms. To help protect this information, guidance is provided on how to be vigilant for customers and employees.

A 'Safer Banking' brochure was provided for customers in 2009 and also an employee booklet was also produced called 'Fraud – understanding the threat'. A number of staff messages including: 'Who are you sharing your information with?' and 'Is your identity secure?' were also published. All staff must also complete regular reading and reviewing which includes the module 'focus on fraud'.

Following the general rise in eCrime throughout the industry and specifically the WorldPay breach of security in late 2008 which exposed customer information, two Group-wide programmes have been launched. The first, completed during 2009, reviewed the security of the Group's externally facing websites in relation to specific vulnerabilities. The second, which will be completed in 2010, includes testing Group websites for key known technical vulnerabilities and developing a future operating model to implement ongoing assurance to manage the risks associated with internet facing websites.

The Group has also increased controls that protect customer information by completing a global assurance review of over 800 of our high risk third parties, agreeing actions to manage identified risks. A new operating model has been developed with added resource and a structure for a dedicated capability to carry out a Group wide review of our third parties each year.

### Promoting safer banking

The promotion of safer banking and raising awareness of the measures customers can take to prevent fraud is vital to our campaign to make the RBS group one of the safest places to do business.

The aforementioned 'Safer Banking' brochure was distributed in branches throughout the UK. It outlined the possible risks of financial



### Developing solutions to help our customers

Rapport software works with the customer's existing antivirus and firewall software, significantly enhancing online protection and dramatically reducing the chance of a customer being successfully targeted by fraudsters.

Since January 2009, Rapport has been downloaded by over 2.5 million customers and we do not know of any who downloaded this software and continues to run it that has subsequently suffered a loss\*. This has contributed to a significant improvement in the prevention of online fraud.

Rapport enhances online customer security by:

1. Protecting the customer's username, password and other sensitive log in information from unwanted attention;
2. Protecting online communication;
3. Protecting against the risks of shopping online by providing protection against known threats such as Trojans; and
4. Safeguarding the customer's identity and details, even if the computer is infected.

For more information on Rapport see [rbs.co.uk/rapport](http://rbs.co.uk/rapport)

\*as at February 2010



crime as well as fraud prevention tactics, including: ways to keep your identity secure, how to stay safe online, things to remember when you are travelling and personal safety. These brochures were offered to customers at the account opening stage and included in all welcome packs as well as being available on request.

In order to enhance the service provided for customers with regard to credit cards, we have upgraded our SMS alert function. The customer now receives an SMS alert if there has been a suspicious transaction on their credit card. Customers can also subscribe for real time SMS alerts regarding customer deposits and credit card accounts, enabling customers to keep track of their debit and credit card transactions.

As part of our Know Your Customer (KYC) initiative, the 2008 identity document scanning solution pilot has now been implemented in all of our high risk branches. This process is designed to identify counterfeit documents which may be used to authenticate potentially fraudulent customers at the account opening stage or when authorising high value transactions. This deployment will continue throughout 2010.

### Preventing fraud

The fight against fraud is a continuous battle; the Group intelligence unit works with law enforcement, government and industry to collectively combat financial crime and lessen the risks to our customers. This has led to a number of arrests for money laundering and computer misuse. We have been recognised by the City of London Police and awarded another commendation for the support and assistance provided in relation to serious security and crime investigations.

Tim Hutchings, Manager, Investigations, recently returned from a 14 month secondment to lead the analytical side of a project with the National Fraud Intelligence Bureau (NFIB) at the City of London Police. This involved setting up a database to share fraud information across the public and private sector and provide analysis, enabling data to be matched between different industries and the results fed into the NFIB to be available for law enforcement. This is the first time that this sharing of information has been achieved and it is through this kind of collaboration that we can really begin to have a pronounced effect on the prevention of financial crime. The project continued towards full implementation, helping solve investigations into fraud and fraud prevention.

A fraud prevention process in Citizens also helps to decrease the impact of attempted financial crime on our customers. Several 'two day' fraud processes are in place to help detect fraudulent activity by monitoring specific account activity and segmenting the customer base into higher risk categories which are then flagged for further research and review.

### Physical security

ATM and branch security measures are the subject of continuous review and risk assessment. The Group has invested over £2 million to protect the physical security of our branch and cash machine networks. This includes the deployment of anti-skimming (skimming is the theft of

customer card information used in an otherwise legitimate transaction) devices to 4,000 of our ATMs across the UK and at our most high risk ATMs in the US. Citizens now also have 100% digital technology with regards to CCTV and have installed additional secure entry systems to deter robberies in branches.

Throughout our European regions, we have introduced a number of measures to protect ATMs that have a higher risk of physical attacks and in the UK and Ireland the physical security team have identified and developed an alarm solution to attacks on the front panels of ATMs.

### Safety, health and wellbeing of employees

Ensuring the safety, health and wellbeing of employees is core to our business, and a fundamental social responsibility for the Group. In 2009, the Group's Safety and Health policy standard was updated to reflect our commitment to the safety and health of our people in every country we operate in. Compliance with the policy standard ensures safety and health is managed in a way that takes all reasonable steps to protect employees from risks in their work or working environment, in addition to meeting statutory and regulatory requirements as a minimum.

Stephen Hester, the Group Chief Executive of the Board, was appointed as the Board member with overall responsibility for safety and health, along with each Divisional Head of each subsidiary Board.

In 2009, the wellbeing programme focused on providing support to employees given the impact of both internal and external changes. Additional protocols were implemented to enable line managers and employees to access appropriate support services more easily. Support packs were produced in partnership with Lifematters, the Group's Employee Assistance Programme (EAP), to help line managers and employees during the organisational change programme. This was an integral part of the Redundancy Support Programme (for more information on this please see the Employee Engagement section, page 22). In January 2010, Lifematters was launched across 13 countries and extended to colleagues with ABN AMRO in 20 countries to ensure that every employee across the Group has access to the service.

There was a general decrease in accidents and incidents across the UK and Ireland in 2009. Reportable accidents for employees fell from 184 in 2008 to 164 in 2009, achieving an overall reduction of 11%; the reportable accident rate for employees decreased slightly from 176 per 100,000 employees in 2008 to 164 per 100,000 employees in 2009; and total incidents (including natural causes and near misses) decreased by 0.5%, from 2,394 in 2008 to 2,382 in 2009.

It is important that levels of absenteeism are monitored and reduced, in 2009 the overall Group absence rate decreased from 3.05% to 2.9%.

“As a leading international financial services business, we have a responsibility for our broader economic, social and environmental impact. We believe that through the business we do and through our investment in communities around the world, we are making a positive and significant contribution in the markets in which we operate.

We also recognise that we must go further and work with other stakeholders to play our part in addressing critical issues such as climate change and the promotion of human rights in certain countries. To support this commitment we have been early adopters of certain international codes of practice such as the Equator Principles and the United Nations Global Compact. We take relevant social, ethical and environmental factors into account when we make decisions about who we do business with and which countries we operate in.

This section provides an update on our progress in this area during 2009, and an overview of our priorities for 2010.

**I welcome your comments on our approach to this area of our business at [rbs.com/sustainability](http://rbs.com/sustainability).”**

**John Hourican**  
Chief Executive, Global Banking & Markets  
Member, Group Sustainability Committee

### What are our 2010 priorities?

- Develop sector-specific ESE policy statements that define our approach to lending and investing in the following sectors: oil and gas; mining and metals; forestry and plantations; energy generation; and defence.
- Expand range and scale of financial services that specifically enable clients to meet environmental and social objectives.
- Expand the Environmental Champions Programme as a recognised Group wide employee engagement programme.



### Environmental sustainability

Given our involvement in so many parts of the global economy, we take our role in supporting the transition to more sustainable uses of natural resources very seriously. This extends to all areas of our business, from the provision of current accounts to corporate banking services and energy project financing, as well as our own operational impacts.

#### Governance, dialogue and reporting

RBS sets its environmental strategy through its executive-led Environment Working Group. This body has representation from all relevant divisions across the Group and reports into the Board-level Group Sustainability Committee, which is chaired by our senior independent director, Sandy Crombie.

In late 2009, the Group signed the Copenhagen Communiqué; a collective statement from business that called for an agreement between countries that would give business the confidence to invest in solutions to climate change. With or without a legal framework, we believe that co-ordinated multi-stakeholder action is the only way to bring about the structural changes that are required to stabilise carbon dioxide emissions at the levels recommended by the Intergovernmental Panel on Climate Change (IPCC). Despite the disappointments of Copenhagen, we believe the summit served a useful purpose in highlighting the changing geopolitical circumstances and resource and population pressures that must be addressed in conjunction with carbon emissions over the coming decades.

We hold a number of meetings each year with civil society groups and take part in multilateral round-table discussions and consultations on the solutions to climate change. RBS has had a Group Environment Policy in place since 1997 and this policy was most recently updated in 2009. We have responded to the Carbon Disclosure Project (CDP) since its inception and have recently been involved in a pilot project to develop new responder services. Our CDP score for 2009 was 77% and we were included in the FTSE 350 Leadership Index. We also scored 76% in the Dow Jones Sustainability Index and were again included in the FTSE4Good index.

#### Our products and services

From 2004 to 2008, RBS lent more to renewable power projects globally than any other commercial bank. However, in 2009 the financial crisis reduced the amount of lending we could provide to these and other infrastructure projects around the world. The impact of the financial crisis on RBS meant a significant reduction in the scale and risk of lending we could carry on our balance sheet, which has necessitated a reduction in the amount of project finance we provide to clients outside



Alan Jenkins,  
Pipework Solutions and Installations

### Business Mentor Environmental

Pipework Solutions and Installations Ltd is based in the UK and designs, fabricates and installs commercial and industrial pipework systems. The business was set up in 2001 by two experts in their field.

Since then, the business has noticed that the companies they serve are placing greater emphasis on environmental issues and requiring their suppliers to do likewise. To help them meet this challenge, PS&I Ltd sought advice from our Mentor

Environmental service via their existing business banking relationship with RBS.

The owner of the business explains that "with Mentor, we have access to expert environmental advice 24/7. The environmental toolkit provided as part of the service allows us to develop policies and processes that weren't in place before". RBS Mentor has also helped the business be a source of advice itself: "We can be an advocate of good environmental management... we can advise our clients on how to deal with anything that crops up."

the UK. Our focus on renewable power project financing has therefore shifted to our core markets and we now have a strong strategic focus on developing the right kinds of financial services for clients operating in this sector and other low carbon and environmental industries.

RBS pioneered many of the renewables financing techniques that have now become the industry norm and our continued expertise in this area meant that in late 2009 we were selected by the UK Treasury and the Department for Energy and Climate Change as one of three banks to take part in a European Investment Bank scheme to make up to £1.4billion available to onshore wind projects in the UK over the next 3 years. We are working with Government and the renewable energy industry to develop other financing options to accelerate the decarbonisation of the global economy as the threats from climate change increase.

We are also seeking to assist our small and medium-sized enterprise (SME) customers to address environmental issues in their businesses. To help support these businesses, we have launched our Business Mentor Environmental service, which provides businesses with services from qualified environmental consultants (see above case study).

Within retail banking, we continue to make progress in reducing the environmental impacts of our personal banking services, predominantly through the shift to paperless banking with over 6.5 million accounts switched so far. In the US our Citizens Bank GreenSense account, which rewards customers 10c for each paperless transaction they make, now has 318,000 enrolled customers in little over a year. These customers have received a total \$6.5 million in rewards and made nearly 68 million paperless banking payments.

Our Insurance division maintains its involvement with Climate Wise, the industry initiative for addressing climate change risks and opportunities. RBS Insurance was a founder signatory when Climate Wise launched in September 2007. Forum for the Future, who assessed the 2009 Climate Wise reports, noted that RBS Insurance 'demonstrated good progress against the Climate Wise principles despite the backdrop of a challenging year'.

### Our operational impacts

Because of our size, the environmental impacts from our properties – primarily caused by energy consumption, travel, water and paper use – are significant. We have an established programme of efficiency measures which help us minimise the impact of our operations. Our technical operational management strategies include improving our building management systems and metering in buildings, undertaking waste and energy audits and creating building specific action plans.

We have calculated that these initiatives will deliver significant reductions in our environmental impacts by 2011, from a 2008 baseline:

- CO<sub>2</sub> emissions – 8%
- Energy use – 8%
- Water use – 4%
- Waste generated – 15%
- Paper use – 12%
- Travel – 24%

Key environmental data 2009	UK and Ireland	USA	Group total
<b>Energy</b>			
Total Energy consumption (GWh)	952.1	342.6	1,544.1
Renewable electricity use (% total electricity consumption)	92.3	15.3	56.6
Energy (KWh per FTE)			9616
<b>Waste</b> (Ktonnes)			
Total waste	42.1	9.7	66.4
% Recycled	50.1%	52.7%	39.5%
Waste (tonnes) per FTE			0.41
<b>Water</b> (million m <sup>3</sup> )			
Property-based water use	1.48	0.94	3.11
Water (m <sup>3</sup> per FTE)			19.4
<b>Business travel</b> (million km)			
Total business travel	362.9	100.5	731.6
Air	181.2	66.1	513.3
Road	136.5	33.6	170.4
Rail	45.2	0.8	47.9
Travel per FTE (km per fte)			4556
<b>Paper</b> (Ktonnes)			
Total Paper	24.6	6.9	40.4
paper per FTE (kg per fte)			251.8
<b>Estimated CO<sub>2</sub> equivalent emissions</b> (Ktonnes)			
CO <sub>2</sub> e emissions – Scope 1	67.2	20.2	87.6
CO <sub>2</sub> e emissions – Scope 2	382.5	135.4	688.9
CO <sub>2</sub> e emissions – Scope 3	31.7	15.7	78.8

In the UK and Ireland, 100% of the contracted electricity we use in our offices comes from renewable sources, which is 92.3% of our total UK and Ireland electricity consumption. Our default office paper has 75% recycled content and in 2009, two RBS Group buildings were accredited

Additional info for key environmental data:

- Number of employees covered: 160,574.
- The estimated Group totals for Energy & Travel are extrapolated using the environmental data for UK, Ireland, Americas, AsiaPacific and India regions.
- The estimated Group totals for Waste, Water and Paper are extrapolated using the environmental data for UK, Ireland and Americas.
- Waste category now includes confidential waste and general waste.
- CO<sub>2</sub> equivalent is now reported in compliance with international reporting standards.
- Travel includes all centrally and non-centrally booked travel data for UK and Ireland and US road travel, and centrally booked data for all other regions.

## 2009 Project Finance deals

### Project Finance deals first logged in 2009 by industry sector

Equator Principle Category	A	B	C	Total
Infrastructure	0	3	0	3
Power & utilities, renewables	0	6	0	6
Oil and gas	2	7	0	9
Mining	0	0	0	0
Project Finance deals declined	1	82	1	84
<b>Total number of deals</b>	<b>3</b>	<b>98</b>	<b>1</b>	<b>102</b>

Due to the extensive restructuring in 2009 following the strategic review of the RBS Group, the coverage of our global data collection relating to the status of Project Finance deals was impaired. Due to this, Deloitte LLP have qualified our Equator Principles indicators in the 2009 Assurance Statement, page 30.

We are implementing a number of changes which will ensure that our project data for 2010 is complete.

to the high-level LEED Gold standard for environmental sustainability – KRM Towers in Chennai and RBS Americas HQ in Stamford, Connecticut.

Engaging our employees is a key part of our environmental agenda, including energy awareness events, travel reduction fairs, our staff Environmental Champions programme and celebration of UN World Environment Day. This day formed the centrepiece of our employee engagement activities in 2009 and the Group hosted over 70 events around the world to help colleagues understand more about environmental issues.

Improving our data capture systems also remains a focus for us and we have now implemented a new system that can be accessed by 90 RBS users worldwide and 30 key suppliers. Users can enter information in 'real-time' via an online portal, which enables us to greatly increase the accuracy and scope of our environmental footprint reporting.

## Addressing wider sustainability issues

### Sustainability risks in the provision of services

When we provide financial services to our clients, we have a responsibility to ensure their activities are not creating undue social and environmental impacts. We therefore need to consider environmental, social and ethical (ESE) risks in our business decisions and activities, particularly in higher-risk industry sectors. To help us to evaluate and, where necessary, mitigate ESE risks associated with lending and client take-on decisions, we have adopted a number of standards. We have been a signatory of the Equator Principles (EPs) since its inception in 2003 and apply the EP guidelines to all transactions that require project finance (see the table above for further details). In 2009, we launched an updated Defence Sector Statement, reflecting our commitment to ensure that all of our practices in this area adhere to policy guidance from the UK Government and the appropriate international legal standards (see [rbs.com/sustainability](http://rbs.com/sustainability)).

	Explanation of risk	Recent developments	Risk mitigation
<b>Risk type :</b> <b>Human rights</b>  <b>Potential impact:</b> The Group could breach International Human Rights standards through our own operations or our customers.	Human rights risks mainly arise from the operations of our customers, especially those in countries with less developed regulatory systems.	The Group's operations will be affected by ongoing international human rights developments, especially the work of United Nations and the UK Government.	The Group has a published Statement on Human Rights, is a member of the United Nations Global Compact and has systems applied both internally and externally to manage our approach to human rights.
<b>Risk type:</b> <b>Environmental impact</b>  <b>Potential impact:</b> The Group could negatively impact upon the environment through our own operations or those of our customers and suppliers.	Environmental practices carried out by the Group or its customers / suppliers may impact upon the Group's assets and reputation.	Ongoing regulatory reforms have and will impact upon the Group's operations and the operations of its customers and suppliers.	The Group's ESE framework, Environmental Working Group and Environmental Policy serve to mitigate environmental risk.
<b>Risk type:</b> <b>Funding to the defence sector</b>  <b>Potential impact:</b> The Group could provide financial services to producers of defence equipment that are in breach of international legal standards.	Clients operating in breach of internationally recognised standards offer regulatory, reputational and credit risks to the Group.	The recently established Convention on Cluster Munitions is likely to impact upon the sector.	The Group has published a Defence Sector Statement that commits not to provide services to companies in breach of international standards.
<b>Risk type:</b> <b>Project finance</b>  <b>Potential impact:</b> Funding to projects that have the potential to cause significant environmental & social impacts.	Without controls, Project Finance to projects with large risks could seriously impact the Group's assets.	There has been a reduction in the number of Project Finance transactions particularly in developing countries where environmental risks are typically higher.	Our Environment Policy and adherence to Equator Principles Standards which the Group has adopted helps to mitigate risks in project financing.





How we are helping...

450

The RBS Foundation's work in the Sunderbans aims to improve the livelihoods of 450 poor families living in the delta



Other systems and policies we have in place to address these issues include:

- Stakeholder engagement and opinion research
- Country risk classification processes, which assess political and economic factors
- Anti-money laundering procedures
- Politically Exposed Persons (PEPs) guidelines
- Regulatory risk monitoring
- Consumer policy monitoring
- Operating policies such as the RBS Code of Conduct for Employees, Diversity Policy, Environment Policy, and Ethical Code for Suppliers
- Developing ESE risk policies

Our approach to managing some general areas of social and environmental risk is summarised in the table on the opposite page.

#### Business and human rights

RBS is committed to respecting and upholding human rights in all areas of our operations and within our sphere of influence, as expressed in the Universal Declaration of Human Rights and the United Nations Global Compact. Key operational areas that we monitor include the protection of the rights of customers with disabilities, our approach to equal opportunities in the workplace, and potential workplace issues such as bullying and harassment. Indirect 'sphere of influence' issues include monitoring our supply chain to preclude the use of child labour and assessing our corporate relationships to ensure that we are not doing business with companies or organisations whose operations are undermining human rights. For further details of our approach and our position statement on human rights visit [rbs.com/sustainability](http://rbs.com/sustainability).

The revised RBS Defence Sector Position Statement incorporates the UN Convention on Cluster Munitions which requires signatory states to ban the production, use and stockpiling of cluster munitions. RBS will not knowingly support any application for funding or financial services that would directly contravene these standards and will seek to ensure that our client relationships are not in breach of these principles.

#### Bribery and corruption

As a provider of complex banking products across the globe, we recognise the threat of bribery and corruption issues infiltrating our business processes. Our Group Code of Conduct specifically addresses this issue and in 2009 we developed a new Group Policy Standard on bribery and corruption that will be integrated into the Group Policy Framework during 2010.

#### Responsible sourcing

The large size of our organisation means that we have a significant impact through our supply chain, and a responsibility to monitor the companies that we choose to do business with. For this purpose, we were one of the first financial services organisations to publish a set of minimum expected ethical standards for suppliers, back in 2004. Based on the ten principles of the UN Global Compact, the RBS Ethical Code for Suppliers covers the area of human rights, labour rights, environmental protection and bribery and corruption and sets the standards for suppliers we work with. We are also working on a specific project to raise the environmental requirements we ask of suppliers.

However, the Ethical Code is not just about screening our suppliers to ensure that we do not support irresponsible business practices. We also have an opportunity through our supply chain to support good causes. Our partnership with the London-based social enterprise Greenworks has seen over 1,100 tonnes of RBS furniture reused or recycled over the last 2 years. We were also one of the first companies to sell One Water in our staff restaurants and shops, which is an initiative that channels funds from its sales of bottled water into the construction of roundabout pumps in drought-prone parts of Africa. So far these sales have funded the construction of seven pumps.

#### Local environmental community initiatives

We are supporting many initiatives around the world that are helping to improve people's environment at the local level.

The RBS Foundation India's Livelihood programme exists to improve the socio-economic status of vulnerable communities living in and around forest areas in India, thereby reducing their dependence on scarce forest resources. The Foundation coordinates these activities along with government institutions and other local forest protection agencies and NGOs and presently manages 11 projects across 11 states, affecting more than 62,000 poor households.

An example of the Foundation's work is the Sunderbans project in West Bengal. The Sunderbans is the largest mangrove delta in the world, and the Foundation's work here aims to protect the mangrove ecosystem and improve the livelihoods of 450 poor families living in four villages in the delta. The project helps to reduce the destruction of mangroves by introducing alternative income generating activities to the villagers such as raising poultry and pigs and also provides villagers with basic amenities such as drinking water and access to health care.

In the UK, we work with our charity partner BTCV to support local community projects that restore and improve local woodlands, parks, pathways and wetland areas. Our link with BTCV gives the chance for many of our staff to get involved in local community volunteering projects. In all its projects, BTCV aims for sustained environmental improvement and empowerment of individuals and communities.

## Independent assurance statement

Independent assurance statement by Deloitte LLP ('Deloitte') to The Royal Bank of Scotland Group plc ('RBS') on the 2009 Sustainability Report ('Sustainability Report') for the year ended 31 December 2009.

### Our conclusions

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

1. RBS have implemented processes and procedures, as described on page 7, that adhere with the principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008 ('AA1000APS'); and
2. Except for the matters outlined in the 'Basis for qualification' paragraph below, nothing has come to our attention that causes us to believe that the selected key performance data which we were engaged to provide assurance on are materially misstated.

### Our observations and recommendations

RBS has made the following key improvements in managing and reporting its sustainability performance during 2009:

- The newly established Group Sustainability Committee (GSC) has enabled RBS to adopt a consistent approach to managing sustainability issues across the bank; and
- Reporting on customer service has improved and for the first time customer complaint levels have been published, improving transparency on this issue.

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

- **Inclusivity** During our interviews we saw evidence of stakeholder engagement taking place at a Group level and within divisions at RBS. Further reporting on stakeholder engagement at a regional level, including how the outputs of such engagement are used to inform decision making on sustainability issues would strengthen the Sustainability Report.
- **Materiality** With continued focus on responsible lending, further reporting on how RBS manages and mitigates the environmental and social risks of its business decisions and activities, particularly in high risk sectors would help stakeholders understand the management of this material issue.
- **Responsiveness** The Sustainability Report lists a number of 2010 priorities which are aligned with material sustainability issues, however there is limited reporting on how RBS plans to address sustainability issues in the longer term. Reporting on long term priorities would strengthen the Report and provide further insight into the broader long term sustainability vision for RBS.

The above observations have been raised in a 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 statement.

### Basis for qualification

A key focus area for our assurance was Equator Principle performance data. We found that due to the restructuring of Global Banking and Markets in 2009, the integrated global 'work in progress' system that had been used for collating data related to the Equator Principles was no longer in use. Therefore, it was not possible to assure the completeness of the number of deals being reported by RBS, or their respective categorisation. We recognise that RBS is taking a number of actions to ensure that 2010 data is complete across all relevant business units.

### 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 identified and engaged with stakeholders to gain a full understanding of issues;
- **Materiality** – how they assessed the relative importance of each issue; and
- **Responsiveness** – how they responded to stakeholder issues and how this is reflected in the Sustainability Report, and the progress against priorities for 2009 at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)

#### 2. Provide limited assurance on the following selected key performance data

- Number of complaints opened and closed (RBS and NatWest), page 16
- Percentage of complaints closed within eight weeks (RBS and NatWest), page 16
- Percentage of complaints upheld by firm (RBS and NatWest), page 16
- Annual employee opinion survey results (Globally), at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)
- Employee diversity gender, age and ethnic profile (Global coverage excluding ethnic profile which is UK only), at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)
- Total energy consumption (GWh) (UK, Ireland and USA), at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009)
- Renewable electricity used (% of total consumption) (UK, Ireland and USA), page 27;
- Waste (tonnes) (UK, Ireland and USA), page 27;
- Water (million m<sup>3</sup>) (UK, Ireland and USA), page 27;
- Paper (ktonnes) (UK, Ireland and USA), page 27;
- CO<sub>2</sub> equivalent emissions – Scope 1, 2 and 3 ktonnes (UK, Ireland and USA), page 27;
- Number of project finance deals approved with conditions and deals declined per Equator Principle Category and number of project finance deals per industry sector (Globally), page 28;
- Total community spend and spend by type including cash donations, gifts in-kind, management costs and employee time in £ (Globally) at [rbs.com/sustainabilityreport2009](http://rbs.com/sustainabilityreport2009).



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 robust evidence-based and quality-assured approach to professional, independent assurance.

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

#### Our key assurance procedures

To form our conclusions, we undertook the following procedures:

- Analysed and tested on a sample basis the processes related to stakeholder identification and engagement, including review of a sample of engagements and the outcomes of engagement;
- Reviewed the process that RBS used to identify and determine material issues to be included within the Sustainability Report. This included a review of external media coverage and peer reporting on corporate sustainability in 2009 to corroborate issues identified by RBS;
- Interviewed a selection of RBS executives and senior management who have operational responsibility for sustainability issues, including the RBS Sustainability team to understand the governance structures used for managing sustainability, engagement with stakeholders on sustainability issues, as well as implementation of sustainability related policies and initiatives in 2009 and the monitoring of these activities;
- Analysed and reviewed on a sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;
- Reviewed information and reasoning about the Sustainability Report's assertions regarding sustainability performance in 2009; and
- Reviewed the content of the Sustainability Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

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

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

#### Roles and responsibilities

- The Directors have prepared the Sustainability Report for the intended audience as outlined in the 'Reporting principles' section on page 7, and in the Basis of Reporting at [rbs.com/sustainability](http://rbs.com/sustainability). They are responsible for the preparation of the Sustainability Report and for the information and statements contained within it. They are also responsible for determining the Sustainability targets and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
- Our responsibility is to independently express conclusions on the subject matters as defined within the scope of work above to Royal Bank of Scotland Group plc in accordance with our letter of engagement. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Royal Bank of Scotland Group plc for our work, for this Report, or for the conclusions we have formed.

Deloitte LLP Chartered Accountants

Edinburgh, United Kingdom, 23 April 2010



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

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