

RBS Sustainability Report 2014

Earning our customers' trust

What's in this Report

This Report describes how RBS runs its business. We outline how we are making RBS a more sustainable bank to serve and support our customers and communities in the future.

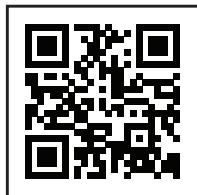
The Report covers our activity from 1 January 2014 to 31 December 2014 and was accurate at 29 April 2015.

About RBS

RBS is a UK-based banking and financial services company, headquartered in Edinburgh.

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

Online reporting



rbs.com/sustainable

You can access this Report, and much more sustainability content, on our website. Readers benefit from more accessible information, and it helps the environment too. Just scan the QR code opposite with your smart phone to go straight to our site. You may need to download a QR reader for your phone.





RBS Sustainability Report 2014

Chief Executive Q&A	2
Our performance at a glance	4
Our blueprint for lasting success	5
Our business model and strategy	6
Sustainability at RBS	10
Listening to our stakeholders	13
Our material issues in 2014	14
Investigations, enforcements and litigations	15

To be trusted we must

Serve customers well 19

Simple, clear and fair	21
Measuring customer satisfaction	23
Accessible banking	24
Lending to customers	26
Safeguarding our systems	28
Citizens Financial Group	29

To be trusted we must

Do the right thing 30

Our conduct	31
Our tax responsibilities	33
Managing environmental, social and ethical risks	34
Supporting Our Communities	37

To be trusted we must

Think long term 38

Supporting the low carbon economy	39
Managing our direct environmental impacts	42
Working with our suppliers	45
Inspiring Enterprise	46

To be trusted we must

Work together 47

Changing our culture	48
Performance and reward	49
Development and leadership	50
Wellbeing	50
Employment practices	52
Diversity and inclusion	53

Reporting at RBS 55



Chief Executive Q&A: A big year for RBS

“Our ambition is to shape the communities we serve in a positive way. We recognise that we still have a long way to go to achieve this position across our business. Sustainability is therefore not just about the many responsibilities that RBS has, but about taking leadership on a broad range of issues that are important to our stakeholders”

Ross McEwan,
Chief Executive

2014 was your first full year as CEO of RBS. How would you describe the story of RBS in 2014?

By the end of 2013 we had spent several years restoring the bank's safety and soundness, and over that time RBS had become more focused with a smaller balance sheet than in previous years. Simultaneously, the aftermath of the financial crisis had seen an erosion of trust levels in the industry, and in RBS in particular. So, as I took over as CEO, a big part of my focus was on setting out a strategy which would help us earn back that trust. We announced our strategy in February 2014 and at the heart of what we announced was a simple determination: to do a much better job for customers. We publicly declared an ambition to become the UK's number one bank for customer service, trust and advocacy by 2020. That is a huge ask, but I think it captures what is our biggest issue and our biggest challenge. In my view, turning RBS into a great customer bank that supports the ambitions and aspirations of our customers, from individuals to businesses small and large, is the best way to repay the support of the taxpayers who saved us. Equally, I think it makes good business sense. If our customers trust us, they will give us more of their business, and that will underpin sustainable returns for shareholders.

What has been done to address the challenges RBS faced in 2014?

2014 was very much about creating a platform from which we could build a more customer-focused bank. We know that we have a big challenge ahead, coming from a place of being the least trusted organisation in the least trusted sector. We need the right strategy and business model to face that challenge. As such, we set out 4 key priorities for 2014; strengthening our capital position; bringing our cost base in line with the smaller bank we are becoming; restructuring away from the seven divisions we had under our old 'Group' model, to having three customer businesses all serviced by one set of control and support functions; and, making our systems far more resilient so that customers could rely on our banking technology as and when they need it.

I'm delighted to say we achieved, and in some cases, exceeded, all of the targets we set ourselves in these four areas. The final piece of the jigsaw last year was to set out

how we will build on those achievements from 2015 through to 2019, which we did at our Annual Results presentation in February. A year on, we are safer, more efficient, we have a structure that now fits the bank we want to be - and we have a very clear focus on our customers.

Can you explain the process of structural change in RBS in 2014?

When I became CEO we still had the structure that existed when RBS's ambition was to become the biggest bank in the world. As I've mentioned, the focus after the crisis had to be on fixing the bank's balance sheet and making it safe again - but with much of the hard work on that done, it was time to examine how we create a structure that suited the bank we wanted to become. That was the rationale behind the shift to creating 3 customer businesses, with one set of control and support functions. Of course, this involved an intense period of transition and it wasn't easy for our people, but it was absolutely the right thing to do for the future of RBS. It marks a shift away from being a 'Group', to being one bank where we are much closer to our customers and can work more effectively together to deliver better, more efficient service to them - wherever they find us.

How are you building a more sustainable RBS?

Firstly, and most importantly, by putting customers first. It may sound obvious, but in the past, we were guilty of operating in our own interests, not necessarily the interests of our customers. The most fundamental shift we are making is to ensure that mindset is completely eradicated. Our whole strategy is based on customers trusting this bank, and wanting to do more business with us, and connected to this, is making RBS a great place to work. We won't engage our customers if we don't engage our staff, and so we are looking very closely at how we improve leadership at RBS, and how we make this a rewarding place to work.

How do you see RBS' relationship with wider society?

As I've said previously, first and foremost I define our relationship with society through how well we are serving our customers. If we are supporting their ambitions to buy a home,

start a business or grow their company - and doing that responsibly - then I think that has a very positive influence on society. Of course, we are also giving tens of thousands of employees a rewarding place to work, and getting involved in supporting our local communities across the globe. So, I think we can be proud of the role we play, but I also recognise that an organisation like RBS will be scrutinised on numerous levels. That's why we place a great deal of importance on being transparent on issues like conduct, litigation and tax, and I'm glad to say that we've recently been recognised for our approach by Transparency International.

Your goal is to be the number one UK bank for trust by 2020 – what is the role of sustainability in achieving that goal?

Sustainability goes hand in hand with building trust. If we act irresponsibly, we will lose trust. That applies not just to how we treat our customers, but also the wider role we play in society that I've mentioned. I think you'll struggle to find a company that has succeeded in being attractive to customers over the long term, when at the same time it's known to ignore community interests, or ignore its environmental impacts, or abuse its workers. We are acutely aware of the responsibilities that come with being such a large organisation, and of the importance of our reputation to achieving our ambitions. If we do the right thing and think long term in everything we do, trust will be a natural outcome. That's what sustainability means at RBS.

Our performance at a glance

2014 Financial performance indicators

Operating profit ⁽¹⁾

£3,503m

2013: (£2,303m) loss

Attributable loss

(£3,470m)

2013: (£8,995m)

Common Equity Tier 1 ratio - FLB III

11.2%

2013: 8.6%

RWAs

£356bn

2013: £429bn

Short-term wholesale funding ⁽²⁾

£28bn

2013: £32bn

Loan:deposit ratio ⁽³⁾

95%

2013: 94%

Leverage ratio

4.2%

2013: 3.4%

Cost:income ratio - adjusted

68%

2013: 68%

Net interest margin

2.23%

2013: 2.01%

2014 Non-Financial performance indicators ⁽⁴⁾

New lending to UK SMEs

£10.3bn

2013: £8.3bn ⁽⁵⁾

Lending to UK first-time buyers

£4.67bn

2013: £2.8bn

Customer Trust scores ⁽⁶⁾

NatWest = 41
Royal Bank of Scotland = 2

2013 NatWest: 35 2013 RBS: -16

Lending to the energy sector
(by Credit Risk Assets)

2.9%

2013: 2.8%

Joint number 1 lender to UK
renewables project finance by
number of transactions since 2011,
Intradeals index

Reduction in scope 1 and 2
emissions

-5%

2014 vs. 2013

Great place to work
Employee Engagement

72%

2013: 78%

Tax paid globally

£1.95bn

2013: £1.9bn

People reached through Inspiring
Enterprise programme

88,870

Since launch in 2012

(1) Operating profit before tax, own credit adjustments, gain on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest and includes the results of Citizens on a non-statutory basis, which are included in discontinued operations in the statutory results ('operating profit').

(2) Excludes derivative collateral.

(3) Includes disposal groups.

(4) Please visit rbs.com/sustainable/reporting for the basis of reporting for our non-financial indicators.

(5) This includes loans and overdrafts.

(6) Source: Populus (2014) and PSB (2013). For more detail see RBS Annual Results 2014 page 14.

Our blueprint for lasting success

Our Ambition

No.1
for customer
service, trust
and advocacy

Our Purpose

Serve customers well

Our Values

Serving
customers

Working
together

Doing the
right thing

Thinking
long term

Our Brands

 **NatWest**

 **Royal Bank
of Scotland**

Coutts 

 **Ulster Bank**

Our Priorities

Strength
and
sustainability

Customer
experience

Simplifying
the bank

Supporting
growth

Employee
engagement

Our long-term targets

CET1 ratio 13%⁽¹⁾
RoTE \geq 12%

No.1 for
service, trust
and advocacy

Cost: income
ratio < 50%

Leading market
positions in
every franchise

Employee
engagement index
 \geq Global Financial
Services norm⁽³⁾

Our 2015 Goals

Reduce RWAs
to < £300bn

Improve NPS
in every UK
franchise

Reduce costs
by £800m⁽²⁾

Lending growth in
strategic segments
 \geq nominal UK
GDP growth

Raise employee
engagement index to
within 8% of Global
Financial Services norm⁽³⁾

Notes:

(1) During the period of CIB restructuring

(2) Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

(3) Global Financial Services (GFS) norm currently stands at 83%.

Our Strategy

After five years spent restoring fundamental soundness to the bank, we have created a strategy and a structure that provides us with an exciting opportunity. Over the next few years, we are going to focus all of our energy on earning back the trust we lost in 2008. And in doing so, RBS is going to change the UK banking sector for the better.

Our Priorities

Strength and sustainability

Customer experience

Simplifying the bank

Supporting growth

Employee engagement

We have a long way to go to be the bank that our customers deserve. But we are in a period of very significant, positive change. We have millions of great customers, tens of thousands of outstanding employees, and a home economy that is getting stronger. By building on this foundation, we can achieve our ambition to be number one for customer service, trust and advocacy in all our chosen markets.

Our business model

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

Our Corporate & Institutional Banking business earns income from client driven trading activities particularly Rates, Currencies and Credit.

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

Our Personal & Business Banking and Commercial & Private Banking franchises provide services to over 17 million personal and business customers in the UK and to over 1 million personal and business customers in the Republic of Ireland. Our Corporate & Institutional Banking business serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region. This business's strategy has been further refined in 2015 (see page 14 for Reshaping our CIB business).

Our Values

Our Values are universal and guide our actions every day, in every part of our business. The values are the foundation of how we work at RBS.

Serving customers

- We exist to serve customers.
- We earn their trust by focusing on their needs and delivering excellent service.

Doing the right thing

- We do the right thing.
- We take risk seriously and manage it prudently.
- We prize fairness and diversity and exercise judgement with thought and integrity.

Working together

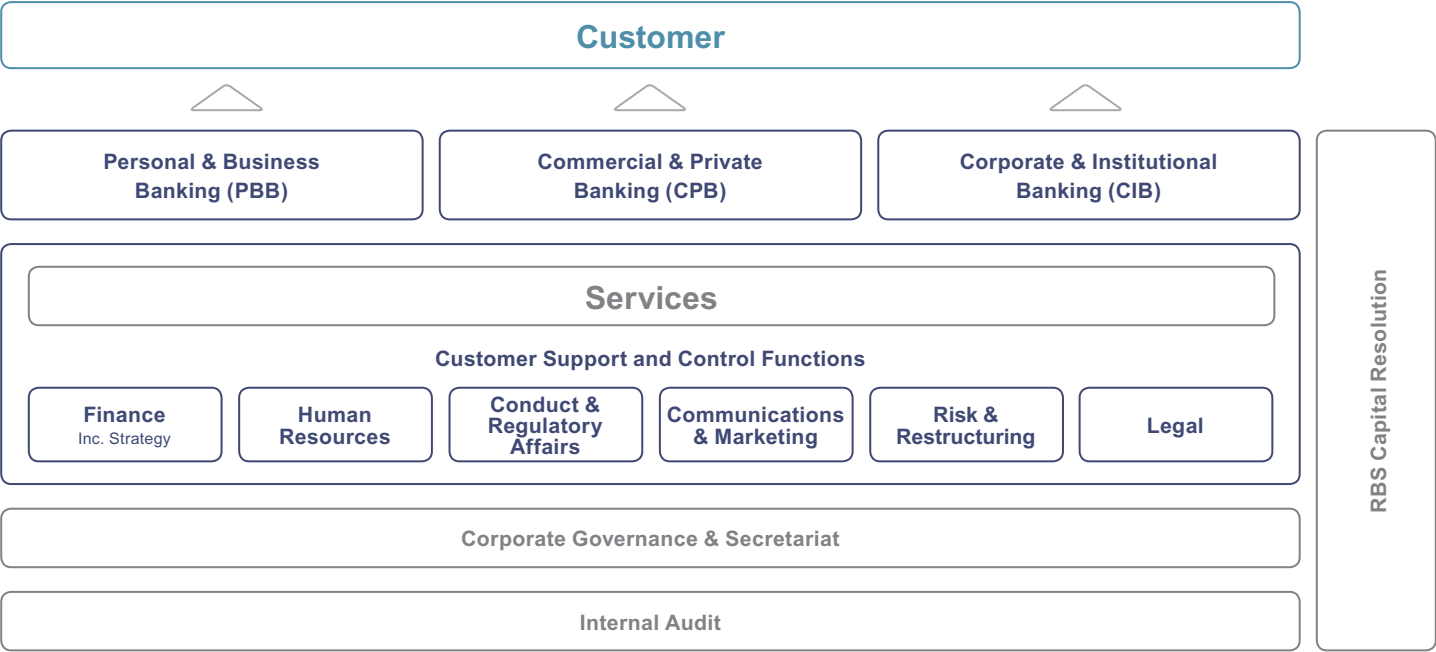
- We care for each other and work best as one team.
- We bring the best of ourselves to work and support one another to realise our potential.

Thinking long term

- We know we succeed only when our customers and communities succeed.
- We do business in an open, direct and sustainable way.

Our Structure

We are organised to provide products and services to personal, commercial and large corporate and institutional customers. Our principal customer-facing businesses are supported by a central Services function and other Support and Control Functions.



Customer Businesses

Our three customer-facing businesses are primarily responsible for defining the strategy and financial plan of their business and ensuring it is aligned with the wider RBS strategy. Teams define and deliver the customer proposition and are accountable for end-to-end customer processes and products. The teams partner with functions to specify functional requirements that deliver on customer needs.

Services

Services, led by the Chief Administrative Officer, provides business aligned technology, operations and property services across the bank. It is also accountable for technology risk, payments, data, change and the bank's fraud and security functions.

Functions

These teams define functional strategy and the financial plan to support the Customer Businesses and other functions.

Most functions are a mix of control, expertise, advisory and transaction services. All common activities across the organisation are included and nothing else.

Progress against our strategy

RBS has made significant strides in line with the new strategy in 2014. Our focus has been on Cost, Capital, Restructuring and Resilience. We have also begun the process of making RBS a simpler place to work and an easier bank to do business with. The infographic below presents our highlights from 2014 and our targets for 2015:

Fairer banking

We've ended Credit Card teaser rates.



SME funding

Gross new lending to SMEs totalled £10.3 billion, exceeding our 2014 target by 10%.



Small Business Fund

RBS and NatWest launch £1 billion fund for both new and existing small business customers across the UK.



Online loans

We launched a new online loan application process for small businesses.



Account opening

We've reduced our current account opening times for RBS and NatWest customers from five days to one.



Simplified product range

Personal & Business Banking reduced the number of on sale products by 50%.



Launch of Citizens IPO

The biggest bank initial public offering in US history successfully delivered.



Project reduction

So far, we have reduced the number of change projects we are running from 550 to 182.



Resilience

We've created a mirror bank so customers still have access to our services during a system outage. Already we can process 90% of debit and credit card transactions if there is a system outage.



Mobile record

A record number of transactions via our mobile app, with a high of over 6 million logins in a single day.



GPL system redesign

We simplified our Group Policy Learning system (GPL). As a result we've seen a 62% reduction in the total hours required to complete modules, letting us spend more time on customers.



Transparency

RBS scored top in the UK for corporate transparency in a study conducted by Transparency International.



Faster processing

Our overnight batch processing is now twice as fast, processing 20 million transactions every day.



Living Our Values

We launched a recognition programme – Living Our Values, reducing over 200 local schemes into one and creating a bank-wide way of recognising a colleague.



Our 2015 targets



Capital target

Move towards a capital target of 13% CET1 ratio ⁽¹⁾.



Improve NPS

Improve net promoter score in every UK franchise.



Reduce costs

Reduce costs by a further £800 million ⁽²⁾, taking RBS towards a long term cost:income ratio of under 50%.



Lending growth

Deliver lending growth in strategic segments equal to or higher than UK nominal GDP growth.



Our people

Raise employee engagement index to within 8% of GFS norm ⁽³⁾.

Notes: (1) During the period of CIB restructuring.

(2) Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

(3) Global Financial Services (GFS) norm currently stands at 83%.

Our Customers

Our purpose is to serve customers well and we have moved from seven divisions to three customer businesses, so we can better deliver on this. Each of our businesses share the RBS ambition: to be number one for customer service, trust and advocacy.

We have made a number of customer commitments marking our intent to deliver better service to our customers. RBS is making steady progress towards building a simpler, smaller and fairer bank, and remains focused on delivering the commitments for personal and business customers that we announced on 27 February 2014.

We will stop offering deals to new customers that we are not prepared to offer to our existing customers.

Progress:

We now offer our best rates to new and existing customers across our product range. There is now no Personal Banking or Business Banking deal that is not available to existing customers.

We will also ban teaser rates, including zero per cent balance transfers in our credit card business.

Progress:

We have banned teaser rates. We run a fair and transparent credit card business for our customers.

We will stop offering different rates to customers who apply online, in branch or by phoning our call centres.

Progress:

Across our RBS and NatWest brands, pricing is consistent.

We will use simple language in our customer letters, on our websites and in our branches.

Progress:

Customer letters and emails have been simplified for our personal and business customers so they are straightforward and transparent. We have reduced the number of pages on our personal banking website by over 60%. In branches we have fewer, shorter brochures making it easier for customers to find information.

By the end of 2014 we will cut in half the number of personal and SME products on offer.

Progress:

We have reduced the number of Personal and SME products on offer by 50%. We are becoming a smaller, simpler bank to do business with.

We will improve the clarity of our language to customers. By the end of 2014 we will be able to explain all of our personal and SME charges on one side of A4.

Progress:

Fees and charges are explained on one side of A4 for both our personal and business customers and will be communicated via our internet sites by the end of February 2015. We have a duty to our customers to provide a straightforward breakdown of all charges.

We will speed up our account opening process for personal customers. We will cut how long it takes to open a personal current account from five days to next day.

Progress:

All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can now open their account the next working day.

We will also improve the process to open a personal current account online so customers can upload their identification, such as their passport, and open their entire account from home.

Progress:

All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can complete their application online and where required, are able to upload key ID documents from home.

By the end of 2014, customers will have access to Mobile Banking and Online Banking within one day.

Progress:

All Personal and Business Banking customers now have access to online banking by the next working day. Existing customers with a debit card now have access to mobile banking the next working day.

We will put Business Bankers back on the high street. We will have hundreds of Business Bankers help small business people open accounts, apply for loans and get the help they need.

Progress:

82% of Business Banking frontline staff are immediately above/next to our branches. This equates to 1,335 Business Banking specialists in branch today. We are simplifying processes so that Business Bankers can spend more time with customers, providing help and advice in branch or via telephone.

We will start making small business lending decisions in five days.

Progress:

We are processing lending decisions quicker. In almost all cases, lending decisions are made and communicated to the customer in five days or less with two-thirds of business lending decisions made locally and/or by sector specialists.

Sustainability at RBS

At RBS, we define sustainability in the broadest possible terms. It is about conducting our day-to-day business the right way and continuing to play a part in addressing some of the biggest challenges faced by society. First and foremost however, we need to get the basics right for our customers.

In 2014 we completed a review of the sustainability and community affairs functions across our business areas, and created a new single central function to support the Sustainable Banking Committee and senior management across the Bank.

This new sustainability function plays a more strategic role in supporting our ambition of becoming the number one UK bank for service, trust and advocacy by 2020. As part of this change, we have also created a central Consumer Affairs team for the first time in the bank. This team is helping to ensure that we think about our customers in everything that we do, with particular focus on financial inclusion and supporting vulnerable customers.

Over the last five years, we have been building a sustainability programme that is able to help

shape the strategy of the bank. It has taken that period to build up robust systems for managing social and environmental issues. We also tasked ourselves with the challenge of becoming the most transparent UK bank, steadily improving the quality and materiality of our sustainability reporting and disclosure year on year.

This often makes for uncomfortable reading, given the number of conduct issues that RBS, and the sector, have to address. However being honest about our previous failings is the essential first step to rebuilding trust and credibility.

RBS was delighted to be recognised by Transparency International as the leading UK company in their 2014 ranking on disclosure. In this report and in the years ahead, we aim to establish clear recognition as a leader in this aspect of our business.

“We know that RBS exists in a sector that faces huge challenges and needs to change, and we’re committed to playing a leadership role.”

Penny Hughes,
Chairman of Sustainable
Banking Committee



RBS has a clear ambition to be number one for customer service, trust and advocacy in each of our chosen business areas by 2020. Delivery of our ambition depends in large part on our ability to demonstrate beyond question that we are a responsible company doing business in a sustainable way.

Our strategy is clear – our success as a company is dependent on the success and fortune of our customers and the communities we live and work in. When they succeed, so do we.

We know that RBS exists in a sector that faces huge challenges and needs to change, and we’re committed to playing a leadership role. I’m encouraged that we’ve changed our business practices this year on a range of issues to make banking fairer for our customers and our communities.

The Sustainable Banking Committee deals with matters of reputation and trust, including cultural change. We also oversee the

sustainable running of the bank in relation to the long term interests of its stakeholder groups, which include customers, employees, shareholders, government, regulators, media, suppliers, society and advocacy groups.

We host regular themed sessions with external stakeholders, where participants have the opportunity to speak directly to the Board on wide-ranging issues. In 2014 topics included climate change, privacy, fair banking and trade. Encouraged to be thought-provoking and challenging, participants offer invaluable insights to help us build relationships and focus on customer and community needs.

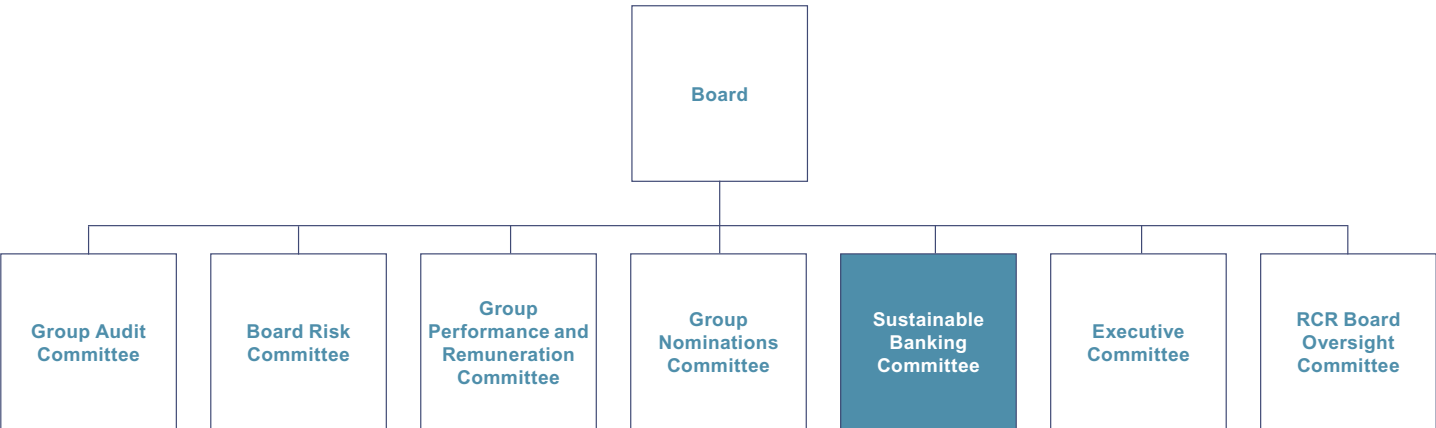
In 2014, the opportunity was taken to refocus the strategic direction of the Committee to ensure greater alignment with the customer ambition of the bank. Our work now concentrates on three core themes: bank-wide Reputation and Trust, Serving Customers and Sustainability/Emerging issues. Previously known as the Group Sustainability Committee, we feel the new name of Sustainable Banking

Committee better reflects our purpose and underlines the centrality of sustainable banking in our strategy.

With an increasing focus on ethics and sustainability, the priority of the Committee is to assess and encourage the work of the executive team in building a bank that puts customers’ interests first and embeds sustainable banking into everything that we do. I took over as Chairman of the Committee after the 2014 AGM having served as a member since 2013. My thanks go to the Committee members and attendees for their support and, in particular, my predecessor Sandy Crombie for his commitment in steering the work of the Committee. There are significant challenges ahead, but I am confident that we will continue to build on the work that has already been done to embed sustainability into the strategic priorities of RBS.

Penny Hughes,
Chairman of Sustainable Banking Committee

Sustainability governance



Our Sustainability performance – ratings and benchmarks

Each year RBS receives ratings for its environmental and social performance from external indices. In 2014 we were delighted to maintain or improve on our scores in all of the major indices.

	2011	2012	2013	2014
Dow Jones Sustainability index				
RBS	76	79	82	82
Peer average	53	59	58	60
Sector leader	91	93	93	93
CDP				
RBS Disclosure	91	89	88	98
RBS Performance	B	B	B	B
Leader Disclosure	100	100	100	100
Leader Performance	A	A	A	A
FTSE4Good				
No score issued	Included	Included	Included	Included
Sustainalytics				
RBS	62	66	60	62
Peer average	N/A	N/A	N/A	61

To be trusted we must listen to our stakeholders

Stakeholder Group	Primary engagement mechanism	Main issues raised during 2014
Customers	Customer surveys, including Net Promoter Score as well as syndicated surveys, focus groups, complaints data.	Historical PPI issues, customer service, lending fees and charges, system failures.
Employees	Annual staff survey (Our View), regular pulse surveys, intranet comments boards, team meetings, town halls, staff audios, engagement of employee representatives.	Wellbeing and resilience, job security, leadership development, talent attraction and retention, diversity, including: disability, gender equality, ethnicity, sexual orientation.
Investors	Investor relations briefings, Investor road shows, stakeholder engagement sessions.	Culture change, remuneration, business model, company financial health, governance and accountability, conduct and litigation.
Government	Regular interaction audios/meetings, industry forums, policy trend analysis, polling.	Interest rates, branch closures, mortgage lending, SME lending and appeals process, strategic plan and divestments, structural reform, payments infrastructure, culture and conduct.
Regulatory Bodies	Regular meetings.	Culture and behaviours, execution risk, banking reform, capital strength.
Media	Engagement through Media Relations team, media briefings, regular meetings.	Transparency, pro-active communications.
Consumer groups and the third sector	Regular meetings, forums, stakeholder engagement sessions, annual conferences, briefings, membership of representative groups.	Products and fees simplification, transparency, technological advancements, access to finance, payday lending, fraud and scams, complaint handling, financial inclusion, financial capability.
Civil Society and NGOs, including representative groups	Forums, meetings, stakeholder engagement sessions, membership of or partnership with representative groups.	Youth employability and skills development, supporting enterprise and entrepreneurship, financial education, social mobility, supporting deprived areas, environmental and ethical social risk management, financing fossil fuels.
Suppliers	Engagement with contract managers, annual supplier performance surveys, quarterly reviews with key suppliers.	Timely payment, being simpler to do business with, RBS strategy and impact on marketplace, supplier diversity.

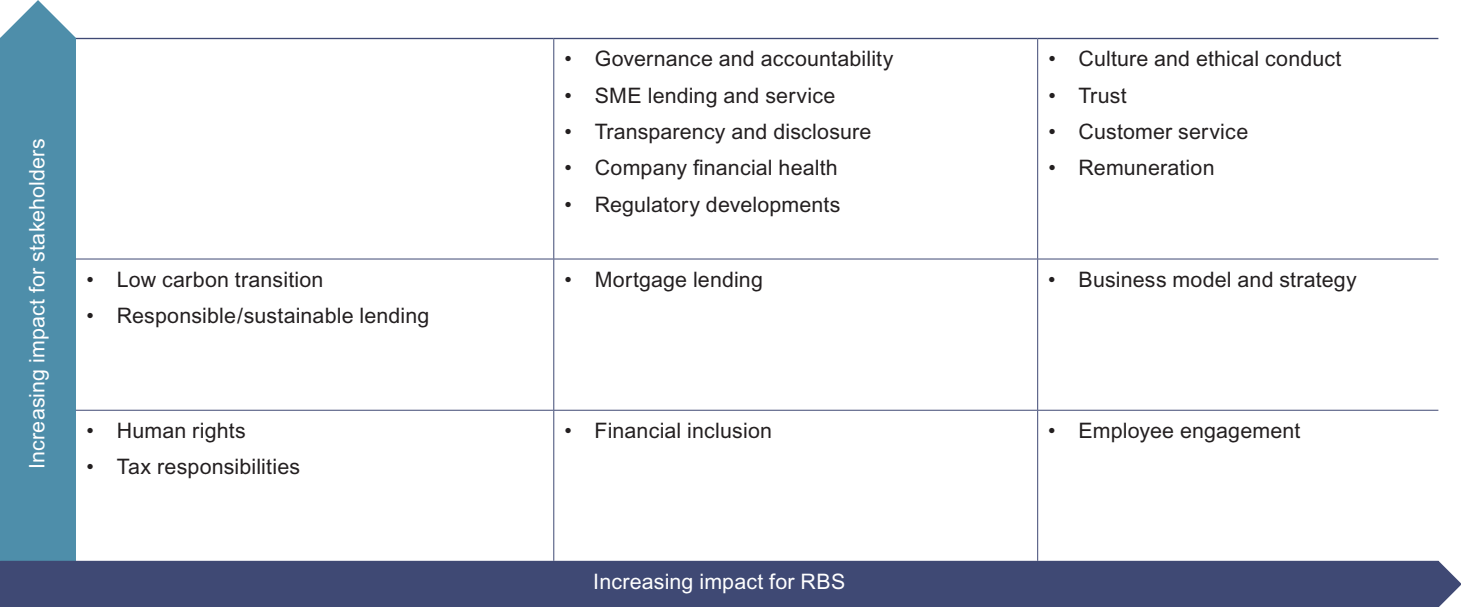
At RBS, we recognise that our success as a company is linked to understanding the long-term interests of stakeholder groups. RBS engages with a wide variety of stakeholders, including customers, suppliers, employees, trade unions, shareholders, investors, regulators, civil society and non-governmental organisations (NGOs), as illustrated in the table above. We have a robust programme in place through which we identify our key stakeholders, gain feedback on material issues and respond appropriately. Effective management of the issues raised by stakeholders is integral to fulfilling our ambition to be number one for customer service, trust and advocacy.

In 2014 we undertook a number of initiatives across the bank following our stakeholder engagement activities. A cross section is presented here – for more detail, visit rbs.com/ourapproach

- **A new direction** - We focused on becoming a smaller, simpler and fairer bank focused on our customers and centred in the UK. During 2014 the bank's seven divisions were transformed into three customer businesses, supported by shared central functions.
- **Serving customers** - We simplified communications with customers and ended teaser rate on credit cards. We also committed over £1 billion to improve and simplify banking for Commercial and Corporate customers.
- **Promoting a diverse workplace** - We rolled out training to help employees recognise and combat unconscious bias and engaged with employees on diversity and inclusion. Our efforts were recognised with several gender, race and equality awards.

In addition, our Board-level Sustainable Banking Committee (previously known as the Group Sustainability Committee) continued with a proactive engagement programme in which vocal and challenging stakeholders were invited to meet the most senior decision-makers in RBS. In 2014 the Committee held six face-to-face meetings with groups of external stakeholders to discuss topics such as climate change, privacy, employee engagement and supporting enterprise. These activities have resulted in positive changes to our business, some examples of which are detailed throughout this report.

Our material issues in 2014



To be trusted we must understand our material issues

At RBS we regularly refresh and update our materiality analysis through a variety of activities. This year, alongside our ongoing stakeholder engagement, we carried out additional research – including interviews and surveys with internal and external stakeholders - for the purpose of defining the scope of this report. This has helped us refresh and reframe our understanding of the issues that are important to stakeholders of the bank, in line with changes to our business.

Our materiality analysis shapes the way we do business, helping us to determine our most important issues and manage them effectively.

To define the content and scope of the 2014 Report we carried out a series of activities to update our list of material issues:

- We assessed the current relevance of the material topics identified in 2013 (as set out in the 2013 Report) by conducting a review of media and engagements with external stakeholder groups in 2014.

- Based on our findings we refined and updated the topic list for external testing, reviewing this against relevant Global Reporting Initiative aspects and definitions for completeness
- We engaged research organisation Populus to conduct broad and deep external polling with key opinion formers. In 2014 we utilised this Populus research, which included stakeholders from media, politics, civil society and public service, to inform the process of testing and identifying material issues.
- We also tested stakeholder issues internally, conducting research across a range of business areas and geographies to understand the importance and impact of the identified topics
- These activities were supplemented by a series of internal interviews. RBS worked with an independent consultant to conduct interviews with senior leaders across the bank to help further guide the report narrative.

The topics identified as a result of the materiality assessment are presented in the table above.

The list of topics in the diagram above is not exhaustive, but it represents those issues that internal and external stakeholders have highlighted as having considerable financial, operational, reputational or societal impact in 2014.

Some issues that were highlighted last year do not feature this year. Despite not being included in the diagram, we understand the importance of these issues and are working to manage them effectively.

This report outlines what we have done in 2014 to address our material issues. We recognise that they are fundamental to the way we serve our customers and interact with other stakeholders.

For a detailed description of our materiality process, please visit rbs.com/sustainable/materiality

To be trusted we must be transparent

At RBS, we take our obligation to the UK taxpayer very seriously and we recognise that we must operate to a high standard. In this report we aim to provide transparency and accountability on ongoing and past issues, to demonstrate our strong desire to move forward as a stronger and more sustainable bank that earns our customers' trust.

The following is a summary of the main current and recent litigation and investigations facing RBS as at 20 April 2015. In many cases, numerous legal and factual issues may need to be resolved before it can be determined whether a liability exists and the extent of any such liability. The summary below is not intended to cover all material litigation

and investigations affecting RBS, or provide detailed status updates on all the matters listed. For full details, please read Note 15 of our Annual Results announcement on 26 February 2015 at investors.rbs.com

In 2014, litigation and conduct provisions totalled £2.2bn.

Investigations, enforcements and litigation

Issues	Details
Shareholder litigation	In 2013, claims were issued in the High Court of Justice of England and Wales against RBS. The claims allege that untrue and misleading statements and/or improper omissions were made in connection with the rights issue announced by RBS on 22 April 2008. In July 2013 these and other similar threatened claims were consolidated by the Court via a Group Litigation Order. RBS's defence to the claims was filed on 13 December 2013. Since then, further High Court claims have been issued against RBS under the Group Litigation Order. At a case management conference in December 2014 the judge ordered that trial commence in December 2016.
Other securitisation and securities related litigation and investigations	RBS is a defendant in more than 30 US claims involving the issuance of more than US\$46 billion of mortgage-backed securities (MBS) issued primarily from 2005 to 2007. In general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. RBS is also involved in reviews, investigations and proceedings by US federal and state governmental law enforcement and other agencies and self-regulatory organisations relating to issuance, underwriting and trading in MBS.
London Interbank Offered Rate (LIBOR)	Certain members of RBS Group have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that certain members of RBS Group and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR based derivatives in various markets through various means. These actions and claims have reached various stages in the court process.
ISDAFIX antitrust litigation	Beginning in September 2014, RBS plc was named as a defendant in several purported class action complaints (now consolidated into one complaint) alleging manipulation of USD ISDAFIX rates, to the detriment of persons who entered into transactions that referenced those rates. The complaints were filed in the United States District Court for the Southern District of New York and contain claims for unjust enrichment and violations of the U.S. antitrust laws and the Commodities Exchange Act. This matter is subject to pre-discovery motions to dismiss some or all of the claims against the defendants.
Credit default swap antitrust litigation	Certain members of RBS Group are defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York. The plaintiffs generally allege that defendants violated the U.S. antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps. On 4 September 2014, the Court largely denied the defendants' motion to dismiss this matter.
FX antitrust litigation	Certain members of RBS Group are defendants in a consolidated antitrust class action and a separate class action, both pending in the United States District Court for the Southern District of New York. The plaintiffs allege that the defendants violated the U.S. antitrust laws by conspiring to manipulate the foreign exchange market by manipulating benchmark foreign exchange rates.
Interest rate hedging products	RBS is dealing with a large number of active litigation claims in the UK in relation to the sale of interest rate hedging products. In general claimants allege that the relevant interest rate hedge products were mis-sold to them, with some also alleging RBS made misrepresentations in relation to LIBOR. Claims have been brought by customers that are being considered under the UK Financial Conduct Authority (FCA) redress programme, as well as by customers who are outside of the scope of that programme. RBS has encouraged those customers that are eligible to seek redress under the FCA redress programme to participate in that programme. RBS remains exposed to potential claims from customers who were either ineligible to be considered for redress or who are dissatisfied with their redress offers.

Investigations, enforcements and litigation

Issues	Details
LIBOR and other trading rates	<p>In February 2013, RBS announced settlements with the Financial Services Authority (FSA) in the United Kingdom, the United States Commodity Futures Trading Commission and the United States Department of Justice (DOJ) in relation to investigations into submissions, communications and procedures around the setting of LIBOR. RBS agreed to pay penalties of £87.5 million, US\$325 million and US\$150 million to these authorities respectively to resolve the investigations. As part of the agreement with the DOJ, RBS plc entered into a Deferred Prosecution Agreement in relation to one count of wire fraud relating to Swiss Franc LIBOR and one count for an antitrust violation relating to Yen LIBOR. In addition, on 12 April 2013, RBS Securities Japan Limited entered a plea of guilty to one count of wire fraud relating to Yen LIBOR and on 6 January 2014, the US District Court for the District of Connecticut entered a final judgment in relation to the conviction of RBS Securities Japan Limited pursuant to the plea agreement. In February 2014, RBS paid settlement penalties of approximately EUR 260 million and EUR 131 million to resolve investigations by the European Commission (EC) into Yen LIBOR competition infringements and EURIBOR competition infringements respectively. In July 2014, RBS entered into an Enforceable Undertaking with the Australian Securities and Investments Commission (ASIC) in relation to potential misconduct involving the Australian Bank Bill Swap Rate. On 21 October 2014, the EC announced its findings that RBS and one other financial institution had participated in a bilateral cartel aimed at influencing the Swiss franc LIBOR benchmark interest rate between March 2008 and July 2009. RBS agreed to settle the case with the EC and received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation. Also on 21 October 2014, the EC announced its findings that RBS and three other financial institutions had participated in a related cartel on bid-ask spreads of Swiss franc interest rate derivatives in the European Economic Area (EEA). Again, RBS received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation. RBS is co-operating with investigations and new and ongoing requests for information by various other governmental and regulatory authorities, including in the UK, US and Asia, into its submissions, communications and procedures relating to a number of trading rates, including LIBOR and other interest rate settings, and non-deliverable forwards. RBS is providing information and documents to the CFTC and the DOJ as part of an investigation into the setting of USD, EUR and GBP ISDAFIX and related trading activities. RBS is also under investigation by competition authorities in a number of jurisdictions stemming from the actions of certain individuals in the setting of LIBOR and other trading rates, as well as interest rate related trading.</p>
Foreign exchange related investigations – agreement reached with FCA and CFTC	<p>In November 2014, RBS plc reached a settlement with the FCA in the United Kingdom and the United States Commodity Futures Trading Commission (CFTC) in relation to investigations into failings in the bank's Foreign Exchange businesses within its Corporate & Institutional Banking (CIB) segment. RBS plc agreed to pay penalties of £217 million to the FCA and \$290 million to the CFTC to resolve the investigations. Payment of the fines was made on 19 November 2014. RBS remains in discussions with other governmental and regulatory authorities on similar issues relating to failings in the Bank's Foreign Exchange business within its CIB segment, including settlement discussions regarding the criminal investigation being conducted by the DOJ and certain other financial regulatory authorities. The timing and amounts of any further settlements and related litigation risks and consequences remain uncertain and could be material. On 21 July 2014, the Serious Fraud Office announced that it was launching a criminal investigation into allegations of fraudulent conduct in the foreign exchange market, apparently involving multiple financial institutions.</p>
Technology incident in June 2012 – agreement reached	<p>On 20 November 2014, RBS announced that it had reached agreement with the FCA and the PRA over failings in relation to a technology incident in June 2012, as a result of which the processing of certain customer accounts and payments were subject to considerable delay. RBS agreed a penalty of £42 million with the FCA and £14 million with the PRA. Separately the Central Bank of Ireland initiated an investigation and issued enforcement proceedings against Ulster Bank Ireland Limited (UBIL), an RBS company. On 12 November 2014, the Central Bank of Ireland announced that it had fined UBIL EUR3.5 million in relation to its investigation.</p>
Interest rate hedging products	<p>In June 2012, following an industry wide review, the FSA announced that RBS and other UK banks had agreed to a redress exercise and past business review in relation to the sale of interest rate hedging products to some small and medium sized businesses who were classified as retail clients or private customers under FSA rules. In January 2013 the FSA issued a report outlining the principles to which it wished RBS and other UK banks to adhere in conducting the review and redress exercise. This exercise is being scrutinised by an independent reviewer, who is reviewing and approving all redress outcomes, and the FCA is overseeing this. RBS has reached agreement with the independent reviewer in relation to redress outcomes for in scope customers. RBS and the independent reviewer are now focussing on customer responses to review outcomes, securing acceptance of offers and assessing ancillary issues such as consequential loss claims. The exercise became closed to new entrants on 31 March 2015.</p>

Investigations, enforcements and litigation

Issues	Details
FSA mystery shopping review	In February 2013, the FSA announced the results of a mystery shopping review it undertook into the investment advice offered by banks and building societies to retail clients. As a result of that review the FSA announced that firms involved were cooperative and agreed to take immediate action. RBS was one of the firms involved. The action required included a review of the training provided to advisers, considering whether changes are necessary to advice processes and controls for new business, and undertaking a past business review to identify any historic poor advice (and where breaches of regulatory requirements are identified, to put this right for customers). Subsequent to the FSA announcing the results of its mystery shopping review, the FCA has required RBS to carry out a past business review and customer contact exercise on a sample of historic customers that received investment advice on certain lump sum products through the UK Financial Planning channel of the Personal & Business Banking (PBB) segment of RBS, which includes RBS plc and NatWest, during the period from March 2012 until December 2012. This review is being conducted under section 166 of the Financial Services and Markets Act, under which a skilled person has been appointed to carry out the exercise. Redress is currently being offered to certain customers in this sample group. In addition, RBS has agreed with the FCA that it will carry out a remediation exercise, for a specific customer segment that were sold a particular structured product, in response to concerns raised by the FCA with regard to (a) the target market for the product and (b) how the product may have been described to customers by certain advisers. A pilot customer communications exercise to certain cohorts of customers was undertaken between November 2014 and January 2015 with a further communication exercise to the remaining cohorts due to be completed by mid 2015.
Packaged accounts	As a result of an uplift in packaged account complaints, RBS has proactively put in place dedicated resource to investigate and resolve complaints on an individual basis.
FCA review of GRG treatment of SMEs	In November 2013, a report by Lawrence Tomlinson, entrepreneur in residence at the UK Government's Department for Business Innovation and Skills, was published (Tomlinson Report). The Tomlinson Report was critical of RBS's Global Restructuring Group's treatment of SMEs. The Tomlinson Report was passed to the PRA and FCA. Shortly thereafter, the FCA announced that an independent skilled person would be appointed under Section 166 of the Financial Services and Markets Act to review the allegations in the Tomlinson Report. On 17 January 2014, Promontory Financial Group and Mazars were appointed as the skilled person. RBS is fully cooperating with the FCA in its investigation. Separately, in November 2013 RBS instructed the law firm Clifford Chance to conduct an independent review of the principal allegation made in the Tomlinson Report: RBS's Global Restructuring Group was alleged to be culpable of systematic and institutional behaviour in artificially distressing otherwise viable businesses and through that putting businesses into insolvency. Clifford Chance published its report on 17 April 2014 and concluded that there was no evidence to support the principal allegation. A separate independent review of the principal allegation, led by Mason Hayes & Curran, Solicitors, was conducted in the Republic of Ireland. The report was published in December 2014 and found no evidence to support the principal allegation.
PPI	Since 2011, RBS has been implementing a policy statement agreed with the FCA for the handling of complaints about the mis-selling of PPI.
Retail banking – EC	Since initiating an inquiry into retail banking in the EU in 2005, the EC continues to keep retail banking under review. In late 2010 the EC launched an initiative pressing for greater transparency of bank fees and is currently proposing to legislate for increased harmonisation of terminology across Member States.
UK personal current accounts/retail banking	Following the OFT's publication of a market study report into the Personal Current Account (PCA) market in July 2008, the OFT launched a follow up review of the PCA market in July 2012. This review was intended to consider whether certain initiatives agreed by the OFT with banks in light of the July 2008 report, primarily around transparency, unarranged overdrafts and customers in financial difficulty, had been successful and whether the market should be referred to the Competition Commission (CC) for a fuller market investigation. The OFT's PCA report following this July 2012 launch was published in January 2013. The OFT acknowledged some specific improvements in the market since its last review but concluded that further changes were required to tackle ongoing concerns, including a lack of switching, the ability of consumers to compare products and the complexity of overdraft charges. The OFT decided not to refer the market to the CC but said that it expected to return to the question of a referral to the CC in 2015, or earlier. The OFT also announced that it would be carrying out behavioural economic research on the way consumers make decisions and engage with retail banking service, and would study the operation of payment systems as well as the SME banking market. On 11 March 2014, the successor body to the OFT and CC, the CMA, announced that in addition to its pending SME review (see below), it would be undertaking an update of the OFT's 2013 PCA review. On 18 July 2014 the CMA published its preliminary findings in respect of both the PCA and SME market studies. The CMA provisionally decided to make a market investigation reference (MIR) for both the PCA and SME market studies. The provisional decision on both PCAs and SMEs was then subject to a consultation period until 17 September 2014. Following this period of consultation, on 6 November 2014, the CMA made its final decision to proceed with a MIR. The MIR will be a wide-ranging 18-24 month Phase 2 inquiry.

Investigations, enforcements and litigation

Issues	Details
SME banking market study	The OFT announced its market study on competition in banking for SMEs in England and Wales, Scotland and Northern Ireland on 19 June 2013. Following a consultation on the scope of the market study, the OFT published an update paper on 27 September 2013 setting out its proposed scope. On 11 March 2014, the OFT set out some competition concerns on SME banking and also announced that its successor body, the CMA, would continue the review.
FCA Wholesale Sector Competition Review	On 9 July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas which may merit further investigation through an in-depth market study. The initial review was an exploratory exercise and focused primarily on competition in wholesale securities and investment markets, and related activities such as corporate banking. It commenced with a three month consultation exercise, including a call for inputs from stakeholders. Following this consultation period, the FCA published its feedback statement on 19 February 2015. The FCA now intends to undertake a market study into investment and corporate banking (to launch in Spring 2015) and potentially into asset management (to launch late 2015 if undertaken).
Credit default swaps (CDS) investigation	RBS is a party to the EC's antitrust investigation into the CDS information market. RBS has received and responded to a Statement of Objections from the EC and continues to co-operate fully with the EC's ongoing investigation. In general terms, the EC has raised concerns that a number of banks, Markit and ISDA may have jointly prevented exchanges from entering the CDS market.
US/Swiss tax programme	In August 2013, the DOJ announced a programme for Swiss banks (the Programme), to settle the long running dispute between the US tax authorities and Switzerland regarding the role of Swiss banks in concealing the assets of US tax payers in offshore accounts. The Programme provides Swiss banks with an opportunity to obtain resolution, through non-prosecution agreements or non-target letters, concerning their status in connection with the DOJ's investigations. Coutts & Co Ltd, a member of RBS Group incorporated in Switzerland, notified the DOJ that it intended to participate in the Programme based on the possibility that some of its clients may not have declared their assets in compliance with US tax laws. The Programme required a detailed review of all US related accounts. The results of Coutts & Co Ltd's review were presented to the DOJ in June 2014. Coutts & Co Ltd has now completed the collection of evidence of the tax status of all US related account holders, including those US account holders participating in an offshore voluntary disclosure programme. The results of the review were presented by Coutts to the DOJ on 5 November 2014. Coutts continues to cooperate with the DOJ pursuant to the terms of the Programme. Coutts expects to reach resolution with the DOJ in 2015, under the terms of the Programme.
German prosecutor investigation into Coutts & Co Ltd	A prosecuting authority in Germany is undertaking an investigation into Coutts & Co Ltd in Switzerland, and current and former employees, for alleged aiding and abetting of tax evasion by certain Coutts & Co Ltd clients. Coutts & Co Ltd is cooperating with the authority.
Enterprise Finance Guarantee Scheme	The Enterprise Finance Guarantee (EFG) is a government lending initiative for small businesses with viable business proposals that lack security for conventional lending. RBS has identified a number of instances where it has not properly explained to customers how borrower and guarantor liabilities work under the EFG scheme and will now undertake a review of affected and potentially affected customers to determine whether affected customers should be offered redress. From 2009 to the end of 2014, RBS provided over £940 million of lending under the EFG scheme.

To be trusted we must Serve customers well

“In 2014 we’ve shown we’re serious about changing the industry by delivering on our customer commitments to end teaser rates and reward customer loyalty.



Les Matheson

CEO, Personal and Business Banking



**Banned credit card
teaser rates**



**72,065 new basic bank
accounts opened**



**Launched UK's first accessible
card for blind and partially
sighted customers**



**Small business lending in the
5% most deprived wards in the
UK increased to £2.8bn**

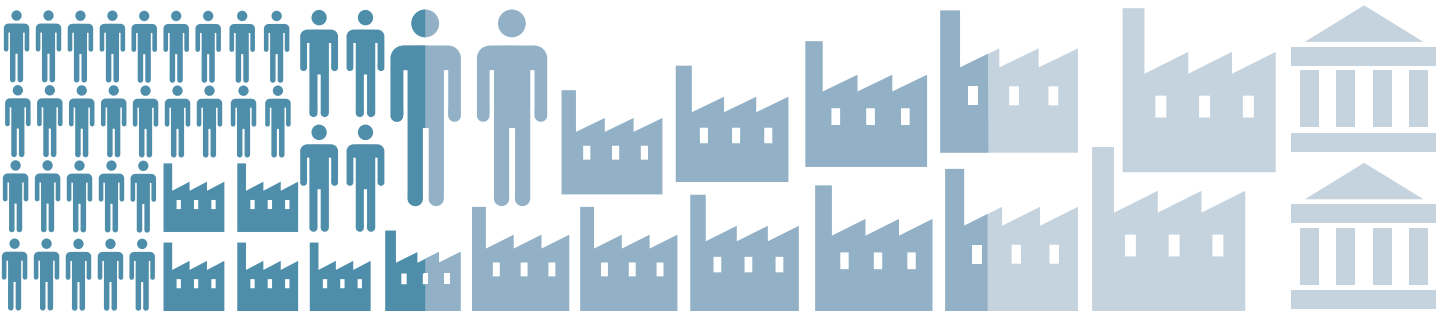


**£10.3bn new lending
to UK SMEs**



**£19.7bn lent in UK
mortgages including
£4.67bn to first time buyers**

Our purpose is to serve customers well and in 2014 we've moved from seven divisions to three customer businesses, so we can better deliver on this. Each of our businesses share the RBS ambition: to be number one for customer service, trust and advocacy by 2020.



Personal & Business Banking

Our personal and small business customers share similar needs: making payments; saving and borrowing; protection and investments.



Commercial & Private Banking

- As they grow, our customers' needs change. Bigger businesses need more sophisticated products to help raise finance, manage risk and facilitate trade and transactions.
- The wealth creators also need the services of wealth managers to protect and grow their assets.



Corporate & Institutional Banking

- Our biggest clients work globally and have the most complex requirements. They need advice and support to help them raise, move and protect money across borders, as well as access to core markets products.



Simple, clear and fair

“We have decided that fairness will first of all be defined in pricing. We are putting the interests of our customers first.”

Moray MacDonald

Managing Director of Products for Personal and Business Banking

In 2014 we simplified our product range so that our colleagues can have better conversations with customers, helping them achieve their savings goals.

We have ended teaser rates on our savings products because we believe in giving customers a fair and sustainable rate for the long term.

Over six million customers were moved from old savings products to our Instant Saver account, which meant that all of our savings accounts were easier to understand and fairer for everyone. 4.5 million customers saw an increase in interest on their savings for the first time in seven years, when they weren't expecting it.

In the interest of fairness, we also allowed customers with our older credit cards to move onto our new, lower-rate product.

We introduced the Clear Rate and Cashback Plus credit cards. The Cashback Plus credit card offers a cashback loyalty programme fully aligned to our current accounts reward scheme.

From July 2014 all new personal accounts across the UK and Ireland were auto-enrolled into Act Now Alerts, to help our customers avoid unnecessary fees and charges.

We focused on fairer arrangements for mortgage customers in potential difficulty. This meant that we repossessed 22% fewer properties in 2014 compared to 2013, with more customers able to agree a sustainable arrangement.

We're committed to helping our customers make the right financial choices for their circumstances. To support this, we have taken steps to ensure that colleague incentives do not drive product bias. Incentives for customer-facing colleagues in Personal

Banking are at least 50% based on customer satisfaction, and reward margins for specific products are not shared.

In 2014 we also simplified our product offering in Commercial Banking. Over 140 products were removed from sale and more than 400 process improvements were implemented following suggestions from our people to make it easier for customers to do business with us.

Training and development

In 2014, we trained all of our customer-facing staff in the UK to have more personal conversations with customers. This means better understanding the customer's needs and having conversations that go beyond products.

Customer-facing colleagues at Ulster Bank have worked for accredited professional service standards in order to understand and serve customers more efficiently. A further accreditation programme has been introduced for colleagues in direct customer contact centres.

For further details of Ulster's activities please visit group.ulsterbank.com/about-us/corporate-sustainability/fair-banking.ashx

We also invested in the relationship managers who work with our Business customers, giving them the appropriate skills for understanding and catering for their customers' industry, businesses and specific needs.

The programme trains relationship managers on how to address customer needs, along with ethical training, credit skill and lending training. It is an investment in our people that encourages them to become professionally

qualified. Our customers also benefit: bankers who took part in the training pilot in 2014 received higher customer satisfaction scores.

Through the Working with You programme, our frontline teams in Business Banking spend time in customers' businesses so they really understand what it is like to run a business and think like an entrepreneur.

Growing access to online banking

In 2014 we continuously reviewed, upgraded and expanded our mobile and online banking services to keep pace with customer demand for services through new technologies. All customer facing changes originated directly from insight from our customers. We continually review user journeys and build on customer feedback to improve our online banking services, or create new ways for customers to interact with us.

Online banking highlights from 2014 were:

- The launch of an online lending application where sole traders can apply for up to £25,000 of lending without visiting a branch.
- Allowing customers to make insurance claims by submitting photo and video evidence online.
- Automatic registration of all new customers on online banking.
- A record number of transactions via our mobile app, with a high of 6 million logins in a single day.
- The number of customers aged 65+ actively using our mobile app has increased by 56% in the past year.

A photograph of two men in business suits. The man on the left is looking down at a tablet held by the man on the right. The man on the right is wearing glasses and has a beard. They are both looking intently at the screen. The background is blurred, suggesting an office setting.

Serving customers better in 2014 – some of our successes

Over 500,000 customer queries were resolved properly first time through improved processes.

Customers made 17% fewer unnecessary calls to our service lines, thanks to targeted initiatives to tackle the cause of calls.

There was a 180% increase in views of our redesigned FAQs online and only 1% of customers who responded to our questionnaires say their question was unanswered after reading them.

Over 50,000 customers used our new virtual identification system.

Being the number one bank for customer service, trust and advocacy

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. The Net Promoter Score (NPS) is established by subtracting the proportion of detractors from the proportion of promoters. In 2014, we have seen some positive NPS movements in some of our franchises and our plans for 2015 will help to gather momentum across the bank.

		Year end 2013	Year end 2014	Year end 2015 target
Personal Banking	NatWest (England & Wales) ⁽¹⁾	5	6	9
	RBS (Scotland) ⁽¹⁾	-16	-13	-10
	Ulster Bank (Northern Ireland) ⁽²⁾	-31	-24	-21
	Ulster Bank (Republic of Ireland) ⁽²⁾	-20	-18	-15
Business Banking	NatWest (England & Wales) ⁽³⁾	-11	-11	-7
	RBS (Scotland) ⁽³⁾	-38	-23	-21
	Ulster Bank (Northern Ireland) ⁽⁴⁾	-47	-44	-34
	Ulster Bank (Republic of Ireland) ⁽⁴⁾	-21	-17	-15
Commercial Banking⁽⁵⁾		-1	12	15

The only NPS improvements in 2014 that are statistically significant are for Business Banking (RBS Scotland) and Commercial Banking.

(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest England & Wales (3,511) RBS Scotland (547). Based on the question: "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?"

(2) Source: Coyne Research 12 month rolling data. Question: "Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely".

(3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. 12 month rolling data. Latest base sizes: NatWest England & Wales (529), RBS Scotland (399). Weighted by region and turnover to be representative of businesses in England & Wales/Scotland.

(4) Source: PwC Business Banking Tracker. Question: "I would like you to continue thinking about your main business bank and the service they provide. Can you tell me how likely or unlikely would you be to do the following? Again please use a scale of 1 to 10, where 1 is very unlikely and 10 is very likely. How likely are you to recommend them to another business?"

(5) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £1 billion. Latest base size: RBSG Great Britain (972). Weighted by region and turnover to be representative of businesses in Great Britain.

NPS is just one mechanism we use at RBS for gauging customer satisfaction. We also use studies, surveys and analytics to understand our customer service performance and we build on all of these to drive positive changes for customers. We are committed to taking ownership of all feedback and following up in the appropriate part of the bank.

Complaint handling

Resolving customer complaints quickly and effectively for our customers is fundamental to good customer service. We ask our employees to welcome a complaint, take ownership, and resolve it there and then if possible. Where the issue is more complex, one of our complaint handling experts will take ownership of the complaint.

Complaint handling in 2014	
Customers satisfied with the resolution of their complaint after complaining in branch	82.8%
Customers satisfied with the resolution of their complaint after complaining via Direct Bank	67.9%
Number of fully trained complaint handlers	953
Quality Assurance score of Fair (fully compliant). <i>This score reflects performance against Quality Assurance requirements/elements to ensure fair outcomes are reached for customers. It reflects the quality of complaint handling and outcomes delivered.</i>	86.6%
Average time to resolve complaints	8.1 days
Complaints resolved by the customer's first point of contact	~46%
Average change in outcome rate at Financial Ombudsman. <i>This represents the % of cases where we changed our response after the Financial Ombudsman Service's involvement. Our aim is to reduce the number of cases where it makes a change as this means getting the right outcome for the customer at the outset.</i>	38%
Banking and credit complaints reported to FCA (all RBS brands)	177,334

Top five regular complaints areas in 2014			
For Personal customers in the UK	1. Historical PPI issues 2. Lending Fees 3. Default Collections Process 4. Staff 5. Debit – Disputed Transactions	For Business customers in the UK	1. Account / Card Transactions – Credits 2. Lending/ Borrowing/ Advances – Collections Procedures 3. Internet / Electronic Banking – Internet Banking 4. Account / Card Transactions – Debits 5. Staff / Queuing/ Property

Responding to the needs of our customers and stakeholders

- In February 2014 the Royal National Institute for the Blind (RNIB) told us that banks should do more for partially sighted and blind customers. In particular, they highlighted the difficulty that these customers face identifying cards in their purse or wallet.
- Throughout the year we worked with RNIB to develop the UK's first ever accessible debit and savings cards for partially sighted and blind customers, which was launched in February 2015.
- The cards have tactile markings to identify the card, a notch to show what direction to insert the card into an ATM and a large print phone number on reverse. They are the first banking product to be accredited by the RNIB.
- Steve Tyler, Head of Solutions, Strategy and Planning at RNIB said, "We are delighted to have worked with RBS on making debit and savings cards more accessible. The very basic requirement of identifying the right card and quickly determining which way the card slots in to a machine or payment system has been solved by this development."



Accessible banking

In 2014 a pan-bank programme was established to improve experiences of customers in potentially vulnerable situations and to ensure they receive fair outcomes.

Educating and embedding support within the bank's culture, the programme supports bank colleagues who are helping customers with cognitive or accessibility difficulties, or who are experiencing a life changing event and need additional assistance. Progress will be monitored, and relationships with external stakeholders built on to provide expert levels of support.

2014 Case study – New Specialist Support team in Debt Management Operations

Staff who speak to customers in financial difficulty are able to identify the existence of a potentially vulnerable situation and can now transfer the customer directly to a Specialist Support Team.

The recruitment for the new Specialist Support Team began in 2014 on the basis of enhanced skills and experience. Training was provided to understand vulnerable situations.

This team is the single point of contact for the customer to discuss all their needs, allowing them to tell their story once and keep it simple.

The team works with the customer on a way forward that delivers a fair outcome based on their unique position.

2015 progress will include tailored training for the team from the Money Advice Trust and Samaritans as the starting point for building on external support and expertise.

Customers in financial difficulty

Around 1,500 of our colleagues work in Debt Management Operations. In 2014 they helped over one million customers who were experiencing financial difficulty to find solutions tailored to their needs.

In October 2014 we introduced the opportunity for our customers in financial difficulty to be put directly through to StepChange Debt Charity for free and impartial money advice.

Anne Somers, StepChange Debt Charity Director of Business Development said: "Although we already have a strong and well established partnership with RBS, this initiative to transfer struggling customers directly to our helpline will build further on this and will ensure that those people who need our advice get it sooner rather than later."

In 2014 over 35,000 customers benefited from our 'breathing space' policy. We offer up to 30 days additional time for customers in financial difficulty, giving them time to prepare a sustainable repayment plan with their independent financial advisor. This can be extended for a further 30 days where the customer is awaiting an appointment with an advisor.

Access to banking services

According to the latest indices of deprivation from the UK Government, 5% of our UK branches are located in the most deprived 5% of the country. By comparison, just 2% of our branches are located in the most affluent 5% of the country.

In 2014, total gross small business lending to the 5% most deprived wards in the UK increased by 1.1% to £2.84 billion.

Closing a branch is a difficult decision and one we do not take lightly, but customers are banking with us in many different ways and, as a result, footfall is dropping in some of our branches. We are taking action to ensure that customers affected are properly looked after, including utilising Post Offices and mobile banking vans where possible.

We have 24 mobile banks serving 564 communities throughout the UK every week, with more routes planned for 2015. We also offer banking services via Post Office branches in 11,500 UK locations.

Our colleagues have also focused on identifying and supporting vulnerable customers in the wake of branch closures – for example, by accompanying partially sighted and blind customers on visits to their new branch.

Financial inclusion

Our Basic Bank Accounts are for vulnerable customers who would generally be declined a bank account elsewhere. We opened 72,065 new Basic accounts in 2014, and have committed to open more in 2015.

In 2011 we made the decision to restrict access to RBS/Natwest ATMs for basic bank account customers. In 2014 we reversed that decision. Over one million customers on Basic Bank Accounts now benefit from access to ATMs.



Case Study

Ulster Bank drives up customer satisfaction by delivering great service

Ulster Bank's customer contact centre is located in Danesfort, Belfast. The centre employs 500 people and handles 12,000 calls per day, resolving telephone and web-based queries from Ulster Bank customers in Ireland and RBS customers in Britain.

Over the last few years the centre has worked to implement changes that have brought about improvements in customer satisfaction.

One of the most important changes was the decision to stop measuring average call handling time, an internal efficiency measure that drives down the amount of time colleagues spend on a call. Instead, colleagues were encouraged to take the time to listen to customer concerns and explain solutions clearly.

In 2014 the centre's call volumes reduced by 35%, and more and more customers reported their problem was resolved 'right first time'. The strategy has also increased customer satisfaction scores by 27% in that period. The centre has achieved some of the highest employee engagement scores across the bank, out-performing the global high performance norm for the financial services sector.

These positive outcomes were recognised last year by the Customer Contact Association (CCA), a leading independent authority on customer contact strategies and operations. The CCA named Ulster Bank's Danesfort centre Best Customer Contact Team (Business to Consumer) in 2014.



Lending to customers

“We absolutely want to stimulate growth and get lending and capital into the economy, but responsible lending is the most important thing to do, to build long-term trust.”

Alison Rose
CEO Commercial & Private Banking

RBS is a leading business bank, supporting UK businesses of all sizes, creating liquidity and supporting economic growth. In 2014 gross new lending to UK SMEs (small- and medium- sized enterprises) including Ulster was £10.3bn. This represents a 24% increase on the previous year (2013: £8.3bn). Our net lending to UK SMEs in 2014 was -£1,198 million. Whilst signifying an improvement on 2013, it also reflected continued removal of higher risk assets from our loan book and some customers repaying sooner than required. For further information on our lending, please visit our Annual Results page on investors.rbs.com

The Independent Lending Review

We continue to make good progress on implementing the recommendations following Sir Andrew Large's Independent Lending Review of 2013. An SME Executive Steering Group was created during 2014 to track progress against our action plan following the review.

- We exceeded our gross lending target of £9 billion by recording £10.3 billion of gross new lending during 2014.
- We issued over 350,000 'statements of appetite' advising our customers of the levels of new and additional finance we are able to provide should they need it. The overall amount offered totalled approximately £12.5 billion.
- We launched a £1 billion Small Business Fund that is currently being delivered locally through our regional teams.
- We implemented process improvements, many of which were ideas from our customer facing colleagues.
- We launched a programme of work to ensure we treat customers consistently and fairly when they move from the core bank into restructuring.

There is still progress to be made on having a fully enabled website so that customers can apply for finance more effectively and to be able to track the status of their application. We are expecting to make good progress in these areas during 2015.

The Tomlinson Report

In November 2013 RBS was accused of systematically setting out to defraud small business customers through our Global Restructuring Group (GRG).

We appointed lawyers Clifford Chance to undertake a thorough and independent review of the report. Clifford Chance concluded that there was no evidence to support this damaging and serious allegation.

In response to this report and the findings from the Independent Lending Review, we announced a range of actions to ensure that we can support SMEs when they experience financial difficulties.

- We have stopped the so-called 'double handover', where a customer would get a new relationship manager when they first needed support and another on entering the restructuring unit. We are improving transparency so our customers understand exactly what we do and why. For example, RBS and NatWest are now be able to explain all SME charges on one side of A4 paper and have taken steps to simplify sales processes and customer communications post-sale.
- We do not charge interest for the first 90 days when an SME customer fails to pay us back.
- As part of the reorganisation of our Restructuring business we are closing our West Register vehicle.

- An equivalent review was conducted in the Republic of Ireland by Mason Hayes and Curran which found there was no evidence to substantiate the principal allegation made in the Tomlinson Report.

Lending through government schemes

We support a number of UK Government lending schemes to facilitate credit availability to viable businesses.

Since 2010, we have awarded more than £85 million of funding under the Regional Growth Fund, which has enabled around 1,200 English SMEs to safeguard existing jobs and create new jobs. Regional Growth Fund programmes are run by national or local organisations that distribute grants and/or loans to eligible businesses.

We also support the Enterprise Finance Guarantee scheme, which enables us to lend to businesses that would not otherwise be able to access bank funding.

Following an internal review of our involvement in the scheme, we found that in some cases we had not clearly explained borrower and guarantor liabilities to customers. After discussions with the British Business Bank – the Government body that manages the scheme - we took action to put this right, and have now made sure that Enterprise Finance Guarantee loans will always be given appropriately. We are implementing a thorough and proactive review of affected, and potentially affected, customers.

Case Study

RBS charity shores up damaged Scottish harbour

Sandhaven & Pitullie Harbour in North East Scotland was already in need of redevelopment before suffering further damage during the storms of late 2013 and early 2014. The harbour, near Fraserburgh, Aberdeenshire, is a village centre and focal point for the local community, providing harbour services and water sports, and generating tourism revenue for the area.

When severe weather affected the UK last year, the harbour wall, middle jetty and north breakwater were all left in need of emergency repair. Despite obtaining grants to make the repairs, the Harbour Trust couldn't commission the repair work because the funds had not yet been received. RBS Social & Community Capital, previously known as RBS Group Micro Finance, awarded a bridging loan to help the Sandhaven & Pitullie Harbour Trust carry out repairs to the north breakwater and middle jetty, so that the local community could continue their vital socio and economic activities around the harbour.



Mortgage lending

We lent £19.7 billion in mortgages in the UK in 2014, including £4.67 billion to first-time buyers. This represents a record number of 34,815 mortgage completions for first-time buyers, up more than 50% compared to 2013. Our share of the UK mortgage market is 9.6%, based on gross lending.

We also support UK Government schemes designed to make it simpler for people to be granted mortgage approval. In 2014 we lent £1.84 billion to over 12,000 customers through mortgage products supported by the Government.

Over 200,000 customers used our mortgage toolkit in 2014, with 87.5% of them finding the right mortgage to meet their needs.

Our online Agreement in Principle tool enables customers to gain a decision on their mortgage application within five minutes. The tool won two industry awards in 2014 – a Gold award from Digital Impact (Financial Services category) and a Dadi (The Drum Awards for Digital Industry) award.

As part of our commitment to responsible lending, customers are contacted three times during the lifecycle of their mortgage to ensure that their needs are being met.

Overdrafts and credit to Personal customers

In 2014 we extended the use of our eligibility checkers so that customers applying for credit could see their rate and eligibility without leaving a credit search footprint.

During 2014 we stopped approving gambling transactions that would put the customer's credit card account over its limit.

Act Now Alerts are text messages or emails to tell a customer they should fund an account to avoid charges. All new customers are automatically enrolled in the alerts and can choose to opt out. Around 26,000 alerts were sent every day in 2014.

Our overdraft and credit card products include 'excess buffers' so that customers do not incur charges for going over their credit limit by a small amount. During 2014 around 217,000 customers each month avoided charges due to the excess buffer.

Safeguarding our customers



**846,000
downloads**

Free Trusteer software
downloaded by
our customers



**Over 2,000 law
enforcement**

requests for assistance
and landmark agreement
with City of London Police



Over 7,000

customers and
third parties attended
fraud and security
awareness events



Security Advice Centre
providing online guidance



53 Criminal Arrests

29 for fraud and 24 for
branch raids

Being number one for customer service, trust and advocacy requires robust, safe and secure operations.

No organisation or person can avoid security threats. Security is a board-level priority for RBS. We use an intelligence-led model to protect our customers, people and assets. This is based on controls to prevent, detect and respond effectively to risks and events.

In 2014 we signed a landmark agreement with the City of London Police to support their work to tackle the most complex and challenging financial crimes facing the UK.

Fraud prevention

Financially motivated criminals are constantly trying new methods to commit fraud. We use a range of fraud prevention and detection systems to protect the funds of our customers and will contact them if we identify suspicious activity.

In 2014 we prevented £650 million of attempted fraud. We saw an overall increase in the number of fraud cases (up 15% on 2013) and fraud losses (up 11% on 2013) – mainly due to a global increase in online fraud and card fraud.

We have established a specialist team to improve customer protection from card fraud, invested in the latest anti card-skimming technologies, and improved our monitoring and alerting processes. We expect to see a reduction in fraud from these activities in 2015.

We support our customers in protecting their identity and their computer systems. In 2014, we saw 846,000 downloads of our free security software, Trusteer Rapport. It has been downloaded over 9 million times since 2008.

We delivered 214 customer awareness events to over 7,000 customers, colleagues and third parties, more than five times as many events as 2013.

Physical security

Our branches and buildings are protected by 24x7 monitoring. We work closely with Law Enforcement to maintain the safety and security of our customers and people in their local communities.

In 2014 we recorded a 4% increase in the number of prosecutions from robbery and cash-in-transit incidents at RBS, compared to 2013.

Cyber security

The Bank of England and UK Government regard cyber security as a systemic risk to the UK financial sector. We continually review and develop our cyber security controls to provide safe and secure services for our customers.

During 2014, we worked with the Government to re-launch their Cyber Streetwise website, which aims to change the way people view online safety. Visitors to the website are directed to our Security Advice Centre.

Citizens Financial Group



In September 2014 we commenced the initial public offering (IPO) of our wholly-owned subsidiary, Citizens Financial Group, Inc. (CFG).

This IPO represents a key step in our path to full divestment from CFG by the end of 2016, which will significantly improve our capital position and help us to create a strong and secure bank that meets the needs of our customers.

Corporate giving

Citizens Helping Citizens is CFG's comprehensive community engagement effort that leverages the strength of our company and the skills of our colleagues to enhance the communities where we do business. We partner with local non-profits on four specific areas including fighting hunger, providing shelter, teaching money management and strengthening communities.

In 2014 CFG colleagues provided more than 59,000 volunteer hours and contributed \$1 million in matched donations to non-profit organisations.

CFG received several awards for supporting community wellbeing and civic leadership, including the 2014 Sponsorium Award for companies that improve the quality of community life.

Financial literacy

CFG supports initiatives with local non-profit organisations to help adults and children develop healthy financial habits.

In 2014 we provided more than \$1.7 million in contributions to 108 non-profit organisations that deliver financial literacy programming. These programs reached more than 100,000 people in 2014, providing information about the basics of banking, budgeting, homeownership counselling, credit management and financial management for small businesses.

Customer relationships

CFG's mission is to deliver for customers, colleagues and communities, and to drive performance across the organisation.

In 2014, for the second year running, Money magazine included CFG in its list of 'The Best Banks in America'. CFG was recognised for the convenience of its contact centre, access to banking specialists via instant messaging, and its robust physical presence.

In addition, CFG was named by a number of independent magazines as an employer of choice. These included the Black EOE Journal, which recognised us for outreach to the African-American population, and the Professional Woman's Magazine, which praised CFG's commitment to female representation.

CFG key facts

Assets (end 2014)	\$132.9bn (c. £87bn)
Customers (individuals, companies, nonprofits, institutions)	Over 5m
Employees	17,700
Branches	1,200
ATMs	3,200
US states of operation	11

To be trusted we must Do the right thing

“To my mind I don’t see a separation between what our customers and NGOs would like. I think the bank puts a lot of emphasis on making sure that we have an active dialogue with our clients about the risk issues that concern us and our stakeholders and we often find when we go into those risk conversations there is a lot of alignment.”



Liz Lockwood

Director of Risk for Commercial and Private Banking /
Head of Reputational and ESE Risk



**Signed up to Public
Concern at Work’s
code of practice on
whistleblowing**



**Top UK company in
Transparency
International ranking**



- 1 **Does what I am doing keep our customers and RBS safe and secure?**
Consider the impact of what you are doing. Rehearse a briefing with a colleague.
- 2 **Would customers and colleagues say I am acting with integrity?**
Consider: would I do this to someone in my family or a friend? Would I do it to myself?
- 3 **Am I happy with how this would be perceived on the outside?**
Consider the impact of this in the outside world. Try writing the press release – does it sound good for customers?
- 4 **Is what I am doing meeting the standards of conduct required?**
Think. If you are unsure then seek a second opinion.
- 5 **In 5 years’ time would others see this as a good way to work?**
Will this have a positive impact? Imagine writing it on your CV.

Our conduct

The character of our company is formed by the way we behave in our day-to-day working lives. The conduct of employees can seriously damage our business and reputation – but when we do the right thing, our customers trust and value us, and our colleagues take pride in working for the bank.

We undertook a comprehensive reorganisation of our Conduct & Regulatory Affairs function in 2014, creating an improved and simplified model.

In 2014 we established a specialist remediation centre to deliver fair, consistent and timely customer outcomes in relation to complaints and grievances.

We enhanced our business management information to track customer outcomes effectively. During the year 6,000 employees were trained in good customer outcomes. All RBS employees took part in mandatory conduct training every quarter in 2014, covering 12 topics including Protecting our customers, people and the bank and Privacy and client confidentiality.

We know that it will take time to bring about the changes in conduct and customer outcomes we are seeking to deliver.

In 2015 we are focusing on:

- Defining a consistent approach to assessing Conduct Risk, including how we measure and report to the Board and how conduct links to bonus considerations.
- Designing a simplified risk assessment across conduct and operational risk.
- Ensuring that vulnerable customers are treated appropriately by all our employees.
- Developing pricing frameworks and governance
- Product lifecycle management
- Ensuring we meet the needs of our customers at each stage of product management

Our Code and the YES Check

Our Code provides guidance on the behaviour we expect from all employees, and lays out the standards of conduct that support our values.

The YES check (see diagram to the left) is a simple tool that asks five questions to guide the thinking behind our decisions and actions.

Governance

The Board and its senior committees receive updates on conduct risk exposures and action plans through regular reporting. The reporting was improved in 2014 to be more focused and action-oriented.

Monthly	Reporting on the most material conduct matters to the Board, Chief Risk Officer, Business Risk Committees and Director of Financial Crime.
Every six months	Reporting on regulator enforcements and investigations to the Executive Risk Forum, Board Risk Committee and Group Audit Committee. Submission to the Financial Conduct Authority (FCA) on the bank's progress on embedding the conduct and culture framework.
Annually	Submission to the Board and FCA of the Money Laundering Reporting Officer's Report. Submission to the Group Audit Committee of Whistleblowing Update Report (more frequently if required).

Whistleblowing

During 2014 we enhanced Right Call, the bank's new whistleblowing service, which enables employees to disclose information when they suspect illegal or unethical behaviour within RBS.

In 2014, we were alerted by employees to incidents of suspected mis-selling, breaches of customer confidentiality and contravention of legal requirements. Of these alerts, 48 (21%) of the 229 reports that were closed during 2014 were substantiated and appropriate action was taken.

In March 2014 the charity Public Concern at Work launched the 'First 100' campaign, asking organisations across all sectors to sign up to its code of practice on whistleblowing. RBS signed up to the code, agreeing to abide by its principles.

Financial crime

RBS has a zero-tolerance approach to bribery, corruption, money laundering, sanctions violations and terrorism financing. We have a programme in place to manage these risks, covering governance, policies, procedures, internal controls and systems. Its overall aims are to ensure compliance with relevant national and international rules, regulations and directives on anti-money laundering, bribery and corruption.

In 2014 we were delighted to be accepted into the Transparency International Business Integrity Forum, a network of major international companies dedicated to helping companies ensure their operations and business dealings are free of corruption.

A Financial Crime Awareness week was held across RBS in October 2014 to educate colleagues across the bank about the impact financial crime has on our customers. This awareness activity will continue in 2015 with further events planned.

Case Study

£1m returned to customers

Historically, if a customer tried to pay money to their credit card from an RBS account but provided incorrect or insufficient account information, the money would be placed in a 'bank suspense account', with no further investigation or return of funds. As well as being unfair to customers, this practice was a breach of the Payment Services Regulations.

In response, we established a project to investigate and, where possible, return up to 121,000 credit entries totalling £12 million. In 2014, we returned over £1 million to around 8,000 customers whose cases had previously been classified as 'unable to identify'.



Our tax responsibilities

In the last few years there has been significant public and media interest in the fairness of tax systems, with particular emphasis on the responsibilities of corporate taxpayers to contribute to the countries in which they operate. The Organisation for Economic Cooperation and Development (OECD), together with other bodies, is currently reviewing multinational taxation practices, including transfer pricing between countries, tax information exchange, and financial transaction taxes.

At RBS we are committed to responsible management of our tax affairs, including a transparent and compliant approach to tax law. We believe that taxpayers should not seek to exploit weaknesses in the system to gain an advantage.

We employ tax specialists in most of the countries in which we operate, and seek specialist external advice in the remainder. Our tax specialists ensure that we comply with the law in an accurate and timely manner, and our risk-based approach ensures a rigorous review and approval process.

We manage tax in accordance with local laws and we are transparent in our interaction with tax authorities. In the UK, we have signed the Government's Code of Practice on Taxation for

Banks which commits us to obeying the spirit and letter of the law, and to maintaining an open dialogue with HM Revenue & Customs (HMRC). We also consult with HMRC on any transactions with tax implications to ensure we meet the principles of the code, and we are expected to follow these principles in all our chosen markets.

We have substantial commercial operations in countries with both high and low levels of taxation, and we do not divert profits to low tax jurisdictions.

Tax payments in 2014

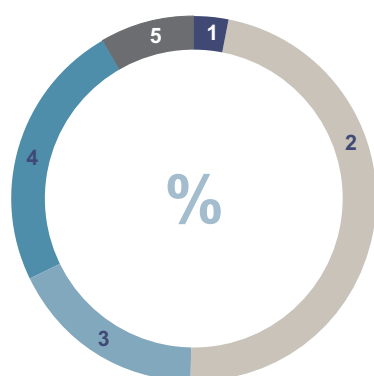
In 2014 we contributed £1.95 billion in tax globally, £1.3 billion of which went to the UK Government. In 2013 we paid £1.3 billion in UK tax, making us one of the largest UK

taxpayers. Despite a fall in UK corporation tax payments since the financial crisis, overall taxes paid in the UK are not substantially below pre-crisis levels. The largest tax payment in the UK by RBS relates to irrecoverable VAT.

Below is an analysis of our total global tax payments in 2014. Taxes that RBS collects on behalf of governments, such as employee taxes, are not included. In accordance with the European Commission's Capital Requirement Directive IV, our full country-by-country information is available at www.rbs.co.uk/sustainability/tax. Please note that because of the way tax law operates, there is often a substantial difference between taxable profits and accounting profits.

UK Tax Paid

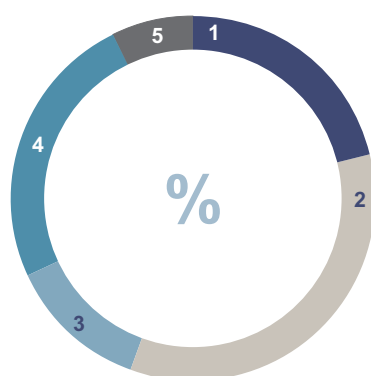
In total, RBS paid £1.3bn in UK tax in 2014



1. Corporation tax	41
2. Irrecoverable VAT/sales tax	615
3. Bank levies	228
4. Employer payroll taxes	310
5. Other taxes	107

Global Tax paid

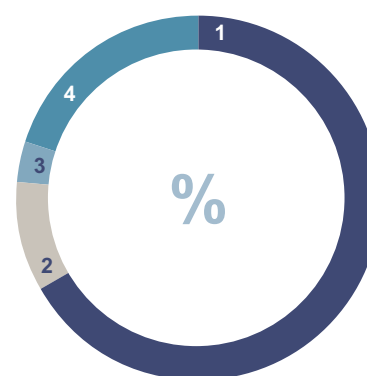
In total, RBS paid £1.95bn in tax globally in 2014



1. Corporation tax	414
2. Irrecoverable VAT/sales tax	675
3. Bank levies	242
4. Employer payroll taxes	480
5. Other taxes	140

Analysis of 2014 tax paid

By geographical region



1. UK	1,301
2. EMEA	193
3. Asia-Pacific	68
4. Americas	389

Managing environmental, social and ethical risks

Upholding environmental and social standards with customers is integral to being a responsible company. Due to the potential severity of the risks involved, our stakeholders often contact us about our lending to customers operating in sensitive and high risk sectors such as defence and oil and gas.

Reputational risk

In 2014 we made a significant change to the way we view environmental, social and ethical (ESE) risks in the bank. We brought our centralised ESE Risk Advisory team under the umbrella of a wider Reputational and ESE Risk function. We also appointed a Head of Reputational and ESE Risk, to further strengthen reputational risk management across the bank.

Reputational risk focuses on a range of themes including customer and product selection, how we conduct ourselves (both as individuals and as an institution), and how we operate (including our IT infrastructure and in our chosen markets).

Our focus areas for improving the management of reputational risk across the bank are:

- Better articulation of our reputational risk appetite- for example, around sectors or issues that represent a reputational risk.
- Improved governance frameworks to better identify, assess and escalate cases presenting material reputational risks.
- Enhanced reporting on how we manage reputational risks, including the number and nature of cases assessed for reputational risk.
- A review of how resulting reputational risks and incidents are managed and mitigated.

Our approach to ESE risk management

Our ESE risk management framework sets out the environmental and social standards that we expect from our customers. It gives us better insight into our customers' activities and gives clear guidance to employees on the procedures they must follow when dealing with customers operating in potentially higher ESE risk sectors (refer to the table opposite on how we manage ESE risks).

RBS currently has ESE risk appetite positions for six industry sectors (see table on opposite page). These define the level of risk the bank is prepared to accept in supporting customers that may represent potential high ESE risks, and our expectations of those companies to manage ESE risks. The appetite positions are reviewed and updated regularly to take account of changes in regulation and good international practice.

We conduct enhanced due diligence on customers and transactions involved in activities with potentially high environmental and social impacts, and expect our customers to adhere to international environmental and social standards (refer to the two charts opposite showing breakdown cases reviewed by sector and risk category in 2014).

During 2014 we expanded the existing scope of the Forestry ESE Risk Appetite Position to also cover agribusiness and fisheries. This will help us to identify and manage potential ESE risks such as deforestation from crop production (including soy and palm oil), the manufacture of banned agrichemicals, and the use of unsustainable and damaging fishing methods.

Establishing ESE risk appetite positions for these areas has enabled us to work towards adopting the requirements of the Banking Environment Initiative (BEI) Soft Commodities Compact, a joint initiative between banks and the Consumer Goods Forum (CGF). The Soft Commodities Compact represents the CGF with over 400 companies involved in the use of 'soft commodities' such as palm oil and soy, together with nine banks involved in the financing of companies involved with soft commodities. The Compact's aim is to ensure the CGF's members, representing a combined procurement power of over \$3 trillion, achieve zero net deforestation and degradation in their supply chains by 2020, and for committed banks to finance companies with such a commitment.

We also made improvements to the ESE risk appetite positions for mining & metals (prohibiting significant producers of coal from using mountain-top mining techniques), and power generation (restricting operators of nuclear power located in countries defined as "High Risk" under the RBS Country Reputational Risk Framework).

Work also commenced in 2014 on the development of ESE risk appetite positions for animal testing and adult entertainment. These will be finalised and implemented across the bank in 2015.

Our approach to human rights

Our ESE Risk policies include sector-specific human rights risk screenings and are regularly reviewed and updated to ensure best practice. We conduct due diligence on clients relating to human rights standards, and expect our clients to share our commitment to respecting human rights within their operations. In all sectors, we will not provide financial services to companies involved in harmful child labour or forced labour.

During 2014, we continued to strengthen human rights due diligence in our ESE policies as well as public disclosure on the details of these policies. They can be seen at rbs.com/sustainable. We also participated in projects with our peers through the Thun Group and UNEP Finance Initiative to better understand and implement the human rights responsibilities of banks as defined by the UN Guiding Principles on Business and Human Rights.

Country Reputational Risk Framework

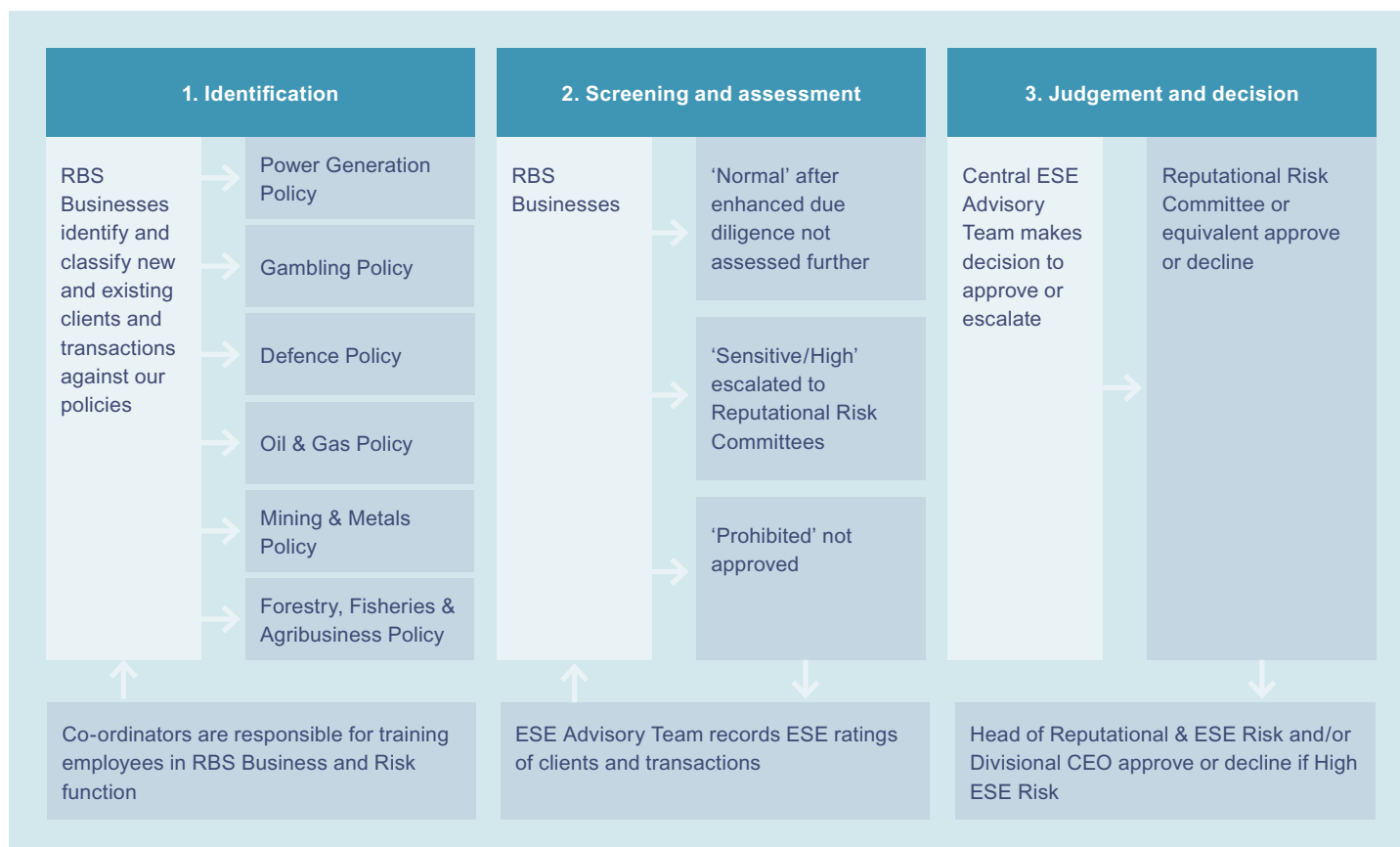
In 2014 we developed a country reputational risk score model that assesses the reputational risk of RBS doing business in its chosen markets. The scoring system takes into account political and money laundering risk, bribery and anti-money laundering risk, perceived corruption, and the country's human rights record. The model has been implemented in relevant parts of the bank to ensure that our operations in countries with high reputational risk are discussed and debated at a senior level.

The model is also being used in the screening of defence-related transactions, which means that defence trade transactions involving high-risk countries are escalated to a senior level for approval.

We will continue to update existing ESE risk appetite positions in line with changes to legislation, business appetite or external stakeholder concerns. There will also be a strong emphasis on training employees on the importance of managing ESE risks, and on working within the ESE governance framework.

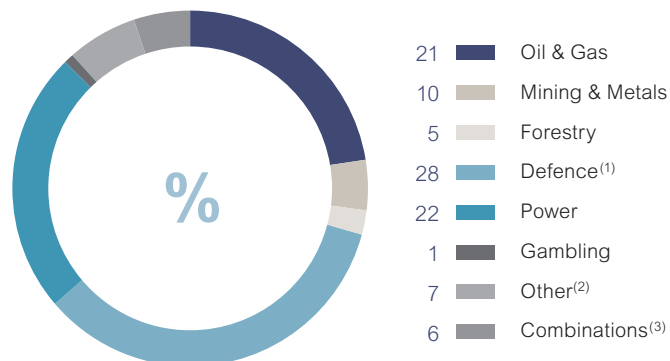
Managing our ESE risks – some of our successes in 2014

- We built a reputational risk function which now incorporates our Environmental, Social & Ethical (ESE) Risk Framework and Advisory team.
- We expanded the scope of the existing Forestry ESE Risk Appetite Position to also address agribusiness and fisheries. This will help us to improve management of specific ESE risks such as deforestation associated with plantations, and the use of damaging fishing methods.
- We updated our existing ESE risk appetite positions for mining & metals, power generation, oil & gas and defence trade transactions.
- Work commenced on the development of ESE risk appetite positions for animal testing and adult entertainment. These appetite positions will be implemented across the bank in 2015.



Breakdown of client cases assessed against ESE policies in 2014 by sector.

There were 594 client ESE assessments in 2014. Excludes project finance.



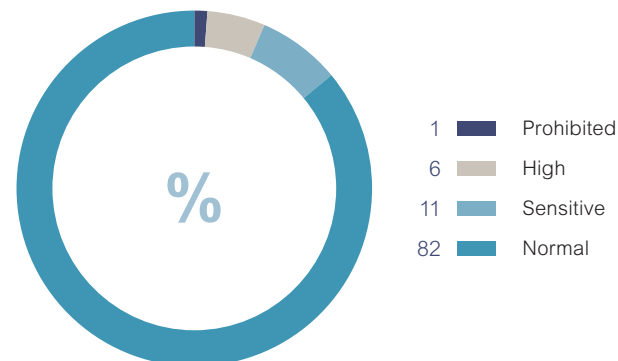
(1) Includes Defence trade transactions.

(2) Includes cases submitted as 'ESE Risk Concerns'. This applies to clients operating in low risk ESE sub-sectors or outside the scope of the RBS ESE policy.

(3) Includes cases where a client operates in multiple potentially higher risk ESE sub-sectors.

Breakdown of client cases assessed against ESE policies in 2014 by classification.

There were 594 client ESE assessments in 2014. Excludes project finance.



Summary of our Environmental, Social and Ethical risk appetite positions

Sector	Description and position
Defence	<p>Prohibition on finance to companies involved in the production, sale or stockpiling of highly controversial weapons, including cluster munitions and anti-personnel landmines (including bespoke components) banned under international agreements ratified by the UK.</p> <p>Prohibition on finance to companies engaged in the use of harmful child labour or forced labour.</p> <p>Enhanced due diligence and restrictions on companies involved in the manufacture or sale of other controversial weapons including nuclear weapons and depleted uranium weapons landmines (including bespoke components).</p>
Forestry, Fisheries & Agribusiness	<p>Prohibition on finance to companies involved in any of the following: use of harmful child labour or forced labour; manufacture of pesticides banned under the Stockholm Convention; damaging fishing methods, such as use of explosives; shark-finning, commercial whaling and harvesting or trade of endangered species; illegal activities such as illegal logging and uncontrolled use of fire for land clearance.</p> <p>Enhanced due diligence and restrictions for companies involved in any of the following: palm oil plantations; rubber plantations; soy plantations; cattle ranching; operation of cotton plantations in Uzbekistan; clearing of peat lands for commercial plantations; deep sea bottom trawling.</p> <p>Enhanced due diligence and restrictions on companies operating in international protected areas and projects involving the displacement of large numbers of people.</p>
Gambling	<p>Enhanced due diligence and restrictions on companies involved in online and non-online gaming, including customers operating in high-risk jurisdictions where online gaming activity could represent a legal or regulatory risk to the customer or bank.</p>
Mining & Metals	<p>Prohibition on finance to companies involved in any of the following: significant coal production operations using mountaintop removal (MTR) mining in Appalachia, US; artisanal/informal mining; asbestos extraction operations; use of harmful child labour or forced labour.</p> <p>Prohibition on project finance involving the use of MTR mining methods.</p> <p>Enhanced due diligence and restrictions for companies involved in any of the following: minor coal production operations using MTR methods in Appalachia, US; other forms of mountaintop mining; extraction of diamonds; disposal of tailings in riverine or shallow sea environments; deep-sea mining; use of cyanide.</p> <p>Enhanced due diligence and restrictions for companies operating in international protected areas, projects involving the displacement of large numbers of people, and mining operations in areas of war or armed conflict.</p>
Oil & Gas	<p>Prohibition on project finance involving oil exploration and production operations in Arctic or Antarctic waters.</p> <p>Prohibition on finance to companies engaged in the use of harmful child labour or forced labour.</p> <p>Enhanced due diligence and restrictions for companies involved in any of the following technologies: oil sands; oil shale; shale gas; coal-bed methane; coal to liquid.</p> <p>Enhanced due diligence and restrictions for companies operating in international protected areas, projects involving the displacement of large numbers of people, and oil and gas extraction operations in areas of war or armed conflict.</p>
Power Generation	<p>Prohibition on finance to companies involved in any of the following: nuclear power plants and/or uranium enrichment facilities in sanctioned or certain high risk countries; use of harmful child labour or forced labour.</p> <p>Prohibition on project finance for construction of new coal-fired power plants with an efficiency level below 28% for non-OECD or non-high income OECD countries and below 35% for high-income OECD countries.</p> <p>Enhanced due diligence and restrictions on companies involved in any of the following: nuclear power plants, uranium enrichment plants and hydropower projects; biomass plants with a power capacity above 100MW; coal-fired power plants that are not able to demonstrate monitoring of greenhouse gas emissions.</p> <p>Enhanced due diligence and restrictions on companies operating in international protected areas and projects involving the displacement of large numbers of people.</p>

The Equator Principles are a voluntary set of standards adopted by financial institutions for determining, assessing and managing social and environmental risks in project-related transactions.

The new requirements under Equator Principles III (EPIII), which include the requirement to assess project-related corporate loans, were implemented in early 2014. We developed an EPIII procedures manual and trained key employees on the new requirements, in partnership with an external law firm.

The table below provides a summary of project finance (eleven in total) and project related corporate loans (five in total) by industry and region, that were assessed against EPIII in 2014. For further details on our implementation of EPIII, visit www.rbs.com/sustainable

2014 Project Finance and Project-Related Corporate Loans categorised against Equator Principles by industry sector and region

2013					2014				
	A	B	C	Total		A	B	C	Total
Oil & Gas	0	1	0	1	Oil & Gas	0	0	0	0
Infrastructure	0	1	0	1	Infrastructure	0	0	1	1
Power	0	6	1	7	Power	0	13	1	14
Petrochemicals	0	0	0	0	Petrochemicals	1	0	0	1
Total	0	8	1	9	Total	1	13	2	16

2013					2014				
	A	B	C	Total		A	B	C	Total
EMEA	0	3	0	3	EMEA	0	7	2	9
APAC	0	0	0	0	APAC	0	0	0	0
Americas	0	5	1	6	Americas	1	6	0	7
Total	0	8	1	9	Total	1	13	2	16

Supporting communities

We aim to make a positive social impact in our communities. Throughout our history we've delivered a range of partnerships and programmes to make a difference on issues that are important to us and to our customers, such as financial education, helping people start a business, and backing the charitable efforts of our employees and customers.

Our total recorded community investment for 2014 was £46.5 million, measured using the London Benchmarking Group standard. This figure is down £7.9 million on 2013 (£54.5 million), reflecting the reducing size of the bank.

2014 highlights include:

- 17,000 teachers are registered with our Pocket Money and MoneySense financial education programmes, helping them teach the next generation about managing money
- Our award-winning partnership with The Prince's Trust helped over 8,000 young people to consider starting their own business (see also Inspiring Enterprise on page 46)
- 20,000 employees participated in our UK payroll giving scheme, donating over £3 million to over 9,000 charities
- We were the first UK bank to support the #GivingTuesday social media campaign, which celebrates and encourages people's giving.

In 2014 we simplified our approach to community investment as part of the bank's restructure. A new strategy and framework will be launched in 2015 to bring our community activity together, focusing our efforts to improve efficiency and impact. Our new approach will draw on our strengths in helping people develop the skills they need to succeed in life; whether that's managing their money, starting a business, or developing their career.

To be trusted we must Think long term

“RBS is pleased to have over two decades of experience in financing renewable energy projects. From this base, we’ve expanded our support to customers to support energy efficiency in their own organisations. The external recognition earned by our teams is testament to how RBS continues to support our customers to meet their sustainable energy aspirations and further establishes our commitment to the low carbon economy.”



James Holian

Executive Sponsor for Sustainable Energy



Launched Innovation Gateway, giving low carbon entrepreneurs the chance to test products on our buildings



Largest UK renewables project financier over the period 2011-2014 by both number of transactions and total value (IJ Global)



Supported over 500 UK companies with renewables and energy efficiency projects



Launched Mentor Energy Audit service – over 245 carried out, saving on average 35% on energy bills



£10m in community business loans to non-profits

£3m

Over £3m in grant funding to youth, female and social enterprise since 2012

Supporting the low-carbon economy

As a financial services provider, we develop products and services that improve access to finance for people and businesses across all sectors to support economic development. At the same time, we have a responsibility to provide finance efficiently and responsibly so that it creates value for society more broadly.

One of the most effective ways we can do this is to support the low-carbon economy, through financing renewables and energy efficiency projects, and by monitoring carefully our financing of the energy sector.

Our strategy

Our long-term strategy for financing the energy sector includes prohibitions on lending for certain activities, and stringent requirements for others. For example, we will not provide project finance for new coal-fired power plants with an efficiency level below 28% for non-OECD countries and below 35% for high-income OECD countries.

We are also working hard to support developers of low-carbon energy generation and energy efficiency projects, as well as businesses and other organisations that want to reduce their energy use – saving them money and improving their environmental performance.

Sustainable energy lending

According to IJGlobal, a leading business intelligence provider, RBS has been the largest UK renewables project financier over the period 2011-2014 by both number of transactions and total value.

During 2014 over 500 companies across the UK received financial support from RBS for renewables or energy efficiency projects. We have increased our sustainable energy lending to Corporate and Commercial customers for the third year running, supporting all sizes of business through project financing, asset financing and general corporate facilities (see graph on the next page showing lending by sustainable energy technology type). We also help our customers to realise their sustainable energy aspirations through access to the debt capital markets and Green Bonds.

We launched a new Mentor energy audit service in 2014 via our SME business advisory unit. It is a unique proposition within the financial sector, helping SMEs to use less energy, reduce their costs and increase their profitability. We carried out over 245 audits across the UK, in multiple sectors including manufacturing, leisure and healthcare. Following the audits, our customers saved an average of 35% on their energy bills.

We also extended our renewable energy offering in the UK Commercial Bank, taking on anaerobic digestion and hydro-electric power projects. RBS is one of a few commercial banks to take future earnings from these technologies into account when assessing potential funding in this space. Future earnings are based on the income received via the subsidies regime.

Our energy portfolio

We play an important role in financing the companies that meet society's need for energy. In 2014 our financing of the energy sector (comprising oil and gas and power clients) accounted for around 2.9% of our total lending (see graph on the next page showing total RBS lending by sector). Our overall lending to the energy sector has decreased by 36% since 2010 (see graph on the next page showing changes in lending to the energy sector). This was split between general corporate finance to the oil and gas and power generation sector, and lending to specific energy generation projects.

We estimate (using data from Trucost, an environmental data provider) that 22% of our

general lending to our top 25 power customers is funding coal and gas energy generation, and 6% is funding energy generation via renewables. On average, our top 25 power customers are approximately 40% less carbon intensive than the industry average.

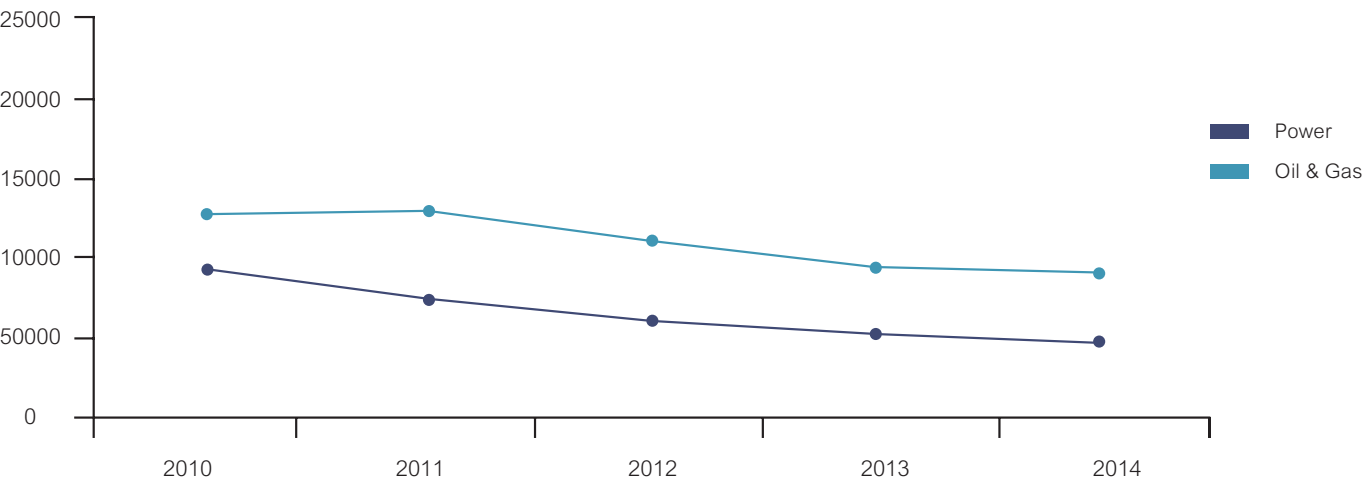
Within the oil and gas sector the picture is patchier. As a whole this industry has become more carbon efficient, which is positive. While we have seen that trend reflected in our own overall client group, our current top 25 client list is approximately 13% more intensive than the industry average for this year.

To address the issue of financing high-carbon sectors, RBS is one of a number of international banks working with the United Nations Environment Programme Finance Initiative, World Resources Institute, other NGOs and academic specialists to develop a methodology to report and assess carbon risks in lending. We expect to announce more details of our approach during the course of 2015.

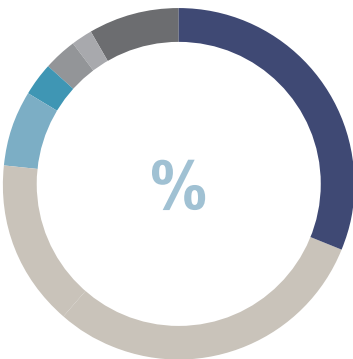
Thought leadership in sustainable energy

In 2014 we participated in several high-profile industry events. This included engagement with MPs, the UK Department for Energy and Climate Change (DECC), and expert support for the implementation of the Electricity Market Reform introduced by the UK Government. We also attended roundtable discussions and industry events hosted by government departments, advisors and other companies, often as the sole representative of the financial sector.

Changes in lending to the Power and Oil & Gas sectors
2010-2014, by Credit Risk Assest (£millions)



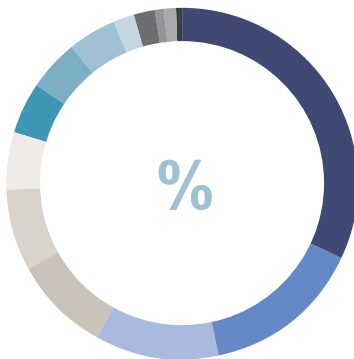
UK Sustainable energy lending by technology type, 2014



- 31 Solar
- 30 Wind
- 15 Smart metering
- 7 Biomass
- 3 Anaerobic Digestion
- 3 Low Carbon Vehicles
- 2 Energy Efficiency and Light Emitting Diodes
- 9 Mixed technologies and others

Total RBS Lending to all Sectors

Percentage of total lending



- 32 Personal
- 14.7 Sovereigns & Quasi Sovereigns
- 11.6 Property
- 8.9 Other financial institutions
- 7.4 Banks
- 5.2 Transport
- 4.8 Services
- 4.6 Retail and leisure
- 4.5 Manufacturing
- 1.9 Oil & Gas
- 1.9 Telecoms, media and technology
- 1.0 Water and Waste
- 1.0 Power
- 0.5 Mining and Metals

Environmental Finance
Wind Energy Financing Deal of the Year; Greencoat UK Wind plc
2014

ICMA
RBS admitted as a member of the Green Bond Principles
2014

INFRASTRUCTURE JOURNAL
RBS ranked #1 lender to UK renewable energy projects in the period
2014

LEADERS AWARDS 2014
RBS Sustainable Energy Forum shortlisted for Sustainability Team of the year
2014



Case Study

RBS supports new developments in UK Renewable Energy Funds market

RBS's Financial Institutions Group supported the majority of the UK's new listed renewables funds in the last two years, providing sector expertise and helping customers to identify financial solutions that match their specific needs. This new sub-sector of the market was fuelled by RBS structuring facilities, which in turn supported the funds in raising around £1.6 billion of new capital from the equity markets for investments in the low-carbon economy.

Managing our direct environmental impacts

At RBS we are committed to reducing the environmental impact of serving our customers and working with them to also influence their environmental impact.

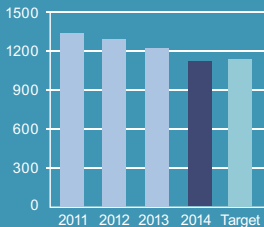
In 2011 we set environment targets for our operations, covering energy, water, waste, paper and carbon dioxide (CO²) emissions from business travel. At the end of 2014 we had surpassed our targets for energy, water and waste generation, and we remain on track to meet our paper and travel targets in 2020.

In 2014 we made improvements to our systems and data reporting. As a result, we have made adjustments to our baselines to ensure that we are comparing like-for-like data every year. We follow the Department of Energy and Climate Change's GHG Protocols and the

Environmental Protection Agency guidance where appropriate. As well as ensuring our reporting is consistent with the principles of the ISO 14064 standard it allows us to report in a number of external indices including the Carbon Disclosure Project. We are committed to engaging our employees in order to help them understand their environmental impact, and how they contribute to our targets. In 2014 we increased the frequency of our updates and communications to key employees as well as running a number of internal campaigns. World Environment Day saw staff take part in over 228 activities across more than 115 of our

buildings around the world and over 65 of our global sites took part in Earth Hour by turning dark.

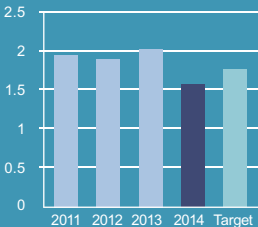
We also partnered with 2degrees, a leading collaboration platform, to launch the RBS Innovation Gateway. This project gives SMEs, entrepreneurs and innovators the opportunity to bring sustainability ideas to market by testing low-carbon concepts on RBS premises. The first of these product pilots began at the end of 2014.



Energy (GWh)

We have reduced our energy consumption by 16% since 2011, exceeding our target of 15%.

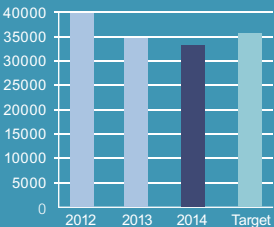
We achieved this by optimising and automating our building controls, engaging our colleagues, and implementing renewable energy projects in our properties.



Water (million m³)

We have reduced our water consumption by 17% since 2011, exceeding our target of 12%.

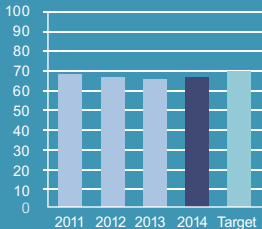
We achieved this by repairing and replacing faulty fittings, detecting and fixing leaks, and installing waterless urinal systems.



Waste - Volume (tonnes)

We have reduced the volume of waste we produce by 16% since 2012, exceeding our target of 10%.

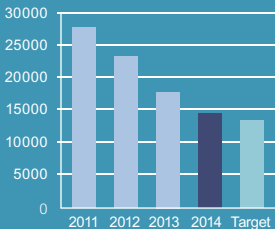
In 2014 we installed hand dryers in one of our largest buildings, leading to a reduction in paper towel waste of 14.6 tonnes of waste at this site alone – the equivalent of 1.72 million bags of rubbish.



Waste – Recycling (%)

In 2014 our recycling rate was 68%, just short of our target of 70%.

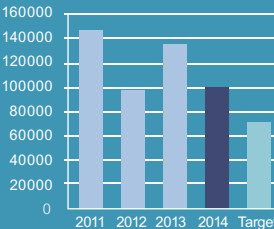
Even though we didn't meet our target, this year we diverted 6.42 million bags of rubbish away from landfill.



Paper (tonnes)

Since 2011 we have reduced the volume of paper we use by 47%, meaning that we are on track to meet our target of a 50% reduction by 2020.

We achieved this by reducing paper use in marketing materials and offices, and by moving 65,000 payslips onto an online system.



Travel (tonnes CO²)

We have reduced CO² emissions from business travel by 30% since 2011, meaning we are on track to achieve our 2020 target of a 50% reduction.

We achieved this reduction by changing business practices and introducing a fully supported audio and webinar system.

Our 2015-2020 targets

We have created a new set of ambitious targets that align with the RBS five-year strategy. Our Business Travel and Paper Reduction targets will continue on from our previous targets and have a 2011 baseline. All other targets will have a baseline of 2014, with everything running until 2020. Our engagement targets will be measured in a number of ways including: measuring colleague awareness through the Our View staff survey; recording the number of colleagues and suppliers that receive training; as well as tracking the reach of our communications and engagement campaign by volume and audience. These targets are further-reaching than any previous targets we have had and they are focused on reducing the environmental impact of serving our customers.

We will reduce the environmental impact of serving our customers by 2020.

Delivery of our internal environment programme will support RBS's aim to be the number one for customer service, trust and advocacy.

We will reduce the environmental impact of our own operations.

We will engage with others to reduce our impact on the environment.

We will reduce the environmental impact of our own operations.				We will engage with others to reduce our impact on the environment.	
20% Carbon Reduction		Zero Waste to Landfill	5% Water Reduction	Engage every colleague	Engage all suppliers
Energy Reduction	Sustainable Energy	Recycling	Water Reduction	Customers	Operational Suppliers
Data Centres	RBS Innovation Gateway	Improved Data and Reporting	50% Paper Reduction	Employee Innovation Fund	
Supplier Footprint			Marketing/ Statements	Training	Supplier Selection
RBS Vehicles	Business Travel	Waste Avoidance	Office Paper	Commuting	
				Communication	

Electricity Source Level		CO ₂ /kWh	% Matched Consumption	tCO ₂
A	Renewable	0g	100%	
B	Low Carbon / CCS	<200g		
C	Gas CHP	<300g		
D	CCGT Gas	<400g		
E	UK Average / Gas	<600g		
F	Good Coal / Oil	<200g		
G	Coal	<800g		
Total Electricity CO₂		0g	A	0

Since 2007, 100% of our electricity use in the UK (and 63% of our worldwide electricity use) has come from renewable sources.

This year RBS took part in the Aldersgate Group's pilot for electricity labelling, which aims to make the carbon content of electricity more transparent. The aim of the project is to stimulate demand for A-rated electricity (from 100% renewable sources) and encourage greater investment in sustainable energy.

RBS environmental impacts table**Assessment Parameters**

Baseline year	2011					
Consolidation approach	Operational control					
Boundary summary	All entities and facilities either owned or under operational control					
Emission factor data source	DEFRA (2014), US Environmental Protection Agency eGRID (9th edition)					
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)					
Materiality threshold	Materiality was set at group level at 5%					
Intensity ratio	Emissions per FTE					
Independent assurance	Limited assurance provided by Deloitte LLP over all Scope 1 and 2 GHG emissions					
GHG Emissions	2011	2012	2013	2014	Change 2011 vs 2014 (%)	Change 2013 vs 2014 (%)
Total Scope 1 CO ₂ e emissions (tonnes)	61,114	63,809	61,758	52,277	-14%	-15%
Total Scope 2 CO ₂ e emissions (tonnes)	576,422	509,573	451,476	437,152	-24%	-3%
Total Scope 1 & Scope 2 CO ₂ e emissions (tonnes)	637,536	573,381	513,234	489,429	-23%	-5%
Total Scope 1 & Scope 2 CO ₂ e emissions per FTE (tonnes)	4.7	4.5	4.2	4.5	-5%	8%
Total Scope 3 CO ₂ e emissions (tonnes)	141,254	94,993	132,307	97,791	-31%	-26%
Emissions of ozone-depleting gases						
Emissions of ozone-depleting gases (tonnes)	2,447	9,611	4,758	4,710	93%	-1%
Energy						
Total energy consumption (GWh)	1,337	1,289	1,221	1,118	-16%	-8%
Energy use per Full Time Employee (KWh per FTE)	9,937	10,100	9,963	10,282	3%	3%
Renewable electricity use (% of total electricity)	60%	62%	61%	63%		
Water						
Water consumption (mil m3)	1.96	1.93	2.02	1.62	-17%	-20%
Water consumption per FTE (m3)	14.5	15.2	16.5	14.9	2%	-10%
Waste						
Total Waste generated (tonnes)	37,529.38	39,462.43	34,424.30	33,024.93	-12%	-4%
Waste generated per FTE (kg)	279	309	281	304	9%	8%
Total Waste to landfill (tonnes)	10,403.63	12,408.81	11,161.57	10,836.60	4%	-3%
Waste to landfill per FTE (kg)	77	97	91	100	29%	9%
Percentage of waste recycled	0.69	0.68	0.67	0.68	-3%	1%
Paper						
Total paper used (tonnes)	27,841	22,961	18,192	14,788	-47%	-19%
Paper used per FTE (kg)	207	180	148	136	-34%	-8%
Travel						
Total CO ₂ e emissions from business travel (tonnes)	144,596	98,427	135,465	101,175	-30%	-25%
Total CO ₂ e emissions from air travel (tonnes)	119,592	75,741	104,279	70,498	-41%	-32%
Total CO ₂ e emissions from rail travel (tonnes)	4,255	2,878	1,978	1,706	-60%	-14%
Total CO ₂ e emissions from road travel (tonnes)	20,749	19,808	29,208	28,970	40%	-1%
Total CO ₂ e emissions from business travel per FTE (tonnes)	1.1	0.8	1.1	0.9	-13%	-16%
Incidents						
Total number of environment incidents, fines and legal non-compliance	0	0	0	0	n/a	n/a



Working with our suppliers

We purchase goods and services from a large number of suppliers in several countries. Our relationships with these suppliers are founded on fairness, transparency and integrity. We expect suppliers to uphold the same values and commitments that we have made in relation to social and environmental impacts, and to manage their approach to sustainability effectively and for the long term.

Our Sustainable Procurement Code sets out the sustainability requirements that suppliers must meet in order to do business with us. It mandates that suppliers must not engage in human rights breaches or cause environmental damage to nationally or internationally protected sites.

The full Sustainable Procurement Code can be seen at rbs.com/sustainable/suppliers

As part of the simplification of our business in 2014, core contract management teams joined the procurement function within Supply Chain Services. This broader team now manages our end-to-end supply chain.

Our supplier performance assessment is a core part of our framework and helps to ensure that suppliers work in a way that is consistent with our expectations. The assessment brings together data and feedback from stakeholders and suppliers,

and offers 360 degree feedback to help drive improvements. In 2014, performance assessments were carried out with around 100 key suppliers.

In 2014 we gained accreditation as a Living Wage Employer from the Living Wage Foundation. This means that as well as paying our own employees the UK Living Wage, we committed to extend it to our contractors and suppliers across the UK.

Inspiring Enterprise

At RBS we are proud to encourage enterprise. By supporting grassroots enterprise, we seek to provide a valuable service to the economy and encourage economic growth in communities.

Inspiring Enterprise draws together all the work we do to help people explore and develop their enterprise potential. We have focused additional efforts on three groups who often face particular barriers to enterprise success: young people under 30, women, and social entrepreneurs.

In December 2012, we set ourselves three targets for the end of 2015:

- We will help 100,000 young people to explore enterprise, develop their skills and start up in business, whatever their background.
- We will help 20,000 women to explore and unlock their enterprise potential.
- We will support 2,500 social enterprises, working in partnership with the sector to improve access to expertise, markets and finance.

At the end of 2014 we had supported 65,221 young people, 19,535 women and 4,114 social enterprises. We also invested a total of over £11.3 million, including both financial and in-kind investment. This includes over £3 million of grant funding to the enterprise support sector from 2012-2014. The table above shows our grant funding impact since 2012.

In 2014, the NatWest Mobile Business School engaged with over 5,800 young entrepreneurs and small business owners, visiting 122 locations across England and Wales. This involved taking enterprise education into schools, colleges, universities, town centres, industrial parks and housing estates.

In 2014 we supported 108,232 start-up businesses, a 6.9% increase on 2013. We approved over 70% of all applications for credit from start-ups.

Over the next two years, we will drive a real step-change in how we support entrepreneurial talent and high growth businesses in the UK. Eight new business accelerator hubs in locations including Birmingham, Bristol, Cardiff, Leeds, Manchester and Belfast will offer workspace, hands-on mentoring, a start-up 'boot camp' and a free 18-month programme of advice and support. Entrepreneurs will be welcomed from any sector and they do not need to be our customers to take part. They will also

have the opportunity to pitch to potential investors and apply for 'growth awards' of up to £50,000.

In March 2015 RBS announced that we are opening up the previous executive wing of our Gogarburn headquarters in Edinburgh to Scottish business organisations and entrepreneurs, as part of a new Entrepreneurial Centre designed to promote economic growth.

Our arms-length charity, RBS Social & Community Capital (SCC; previously RBS Group Micro Finance Funds) provides loan funding from £30,000 up to £1 million to non-profit community-based organisations that struggle to access sufficient mainstream finance. SCC clients include community finance providers, social enterprises, charities and cooperatives. In 2014, SCC approved £1.94m of loans to these groups, bringing the total value of loans approved to £7.4m since 2012.

In December, RBS announced a further £10m investment into SCC. This will allow the charity to extend its reach and help even more non-profit community organisations access the finance they need to succeed and grow.

For more information on RBS Inspiring Enterprise visit:
www.inspiringenterprise.rbs.com



Pictured: School children play Business on the Move, the innovative new board game designed to teach young people about supply chains. RBS Inspiring Enterprise awarded a grant to the Very Enterprising Community Interest Company.

To be trusted we must Work together

“In 2014 we redesigned RBS. We have built a stronger foundation for the organisation than I have ever seen – and I have been here over twenty years.



We are aiming to simplify the bank. Helping our people with the processes that they manage every day will have a huge impact on our customers.”

Elaine Arden
Chief HR Officer

Our 2020 ambition to be number one for our customers means that we also need to be number one for our colleagues. RBS has a clear ambition to be a great place to work. We aim to be above the Global Financial Services norm for employee engagement, and to increase the proportion of women in senior leadership roles across the bank to 30% by 2020.

2014 was a period of huge change, and this has had a significant impact on our people and how it feels to work here. Our new operating model is now in place and our priorities for our people are to support them throughout their career, so they can be their best for our customers every day, whatever their role; and to make the bank a great place to work.



Retained Platinum ranking
with BITC Opportunity Now as
a Top 10 employer for gender



42%

Graduate intake
in 2014 was
42% female



Fully accredited
Living Wage
employer

15,000

Over 15,000 members of
our employee-led networks

↑ 13%

63% of colleagues
said our values drove
positive change where
they work, up 13%
from 2013



No bonuses paid to
Executive Committee
in 2014 – all variable
pay is now long term

Changing our culture

RBS has experienced unprecedented changes over the last two decades, which have had a significant impact on our culture. Following a period of rapid expansion, the financial crisis of 2008 and our bailout by the UK Government were triggers for the bank to re-examine the importance of our values and culture.

The leadership of the bank changed considerably in 2009 to 2010. Over 2012 and 2013 we developed shared bank-wide values which centred on our purpose: to serve customers well.

The ways in which we recruit, promote, reward and manage our people are all aligned with our values. This approach is making a difference within the organisation, with more employees this year believing our values are making a difference to the way we work.

The results of Our View, our annual employee survey, show that where the values are being lived, employee sentiment is significantly stronger.

63% of colleagues said our values have positively changed the way their team approaches work (up 13% on 2013). 76% said our values are relevant for them and their role at RBS (an increase of 5%). 66% now believe that decisions in their business area are based upon what is best in the long term (an increase of 3% on 2013).

The RBS Code of Conduct 'Our Code' sets out the standards we expect our people to work to, including a clear commitment to respecting human rights.

The cultural journey – our progress so far
Our most senior management have collective objectives, with bank-wide measures and targets that support our 2020 ambition and map directly to our long-term incentive scheme.

We have also simplified the way that we recognise the right behaviours. For example, in 2014 we held our first Living Our Values awards, reducing over 200 employee recognition schemes into one. These awards shine a light on people who are living our values every day, improving how we serve our customers and helping us to become a really good bank. Colleagues were recognised each quarter and final winners were chosen by colleagues and customers at the end of the year.

We have developed and implemented a leading-edge culture measurement framework to help us understand progress and identify warning signs. It measures the critical enablers, practices and behaviours of cultural effectiveness on an ongoing basis.

Cultural change is a long-term journey. Some recent research⁽¹⁾ suggests that cultural change in financial institutions won't be felt for a generation. Within RBS we know that

there is still a gap between our values and our behaviours, but great progress has been made and we will continue to build on it.

Therefore our focus for 2015 is on how we really understand the changes we need to make to live our values and deliver on our ambition, and on the vital role our people play in our transformation.

The 2014 Our View survey results and insights, summarised below, have directly informed our bank-wide strategic priorities. Our View 2014 shows that employee engagement has bounced back from poor scores in Q1 and Q2 pulse surveys, although still not to 2013 levels (see key indicators graph below).

People have a clear sense of direction and see the values having a noticeable impact - both indicators of high performing organisations. Employee pride, trust and advocacy are up, but are still behind the sector norm, impacted by our external reputation. We need to maintain the energy around the values, and lead with strength to deliver our strategic priorities.

Our View results 2014



(1) Source: 'Report on the culture of British Retail Banking' Written by Cass Business School and the New City Agenda group – presented to UK Parliament in November 2014

Performance and reward

We know that our stakeholders see executive pay and bonuses as an important topic and expect RBS to set the appropriate levels of reward for our people.

Extensive consultation takes place every year with shareholders on our approach to remuneration. This approach supports our strategy and is designed to promote the long-term success of the bank.

The pressures on people working at RBS are considerable. We need to recognise those employees who serve our customers well and deliver excellent individual performance. Engaging employees and improving RBS as a place to work is critical if we are to achieve our long-term ambitions.

RBS is now operating a framework that limits variable pay to no more than the level of fixed pay. Often referred to as the 'bonus cap', this limit applies to all employees who are considered by regulators to be 'material risk takers'. For the majority of these employees, no changes have been required to their remuneration arrangements.

We also updated our clawback policy in 2014 for recovering awards that have already been paid out to employees. Any variable pay awarded to material risk takers from 1 January 2015 will be subject to clawback for seven years.

Our Chief Executive, Ross McEwan, is entitled to a fixed share allowance as part of his fixed pay in 2015 and it was approved by shareholders as part of our remuneration policy at the AGM last year. Ross has stated his intent that he will not receive any value from his 2015 fixed share allowance. He does not want this to be a distraction from the task of building a great bank for customers and shareholders.

In 2013 we introduced a simplified pay structure for our executive directors with annual bonuses being discontinued. This means that from 2014 their variable pay will be delivered entirely in long-term incentive awards,

aligning executive directors' pay more than ever to shareholder value over the long term. Reflecting a desire from shareholders for longer timescales, the overall vesting period for future long-term incentive awards has been extended from three to five years.

We have also rolled out an aligned approach to performance management across the bank, so that from January 2015 there will be consistent bank-wide use of our balanced scorecard, people standards, leadership standards, and online system.

Further details can be found in the Directors' Remuneration Report of the Annual Report and Accounts at: investors.rbs.com/results-centre/annual-report-subsidiary-results

Change in Chief Executive pay compared to employees

The table below shows the percentage change in remuneration for the Chief Executive between 2014 and 2013 compared with the percentage change in the average remuneration of RBS employees based in the UK. In each case, remuneration is based on salary, benefits and annual bonus.

	Salary	Benefits	Annual Bonus
	2014 to 2013 change	2014 to 2013 change	2014 to 2013 change
Chief Executive ⁽¹⁾	0%	0%	n/a
UK employees ⁽²⁾	3%	3%	(4%)

(1) Executive directors are not eligible for an annual bonus. Standard benefit funding for executive directors remained unchanged between 2013 and 2014. The benefits for the Chief Executive excludes the relocation expenses provided to Ross McEwan as part of his recruitment as CEO UK Retail in 2012. The value of relocation benefits is disclosed each year in the total remuneration table.

(2) Data represents full year salary costs of the UK based employee population, which covers the majority of RBS employees and is considered to be the most representative comparator group.

Our approach to Performance and Reward in 2014:

- We became a fully accredited Living Wage employer. RBS has been a London Living Wage employer since 2010 and we are pleased to extend that commitment to our operations and suppliers in the rest of the UK.
- We made our 360 degree feedback tool available to all leaders across the bank.
- The overall vesting period (the amount of time an employee must wait before they become entitled to the shares) for future long-term incentive awards has been extended from three to five years.
- The total bonus pool has fallen by 21% compared to 2013 (excluding Citizens Financial Group).
- Variable pay for our material risk takers is now limited so that it will not exceed the level of fixed pay.
- Our updated clawback policy provides greater scope to recover remuneration if necessary.

Development and leadership

We are committed to supporting our people to achieve professional standards, to give colleagues the skills they need to do their jobs and serve customers well.

In 2013 we committed to helping all customer-facing colleagues to achieve professional standards. By the end of 2014 we had reached 86%, having expanded the scope of the target population to include customer advisors and branch managers, and extended the accreditation to include a professional qualification.

We are committed to having all customer-facing colleagues meet the Chartered Bank: Professional Standards Board Foundation Standard by the end of 2015.

In 2014 we ran three leadership conferences for the top 120 leaders in the bank.

These were working sessions, with a high degree of interactivity and participation, based on our strategic priorities.

In November 2014 our Chief Executive spoke with thousands of the bank's leaders and line managers about how good leadership is vital in helping RBS achieve its ambitions. More than 6,000 RBS line managers from across the globe registered - in person, by video conference and by audio - to take part in Ross McEwan's 'What it means to lead at RBS' event.

We ran team effectiveness sessions for more than 20 of our new executive teams in 2014 to help them demonstrate our values and lead the

transition to a new RBS. We designed a team effectiveness toolkit, which was made available to all our people leaders from January 2015.

Our Group Policy Learning (GPL) system helps make sure all our people understand the regulatory requirements of their role. In 2014 we helped our colleagues spend more time with our customers by simplifying training processes, including reducing the total time required to complete GPL modules by 62%.

GPL allows RBS to demonstrate that our people receive relevant training to perform their role in line with regulatory requirements, and to keep the bank and its customers safe.

Wellbeing

RBS takes wellbeing seriously and reports on it at Board level through the Sustainable Banking Committee. In 2014, our Executive Committee confirmed their commitment to wellbeing as a key part of our plans to embed our values.

The results of the annual staff survey, Our View, highlight how colleagues really feel about the bank and pinpoint concerns that RBS is working to address. The 2014 survey showed that only 55% of colleagues believe their business function is effective at encouraging employees to improve health and wellbeing and 40% say that stress is seriously reducing their effectiveness (down from 42% in 2013). Nearly 25% of absence in 2014 was stress related, stable from 2013.

During 2014, we provided wellbeing support through a period of significant change. We delivered support packs to assist with both the practical and emotional aspects of redundancy, stress awareness guides for line managers and employees, and learning spotlights on stress management and work-life balance.

We also provided support through our employee assistance programme, Lifematters. In 2014, we supported over 5,000 employees via the Lifematters Helpline. That means that nearly 6.5% of our UK workforce used the helpline in 2014, compared to the external

market average of 3-4%. Most colleagues who sought emotional support from Lifematters did so with anxiety and depression (60%); followed by personal relationships, then grief and loss.

Over 1,900 of our people were supported with face-to-face counselling sessions in 2014. 90% of those who received face-to-face counselling sessions in the UK reported an improvement in, or resolution of, their issues, compared to 87% in 2013.

The popularity of the Lifematters app, which was launched in late 2013, continued to grow in 2014. Over 13% of visits to the Lifematters website came via the mobile app.

We also made an online health risk assessment available to more than 26,000 colleagues in UK and Ireland. The tool allows people to assess their general health across a range of topics including nutrition, lifestyle, stress, work and physical activity, and tells them how they can manage it. Outcome data is analysed and used by the bank to inform local wellbeing action plans.

In April 2014, RBS was ranked in the top five leading companies in the Business in the Community (BITC) Employee Engagement and Wellbeing Public Reporting benchmark. RBS was the most improved company, with a score of 65% compared to 46% in 2013. The average score for the financial sector was 41%.

Flexible working

Our RBS Choice initiative continues to provide a dedicated information source on working pattern and workplace flexibility to make it easy for colleagues to adopt different ways of working. In 2014 we have enabled a further 6,000 employees to work more flexibly. This can be a real help to colleagues when managing their work-life balance, health and wellbeing. It also helps us provide a truly inclusive workplace.

Case Study

Time to Change – tackling mental health stigma

In December 2014, RBS signed up to the Time to Change pledge, a public statement of our commitment to tackling stigma and discrimination around mental health in the workplace and wider community.

At the heart of our Time to Change pledge is the message that, by helping our people recognise and talk about mental health issues, we remove the stigma that prevents many from getting the support they need.



Pictured; Aileen Taylor, Chief Governance Officer and Board Counsel, signs the Time to Change pledge on behalf of RBS.

Employment practices

Employee representation

We have relationships with trade unions, works councils and employee representative bodies. We estimate that nearly two thirds (63%) of our employees globally are covered by a collective bargaining agreement and/or local employee representative arrangements.

The minimum notice periods regarding operational changes depend on the nature of the change, the consultation process we are required to follow, the legislation in the country where the change is being made, the agreement in place with our employee representatives, and the custom and practice. Generally speaking, we provide as much notice as possible on changes we are making, which in practice can vary from a number of months for significant changes (restructuring, changes to terms and conditions, changes to policies) to a number of weeks for minor changes, which may be shared with employee representatives for information.

In 2014 we undertook over 250 change projects across the world. Senior leaders met employee representatives regularly in 2014, including the Chief Executive, who met the European Employee Council and Unite the Union twice. In addition, representatives from Unite the Union attended our Sustainability Committee meeting in December 2014 to provide feedback to senior leaders on employee engagement.

Supporting people through restructuring

On 27 February 2014, RBS announced a refreshed strategic direction. Throughout the year we made steady progress towards building a smaller, simpler organisation, and delivering this ambition by organising the bank around the needs of our customers. We defined clear principles and practices around how the organisation would work, and new role accountabilities for the top 150 roles across the bank.

We have moved from seven divisions to three customer businesses, and redesigned our supporting functions and services to remove duplication and unnecessary management layers.

At 31 December 2014, RBS had a global workforce of 108,700 full-time equivalent (FTE) people, including temporary workers. This constituted a headcount reduction of 9,400 people in the year. Over half of this reduction was achieved by controlled reductions across the bank, with the remainder achieved through natural attrition and the reduced use of temporary workers.

Throughout the restructuring, we focused on supporting our people through change – for example, by consulting our employee representatives and offering supportive measures.

More than 1,700 employees used our redeployment and outplacement service in 2014, with an average feedback score of 4.8 out of 5.

We also provided support through access to our employee assistance programme, Lifematters, and by training line managers in change management skills.

Employability

In 2014 there was renewed appetite and commitment to develop Early Career pipelines in RBS.

In the 2014 graduate cohort, 35% of graduates were from non-finance disciplines and 42% were female. Our graduate programmes for 2015 have seen a 43% increase in demand since 2014, with around 300 graduates due to join the bank.

We are also increasing our opportunities for apprenticeships, with a growing population of young people in the UK choosing to learn in the workplace rather than at university. We hope to welcome around 300 new apprentices to RBS in 2015.

Our employability programmes help us increase our capabilities and positively develop our brand externally. At the same time we are able to provide opportunities within local communities, and support the Government's youth unemployment agenda.

Employability highlights in 2014

Indian Summer - our entrepreneurial challenge in partnership with the Princes Trust - received the Best Campus Marketing Award in March.

Sprint, an award-winning development programme for women, is now rolled out across 12 universities, with more than 1,000 students engaged.

We launched the Career Kick-start portal for teachers, and have already had over 300 registrations.

35% of our new graduates were recruited from non-finance subjects, and 42% of new graduate hires are female.

We developed the first formal work experience scheme in RBS, covering flagship NatWest branches in London.

We raised over £150,000 for our charity partners through graduate fundraising initiatives.

For the second year running, one of our graduates won Deloitte's Young Banker of the Year award.

Diversity and inclusion

In 2014 we set a target to increase the proportion of senior women within each business area of RBS to more than 30% by 2020. We've set the target at more than 30% because we know this is the tipping point which will change behaviour and culture. The target has been included within our Executive and Executive Director objectives and is supported by plans which contain specific, measurable activities to increase senior female representation and better balance across all levels within the bank.

We're already making progress: in 2014 we surpassed our commitment to have more than 30% of our top 5000 roles across the bank occupied by women.

2014 recognition for our work on equality, diversity and inclusion:

Increased our ranking from Silver to Gold for Race for Opportunity (ethnicity).

We improved upon our ranking in the Stonewall Workplace Equality Index (LGBT), up from 97th place in 2013 to 40th place in 2014.

Retained our Platinum ranking from Opportunity Now (gender).

Retained a position in the Times Top 50 Employers for Women for the eighth consecutive year.

We are working hard to put inclusive behaviours at the core of what we do for colleagues, customers and the communities we serve. For example, we have improved our employee adjustment process for colleagues living with disability, and we are supporting our LGBT agenda through the introduction of the gender-neutral title Mx for our customers. RBS has been a founding partner of Stonewall's Global Diversity Champions programme since its inception in 2013.

In 2014 we signed up to the Alzheimer's Society Dementia Friendly Finance Charter, to help banks recognise, understand and respond to the needs of customers living with dementia. Thousands of colleagues have chosen to develop their understanding by becoming a Dementia Friend.

We also introduced bank-wide training to help employees recognise and combat unconscious bias. The training will continue throughout 2015. These learning tools were developed alongside the Employer's Network for Equality and Inclusion (ENEI) and include face-to-face workshops for our leaders, webinars for line managers, and e-learning available to all employees.

We continue to support our employee-led networks, which now have over 15,000 members across the bank. The networks are open to all employees and are focused on specific diversity and inclusion issues.

In 2014 we were especially proud of the efforts of Enable, our new network for disability. One of the network's most prominent achievements was its input into the design and testing of new accessible debit and savings cards for partially sighted and blind customers. By involving employees with an understanding of disability and working closely with RNIB, the bank has developed a product that will make a difference for customers (see page 24).



Families and Carers
network



Enable
the disability network



RBS Multicultural
network



	2011		2012		2013		2014	
	Male	Female	Male	Female	Male	Female	Male	Female
Clerical	34%	66%	33%	67%	33%	67%	33%	67%
Appointed	53%	47%	51%	49%	52%	48%	51%	49%
Manager	67%	33%	67%	33%	67%	33%	66%	34%
Senior Manager	74%	26%	73%	27%	74%	26%	73%	27%
Executive	82%	18%	81%	19%	80%	20%	80%	20%
Total	47%	53%	47%	53%	47%	53%	46%	54%

Gender breakdown of our workforce: This data is based on December 2014 global RBS employee headcount (not FTE), and excludes contingent workers. 2014 data has been aligned with other external reports and includes active and inactive employees; 2009-2013 data includes active employees only. (Inactive employees are those on long-term absence such as maternity leave.)



Case Study

The Scotland Agriculture team lives our values

The CEO of the Royal Scottish Agricultural Benevolent Institution (RSABI) was quoted in the press saying banks were not doing enough to support farmers in Scotland. The RBS Scotland Agriculture team contacted RSABI to discuss their concerns and explain what RBS does to support this sector. They then delivered a short training workshop to RSABI staff explaining how we evaluate lending proposals to help them understand why lending more money was not always the right approach.

This was the start of a new partnership and as part of our fundraising strategy in 2014 RBS partnered with The Scottish Association of Young Farmers to help raise funds for RSABI.

The team also invited RSABI to deliver a 2 hour session at a Scotland Agriculture team meeting to better inform our RBS people about the work RSABI do to support farmers in distress. The team raised over £11,000 for RSABI in 2014, and have also developed strong partnerships within the agricultural community.

Reporting at RBS

In 2014 we have reported against our four values – serving customers well, doing the right thing, thinking long term and working together. We have also reflected the strategy of the bank by demonstrating how all of the work featured in the report contributes to building trust. Our approach to managing sustainability focuses on identifying the issues that matter to our stakeholders. This Report provides a review of our activities in 2014 and details our forward-looking priorities.

Independent assurance

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

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

- Application of the AA1000 AccountAbility Principles Standard (AA1000 APS)
- Selected sustainability performance indicators against ISAE 3000
- A copy of our Independent Assurance Statement is available at rbs.com/sustainable/assurance

Reporting standards

As outlined above, we adhere to the AA1000 AccountAbility Principles Standard (AA1000 APS) which is a principles based framework for managing and reporting sustainability performance. The AA1000 APS defines three principles that an organisation should adopt as a framework for sustainability management and reporting, namely inclusivity, materiality and responsiveness. We outline further our application of each of these principles below.

We have also reported in accordance with the latest Global Reporting Initiative (GRI) guidelines, aligning to the 'Core' application level. Our G4 report is available at:

rbs.com/sustainable/gri In compiling our report we also sought to cover the principles of the UN Global Compact.

Inclusivity

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

We consider our stakeholders to be those who have a direct interest in our business and those who have an interest in how we manage our business because of the wider

impact of our actions: employees, customers, employees, investors, governments, regulators, consumer groups and the third sector, non-governmental organisations (NGOs), suppliers and the media. There are also others whose actions have an impact on RBS.

For more information see the page 13. In addition, we have expert consultants who inform our steering groups about specific issues, such as customer trust and culture and ethical conduct, so that we can improve our understanding and response to the issues affecting our business.

Materiality

Determining what issues are important to RBS and our stakeholders. Our extensive stakeholder engagement process with both internal and external stakeholders allows us to track and manage current and emerging issues. These considerations include not only our own direct impacts but also those of the companies and sectors we lend to, as well as the impact on RBS due to the actions of others. We determine the relevance and significance of each issue to RBS and our stakeholders. We then prioritise these issues according to the greatest impact on our business and report on the most significant. We continually monitor the changing environment in which we operate to ensure stakeholder concerns are captured and managed on an on-going basis.

We endeavour to manage our material issues in a transparent and fair way. For more information see page 14 and a more detailed description at rbs.com/sustainable

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 issues and improving our understanding of them and the impact they have on our stakeholders.

Performance, Commitments and Indices

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

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

We have been members of the United Nations Global Compact (UNGC) since 2003, the leading platform for the development, implementation and disclosure of responsible policies and practices in the areas of:

- human rights
- labour
- environment and
- anti-corruption

Each year RBS receives ratings for its environmental and social performance by external indices. See a full summary of our performance in these indices on page 12.

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