

# Building a sustainable RBS

“ We are building strength and value in the new RBS whilst also supporting the economies and communities in which we operate. Getting this balance right is the key to a sustainable future for our business.

Stephen Hester, Chief Executive, RBS Group

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### Why go online?

[rbs.com/sustainabilityreport2010](http://rbs.com/sustainabilityreport2010)

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 being in business for the long term. It means **focusing** on our customers' needs, operating with **integrity and openness**, and **playing our part** to address society's challenges.

## Our five sustainability themes

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

### Fair banking

Fair banking means getting it right for our customers. This theme covers all parts of the important relationship that we have with our customers, including responsible lending, customer service and complaints handling, access to financial services and financial education.

£3.6bn

In 2010 we lent £3.6 billion to first-time home buyers in the UK helping 30,000 customers get onto the property ladder

### Supporting enterprise

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. Helping our business customers is a key responsibility and business objective.

£30bn

In 2010 we lent £30 billion to small and medium sized enterprises in the UK

### Employee engagement

Our people make the difference for our customers and it is important that we treat them fairly. Being a responsible employer is something we take very seriously.

81%

81% of employees took part in our annual Employee Opinion Survey

### Safety and security

The security of our customers' money and safety of our people are always important priorities. We are committed to being a safe place to do business.

4.6m

Over 4.6 million customers have downloaded our free online security software

### Citizenship and environmental sustainability

As a global organisation we have to manage our broader economic, social and environmental impacts. This includes wider citizenship issues such as human rights, our role in the community and environmental issues that concern our stakeholders.

93

We achieved the joint highest score of any bank globally in the 2010 Carbon Disclosure Project results

## Building a sustainable RBS

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Our role as a bank in society comes with a number of important responsibilities. We understand them and the importance of our relationship with our many stakeholders. In 2010, we have continued to make fundamental progress in re-shaping our business for the better. In addition to standalone financial strength, being sustainable means a number of different things – focusing on our customers' needs, operating with integrity and openness, and playing our part to address society's challenges. We are committed to being a sustainable bank in every sense of the word.

**Philip Hampton**, Group Chairman

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We are pleased to introduce the eighth RBS annual Sustainability Report on our approach to operating as a sustainable business. We are here to continually improve the business we do and the way we do it. This report covers our work in 2010 on a range of sustainability themes which we know matter to our stakeholders. Importantly, these themes also matter to RBS. You will see in this report a range of areas where we have been working hard to make a positive impact on our customers, the broader communities that we serve and our employees. Whilst we recognise that we have some way to go to re-establish RBS's reputation as a responsible and sustainable organisation, the commitment to achieving this goal across our organisation is absolute. Our Group Sustainability Committee reports to our Board, is chaired by Senior Independent Director Sir Sandy Crombie and attended by the Chairman. This Committee reviews our progress in this area and ensures that we set challenging priorities for action.

### **Restructuring our business – returning to financial health**

In 2010, we made significant progress against our five-year Strategic Plan to rebuild our business. Our investment in customer services has reinforced the importance of this relationship and continues to put the customer at the centre of how we operate. We have made significant progress in our risk systems and we are now amongst those businesses with the highest standards in the industry. We have continued with the run down of our Non-Core businesses, further reducing these assets by £63 billion in 2010. The sustainable rebalancing of our business model is taking shape. Our retail franchises are contributing two thirds of our revenues while the investment bank is contributing a third. Each of our Core franchises is completely focused on creating value in its own right, by the end of the Strategic Plan in 2013 we will have a stronger, balanced and more valuable business mix. For full details of our 2010 Annual Results and further information about how we are restructuring our business, see our website, <https://changingthebank.rbs.com>.

### **Responsible banking**

Financial services provide important benefits to society when they are delivered responsibly and efficiently. Our businesses allow customers to move, store, invest, borrow or raise money. And we help to protect people and assets through insurance. Whether it is to allow businesses to expand and create jobs or to enable tenants to become homeowners, these services are central to our economy and way of life.

Our sector needs to deliver these products and services in a way that benefits society. We are confident that the changes we are making at RBS in the way we do business, as well as the business we do, are helping to achieve this goal.

We gave extensive input to the work of the Independent Commission on Banking (ICB) and their investigation into the important issues that arose from the recent financial crisis. The Commission inquiry was a major event for our industry in the UK, and we sought to engage thoughtfully. See our response on the ICB website at [bankingcommission.independent.gov.uk](http://bankingcommission.independent.gov.uk).

### **Remuneration**

We have been a leading advocate of reform while acting with commercial pragmatism. The reforms we have introduced over the past year build on our market leading reforms of previous years and represent a completely different philosophy to remuneration since the crisis.



We have set out clear goals on how we are becoming a more sustainable bank. We do this by putting our customers first and investing in services that benefit them, by ensuring we have the appropriate financial reserves and risk management in place, and by investing in our people, who are at the heart of our business. We are building strength and value in the new RBS whilst also supporting the economies and communities in which we operate. Getting this balance right is the key to a sustainable future for our business.

**Stephen Hester**, Group Chief Executive

In 2010 we worked hard to ensure our approach to remuneration supported the overarching objective of maximising shareholder returns whilst demonstrating change from the past. The Board believes that the prospects of recovery depend on having talented and engaged management and employees, who are rewarded fairly in the context of the market in which they operate. Everything we do as a Board in relation to remuneration is set against this backdrop.

At the same time, we have sought to demonstrate exemplary levels of shareholder and stakeholder engagement, combined with active restraint and responsibility. We have consulted extensively with our shareholders on our approach before reaching unanimous decisions as a Board.

#### Supporting our customers

The role of banks as providers of credit has dominated public debate in 2010. We reached a new agreement on UK lending availability in March 2010. Our commitment to support UK customers comprises £50 billion of gross new facilities to businesses to meet creditworthy demand, and £8 billion of net lending to UK mortgage customers. We have met these targets, having lent £56.9 billion to businesses and £9.4 billion to the mortgage market from the March 2010 to February 2011 period.

More recently, we agreed to extend our goals on lending availability into 2011. This time, we will be joined by other large UK banks. This is a real commitment, which we hope will give customers confidence that viable requests for funds will be met. Also, the banks are supporting a major equity fund targeted at small businesses.

However, our commitment to customers is about much more than reaching the right balance on responsible lending and the availability of credit. In 2010 NatWest, RBS and Ulster Bank introduced Customer Charters. These are based on the issues that customers have told us are important to them. This covers everything from making banking easy (we will extend our opening hours in our busiest branches) to supporting the communities in which we work (we will provide young people with financial education through our MoneySense programme). Progress towards the achievement of the 14 individual commitments will be independently reviewed and reported on every six months. The results of the first review were published on 2 March 2010. Similarly, Citizens in the US launched its own commitments, based on customer feedback, which are already delivering tangible benefits to our customers.

#### Supporting communities

Beyond our day-to-day business, we are committed to serving and supporting the communities in which we operate. To do this, we need to understand both the impact of our business and operations, and the role that we can play through community partnerships and employee volunteering. In 2010, we invested in a number of programmes around the world which made a difference. In the UK, our MoneySense financial education for schools continues to be the most widely used set of resources for secondary schools, reaching over 350,000 schoolchildren last year. Through partnerships with leading organisations like The Prince's Trust, we focused on supporting enterprise and entrepreneurship, and we backed this up with financial support to a range of new businesses and social enterprises. Our retail banking businesses in the UK, Ireland and the US have all worked hard to put community initiatives at the centre of their operations, and we know that this is making a genuine difference. In India, where we employ around 11,000 people, we have continued to invest in projects that improve livelihoods, both directly through microfinance and indirectly through education and capacity building.

#### 2011

We are committed to investing in and developing our approach to sustainability in 2011, and will be reporting on our progress throughout the year and in our next annual Sustainability Report. Whilst rebuilding the financial strength of RBS is a shared priority for our many stakeholders, we also want to run a business that we can all take pride in.

**Philip Hampton**,  
Group Chairman

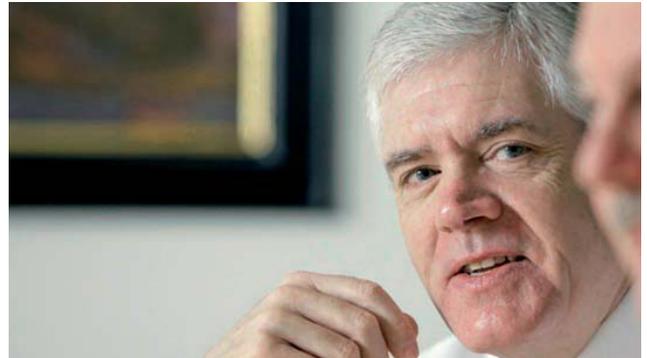
**Stephen Hester**,  
Group Chief Executive

## Sustainability governance



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 that guide our management on social and ethical issues.

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



### Sustainability governance

The robust governance of sustainability is essential to ensuring that our response to issues is managed effectively and debated at the appropriate level. The Group Sustainability Committee (GSC) meets four times a year to discuss and make decisions regarding the way our business will move forward in this area. The GSC is a Board Committee, chaired by our Senior Independent Director, Sir Sandy Crombie, with representation from all key business divisions. The GSC is supported by a governance framework which includes a forum and a number of focused working groups.

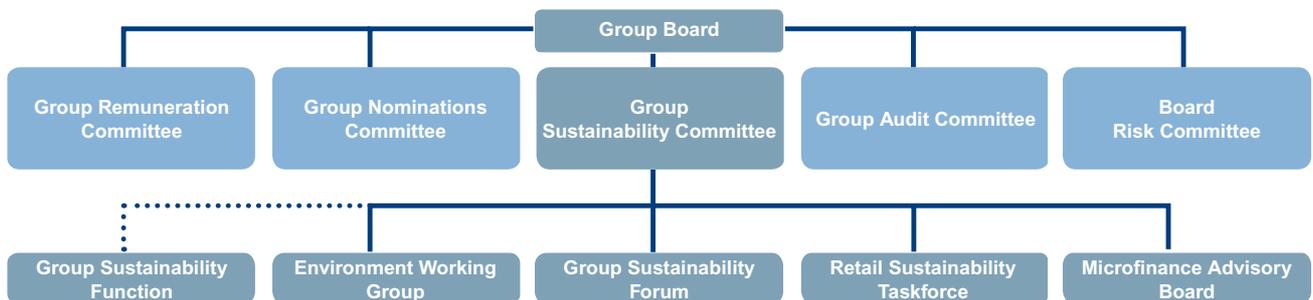
The Group Sustainability Forum is a network of senior sustainability managers that enables work to be carried out against the priorities set by the GSC. The executive-led Environment Working Group monitors environmental risk, commercial opportunities, operational impacts and communications and engagement. The Retail Sustainability Taskforce focuses on the issues surrounding sustainability with particular focus on our retail customers. The Microfinance Advisory Board comprises senior members from a range of stakeholder groups and provides external oversight and support for the Microfinance and Supporting enterprise programmes across the Group's international business.

The Group and divisional sustainability functions provide support and expertise to the GSC and the business divisions on the range of social and environmental issues relevant to the Group.

### GSC priorities and objectives

- Reviewing the Group's overall sustainability strategy, values and policies.
- Reviewing and endorsing priorities and targets for key sustainability issues for the Group. This will include receiving reports from other relevant working groups.
- Signing off the annual Sustainability Report.
- Reviewing the annual management report of the Group's sustainability auditors.
- Considering and recommending positioning on relevant emerging sustainability issues.

### 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 2010 and details our future commitments, goals and priorities.

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

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

# inclusivity materiality responsiveness

## 1

### Inclusivity

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

We consider our stakeholders to be those who have a direct interest in our business and those who have an interest in how we manage our business because of the wider impact of our actions: employees, customers, shareholders, investors, governments, regulators, consumer groups, non-governmental organisations (NGOs) and the media. There are also others whose actions have an impact on RBS, such as our suppliers, who are included in our approach to inclusivity. For more information on our stakeholder engagement see pages 8-11.

In addition, we have independent 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 2010 priorities see the following review of our five sustainability themes.

## Restructuring our business – how we are changing



### Our Strategic Plan

In February 2009, we set out a five-year 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).

From May 2009 and throughout 2010

Implementation of action plan continued

### Key events in 2010

#### January

RBS and NatWest launched a £1 billion fund in support of the UK manufacturing sector.

#### February

RBS announced a loss of £3.6 billion for 2009, down from £24.3 billion in 2008.

NatWest and RBS announced a new pledge to provide real help to UK residential mortgage customers facing financial difficulty. The Banks said they would not commence repossession proceedings for a full six months after a customer first falls into arrears, easing the pressure on those homeowners struggling to meet their mortgage payments.

#### March

RBS agreed to make £50 billion of gross new facilities available to businesses in the UK to meet creditworthy demand and £8 billion of net lending available to UK mortgage customers.

#### April

RBS announced the final legal separation of the ABN AMRO businesses acquired by RBS from those acquired by the Dutch State.

#### May

First quarter results reported a smaller loss of £248 million attributable to shareholders, down from £765 million in the previous quarter, confirming the Strategic Plan is on track.

#### June

NatWest and RBS launched a Customer Charter – created for and by customers. The Charter set out 14 commitments covering what really mattered to customers and what they have a right to expect from us.

#### July

RBS sold businesses in Argentina, UAE, Pakistan and Kazakhstan, as targeted by the Strategic Plan.

#### August

RBS reported an increased operating profit in the second quarter and broke even at an after-tax attributable profit level in the first half of 2010. The Group remained on track against its Strategic Plan targets.

Ulster Bank launched its customer commitments – Help for What Matters

RBS agreed to sell 311 RBS-branded branches in England and Wales, seven NatWest branches in Scotland and associated SME customers to Santander UK.

RBS reached a settlement with its main regulator, the Financial Services Authority (FSA), after finding that deficiency in systems and controls between 2007 and 2008 breached money laundering regulations.

#### October

RBS published a report summarising its role in financing the energy sector. The report found that energy sector clients make up around 3.6% of our total lending.

#### November

RBS reported operating profit of £726 million in third quarter results. Group operating profit, excluding fair value of own debt, increased to £726 million – up from £250 million in the previous quarter.

#### December

The FSA closed its investigation of pre-crisis RBS. The review found that RBS had made a series of bad decisions in the run up to the financial crisis. However, no evidence of fraud or dishonest activity, or a failure of governance, was found.

## Progress against business targets

We have announced clearly defined financial targets which we report against on a quarterly basis.

### Core-tier 1 capital

<b>2013 Target</b>	<b>&gt;8%</b>
<b>2010</b>	<b>10.7%</b>
2009	11%
Worst point	4%

We need a strong capital ratio to meet society's expectations of a safer banking system.

### Loan-to-deposit ratio

<b>2013 Target</b>	<b>100%</b>
<b>2010</b>	<b>117%</b>
2009	135%
Worst point	154%

We want to put our balance sheet on a more secure footing by lending only as much as we have in deposits.

### Cost-to-income

<b>2013 Target</b>	<b>&lt;50%</b>
<b>2010</b>	<b>56%</b>
2009	53%
Worst point	97%

We cannot achieve a 15% RoE without cost control and margin re-pricing to ensure income is efficiently generated.

### Return on equity

<b>2013 Target</b>	<b>&gt;15%</b>
<b>2010</b>	<b>13%</b>
2009	13%
Worst point	-31%

We need to cover our cost of capital in the long-run, and justify our shareholders' support.

### Liquidity reserves

<b>2013 Target</b>	<b>c.£150bn</b>
<b>2010</b>	<b>£155bn</b>
2009	£171bn
Worst point	£90bn

We want to hold strong liquidity buffers, to guard against unexpected funding difficulties.

For full definitions see page 7 of the Annual Report and Accounts at [annualreport.rbs.com](http://annualreport.rbs.com)

We are working hard to make RBS an admired, valuable and stable universal bank. To find out more about how we are performing against our Strategic Plan and to tell us what you think, visit <https://changingthebank.rbs.com>

For a breakdown of our global presence visit [rbs.com/customers.ashx](http://rbs.com/customers.ashx)

## Our Group 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
- 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

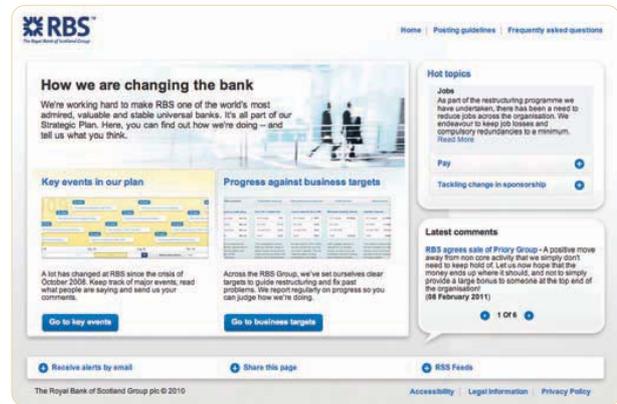
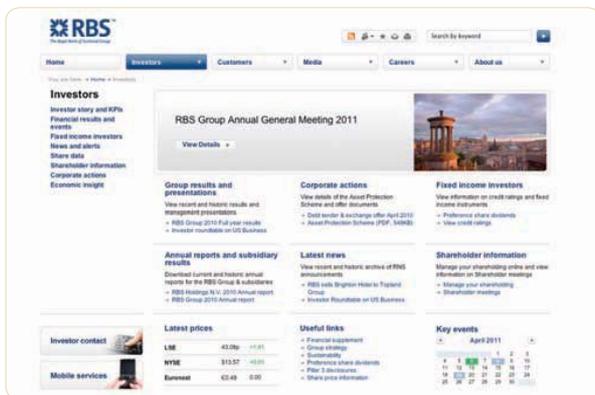
# Stakeholder engagement

Our stakeholders are groups and individuals who have been impacted by or have an interest in our operations.

## Engaging our stakeholders

There is an increasing need for all businesses to help society meet global and local challenges ranging from climate change to consumer debt. As a large and complex business, we are determined to play our part in meeting these challenges. Our engagement with stakeholders serves to inform and advise our decision-making process across our operations. We are committed to developing constructive relationships with all groups impacted by our business as we progress through our five-year restructuring programme. These relationships are vital to how we manage our business.

We recently enhanced our Investor Relations website. It is now easier to access the Group's disclosure and we have added a new strategy section which addresses the Group investor story and includes our Key Performance Indicators. For more information visit [investors.rbs.com](http://investors.rbs.com).



Our ongoing opinion research programme seeks to obtain feedback on our current approach, what is most important to our stakeholders and what expectations they have for RBS in the future. In 2010 our opinion research included:

- Customer satisfaction surveys, focus groups and online feedback. All of our businesses around the world 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 message boards. Surveys help us to track employee views and levels of engagement, and benchmark these against other companies. New intranet feedback sites also allow our staff to submit questions, comments and ideas.
- UK public opinion research. We are tracking our corporate reputation through a monthly survey of around 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.

We are combining all of the above research to provide data for an integrated corporate reputation study. This integrated study will produce an in-depth understanding of our reputation across a range of stakeholder groups, and will include a peer benchmarking exercise. The insight we gather allows us to track the views of our stakeholders and is regularly reported to the Group Board through our Global Reputation Dashboard. The dashboard is a practical management tool that is structured to highlight areas and issues that require attention. Our insight informs our actions on a day-to-day basis to help ensure we are meeting the expectations of our stakeholders. It also underpins longer-term strategic action, tracked on our website: <https://changingthebank.rbs.com>. This site allows us to engage our stakeholders in a two-way dialogue on the issues that really matter to them, from remuneration in the banking sector through to our sponsorship policy.

FOCUS

## Supporting customers in financial difficulty

Helping customers in financial difficulty is one of our key priorities as a Group.

Along with speaking to our customers directly, we also seek to engage with groups such as Citizens Advice Bureau (CAB) on the issue of customers in financial difficulty. At the end of 2008, we funded CAB to carry out an extensive study of self-help debt advice services which uncovered a number of areas where improvements could be made to benefit customers. Nearly half of the people who completed the survey wanted to take control of their own debt problems, yet only 20% reached an agreement with their creditors. People in debt were left feeling disempowered. This led to a project working group being set up which comprised of advice providers, trade bodies, and major lenders, including RBS.

This resulted in the creation of the 'CASHflow scheme' in partnership with a number of groups including the Money Advice



Trust and the Department for Business, Innovation and Skills. CASHflow represents a landmark in collaborative working between business, the advice sector, civil society and government. It was recognised as an innovative, industry changing project when in 2010 it won both the Credit Today Money Advice Initiative Award and the Institute of Money Advisers' Best New Debt Advice Initiative Award.

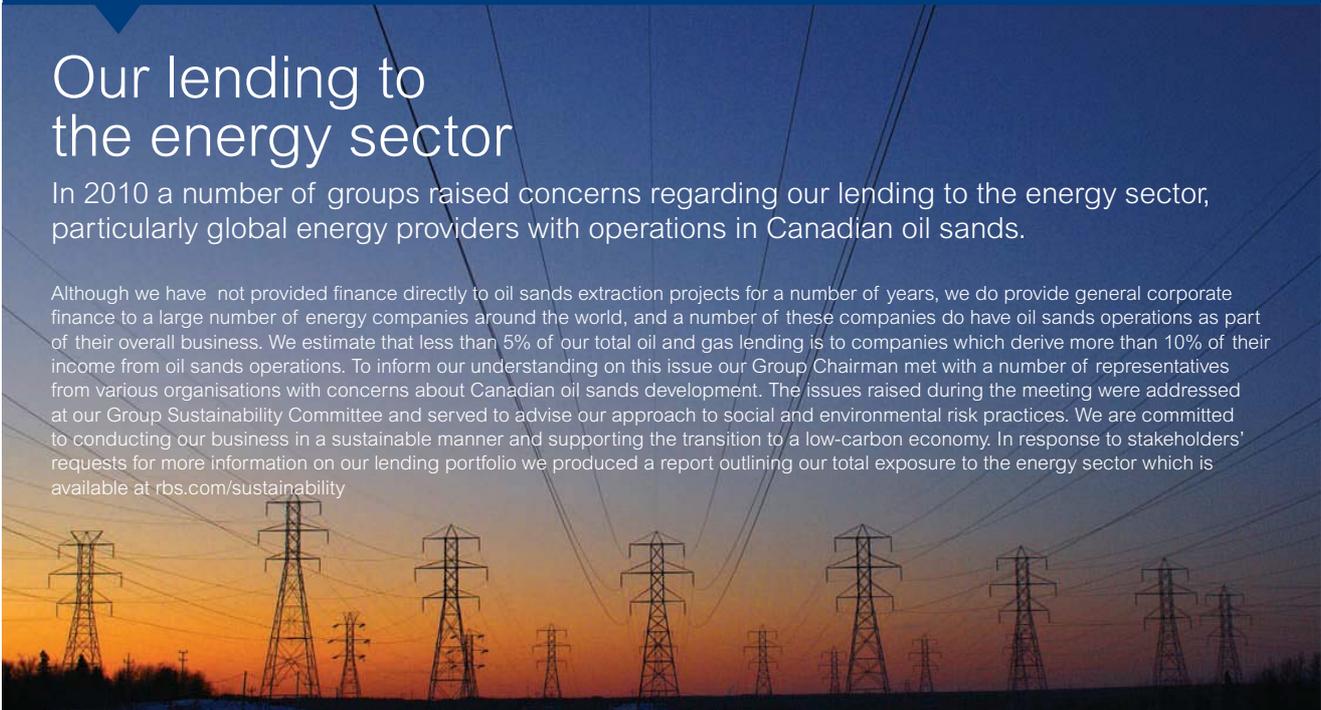
Ensuring customer repayment plans are sustainable for the long-term is paramount to our relationship and benefits both the customer and the Group. We continue to work in partnership with CAB and the Money Advice Trust to ensure that CASHflow really starts to make a difference in empowering customers and getting them on the road to recovery. For more information on the success of CASHflow see pages 15-16.

FOCUS

## Our lending to the energy sector

In 2010 a number of groups raised concerns regarding our lending to the energy sector, particularly global energy providers with operations in Canadian oil sands.

Although we have not provided finance directly to oil sands extraction projects for a number of years, we do provide general corporate finance to a large number of energy companies around the world, and a number of these companies do have oil sands operations as part of their overall business. We estimate that less than 5% of our total oil and gas lending is to companies which derive more than 10% of their income from oil sands operations. To inform our understanding on this issue our Group Chairman met with a number of representatives from various organisations with concerns about Canadian oil sands development. The issues raised during the meeting were addressed at our Group Sustainability Committee and served to advise our approach to social and environmental risk practices. We are committed to conducting our business in a sustainable manner and supporting the transition to a low-carbon economy. In response to stakeholders' requests for more information on our lending portfolio we produced a report outlining our total exposure to the energy sector which is available at [rbs.com/sustainability](http://rbs.com/sustainability)



## Stakeholder engagement **continued**

<b>Our stakeholder groups</b>	<b>Employees</b>	<b>Customers</b>	<b>Consumer groups</b>	<b>Non Governmental Organisations (NGOs)</b>
<b>Their key issues and concerns</b>	Working environment Pensions Pay and benefits Job security	Customer service Financial crime Financial difficulty Selling and lending practices Products and execution	Customer support Responsible lending Financial capability Financial inclusion Financial difficulty Small business support	Environmental impacts Responsible lending Sector lending Human rights
<b>How we manage the issues raised by our stakeholder groups</b>	Our employees are one of our most important stakeholders our annual employee opinion survey aims to assess the general satisfaction levels across the Group. In addition the Group has processes in place to allow employees to raise their concerns and to support them in achieving a healthy work life balance. Further details on our employee engagement can be found on pages 26-29.	Our customers are a priority stakeholder and we are committed to supporting their needs through the work of our branches, call centres and web-based facilities. Our engagement with customers in 2010 included customer-based research that assessed attitudes to the various issues raised by both the RBS Group and the wider banking sector in 2010. Our research allows us to identify the issues that matter most to customers and informs our future strategy.  In addition, we continually monitor current and upcoming issues that could impact upon our customers and regularly participate in industry and government based consultations on consumer issues. Further details on our approach to dealing with customers can be found on pages 14-21.	Consumer advice agencies play an important role in reaching a broad range of the Group's stakeholders. In 2010 these groups raised the issue of people facing financial difficulties and we have responded by building upon the strong relationships we have with a number of consumer advice agencies.  We have worked closely with these agencies to deliver our MoneySense programme and other financial capability, financial inclusion and money advice initiatives. Our partners include the Citizens Advice Bureau, the Consumer Credit Counselling Service, Gingerbread, Macmillan, Learning and Teaching Scotland, the Personal Finance Education Group.	We have an active programme to engage with NGOs on the range of relevant issues. We have responded to a number of queries on our approach as a business and attended various meetings with NGOs globally. Issues range from the environment to our approach to the defence sector. We have used this feedback to inform the development of our ESE (ethical, social and environmental) sector policies. We have also increased our reporting and disclosure on our lending to the energy sector.
<b>Our response</b>	Regular communications from our executive population to all employees  Almost 55,000 comments submitted by employees from across the Group as part of our 'Your Feedback' programme  Over 119,000 employees participated in our annual Employee Opinion Survey	Over 150,000 customers completed our income and expenditure statements helping them control their finances  Surveyed over 12,000 young people to assess the impacts of our MoneySense programme  Monthly surveys of around 2,000 members of the UK public  Launched UK Retail Customer Charter and Ulster Bank customer commitments, to deliver on our customers' needs	Engaged with and supported Community Development Financial Institutions in 15 UK high priority areas  Quarterly meetings held with consumer groups on financial support  Participation with consumer groups to establish mechanisms to support customers with physical difficulties  We worked with CAB to develop CASHflow, see page 9 for more information	Responded to over 300 individual enquiries on our approach to sustainability issues  Engaged with NGOs from America, Europe and Asia  Addressed issues raised by NGOs at our Group Sustainability Committee

**Our approach to sustainability**

Stakeholder engagement

Investors	Government and regulators	Industry and trade bodies	Suppliers	Media
<p>Performance trends Managing leverage Return on equity targets Remuneration</p>	<p>Financial services and banking reform Consumer issues Tax Remuneration</p>	<p>Responsible lending Regulation Environment impacts</p>	<p>Environment and climate change Diversity and inclusion Timely payment</p>	<p>Transparency Proactive communication</p>
<p>The Group has a dedicated Investor Relations team, offering information to all of our investors. In addition, we have an established Socially Responsible Investors (SRIs) engagement programme. In 2010 this engagement included a tailored research programme investigating the areas of most relevance to SRIs, and a number of individual meetings with SRIs and SRI briefing events hosted by our Chairman and Sir Sandy Crombie, Senior Independent Director and Chair of the Group Sustainability Committee.</p> <p>One of the main issues raised by our investors was our approach to social and environmental risk and in 2010 their input helped guide the development of these risk systems.</p>	<p>The increased government stake in our company has amplified the need to engage with both regulators and government. We engage with appropriate regulatory authorities throughout our global operations, including the Financial Services Authority, who act as our lead regulator. We are committed to maintaining communication with all regulators, stakeholders and wider financial community.</p> <p>Regular meetings are held with governments throughout our operations, and this is supported by ongoing correspondence on a range of issues. In addition we actively engage with the UKFI (UK Financial Investment Ltd) who manage the UK Government's shareholding in the RBS Group.</p>	<p>We participate in industry wide discussions and adhere to the British Banking Association code of standards. We have been a member of the Equator Principles since its inception and actively supported the evolution of the standard in 2010. We have been a member of the United Nations Global Compact since 2003 and our Head of Group Sustainability is currently Chair of the UK Global Compact Network. We have supported the network to bring industries together to examine sustainability issues and collaborated on the Millennium Development Goals report. We are also a member of the UN Environment Programme Financial Initiative and Climate Wise initiatives.</p>	<p>As part of our commitment to operating a sustainable business we regularly assess the practices of our suppliers. Our responsibilities extend beyond our commercial business interests and we regularly engage with our key suppliers to ensure best practice throughout their operations. Our Group Code for Suppliers highlights both our commitment to suppliers and the expectations we have of them. It clearly sets out that our expectations go beyond regulatory compliance and references the principles of the UN Global Compact as a guide to best practice. Further details of our Group Ethical Code for Suppliers are available at <a href="http://rbs.com/sustainability">rbs.com/sustainability</a>.</p>	<p>We have dedicated media relations teams throughout our business functions and at a Group level. We carry out regular engagement with various members of the media.</p> <p>Our Group Media Centre handles media enquiries on Group issues, including annual results, interim management statements, corporate announcements, Board and senior management appointments, and related issues.</p>
<p>Engaged with over 1,500 investors</p> <p>Surveyed over 20 SRIs on our approach to sustainability</p> <p>Hosted meetings with the Group Chairman, Senior Independent Director and SRIs in both our Edinburgh and London offices</p> <p>Took part in the following sustainability indices: Carbon Disclosure Project FTSE4Good Dow Jones Sustainability Index</p>	<p>Provided written and oral evidence to a range of Government and Parliamentary Commissions and Select Committees</p> <p>Participated in a Human Rights consultation with the Ministry of Justice</p> <p>Became associate members of the Associate Parliamentary Corporate Responsibility Group</p>	<p>Engaged with over 40 social partners globally including trade unions, works councils and cross jurisdiction European Works Councils</p> <p>Chaired quarterly meetings of the UK United Nations Global Compact</p> <p>Became Chair of the Equator Principles Communications Working Group</p>	<p>A rolling programme of comprehensive reviews of suppliers</p> <p>Requested for key suppliers to demonstrate their approach to sustainability issues</p>	<p>Increased transparency with the media as a result of quarterly financial reporting</p> <p>Comprehensive media engagement during all major events and announcements in the corporate calendar</p> <p>Maintained and developed relationships with all core media</p>

## Review of sustainability themes 2010

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- Responsible lending practices and products
- Customer service
- Access to financial services
- Financial education and capability

### 22 Supporting enterprise

- Supporting small and medium sized enterprises
- Helping businesses start-up and grow
- Facilitating social innovation
- Supporting youth enterprise
- Microfinance

### 26 Employee engagement

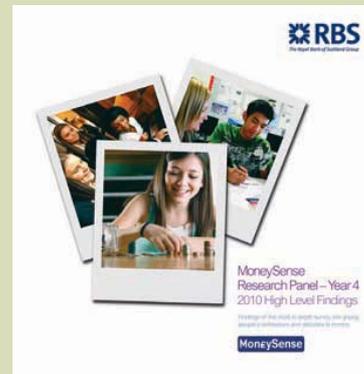
- Listening to employees
- Supporting employees as we change our business
- Diversity and inclusion
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### 30 Safety and security

- Protecting customer data and information
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### 34 Citizenship and environmental sustainability

- Citizenship
- Environmental sustainability



## Sustainability highlights

In 2010 **we lent £3.6 billion** through our first-time buyer products to assist customers onto the property ladder in the UK

We are one of the leading providers of basic bank accounts in the UK. We hold just **over 1.1 million** accounts in total, including over 200,000 that were opened in 2010

Citizens and Charter One conducted **more than 275** financial literacy programmes throughout 2010, educating more than 13,000 people

Our **Livelihood projects in India** reach over 63,000 households across 11 states

Our MoneySense Research Panel surveyed **over 12,000 young people**, the most extensive survey of its kind in the UK. The results showed that MoneySense is achieving positive results

We currently approve **over 5,000 loans to UK businesses each week**, accepting over 85% of all credit applications



Global Transaction Services launched a **new partnership** with UK Trade and Investment and its Asia Task Force to help UK companies do business with the 11 countries across our Asian footprint

We achieved the **joint highest score** of any bank globally in the 2010 Carbon Disclosure Project results

We have a **leading market share** in third sector UK business lending

Since its inception in 2003, the Citizens 'Gear for Grades' programme has served **over 150,000 school children** in the US

In 2010 the number of females in executive positions **increased** from 15% to 17% and from 23% to 26% in senior management positions

We gave **cash grants to 4,300 charities and community groups** across the world

In 2010 we achieved a **27% reduction in fraud losses** when compared with 2009

We enhanced our card fraud profiling system resulting in a **25% reduction** in card fraud losses

In the US, as a result of several initiatives completed in 2010, the number of ID theft cases **decreased** by over a third and losses reduced by 18.2%

In 2010, 59% of the electricity used in all of our buildings and branches was from **renewable sources**

Ulster Bank **opened 45 branches** on Saturdays for the first time in 2010 – more than any other bank in Ireland

Citizens was named **2nd in the US** for delivering the best experience for small business customers

We were awarded the **Gold LEED environmental certification** for our RBS buildings in Amsterdam and Chennai

We **listen to employees** and in 2010 received the views of 119,000 employees through our annual employee opinion survey

We **gave nearly 40,000 employees** in 2010 time off to volunteer in the community

Our free online data protection software Rapport, currently **protects 4.6 million** customers from fraud

We were awarded the **Carbon Trust Standard** in recognition of our carbon footprint reductions in UK operations and subsidiaries

We acted as joint lead arranger in the \$1.4 billion structured finance of the **world's largest wind farm**

We financed the **largest ever domestic solar power** project in the UK, helping to provide cheap electricity for social housing residents

## Fair banking



**OUR 2010 PRIORITIES**

**What we said we'd do ...**

- ✓ 2010 target achieved
- ⓘ partially achieved ongoing target
- ✗ 2010 target not achieved

- ✓ To continue to support customers in financial hardship and help customers avoid problem debt
- ✓ 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 bi-annually
- ✓ To support our communities through the creation of a UK Community Fund
- ⓘ To continue to take a leading role in government and community initiatives including the Saving Gateway account and the provision of basic bank accounts
- ✓ To increase the number of school children receiving MoneySense lessons and expand the resources we make available to schools and adults

Last year one of our key priorities was the launch of our Customer Charter, a set of 14 Commitments about how we'll deliver 'Helpful Banking' for our customers and communities based on what they told us was important to them.

We wanted to be transparent and we've now published the first six month's independently assessed results and I'm pleased to say we made good progress. We extended opening hours in 206 of our busiest branches, opened 846 branches on Saturdays and identified over 146 'last bank in town' locations where we will continue to provide local banking services.

We launched our community fund to support local charities and projects nominated by our customers. We received 27,726 nominations for local causes and we donated £1.79 million to the 1,071 winning charities and projects. The MoneySense programme continues to be popular with schools across the country with 30,653 lessons delivered to 368,625 students in 2010. Our businesses in the US, Citizens and Charter One, provided more than 275 financial literacy programmes in 2010, educating over 13,000 people. This includes a partnership with the Federal Deposit Insurance Corporation to provide Money Smart Training, which helps people outside the financial mainstream enhance their money skills and create positive banking relationships.

We're also helping our customers to avoid getting into financial difficulties in the first place, by watching out for early signs of problems. We now have a dedicated financial support team who monitor and actively approach customers who may be struggling with their money.

This progress is great news, but we know we still have a lot more to do. So in 2011, we'll continue to build on the progress we've made and keep asking our customers to tell us what we need to do to achieve our ultimate goal of becoming the UK's most helpful and sustainable bank.

### Brian Hartzler

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

## What we did in 2010

### Responsible lending practices and products

#### Supporting customers in difficulty

Supporting our customers in financial difficulties is vital, but it is even more important we do what we can to help them avoid getting into difficulty in the first place. The recession has had a serious impact, with unemployment and reduced income causing problems amongst many of our customers who we have lent money to.

It has been a particularly difficult year for the Irish banking sector, which was reflected in customer mortgage impairments. In response to this, Ulster Bank built in a special Collections and Recoveries service within its Flex programme, helping almost 19,000 customers to cope with their challenging financial circumstances. To help customers avoid getting into difficulty in the future, Ulster Bank reviewed its affordability criteria and assessments in 2010, and enhanced them with greater stress testing and new portfolio management limits.

It was essential that these changes at Ulster Bank met the individual customer requirements, and the most suitable repayment options were offered. To ensure this was the case, Ulster Bank carried out quarterly customer satisfaction surveys on those with a flex forbearance arrangement. A positive customer satisfaction score of 81.9% was achieved in the third quarter of 2010, rising to 83.2% in the fourth quarter. Customers were asked to give a positive or negative rating on a number of questions including friendliness and helpfulness of staff, whether staff took the customer's individual needs into account and the end solution.

#### FOCUS

Guidance on managing debt was introduced on UlsterBank.com in Northern Ireland in May 2010, extending this service beyond the Republic of Ireland. Here contacts are provided for independent debt advice agencies such as Citizens Advice and Debt Action Northern Ireland, which is jointly funded by Ulster Bank and the Department for Enterprise, Trade and Investment.

Throughout 2010, RBS provided support, advice and funding for the Common Assisted Self-Help scheme (CASHflow) in the UK, designed and implemented in partnership with Money Advice Trust and the credit and debt advice industry. The scheme aims to help customers negotiate repayment offers directly with their creditors. This scheme empowers customers whilst helping them to repay their debts and takes the strain off the debt advice sector.



### Helping customers when they need it most

In March 2010, Rhode Island, Massachusetts and Connecticut were affected by severe flooding in the US. In order to provide support for our Citizens customers, we announced a number of services to help them through this difficult time. Citizens offered individuals earning below \$200,000 per year, the opportunity to borrow an unsecured emergency flood loan of any amount between \$1,000 and \$10,000 at 2.65% with no prepayment penalty. Customers could also defer a payment on their car or home equity loan. Citizens also offered a credit card with 0% interest for six months. In doing so, we were able to provide local companies and individuals with assistance after some of the worst flooding in 200 years.

CASHflow was launched on a small pilot basis but after its success, including winning a Credit Today Award for 'Best New Money Initiative', over 160 advice agencies are now using CASHflow. By the end of 2010, 3,400 customers had signed up and were receiving advice with over 1,000 already having successfully agreed affordable repayment plans with their creditors. In 2010, RBS funded CASHflow to support its roll out across the UK.

Unfortunately many people find themselves in financial difficulty at some point in their lives and RBS provides much needed support to our customers in this situation. In 2009 we implemented the industry agreed voluntary 30-day Breathing Space policy for credit cards and unsecured credit products. Breathing Space is available to customers as they work through their financial situation with a free or fee-paying debt advice agency. During this period we will not phone or write to them, giving them space and time to sort out their finances.

In 2010, the policy was extended to include customers on the CASHflow scheme and by the end of 2010, almost 15,000 RBS Group customers had benefited from the policy. During 2011, we will look into offering the policy to customers who are working through their finances without the help of a debt advice agency.

Finding yourself in unmanageable debt can be incredibly stressful and made worse if you think you might lose your home. RBS see repossession as a last resort and we have a wide range of alternative repayment options available to give customers the short term help they need to get back on their feet. Depending on the customer's circumstances we can do the following to help them keep their homes: defer payments, temporarily reduce payments, introduce longer repayment terms or offer payment holidays.

If a customer gets into arrears, we always wait at least six months before starting any repossession proceedings. We introduced this policy in December 2008 and it remains a promise of ours throughout 2011. We also offer referrals to the various Government Support Schemes, for example, Mortgage Rescue Scheme, Homeowner Mortgage Support Scheme and Support for Mortgage Interest.

There will be times when our customers experience a change in their circumstances for which there is no solution and it does not help them or the Bank to continue with the mortgage. When this happens RBS provides an Assisted Voluntary Sale service to our customers. This is now an industry wide initiative. If it is agreed that Assisted Voluntary Sale is the best route, our team of dedicated advisers support our customers through this process. If our customers are facing costs associated with selling their home we can also help by paying those to avoid them getting into further debt. So far we have helped 138 customers sell their homes with this scheme in the UK.

We are in challenging times and one of these challenges, which we are discussing with consumer groups, government and regulators, is the forecast increase in the Bank of England base rate. A major concern of rates rising is the impact it will have on increasing monthly mortgage payments and levels of consumer debt. RBS recognises this is an issue for our customers, the Group, government, the financial services industry and the debt advice sector.

In 2010, we spoke to our customers on standard variable rate mortgages about the possibility of future interest rate rises. We asked them what a rise in rates would mean for them and being able to pay their monthly repayments. We were able to offer them options which would help them avoid a payment shock.

To tackle this problem at an industry level, RBS hosted an Interest Rate Rise Round-Table event in November 2010. The event was attended by consumer groups, debt advice agencies and government departments, and a wide range of issues were discussed. A major agreement was the need for an industry wide communications plan to help customers make the right decision to avoid the effects of an interest rate rise.

## Fair banking continued



### Supporting customers in difficulty

Our pre-emptive teams have been working harder than ever to help customers in financial difficulty. To help improve our customers' financial situation, our advisers take our customers through an income and expenditure exercise and suggest ways to increase their income and cut back on what they spend to rearrange their commitments. Throughout 2010, over 150,000 customers completed income and expenditure statements giving them more control of their finances.

### Availability of credit

In 2010, we exceeded our Government Lending Commitment for UK mortgage lending. We said we would lend an additional £8 billion in net mortgage lending from March 2010 to February 2011 – our actual figure was £9.4 billion.

#### FOCUS

Our RBS and NatWest brands won external recognition with both being awarded the Your Mortgage Award for 'First Time Buyer Lender', and NatWest winning the Your Mortgage Award for 'Best Bank' for the 17th time. We won these awards for a number of reasons, including: our personal approach to mortgage lending, the wide range of mortgage products we offer and our dedication to first time buyers.

We also continue to offer a wide range of competitive mortgage products up to and including 90% Loan-to-value (LTV), as well as our award winning first-time buyer mortgage, demonstrating our commitment to mortgage lending.

In 2010, we lent £3.6 billion helping 30,000 first-time buyers onto the property ladder in the UK. We are also part of the Government Shared Equity schemes, HomeBuy in England and Wales and the LIFT (Low-cost Initiative for First Time buyers) scheme in Scotland.

These schemes are made possible by the government support to people on lower incomes with a small, or no deposit, a low interest loan to help them get onto the property ladder. In 2010, we lent £425 million to almost 4,000 customers on shared equity schemes helping them take that giant step to owning their own home. We also lent £735 million to Housing Associations which led to 28,000 affordable homes being built or refurbished.

### Affordability of credit

Our responsible lending policy continues to be essential to our customers and to the success of our business. It is in no-one's interest to agree credit which is not affordable or sustainable and during 2010 we improved the way we use data from Credit Reference Agencies. This helps us to understand our customers' financial position and thereby enhance our assessment processes.

We remain focused on our Customer Charter commitment to be a responsible lender by not increasing credit card limits for customers in financial difficulties. We also made sure that our customers who were showing signs of being in financial difficulty were given the help they needed.

### Current accounts

In late 2008, we recognised that the overdraft fees structure at that time was not sustainable in the long term both for our customers and the bank – so we reduced them.

In 2010 we asked our customers about our products and charges and have acted on what they told us by: making it easier for customers to understand how their overdraft operates and how they will be charged, halving our range of overdraft charges from four to two, giving our customers more control of their account and introducing 'Act Now' text and email alerts to give customers the chance to avoid charges.

The new structure is easier to understand and based on what our customers want. It will help them understand their spending habits and be in a better position to ask us if there is something we can do to help. We are now confident that under the new charging structure the majority of customers will be better off.

RBS and NatWest have designed a unique free service in the UK called 'Money Manager' to help selected customers manage their finances better. 'Money Manager' links two current accounts (a 'bills' account and a 'spending' account) with one savings account and sets up standing orders and auto transfers between them. It has two optional automated features which can help to boost savings and avoid charges. We are able to identify customers who are suitable for this service and suggest it as an option. At the end of 2010, 689 arrangements had been put in place with our customers to help them improve their money management skills.

“ Since launching CollegeSaver, our customers have opened more than 20,000 accounts, paving the way for more than \$20 million in bonus money plus interest to go toward the college education of loved ones. As good citizens, we are happy to help them save and earn money.

Theresa McLaughlin, Group Executive Vice President and Chief Marketing Officer



### CollegeSaver accounts

Citizens has a number of savings accounts which incorporate incentives and tailored services to help customers manage their finances. In response to customer demand as parents face rising tuition fees, the availability of the CollegeSaver account was expanded to include enrolling children before their 12th birthday. Previously, only children up to the age of six could be enrolled in a CollegeSaver account, which rewards customers who commit to saving monthly with a \$1000 bonus plus all the accrued interest when the child turns 18.

### Support for savers

The recent recession has shown the importance of saving and although, due to a low base rate, savings rates are low, RBS offers many options for savings accounts. These include: online and instant access accounts, ISAs and fixed rate bonds.

During 2010, 948,000 people decided to start their saving habit with RBS and 1.2 million existing customers opened another account with us. We are committed to making sure that all our offers and products are available to both new and existing customers throughout all of our banking channels.

In a time of low interest rates RBS bonds have proved very successful for customers who want to fix their interest rate. There has been a permanent range available in 2010 of the one, two and three year bonds so customers have maximum choice and guaranteed availability. In addition customers are now able to open a bond immediately online.

The Citizens GoalTrack savings account was also extended, and is now available throughout Citizens. This service is designed to help customers save for important goals with tools to stay on track with a bonus for reaching their target. A Money Organizer pilot was also expanded to include an additional 24 branches, enabling consumers to better manage their money to control spending and save by setting up three accounts: one for bills, one for spending and one for savings.

The Citizens Student Money Bundle provides a package of benefits designed for students with a variety of savings options, including GreenSense, retail discounts and protection plans for popular electronics.

The new Citizens GreenSense credit card was launched in 2010, linking environmental responsibility with customer rewards. Since its launch, GreenSense account holders have made over 193 million paperless payments and have been rewarded over \$18 million.

### Customer service

#### Re-engaging with our customers and the community

In 2010, we launched our UK Customer Charter – a set of 14 commitments designed to help us achieve our goal of becoming the UK's most helpful and sustainable bank. The Charter was developed with a large amount of input from our customers to make sure that our commitments were based on the improvements they wanted to see from their bank.

We will publish an independently assessed progress report every six months highlighting the areas where we have done well and, most importantly, the areas where there is still room to improve. The first report was published in March 2011 and can be accessed at [rbs.co.uk/global/customer-charter.ashx](http://rbs.co.uk/global/customer-charter.ashx)

Ulster Bank launched a similar initiative in 2010, introducing its 'Help for What Matters' programme. This was designed to deliver fair and consistent treatment of customers and outlined a series of commitments built on priorities identified from customer research. The programme is already delivering tangible benefits for customers. For more information, see the following 'access to banking' section in this Report, detailing extended opening hours, as well as online at [helpful.ulsterbank.co.uk](http://helpful.ulsterbank.co.uk).

During 2010, we really focused on the ways in which we can help the community and UK Retail staff showed their commitment by spending 9,221 days volunteering in their local communities. We also launched a Community Fund which provided much needed help to projects and charities in the communities which are served by RBS or NatWest branches.

The total fund was £1.79 million which was split into 357 individual funds of £5,000. Customers and local residents nominated and decided on the local projects or charities that benefited from the prize money. There were over 108,000 votes cast in total.

One charity to benefit from the Community Fund was The Yorkshire Air Ambulance Charity. Serving a population of approximately five million people across four million acres, Yorkshire Air Ambulance has flown over 3,600 patients to hospital since its creation in 2000. It takes a huge amount of money to keep both its helicopters in the air and the Community Fund award will help such an important service do just that.



### Listening to customers

In June 2010 we made a set of 14 promises to our customers as part of the UK Customer Charter. Within our 14 commitments, we set ourselves 25 specific and stretching goals. In March 2011, we published a progress report which showed that we have met 20 out of the 25 goals. We have made a strong start but we still have a long way to go.

From our first Customer Charter report, eight out of ten customers rated us as friendly and helpful during 2010. This is good, but not good enough and we want to increase that to nine out of ten.

One of our commitments as part of the Customer Charter is to 'actively seek customers' thoughts and suggestions on how we can become more helpful and we have done this by starting a Customer Listening Programme. During 2010, the Programme brought staff, particularly senior management, face-to-face with our customers so they could hear directly about their experiences of our products and services. This feedback has helped us understand what is important to customers with regards to our products and services. The feedback from these sessions has helped us understand what our customers really want from us. We also held Customer Charter 2011 focus groups with customers and consumer groups, to share their views on the updated Customer Charter commitments for 2011.

In 2010, Citizens enhanced its customer feedback processes in a number of ways. Daily Retail Customer Satisfaction Surveys are now conducted where customers can give specific feedback, and branch procedures have already been changed in response to this. Survey results and Customer Complaints are formally reviewed in detail, and a new Service Improvement Board was instituted to review the reasons for dissatisfaction and launch actions for improvement. The Board has already launched 20 cross-divisional projects in 2010 to improve service and these are measured by mystery shopping programmes.

Citizens has focused on improving the customer experience in 2010 and customer satisfaction scores have seen a pronounced improvement. The percentage of Retail customers who are 'completely or very satisfied' peaked in the third quarter at 84.7%. However, due to financial legislation changing the fee structures across the industry in the US, Citizens had to increase some of its charges which has inevitably led to a decrease in satisfaction.

### Responding to customer complaints

We recognise the importance of complaint handling for our customers and are addressing the root causes of complaints. We recognise that sometimes things can go wrong and when this happens we encourage customers to tell us about it so we can improve what we do. Such is our commitment to get this right for our customers that complaint resolution features as one of our Customer Charter commitments. In the spirit of transparency we have also published the five most common complaints: charges relating to current accounts, charges relating to credit cards, problems with Payment Protection Insurance (PPI), replacement debit cards and queried payments from current accounts. We are working hard to address the causes of these complaints. For example, we have simplified the charging structure for unauthorised overdrafts on current accounts and made it easier for customers to pay credit card bills automatically. We have also re-trained over 10,000 of our staff to make sure we resolve complaints more effectively and will train a further 24,000 over the next year. For more information on the top five complaints and how we are addressing them see [rbs.co.uk/global/customer-charter.ashx](http://rbs.co.uk/global/customer-charter.ashx)

Please see the table on page 19 for a breakdown of our complaints handling in 2010. The 209,227 complaints in 2010 stem from nearly 35 million customer accounts, which works out as six complaints per 1,000 relevant accounts per year. The number of new PPI complaints received increased throughout 2010 as a result of continued media coverage and mounting Complaint Management Company activity.

On the 11 January 2011, we announced that we had reached a settlement with the Financial Services Authority (FSA) following the completion of an investigation into RBS and NatWest's retail branch banking complaint handling procedures. RBS Group paid a fine of £2.8 million. The problems were identified as part of a FSA review of RBS's complaint handling between September and December 2009. Throughout the review, the Group co-operated fully with the FSA and has already taken action to improve its complaint handling arrangements. The Group acknowledged the findings and confirmed shortcomings in our routine complaint handling that we assessed in our own internal review and which we are committed to putting right.

### Access to financial services

#### Financial inclusion

We are one of the leading providers of basic bank accounts, with a market share of 14%. We hold just over 1.1 million accounts in total, including over 200,000 that were opened in 2010. Basic bank accounts are available for all and designed for customers who have a poor credit rating, who have never had an account before or who simply want a current account without an overdraft. If a customer with a basic bank account wants to open one of our other current accounts, we talk them through the various features and upgrade them based on eligibility and suitability. We are one of only two high street banks who offer the opportunity to apply for basic bank accounts online and have improved the information about them on our websites to clearly explain the differences between them and other current accounts. This is all part of our Customer Charter commitment to 'Help you make the right choices for you and your money.'

## Sustainability themes

### Fair banking

FSA Reportable Complaints 2010								
	RBS				NatWest			
	No. of complaints opened	closed	% Complaints closed within eight weeks	upheld by firm	No. of complaints opened	closed	% Complaints closed within eight weeks	upheld by firm
Banking	54,318	96,099	98%	41%	154,909	299,002	98%	38%
Home Finance	3,546	3,500	96%	77%	5,699	5,679	96%	71%
General insurance and pure protection	33,552	24,863	42%	43%	40,980	30,566	45%	52%
Decumulation, life and pensions	134	139	91%	20%	324	337	79%	28%
Investments	394	392	90%	26%	1,142	1,136	90%	36%

For more context around these figures visit [rbs.com/customers/our-services/complaints.ashx](http://rbs.com/customers/our-services/complaints.ashx)

### Complaints referred to the UK Financial Ombudsman Service (FOS) in 2010

	RBS	NatWest	Industry average
Total number of new cases received	5,536	6,570	—
% Resolved in favour of consumer			
(H1 2010)	50%	43%	44%
(H2 2010)	60%	52%	53%

This table shows the percentage of cases the FOS resolved during 2010 which resulted in a change in outcome in favour of the consumer (comparing the financial business's response to the consumer's complaint and the final outcome after FOS involvement). For more information visit [ombudsman-complaints-data.org.uk](http://ombudsman-complaints-data.org.uk)

We know some people who wish to open a basic bank account would rather deal with a trusted intermediary to guide them into the financial system. Our Trusted Partners programme does this by allowing third party organisations to open basic bank accounts in their own premises.

The RBS Trusted Partner programme has provided funding and support to a number of Community Development Financial Institutions (CDFIs) including: Scotcash in Glasgow, Five Lamps in North East England, Midlands Community Finance in Derby and the South Midlands, Moneyline Cymru in South Wales, East Lancashire Moneyline in North West and central England and Fair Finance in London.

Our support covers 15 of the 25 original UK high priority areas in need of greater financial inclusion. We have also helped these organisations through regular workshops across the country, specifically to share best practice and explore different ways that we can work together. RBS has also supported CDFIs in developing services to increase their clients' financial capability, both financially and through provision of resources through our MoneySense programme. We have a further three new Trusted Partner organisations in Merseyside which opened in February 2011 – Riverside Group, Plus Dane Group and Central Liverpool Credit Union. In 2010, we also announced a new partnership with the Post Office, which will allow RBS and NatWest customers to withdraw cash and check their account balances at 12,000 Post Office branches throughout the UK.

#### Access to banking

Where possible, we want the services we provide to be available when and where our customers want them. Be that in a branch, online or on the telephone. During 2010, we made enhancements to all our delivery channels.

We have 846 RBS and NatWest branches that are now open on Saturdays, a further 206 branches have extended weekday opening hours and 488 Cash and Deposit Machines (CDMs) are now in 277 branches, and in 2010 handled over 7 million transactions. We have over 4.8 million active online customers, 82% of these users have chosen to 'go paperless.'

As part of Ulster Bank's commitment to a helpful and convenient service, it opened 45 branches on Saturdays for the first time in 2010 – more than any other bank in Ireland. By opening on Saturdays and extending weekly opening hours, customers have access to branch services for an extra 30,000 hours each year. Ulster Bank was also the first to launch a mobile phone banking application in Ireland, helping customers to manage their money on the move.

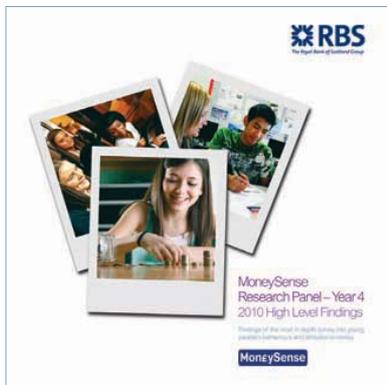
#### FOCUS

In 2010, Citizens opened 14 new branches and expanded its ATM network by over 1,000. In addition, Citizens invested \$15 million in improving facilities in 750 branches, which included relocating five branches to make them more accessible.

Our UK Mobile Banks continue to be a highly valued face-to-face service that our most remote customers rely on. Throughout 2010, our mobile banking services have been operating up and down the UK and Ireland serving an average of 2,300 customers every week. We are committed to serving the needs of our customers even in the most remote areas of the UK and in 2010 we introduced a new route for our mobile banking service covering the counties of Caithness, Sutherland and Ross-shire. These remote counties on the north coast of Scotland are home to towns such as Halkirk with a population of 930 and Castletown with a population of 760. Our customers living in these towns had to travel 60 miles to visit their nearest branch, and are grateful to have a new mobile banking service. The new route began in November 2010 and can provide services for around 6,000 customers a year.

One of our Customer Charter commitments is 'to stay open for business if we are the last bank in town' and last year we committed to keep 100 of these branches open and through our Charter have already identified 146 branches. It is a firm commitment of ours to maintain a branch banking service in areas where there is a population to support it. In some of the more remote areas where the population is not enough to support a full branch service, we might take a decision to reduce the opening hours of a branch or to close it completely. However, we will always consider a range of options to keep a local banking presence wherever possible including the mobile banking service.

## Fair banking continued



### MoneySense Research Panel

The MoneySense Research Panel continued to produce research on the financial habits and education of 11 – 19 year olds. The survey has already reached over 12,000 young people, which is by far the most extensive survey of its kind in the UK. The results released in 2010 showed that MoneySense is achieving very positive results, with children who have received two or more MoneySense lessons displaying more positive attitudes and behaviours towards money. Moreover we exceeded our commitment as part of the Customer Charter to provide 25,000 MoneySense lessons in schools in 2010 and by the end of the year over 30,000 lessons had been taught. This meant that over 350,000 children were able to receive a MoneySense lesson in 2010. Ulster Bank trained 400 new volunteers in 2010 to reach more people through its MoneySense for schools programme, the largest programme of its kind in Ireland.

### Access to financial advice

We have over 13 million RBS and NatWest customers in the UK and many of them turn to us for financial advice. In 2010, nearly half a million customers did. We have a responsibility to our customer to behave in a helpful, transparent and fair way when they do seek advice from us so we have worked with colleagues in our Business and Commercial Banking Division to provide advice and products to business customers looking to protect their borrowing. In 2010, our Life cover and 'Key Man' insurance policies covered 25% of all borrowing in Business Banking and 14% of all borrowing in Commercial Banking.

RBS remains committed to providing trusted advice to customers with protection, savings, investment and retirement planning needs. Working with the principles laid out in the FSA's Retail Distribution Review we are developing future advice propositions to help customers in these areas and continue to work closely with the FSA to make sure of the best outcome for all our customers.

### Working in partnership

RBS is committed to supporting and working in partnership with the debt advice industry and two such partnerships which progressed during 2010 were with Citizens Advice Bureau (CAB) and Macmillan Cancer Support. We have recently agreed to support CAB as they re-launch their existing telephone service as Adviceline. Currently only 20% of people who call CAB are able to speak to an adviser about their problems. With a £500,000 investment from RBS in 2011, Adviceline will help an extra 700,000 people each year reach Citizens Advice staff who provide expert advice on a range of issues throughout the UK. We have also committed to £1.5 million of funding to Macmillan Cancer Support which will be used to help people living with cancer and their families to access money guidance. RBS have been in partnership with Macmillan since 2007 and since then over 18% of RBS staff have volunteered for the charity and have raised over £700,000.

We are passionate about supporting organisations who provide people with access to affordable credit and it is an area where we have achieved great success in 2010.

### FOCUS

My Home Finance (MHF) is an initiative designed by the National Housing Federation. MHF aims to help people who cannot access high street lending and who have to rely on loans from doorstep lenders and loan sharks who can charge extremely high interest rates. The initiative is being run in partnership with RBS, the Department for Work and Pensions, a number of housing associations and Wates Giving and is one of the largest ever not-for-profit financial service providers in England.

MHF will offer loans at an APR starting at 29.9%, debt advice and a route for customers to open RBS and NatWest Basic Bank Accounts. Ten branches run by East Lancashire Moneyline have been opened across the West Midlands, which has one of the highest levels of unemployment in the UK. We are also helping to contribute to the future strategy of MHF through representation and active participation on the MHF Board. The long term strategy for MHF is to roll out the scheme across their network of 1,200 members, with plans to advance 150,000 loans to people on low incomes over the next 10 years.

### Financial education and capability

#### Financial capability for young people

In 2010, the MoneySense for Schools website was reviewed with feedback from teachers and students and allowed us to make improvements to how it is used. The website now features more videos for young people, a money newsfeed to get people talking, teacher notes with curriculum guidance and a student tracking system. The MoneySense for Schools website has been re-accredited with a 'Business in the Community 2010' Big Tick and the Personal Finance Education Group Quality Mark – a measure of its quality, effectiveness and impartiality.

In 2010, Citizens and Charter One provided more than 275 financial literacy programmes, educating over 13,000 people. This includes a partnership with the Federal Deposit Insurance Corporation to provide Money Smart Training, helping people outside the financial mainstream enhance their money skills and create positive banking relationships. Citizens' 'Gear for Grades' programme provides school supplies for underserved children in our communities. Since its inception in 2003, 'Gear for Grades' has sent over 150,000 children back to school with the gear they need to succeed.



**Ulster Bank extends MoneySense**

Building on its commitment to widen access to financial education, Ulster Bank launched its own MoneySense for Single Parent Guide in 2010. This was produced with OPEN in the Republic of Ireland and Gingerbread in Northern Ireland. This is the first in a set of financial 'life guides' designed to give more practical support based on people's specific circumstances.

In 2010, Charter One was honoured by CEDA (Community and Economic Development Association) with the Corporate Community Action Award in recognition of our commitment to economic and community development, including providing financial services to underserved communities and promoting financial literacy education.

During 2010, we launched 'Pocket Money', a UK Magazine aimed at 7-11 year olds that introduces a positive way to learn about budgeting, saving and managing money. In 2010, 600,000 copies went into schools and local libraries and it can also be accessed online.

The magazine contains tips for children and the whole family on saving money and budgeting, games and puzzles, competitions, interviews with celebrities about their saving habits and letters from readers. Positive feedback from children and their parents tells us that it's an innovative and engaging way to help children learn about the importance of financial education.

**Offering financial education to adults**

In October 2010, we started a referral process for customers and non-customers, looking for face-to-face impartial guidance, to the Consumer Financial Education Body's (CFEB)\* Moneymadeclear service. This replaced the MoneySense Adviser in-branch service. Although a well received and valued service, demand for MoneySense appointments was lower than expected so we decided to stop it.

Moneymadeclear is a UK-wide, government supported service which aims to improve the public's knowledge of financial services and gives tips on how to manage money. We will, however, continue to offer impartial guidance through our MoneySense in-branch booklet and MoneySense website.

During 2010 we extended our partnership with single-parent charity Gingerbread to create a 'Guide to getting online for single parents'. This Guide helps to get single parents online where they can access a wealth of information. The Guide recommends sites that will be of interest to single parents, including the Moneymadeclear and Gingerbread websites, both of which offer advice and can help them to produce a budget and better manage their finances.

\*Please note that as of 4th April 2011, CFEB was renamed Money Advice Service.

**Our priorities for 2011**

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

NatWest and RBS will review the Customer Charter annually incorporating feedback from customers to ensure we continue to deliver 'Helpful Banking'. We will publish a summary of our performance against these commitments every six months.

We will consider the impact we have on the communities we serve and make it central to the decisions we make. This will include such aspects as the availability of our services, employee volunteering and the community initiatives we support.

We will take an active role in financial inclusion and will work with the government to enhance access to basic banking services and affordable credit.

We will remain committed to providing financial education to our communities and our customers and aim to increase financial capability for all.

We will work in partnership with free money advice providers to create industry enhancements to advice services.

Global Banking and Markets (GBM) will deliver MoneySense programmes through GBM's five school partnerships in Southwark and Tower Hamlets in the UK.

Further details of our Strategic Progress in 2010 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).

## Supporting enterprise



**OUR 2010 PRIORITIES**

**What we said we'd do ...**

- ✓ 2010 target achieved
- ⓘ partially achieved ongoing target
- ✗ 2010 target not achieved

- ✓ 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 offering customers the right to challenge our decision

Supporting enterprise is not just about providing banking products and services to our business customers. Sustainable support for enterprise means taking a long-term view of how we manage our business – including how we look after our customers and communities to help them become more successful, create lasting value, and ultimately to ensure the long-term future of RBS.

Across RBS, we are open for business and committed to providing services for viable businesses of every size and at every stage – from helping to turn new business ideas into reality, to helping existing businesses in difficulty.

We are also committed to helping our customers and communities embrace opportunities for enterprise. To increase our reach, we work with partners in community finance, social finance, microfinance and business education to help those we cannot bank get access to the skills, knowledge or finance they need.

Supporting youth enterprise is a particular focus for RBS. Through our relationships with The Prince's Trust, The Prince's Scottish Youth Business Trust, BAFTA and Youth Business International, we are creating opportunities for the next generation of entrepreneurs who need help from a standing start.

2011 will see us launch new partnerships and measures of support to provide more enterprise opportunities for our customers and communities. Their long-term success is our long-term success. This is what being sustainable means to us.

### Chris Sullivan

Chief Executive, Corporate Banking Division  
Member, Group Sustainability Committee

## What we did in 2010

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

In 2009 we launched the SME Customer Charter in the UK, outlining key commitments to help businesses start up and grow, provide access to finance, and be fair and transparent on pricing and lending decisions. We have continued to meet these Customer Charter commitments and have stayed true to our promise of supporting SMEs in the UK.

RBS has a third of the UK SME lending market, and with that comes a responsibility to treat our customers fairly and help them where we can. In 2010, we lent £30.3 billion to SMEs and we currently approve over 5,000 loans a week, accepting over 85% of all credit applications. It is clearly in our interest to lend to viable businesses.

We want to support creditworthy customers in the UK and we have funds available but there has been a decline in demand as the pace of the economic recovery remains moderate. We received 9% fewer applications for lending from SMEs in 2010, and overdraft drawings declined by 9%, with overdraft utilisation rates falling back to 45%, compared with 47% in 2009. This demonstrates the muted credit demand among SMEs in the UK.

The UK Business Finance Taskforce Report, released in October 2010, showed that there had been a contraction in lending over the last two years, driven primarily by declining demand and businesses paying down debt. However, it was recognised that more can and should be done to support SMEs. The agreed measures complement and strengthen the work RBS is already doing – providing support and advice, being open and transparent and continuing investment in businesses.

To further help SMEs, we have stood by our UK Overdraft Price Promise, made in 2008, 2009 and 2010. Our price promise pledges that we will not increase margin pricing unless there is deterioration in the risk profile of the customer's business. In 2010, over 300,000 customers benefitted from this promise.

### FOCUS

Citizens was named second in the US for delivering the best experience for small business customers by *ath Power 2010 Small Business Banking Study™*. Customers from over 30 leading banks across the US were surveyed and Citizens went from 10th to 2nd place from 2009 to 2010. Citizens invested heavily in its small business operations in 2010 with extensive training for its specialists and support personnel. By taking time to understand the customers' needs and getting to know their businesses, Citizens developed best-fit products and solutions. This has resulted in an increase in business and improved customer satisfaction scores.



**Small business can**

In September 2010 Ulster Bank launched a start-up and early stage business proposition – a competitive financial package with two years fee-free banking and a number of helpful services were offered. This included a dedicated response team and specially trained SME managers. This was further supported by the online business networking support service – Small Business Can. This website acts as a launch pad for entrepreneurs to share insights and ideas about the challenges of starting your own business. It won the Northern Ireland CIPR Award for 'Best Business Website' and receives 15,000 visits per month. Ulster Bank also brought business insights directly to local communities across Ireland in 2010 through a Start-Up Live Tour, featuring 40 panel members and over 1,000 participating businesses, which provided the opportunity for like-minded business people to share ideas and experiences.

Citizens also launched accessMOBILE in 2010. This is a landmark, free of charge, mobile banking application for business customers: the first of its kind in the 12 states across the Citizens' retail footprint. Customers are now able to approve pending transactions, retrieve account history information, and perform inter-company fund transfers, all from their mobile devices and in a secure environment. With accessMOBILE, we are bringing added flexibility through the power of mobile technology for the benefit of our business customers.

**Helping customers through economic difficulties**

During the economic downturn we have worked with customers to help them navigate their way through these economic difficulties. We have found ways to carry on supporting them, and when possible manage them back to stability. The UK Government Enterprise Finance Guarantee (EFG) scheme enables banks to lend to eligible companies that do not have sufficient security to borrow on commercial terms. It therefore acts as a preventative measure to help businesses avoid getting into difficulty in the first place. We provided 41% of loans under the EFG in 2010 – more than any other bank.

We are here to help companies stay in business which is why we have a department committed to restructuring distressed customers with 500 of our most experienced managers to give companies in difficulty more hands-on support in the UK. The Specialised Relationship Management (SRM) team currently look after over 12,000 customers and since June 2009, we have managed over 5,000 customers back to health. Similarly, the role of our Global Restructuring Group (GRG) is to work closely with customers who face severe difficulties to get them back on track and back to the mainstream banking channels. In 2010, we helped restructure almost 800 businesses, saving several thousand jobs.

**Helping businesses start up and grow**

In the UK, we launched the Start-Up Hotline in 2010 to provide prospective entrepreneurs with advice to help them start up and grow their business. We also supported start-up businesses by giving them two years of free banking, which helped over 10,000 businesses enter the market. Our Online Business Review tool, launched in 2010, is designed to help business owners assess key areas of opportunity and challenge and direct them to sources of help and further information. Since its launch in June 2010, it has been used by an average of 1,600 businesses per month, the most popular sections being managing cash flow and finances. We are currently opening more than 2,000 start-up accounts per week.

“ I have been really impressed with the new support NatWest and RBS are offering SMEs. It is one of the most comprehensive and practical tools I have seen for a long time.

David Frost,  
Director General of the British Chambers of Commerce.

We developed our successful MoneySense model and created MoneySense for Business in 2010 to provide free and impartial online money advice for SMEs. There is a wealth of information and support materials available to help organisations stay in control of their cash flow and manage their finances. For more information see [rbsmoneysense.co.uk](http://rbsmoneysense.co.uk).

In January 2010, UK Corporate Banking announced a new £1 billion Manufacturing Fund, supported by two discounted fixed-rate loans to one of the sectors hardest hit by the recession. The fund was aimed at the specific needs of the manufacturing sector to help them rebuild. This product won the 'Innovation in product design for business banking' award at the Financial World Magazine's Financial Innovation Awards, and helped us to lend almost £4 billion to the UK manufacturing industry in 2010.

**Creating opportunities**

As Asian economies continue to boom, RBS is playing an instrumental role in helping British businesses capitalise on the region's opportunities. Global Transaction Services (GTS) launched a new partnership with UK Trade and Investment (UKTI) and its Asia Task Force, to help UK companies do business with Asia. GTS and UKTI will be hosting a series of events focusing on the potential UK businesses have in the Asian market. Our international network, which stretches across 11 countries in Asia, and strong transaction banking franchise will prove pivotal in forging this new relationship. Delegates from Asia attending the UK events are able to obtain bespoke advice on trade, risk and financing. By using our cross border skills and contacts we can really help our business customers make that transition into international markets.

## Supporting enterprise *continued*

“ The RBS SE100 is a hugely important tool for proving the success and potential of social enterprise. Already it shows phenomenal growth which will boost confidence in the sector and open doors to private finance

Nick Hurd,  
Minister for Civil Society

### RBS SE100 Index

The RBS SE100 index was launched in 2010. This is the first index that will track the growth and impact of businesses delivering both social and financial returns. This index represents a significant step forward and can be used as a market intelligence tool as it captures key data, vital statistics and case studies demonstrating the importance of these socially conscious businesses.



### Supporting young entrepreneurs

We sponsored the launch of The Prince's Trust's first start-up guide book – Make It Happen. Years of expertise and knowledge have been distilled into this highly practical book, designed to get young entrepreneurs started. Our sponsorship will ensure that The Trust will be able to give a free copy to every young person they start up in business for the next three years, around 6,000 copies in total.

In 2010, Coutts became the first private bank to launch an advisory service for clients interested in becoming involved with the social enterprise sector. The Social Enterprise Advisory Service aims to educate clients about the sector and present new and exciting ways for them to get involved – through mentoring, investment or providing opportunities to establish a social enterprise themselves. The service is delivered by three partners – Clearly So, a leading social business, enterprise and investment site, the School for Social Entrepreneurs, which has supported over 600 social entrepreneurs with its educational programmes, and UnLtd, a charity set up by seven leading organisations to promote social entrepreneurship. Coutts have also hosted a series of 'education days', which provide an introduction to the sector and some of the entrepreneurs and organisations that are part of it. The helpful Coutts Guide to Social Enterprise was published in 2010, in association with the Social Enterprise Coalition, the UK's national body for social enterprise.

### Facilitating social innovation

We have been committed to supporting enterprises with a social purpose for many years. We work with partners to create opportunities for businesses that may not have traditionally had access to financial services. In doing this, we hope to enable social innovation and make a difference in the communities that we operate in. We have developed the social finance and investment market place by working with groups and organisations facing particular challenges in accessing finance and starting up and growing their business.

We currently have a leading market share in third sector businesses and are lending £525 million in term loans and £57 million in overdrafts to businesses in the 5% most deprived electoral wards in the UK.

RBS Romania continued its partnership with NESsT in 2010, sponsoring its second Social Enterprise Competition. NESsT works to solve social problems in emerging market countries by developing and supporting social enterprises to strengthen both their financial sustainability and their social impact. As part of the competition, every entrant goes through a process to enhance their business skills and capabilities and entrepreneurial abilities with a focus on financial sustainability. Employees were involved in this process and brought their skills to help the organisations involved build their learning and development.

Last year, RBS Community Banking launched a new partnership with Key Fund Yorkshire, a community development finance institution (CDFI) that has been providing investment to social enterprises and

community groups for the last decade. During this time, it has invested more than £21 million, helping 125 business start-ups, creating 736 jobs and safeguarding a further 574 jobs. RBS has worked with Key Fund Yorkshire for the last eight years but this new agreement formalises our provision of loan finance, enabling the fund to reach larger numbers of social organisations and offer tailored business solutions, as well as debt finance. Key Fund Yorkshire has also started a training programme with RBS branch managers to raise awareness of the 'social economy' and help to build an understanding of what kind of challenges these organisations face. Through this strategic relationship it is hoped that access to finance for the social enterprise sector will be widened.

### Supporting youth enterprise

We have now worked with The Prince's Trust for ten years and have built a highly valued relationship, founded on our mutual interest in supporting the next generation of UK enterprise. In 2010, we extended our support of The Prince's Trust to further facilitate the good work it does to encourage and develop young people wanting to start their own business.

### FOCUS

## The cost of youth exclusion

In 2010, we sponsored The Prince's Trust Cost of Exclusion report which attempts to assess the economic cost of youth exclusion – estimating, for example, that youth unemployment could cost the UK economy up to £155 million per week. The report shows some of the ways that The Trust and its partners are addressing these issues.

We launched a new partnership with the British Academy of Film and Television Arts (BAFTA), supporting the BAFTA & Media Trust Youth Mentoring Programme. This initiative is a key part of BAFTA's Learning and Events strategy and involves BAFTA members and leading practitioners mentoring groups of disadvantaged young people who are attracted to the film, TV and video game industries. BAFTA members from a range of disciplines volunteered their time to work with 13–25 year olds from a number of youth-led organisations. Since its launch in April 2010, BAFTA mentors have supported over 250 young people on media projects.



**Livelihood projects in India**

Our Livelihood projects, delivered in partnership with local charities, and non-governmental organisations, help to improve communities' income generating abilities through a range of support, including training, investment and market linkages. We sponsored a project in Mangalajodi, Orissa, to help the local community set up an eco-tourism centre, generating an income by maintaining their local environment for visitors. We currently have 15 Livelihood projects across 11 states, reaching over 63,000 households.

Youth Business International (YBI) is a global network of independent organisations helping young people start and grow their own business, creating economic, and social benefits for local communities. In 2010, we sponsored three YBI partners – Youth Business Russia, Entreprende en Banlieue in France, and Youth Business Hong Kong. These programmes provide access to finance, help with business planning and mentoring support. One example of this is the “Fitness on Wheels” business idea of a young woman who had been made redundant in Kaluga, Russia. With the help of Youth Business Russia, she now has a successful business providing sports tuition in small towns and villages and free lessons in schools to promote health and fitness.

Young Enterprise Northern Ireland is a leading business and enterprise charity that empowers young people to develop their entrepreneurial skills. Their programmes are delivered by experienced business volunteers in partnership with teachers in schools, colleges and universities. Students experience a practical hands-on approach to business learning, combined with exposure to the challenges of real-life business organisations. In 2010, Ulster Bank and Young Enterprise launched 'Quick Start' – a ten week programme designed to kick-start student entrepreneurial creativity in the 14-16 year age group. The programme will run in schools throughout the province, supported by Ulster Bank volunteers and business mentors.

**Microfinance**

Our microfinance programmes in India have continued to provide access to finance for underserved communities, despite the challenges that faced the market during 2010. We also continue to deliver livelihood projects through partners in India. Our long-held focus on microfinance institutions (MFIs) that demonstrate social as well as financial performance meant that we had minimal exposure to the crisis in Andhra Pradesh in October 2010 and remained largely unaffected. This approach, combined with our Technical Assistance programme to help create more robust, sustainable MFIs in underserved regions, demonstrates our commitment to increasing financial inclusion in India. New Economy magazine pronounced RBS India the 'Best Sustainable Financial Institution' in India at their New Economy Awards in January 2011.

**Our priorities for 2011**

We will continue to provide free transactional banking for start-ups, a bank account for all and quicker processing of new account details to Sole Trader and Partnerships Customers.

We will provide a range of new online support tools and services to support and build capability in start up businesses.

We will enhance our regular Customer Satisfaction Surveys to allow us to continually focus on improving the service we provide to our SME customers.

To increase understanding of our customers, we will ensure that all of our Relationship Managers spend time working in a small business helping them to understand the everyday issues that SMEs face.

We will continue to meet our Treating Customers Fairly obligations. In addition, we will fully implement the recommendations from the BBA Business Finance Taskforce including those which increase transparency on lending decisions.

We will increase the support we provide to the Community Development Finance sector.

Further details of our Strategic Progress in 2010 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).

## Employee engagement



**OUR 2010 PRIORITIES**

**What we said we'd do ...**

- ✓ 2010 target achieved
- ⓘ partially achieved ongoing target
- ✗ 2010 target not achieved

- ✓ 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
- ✓ 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
- ✓ Improve employee engagement using non financial means

Our employees are our business – they're delivering our Strategic Plan. So it's important that we involve and engage them as we rebuild the Group.

We want our employees to feel valued and listened to. In 2010 we developed new ways of listening so that they could talk openly about the issues that matter most to them. This is an ongoing focus for us in 2011. We want our employees to shape and improve the way we manage our business.

We value the diversity of our employees. We need a range of talent, experience, knowledge and insight to inform the way we do business. An inclusive working environment will also help our employees to feel proud to work here. In 2010 we continued to work in partnership with our employee networks to promote diversity across our businesses.

Our board and management team recognise how important it is to reward the exceptional efforts our employees are making to serve our customers and build the new RBS. To be successful we need to attract and keep talented employees so we need our pay to be fair, competitive and responsible. This year we have worked hard to ensure we reflect this in our remuneration approach.

We've made progress in 2010 on these important issues, but we recognise that we still have a lot more to deliver in 2011.

**Elaine Arden**

Group Human Resources Director  
Member, Group Sustainability Committee

### What we did in 2010

#### Listening to employees

Throughout 2010 we encouraged an open and transparent culture and engaged with our employees directly. Our leaders at all levels do this regularly by meeting with employees to involve them in the developments of the Strategic Plan.

In 2010, we also developed new ways of listening that included online feedback mechanisms and regular employee pulse surveys, as well as our annual Employee Opinion Survey (EOS), Your Feedback.

This approach helped us to gather employee opinion from a range of sources and gave us invaluable insight about the common issues our employees are facing.

In response to this, the questions we asked in the 2010 EOS were revised, and 119,000 employees took part – a response rate of 81%. We also included a freeform text box in the 2010 EOS. This approach helped us to capture 55,000 employee comments which we're using to shape the employee strategy for the Group.

**FOCUS**

### Listening to our employees



Employees shared 55,000 comments during our 2010 Employee Opinion Survey (EOS) Your Feedback. These comments included ideas, suggestions and general feedback about how we can improve our business.

Our businesses and divisions are using these comments to add context to their team's results.

**Redundancies in 2010**

	CRs	VRs	ERs	Completed exits
UK	943	2,020	961	3,924
Rest of World	1,964	876	15	2,855
<b>Total</b>	<b>2,907</b>	<b>2,896</b>	<b>976</b>	<b>6,779</b>

CR = compulsory redundancy

VR = voluntary redundancy

ER = early retirement as a result of redundancy

**Our gender diversity is improving:**

- The number of females in executive positions increased from 15% to 17%.
- The percentage of women in senior management positions increased from 23% to 26%.

Our EOS survey results indicated a general uplift in employee morale. The feedback scores were highest in the areas of customer focus, risk management, collaboration and leadership, but many employees believe there is too much bureaucracy. We also scored lower in the area of job satisfaction and engagement compared to the Global Financial Services Norm. For a full breakdown of the EOS scores, read our online report at [rbs.com/sustainabilityreport2010](http://rbs.com/sustainabilityreport2010).

Our regular global surveys – RBS Pulse – were redesigned in 2010 and allowed us to monitor trends and support business change initiatives. Our benchmarking reports conducted with PwC Saratoga were also delivered for every business facing division, to find out how RBS compares across a range of measures against our peers. Examples of our measures include employee turnover and absence, which remained flat at 2.9% in 2010.

**Supporting employees as we change our business**

We continued our restructure throughout 2010, reducing headcount in a number of divisions. We have, wherever possible, mitigated against and avoided compulsory redundancies.

Our total employee population was 148,500 at the end of 2010, representing a 7% reduction compared with 160,000 at the end of 2009.

Our headcount reduced because of general employee attrition, restructures and the selling of businesses from our Non-Core division. This headcount reduction also includes 6,779 employees who left the Group due to redundancy (including voluntary redundancy, compulsory redundancy and early retirement due to redundancy).

We report information relating to job losses to our stakeholders. The table above shows redundancy numbers across the Group in 2010.

For employees impacted by redundancy we support them with a range of tools and services. This helps to manage the impact of redundancy and includes our in-house redeployment and outplacement services for clerical and appointed level staff. These services help employees to find alternative roles inside and outside of the Group. More than 3,500 employees were referred to these services in 2010. Within this group, 82% of clerical and appointed level employees used the outplacement service and 63% used the redeployment service and 62% of managerial level employees used the outplacement service and 65% used the redeployment service.

**Diversity and inclusion**

Diversity and inclusion was a continued focus for the Group in 2010. We made good progress across a range of measures with support from our Executive Committee sponsors and our Diversity forums across the Group. We regularly discussed progress with the Group Executive Committee.

Gender diversity was a priority in 2010. We sought to ensure that at least one woman featured on the shortlist for executive vacancies. We also rolled out a global diversity training module focusing on the subject of 'unconscious bias' to all employees internationally.

**FOCUS**

We support women at RBS to reach their full potential through a combination of leadership development programmes and supportive policies. In 2010, our UK 'family friendly' policies were short listed in two categories in the Working Families Awards. We won the Best Back-Up Childcare category and were also placed in the top 30 A-Z Employers for Working Families.

Our employee networks help us to progress our diversity strategy. Focused Women, our Group-wide women's network, provides personal development and networking opportunities for its members and provides valuable insight and input on the Group's gender diversity strategy. By the end of 2010 the network's membership increased from 1,300 members to more than 2,200 members across 19 countries. Chris Sullivan, CEO of Corporate Banking and Executive Committee sponsor for gender, actively supports this network. The network's chair, Heather Melville, won the Champion for Women award in the Women in Banking and Finance Awards for Achievement.

Our internal Rainbow Network (for lesbian, gay, bisexual and transgender employees) has helped to progress our sexual orientation agenda with the support of Brian Hartzler, CEO of Retail, Wealth and Ulster Bank and Executive Committee sponsor. Membership of the Rainbow Network increased from 586 to almost 1,000 during 2010. Our progress throughout 2010 was recognised externally in the 2011 Stonewall Top 100 Employers Workplace Equality Index in our movement from 95th to 47th place.

## Employee engagement *continued*



### Recognition for equality in the workplace

In 2010 we were placed in the Stonewall (lesbian, gay and bisexual) Top 100 Employers Workplace Equality Index, moving up nearly 50 places from 95th in 2009 to 47th in 2010.



Finally, the Group continues to build and strengthen partnerships with external forums and networks including: Opportunity Now (gender), Race for Opportunity (race and ethnicity), Employers Forum on Disability, Employers Forum on Age, Employers Forum on Belief, Stonewall (lesbian, gay, bisexual) and Working Families within the UK. Internationally, relationships include ORC Worldwide, Forte Foundation, Out & Equal and Diversity & Inclusion in Asia Network.

### Remuneration

To achieve our Strategic Plan we need to attract, retain and motivate our employees. Remuneration is a key element to achieving this – we must reward our employees' efforts fairly and competitively. Our Chair of the Remuneration Committee, Penny Hughes, outlined her thoughts in this year's annual report. Her letter dated 23 February 2011, available at [annualreport.rbs.com](http://annualreport.rbs.com), stated that:

"Our focus is to ensure that our remuneration policy continues to support delivery of the Group's Strategic Plan. We are working hard to complete a hugely challenging and complex turnaround and are on track to deliver across a range of measures. The Group plays an important economic role, both as an employer and a lender. If we are going to achieve our strategic objectives and deliver a return to our shareholders including the UK taxpayer, we need talented and motivated management and employees. This requires us to pay them fairly within the context of the markets in which they operate. In setting pay policy, we take account of our duties to shareholders and our strategic objectives and seek to ensure that shareholder interests are not damaged as a result of staff retention, recruitment or motivation issues. Our commitment is to reward success not failure, and we are also very conscious of the need to demonstrate restraint.

Across the Group we operate a range of incentive structures which are designed to reinforce messages about what employees are being asked to achieve, and deliver pay for performance. Our key objective in determining bonus awards is not to pay more than is warranted given business performance.

In this context performance includes financial and non financial measures, risk performance and any other relevant factors. Our aggregate bonus awards for 2010 are lower than prior year as a result of lower profits and bonuses in the investment banking division and our recognition of the need for moderation. There is clear focus on differentiation, so that individually and by business, the best performers and the best performance will continue to be rewarded. There is strong central governance and oversight of both bonus pools and individual awards, and each year a significant proportion of staff will receive zero bonus.

### The key elements of our remuneration policy are:

**Pay for performance:** Performance related pay is designed to reflect success or failure against the range of targets which we set for our people, taking into account the context in which results were achieved. By way of example, the pay arrangements for executive directors are aligned to the performance of the Group and performance related pay is paid entirely in shares over several years. Executive directors have "no reward for failure" provisions in their service contracts.

**Performance management:** We operate a structured process to ensure that all employees have clear objectives that are linked to long-term plans designed to drive business objectives including financial performance, risk, people and customer measures. Assessment of individuals' performance is subject to a rigorous review of achievements against their objectives.

**Risk adjustment:** Focus on risk is achieved through clear risk input into incentive plan design and target setting, as well as a thorough risk review of performance, bonus pools and clawback. The Remuneration Committee has been supported in this by the Board Risk Committee and the RBS Risk Management function.

**Deferral:** The Remuneration Committee is acutely aware of the external focus on the role of incentive payments in the financial sector. The reality is that these remain a key part of the structure of pay across the industry. However, we have radically reformed our incentive plans. For our more senior employees annual awards are deferred over three years and a portion of the awards are paid in shares which increases alignment with the interests of shareholders. There will be a £2,000 cap on cash bonuses paid in March 2011, as was the case last year.

**Clawback:** We have had clawback provisions in place since 2009, which means that, in certain circumstances, the Group can reduce deferred annual incentives and long-term incentive awards up to the point they are released. Clawback allows us to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term.

**Shareholder consultation:** In early 2011, we consulted extensively with institutional shareholders and other stakeholders on our remuneration approach. The consultation process involved one to one meetings and a roundtable session hosted by the Association of British Insurers and National Association of Pension Funds. Our presentation covered our wider remuneration policy as well as executive directors' remuneration and we have been pleased with both the level of engagement with investors and the positive feedback we have received.



**Community Stars**

Our employee recognition initiative recognises all levels of community activity and aims to show appreciation for everyone's efforts. The Group values what many employees do in their local communities and in 2010 our 157 winners donated £65,500 to the causes that matter most to them.

A team of employees won an annual Community Stars award of £3,750 for their work with the Annai Bhartha Matha Educational and Charitable Trust, an orphanage near Chennai in India.



Topics discussed with investors included pay positioning, scale and design of incentive structures, risk alignment of remuneration, deferral, clawback and remuneration disclosures. We have listened to the feedback from investors and have made a number of enhancements to disclosures in the Remuneration Report as a result. Investors recognised the difficult challenge faced by the Remuneration Committee in positioning pay competitively to support business goals, while being mindful of the wider economic environment and the need to show restraint. The Remuneration Committee and the Board have considered carefully their responsibilities and have applied judgement to achieve a balance whereby remuneration policy supports business goals without causing unacceptably high people risks."

We continued to embed and build on these remuneration practices throughout the organisation in 2010.

**Employee and community engagement**

The Employee and community engagement programme makes a difference in the communities where our employees live and work. The programme supports the good causes that matter most to our employees in a variety of ways.

Payroll Giving allows employees in the UK, Ireland, India and the US to donate to the charity of their choice, the Group then matches these donations. Last year we directly supported over 3,000 charities and community groups across the globe in this way.

Community Cashback supports employees that give up their own personal time as volunteers and fundraisers. Last year the Group gave cash grants to 4,300 charities and community groups across the world, and more than 39,500 employees were given almost 170,000 hours off to volunteer.

A new UK Employee Volunteering programme with nine charity partners was launched in 2010. The new programme offers a wide choice of activities for employees to get involved with from redecorating a local hospice to transforming a local landscape. Over 10,000 employees participated in this new programme in 2010.

Through Community Stars we recognise our employees' community activities. We also offer employees the chance to win a financial contribution for their favourite cause. We value the contribution our employees make in their local communities.

**Our priorities for 2011**

**In 2011 we will continue to build on the progress we have made in 2010, focusing on the issues that matter most to our employees. Our key priorities are to:**

.....  
Listen to our employees and set the Group culture  
.....

.....  
Attract the best people  
.....

.....  
Develop and reward our people  
.....

.....  
Manage change and employee risks  
.....

.....  
Increase the profile of and participation in our employee volunteering programme  
.....

.....  
Further details of our Strategic Progress in 2010 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).  
.....

## Safety and security



**OUR 2010 PRIORITIES**

**What we said we'd do ...**

- ✓ 2010 target achieved
- ⓘ partially achieved ongoing target
- ✗ 2010 target not achieved

- ✓ 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 safety, health and wellbeing

It is our fundamental responsibility as a bank to keep our customers' information and funds secure. We continuously review our procedures to ensure they are designed and implemented to the highest of standards and we remain pro-active in adopting new and innovative ways to prevent financial crime.

Protecting the safety, health and wellbeing of our employees is also a vital part of what we do. We have made considerable progress in strengthening our internal security policies and assessing Group wide compliance.

Preventing the abuse by criminals of our products and services remains a high priority. We devote considerable time and resources to protecting our customers, employees, and information from being used to launder the proceeds of crime, divert funds to support terrorist activities or to breach national and international economic and financial sanctions. We work hard to ensure that our controls are robust in order to deter the criminals, while making it simple for our genuine customers to interact with the Group.

In 2010, we agreed a settlement with the UK Financial Services Authority for weaknesses in sanctions prevention controls which we had self-identified in 2008. This reinforced the importance of our work in this area and was therefore a key element in our requirements for the strategic review.

2010 has been another year of considerable investment and focus in Safety and Security, as we continue with our strategic change programme to strengthen our policies, systems and controls.

**Ron Teerlink**  
Chief Administrative Officer

### What we did in 2010

#### Fraud prevention

The prevention of fraud is a strategic priority for the Group and we are constantly looking for ways to improve our controls to reduce the risk of fraud to our customers.

We have upheld our commitment to sustained investment in new systems and controls, and in 2010 we achieved a significant improvement which resulted in the Group attaining a 27% reduction in fraud losses when compared with 2009.

Further enhancements were made to the security settings of our plastic cards in the UK which have reduced opportunities to compromise or copy our card data and use it fraudulently. In addition, we have enhanced our card fraud profiling system which has contributed towards a 25% reduction in card fraud losses, and 14% reduction in case volumes.

Card skimming, where a perpetrator places a device over the card slot of an ATM to read information from customer cards, continues to be an industry wide problem. The US government ranks ATM skimming as the fastest growing electronic fraud domestically and it is expected to grow globally in 2011. RBS has responded to this threat and has deployed robust anti-skimming technology across our ATMs in the UK and the US to mitigate this risk. In 2011, RBS will continue to extend the protection to ATMs and will ensure that security is reviewed regularly. These activities have contributed to a significant reduction in losses on counterfeit cards used at international ATMs.

Online crime remains a major threat to the Group due to the ever increasing sophistication of attack methods. Criminals are now using social networking sites, spear phishing and blended email attacks as evolving methods of fraudulent activity. Spear phishing is when an email that appears to be genuine is sent to a targeted group. Whereas traditional phishing scams are designed to steal information from individuals, spear phishing scams work to gain access to company data or computer systems. Blended email attacks drive customers to infected sites where their personal details are collected for fraudulent use; this is proving to be one of the most successful methods for fraudsters. Our free online security software, Trusteer Rapport, provides extra protection for our online customers and has been particularly effective against a recent Trojan, Zeus, which attempts to deceive customers into revealing their personal banking data. A Trojan is a harmful piece of software that

## Sustainability themes

### Safety and security



#### Working to reduce identity fraud

Now every UK Retail online banking customer has a Two Factor Authentication (2FA) Card and Reader device. When a new customer signs up to online banking they are issued with the 2FA device, further enhancing their security and reducing their vulnerability to online fraud.

appears legitimate, and users can be tricked into loading it on to their systems. After it is activated it can achieve a number of attacks including serious threats such as deleting files, stealing data or spreading a virus. Since January 2009, more than 4.6 million customers have downloaded Trusteer Rapport. To further enhance our fraud detection and prevention capabilities, a new online banking profiling solution was implemented within the UK during 2010.

Identity (ID) theft is a major concern for our customers and therefore a major priority for us. In the US, due to several initiatives completed in 2010, the number of ID theft cases decreased by over a third and losses reduced by 18.2%. We have also increased the use of various tools to detect fake identity documents.

We have enhanced the awareness of ID theft to both staff and customers with a commitment to provide improved retail staff fraud training, and conduct more due diligence on inconsistent data related to address, tax identification numbers or IDs. We have also implemented a more stringent assurance process related to ID theft practices for all third party vendors we do business with.

During 2010, a successful pilot of a new system which identifies fraud ring networks was undertaken which resulted in loss reduction benefits of more than £20 million. A strategic implementation of this new software will go live early in 2012.

Our fraud refund process was updated in 2010 to be fully compliant with the Payment Service Directive. This has resulted in customers receiving a response to their claims within 24 hours of receipt.

#### FOCUS

### Protecting funds through improved functionality

In the US a new system to protect funds deposited to bank accounts was launched in 2010. Characteristics of a high risk deposit are identified and risk scored. If the resulting score is high, an automatic hold is placed right after funds have been deposited. This action prevents early withdrawals and purchases before funds are available. This functionality helped us reduce the impact on genuine customers and prevented the potential loss of \$2.8 million.

#### Information security

Every day, the Group handles vast amounts of information in a variety of forms. To help protect this information, guidance is provided and regular awareness messages are produced on how to be vigilant for customers and employees. Our online Security Centre for customers is regularly updated to include information on current threats to security to enable them to better protect themselves. During 2010, the Group has continued to implement projects focused on protecting customer data in all the regions the Group operates in. A key priority for the Group continues to be managing the risk of data loss. Investment of over £10 million has been secured to progress solutions in 2011 such as implementing web and email monitoring to detect data leakage via the internet and email.

It is also essential that we raise awareness amongst our employees on security and fraud risks, and continue to provide enhanced learning tools. Our online intranet site, Security Zone, is a 'one-stop shop' for employees requiring fraud and security help and advice. A new leaflet on 'Information Classification and Handling' has been launched to help employees keep information secure, and new campaign toolkits were provided to help raise awareness about key threats. Improved employee awareness continues to stop fraud at the point of entry. The Security Zone received over 1.5 million hits in 2010.

The Group has assessed the security of its external websites and tested the Group's high risk websites for key known vulnerabilities. Alongside this, a business operating model has been developed to implement ongoing assurance to manage the risks associated with websites in 2011. The Group has also increased controls that protect customer information by implementing a third party assurance programme which reviews all high risk third parties every two years, focusing on those handling Group customer and sensitive information.

## Safety and security **continued**



### **Protecting online customers**

The success of our free online protection software for online banking customers has continued to be a success in 2010. Online crime is one of the fastest growing areas of concern in this industry. 4.6 million customers have now downloaded this free software to protect them online.

### **Physical security**

The protection of our branches, ATMs, buildings and staff continues to be a key area of focus for the Group. We have a framework of global security programmes to ensure the protection of our employees, customers and assets. Our physical security team continues to monitor the evolving robbery trends across the Retail networks. Active deployment and enhancement to existing physical security measures ensures our retail brands remain less attractive to criminals, resulting in a reduction in robberies.

#### **FOCUS**

2010 saw a general decrease in the number of physical attacks on ATMs and the amount of losses across the industry. At RBS, compared with 2009, the number of attacks decreased by 25% and our losses almost halved.

In August 2010, the environmental coalition group, 'Climate Camp', set up an anti-RBS climate camp on Gogarburn campus (Edinburgh, UK). We fully respect individuals' rights to protest and expect them to give the same respect to our customers and employees. Working in conjunction with the local authorities, a robust security plan ensured minimum disruption to RBS people, business and assets throughout the protest period.

### **Anti money laundering, sanctions and terrorism**

During 2010, we have continued work on a major strategic investment programme to enhance our controls across the globe to detect and prevent money laundering, the financing of terrorism and the breaching of economic sanctions.

The aim of the programme is to harmonise and introduce common management for the technologies we use across our global footprint to highlight suspicious transaction activity for investigation and, if necessary, report to law enforcement. The benefits from this programme are that we are able to more effectively comply with anti money laundering (AML) and counter terrorist financing legislation and regulation across the world. This will also enhance our ability to differentiate between the activities of our genuine clients and those of the criminals and help us to continue to support the efforts of law enforcement and other organisations to detect and deter the financing of terrorist activities.

The formal integration of RBS and ABN AMRO in April 2010 allowed us to launch a single platform for the provision of training for all employees, to ensure that we can deliver a common understanding and a consistent message of the role that they all play in remaining vigilant and in reporting suspicious activity to our internal expert teams.

We are prevented by obligations published by the United Nations, European Union, United States and other countries from providing financial services to persons or entities subject to economic sanctions or trade restrictions. We have continued work on our strategic programme to consolidate the filtering technologies we use to detect transactions which may involve these proscribed names into specific hubs around the world. At the same time, we continue to improve our ability to identify genuinely suspicious activity and avoid inconvenience to our legitimate customers.

In line with the strategy, our key 2011 priorities will be to: continue to enhance our prevention and detection technologies to detect, disrupt and report instances of possible money laundering and terrorist financing.

### **Safety, health and wellbeing**

We are committed to ensuring the safety, health and wellbeing of our employees and customers.

Our global safety and health policy standard is designed to meet our legal requirements and manage our risks in a proportionate and efficient way. Throughout 2010 we continued to implement a range of supporting policy standards including management system, property and employee standards. These standards will sit alongside our existing critical incident support service and our employee assistance programme (Lifematters).

In 2010 we agreed the local legal requirements for Occupational Health (OH) provision against 14 key OH activities across 39 countries. The purpose of this work was to review the existing OH service provision across our international business, to make sure our OH provision complied with local legal requirements and medical standards.

We also enhanced our reporting and investigation processes across our international businesses for the most serious health and safety incidents.



**Collaborating with local law enforcement**

We have continued to collaborate with local Law Enforcement Agencies in 2010. This is to gain intelligence which is then used in the overall risk assessment of the geographic locations RBS operates in. The existing focused intelligence-sharing partnership with Greater Manchester Police in the UK was recently extended to cover seven neighbouring police forces, thereby increasing the reach of the operation and the quality of the regional threat profile.

Our incident and injury rates are shown in the tables below.

Reportable Incidents (UK and RoI)	2009	2010	% change
Major injuries	58	50	-14%
Over three day injuries	106	165	56%
<b>RIDDOR* reportable injuries to employees</b>	<b>164</b>	<b>215</b>	<b>31%</b>

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

All Incidents	2009	2010	% change
<b>All incidents</b>	<b>2,382</b>	<b>2,329</b>	<b>-2.2%</b>

During 2010, we made headway in reducing the number of major incidents. However, the number of over three day injuries increased by 56% and therefore the reportable accident rate increased from 164 to 234 per 100,000 employees compared to 2009. In 2010 there were 28 RIDDOR reportable occupational diseases, two dangerous occurrences and nine members of the public went to hospital. Sadly, a work-related road traffic fatality was also reported in the US.

The increase in reportable occupational diseases is linked to a number of new cases of hand arm vibration syndrome. This was identified from an OH surveillance review across our accident repair centres.

The safety, health and wellbeing of our employees is our priority at all times and we recognise the areas we need to improve. In 2010 we collated accident data centrally for the first time from 39 out of 50 countries. Action plans are also in place to reduce the number of RIDDOR incidents.

We report on how we protect our employees in our annual Safety, Health and Wellbeing Report, for more information see [rbs.com/sustainability](http://rbs.com/sustainability).

**Our priorities for 2011**

**Security**

Continued global use and implementation of strategic technology solutions to mitigate the ongoing threats posed by organised crime gangs.

We will further extend the use of the online banking security tools across regions and businesses. In addition we will initiate a programme of work to enhance the e-commerce transaction security and customer experience.

Delivery of our strategic solution to roll out identity document scanners in our UK and Ireland branches will commence.

Continue to enhance our prevention and detection technologies to detect, disrupt and report instances of possible money laundering and terrorist financing.

Further develop our Anti Money Laundering (AML) and Sanctions and Terrorist Financing (STF) operating model.

Further invest in risk management tools and techniques to enhance preventative activity and continue to improve management control awareness.

Further improve and standardise the enhanced baseline training for those who work in AML/STF operational functions globally.

Continue to improve the use of information in developing systems and training for staff so that the Group leverages its own knowledge of criminal activity.

We continually assess any threats to our people, business and assets; we will use these threat assessments to enhance our physical security capability.

**Safety, health and wellbeing**

Drive improvements in accident, injury and ill health rates.

Ensure competence and capability of line managers to fulfil their safety, health and wellbeing roles and responsibilities.

Improve management and oversight of safety, health and wellbeing.

Continue to implement the global safety and health standards to deliver equitable standards for life safety and acceptable levels of risk management across all jurisdictions.

Develop the health proposition for UK and US and drive improvements in the quality and cost effectiveness of support mechanisms for employees' mental and physical health and wellbeing.

Further details of our Strategic Progress in 2010 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).

## Citizenship and environmental sustainability



**OUR 2010 PRIORITIES**

**What we said we'd do ...**

✓ 2010 target achieved
⏸ partially achieved ongoing target
✗ 2010 target not achieved

- 1. Develop sector specific environmental, social and ethical policy positions that define our approach to lending and investing in the following sectors: oil and gas; mining and metals; forestry; and defence
- 2. Expand range and scale of financial services that specifically enable clients to meet environmental and social objectives
- 3. Expand the Environmental Champions Programme as a recognised Group wide employee engagement programme
- 4. Implement a revised RBS Defence Sector position statement

Our business depends on understanding the changing world around us, both to manage emerging risks and to support our customers by developing innovative products and services.

As an international business we also have a responsibility to play our part in addressing a broad range of social and environmental challenges. There is increasing understanding within governments and development organisations of the importance of engaging the business community in addressing climate change, protecting human rights and combating bribery and corruption. Good citizenship is about working to achieve these common objectives.

Finally, Citizenship is also about ensuring that we are doing our best to support the local communities in which we operate.

This section of the report provides an overview of our progress in these important areas during 2010, and an overview of our priorities for 2011.

### John Hourican

Chief Executive, Global Banking and Markets  
Member, Group Sustainability Committee

## What we did in 2010

### Citizenship

#### Environmental, social and ethical risk

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 overleaf for further details of ratings and transactions against EP criteria). We are also developing ESE policy standards defining lending criteria for four industry sectors – oil and gas, mining and metals, defence and forestry. These policies will be implemented during 2011 and additional sector policies will be developed during the course of the year, including energy and chemicals. External statements on the sector ESE policies will be issued following implementation. Overall, we are taking positive steps to be more transparent about the business we do and the way we make decisions on social and environmental issues.

#### Anti bribery and corruption

We are committed to the promotion of a culture which prohibits bribery and corruption within the Group and via our customers. We have implemented the requirements of the Foreign Corrupt Practices Act in the United States. In 2011, we anticipate the UK Bribery Act 2010 will come into force, introducing tough new measures for UK businesses. The Group has been working throughout 2010 to enhance our practices and controls in time for this date, ensuring that we will continue to maintain the highest standards of propriety in all the jurisdictions in which we operate. We have played an active role with government and industry working groups as the legislation was drafted and to develop the detailed guidance which will be an essential element of corporate control programmes.

In line with the strategy, our key 2011 priorities will be to: launch and embed the response to the Bribery Act including staff training and continue to improve the use of information in developing systems and training for staff so that the bank leverages its own knowledge of criminal activity.

We co-operated with the Office of Fair Trading in their investigation into a breach of competition law by two employees in 2007 and 2008. This was an isolated incident which regrettably resulted in a fine of £28.6 million which we paid in 2010.

## Sustainability themes

### Citizenship and environmental sustainability

2010 Community investment by type (£m)		2010 Project finance deals by industry sector and regions*			
Cash support	29.7				
Time value	3.4				
In kind	20.4				
Management	2.7				
<b>Total</b>	<b>56.2</b>				
		<b>A</b>	<b>B</b>	<b>C</b>	<b>Total</b>
		–	13	–	<b>13</b>
		–	14	3	<b>17</b>
		1	1	–	<b>2</b>
		<b>1</b>	<b>28</b>	<b>3</b>	<b>32</b>
		–	20	3	<b>23</b>
		1	1	–	<b>2</b>
		–	4	–	<b>4</b>
		–	3	–	<b>3</b>
		<b>1</b>	<b>28</b>	<b>3</b>	<b>32</b>

\* Project finance is no longer core business to the Group. Our scaled down activity is focused on the UK, the US and Australia  
 \*\*Europe, Middle East and Africa

### Business and human rights

Upholding human rights throughout our operations is of the utmost importance to the RBS Group. We have a published statement on our approach to human rights which is aligned with the United Nations Universal Declaration of Human Rights. We have other systems and policies in place to support human rights which include: our Group Sustainability Committee assesses human rights issues and includes senior representatives from all of our key business areas; we were one of the first financial services organisations to publish a set of minimum ethical standards for suppliers back in 2004, addressing human rights, labour rights, environmental protection and bribery and corruption; we are promoting gender equality through our Executive recruitment process by ensuring that a female is included on all shortlists, and a new diversity training module was also implemented in 2010.

We have also been a member of the United Nations Global Compact (UNGC) since 2003, a business initiative promoting best practice with ten principles in the areas of human rights, labour, environment and anti corruption. In 2010 our Head of Group Sustainability became Chair of the UK Network of the UNGC, supporting the promotion of the Global Compact's ten principles among various industries in the UK with a number of events and publications. This included support to the Network to produce a report outlining how UK companies support the Millennium Development Goals and acting as a representative of the UK Network at meetings with other international networks. In 2011 we hope to increase the amount of members in the Network and continue to support businesses to operate in a responsible manner.

### RBS in the community

We want to play a positive role in the communities in which we operate. This begins with providing the services our customers want, and operating in a sustainable way. We then aim to go further through community programmes which make a genuine difference in a number of focused areas, such as financial education. The Group programmes centre on MoneySense, supporting enterprise and employee and community engagement. There is also a range of similar initiatives delivered across our businesses. In 2010, we invested £56.2 million in communities through these programmes.

Citizens Financial Group believes that the success of the communities it serves is vital to the success of our company. As good citizens, we are committed to addressing the needs of the communities where we live and work. In response to the diverse needs of our local

communities, Citizens' giving has increasingly focused on three major areas: human services, affordable housing and economic development. In 2010, we invested more than \$18 million through charitable giving and community sponsorships to support more than 2,000 non-profit organisations in the US.

Our MoneySense programme aims to increase financial capability and financial inclusion. In 2010, we widened the impact and diversity of our programmes, see page 20 for more detail.

Our Supporting Enterprise programme focuses on working with partners to support potential entrepreneurs and helping to build the capability of alternative means of finance and support for would-be entrepreneurs who would not normally qualify for direct support from banks. Our microfinance programme and livelihood projects in India continue to provide access to finance for underserved communities. For more information on this see page 24.

Our Employee and Community Engagement programme supports the great work that our employees already do in their communities and encourages even greater involvement to strengthen our support for the communities we operate in. Overall, nearly 40,000 employees gave their skills, time and money in 2010 to make a difference in the communities that we operate in. The Group supported those efforts financially and by giving employees over 24,000 days off work to volunteer. See page 29 for a summary of our activities.

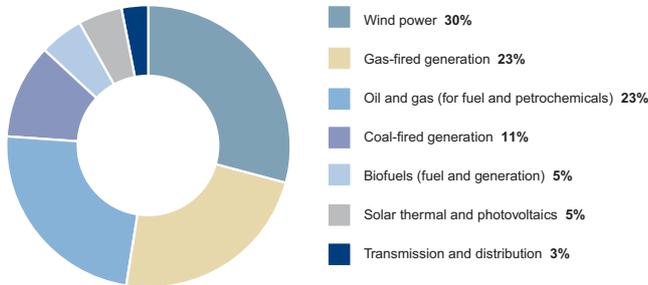
Our Global Banking and Markets division launched a new, bespoke volunteering programme in late 2010, which has engaged more than 1,000 employees in charities working with children and young people.

The launch of the UK Customer Charter in our Retail Bank saw the introduction of a UK Community Fund which set aside funds for local people to decide where it was invested. In 2010, we donated £1.6 million to 977 local community organisations across the UK. In 2011, we will be developing the fund in a number of ways.

Many employees are interested in environmental issues and their assistance is vital in helping the Group to improve its environmental performance. RBS has a staff network of over 600 environment champions who have volunteered to help raise awareness of environmental issues in their part of the business. In 2010, the Group celebrated World Environment Day with many events in our main buildings around the world offering employees advice and information on ways to save money and help the environment.

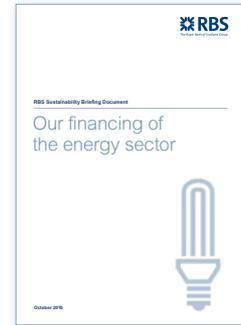
## Citizenship and environmental sustainability **continued**

### Energy related structured financing 2006-2010



### Financing of the energy sector

RBS provides banking services to major energy companies around the world. The global demand for energy is causing continued rises in greenhouse gas emissions and increased concern over the security of energy supplies world-wide. In October 2010 we released a briefing document entitled "Our financing of the energy sector" which provided new information and disclosure on our financing of this sector.



### Environmental sustainability

RBS sets its environmental strategy through its executive-led Environment Working Group, which reports into the board-level Group Sustainability Committee. In this section of the report, we focus on two key areas that have been particularly relevant for us in 2010: our lending to the energy sector and our management of our own operational impacts.

#### Our financing of the energy sector

RBS provides banking services to major energy companies around the world. Approximately 3.6% of our total lending goes to the energy sector. Since 2008, our total lending to this sector has declined significantly.

The global demand for energy is causing continued rises in greenhouse gas emissions and increased concern over the security of energy supplies world-wide. In 2010, RBS was the subject of protests by campaign groups concerned about the financing that banks provide to companies who produce and use coal, oil and gas. In addition, a number of key legislative developments in the UK also changed the economics of the energy sector and provided new possibilities for financing energy generation.

In October 2010, we published a briefing document entitled "Our financing of the energy sector" which provided new information and disclosure on our financing of this sector. In our view, a full assessment of the role that banks can play in assisting with the transition to more efficient and sustainable uses of energy needs to begin with data on banks' actual involvement with this sector. See [rbs.com/sustainability](http://rbs.com/sustainability) for a full copy of this report.

#### Lending to specific energy projects

As well as general lending, RBS also provides finance to the energy sector in the form of 'structured finance' to specific projects. Typically, a group of banks will be involved in financing a project, each providing a share of the loan and taking a share of the risk. The pie chart above shows that since 2006, we have provided more finance to wind power projects than any other type of energy project, largely because of the significant growth this sector has experienced in recent years. In 2010, we acted as joint lead-arranger in the \$1.4 billion structured finance of Shepherds Flat, the world's largest wind farm. We also led the largest ever domestic solar power financing deal in the UK, which will provide cheap electricity for social housing residents in over 35,000 households in England and Wales. And in the US, we advised a Fortune top 50 company on its investment into the second largest wind turbine manufacturer.

### Generation sources

Around 80% of total global primary energy supply is currently met by coal, oil and gas. Electricity and heat generation create the largest amount of man-made greenhouse-gas emissions, producing over 10Gt of CO<sub>2</sub> per year. Globally, around 75% of the CO<sub>2</sub> emissions from the electricity sector come from burning coal.

RBS has many large clients operating in the electricity sector. We are gaining more insight into the fuel mix that our electricity sector clients use, which allows us to better understand the climate-related risks in our lending.

### Financing energy efficiency improvements

Energy efficiency is a vital component of the shift to more sustainable ways of meeting society's energy needs. During 2010, RBS has made significant progress in developing services to help companies and other organisations install more energy efficient technologies (such as improved heating and lighting systems) in their buildings.

Energy efficient technologies have the advantage of being inexpensive to run once installed, but are often costly to purchase initially. We are finding that clients need to borrow money at the outset, but can repay it from the savings made in operating costs. RBS is working with a number of partners to develop services that meet this requirement and we hope to have launched a range of propositions in this area by the end of 2011.

### Oil sands

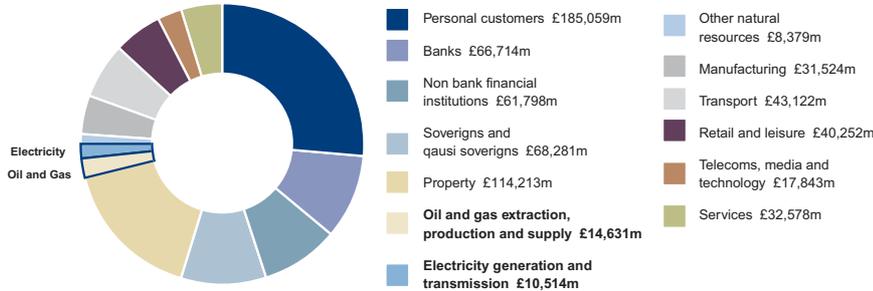
The oil sands developments centred on Alberta, Canada, have additional environmental impacts not normally associated with conventional oil extraction. These include increased CO<sub>2</sub> emissions from production processes and impacts on the local landscape, ecosystems and communities.

RBS recognises the concerns about the potential impacts of oil sands developments. We welcome the efforts of the Alberta and Canadian governments as well as the industry to reduce the sector's effect on the environment. Additionally RBS is being advised by a leading environmental consultant to ensure our understanding of the environmental and social risks associated with the sector remains professionally and objectively well informed.

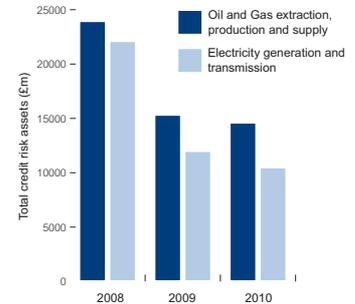
RBS provides general corporate finance to a number of companies who have oil sands operations as part of their general business. Overall, less than 5% of our total oil and gas lending is to companies who derive more than 10% of their earnings from oil sands operations.

**Energy lending as proportion of total lending 2010**

Total credit risk assets, end 2010 (£m)



**Lending to the energy sector 2008-2010**



**FOCUS**

**Carbon Disclosure Project results 2010**

We achieved the joint highest score of any bank globally in the 2010 CDP results. We achieved 93 in the disclosure index and 'A' in the performance index, putting us in the top 12 list of all companies overall in all sectors globally. The CDP is an independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world, see [cdproject.net](http://cdproject.net) for more information.

**Managing our own environmental impacts**

	2009	2010	Change (%)
<b>Energy</b>			
Total energy use (GWh)	1,544.1	1,444.1	▼ 6%
Energy use per FTE (kWh per FTE)	9,616	9,246	▼ 4%
Renewable electricity use (% of total)	57%	59%	▲ 4%
<b>CO2</b>			
Total CO2 emissions from energy use and travel (road, rail, air) (k tonnes)	855.2	802	▼ 6%
CO2 emissions per FTE from energy use and travel (road, rail, air) (tonnes per FTE)	5.3	5.1	▼ 4%
<b>Business travel</b>			
Total travel (mill km)	731.6	843.5	▲ 15%
Travel per FTE (km)	4,556	5,400	▲ 19%
Total air travel (mill km)	513.3	621.5	▲ 21%
Air travel per FTE (km)	3,197	3,979	▲ 24%
Total road travel (mill km)	170.4	159	▼ 7%
Road travel per FTE (km)	1,061	1,018	▼ 4%
Total rail travel (mill km)	47.9	63	▲ 32%
Rail travel per FTE (km)	298	403	▲ 35%
<b>Other impacts</b>			
Total water use (mill m3)	3.1	2.6	▼ 15%
Water use per FTE (m3)	19	17	▼ 13%
Total waste generated (k tonnes)	66.4	57.8	▼ 13%
Waste generated per FTE (kg)	413	370	▼ 11%
Total waste to landfill (k tonnes)	40.1	28.2	▼ 30%
Waste to landfill per FTE (kg)	250	180	▼ 28%
Waste recycled (%)	39%	50%	▲ 26%
Total paper used (k tonnes)	33	31.2	▼ 5%
Paper used per FTE (kg)	206	200	▼ 3%

Notes: All figures include data from offices, branches and data centres. Energy use includes electricity, gas, oil and other sources used for heat or power. Paper use includes office paper, statements and marketing materials.

**Energy use**

The total amount of energy we used in our buildings (mainly from electricity and gas) fell by 6% in 2010 compared to 2009. Our CO2 emissions, which predominantly come from energy use, also dropped by 6%. We partly attribute these reductions to the following factors:

- More efficient and productive use of our buildings, including 'intelligent working' practices and improvements to building management systems. Throughout 2010, we have continued to implement an energy reduction programme in many of our buildings, focusing on our 'top 40' energy consuming sites.
- High efficiency data centres which are designed to maximise energy savings and utilise the cooler Scottish climate to reduce cooling requirements.
- Implementation of phase one of our 'switch off, keep off' programme (which followed our Group-wide support for Earth Hour in March) to implement an energy reduction programme in many of our buildings & branches stay off when not needed.
- Reductions in the number of properties the Group operates, particularly in the Asia Pacific region, where divestments as part of the Group's strategic review are taking place. Building consolidation has also taken place in other parts of the RBS Group, including the UK and US.

RBS continues to support the development of renewable electricity capacity in the UK by purchasing electricity from renewable sources and renewable energy certificates in the US. In 2010, 59% of the electricity used in all of our buildings came from renewable sources.

We submitted our registration for participation in the UK Government's CRC (Carbon Reduction Commitment) Energy Efficiency Scheme ahead of schedule and assigned management responsibility for compliance with this programme.

**Travel**

Our business travel, particularly our long-haul flights, increased in 2010 compared with 2009, which has generated more CO2 emissions from travel. Business travel has increased for a variety of reasons including the additional travel required to manage the sale of parts of our business (particularly in the Asia-Pacific region) and the additional business activity associated with the general economic recovery.

## Citizenship and environmental sustainability *continued*



**Awarded Carbon Trust Standard**  
Award of the Carbon Trust Standard, presented in recognition of our carbon footprint reductions in UK operations and subsidiaries.

### External recognition

In addition to our CDP results, RBS has achieved the following recognition for our environmental performance in 2010:

- Award of the Carbon Trust Standard, presented in recognition of our carbon footprint reductions in UK operations and subsidiaries.
- Inclusion in the Dow Jones Sustainability Leadership Index for the 11th consecutive year.
- Award of Gold LEED (Leadership in Energy and Environmental Design) certification for RBS buildings in Amsterdam and Chennai.
- 4-star rating (the first in the US) for the RBS Americas headquarters food service facility, from the Green Restaurant Association.
- Quintile 1 Award (80%) for Ulster Bank in the BITC (Business in the Community) Northern Ireland Environmental Benchmarking Survey.

Reducing the environmental impacts from travel remains a major challenge for us. In the UK, we have large and interrelated parts of our business based jointly in Edinburgh and London, which requires travel between the two. We continue to implement initiatives to try to reduce travel, particularly by air, through discounted rail tickets and travel alternatives such as enhanced video conferencing facilities. Within our Global Banking and Markets division, we continue to upgrade room-based video conferencing facilities and are introducing initiatives such as web conferencing, desktop sharing and desk-top videos which aim to help reduce the amount we travel for internal business purposes.

### Waste, water and paper

RBS generates waste in the form of office paper, general waste (food, packaging etc), hazardous materials, construction waste, electronic items and furniture. Our estimated volume of general waste sent to landfill per FTE fell by 28% in 2010 compared with 2009. We continue to increase our rates of recycling and in 2010 we changed our waste collection arrangements in the UK, which will help us achieve even higher recycling rates in the future. We have also started to measure new waste streams, including construction waste from our buildings, hazardous waste and composting activity. In years to come, these measurements will change our overall waste baseline and reduce the proportion of general waste compared to other waste streams.

Our estimated water consumption per FTE also fell in 2010 compared to 2009, although there continues to be variance of consumption across different regions. We are continuing to develop initiatives that will help reduce our water consumption in our main buildings such as waterless urinals, water displacement devices in cisterns and tap flow restrictors.

We have also achieved a reduction in paper use per FTE compared with 2009. We collect data on the volumes of paper used for marketing, office paper, forms, envelopes, cheque and credit books and the paper used for statements. Within the UK and Ireland, we have chosen to use 75% recycled content paper for all our A4 office printer needs.

The reductions in water, waste and paper we have seen in 2010 are at least partly explained by the reduction in the number of buildings RBS now operates as a result of our strategy to focus on our core markets and reduce costs. We are working on ways to increase the coverage and accuracy of our data to better identify which savings are attributable to these changes and which have occurred as a result of our successful environmental initiatives and targeted savings programmes.

### Our priorities for 2011

- Develop external environmental, social and ethical (ESE) risk statements and internally implement ESE policies for: oil and gas; mining and metals; forestry and defence.
- Develop ESE policies for energy generation and chemicals.
- Implementing the new ESE policy framework through training key stakeholders and increasing awareness among all Global Banking and Markets employees.
- Implement our five year Group strategy for managing and reducing our environmental footprint.
- Set new 2011-2015 targets set for energy, paper, waste and travel.
- Continue to expand and develop our environment champions network.
- Launch and embed the response to the Bribery Act including staff training.
- Continue to improve the use of information in developing systems and training for staff so that the Group leverages its own knowledge of criminal activity.

Further details of our Strategic Progress in 2010 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).

## Independent assurance statement

Independent assurance statement by Deloitte LLP ('Deloitte') to The Royal Bank of Scotland Group plc ('RBS') on the 2010 Sustainability Report ('Sustainability Report') for the year ended 31 December 2010.

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

### Our observations and recommendations

RBS have made the following key improvements in managing and reporting sustainability performance during 2010:

- Developed and implemented a robust stakeholder engagement process at Group level related to engagement on key material issues and identification of emerging issues. This provides the company with a comprehensive understanding of stakeholder concerns; and
- Progressed a number of programmes designed to address material issues including the launch of the Customer Charter in the Retail Bank and producing a briefing paper providing more information on the role the bank plays in lending to the energy sector.

To improve future management and reporting of sustainability in accordance with AA1000APS (2008) we make the following recommendations to RBS:

#### Inclusivity:

- RBS have developed engagement processes with each of its identified key stakeholder groups. Improvements could however be made in formalising stakeholder engagement mechanisms at a country and divisional level as it is likely that there will be unique material issues that need to be identified, prioritised and responded to accordingly.

#### Materiality:

- In future reporting periods, we recommend that RBS documents and reports on the means by which it addresses conflicts and dilemmas in prioritising its material sustainability issues across the Group.

#### Responsiveness:

- The Report addresses a range of key issues for the business and how RBS has managed and responded to those issues. We recommend that RBS develops performance indicators on its fair banking and supporting enterprise themes and reports on these annually so that stakeholders can assess progress.

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.

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

RBS engaged us to:

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

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

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

- Gross new lending to UK households from March 2010 to February 2011 (UK), page 16
- Percentage of loan-to-value ratio of UK mortgage book on a current valuation basis (UK) [rbs.com/sustainabilityreport2010](http://rbs.com/sustainabilityreport2010)
- Number of basic bank accounts (UK), page 18
- Progress against Charter Commitments for July-December 2010 (UK Retail Bank), at [rbs.co.uk/global/customer-charter/g1/results.ashx](http://rbs.co.uk/global/customer-charter/g1/results.ashx)
- Annual Employee Survey Results, [www.rbs.com/sustainabilityreport2010](http://www.rbs.com/sustainabilityreport2010)
- Employee diversity gender, age and ethnic profile (Global coverage excluding ethnic profile which is UK only), at [rbs.com/sustainabilityreport2010](http://rbs.com/sustainabilityreport2010)
- Voluntary and compulsory redundancies (Global), page 27
- Total community spend in £ (Global), page 35
- Spend by type including cash donations, gifts in-kind, management costs and employee time in £ (Global), page 35
- Number of project finance deals per Equator Principle Category and industry sector (Globally), page 35
- Total energy consumption (GWh) and CO2 emissions (k tonnes) from property based energy use and travel (Global), page 37
- Renewable electricity used (% of total consumption), page 37
- Total waste (tonnes) (Global), page 37
- Total water (million m3) (Global), page 37
- Total Paper (k tonnes) (Global), page 37

## Independent assurance statement **continued**

We carried out Type 1 limited (i.e. moderate) assurance in accordance with AA1000AS (2008). A Type 1 engagement requires us to report on the nature and extent of adherence to AA1000 APS (2008). To achieve moderate-level assurance we have used the criteria in AA1000AS (2008) to evaluate adherence to AA1000APS (2008) 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). 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 sustainability in 2010 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 2010 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 reports' assertions regarding sustainability performance in 2010; 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.

### **Intended users and responsibilities of Directors and independent assurance provider**

- The Directors have prepared the Sustainability Report for the intended audience as outlined in the 'Reporting principles' section on page 5 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 the Directors of Royal Bank of Scotland Group plc in accordance with our letter of engagement. Our work has been undertaken so that we might state to RBS those matters we are required to state to them in this 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,  
8 April 2011



## Contact us

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