



RBS Sustainability Report 2015

How we make a difference

About this report

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 customer brands Royal Bank of Scotland and NatWest, as well as through a number of other well-known brands including Ulster Bank and Coutts.

This report provides information on how we made a difference for customers, employees, communities and the wider environment for the year 2015.

It highlights our support to enterprise and entrepreneurship from simpler business banking to the roll-out of the UK's largest bank-supported accelerator network for entrepreneurs. It demonstrates how we have created a simpler, fairer bank for personal customers, removed incentives pay for frontline Personal & Business Banking staff, seen an 8% reduction in fraud losses and helped customers manage their money better with bespoke support for customers in vulnerable situations. Over £1bn of lending was made towards sustainable energy projects in 2015. Our flagship financial education programme, MoneySense, for 5-18 year olds celebrated its 21st anniversary and has a new, innovative website and employee volunteering programme. Our community investment donations in cash and in-kind totalled £43.5m and we paid £1.36bn tax in the UK.

Our ambition is to further embed sustainable banking, making it central to the way we do business every day.

Online



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.com/annualreport

You can access the Annual Report and Accounts on our website.



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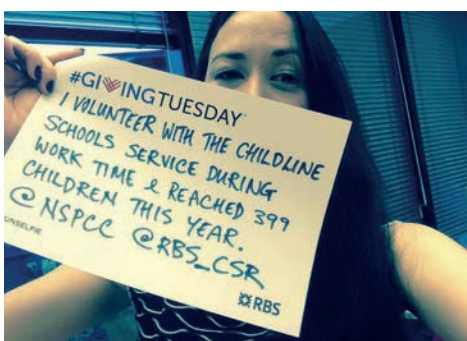


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Chief Executive Q&A

2015 was another important year for RBS. How would you summarise it?

We've just completed the second year of our plan to transform RBS into the UK's number one bank for customer service, trust and advocacy by 2020. We knew when we set this ambition that it would be challenging to meet, but we are determined to succeed.

2015 was another year of hard work and some good progress for RBS, albeit with some challenges along the way. The good news is that we went further, faster in our transformation from a global bank to one substantially focused on retail and commercial markets in the UK and Republic of Ireland. We also reinforced our position as the biggest supporter of businesses in our home market and showed we were prepared to challenge industry practices that are not in our customers' interests.

At the same time, heavy restructuring costs and dealing with legacy conduct and litigation issues meant that overall we made a bottom line loss of £2 billion in 2015. Although the underlying strength of our core business remains clear we made an adjusted operating profit of £4.4 billion - the charges for conduct, litigation, restructuring and a number of one-off accounting items are still a big drag on our financial performance. It is the determination of our colleagues that is

propelling RBS forward, but while we can point to a good track record of delivery over the last couple of years, we know we have more to do to build a great bank for our customers.

How has RBS made progress against its priorities in 2015?

When we set out our plan two years ago, we identified five priorities that would keep us on track, and allow stakeholders to assess our progress. Each year we set goals under these priorities, and I'm encouraged that in 2015 we continued to deliver in four out of five of our priority areas, while on the fifth – Customer Experience – we also saw good progress in many areas.

Our financial strength was further bolstered by the sale of Citizens in the US, and the run down of RBS Capital Resolution (RCR), a year ahead of schedule. Our common equity tier 1 (CET1)¹ capital ratio climbed to 15.5%, up by around 80% in two years. As a condition of the state aid made available to RBS in 2008 the European Commission required the bank to divest over 300 branches in the UK as a standalone banking entity to be known as Williams & Glyn (W&G). Throughout 2015 we continued to make the structural changes required to achieve this separation which we now do not expect to be achieved until after Q1 2017.

Notes

¹ Common Equity Tier1 (CET1) is the core measure of a bank's financial strength from a regulator's or a shareholder's point of view. The theoretical reason for holding capital is that it should provide protection against unexpected losses. It is defined as being the aggregate of the bank's equity capital and retained earnings.

“We’re building a bank where long term success will be determined by doing a great job for customers. By being strong, simple and fair, we will earn their trust, and live up to our responsibilities. That is the best way to deliver sustainable success.”

We continued to make improvements for our customers. During 2015, our NPS scores for both Personal and Business Banking have generally improved every quarter, and at the end of 2015 our scores were higher compared to the same time a year ago – a result of our employees’ commitment, improved service and better products. We’ve also continued to challenge industry practices we feel are unfair for customers, such as teaser rates on home insurance products. However a less positive trend in 2015 was a growth in the volume of complaints we received from customers. Whilst we got better at responding to and resolving these complaints, we need to stop them happening in the first place – a key area of focus for us in 2016.

Importantly, we managed to cut our operating costs further in 2015, removing £983 million in costs from the business. We still have further to go and need to keep the momentum going over the coming years: the less we spend on running the bank, the more we can spend on making it better for customers.

What changes would customers have experienced in 2015?

I’m proud to say that we have taken some big steps forward in helping our customers to bank with us more easily. Amongst other advances, customers can now use Apple Pay with their accounts, login to their mobile banking apps using their fingerprint, or use accessible cards accredited by the Royal National Institute of Blind People (RNIB). We’ve also continued to see a decline in branch usage, with a concurrent increase in

customers choosing to bank with us using digital channels. Just one example of the growth in our digital channels is the loans and savings products NatWest customers can now access directly from their mobile app. Changes in customer behaviour have led us to close some branches in our network, although it will continue to play a central role in our operations and these are decisions we never take lightly.

Where we can, we want to challenge some established industry practices. In 2015, we announced that NatWest and Royal Bank of Scotland will remove incentives for personal and business customer-facing employees, allowing them to be completely focused on putting our customers first. We broke with a 144-year-old tradition and opened 34 of the busiest branches across the UK on a bank holiday. That’s exactly what RBS should be doing to make sure we’re meeting our customers’ needs rather than our own.

We also saw encouraging growth in Commercial lending and in mortgage lending, which was up 10% at the end of 2015 compared to the beginning of the year. That means we’ve helped over 200,000 people to buy a house – a fantastic result for customers.

How is RBS becoming a more sustainable bank?

As I’ve made clear since becoming CEO, my focus is on the customer. I know from personal experience that great customer service is only delivered by employees who feel good about coming to work. That’s why one of our focus areas in 2015

– one which will be carried across to 2016 – was improving how it feels to work at RBS. Our employee engagement scores are up in the last year, and we have now set a higher long term target so we can push ourselves to do even more.

Another way of supporting customers is to look beyond the products and services we provide, and to help them manage their money throughout their lives. Our MoneySense programme, now in its 22nd year, is reaching more people than ever. Being knowledgeable and confident with money can only be a good thing for customers and their families, the bank, and the UK economy.

We’re also already the biggest supporter of British business, helping over one-fifth of all UK start-ups in 2015. From 2016 onwards, we’re going to ramp up our support for British business even further. Our partnership with Entrepreneurial Spark is a signal of our commitment to the small businesses at the heart of our economy. If they grow, the UK’s economy will grow, and that is ultimately good for our business. That’s what we mean by ‘sustainable banking’, and we are committed to it now and in the future.

Ross McEwan, Chief Executive

Our 2015 performance at a glance

Our financial performance

(£1,979m)

Loss attributable to ordinary shareholders

£4,405m

Adjusted operating profit before tax ⁽¹⁾

72%

Cost:income ratio – adjusted ⁽²⁾

£243bn

Risk-weighted assets

89%

Loan:deposit ratio ⁽³⁾

15.5%

Common Equity Tier 1 ratio

Supporting customers

£30.5bn

Current lending to small and medium-sized enterprises (SMEs) across England, Wales and Scotland

Year-on-year, NatWest Business Banking, Royal Bank of Scotland Business Banking and Ulster Bank Personal Banking (Northern Ireland) have seen significant improvements in NPS.

£5.5bn

Mortgages lending to UK first-time buyers

Engaged workforce

76%

Leadership scores (+8 points on 2014) and +5 points ahead of the Global Financial Services norm

13,000

Determined to lead – leaders completed the first part of the programme

79%

Employee engagement (+6 points compared to 2014)

Our role in society

£1.36bn

Tax paid to the UK Government in 2015

-11%

Reduction in scope 1 and 2 emissions

114,059

People reached through Inspiring Enterprise programme, which completed in 2015 since launch in 2012

£43.5m

Recorded community investment for 2015 was measured using the London Benchmarking Group standard

£1bn

Funding to sustainable energy: our 3rd consecutive year of growth

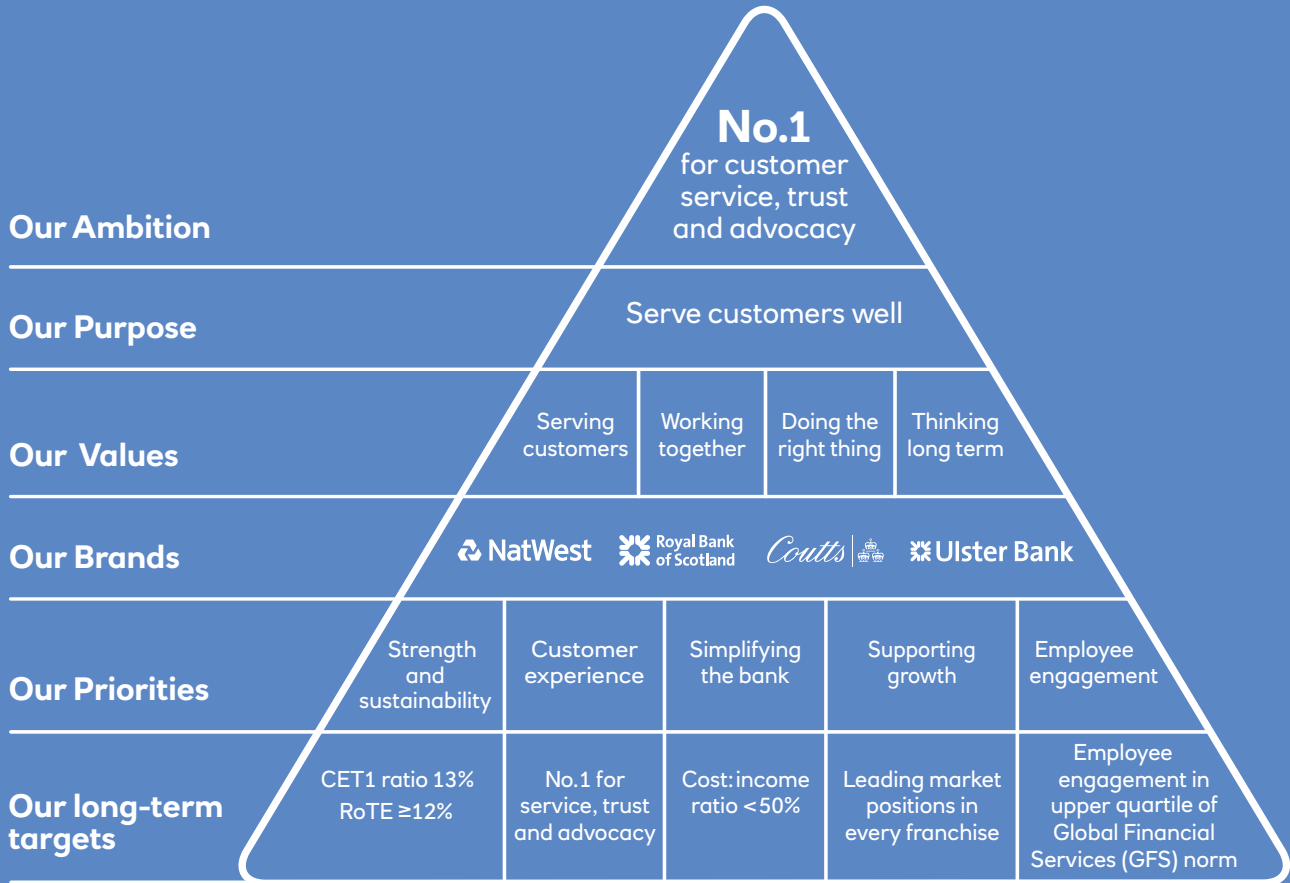
Notes:

(1) Excluding own credit adjustments, loss on redemption of own debt and strategic disposals and excluding litigation and conduct costs, restructuring costs and write down of goodwill.

(2) Cost:income ratio is based on total income excluding own credit adjustments, loss on redemption of own debt, strategic disposals, and operating expenses excluding litigation and conduct costs, restructuring costs and write down of goodwill.

(3) Includes disposal groups.

Our blueprint for lasting success



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 Franchises

Our three customer-facing franchises 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.

Our operating model

We have a clear set of Organisation Design principles that underpin our operating model, structures and accountabilities.



Customer orientation

The organisation will be easy and effective for customers.

Primarily organised around customer segments

Delivers the whole bank, seamlessly, to our customers

Decision rights as close as possible to the customer

End-to-end approach to delivering great customer experience



One bank

The organisation will be easy and effective for staff.

Minimum committees to support individual accountabilities

No customer units vs functions

Unified culture and leadership

Short simple chains of command

Clear individual accountabilities



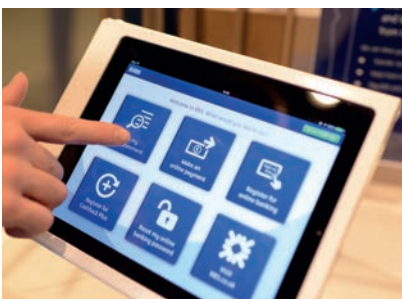
Efficiency

The organisation will share all things that can be shared.

Centres of excellence located in primary business or function

No duplication

Cross-bank sharing of platforms



Disciplined and rigorous

The organisation will manage activities end-to-end in one best way.

Effective process design, ownership and management

Standardisation

Consistent customer experience

Sticking to a long term investment plan to address a complex technology environment



Safety and soundness

The organisation will do the right thing.

Strong control functions

Effective three lines of defence

Straightforward policies

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.

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.

Regulatory changes

Ring-fencing

The implementation of the 'ring-fencing' of retail banking operations is being introduced by the UK Government following the recommendations of the Independent Commission on Banking. This forms part of a range of structural reforms seeking to improve the resilience and resolvability of the UK banking industry.

The Prudential Regulation Authority (PRA) is expected to publish its final rules and supervisory statements in summer 2016. RBS has implemented programmes to prepare for ring-fencing, under the sponsorship of the Chief Financial Officer, in order to be compliant with the new regime by late 2018.

The RBS Board has approved a detailed draft plan outlining the anticipated legal and operating structure under the new regime. This plan was submitted to the PRA and the Financial Conduct Authority (FCA) in January 2016 and will be subject to final regulatory, court and Board approval and consultation with employee representatives.

RBS intends to establish a ring-fenced bank sub-group (RFB) for its UK, Irish and some Western European banking services. The non ring-fenced group entities (NRFB) will hold the remaining trading activities, the operations of RBS International and all non-European Economic Area (EEA) branches and subsidiaries and some banking activities that are not permitted in the RFB.

Establishing the RFB and NRFB will require significant legal and organisational restructuring and the transfer of large numbers of assets, liabilities and customers between legal entities. Our operations infrastructure will be revised to meet the rules on shared services, independence and resolvability requirements. Existing programmes aimed at simplifying the operational and legal structure are strategically aligned with this approach.

Williams & Glyn update

As a condition of the state aid made available to RBS in 2008 the European Commission required the bank to divest over 300 branches in the UK as a standalone banking entity to be known as Williams & Glyn (W&G). Throughout 2015 we continued to make the structural changes required to achieve this separation. However, as we announced recently the programme to create a cloned banking platform continues to be very challenging and the timetable to achieve separation is uncertain, indeed we have concluded that there is a significant risk that the separation and divestment, to which we are committed, will not be achieved by 31st December 2017. RBS nonetheless remains focussed on complying with those commitments in what is a highly complex undertaking, and we are continuing to work to ensure that the plan will deliver a safe and smooth transition for the business and its customers.

Litigation, investigations and reviews

In 2015, RBS continued to be involved in a range of litigation claims, investigations and reviews. Details of these can be found in the section, 'Litigation, investigations and reviews' in Note 30 of the RBS Annual Report and Accounts 2015, starting at page 334. An update on material developments in these matters was included in Note 5 of the RBS Q1 Interim Management Statement, starting at page 33.

Sustainable banking at RBS

RBS continues to have a clear ambition to be number one for customer service, trust and advocacy in each of our chosen business areas. Delivery of this ambition will not be straightforward and depends in large part on our ability to demonstrate beyond question that we are becoming a responsible company doing business in a sustainable way.



2015 showed us that we still have significant work to do to in winning back the trust of our customers and society more generally. While the bank continues to face many challenges, we know we have a great opportunity to turn sustainable banking into a reality for RBS. This report tracks our progress against this ambition. Our sustainable banking journey will require a redoubling of our efforts to support customers, invest in our communities, reduce our environmental impacts and make RBS an inspiring place to work.

The role of the Sustainable Banking Committee (SBC) is to support the Board in overseeing, supporting and challenging actions taken by management in making sustainable banking a reality. During 2015 the Committee structured its meetings around three core themes of bank-wide reputation and trust, serving customers well, and sustainability topics including; financial inclusion, financial education, and managing environmental risks. Focus on these themes has encouraged the delivery of some great examples of progress.

Our colleagues are key to building our brand reputation and trust and it is pleasing to see how embedded the company's ambition, purpose and values have become, together with noteworthy increase in employee engagement. There has been a significant commitment to developing good leadership skills amongst senior managers and in particular to the development of staff gaining professional standards. There is a good focus on diversity and excellent apprenticeship and graduate programmes to build future

leaders. These are important pillars of our changing capabilities and mind-set. We remain acutely aware that fulfilling our ambition on trust requires continued cultural change within our organisation - a process that is underway but can be expected to take time. Having a workforce that: speaks up before things go wrong, takes ownership, follows up, seeks best practice from outside the bank, considers risk as part of the way we work and think, and encourages everyone to fulfil their potential, is our work in progress.

Placing customers at the heart of the bank's purpose is becoming more visible as illustrated in this report. A realistic assessment is that although we are delivering progress in some areas, we still have a long journey ahead, albeit an exciting and important one.

This report provides evidence of our progress on core matters of sustainability. The number of cases that have needed to be reviewed as part of our Environmental Social and Ethical Risk framework was much reduced reflecting in large part the contracting geographic focus of the bank's activities now centred on the UK and Ireland. We remain a leader in supporting the transition to a low carbon economy with further lending growth to sustainable energy and providing customers with energy audits to both reduce usage and to move to more sustainable sources.

To get an objective external view on our progress, the Committee also runs a proactive engagement programme to which we invite external stakeholders - including some staunch critics - so that

they can meet with and challenge the most senior decision makers in the bank. We encourage lively debate at these sessions and as a consequence have received some great insights that help shape future policies, influence strategic priorities and inform decision making.

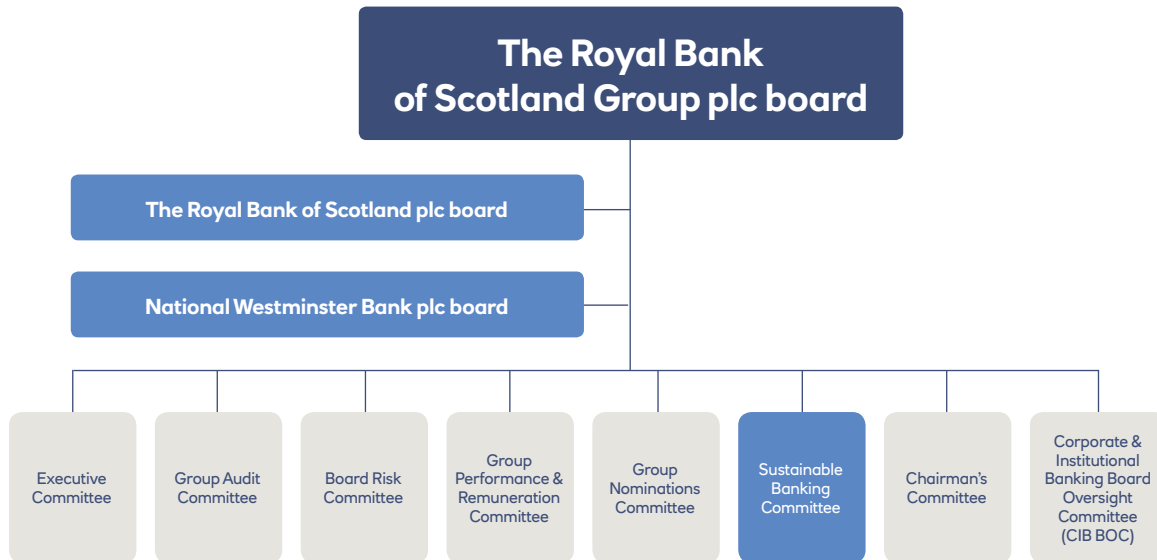
To date the Committee has met with representatives of over 50 different organisations including NGOs, civil society groups, government bodies, consumer groups and investors and discussed issues as diverse as our approach to climate change, the social economy and entrepreneurship. During a Board level visit to India it was inspiring to see the impact of our colleagues work with some of the most excluded communities pursuing a goal of providing financial inclusion and economic integration. It was a privilege to host an engagement session to explore the impact of philanthropic spend and to receive great encouragement for the work of our Foundation.

Looking ahead to 2016, the Committee's agenda will be structured around five themes of culture, people, customer, brand and communications, and ESE (environmental, social and ethical) issues. Through oversight, support and challenge, we hope to embed a wider interpretation of sustainable banking and make it even more central to the way we do business every day.

Penny Hughes
Chair of the Sustainable
Banking Committee

Governance

The Board is collectively responsible for the long-term success of RBS and delivery of sustainable shareholder value. In order to provide effective oversight and leadership, a number of Board committees with particular responsibilities exist. More information on the work of the Board committees is available in the Annual Report and Accounts at rbs.com/annualreport.



External benchmarking of our performance

Measured against our peers, we are pleased we have maintained similar scores in all major indices. RBS was ranked as the leading bank for managing climate risks in the Natixis: Energy/Climate Strategy report

	2011	2012	2013	2014	2015
Dow Jones Sustainability Index					
RBS	76	79	82	82	80
Peer average	53	59	58	60	61
Sector leader	91	93	93	93	94
CDP					
RBS Disclosure	91	89	88	98	99
RBS Performance	B	B	B	B	B
Leader Disclosure	100	100	100	100	100
Leader Performance	A	A	A	A	A
FTSE4Good					
	Included	Included	Included	Included	Included

Listening to our stakeholders

Our ambition to be the number one UK bank for customer service, trust and advocacy can only be achieved through listening to our stakeholders and adapting to the changing needs of customers, the environment and society.

We engage with a wide variety of stakeholders: customers, suppliers, media, government, public bodies, non-governmental organisations (NGOs), advocacy groups, trade unions, employees, shareholders, investors, regulators and other banks.

Summary of key stakeholder issues in 2015

Stakeholder group	Primary engagement mechanism	Main issues raised during 2015
Customers	Customer surveys, including net promoter score, syndicated surveys, focus groups, complaints data.	IT and system failures, customer service, historical issues over PPI and alleged package account mis-selling, lending fees and charges.
Employees	Annual staff survey (Our View), regular pulse surveys, engagement of employee representatives, intranet comments boards, team meetings, town halls, employee audios, webinars, webchat, employee-led networks and focus groups.	Wellbeing and resilience, job security, improving career paths and retention, consistently good leadership and development, diversity, respect and inclusion.
Investors	Investor relations briefings, investor road shows, stakeholder engagement sessions.	Conduct and litigation, culture change, remuneration, business model, company financial health, governance and accountability, oil, gas and coal exposure, climate change.
Government (including HM Government, EU institutions and devolved regions)	Regular interactions with MPs, political stakeholder briefings, audios/meetings, industry forums, policy trend analysis, polling, responses to consultation papers.	IT resilience and system failures, conduct and litigation charges, branch closures, SME lending and appeals process, government ownership, enterprise and entrepreneurial spark, macro-political developments.
Regulatory Bodies	Regular meetings.	Culture and behaviours, capital adequacy, transformation, resilience, senior managers and certification regimes, bank structural reforms, historical conduct issues, Williams & Glyn delivery.
Media	Engagement through Media Relations team, media briefings, regular meetings.	Government ownership, shareholder dividends, conduct and litigation fines, branch closures, remuneration, fraud and progress against strategy.
Consumer groups and the third sector	Regular meetings, forums, stakeholder engagement sessions, roundtables, annual conferences, briefings, membership of representative groups.	Vulnerable customers, fraud and scams, financial capability, financial difficulty, IT resilience, transparency and fairness of fees and charges, refugees, accessibility of products, support to military personnel.
Civil Society and NGOs, including representative groups	Forums, meetings, stakeholder engagement sessions, membership of or partnership with representative groups.	Climate change, data security, nuclear weapons, defence, human rights, refugees, modern slavery, financing fossil fuels, financial education, support to real economy, enterprise and entrepreneurship, pension investments, financial inclusion.
Suppliers	Engagement with contract managers, annual supplier performance surveys, quarterly reviews with key suppliers, Supplier Insights Programme with core suppliers.	Being simpler to do business with, RBS strategy and impact on marketplace, supplier diversity, timely payment.

Our Sustainable Banking Committee holds regular roundtable meetings with external stakeholders. These robust discussions at the senior level of the bank help ensure we are open to new ideas and ways of doing things, and that we listen to our challengers, many of whom have views that contest our perception of the role of banking in society, and of RBS in particular.

In 2015, the Committee held four stakeholder engagement sessions on the topics of: financial inclusion, including debt and access to affordable credit; the issues the Bank should prioritise to become number one for customer service, trust

and advocacy; the increasing availability of alternative sources of finance and how we should collaborate with these providers; and stakeholders' views on RBS India's sustainable development programmes. Participants came from universities, think

tanks, NGOs, advice organisations, funders and alternative lenders. On a visit to India, where RBS has over 14,000 staff, two members of the Committee met with leading government officials, media and environmental organisations.



Some outcomes of our stakeholder engagement activities include:

- Introducing the first Royal National Institute of Blind People approved debit and savings cards specially designed for blind and partially sighted customers. These cards were awarded the RNIB quality assurance mark.
- Continuing our support for start-ups and entrepreneurs by opening four new business accelerator hubs through Entrepreneurial Spark.
- Opening 34 of our busiest branches on bank holidays and introducing 13 new mobile branches.
- Scrapping teaser rates on home insurance.
- Updating our climate change position statements.
- New partnership between RBS Foundation India and the UN Climate Adaptation Fund.



Our material issues in 2015

Materiality matrix 2015

Increasing impact for stakeholders		Company financial health p04	Culture and ethical conduct p30-32,48
		Regulatory developments p08	Customer service p24
		SME lending and services p18	Customer security p25
		Remuneration p51	
		Transparency and disclosure p2-3	
	Responsible/Sustainable lending p37-39	Mortgage lending p22	Business model and strategy p6
		Governance and accountability p10	
		Financial literacy p28-29	
		Low carbon transition p44,45	
		Financial inclusion p17	
	Tax responsibilities p33		Employee engagement p50
Increasing impact for RBS			

Identifying our material issues

We review and update our materiality assessment each year to ensure we're focused on the key issues of concern to our stakeholders and the business. The assessment helps us manage our most important issues effectively, shaping the way we do business.

In 2015, we worked with an independent consultant to conduct a comprehensive review of media and other stakeholder views. This was combined with the findings of the Populus survey – an independent survey of key opinion formers – to test and identify new material issues. We also tested

stakeholder issues internally, surveying colleagues from a range of geographies and workforce levels, and interviewing senior leaders across the bank.

The matrix does not represent an exhaustive list of issues facing RBS.

It represents those issues that our internal and external stakeholders highlighted as having considerable financial, operational, reputational and societal impact in 2015.

The matrix does not include the litigation and conduct issues facing us, or the changes resulting from the exit of Williams & Glyn. While we have not specifically

mentioned these issues, we recognise that they are applicable across our material issues. We continue to monitor and work through these legacy issues to demonstrate our desire to move forward and become a stronger and more sustainable bank.

Overall, our assessment showed that culture, conduct and customer service remained the highest priority issues for us and our stakeholders in 2015 and are firmly at the heart of our programme of transformation.

To read about each issue in more depth, please see the page number against each material issue. Definitions of our material issues can be found at rbs.com/materiality.

Material issue changes since 2014

During the materiality assessment, two new issues were identified as having considerable impact in 2015:

Customer security

Ensuring the security and privacy of personal financial data.



With new technology innovation in financial services, increased use of internet and fraud attacks becoming more sophisticated, information security risks continue to rise. Protecting customers' safety, their funds and personal information is a key material issue for banks.

Financial literacy

Financial providers have a responsibility to ensure customers fully understand the implications of their decisions. Helping customers of today and tomorrow to develop good money management skills, knowledge and behaviours is an important issue for RBS. It means delivering financial services that are clearly explained, easy to use and meet the needs of our customers.



Some of the issues highlighted in 2014 no longer feature in the 2015 matrix:

- Human rights – our stakeholders did not highlight human rights as among the highest material issues facing RBS. Nevertheless, we understand the importance of human rights to all businesses, and are committed to managing our human rights impacts effectively.
- Trust – although stakeholders did not identify this as a separate issue, we recognise that it is linked strongly with other material issues, including customer service, culture and ethical conduct. We have therefore incorporated 'trust' into these relevant material topics, rather than identifying it as a standalone issue.

Some of the issues also changed in priority compared to the 2014 matrix. This reflects the steps we have taken to manage these issues and the changing importance of these topics to our stakeholders.



“We’re serious about building a fairer bank for customers. That means doing everything we can to help our customers out, not catch them out.”

Les Matheson, CEO Personal and Business Banking

1

We make a difference by **Serving customers well**

At RBS, we have a simple purpose to serve customers well. This is at the core of our ambition to be number one for customer service, trust and advocacy.

Serving customers well means treating them fairly, offering extra help to vulnerable

customers and those in financial difficulty, and keeping their funds safe and secure.

In order to deliver our purpose, we are determined to find new and improved ways to serve customers well and to challenge the status quo where we need to.



Over 880,000 businesses choose to bank with us



£23bn lent in mortgages including £5.5bn to first-time buyers

900k

Helped 900k customers experiencing financial difficulty



Launched Apple Pay and Touch ID

£30.5bn

Current lending to SMEs across England, Wales and Scotland is £30.5bn



435k customers used our online mortgage toolkit for an indication of how we could help them with their mortgage



Removal of incentive schemes for customer-facing employees in Personal and Business Banking



Our free security software Trustee Rapport was installed 750,000 times by customers in 2015



Over 105,000 start up business accounts opened

Trust

Customer trust in Royal Bank of Scotland is at its highest in 2 years and trust in NatWest has also improved



We protected customers from £264m of attempted fraud and 325,000 cases of attempted fraud were also prevented in the UK

Building a fair bank for customers

One of the reasons customers have lost trust in banks over the past decade is that they were often perceived to behave unfairly acting in their own interests rather than those of their customers. We are determined to rebuild this trust by striving to help our customers out rather than catch them out with unexpected charges, short-term offers and products they do not need.

How are we becoming fairer for customers?



NatWest and Royal Bank of Scotland are amongst the first UK banks to remove sales-based incentives from customer-facing employees in Personal and Business Banking, ensuring that staff are completely focused on meeting the needs of customers rather than selling products. We gave every eligible employee an increase to their guaranteed pay.



Customers can set their own Balance Alerts, receiving a text message when they are reaching self-selected balance limits, or when a large payment is received.

We brought in a new three-year flat rate for our home insurance products instead of increasing premiums after an introductory low offer.



In 2015, around 6.6 million customers had an arranged overdraft, and around 1.4 million incurred an unarranged overdraft charge. To help customers avoid unnecessary charges, during 2015 we contacted nearly a million customers who had recently incurred (or had come close to incurring) an unarranged overdraft charge, explaining the arranged overdrafts available to them.



We simplified processes for opening current accounts and ensured that fees were made clear to customers when they opened the account.



All new customers are automatically enrolled into Act Now Alerts – text messages or emails to let them know that they should fund an account to minimise or avoid charges. Customers can choose to opt out if they wish.

240k

During 2015, around 240,000 customers each month avoided charges due to the 'excess buffer' we applied to their overdrafts.

From June 2015 onwards, all new employees are trained in the Professional Banker Certificate from the Chartered Banker Institute, providing them with improved knowledge, skills and confidence for more effective conversations with customers.



Overdraft Control, a free service for current account customers designed to help avoid unarranged overdrafts, has been used by 624 customers since its launch in July 2015. The service allows customers to instruct us to reject any payment requests that would take them outside their borrowing limit.



Making banking accessible

Like many banks, we've had to make some difficult decisions about branches in the UK that are serving fewer and fewer customers. Closing a branch is a difficult decision, and one we do not take lightly. At the same time, we're working hard to find more ways for customers to bank with us and make ourselves as accessible as possible.

Reducing the social impact of branch closures

- We offer banking services in around 11,500 Post Office branches across the UK.
- Our fleet of mobile banking vans is the largest in the UK with 34 vans (10 more added in 2015) serving 629 communities each week.
- We run the largest free-to-use ATM network in the UK.
- We adhere to the Access to Banking Protocol.
- Around 200 customers have been supported by our in-house Citizens Advice team since September 2015.
- In 2015, we upgraded 322 branches and replaced 50% of our ATMs.

New ways of banking

- 34 of our busiest branches were open on bank holidays.
- We have Wi-Fi in 1,900 branches, and offer all customers access to mobile and digital technology to stay in control.
- We launched Apple Pay and Apple Watch App in 2015.
- We were the first bank to introduce TouchID, allowing customers with compatible phones to use their fingerprints to login to mobile banking.

Technology transformation

At times the resilience of our technologies and platforms has not met the standards we or our customers expect. We have invested in our technology and the transformation is focused on:

- Resilient – Giving our customers greater confidence in us by ensuring safe and resilient foundations for the bank's systems.
- Simpler – Making it easier and quicker for customers to do business with us by simplifying our business processes and systems.
- Efficient – Driving efficiencies in everything we do to reduce costs and deliver better value services to our customers.
- Innovative – Identifying new ways of doing things both inside the bank and with our external partners that will lead to improved service.

+ Case study

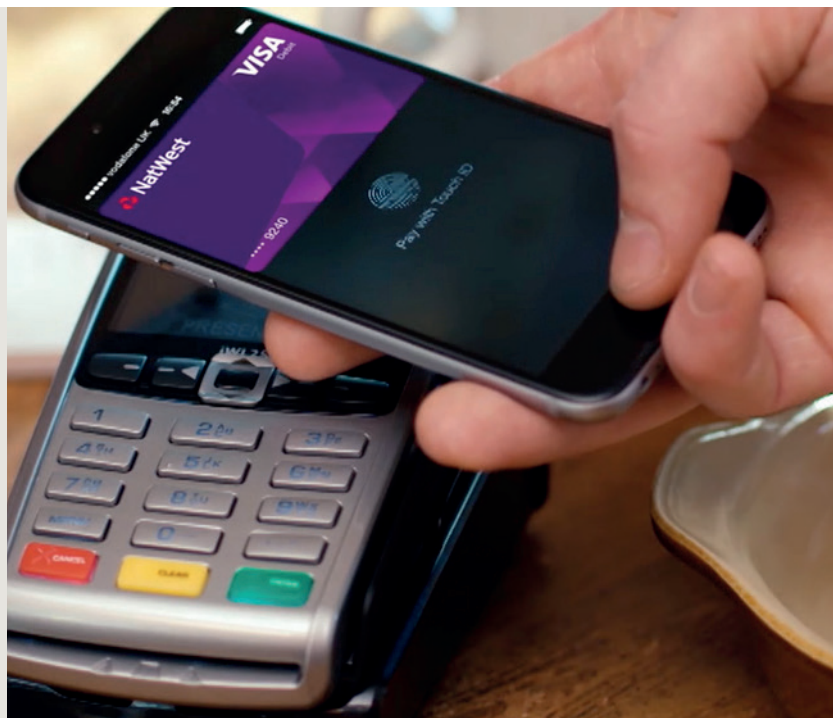
A new way to pay

With Apple Pay, customers can now shop using just their mobile phone.

NatWest was one of the first banks to make the service available to UK customers, and thanks to this partnership between the bank and Apple, customers can now use their Apple devices to pay for goods in shops, make payments in apps and pay fares on the London transport system while travelling around the city.

Not only is Apple Pay convenient, but customers earn the same rewards they would get using their NatWest, Royal Bank of Scotland or Ulster Bank debit or credit cards.

So now if you leave your wallet at home, it need not ruin your day.



A supportive bank for businesses

Together, our brands form Britain's biggest bank for businesses – and we're committed to making it the simplest and the best for customer service. Over 880,000 businesses choose to bank with us and our support for them benefits the UK's economy by helping to create jobs, liquidity and support growth.

How are we becoming simpler and faster?



In 2015 we enabled our bankers to make all but the most complex business lending decisions within five days of receiving the necessary information.



We reduced fees and unauthorised borrowing rates for all SME customers, and completely removed the early repayment charge on our small business loans.

Complaint volumes for business banking in 2015 reduced by 20% compared to 2013.

20%

We introduced a single customer platform and reorganised our account opening and customer on-boarding system.



We've made good progress on our Simplifying Customer Life programme, implementing 675 improvements to date.

50%

50% of Relationship Managers and Credit Managers are now professionally qualified (with a target of 90% by 2017).

Our bespoke Lending Skills training programme has been launched to over 2,600 staff, and in 2015 we ran a series of customer-focused events on topics including fraud and economics.



Supported over 105,000 start up businesses to open their first account.



Lending responsibly

RBS currently lends almost £30.5 billion to SMEs across England, Wales and Scotland and this reflects the amount of borrowing outstanding on customers' accounts¹.

Over 159,000 loan applications were received from SMEs in 2015, and around 88% were approved. All start-ups with a NatWest, Royal Bank of Scotland or Ulster Bank account receive free transactional banking.

We continue to make good progress on implementing the recommendations arising from the Independent SME Lending Review undertaken by Sir Andrew Large in 2013. RBS made a number of commitments following the recommendations made in the Review. Those commitments have been built into our strategic plans, and embedded into day-to-day management. Many of our commitments were met in 2015, and a small number are still being monitored.

Commitment: RBS will continue to invest in building the capability of its people with at least 90% of Relationship Managers and Credit Managers professionally qualified.

Outcome: We have met our 2015 target, with 50% of Relationship Managers and Credit Managers now professionally qualified. We aim to fulfil this commitment by the end of 2016.

Commitment: The bank will begin work to enable bankers to make all but the most complex lending decisions in just five days of receipt of all necessary information.

Outcome: In almost all cases, lending decisions are made and communicated to the customer in five days or less.

Commitment: SME complaints are to be reduced by 50 percent.

Outcome: Complaint volumes in 2015 reduced by 20% compared to 2013. We expect them to decline further in 2016, as we continue to simplify our processes and empower our staff to make more decisions at the first point of contact with our customers. We aim to fulfil this commitment by the end of 2016.

Notes

¹ This is based on Q3 2015 and represents a snapshot of RBS SME lending balances in 120 postcode areas across Great Britain and over 9,000 postcode sectors at the end of September 2015.



A view from our Chief Economist

In the Stanford Marshmallow Experiment, psychologists gave children a choice between a marshmallow now or two marshmallows in 15 minutes. Children who waited tended to do better at school and in later life. The UK needs to pass its own marshmallow test if we are to capitalise on the opportunity to improve our economic performance.

Britain is a rich and successful country. Income averages £28,000 per year, well ahead of the global figure of £7,000. In a league table of the world's economies, we sit near the top, nestling between France and Germany.

Yet the typical person in the top performing countries – Australia, Netherlands, Norway, Switzerland and the United States – is £10,000 a year better-off than the average Briton. Closing that gap is a prize worth winning. Not only would it mean more money in people's pockets and an improved material standard of living, it would provide more resources for public services like health and education.

When economists try to figure out why gaps like this arise, they point to three possible causes. Perhaps fewer people in Britain work than in the best

performers? That's not the case as the UK's employment rate is slightly higher than among the "Top Five". Perhaps they put in more hours than us? There's a grain of truth to that but only a grain: we work only three per cent fewer hours than people in the top performers. Almost all of the gap exists because productivity in the UK is almost 25 per cent lower than in the "Top Five". It takes us until Friday at 5pm to earn what they manage by Thursday lunchtime.

Productivity depends on the right people applying the right tools in the right way. That means investing: in people – human capital – and innovation and ideas – intangible assets. The principal characteristic of investment is giving up consumption now – leaving that marshmallow on the table – to create better assets that will deliver higher incomes – two marshmallows – tomorrow. We invest less than the "Top Five" and have done so for decades.

Banks like RBS have an important role to play in supporting our customers when they invest in their businesses. That is most obvious in the buildings, equipment and vehicles they buy when we lend them money. And we have adapted as the economy has evolved, for example, by

helping customers to invest in intangible assets through Lombard's Software Licensing Solution. We have the resources to continue supporting that investment and more.

It is not just through funding investment, however, that RBS promotes productivity growth. Productivity tends to grow faster when the level of competition in a market is strong. If firms face the reality or the prospect of competition they will strain to eke out the improvements that keep them ahead of their rivals. Competition is strongest where there is a stream of new entrants coming into a market. So measures that encourage people to start businesses that go on to thrive will actively contribute to productivity growth. Our network of enterprise hubs, developed with Entrepreneurial Spark will do just that.

We know that the gap between the "Top Five" and the UK didn't emerge overnight so nor will it be eroded quickly. Achieving that goal will take a long-term commitment to doing the right things. We will play our role in that.

Stephen Boyle
Chief Economist

Supporting customers in vulnerable situations

We know many of our customers will find themselves financially vulnerable at some point in their lives, whether that's because of a significant event, loss of income, illness or other life challenges.



Working with partners to support customers with disabilities and health issues

- Our Customers in Vulnerable Situations programme runs across RBS and helps staff to identify and support vulnerable customers. We have created centres of excellence in partnership with external organisations (such as RNIB and The

Alzheimer's Society) to give support and guidance where it is needed.

- We have also reviewed our products and services against different types of vulnerability, and made changes to ensure they are accessible.

For example, we developed a dementia strategy in partnership with The Alzheimer's Society, rolling out training on dementia to frontline staff at NatWest, Royal Bank of Scotland and Ulster Bank.

Dealing with financial difficulties

RBS employs 1,400 specialist staff to support customers who are experiencing financial difficulty. In 2015, they worked with external partners to help over 900,000 customers to find solutions tailored to their needs.

Our specialist debt management teams help customers in financial difficulty to access support before they fall into arrears.

In 2015, the team:

- Sent nearly 70,000 letters and had 56,000 conversations with customers, providing guidance on budgeting and signposting free debt advice agencies.
- Provided more than 14,000 customers with 'breathing space' – extra time for them to find support and to put in place a repayment arrangement.
- Agreed mortgage repayment

arrangements with over 30,000 customers, enabling them to get back on their feet.

- In November 2015, we launched the Foundation account, an improved version of our Basic bank account. It is designed for customers who would generally be declined a bank account. Customers of the new account cannot go overdrawn or pay any penalty fees.

Working with the independent money advice sector

Staff in our debt management teams can transfer a customer directly to one of our new Specialised Support Teams across the business. These teams are trained by charities including the Money Advice Trust, StepChange and the Samaritans to increase their knowledge of the independent support available. Business

customers in financial difficulty are now transferred directly to the Business Debt Line, run by StepChange, for advice.

In September 2015, we launched a pilot at one of our debt management sites, in which Citizens Advice advisors are based with the team to provide instant,

independent advice to customers in financial difficulty. By the end of 2015, they had supported over 200 customers, and the pilot will be continued in 2016.

+ Case study



Supporting excluded customers

At some point in their lives, many people will find themselves at risk of financial exclusion: being unable to access the basic financial services they need for day-to-day living.

One risk is that people can end up borrowing from payday loan companies or doorstep lenders, which pushes

them even further into difficulty as they struggle to pay back high interest charges.

But there is an alternative. Community Development Finance Institutions are registered charities, providing small loans at low interest rates to individuals and businesses. Lancashire Community

Finance is one such institution. It's not only a Royal Bank of Scotland customer, but through our stand alone charity RBS Social & Community Capital, we've given them a £500,000 loan to help them provide secure, low-interest loans and finance in the community.

+ Case study



Helping Syrian refugees

When the Government announced in 2015 that up to 20,000 refugees would be able to come to the UK under the Syrian Vulnerable Persons Relocation Scheme, we wanted to play our part.

Refugees are entitled to work and to claim benefits, which means they need access to bank accounts. But simply opening an account can be a huge challenge to a displaced person, who may not have basic identification such as a passport.

Our branches worked with local authorities where migrants arrived and we worked with the Scottish Government and the Convention of Scottish Local Authorities to help make sure newly arrived refugees are able to access the documents they need to help them open an account. We updated our staff guidance in time for the first 120 refugees to arrive in Scotland in November 2015.

Helping people buy their homes

One of the most significant roles we can play in our customers' lives is in helping them to buy a home. This can mean security, stability and most importantly a roof over their heads. But taking on a mortgage is a big commitment and things don't always go to plan, so we're also ready to help support customers if they get into difficulty.



Mortgage lending

In 2015, we provided around 156,000 new mortgages, equating to total gross lending of £23 billion.

Around 435,000 customers used our online mortgage toolkit for an initial indication of how we could help them with their mortgage.

This year we provided around 40,000 first-time buyer mortgages, equating to total gross lending of around £5.5 billion. Our exclusive discounted product range for

first-time buyers offers mortgages at 80%, 85% and 90% loan to value.

We participate in the UK Government's Help to Buy Mortgage Guarantee and Help to Buy Shared Equity schemes. In 2015, we received around 16,000 applications for a Help to Buy mortgage, totalling £2.4 billion.

The Financial Conduct Authority (FCA) estimates that, by 2020, 6 million interest-only mortgages will be due for repayment – and that up to 10% have no repayment strategy.

We are improving the level of engagement and support we provide to interest-only mortgage customers, help them understand their options for repaying their mortgage. We have also placed additional restrictions on new interest-only mortgages.

Repossessions

Home repossession is always a last resort for RBS. In 2008, we committed never to initiate repossession actions for a full six months after a customer falls into arrears. We only go ahead with repossession after all alternative solutions have been considered, including assisted voluntary sale.

In 2015, we repossessed 783 properties, compared with 1,399 in 2014. This reduction is because we were able to agree a sustainable arrangement with more customers, and because fewer mortgage accounts are being entered into debt management operations. The actual default rate in 2015 was 0.71%, which was below estimated outcomes at 1.23%.

Measuring customer service, trust and advocacy

RBS remains committed to achieving its target of being number one bank for customer service, trust and advocacy by 2020. In recent years, the bank has launched a number of initiatives to make it simpler, fairer and easier to do business with, and it continues to deliver on the commitments that it made to its customers in 2014.

We use independent surveys to measure our customers' experience and track our progress against our goal in each of our markets.

Net Promoter Score (NPS)

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. NPS is established by subtracting the proportion of detractors from the proportion of promoters.

The table below lists all of the businesses for which we have a NPS for Q4 2015. Year-on-year, NatWest Business Banking, Royal Bank of Scotland Business Banking and Ulster Bank Personal Banking (Northern Ireland) have seen significant improvements in NPS.

		Q4 2014	Q3 2015	Q4 2015	Year end 2015 target
Personal Banking	NatWest (England & Wales) ⁽¹⁾	6	8	9	9
	Royal Bank of Scotland (Scotland) ⁽¹⁾	-13	-9	-9	-10
	Ulster Bank (Northern Ireland) ⁽²⁾	-24	-9	-9	-21
	Ulster Bank (Republic of Ireland) ⁽²⁾	-18	-15	-14	-15
Business Banking	NatWest (England & Wales) ⁽³⁾	-11	6	9	-7
	Royal Bank of Scotland (Scotland) ⁽³⁾	-23	-12	-7	-21
Ulster Bank Corporate	Ulster Bank (Northern Ireland) ⁽⁴⁾	-44	n/a	-45	-34
	Ulster Bank (Republic of Ireland) ⁽⁴⁾	-17	n/a	-21	-15
Commercial Banking⁽⁶⁾		12	9	9	15

Customer trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat). Customer trust in RBS is at its highest in two years and NatWest has also improved.

		Q4 2014	Q3 2015	Q4 2015	Year end 2015 target
Customer trust ⁽⁶⁾	NatWest (England & Wales)	41%	44%	48%	46%
	Royal Bank of Scotland (Scotland)	2%	11%	14%	11%

Notes:

(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest (England & Wales) (3509) Royal Bank of Scotland (Scotland) (623). 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. Latest base sizes: Ulster Bank NI (300) Ulster Bank Rol (302) 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".

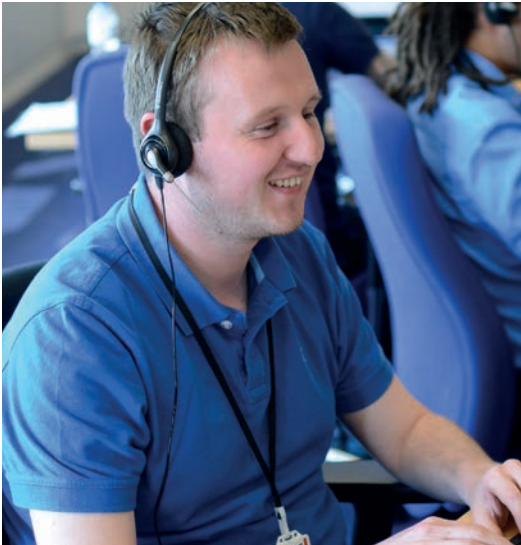
(3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. Quarterly rolling data. Latest base sizes: NatWest England & Wales (1351), RBS Scotland (432). Weighted by region and turnover to be representative of businesses in England & Wales/Scotland.

(4) Source: PWC Northern Ireland Business Banking Tracker and PWC Republic of Ireland Business Banking Tracker. Data collected annually. Latest base sizes: Ulster Bank NI (377), Ulster Bank Rol (222). Weighted by turnover to be representative of businesses in Northern Ireland and Republic of Ireland.

(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 (872). Weighted by region and turnover to be representative of businesses in Great Britain.

(6) Source: Populus. Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest, England & Wales (974), RBS Scotland (187).

Complaint handling



Resolving customer complaints quickly and effectively 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.

We have an ambition to be the least complained about large bank by 2018, with the goals of having fewer complaints and a lower Financial Ombudsman Service (FOS) overturn rate than the industry average for large banks. We are tracking well in terms of FOS overturn and our internal complaint management measures are showing that we are consistently meeting the target quality standards when resolving complaints.

We delivered around 60 specific initiatives aimed at reducing complaints in 2015 and have another 50 or so for delivery this year. However, our complaint volumes are still higher than we'd like and further reduction in volumes remains a key priority for our business.

Personal customers satisfied with the resolution of their complaint after complaining in branch	83%
Personal customers satisfied with the resolution of their complaint after complaining via Direct Bank	61%
Business customers satisfied with the resolution of their complaint after complaining	47%
Banking and credit complaints reported to FCA (all RBS brands)	260,038

Change in outcome rate at Financial Ombudsman (% of cases resolved in favour of customer):		
H1:		
NatWest 43%	Royal Bank of Scotland 56%	Industry 57%
Banking and Credit category only:		
NatWest 25%	Royal Bank of Scotland 25%	Industry 29%
H2:		
NatWest 41%	Royal Bank of Scotland 54%	Industry 53%
For Banking and Credit only:		
NatWest: 26%	Royal Bank of Scotland 26%	Industry 25%

% of complaints upheld for Royal Bank of Scotland and NatWest (% of cases resolved in favour of customer):
Overall
H1 2015: 59% upheld (Royal Bank of Scotland plc & NatWest plc FCA Reportable complaints combined)
H2 2015: 54% upheld (Royal Bank of Scotland plc & NatWest plc FCA Reportable complaints combined)
Banking & Credit Category (Everyday Banking)
H1 2015: 55% upheld (Royal Bank of Scotland plc & NatWest plc FCA Reportable complaints combined)
H2 2015: 46% upheld (Royal Bank of Scotland plc & NatWest plc FCA Reportable complaints combined)

Safeguarding our customers

Serving our customers is a privilege we take seriously. Protecting our customers' safety, money, personal information and services they rely on is a key part of the bank's ambition to be number one for customer service, trust and advocacy by 2020 – and it's a priority for our Board.

Crime and fraud trends in 2015

- 8% decrease in bank-wide fraud losses compared to 2014.
- A small increase (1%) in the number of fraud cases.
- 325,000 cases of attempted fraud were prevented in the UK (49% of all attempts) amounting to £264 million being protected.
- The frequency, scale and sophistication of disruptive cyber attacks and ransomware attacks increased significantly across the industry compared to 2014. RBS continues to raise customer and staff awareness of fraud and cyber threats, and we have implemented enhanced protection to our systems.

How we're addressing the issue



345

security awareness events

RBS hosted 345 security awareness events, attended by over 10,000 customers and 2,500 industry professionals – double the number attended in 2014.



18,000

business and commercial clients
attended seminars

We delivered 500 seminars to around 18,000 business and commercial clients, updating them on the latest fraud scams and providing advice on protection.



£2.5m

estimated in fraud prevention
by improved processes

Replaced our card authentication infrastructure to securely verify customer identities, projected to prevent £2.5 million of fraud per year.



£1.1m

reduction in fraud through
enhanced payment controls

We introduced enhanced payment controls to detect fraudulent transactions, which will prevent £1.1 million of fraud per year.



Phishing

reduced

RBS worked to authenticate emails from the bank, reducing the frequency and impact of phishing emails on our customers.



750,000

security software installations
by customers

Our free security software, Trusteer Rapport, was installed almost 750,000 times in 2015.

24/7

monitoring service
provided for staff

Our branches and buildings are protected by 24/7 monitoring, and we have a 24/7 service for staff to report any suspicious activity or if they feel threatened, either face to face, online or by telephone.

Notes:

Third Party Fraud is fraud committed against the account holder by a person (or persons) that the account holder does not know.



“Trust is earned by doing the right thing for our customers and wider society. We must demonstrate our changing culture by ensuring our behaviours and actions meet their expectations every time.”

Jon Pain, Chief Conduct & Regulatory Affairs Officer

2

We make a difference by **Doing the right thing**

Serving customers well means more to us than delivering great customer service. We want all our customers – and the customers of the future – to make better financial decisions for the long term, and achieve the best possible financial wellbeing.

conduct is exemplary, our risk management is robust, and our commitment to the environment is a blueprint for others to follow.

We're determined to do the right thing by our customers, our communities and the planet: that's how we'll become number one for customer service, trust and advocacy.

To support that, we need to run our bank efficiently and ethically, making sure our

Our products and services focus on our customers' financial wellbeing



MoneySense – one of the longest-running, most innovative financial education programme for 5-18 year olds celebrated its 21st birthday



The RBS Sustainable Procurement Code sets out the sustainability requirements that suppliers must meet to work with us



We help colleagues to Speak Up against wrongdoing



We are one of the largest UK taxpayers and contributed £1.36bn to the UK Government in 2015



We work with our customers to proactively manage reputational and environmental, social and ethical risks



Our Code provides guidance on expected behaviour and lays out the standards of conduct that support our values



The YES check is a simple tool to guide the way we think and the judgements behind our decisions and actions

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



In 2015, over 1.9 million customers visited our Life Moments pages, with a quarter relating to buying a home



The volume of waste we produce has reduced by 13% since 2014



Paper usage has reduced by 23% since 2014



Water consumption is 4% lower than in 2014



Business travel carbon emissions reduced by 13% since 2014



Helping customers develop their financial capability

Why Financial Capability?

Financial capability is a person's ability to manage money well – from day to day and through significant life events – to achieve the best possible financial wellbeing. We aim to be known as the leading bank supporting financial capability throughout our customers' lives. This is a cornerstone of our sustainable banking strategy, and is a key driver for our ambition to be number one for customer service, trust and advocacy by 2020.

For RBS, supporting financial capability goes beyond delivering fair products and great service. It also means helping the customers of today and tomorrow to develop good money management skills, knowledge and behaviours, so they are empowered to make better financial decisions.

Helping prepare young people for the future



- **MoneySense** is our flagship financial education programme, which has helped millions of young people learn about money for over 21 years. It is the only financial education programme to deliver learning to 5-18 year olds, both in the classroom and at home, through our dedicated website: mymoneysense.com

The programme was re-launched in October 2015 with a new, innovative website and supporting employee volunteering programme. MoneySense uses real-life money moments – like getting your first pocket money or your first phone – to make learning about money relevant and fun.

- **NatWest, Royal Bank of Scotland First Saver and Ulster Bank UrFirst accounts** are designed to help young people learn to save.
- **Career Kickstart** – helps students grow skills and get ready for life after school. It's also a place for educators, with interactive lesson plans and up-to date news.

Products and services to help you out, not catch you out



- **Our Community Protection Initiative** in Scotland allows staff to raise concerns if they think a customer is at risk of financial harm.
- **Community Protection Advisors** liaise with outside agencies to work together to protect customers.

- **We have banned teaser rates.**
- **We offer Act Now text alerts.**



- **There is free, impartial advice on the bank website,** developed in partnership with Money Advice Service.
- **Open on Bank Holidays** – We opened 34 of our busiest branches on bank holidays in 2015.





We will work with you to help prevent financial difficulties



- **Our Debt Management team** offers pre-emptive support with direct transfers to the Business Debt Line, run by StepChange.
- **We can give up to 30 days' 'breathing space'** for customers seeking money advice.
- **We offer Basic bank accounts** to help people, who might otherwise be excluded from banking, access our services.
- **Our New Specialist Support Team**, which helps customers in vulnerable situations, has had expert training from Samaritans and Money Advice Trust.



We help you to protect your money and prevent fraud



- Fraud and scams are a UK-wide problem. **Our Secure Banking Promise is our commitment to our customers** – we'll refund any money taken out of a customer's account by a fraudster as long as they've kept their security information secret.
- **We offer free Trusteer Rapport security software** to help keep customers safe when they are banking online.
- **Our Safer Money web page** has lots of hints and tips to help customers' protect themselves against fraud.
- **We've taken action to stop known scams.** We led the industry on issues like pay day brokers fees, blocking over £1 million hidden fee payments and free trials fraud, where we spoke up quickly to help protect our customers.
- **We partner with City of London Police**, sharing technical expertise and knowledge to tackle complex financial crimes facing the UK.



- **We worked with Metropolitan Police on 'Little Book of Big Scams'** on fraud and identity theft which is available in branches. For the first time in 2015 a new version aimed at SMEs was produced.
- **We sponsored 'Stopping Scotland's Scammers' on STV**, aiming to help customers stay safe from financial fraud.

Managing conduct risks

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.

Better management of conduct risks

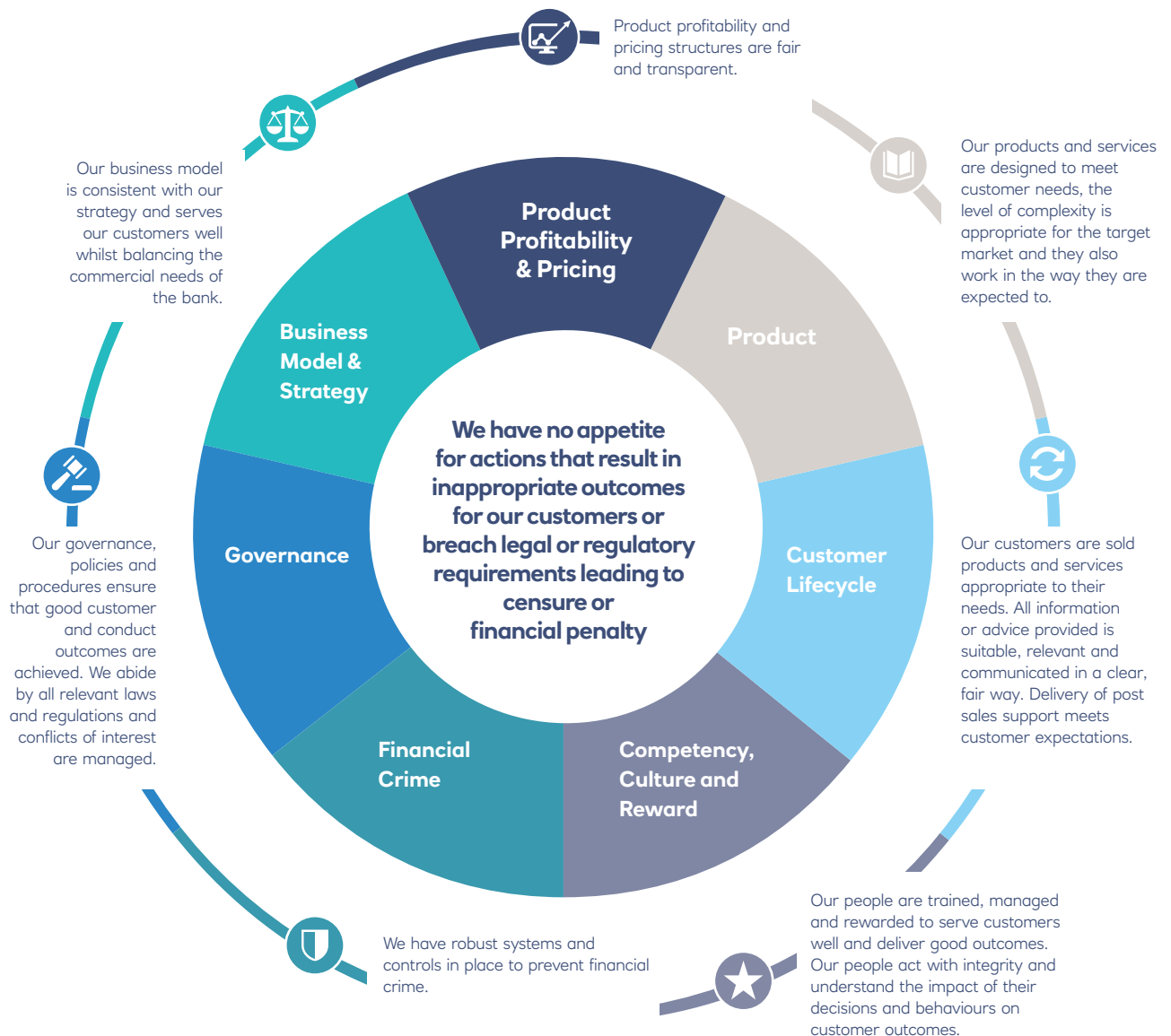
In 2015, a new Conduct Risk Appetite Framework was established and is being embedded across the bank. The framework is divided into seven pillars covering the understanding, management and reporting of risk. It is designed to ensure a consistent approach to risk

appetite – the amount and type of risk we are willing to take in order to achieve our goals – across the bank.

The conduct risk objectives provide a framework that helps RBS staff to think about the lifecycle of a product, focusing

on its suitability for customers. This has helped us to simplify our product structure, making the products we offer more consistent, transparent and easy to use.

Conduct Risk Objectives



Performance against risk appetite was assessed twice in 2015. The process evaluates the inherent business risk and the adequacy of controls, and then determines a position against risk appetite. Where performance is outside of appetite,

action plans are agreed through risk governance.

All businesses made progress through 2015. However, despite significant work in both Corporate & Institutional and Commercial & Private franchises,

these areas were outside of appetite. Improvements in their risk position are expected in 2016 provided that progress is made in areas such as customer experience, conduct measurement and control and testing frameworks.

Activities undertaken to address conduct and regulatory risk in 2015:

- Better collaboration on regulatory developments, follow-ups with regulators helping our customer-facing businesses and areas to identify and deliver any mitigating changes to strategy and business models.
- Migration to simpler, principle-based policies with accountable executives identified, and roles, accountabilities and responsibilities defined.
- Implementation programmes to prepare for ring-fencing and the UK's new individual accountability regime, as well as other future regulatory requirements.
- Enhanced bank wide training delivered by the Conduct & Regulatory Affairs Technical Training team, across Royal Bank of Scotland, NatWest and Ulster Bank. Roll-out of RBS-wide policies, processes and strategic systems to better identify and manage conflicts of interest.
- Enhancement of the RBS surveillance programme. Significant investment in anti-money laundering controls, governance and training.

Our Code and YES check

We have a number of tools that guide the way we work together.

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

It sets out what we expect of each other and what our customers and communities expect of us.

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

Our customers expect each of us to exercise good judgement and to do the right thing. We use our values to help us think through decisions and make sure we do the right thing. When in doubt, we use the YES check for guidance.

The YES check

- 1 Does what I am doing keep our customers and the bank safe and secure?
- 2 Would customers and colleagues say I am acting with integrity?
- 3 Am I happy with how this would be perceived on the outside?
- 4 Is what I am doing meeting the standards of conduct required?
- 5 In 5 years' time would others see this as a good way to work?



Conduct governance

Conduct & Regulatory Affairs provide trusted advice and challenge to the business, supporting sustainable growth, protecting customers and standing up for fairness. It is responsible for defining appropriate standards of conduct and driving adherence to them, designing the framework for managing conduct and regulatory risk, and overseeing remediation activity. The Board Risk Committee, Executive Risk Forum and Conduct & Regulatory Affairs Executive Committee receive updates on conduct risk exposures and action plans through regular reporting.

Monthly	Reporting of the most material conduct matters to: Group Board within the Risk Management Report, associated Chief Risk Officer's Cover Memo, and various Governance & Control forums, Business Risk Committees, Legal Entity Boards and Director of Financial Crime. The reporting has been enhanced in 2015 to be more focused, forward-looking and action-oriented.
Annually	Money Laundering Reporting Officer's Report is submitted to the Board and the Financial Conduct Authority (FCA). The Group Audit Committee is provided with an annual Whistleblowing Update Report.

Whistleblowing

The bank's whistleblowing service, Speak Up, enables employees to disclose information when they suspect illegal or unethical behaviour within RBS.

In 2015, employees alerted RBS to possible conflicts of interest, suspected breaches of confidentiality, and legal requirements that may have been contravened.

Each concern is considered and where required allocated to an independent investigator. Of the 142 qualifying reports, 116 have been closed after investigation: 74 were unsubstantiated; 42 were proven; and the remaining 26 events remain under investigation.

Financial crime

RBS is committed to participating in national and international efforts to counter bribery, corruption, money laundering, sanctions violations and terrorism financing. We have a strategy to be amongst the best in class, with a proactive approach to financial crime risk, whilst deterring abuse of our products and services for criminal activity.

The Financial Crime strategy includes governance, policies, procedures, internal controls and systems to ensure compliance with relevant national and international rules, regulations and directives.

In 2015:

- We published revised Anti-Bribery and Corruption (ABC), Anti-Money Laundering and Sanctions Policies and Mandatory Procedures.
- We conducted a Financial Crime Risk assessment, asking each RBS franchise and function to identify, understand and manage their financial crime risk, including bribery and corruption risks.
- 95.5% of employees completed the core Anti-Bribery and Corruption (ABC) Group Policy Learning training;
 - 95% of employees completed the core Anti-Money Laundering Group Policy Learning training; and
 - 98.9% of employees completed the core Sanctions Group Policy Learning training;
 - with the remainder are being managed to completion.

Our tax responsibilities

We are committed to the 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 contributed £1.36 billion in tax to the UK Government in 2015 compared to £1.30 billion in 2014, making us one of the largest UK taxpayers.

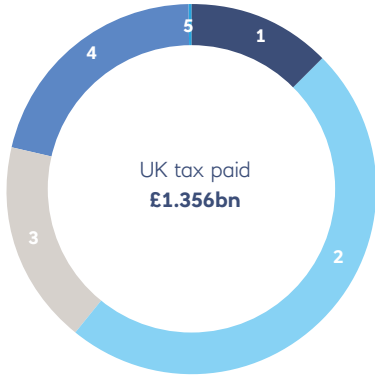
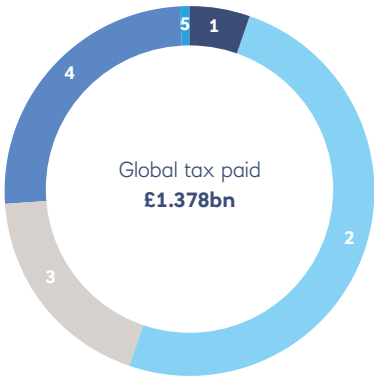
Our tax specialists ensure that we comply with the law in an accurate and timely manner, and our risk-based approach ensures a rigorous review and approval process. RBS does not undertake planning to avoid tax and has a low appetite for tax risk. Last year the group announced plans to significantly reduce its international footprint. At 31 Dec 2015 the group still has businesses in many jurisdictions but many of these operations are being run down or will be sold to third parties. After this is achieved

there will still be a limited number of businesses operating in both high and low tax environments. RBS continues to operate policies to ensure there is no artificial diversion of profits between high and low tax countries.

RBS will not take any actions which could lead to facilitation of tax evasion either on our own part or on that of our customers. However, we aim to be transparent about our past issues. For information on penalties paid by Coutts & Co. Ltd. in 2015 in relation to tax evasion by its clients, visit page 346 in the Annual Report and Account at rbs.com/annualreport.

Dealing with tax authorities

We manage tax in accordance with local laws and we are transparent in our interaction with tax authorities. In the UK, we have signed and comply with 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 as appropriate on transactions with tax implications to ensure that we meet the principles of the Code. We follow these principles in all our chosen markets.



In total, RBS paid £1.378bn in tax globally in 2015

- 1. Corporate income tax £73m
- 2. Irrecoverable VAT/sales tax £691m
- 3. Bank levies £255m
- 4. Employer payroll taxes £348m
- 5. Other taxes £11m

In total, RBS paid £1.356bn in UK tax in 2015

- 1. Corporate income tax £170m
- 2. Irrecoverable VAT/sales tax £657m
- 3. Bank levies £242m
- 4. Employer payroll taxes £284m
- 5. Other taxes £3m

Analysis of 2015 tax paid £1.378bn By geographical region

- 1. UK £1,356m
- 2. EMEA £152m
- 3. Asia-Pacific £39m
- 4. Americas net of Corporation tax refund (£169m)

Our full country-by-country information is available at rbs.co.uk/sustainability/tax (In accordance with the European Commission’s Capital Requirement Directive IV).

Our direct environmental footprint

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

In 2015, we announced a series of new environment targets covering carbon, water and waste, and committed to influence and engage our employees and suppliers. These targets have a baseline of

2014 and sit alongside pre-existing targets covering paper and business travel which have a baseline of 2011. All targets are running until 2020. At the end of the first year of our targets, we are making good

progress against our 2020 goals, primarily a result of efficiency initiatives delivered across our UK property portfolio.

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.

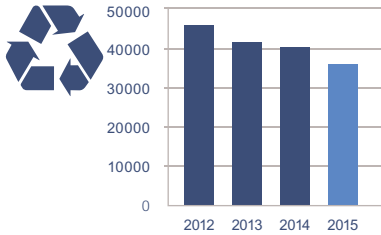
We will engage with others to reduce our impact on the environment.

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		Improved Data and Reporting	50% Paper Reduction	Employee Innovation Fund	
Supplier Footprint	RBS Innovation Gateway		Marketing/ Statements	Training	
RBS Vehicles	Business Travel	Waste Avoidance	Office Paper	Commuting	
				Communication	

Awards and recognition

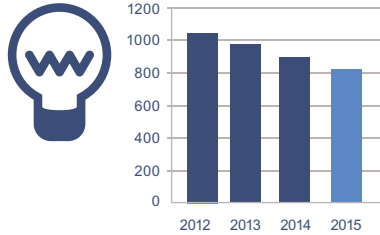
We received two awards at the London Business Energy Challenge – a special award for ‘best large portfolio’, and a silver award for overall performance across our London portfolio.

We were also highly commended at the 2015 BIFM (British Institute of Facilities Management) Awards for our impact on sustainability.



Carbon (CO₂ tonnes)

We have reduced our combined Scope 1 and 2 emissions by 11% (5% per FTE) compared to 2014, primarily as a result of efficiency initiatives delivered across our UK property portfolio.

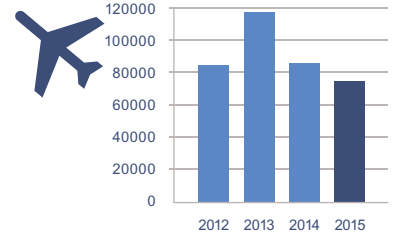


Energy (GWh)

We have reduced our total energy consumption by 8% (2% per FTE) compared to 2014.

This has largely been achieved by optimising our building controls – including the rollout of building management systems to over 200 of our largest branches – and by engaging our staff to ensure that we embed best practice behaviours.

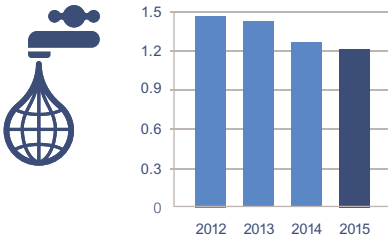
RBS is committed to providing online services that meet our customers’ changing needs. Improvements to our technology platforms over recent years have led to increased energy demand in our data centres. By focusing on energy efficiency, we have been able to slow the growth in demand.



Travel (CO₂ tonnes)

We have reduced our business travel carbon emissions by 13% (7% per FTE) compared to 2014, meaning we are well on track to meet our 50% reduction target by 2020 (baseline 2011).

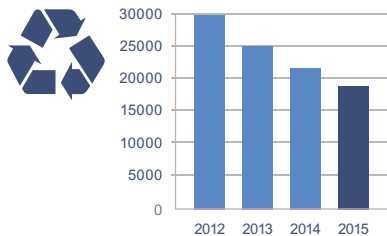
This is primarily as a result of improvements in our policies to reduce travel overall and encourage more sustainable modes of transport.



Water – (Million m³)

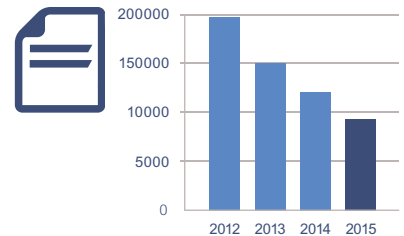
We have reduced our water consumption by 4% (up 2% per FTE) compared to 2014.

We have achieved this through a number of water reduction initiatives, including trials that have come through the RBS Innovation Gateway (see page 43) – a collaboration with 2degrees – which delivered savings in water consumption across our portfolio.



Waste – (Tonnes)

We have reduced the volume of waste we produce by 13% (7% per FTE) compared to 2014. We achieved this by working closely with suppliers to find innovative ways to decrease waste and increase recycling. Our ambitious zero to waste landfill target remains challenging and if we are to meet it, we will need to find new approaches to collaboration. We have made great strides in our waste reporting, expanding our data collection streams.



Paper (Tonnes)

We reduced the volume of paper used by 23% (18% per FTE) compared to 2014.

Since 2011 we have reduced the volume of paper we use by 61% (by 58% per FTE).

Systems and reporting

Throughout 2015, we continued to make improvements to our systems and reporting of data. We reviewed and updated our environmental re-baselining policy, ensuring that despite changes

to the size of our business, we maintain a best practice approach to reporting our performance like-for-like. The 2015 reporting year has seen the removal of Citizens Group from our footprint.

For further details on our environment reporting, visit www.rbs.com/sustainable.

Our 2015 environmental footprint

Assessment Parameters

Baseline year	2014
Consolidation approach	Operational control
Boundary summary	All entities and facilities either owned or under operational control
Emission factor data source	DEFRA (2015), US Environmental Protection Agency eGRID (2014)
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)
Materiality threshold	Materiality was set at group level at 5%
Intensity ratio	Emissions per full time employee (FTE)
Independent assurance	Limited assurance provided by Ernst & Young LLP over total reported CO ₂ e emissions (tonnes) (Scope 1*, 2** and 3***)

	2011	2012	2013	2014	2015	Change 2011 to 2015 (%)	Change 2014 to 2015 (%)
GHG emissions							
Total Scope 1 CO ₂ e emissions (tonnes)	42,665	46,087	43,598	34,844	34,736	-19%	0%
Total Scope 2 CO ₂ e emissions (tonnes)	439,607	414,710	373,133	369,640	326,956	-26%	-12%
Total Scope 1 & Scope 2 CO ₂ e emissions (tonnes)	482,272	460,797	416,731	404,484	361,692	-25%	-11%
Total Scope 1 & Scope 2 CO ₂ e emissions per FTE (tonnes)	4.9	4.7	4.2	4.1	3.9	-19%	-5%
Scope 3 CO ₂ e Emissions from business travel (tonnes)	122,391	84,718	116,515	84,808	74,110	-39%	-13%
Emissions of ozone-depleting gases							
Emissions of ozone-depleting gases (tonnes)	1,928	7,648	3,750	3,872	2,730	42%	-29%
Energy							
Total Energy Consumption (GWh)	1074	1042	972	894	821	-24%	-8%
Energy consumption per FTE (kWh)	10,854	10,527	9,873	9,127	8,945	-18%	-2%
Water							
Total water consumption (mil m3)	1.52	1.46	1.42	1.26	1.21	-20%	-4%
Water consumption per FTE (m3)	15.3	14.8	14.5	12.9	13.2	-14%	2%
Waste							
Total waste generated (tonnes)	31,575	29,867	25,125	21,762	18,928	-40%	-13%
Total waste generated per FTE (kg)	319	302	255	222	206	-35%	-7%
Total waste to landfill (tonnes)	9,066	8,633	7,348	6,871	6,370	-30%	-7%
Total tonnes of waste landfilled per FTE (kg)	92	87	75	70	69	-24%	-1%
Percentage of waste recycled	71%	71%	71%	68%	66%	-7%	-3%
Paper							
Total paper used (tonnes)	23,581	19,714	15,059	12,044	9,282	-61%	-23%
Paper used per FTE (kg)	238	199	153	123	101	-58%	-18%
Travel							
Total CO ₂ e emissions from business travel (tonnes)	122,443	84,906	11,7231	85,888	74,956	-39%	-13%
Total CO ₂ e emissions from air travel (tonnes)	103,324	64,060	90,320	58,892	50,965	-51%	-13%
Total CO ₂ e emissions from rail travel (tonnes)	4,151	2,850	1,954	1,630	1,581	-62%	-3%
Total CO ₂ e emissions from road travel (tonnes)	14,969	17,996	24,958	25,366	22,411	50%	-12%
Total CO ₂ e emissions from business travel per FTE (tonnes)	1.2	0.9	1.2	0.9	0.8	-34%	-7%

*Scope 1: Emissions from fluorinated gas loss and fuel combustion in RBS premises/vehicles.

**Scope 2: Emissions from electricity, district heating and district cooling used in RBS premises.

***Scope 3: Emissions associated with business travel (air, rail and road) by RBS employees.

Our business travel and paper targets were set from 2012 – 2020 and are therefore our only targets with a pre-existing 2011 baseline.

In December 2015, RBS paid a fine to the London Borough of Havering; this was in regard to a failure to produce documentation related to the transfer of controlled waste from a branch in Romford.

Our approach to managing Reputational and Environmental, Social & Ethical (ESE) Risks

Reputational risk can arise to the bank from a range of sources, from our customers and the countries where they operate; from the products we offer and the transactions we support; from the conduct of the bank or its employees and from our operations.

Everyone in the bank has a responsibility to manage reputational risk, including due consideration of RBS's reputation in our decision-making. We have a process for escalation of material reputational issues and subsequent debate involving all relevant stakeholders.

assessment and management of customers and issues that present a reputational risk, including establishing or strengthening franchise and bank-wide reputational risk fora. This has also allowed management oversight of cases presenting higher levels of reputational risk.

reputational and ESE risk framework and assisting the business and functions on its implementation.

Our framework helps us with management of current risks and puts us in a position to better anticipate new and emerging risks.

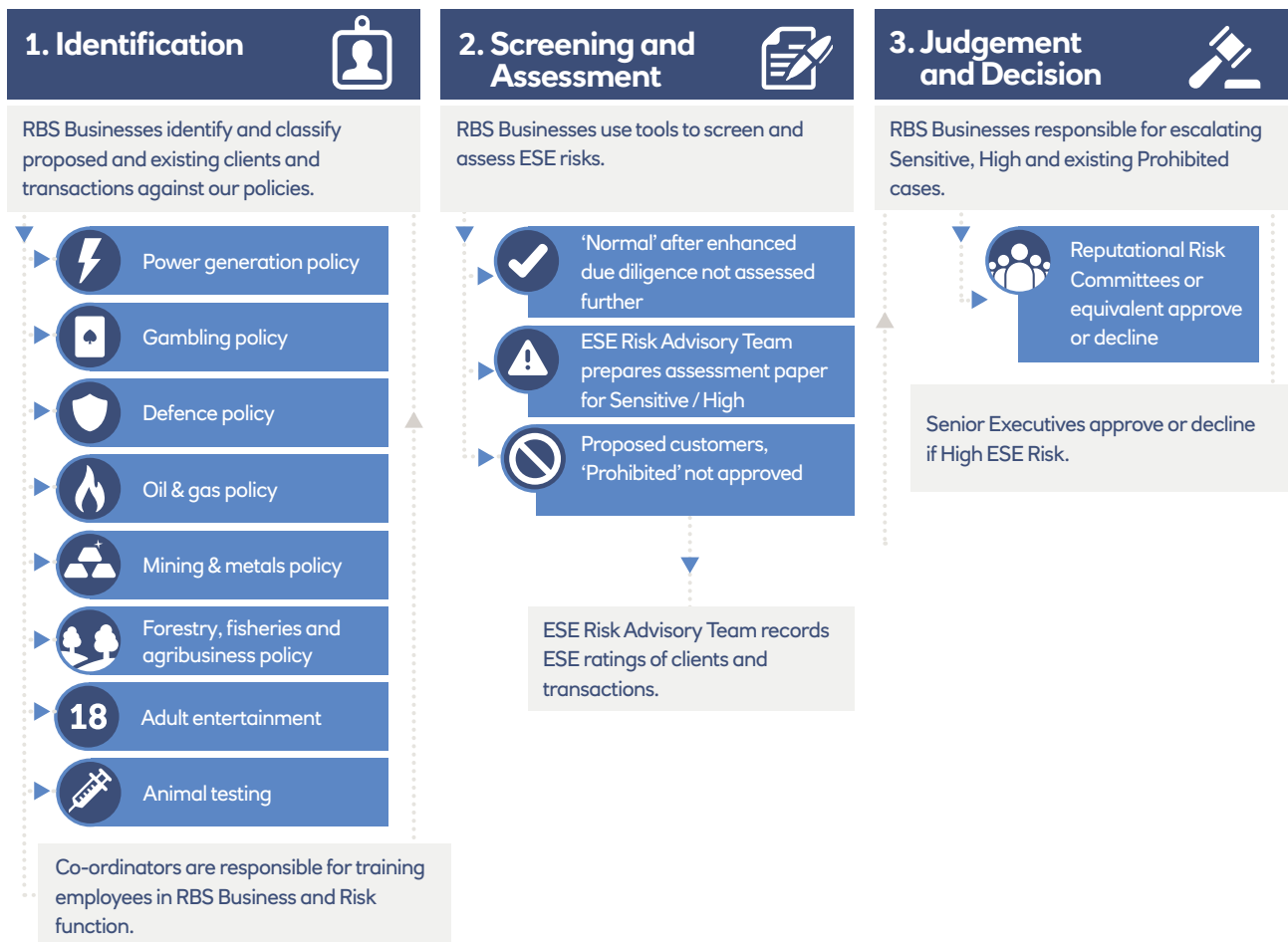
In 2015, we implemented a Reputational Risk Policy to improve the identification,

A specialist team is responsible for developing and maintaining our

Managing environmental, social and ethical risks

The activities of our customers can have ESE impacts including the potential for human rights infringements. In order to help us assess and manage these risks, we operate an ESE risk management framework that sets out the standards we expect.

How our ESE risk management framework works



In 2015, we saw a 35% reduction in ESE cases assessed – from 594 in 2014 to 385 in 2015. This reflects the continued shift of the bank’s geographical focus to the UK, with associated reduction of our exposure to potentially high risk activities within the energy and natural resources sectors.

During the year, we have enhanced our capacity to manage ESE risk across the organisation. As part of this we developed

a manual for employees that documents the end-to-end procedures for ESE risk assessments and also developed two new ESE risk appetite positions for the adult entertainment sector and for companies involved in animal testing.

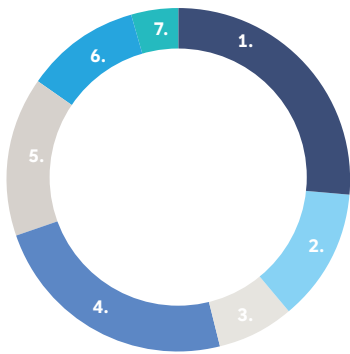
Our approach to human rights

RBS recognises its responsibility to respect and uphold human rights, and we

welcome new legislation – the Modern Slavery Act 2015 – to combat slavery and human trafficking. RBS, alongside certain companies and commercial organisations that carry out business in the UK are obliged to produce a public statement under this Act for the reporting year 2016. We are taking steps necessary to be compliant including ensuring that there is no slavery within our organisation and our supply chain.

Breakdown of customer cases assessed against ESE policies in 2015 by sector

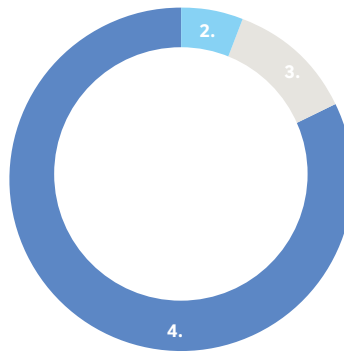
There were 203 customer ESE assessments in 2015. This number excludes project finance.



1.	Oil & Gas	27%
2.	Mining & Metals	12%
3.	Forestry	7%
4.	Defence	24%
5.	Power	15%
6.	Gambling	11%
7.	Other	4%

Breakdown of customer cases assessed against ESE policies in 2015 by classification

There were 203 customer ESE assessments in 2015. This number excludes project finance.



1.	Prohibited	0%
2.	High	6%
3.	Sensitive	12%
4.	Normal	82%

In 2015, there were also 182 Defence Trade Transactions assessed against ESE policies. The following classifications were applied: Prohibited 0%, High 2%, Sensitive 9%, Normal 89%.

Key industry initiatives

- As part of our membership of the Banking Environment Initiative (BEI) we work with other banks to bring environmental improvement in the way we do business. For details on our implementation of BEI’s Soft Commodities Compact, visit rbs.com/sustainable/ese
- We have continued to work with peers through the Thun Group and UNEP Finance Initiative to understand the human rights responsibilities of banks as defined by the UN Guiding Principles on Business and Human Rights.

The Equator Principles

- We continue to implement the Equator Principles – a voluntary set of standards adopted by financial institutions for determining, assessing and managing social and environmental risks in project-related transactions. The following tables provide a summary of project-related transactions by industry and region that were assessed against the Equator Principles EPIII in 2015. For further details on our implementation of EPIII, visit rbs.com/sustainable/EP

Notes

‘Other’ refers to nine cases submitted as ‘ESE Risk Concerns’. This applies to business customers with activities not covered by sector ESE policies.

Assessments against the adult entertainment and animal testing positions were out of scope as these appetite positions were developed during 2015.

Defence trade transactions rated as Normal by regional Trade Advisory teams have been included for the first time.

2014 & 2015 Project Finance and Project-Related Corporate Loans categorised² against Equator Principles by industry sector

SECTOR	2014				2015			
	A	B	C	Total	A	B	C	Total
Oil & Gas	0	0	0	0	0	0	0	0
Infrastructure	0	0	1	1	0	0	0	0
Power	0	11	1	12	0	4	1	5
Petrochemicals	1	0	0	1	0	0	0	0
Mining	0	0	0	0	0	0	0	0
Total	1	11	2	14³	0	4	1	5¹

¹ In the recent past, RBS has written limited project finance business in respect of assets domiciled mainly in the UK or the US. Of the 14 project related transactions financed over 2014, 5 were in the UK and 5 were in the US. The total number of project-related transactions financed in 2015 was 5, 60% (3) were UK-based.

² The Equator Principles use a scale of categorisation – A to C – of the level and scale of environmental and social risks, with Category A being projects with the most potentially significant environmental and social risks and Category C reflecting projects at the lower end of the scale of environmental and social risk.

2014 & 2015 Project Finance and Project-Related Corporate Loans categorised² against Equator Principles by region

SECTOR	2014				2015			
	A	B	C	Total	A	B	C	Total
EMEA	0	6	2	8	0	3	1	4
APAC	0	0	0	0	0	0	0	0
Americas	1	5	0	6	0	1	0	1
Total	1	11	2	14³	0	4	1	5¹

³ To avoid double counting, two cases that were included in previous 2014 Equator Principles reporting tables have been extracted, as they reached Financial Close in 2015 and hence have been included in the tables for 2015.

Sustainability in our supply chain

The RBS Sustainable Procurement Code sets out the sustainability requirements that suppliers must meet in order to do business with us. Suppliers must confirm that they will adhere to the Code, and compliance is a condition of their contract with RBS.

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

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. 63 supplier performance assessments were completed in 2015.

In 2014, we gained accreditation as a Living Wage Employer from the Living Wage Foundation, and committed to extend the Living Wage to our suppliers. Throughout 2015, we have continued to work to this end.

In 2015, we launched the Supply Chain Partnerships Programme, making the Bank's expertise in sustainability available to suppliers and SMEs. The programme delivers mentoring, development days and roundtables to drive sustainability in our supply chain.

In 2015, we began working to deliver a new supplier electronic invoicing solution, to be made available for use in early 2016.

Suppliers will be able to use a free, secure online portal to invoice RBS and enquire about all their RBS transactions, from purchase order to payment. The portal will make it easier for our suppliers to do business with us, and help cut our carbon footprint by saving paper.





“We live in a fast-paced world full of change. To be a safe and sustainable bank for our customers, we need to support them for the long term and adapt our approach to meet the challenges and opportunities that lie ahead.”

Alison Rose, CEO Commercial and Private Banking

3

We make a difference by Thinking long term

Sustainable banking means serving today's customers in a way that also helps future generations. It requires us to put customers first, make RBS a great place to work, support our communities and be mindful of environmental impacts.

As we set our sights on the future, we're determined to play a central role in making the UK a better place to live, work and do business.

We want to create value for customers, businesses and communities beyond providing traditional banking facilities.

In 2015 we put in place the building blocks of our future strategy in this area: a bank that does everything it can to support the businesses and individuals who want to make a difference and help them succeed in an ever changing world.



Banking with approx 800k small businesses



Banking with approx 70k commercial businesses



Banking with approx 10k mid-corporates



Banking with approx 2k large corporates



We have relationships with 95% of FTSE 100 companies



£85bn of lending to (non-financial) Commercial Banking customers



£5bn of lending to Business Banking customers in UK PBB

£1bn

£1bn of funding to over 500 UK customers supporting their sustainable energy ambitions

Helping people start up in business

We're determined to be the best bank for supporting businesses in the UK. We know that starting a business isn't easy, and a number of barriers can stand in the way at any stage of the business life cycle. We deliver a range of activities - from essential banking services to added-value programmes and partnerships - which provide budding entrepreneurs and businesses with the support they need to take their ideas to the next level.

Changes we're making in our business, commercial and corporate franchises are helping to create a simple and fair bank that's focused around the needs of our customers to help their businesses succeed. Going beyond our banking services, we support businesses through providing access to the skills, networks, expertise and markets that all businesses need to thrive.

From 2012 to 2015, our flagship initiative was Inspiring Enterprise. This brought together our support for organisations that work with three groups facing additional barriers to business success: young people, women and social enterprises. By the end of 2015, Inspiring Enterprise had directly contributed to the creation of 2,173 new businesses across the UK, exceeding our initial targets by assisting 114,059 young people, 28,365

women and 5,349 social enterprises to develop their ideas and take their next steps on their enterprise journey.

Following the conclusion of this initiative, we continue to deliver many of the successful activities. In 2015 we further strengthened our involvement in three key areas to help young people, start-ups and women.

+ Case study

Supporting skills and opportunities

Through our Skills and Opportunities Fund, we've committed £2.5m to fund projects in charities, social enterprises, community groups and schools and colleges across the UK and Ireland. A further £2.5m is earmarked for 2016. A New Direction's Create Jobs initiative is just one of the programmes we've funded. It aims to help young Londoners find work in the creative industries, ensuring equal access to creative jobs regardless of wealth, background or ethnicity. Through industry-led, work-based learning, training, master classes and networking, supported by basic employability skills training, Create Jobs aims to find and nurture London's next generation of creative talent. In the first year, they aim to support a cohort of 250 young people into jobs or training in the UK's vibrant creative sector.



Our flagship enterprise and entrepreneurship programmes

We offer advice to businesses at all stages of their lifecycle and we understand that businesses at different stages of maturity require different types of support. Here are a few examples:

Young people



Prince's Trust

Our long-term partnership with The Prince's Trust has focussed on inspiring the next generation of entrepreneurs since 2009. We have now renewed our partnership for a further 3 years.

2015 highlights:

- RBS donated over £1 million – part of a £3 million pledge over 3 years.
- RBS employee volunteers supported 2,500 young people to move them towards employment, training, education or enterprise.
- RBS staff volunteer to teach 'Get Hired' employability workshops.
- 250 interns and 81 additional staff raised £218,151 for the programme.

Skills & Opportunities Fund

Launched in May 2015, this Fund offers £2.5 million each year to not-for-profit organisations, schools and state-funded colleges to help people in disadvantaged communities to develop skills that will enable them to find employment or start a business.

2015 highlights:

- 1,800 organisations from across the UK & Ireland applied for funding.
- 180 organisations went through to a public vote and 114 won grants of up to £35,000 each, and is estimated to benefit more than 26,000 people and create thousands of jobs.
- One of the beneficiaries was New Direction, for their programme supporting young Londoners aged 16 to 24 to find work in the creative industries. With the grant, Create Jobs will support 250 young East Londoners to develop the skills, confidence and knowledge to access creative careers. skillsandopportunitiesfund.rbs.com

Start-up & scale-up



Powered by Royal Bank of Scotland

NatWest, Royal Bank of Scotland and Ulster Bank are backing the businesses of tomorrow, helping ambitious entrepreneurs take their start-ups to the next level.

2015 highlights:

- 88% of companies we have worked with are still trading.
- £4.1m investment in partnership with Entrepreneurial Spark
- 7 business accelerator hubs, offering free workspace, mentoring, a start-up 'bootcamp' and a free 18-month programme of advice, support and funding clinics for entrepreneurs and high growth businesses.
- 6 more hubs will open in 2016 across the UK.
- Over 1,000 entrepreneurs supported since 2014 and 660 entrepreneurs in 2015
- 1,816 jobs created in 2015.
- We have created a new Entrepreneurial Development Academy in partnership with Entrepreneurial Spark to help develop the entrepreneurial mind-set of our employees and, helping us to better understand our customers needs. 900 RBS staff are currently in training to help them understand entrepreneurs' needs.

Innovation Gateway

The Innovation Gateway gives innovators and SMEs the opportunity to trial innovative ideas for saving resources (energy, water and waste) in a live testing environment, helping them bring their products to market.

2015 highlights:

- The Innovation Gateway community now has 1,070 members, who help us crowdsource innovations to meet our environmental targets.
- 46 SMEs tested products – from nanotechnology and thermal imaging to beehives and bird boxes – on RBS premises.

Women

Women in Business

NatWest, Royal Bank of Scotland and Ulster Bank are committed to helping female entrepreneurs address the barriers preventing them starting and growing their businesses.

2015 highlights:

- 250 Women in Business Specialists who provide mentoring and financial expertise. We aim to double the number of specialists in 2016.
- Over 120 Women in Business events delivered across the UK, attended by over 7,000 female entrepreneurs.

Supporting female entrepreneurs

2015 highlights:

- Over 1,000 businesses created through our Inspiring Women in Enterprise programme (now closed) between 2012 and 2015.
- NatWest sponsors the Everywoman Awards for female entrepreneurs – 9 of the 19 finalists were NatWest customers, and 3 won awards.
- NatWest sponsored the 2015 Asian Women of Achievement Awards, recognising the most inspiring female Asian entrepreneurs across the UK.
- 10 events delivered in partnership with the National Black Women's Network to support black and ethnic minority women starting their businesses.

Supporting the transition to a low carbon economy

Finance plays a key role in the transition to a low carbon economy by helping our customers to mitigate their emissions, save energy and reduce costs. We have over twenty-five years experience in supporting the sector. In 2015, we lent over £1 billion to sustainable energy: our third consecutive year of lending growth in this space. We have also been externally recognised as the largest lender to the UK renewable energy sector (2011-2015)¹.

How we're helping customers cut costs and reduce their carbon footprint

Energy audit	Small scale projects	Large scale projects
Helping customers understand how they can reduce their energy costs or generate their own renewable energy	Providing funding for energy efficiency and renewable energy generation projects from small to large	
<p>Mentor Energy Audit</p> <p>Helping small businesses save money and reduce their carbon footprint</p> <p>An average of 42% savings on their energy bills can be achieved if all recommended measures are implemented</p>	<p>Small scale renewable energy</p> <p>Solar, onshore wind, hydro and anaerobic digestion (AD)</p> <p>Asset Finance (Lombard)</p> <p>Solar PV, biomass, LED lighting, onshore wind, anaerobic digestion, smart metering, heat pumps and alternative fuel/low-carbon vehicles including hybrid</p>	<p>Renewable Energy Funds</p> <p>Operational solar, onshore wind and offshore wind</p>
<p>Independent Energy Saving Audit</p> <p>Energy efficiency support for UK businesses</p> <p>Can help customers impacted by the UK Government's Energy Saving Opportunities Scheme (ESOS)</p>	<p>RBS Social & Community Capital</p> <p>Independent charity that runs a fund to help social enterprises who have been declined a loan from a mainstream bank</p>	<p>Structured Finance</p> <p>Solar, onshore and offshore wind, energy from waste, smart metering and anaerobic digestion (AD)</p>
<p>Green Bonds</p> <p>Helping customers to access the debt capital markets for sustainable energy purposes. RBS became a signatory to the Green Bond Principles in 2014.</p> <p>Contributed to the growth of the Green Bond market in 2015, supporting issuances for a variety of corporates and institutions.</p>		<p>Private Placement</p> <p>Helping customers to access the Private Placement market for sustainable energy purposes.</p>

+ Case study

Supporting community renewables

RBS supported its first community renewable energy scheme, through RBS Social & Community Capital. Sunart Community Hydro is a 100kW hydro-electric scheme based in the north of Scotland. Formed as a Community Benefit Society, it is anticipated to generate an income of over £100,000 per annum from the sale of renewable electricity and from Feed in Tariffs during the first 20 years of operation. The surplus after operating costs will be returned to the community.



¹According to InfraDeals, a renewables and infrastructure market data provider.

Engaging our people in sustainable energy

Despite our market leading sustainable energy products, knowledge within the bank was often limited to sector specialists. In September 2015, we held a campaign which provided a unique opportunity for customers to reduce their carbon footprint, save money and improve cashflow. The UK-wide Executive-led campaign engaged employees through events, webinars, supporting material and we also launched a dedicated customer website at rbs.co.uk/sustainableenergy.

+ Case study

RBS completes Green Investment Bank's (GIB) maiden debt transaction

RBS's Renewables Funds team were delighted to support an acquisition and bridge facility for the Green Investment Bank's Offshore Wind Fund. This high profile entity was a new client for RBS with blue chip investors targeting to raise over £1 billion of funding. GIB was attracted to the opportunity to acquire a stake in the £2 billion 576MW Gwynt-y-Mor offshore wind farm. However, having already acquired stakes in two offshore wind farms it had insufficient uncalled capital remaining to acquire the asset, and their borrowings were restricted due to its government ownership.

Although not used, as the additional investment was secured, the innovative facility from RBS gave GIB the option to temporarily bridge the purchase, and demonstrated collaboration and innovation across different specialist teams across the bank.



Our lending to the energy sector

Our total exposure to the energy sector (comprising oil & gas and power sectors) has decreased by 75% since 2010. In 2015, our financing of the energy sector accounted for around 1.4% of our total lending, down from 2.9% in 2014. Most of this lending was in the form of general corporate finance.

We also offer structured finance for specific energy generators such as renewable energy projects. This type of lending is often

provided as part of a group of banks who all lend to the same project. During 2015, lending to renewable energy projects made up over 90% (up from 67% in 2014) of our structured financing.

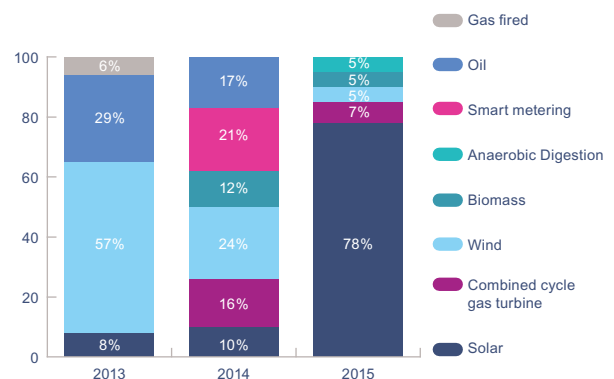
Further details on our energy lending are available at rbs.com/sustainable/energyfinancing

Changes in lending to Power, Oil & Gas and Coal mining sectors

2008 - 2015, by Credit Risk Assets (£millions)



RBS energy structured financing, 2013 - 2015 (% split by the type of energy project)



Our approach to supporting customers in carbon-intensive industries is to help them diversify and move away from the most high-impact activities. We will work with them to try and achieve this, but where the impacts are too high, we will withdraw our support. This means we will not, for example, provide funding to undiversified thermal coal mining companies. We also plan to continue reducing our exposure to thermal coal as that energy source declines in the UK energy mix.

“Our colleagues are at the heart of our ambition. We’re committed to building a motivated and inclusive workforce that is engaged and passionate about achieving our ambition.”

Elaine Arden, Chief Human Resources Officer



4

We make a difference by Working together

Our ambition is to be number one for customer service, trust and advocacy. Our colleagues are key to achieving this goal.

We need to develop and nurture a healthy and inclusive culture throughout the bank. We are determined to make the bank a great place to work, to encourage people to bring the best of themselves to work and help each other to realise our full potential.



Leadership scores of 76% (+8 points on 2014), which is 5 points ahead of the Global Financial Services norm

79%

Employee engagement scores improved to 79% (+6 points compared to 2014)



87% of employees believe that RBS supports diversity and inclusion in the workplace



Employee Wellbeing scores improved by 8% in 2015



27,000 RBS colleagues signed up for the Global Corporate Challenge, committing to take 10,000 steps a day, improve their diet and quality of sleep



Top 30% of the Stonewall Workplace Equality Index (LGBT)



Times Top 50 Employer for Women (Awards)



RBS became an official partner of Sport Relief and raised over £770k for the charity in 2015 (including Gift Aid)



We launched the Determined to lead programme in 2015, focusing on leadership behaviours and actions. 13,000 leaders globally have already completed the first part of the programme

Building a healthy culture

We are focused on building a culture that puts our customers at the heart of our decision making, enhances the wellbeing of colleagues, and demonstrates our values in the way we do business.

Improving our culture

RBS has come a long way over the last few years. We have a clear purpose, a common set of values, and a shared ambition to be the number one bank for customers. Our purpose, to serve customers well, will be achieved by living up to our four values: Serving customers, Working together, Doing the right thing and Thinking long term.

We have restructured our business to better meet our customers' needs, and defined the level of accepted risk in each of our business areas to ensure we're conducting business in the right way for our customers and shareholders.

We have introduced the YES check, giving our people a tool to guide them when making decisions or operating in the grey areas.

Four priority programmes

Culture change is a long term journey. We focus our energies and resources on four priority programmes based on the common priorities across the Bank.

Putting customers at the heart of everything we do

We have made some fundamental changes: putting an end to zero-balance credit cards and teaser rates, backing our entrepreneurs through a partnership with Entrepreneurial Spark, and promoting financial education and inclusion.

The external view

At the end of 2015, the Banking Standards Board (BSB) delivered assessments to the UK's major banks.

Here is what they had to say about cultural change at RBS:

“RBS has been taking clear and decisive steps to change its culture. This will be a long process, but the evidence seen in this assessment exercise points to some early improvements. The bank appears to have acknowledged the scale of the challenge and embarked on a genuine drive to strengthen its culture – core to which is a stated desire to serve customers well – while recognising that there is more to do.”

A focus on better management and leadership

Our leaders play a crucial role in building engagement across RBS. Our CEO, Ross McEwan, made 2015 the 'year of leadership' for RBS, and we prioritised embedding leadership behaviours. Our top 100 leaders meet at least three times a year, building connections across the bank.

Determined to lead (Dtl) launched in 2015, focusing on leadership behaviours and actions.

- The programme aims to deliver great people management, a consistent tone from our leaders, and the tools to engage our people and draw out critical challenge.
- Dtl will be the means by which leaders put our values into practice every day and catalyse a broader culture change throughout the organisation.
- 13,000 leaders globally have already completed the first part of Dtl.

Drawing on the determination of every colleague

In October 2015, we launched the next chapter of our story: 'Determined to make a difference'. This is an extensive internal campaign to capture the difference that RBS makes for customers, colleagues, communities and, ultimately, shareholders.

Making risk part of the way we think and work

A strong risk culture, as part of a healthy organisational culture, is essential to the realisation of our ambition to build a truly customer-centric bank. In 2015 RBS made significant steps in measuring and benchmarking its risk culture across all areas. This has resulted in agreement on our target risk culture and what we need to do achieve it.



Feedback from Determined to lead participants

94%

believe they will change the way they lead their team.

94%

believe that it will enable them to meet the bank's 2020 ambition.

97%

found Determined to lead relevant.

Supporting colleagues

Wellbeing

We made a positive impact on our colleagues' wellbeing in 2015, demonstrated by the 8% increase in Our View wellbeing scores compared to 2014. We focused on mental health, physical health and resilience.

Mental Health and Resilience

- In 2015, Stress remains a key issue for our people and we will continue to focus on this through our values and changing our culture. Stress-related absence increased slightly to 25.4% of all days lost to absence.
- Mental health training is being rolled out to around 720 managers, equipping them to support employees and customers.
- In 2015, resilience was a key area of focus. We introduced a Resilience Guide with a support and resources and piloted our new Building Resilience programmes.
- We extended our flexible working initiative to 12,500 more colleagues.

Let's Talk Mental Health Guide



- We launched a Let's Talk Mental Health Guide and, in support of World Mental Health day in October, launched a Mental Health toolkit of resources. This is part of the Time to Change programme, a public statement of our commitment to tackling the stigma around mental health.

Physical Health

- 27,000 RBS colleagues signed up to the Global Corporate Challenge, committing to take at least 10,000 steps per day, improve their diet and quality of sleep.

27,000 colleagues signed up to the Global Corporate Challenge



Lifematters

- We established a direct referral process from the RBS HR team to Lifematters, our employee assistance programme, to provide immediate support. There was a 6.4% increase in the number of UK & Ireland employees supported when compared to 2014, and a 4.7% increase in the number of employees accessing face-to-face counselling.

STEP OUTSIDE YOUR COMFORT ZONE

STARTS MAY 25

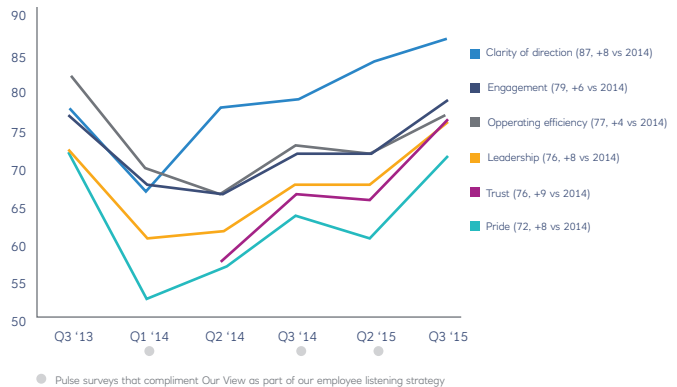
REGISTER FOR GCC AT GTWM.CO/RBS2016 OR SEARCH FOR 'GCC' ON INSITE



Employee engagement

Achieving our ambition of being number one for customer service, trust and advocacy will be achieved through every one of our colleagues. That's why having an engaged workforce is a key priority for RBS.

- In 2015, 75% of RBS employees participated in the Our View staff opinion survey, an increase of 4.5% compared to 2014.
- We scored 79% for employee engagement, an improvement of six points compared to 2014, and just three points behind the Global Financial Services (GFS) norm. We aim to be in the upper quartile of the GFS by 2020.
- There is a growing sense of pride in RBS (up 8 points to 72%).
- We know that we need to sustain these results over the long term. When we compare ourselves to industry benchmarks, we lag behind our peers in some areas, including engagement, performance and reward, and developing people.



Learning

We offer a wide range of learning which includes mandatory, role-specific and personal development training. Mandatory learning is focused on keeping our people, our customers and the bank safe. Many of our internal learning programmes

are certified and validated by external institutions. The Chartered Banker, Professional Standards Board foundation standard has been used help staff achieve professional qualifications.

In 2015, 94% of our UK staff achieved Foundation Standard. 2,000 of our Branch and Private colleagues have completed the industry-accredited Professional Banker Certificate.

Talent

In 2015, we launched a cross-bank talent framework to identify employees with the capacity to progress to more senior leadership roles, those who need a move and those who should stay in technical leadership roles. The outcomes are used as part of wider career development conversations.

Developed and launched Leading Potential - a tailored development programme focused on colleagues with high potential. 150 colleagues from functions participating in the pilot programme. Leading Potential will provide participants with a wide range of experiences that will grow their capability and help them successfully navigate their future.

We delivered a series of Career Development days (CDD) and the programme has continued into 2016.

These events were designed to engage and inspire colleagues about the opportunities available, to help them understand the potential career paths across the bank and ensure they understand the tools and support available to them. Colleagues working in the UK were invited to register for 'spotlight sessions', featuring speakers, presentations and question & answer sessions. They could also visit a range of 'business hosted stalls' representing all parts of the bank throughout the event or visit the CV & interview skills 'pods' for one-to-one advice. The events were hosted face to face (in 9 locations) as well as virtually to target colleagues who could not attend a live event. 4,000 employees pre-registered to attend the spotlight sessions, typically attending 2-4 sessions each and over 7,000 more dropped in on the day to visit the business stalls. Around 400 employees benefitted from one-to-one CV advice.



Inclusion

According to the 2015 Our View opinion survey, 87% of employees believe that RBS supports diversity and inclusion in the workplace. This is an improvement on last year and is now above the Global Financial Services norm. In addition, the engagement levels of our minority populations are improving faster than the general population across all categories within the survey. We do however recognise that we must continue to work hard on this agenda.

2015 highlights:

- We rolled out 'unconscious bias' training to more than 28,000 colleagues across the bank. The training is having a clear impact on how our people are doing their jobs differently, by being more aware of their biases and focussing on ways to mitigate these.
- 92,000 colleagues completed our annual mandatory training module on inclusion.
- We have over 15,000 active members of employee led networks across the Bank that help drive our inclusion priorities.
- We introduced shared parental leave, added surrogacy as part of our adoption and maternity policies, updated our Dignity at Work policy (in 27 countries) to include gender identity as a formal consideration.
- We introduced a 'gender identity question to our annual Our View employee opinion survey to enable colleagues to report the gender they identify with.
- Almost 1% of our workforce in the UK reports some form of gender dysphoria so we work to ensure colleagues are supported appropriately.
- We analysed our disability performance and have created plans that will support RBS become a 'disability smart' organisation by 2018.
- Our Enable employee led network has grown from a standing start in 2014 to a point where they now advise on ways to improve product design and customer service.
- We are finalising our plan to improve ethnic minority representation within senior levels of the bank'.

Gender balanced workforce

We aim to increase the proportion of senior women in each of our business areas to more than 30% by 2020, the percentage identified by experts as the tipping point that will change behaviour and culture. This target is part of our ExCo common objectives. On aggregate across RBS, we already have 32% women in our top 3 layers. This year we set an industry-leading ambition to achieve a 50/50 balance of male and female employees at all levels by 2030.

2015 highlights:

- We have, as part of our positive action approach to improving our gender balance, introduced development opportunities for women at all stages of their careers. This year, we trained four times as many women than ever before.
- The proportion of women in our talent pipeline (our top 5,000 roles) has increased from 32% to 39%.

We welcome upcoming changes in the reporting of the pay gap between male and female colleagues and we are making arrangements to report on this.



	2011		2012		2013		2014		2015	
	Male%	Female%	Male%	Female%	Male%	Female%	Male%	Female%	Male%	Female%
Clerical	34	66	33	67	33	67	33	67	32	68
Appointed	53	47	51	49	52	48	51	49	53	47
Manager	67	33	67	33	67	33	66	34	67	33
Senior Manager	74	26	73	27	74	26	73	27	73	27
Executive	82	18	81	19	80	20	80	20	80	20
Total	47	53	47	53	47	53	46	54	48	52

All numbers are reported on a headcount basis, include active and inactive employees and are global unless otherwise stated. (2009-2013 data includes active employees only, excluding those on long-term absence such as maternity leave.)

Notes

The table above illustrates the traditional organisation hierarchy by grade. Our targets track the gender balance at the top 3 levels of the organisation (circa 800 roles). We have seen the proportion of women in these levels improve to 32% as at end 2015, partly due to the decline in executive roles. Similarly, pipeline refers to the gender balance in our top 5000 roles, a combination of Executive, Senior Managerial and some managerial positions.



Supporting Early Careers

We are committed to supporting and investing in people and provide a variety of options that help people get one step ahead in the early stages of their career.

2015 highlights:

- We hired 531 employees in the early stages of their career, an increase of almost 90% compared to 2014.
- 91% of young people on the scheme would recommend our programme to others, and we were the first bank to be accredited as Investors in Young People.
- We piloted a work experience programme, Step Ahead, and supported over 1,200 young people through our employability bootcamps.
- Won the Large employer of the year at the National Apprenticeship Awards.
- Jumped from 51st to 35th position in the Times Top 100.
- We hired 255 apprentices and a further 53 started in January 2016. 43% of our apprentice intake in 2015 is female.

Hired 255 apprentices

Networks and partnerships

We continue to support a variety of employee-led networks. These networks are open to all employees and are focussed on helping RBS become an inclusive place to work.

Employee-led networks:

- Focused Women (Gender).
- Multicultural Network (Ethnicity & Religion).
- Enable (Disability).
- Families and Carers Network (Families and Carers).
- Rainbow Network (LGBT).

External partnerships:

- Business In the Community – working together to promote gender and race opportunities.
- Business Disability Forum – working together to raise disability awareness.
- Stonewall – working together to raise LGBT awareness.

- Working families - helping working parents, carers and employers find a better balance between responsibilities at home and work.

Awards and recognition

In 2015, RBS was recognised for its work on equality, diversity and inclusion by retaining:

- Our Platinum ranking from Opportunity Now (gender).
- Our Gold ranking for Race for Opportunity (ethnicity).
- A position in the Times Top 50 Employers for Women.
- A place in the top 30% of the Stonewall Workplace Equality Index (LGBT).



Performance and reward

RBS is committed to thinking long term in the way we measure and reward performance, together with linking rewards to our values, customer goals and business performance.

Performance management

In 2015, our focus was on embedding and improving performance management. To support our colleagues and foster an open, transparent culture, we developed new guidance and training explaining exactly how performance should be managed and rewarded.

Remuneration and reward

Paying employees fairly

- Being fair is grounded in paying people appropriately for their work and commitment to serving customers well. We focus on encouraging the right employee behaviours to give customers the best possible service.
- Our bonus pool has fallen from £421 million in 2014 to £373 million in 2015, a reduction of 11%. In order to ensure there is a balanced distribution, over 90% of this pool was directed to those below the most senior RBS employees.
- In late 2015, we announced a change to how we'll pay our customer facing employees based in mainland UK in the Personal and Business

Banking franchise to allow them to be completely focused on putting our customers first. We also introduced skills-based pay in our Direct Banking business in 2015.

- 2015 is the first full year that RBS has been operating as a fully accredited Living Wage employer
- No changes have been made to executive remuneration policies in 2015. However, in accordance with UK Prudential Regulation Authority requirements, further amendments will be made to the variable pay awarded to individuals identified as Senior Managers under the Prudential Regulatory Authority (PRA) definition, from 1 January 2016.

- RBS operates 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'.
- Every year, we undertake an extensive consultation with major shareholders on our remuneration approach. Further details of our approach can be found in the Directors' Remuneration Report of the Annual Report and Accounts at rbs.com/annualreport

Chief Executive Pay

The CEO doesn't receive an annual bonus instead variable pay is in long term incentives, aligning to shareholder value over the long term.

	Ross McEwan £000s
Salary	1,000
Fixed share allowance ¹	1,000
Benefits ²	88
Pension allowance	350
Bonus	n/a
Vesting of 2013 LTI award ³	1,347
Total	3,785

All staff total remuneration

- The average salary for all employees is £37,000.
- 14,200 employees earn between £50,000 and £100,000.
- 6,000 employees earn between £100,000 and £250,000.
- 1,100 employees earn total remuneration over £250,000.

Change in Chief Executive Pay compared with employees

The table below shows the percentage change in remuneration for the Chief Executive between 2014 and 2015 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 2015 change	2014 to 2015 change	2014 to 2015 change
Chief Executive ⁴	0%	0%	N/A
UK Employees ⁵	3.15%	3.71%	-8.1%

Notes

¹ Fixed share allowance will be payable broadly in arrears, currently in two instalments per year, and the shares will be released in equal tranches over a five year period.

² Amount for Ross McEwan includes standard benefit funding and relocation benefits.

³ Estimated value of LTI award. Ross McEwan was granted an LTI award in March 2013 while CEO of UK Retail and became bank Chief Executive in October 2013. His change in role over the three year vesting period has resulted in 25% of the award being based

on UK Retail measures and 75% based on RBS-wide measures.

⁴ Executive Directors are not eligible for an annual bonus. Standard benefit funding for Executive Directors remained unchanged between 2014 and 2015. 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 the relocation benefits is disclosed each year in the Directors' Remuneration Report. Ross McEwan also received a fixed allowance as part of his fixed pay.

⁵ 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.



Giving and volunteering

Our health as a bank depends on the health of the economy and our local communities. Many of our employees see helping the local community as part of their day job, and we encourage them to take part in giving and volunteering programmes wherever they can. Our recorded community investment for 2015 was £43.5 million, measured using the London Benchmarking Group standard.

Sport Relief

In June 2015, RBS became an official partner of Sport Relief, aiming to make a difference in our communities, promote wellbeing and build employee engagement.

In September, we held our first bank-wide fundraising event: a cycle challenge in which colleagues cycled from London to Edinburgh. Almost 750 riders took part, and hundreds more colleagues participated in static bike challenges across the UK. This event alone raised £644,739 (including Gift Aid) of the overall £770k raised for Sport Relief in 2015.

The Sport Relief cycle challenge also helped our employees to feel more engaged at work:

- 99% rated the challenge as a positive experience
- 93% reported an increased sense of pride in working for RBS
- 94% said they had an improved perception of the bank's support for communities

Employee giving

We know that many colleagues want to support good causes of their own choosing. We seek to make this easy, providing support and matching to increase the impact of their efforts.

In 2015:

We agreed a minimum three days of volunteering leave for every member of staff to help their local community.

Recorded volunteering was 45,437 hours.

- We continued our community cashback programme, in which the bank matches funds raised by employees.
- We continued to promote payroll giving to our employees as an effective way to support their favourite charities. 10,000 employees in the UK and Ireland donated £2.7 million. We retained our Platinum Quality Mark for the scheme.



Responding in a crisis

We are committed to supporting major appeals, including responding compassionately in times of emergency and crisis.

In December we supported our customers, colleagues and communities in India and northern Britain when they were hit by floods. Our response ranged from offering payment holidays and emergency overdrafts, to providing bank buildings as meeting points, bailing water out of local

businesses, and collections of food, toys and clothing for local appeals through our branch network. The bank and our employees also donated to the emergency appeals. In Britain, the bank gave a total of £35,000 across six Community Foundations in the north of England and Scotland, and employees donated a further £7,200 to the Cumbria Flood Appeal. In India, corporate and employee donations totalling £105,500 were made to Oxfam India's Tamil Nadu floods appeal.



Awards and recognition

Ulster Bank won Chambers Ireland Outstanding Achievement in Corporate Social Responsibility award 2015.

Ulster Bank won the Excellence in Community Volunteering award at the Chambers Ireland Corporate Social Responsibility Awards for the project MoneySense for Schools.

RBS was a finalist at the Third Sector Business Charity Awards in the Single Project category for their partnership with Charities Aid Foundation for #GivingTuesday.

RBS was awarded the Platinum Quality Mark – the highest award – from The Institute of Fundraising and the Association of Payroll Giving Organisations for its payroll giving scheme.



Employment practices

Employee representation

We estimate that approximately three-quarters of our employees bank-wide are covered by a collective bargaining agreement and/or local employee representative arrangements.

We aim to engage our employee representatives at the right time, in the appropriate way and on a 'no-surprises' basis. Generally speaking, we provide as much notice as possible on changes we are making.

In 2015:

- We consulted with employee representatives in a number of countries about proposals to reduce our international presence.
- We reached an agreement with our European Employee Council on the people principles that would guide our approach as we reduced our presence in Europe.
- We supported 171 change projects in our global operations, and carried out business-as-usual meetings with trade unions and works councils.

Supporting people through restructuring

During 2015, we continued to reduce the size and complexity of the bank:

- We completed the stock sell-down of the RBS shareholding in Citizens Group in the US.
- We sold further businesses and exited a number of countries.
- We continue to manage the sale process for Williams & Glyn.
- There were 4,642 redundancies in 2015, equivalent to 4,401 FTE. More than 1,730 people used our Redeployment & Outplacement service in the UK & Ireland, giving it an average feedback score of 4.8 out of 5.

Reporting at RBS

In 2015 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 a more sustainable bank. Our approach to managing sustainability focuses on identifying the issues that matter to our stakeholders. This Report provides a review of our activities in 2015 and details our priorities taking us towards 2020.

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 Ernst & Young 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

We adhere to the AA1000 AccountAbility Principles Standard (AA1000 APS), 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 page 11 and rbs.com/sustainable/ourapproach

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 responsive to the issues affecting our business.

Materiality

Determining what issues are important to RBS and its 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 13 and a more detailed description at rbs.com/sustainable/materiality

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 capability and supporting customers are well established and embedded into our business practices.

Our response to some 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 reaffirm our commitment to the United Nations Global Compact (UNGC) since joining in 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 10.

Forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group's (RBS) restructuring which includes the separation and divestment of Williams & Glyn, the proposed restructuring of RBS's CIB business, the implementation of the UK ring-fencing regime, the implementation of a major development program to update RBS's IT infrastructure and the continuation of its balance sheet reduction programme, as well as capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios and requirements liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAE), Pillar 2A, return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, AT1 and other funding plans, funding and credit risk profile; litigation, government and regulatory investigations RBS's future financial performance; the level and extent of future impairments and write-downs; including with respect to Goodwill; future pension contributions and RBS's exposure to political risks, operational risk, conduct risk and credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in the Annual Report and Accounts 2015. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is subject to (including active civil and criminal investigations) and any resulting material adverse effect on RBS of unfavourable outcomes (including where resolved by settlement); the uncertainty relating to the referendum on the UK's membership of the European Union and the consequences of it; the separation and divestment of Williams & Glyn; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring plan, particularly the proposed restructuring of its CIB business and the balance sheet reduction programme as well as the significant restructuring required to be undertaken by RBS in order to implement the UK ring fencing regime; the significant changes, complexity and costs relating to the implementation of its restructuring, the separation and divestment of Williams & Glyn and the UK ring-fencing regime; whether RBS will emerge from its restructuring and the UK ring-fencing regime as a viable, competitive, customer focused and profitable bank;

RBS's ability to achieve its capital and leverage requirements or targets which will depend on RBS's success in reducing the size of its business and future profitability; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK the impact of global economic and financial market conditions (including low or negative interest rates) as well as increasing competition. In addition, there are other risks and uncertainties. These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; the risk of failure to realise the benefit of RBS's substantial investments in its information technology and systems, the risk of failing to prevent a failure of RBS's IT systems or to protect itself and its customers against cyber threats, reputational risks; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position; increased competitive pressures resulting from new incumbents and disruptive technologies; RBS's ability to attract and retain qualified personnel; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.