

Annual Review and  
Summary Financial Statement  
**2011**

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The RBS Group (RBS) is an international banking and financial services company. Headquartered in Edinburgh, the Group operates in the United Kingdom, Europe, the Middle East, the Americas and Asia, serving over 30 million customers worldwide.

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

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# Highlights

RBS has completed the first three years of its recovery plan. Over that period, the Group's results across our key goals – customers, risk and value – have shown good progress against the plan targets we put together in 2009. But there is plenty more we still have to do.

We are rebuilding RBS for our shareholders but we know we have wider responsibilities to the communities in which our customers and our people live and work, and to the wider world. That is why we take sustainability seriously.

## 2011 Financial Results

Core operating profit <sup>(1)</sup>	<b>£6,095m</b>
Group operating profit <sup>(1)</sup>	<b>£1,892m</b>
Loss before tax	<b>(£766m)</b>
Core return on equity <sup>(2)</sup>	<b>10.5%</b>
Core cost:income ratio <sup>(3)</sup>	<b>60%</b>
Core Tier 1 ratio	<b>10.6%</b>
Loan:deposit ratio <sup>(4)</sup>	<b>108%</b>
Short-term wholesale funding <sup>(5)</sup>	<b>£102bn</b>
Liquidity portfolio <sup>(6)</sup>	<b>£155bn</b>
Group net interest margin	<b>1.92%</b>

(1) Operating profit before tax, movements in the fair value of own debt, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment and related interest rate hedge adjustments, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest.

(2) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (c.75% of Group tangible equity based on risk-weighted assets at 31 December 2011).

(3) Cost:income ratio is based on total income excluding movements in the fair value of own debt, Asset Protection Scheme, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest, and operating expenses excluding Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, bonus tax, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest and after netting insurance claims against income.

(4) Net of provisions and including disposal groups.

(5) Excluding derivatives collateral.

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

## For RBS, sustainability is built on five pillars

### Fair banking

We helped 18,000 first-time buyers into new homes in the UK

We served more than 400 communities using our 19 mobile branches

### Supporting enterprise

We provided more than 40p in every £1 lent to UK small and medium-sized businesses

We opened nearly 120,000 new start-up accounts across the UK

### Employee engagement

We gave over 50,000 employees more than 235,000 hours off work to volunteer in their community

We recruited over 8,000 16-24 year olds across the Group

### Safety and security

Our reportable injury rate has fallen by 43%

Our free online protection software has been downloaded over 6.4 million times

### Citizenship and environmental sustainability

We invested £72 million in the communities in which we operate

We lent more than two-thirds of our energy project finance in the UK to renewables

## Essential reading

# Our Core businesses

RBS is rooted in the UK but we serve personal, business and institutional customers around the world. Our businesses are strong players in the markets in which we compete. As a Group, the businesses are stronger together than apart, to the benefit of customers and shareholders.

Our priorities are:


- to serve customers well;
- to restore RBS to a sustainable and conservative risk profile; and
- to rebuild sustainable value for all shareholders.

We are building the new RBS on our Core businesses. They have competitive strengths in their markets. We are managing them so that their performances will improve and they can meet external challenges that arise. We separately manage the businesses that we are winding-down or plan to sell in our Non-Core Division.

## UK Retail

We offer a comprehensive range of banking products and related financial services to the personal market. We serve customers through the RBS and NatWest networks of branches and ATMs, and also through telephone and internet channels.


	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	18	53	110
2011	26	49	106

 see page 20 for further information

## UK Corporate

We are a leading provider of banking, finance and risk management services to the corporate and SME (small and medium-sized enterprise) sector in the United Kingdom. We offer a full range of banking products and related financial services.


	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	12	43	110
2011	12	43	106

 see page 21 for further information

## Wealth

We provide private banking and investment services in the UK through Coutts & Co and Adam & Company; offshore banking through RBS International, NatWest Offshore and Isle of Man Bank; and international private banking through Coutts & Co Ltd.


	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	19	70	43
2011	19	71	44

 see page 22 for further information

## Ulster Bank

We are a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. We provide a comprehensive range of financial services through our Retail Markets and Corporate Markets divisions.


	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	(21)	59	152
2011	(26)	60	143

 see page 24 for further information

## US Retail & Commercial

We provide financial services primarily in the North Eastern United States through the Citizens Bank, Charter One and RBS Citizens brands. We are engaged in retail and corporate banking activities.


	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	4	72	81
2011	6	72	85

 see page 25 for further information

## RBS Insurance

We sell and underwrite retail and small business insurance over the telephone and internet, as well as through brokers and partnerships. Our brands include Direct Line, Churchill, Privilege, Green Flag and NIG.

	Return on equity (%)	Cost:income ratio (%)
2010	(7)	151
2011	10	65

 see page 27 for further information



## Global Banking & Markets

We provide financing, risk management and advisory services to major corporations, financial institutions and public sector clients in 38 countries.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	17	56	193
2011	8	73	200

see page 26 for further information

## Global Transaction Services

We offer global payments, cash and liquidity management, trade finance, and commercial card products and services.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	43	57	21
2011	30	60	22

see page 23 for further information

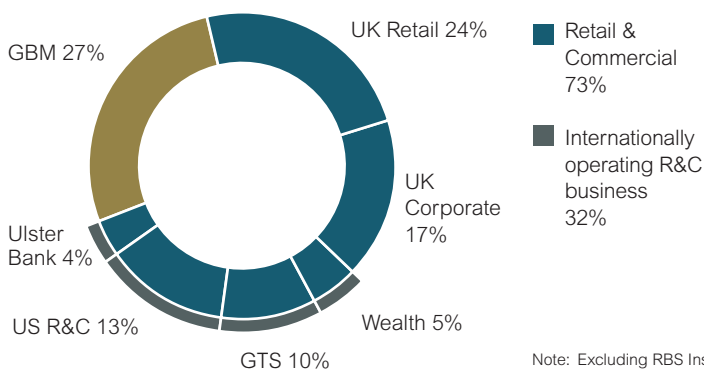
## Markets and International Banking

In January 2012, we announced the restructuring of our wholesale businesses into 'Markets' and 'International Banking'.

Our **Markets** business serves the corporate and institutional clients of all Group businesses.

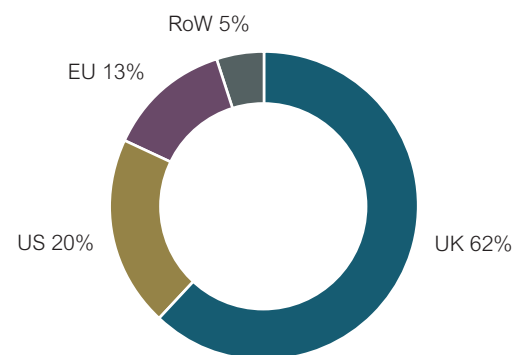
Our **International Banking** division includes what had been the Global Banking & Markets corporate banking business and the international elements of what had been Global Transaction Services.

## Core income by division – 2011



Note: Excluding RBS Insurance, unallocated central items and one-off and other items.

## Total income by region – 2011



Note: Excluding one-off and other items.

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## Essential reading

# Our approach to business

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We have three over-riding goals:

- to serve customers well;
- to restore RBS to a sustainable and conservative risk profile; and
- to rebuild sustainable value for all shareholders.

There are important inter-dependencies between these goals. We cannot serve customers well if the Group is not safer and more resilient. We cannot be sustainable without rebuilding shareholder value. And we cannot rebuild shareholder value if we do not serve customers well. So while each of these goals is important on its own, we will succeed only if we consistently achieve them together.

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### Serving customers well

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Serving our customers well is the cornerstone of our strategy. We have embedded it in our operational objectives, our Customer Charters and in our 'How we do business' framework, which we describe on these pages. Because serving customers well matters to us, we measure how we are doing. We are encouraged that in most of our core franchises we made gains on a variety of measures in 2011. But we are not complacent. Our customers' needs change over time and good service today does not guarantee good service tomorrow. We face strong competitors in all of our markets. So, we work hard to improve the service we give our customers.

### Restoring RBS to a sustainable and conservative risk profile

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Restoring RBS to a sustainable and conservative risk profile is crucial. In 2011, we made our capital and liquidity positions stronger.

In addition:

- we continued to improve how we manage risk;
- the Group Board agreed the Group's risk appetites;
- we catalogued and measured the risks we face and assessed how they might relate to each other; and
- we enhanced our risk control frameworks.

### Rebuilding sustainable value for all shareholders

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It will take some time to rebuild sustainable value for all shareholders. Our Core businesses provide a strong foundation for the Group, generating a 10.5% return on equity in 2011. We are confident that our core businesses will generate strong value in their own right and as a cohesive whole. We outline how they are each performing against their own targets, and together to deliver our Strategic Plan, on pages 13 to 15.

### How we do business

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We deliver products and services to millions of customers around the world. So it is important that we are consistent in the way we do business – from how we manage our risks, to how we treat our customers and our employees. To achieve this, we have made six statements about how we aspire to do business. We do not always match our aspirations but these are the standards we set ourselves. These relate to: our customers, our people, our reputation, the security of our environment, the risks we take, and our finances.



## Essential reading

# Our customers

RBS Group serves over 30 million customers in over 30 countries. We serve a variety of customers, ranging from individuals to large corporates, and small businesses to governments. We offer them a range of products to meet their differing needs.

Although individual products differ from each other, much of what we do is to provide one of four fundamental banking services. Whether large or small, we help our customers to:

- manage their cash;
- obtain funds so that they can spend or invest today rather than wait until tomorrow;
- manage risks; and
- make better financial decisions.

### Managing cash

Cash management gives customers a convenient way to store, access and get a return on their money. For personal and small business customers, this means products like current and savings accounts, whilst larger organisations might want access to more

sophisticated and complex products through financial markets.

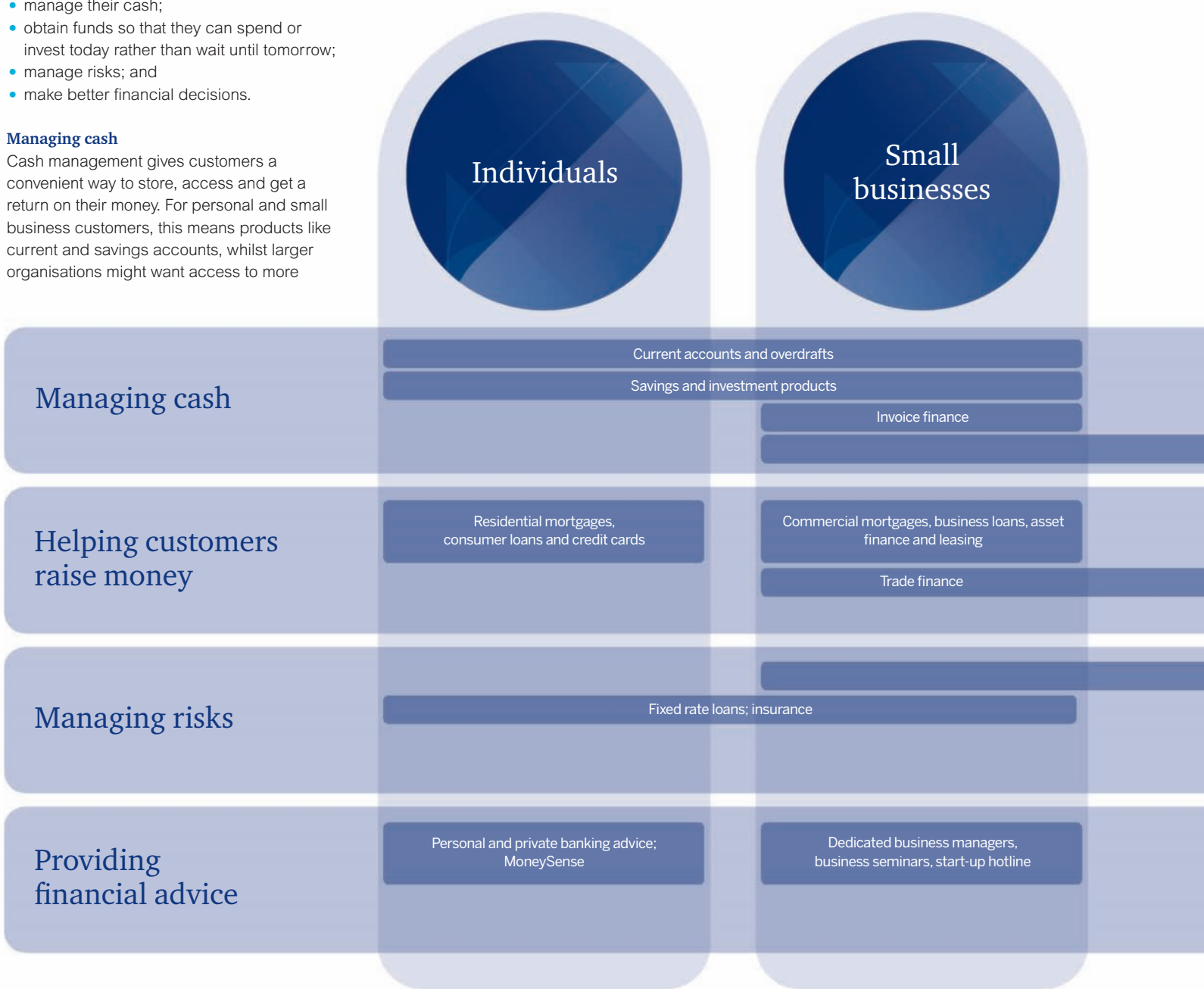
We also provide international cash management, which includes services such as credit card processing for retailers, payments services and international cash transfer.

### Helping customers raise money

At its simplest, banking involves giving people who have cash today that they do not want to spend – savers – a safe place to put their

money and recycling those resources to people who need to buy or invest but who do not have ready access to cash – borrowers. Our deposit products attract cash from savers. We use that to fund our lending. For example:

- credit cards and loans cover smaller lending needs; and
- mortgages and asset finance help to pay for larger purchases.



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Larger organisations and governments can have more complex needs and for them we provide access, for example, to capital markets.

**Managing risks**

People and businesses face financial risks every day. Will the interest rate on a loan or credit card change? How will exchange rates move for companies that trade internationally?

Will inflation be higher or lower than we expect and how will that affect costs and revenues?

We offer services that help customers to manage these risks; the first-time buyer taking a fixed-rate mortgage, the UK farmer receiving payments in euros, and the business managing its inflation risks.

**Providing financial advice**

Our experienced personal, private and small business banking advisors are on hand to help customers make prudent financial decisions.

For large investors, we provide industry leading fixed-income investment research.

Corporates

Financial firms  
and banks

Governments  
and other  
institutions

Cash management and payment systems

Providing direct investment opportunities in financial markets

Helping clients raise money in bond markets

Large corporate and interbank lending

Trade finance

Hedging exchange rate risk

Inflation and interest rate hedging

Investment research

## Essential reading

# How our businesses work together



Our businesses are strong players in the markets in which we compete. As a Group, the businesses are stronger together than apart, to the benefit of customers and shareholders.

**Markets** gives **UK Corporate** clients access to capital markets.

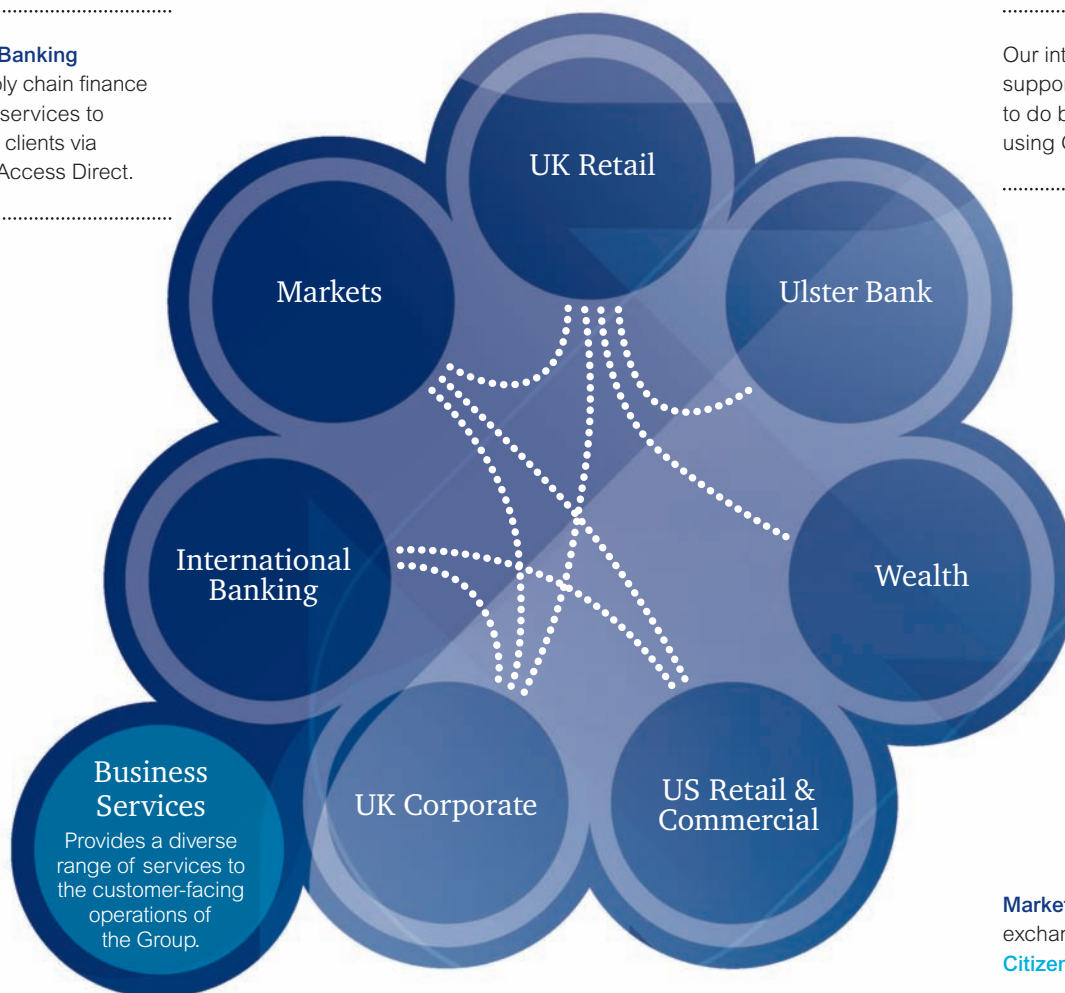
**International Banking** provides supply chain finance and payment services to **UK Corporate** clients via MaxTrad and Access Direct.

**UK Retail** supported the introduction of internet and mobile banking in Ireland by **Ulster Bank**.

**UK Corporate** and **UK Retail** worked together to help small business customers affected by the riots in England in 2011.

**UK Retail** provided over 80,000 start-up business introductions to **UK Corporate**.

Our international capabilities support **UK Corporate** clients to do business internationally using Global Account.



**Markets** holds £6 billion of assets under management for Private Banking & Advice in **UK Retail**.

**International Banking** provides trade finance support to **Citizens'** customers through MaxTrad and MaxTrad Express.

**UK Corporate** made 3,000 mortgage referrals to Private Banking & Advice in **UK Retail**.

**Markets** supplies foreign exchange solutions to **Citizens'** clients.

**UK Retail** have supplied over £100 million of mortgages to **Wealth** customers since Q3 2011.



## Our business and our strategy

# Chairman's statement



When I became your Chairman in 2009, our urgent task was to stabilise RBS and then to begin the job of rebuilding the company.

We have made good progress in three years. The balance sheet has been reduced by over £700 billion from its peak. Our reliance on short-term wholesale funding, which stood at £297 billion at the end of 2008 has been cut to £102 billion. We repaid more than £20 billion of government-guaranteed debt in 2011. At 10.6%, our Core Tier 1 ratio is one of the strongest among our peers.

### Our actions have made RBS safer and more stable.

Achievements like these require hard work. The Board is committed to restoring RBS to good health. We also made comprehensive changes to the executive management team after 2008. I am confident that they, ably led by Stephen Hester, are the right people to rebuild RBS. All of us understand our duties and responsibilities and are determined to fulfil them diligently.

It is the Board's view that running the business on commercial grounds is the best way to make the bank safer and more valuable for everyone who depends upon it. I do not believe there is a workable alternative if our aim is to provide the opportunity for the UK government to sell its shares in the public markets in a reasonable timescale.

A sign that we have succeeded will be the desire of private investors to acquire the UK government's stake. While these investors hold only 18% of our shares today, their view of our performance, leadership and strategy is crucial. All being well, they will own the majority of the equity capital of the company in future years.

In the meantime, the job of rebuilding the Group is far from complete. The need to address the legacy of losses in a number of businesses means that the Group is not yet profitable, although in 2011 our core businesses earned a profit of £6 billion and a return on tangible equity of 10.5%.

During 2011, we faced weak and deteriorating economic and market conditions. We dealt with those. For example, we accelerated our Non-Core run-down, reduced risk concentrations and strengthened our liquidity and funding position. The Independent Commission on Banking published its findings and the UK government responded with its plans. We have begun to deal with its far-reaching implications. In January 2012, we announced how we will reshape our international wholesale business.

So, we can adapt and we have adapted our plans to changing conditions. That is simply doing business.

Other external forces affect banks in the UK and especially RBS. We know we are different. I have said often that we are grateful to, and are well aware of the interest in the Group by UK taxpayers. We intend to repay them by restoring RBS, allowing the bank to do its vital job of serving our customers and being part of a vibrant and successful economy.

At present, we are an unusual company, operating commercially, listed on the stock market but majority-owned by the UK government. It is a challenge for all those involved to manage the complexities and occasional tensions in this structure. The ability to run the company on a commercial basis can be hindered by elements of the periodic debate on how to respond to such tensions, in the media and elsewhere. The Board believes it is important to remain commercially focussed, recognising where we can the political context in which we operate.

I understand people's anger and anxiety about inequalities in pay at a time when the economy is weak and many people are finding things tough. RBS alone cannot fix these wider issues if we are to achieve what is asked of us commercially. But we have led the way in changing how we pay our people. We asked our shareholders how they expect us to set incentives. In response, we have aligned the longer-term rewards our people receive with our shareholders' interests. When we reward good performance, the amount paid in cash is minimal, with most of it paid in shares and bonds. If the subsequent results so warrant, we can claw back awards. I am confident that our practices will stand favourable comparison with others'.

### Fulfilling our wider responsibilities

As we rebuild RBS, we are fulfilling our responsibilities to the communities in which our

customers and people live and work. Last year, we:

- provided more than 40p in every £1 lent to UK small and medium-sized businesses;
- opened nearly 120,000 new start-up accounts across the UK;
- provided an average of 4,000 business loans each week;
- helped over 5,000 UK businesses back to health through our Specialised Relationship Management teams; and
- recruited more than 8,000 16-24 year olds.

These demonstrate the role we can and will play in serving and helping society and the economy. We are building on them. Our Board-level Sustainability Committee is talking to our stakeholders about the elements of our business that matter to them and in 2012 we will publish demanding environmental targets that will drive a reduction in our carbon footprint.

### The Board

We were pleased to welcome three new independent non-executive directors to the Board: Alison Davis, Tony Di Iorio and Baroness Noakes. They bring a wealth of experience, along with a strong global perspective. They have already made a significant contribution to the work of the Board since they joined.

Colin Buchan retired as a director in August 2011 and John McFarlane will step down in March 2012. We have greatly appreciated the experience, commitment and knowledge they brought to the Board.

### Thanks

Finally, I wish to thank our employees. They are rebuilding RBS each day by serving our customers. They did that very well indeed in 2011, even as many faced major uncertainties. I am grateful to them.

**Philip Hampton**  
Chairman

## Our business and our strategy

# Group Chief Executive's review



RBS has completed the first three years of its recovery plan. Over that period the Bank's results across our key goals – Customers, Risk and Value – have exceeded the Plan targets we put together in 2009. This is pleasing and puts the Bank in a vastly better position than before to serve our different constituencies.

We are dealing with the new economic and regulatory challenges within the strategic plan and have retained our focus on building an RBS for all to be proud of. Great credit is due to our people for the accomplishments to date and to those who have supported us with their capital or their custom.

### Priorities

We are clear on RBS's priorities:

- to serve customers well;
- to restore the Bank to a sustainable and conservative risk profile; and
- to rebuild value for all shareholders.

These priorities are interconnected and mutually supporting.

### 2009-11 Report Card

During the last three years RBS has:

- sustained its customer franchises across our Core business in the face of restructuring and reputational pressures. Market shares are stable overall. Service standards are generally up. Lending support across the UK business substantially exceeds our natural customer market share.
- rebuilt its financial resilience. Core Tier 1 ratio increased to 10.6%, total assets reduced by £712 billion from peak levels, short-term wholesale borrowing reduced by £195 billion, converting a £207 billion deficit versus liquid assets to a £53 billion surplus. Balance sheet leverage reduced from 21.2x to 16.9x and the loan:deposit ratio improved to 108% (94% in Core). In each case the 2011 position is well ahead of that originally forecast.
- produced £34 billion in pre-impairment profits from Core businesses. These were used to self-fund our legacy losses and loan

impairments, which to date have totalled £43 billion. Operating costs have been reduced by an average of £1 billion annually. Each of these totals is better than originally forecast despite a tougher economic environment.

### 2011 Results

2011 saw good progress across all measures of risk reduction and increased financial soundness; important given the much tougher market conditions. Customer service and support was sustained well.

However, RBS has reported a pre-tax loss of £766 million overall and, in common with others, has seen a share price fall, albeit still at levels much higher than the 10p starting point in January 2009. These outcomes reflect the stage of our recovery and the external environment. They mask real and important accomplishments, however.

Core bank operating profits were £6.1 billion. Within this total, operating profits in 2011 across RBS's Retail and Commercial business (excluding Ulster Bank) were up 9% to £4.9 billion. RBS Insurance turned loss into profit, a £749 million improvement on 2010. GBM suffered a 54% fall in profit to £1.6 billion, reflecting tough market conditions, but still a substantial result and one generally in line with other investment banking businesses. Non-Core losses declined 24% to £4.2 billion as the risk run-off continued ahead of schedule. Exceptional charges for past business associated with PPI and Greek write-downs were also taken. £3.8 billion was handed over to HMT/HMRC/Bank of England in fees for APS/Credit Guarantee Scheme, taxes (both on our behalf and on that of our employees) and capital support schemes.

We all understand that a company that is making losses at the bottom line tests the patience of those who depend on it. However, the restructuring task we have undertaken at RBS is unique in its scale and complexity, and needs to be phased in line with our ability to fund and execute it. In dealing with these legacy losses we expect to put the company on a sustainable footing for generations to come. 2011 proved what we already knew: that there are no shortcuts to this endpoint.

### Strategy

The new RBS is built upon customer-driven businesses with substantial competitive strengths in their respective markets; together our 'Core' business. Each unit is being reshaped to provide improved and enduring performance and to meet new external challenges. The businesses are managed to add value in their own right but to provide a stronger, more balanced and valuable whole through vital cross-business linkages.

The weaknesses uncovered by the financial crisis – of leverage, risk concentration and business stretch – are being fixed. The primary vehicle for this is the run-off and sale of assets in our Non-Core division though there are many other parallel tasks. RBS's total assets have already been reduced by £712 billion from their peak in 2008 – more than any other entity worldwide has achieved.

### Adjustments to Plan

The principles of RBS strategy are working well. The tougher external environment will slow progress and reduce profitability but requires largely tactical change from the original plan for the majority of our business.

However, all banks, and especially in the UK, must adjust to much higher capital and liquidity requirements, and substantially changed wholesale funding markets. There are particular pressures on the funding, profitability and capital intensity of cross-border, wholesale and investment banking business lines.

RBS has therefore adjusted its business plan to target a still more conservative capital and funding structure overall in order to meet current and prospective market and regulatory challenges. This also includes further reduction in balance sheet, capital usage and expense base in the investment banking area, including exit of the cash equities business, reduction of the Group's fixed income markets balance sheet and combination of its international corporate banking businesses. We expect these moves to make the client proposition in our wholesale businesses more focused, and so stronger and more sustainable. It will improve the stability of their funding and their prospects for an improved return on equity.

These enduring principles – around Customer, Risk and Shareholder – continue to drive our strategy. The actions they give rise to should enable RBS to prosper over the long term as a leading international bank, anchored firmly in the UK and serving customers, shareholders and society well.

#### People

RBS people are doing a great job in serving customers whilst driving the change we need. Their engagement and efforts are essential to our task. I thank them sincerely. While the

climate is tough for people in many walks of life, that does not take away from the exceptional demands we make on our staff and the continuing need we have for their talents, engagement and motivation.

#### Concluding remarks

In this letter a year ago I re-affirmed the path ahead for RBS and how we planned to travel down it. I am pleased to say we remain on that track.

However, I also warned of the risks from economic and regulatory/policy change. These have indeed impacted strongly and remain uppermost in our minds when looking at 2012. We will continue to prioritise customer service and risk reduction. We will strive to complement this with determined measures to improve business performance to pay for the remaining 'clean-up' and then to produce results for shareholders. We are building the capacity of our business to earn its cost of capital and produce solid returns as external conditions allow.

RBS is an enduring financial institution playing a key part in our markets and communities. We support others. We depend on the support of customers and our communities in turn. We are working our way out of a tough legacy whilst sustaining "business as usual" for the vast majority of what we do.

I thank our staff and all our stakeholders for their continued support.

**Stephen Hester**  
Group Chief Executive

## Our priorities

### We are clear on RBS priorities

- to serve customers well
- to restore the Bank to a sustainable and conservative risk profile
- to rebuild value for all shareholders

These priorities are interconnected and mutually supporting.

## Our business and our strategy

# Q&As on progress



When we speak to our investors, some questions are asked more often than others. Below we provide a selection of those frequently asked questions and answers.

**Q Why have you made changes to your wholesale businesses? Will you be making further changes, including selling businesses?**

RBS wholesale businesses are a vital part of the Group. They are important contributors in their own right. They are linked with our other banking businesses closely in a way that helps us to serve all our customers better, makes us more profitable as a whole and gives greater stability and resilience to the Group.

Market conditions and regulatory changes, including the Independent Commission on Banking, adversely affected the outlook for our wholesale business as it was structured.

As a result, we announced in January 2012 that we will exit from business areas that are unprofitable and where we have weaker customer positions. We are also scaling back resources in areas where market developments threaten our ability to fund ourselves sustainably and profitably.

We are restructuring our pre-existing GBM and GTS businesses. The result will be:

- a Markets business serving the clients of all Group businesses;
- an International Banking unit which will incorporate the existing GBM corporate banking business with the international elements of the existing GTS business; and
- the domestic corporate customers, previously served by GTS, will be managed by our domestic corporate banking businesses in the UK, Ireland and the US.

**Q What conditions are necessary for you to return to profitability?**

It remains the Group's ambition to get back to being a safe, normal company. Our intention is to do so as soon as practicable. Economic

headwinds currently point to a slower recovery with interest rates low for longer than previously expected. This, together with stringent regulatory changes, means that it could take longer to reach some of our strategic plan targets than we had previously expected.

We remain confident of unlocking the performance potential in our underlying franchises and earning a return for our shareholders above the cost of capital in the medium-term.

**Q When will I receive a dividend?**

RBS is subject to dividend restrictions imposed by the European Commission that prevent us from paying dividends on ordinary shares, B shares and hybrid securities, unless we have a legal obligation to pay. Once this restriction has passed, the Board will be free to declare dividends as it deems appropriate and subject to normal market practice.

Further consideration should be given to the Dividend Access Share held by the UK Government. This commands a dividend on the B shares it owns at the higher of 7%, or 2.5 times the ordinary dividend. This could be a barrier to resuming ordinary dividends in the near-term and could be subject to a discussion with the Government at some time in future.

**Q What is the trend in your impairment charge?**

The level of Group impairments, excluding Greek sovereign debt impairment, fell by 20% in 2011, reflecting our risk reduction efforts and steady underlying improvements in the economic environment. Clearly challenges remain across the economies we serve. As a consequence we remain cautious on future improvements in impairment trends.

**Q What is the trend in your margins?**

The net interest margin in our Retail & Commercial businesses increased by seven basis points in 2011. The expansion was supported by a recovery in asset margins across a number of our businesses. Countering this, liability margins have remained under pressure, reflecting the increasing cost of wholesale funding and strong competition for customer deposits.

**Q What is your exposure to European sovereign debt?**

We have focused on actively managing down our exposure to sovereign bonds of southern peripheral European countries (Greece, Italy, Portugal and Spain), which we had acquired from ABN AMRO in 2007. In 2011, we reduced our exposure by over 90%. Our outstanding exposure is low at £0.3 billion, equivalent to less than 0.1 percentage points of our Core Tier 1 capital ratio. Reflecting our conservatism, we have written down the value of our Greek bond holdings by £1.1 billion, marking our position to 21% of its original value.

We clearly have significant exposure to the Republic of Ireland's economy through Ulster Bank where total lending was £48.5 billion at 31 December 2011. We remain committed to our core Ulster Bank franchise but have placed £14 billion of loans in our Non-Core division. We are managing this portfolio down over time and, where assets are currently non-performing, they are being appropriately provisioned.

## Our business and our strategy

### Our key targets

Key performance indicator	Why?	How are we doing?	Original 2013 target	Revised medium-term target
<b>Return on equity (ROE)<sup>(1)</sup></b>	We need to cover our cost of capital in the long-run and justify our shareholders' support.	<p>13.3% 2010      10.5% 2011</p>	<b>Core &gt;15%</b>	<b>Core &gt;12%</b>
<b>Cost:income ratio<sup>(2)</sup></b>	We cannot achieve our ROE target without cost control and margin re-pricing to ensure income is generated efficiently.	<p>56% 2010      60% 2011</p>	<b>Core &lt;50%</b>	<b>Core &lt;55%</b>
<b>Core Tier 1 ratio</b>	We need a strong capital ratio to meet society's expectations of a safer banking system.	<p>10.7% 2010      10.6% 2011</p>	<b>&gt;8%</b>	<b>&gt;10%</b>
<b>Loan:deposit ratio</b>	We want to put our balance sheet on a more secure footing by lending only as much as we have in deposits.	<p>118% 2010      108% 2011</p>	<b>c.100%</b>	<b>c.100%</b>
<b>Short-term wholesale funding<sup>(3)</sup></b>	We want to reduce our reliance on short-term money market funding to make our balance sheet less volatile.	<p>£130bn 2010      £102bn 2011</p>	<b>&lt;£125bn</b>	<b>&lt;10% TPAs<sup>(6)</sup></b>
<b>Liquidity portfolio<sup>(4)</sup></b>	We want to hold strong liquidity buffers, to guard against unexpected funding difficulties.	<p>£155bn 2010      £155bn 2011</p>	<b>c.£150bn</b>	<b>&lt;15% TPAs<sup>(6)</sup></b>
<b>Leverage ratio<sup>(5)</sup></b>	We target a much lower leverage ratio than before. A <18x ratio means that our assets are less than 18 times as large as our equity capital.	<p>16.8x 2010      16.9x 2011</p>	<b>&lt;20x</b>	<b>&lt;18x</b>

(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (c.75% of Group tangible equity based on risk-weighted assets at 31 December 2011).

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

(3) Excluding derivatives collateral.

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

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

(6) Third Party Assets.

## Our business and our strategy

# Progress on our Strategic Plan

Strategy and business objectives	How are we going to do this?
<p>RBS to be based on enduring customer franchises, with each business capable of generating a sustainable return in excess of its cost of equity (&gt;12%)</p>	<p><b>Franchises with substantial competitive strength</b> Track market positions and customer satisfaction in all core businesses.</p> <p><b>Income growth</b> Focus on businesses capable of delivering sustainable growth and achieve market-level growth in each.</p> <p><b>Cost control</b> Deliver on the Group's cost programmes, whilst making essential investments in our businesses. Achieve a cost:income ratio that places RBS among the most efficient of its global peers.</p> <p><b>Rigorous capital and cost allocation</b> Accurately deploy the Group's capital and allocate appropriate costs to focus the Divisions on returns, as well as on profit growth.</p>
<p>RBS to deliver its strategy from a stable risk profile and balance sheet, with each banking business self-funding (1:1 loan:deposit ratio)</p>	<p><b>Reduced balance sheet scale</b> Continue to de-risk and shrink the Group's Non-Core balance sheet. Careful control of future asset growth to support Core customers profitably.</p> <p><b>Funding programme</b> Limit over-reliance on wholesale markets to meet the Group's funding requirements, while building up an appropriate liquidity reserve. Generate a stable deposit base to fund each business.</p> <p><b>Stable and robust capital support</b> Focus on implementing state of the art risk controls, run-off of excess risk concentrations and maintenance of strong equity capital.</p>
<p>The chosen business mix to produce an attractive blend of profitability, stability and sustainable growth</p>	<p><b>Focused on retail and commercial banking</b> Activity focused on UK, US and Ireland and supported by significant business investment plans.</p> <p><b>Concentrate on the core strengths of our wholesale businesses</b> The restructuring of RBS's wholesale businesses is already underway, refocusing the business in its core franchises, with disciplined deployment of capital to support its targeted client base.</p> <p><b>Exit Non-Core business lines</b> Expeditious run-off or sale of businesses and asset portfolios while maximising the value obtained for the Group.</p>
<p>RBS management hallmarks to include an open, investor-friendly approach, discipline and proven execution effectiveness, strong risk management and central focus on the customer</p>	<p><b>Publish targets for risk/return balance</b> Demonstrate execution effectiveness by setting clear performance targets for risk and returns, and give regular updates on progress against them.</p> <p><b>Improve levels of disclosure</b> Rebuild confidence and trust with investors by combining clear performance targets with improved disclosure.</p> <p><b>Set customer franchise targets for every business</b> Maintain excellent customer service as a core objective of the Group, now defined with reference to a series of targets.</p> <p><b>Management change</b> At the centre of its efforts to rebuild the Group, RBS is dedicated to maintaining the strength of its Board and senior management teams.</p> <p><b>Strong risk management</b> Embed the new set of management disciplines to ensure that the RBS of the future is adequately protected, notably by its risk management processes and frameworks.</p>



## Our progress so far

## Medium-term target

Our focus is to build the success of the Group on customer-driven businesses with substantial competitive strengths in their respective markets. We continue to track our market positions and to target competitive opportunities.

All our principal Core businesses sustain positions amongst the leaders in their markets.

2011 was a challenging year, as economic conditions in many of the markets the Group operated in deteriorated from 2010. However, our Core Retail & Commercial businesses remained resilient, with income broadly flat compared with 2010 (adjusting for the sale of Global Merchant Services in November 2010).

Each core business is being reshaped to provide improved and, importantly, enduring performance and, we believe, will be strongly positioned to achieve income growth as world markets and economies normalise.

The Group's cost reduction programme delivered over £3 billion of annualised cost savings by the end of 2011, ahead of where we expected to be by 2013. Lower programme spend than originally projected has allowed us to reinvest savings into enhancing systems infrastructure to support improvements in customer service, enhance product offerings and respond to regulatory changes.

The Core cost:income ratio was 60% for 2011, slightly higher than 2010, reflecting weaker income performance in GBM, but significantly down from a peak of 97% in 2008.

Core cost: income ratio <55%

The Group has clearly defined targets for the medium-term, updated to reflect the changed economic and regulatory environment since the introduction of our strategic plan in 2009. Therefore, in the medium term, each of our businesses will be expected to more than cover its cost of equity in line with the overall Group target of >12%, be self-funded, have a targeted average cost:income ratio of between 50 – 55% and to operate within the bounds of an appropriate risk appetite. Divisional progress will continue to be monitored.

Originally implemented in 2009 and ongoing to reflect revised Group targets.

The Group's funded balance sheet fell to £977 billion in 2011. Non-Core reduced its funded assets to £94 billion, ahead of the £96 billion target set for the year. Non-Core's funded balance sheet has reduced by 64% from the December 2008 portfolio of £258 billion.

Our Tier 1 leverage ratio increased slightly to 16.9% in 2011 from 16.8% in 2010, below our medium-term target.

Group leverage below 18x, in line with strongest global peers.

We significantly improved our Group loan-to-deposit ratio to 108% by the end of 2011, compared with 118% a year earlier. Our Core businesses achieved a loan:deposit ratio of 94% by the end of 2011, taking in more than £1 of deposits for every £1 of loans made.

We continued to reduce our reliance on short-term wholesale funding. Excluding derivatives collateral, short-term wholesale funding fell from £130 billion in 2010 to £102 billion by the end of 2011.

Our liquidity reserves were £155 billion at the end of 2011, above our medium-term target.

Group loan:deposit ratio of c.100%

Our Core Tier 1 capital ratio was 10.6% at the end of 2011, which although marginally lower than a year earlier, is above our upwardly revised medium-term target and positions the Group well to deal with future regulatory changes in capital requirements.

Core Tier 1 capital ratio >10%

Retail and commercial businesses generated 64% of the Core operating profit for 2011. We announced in January 2012 that we are restructuring our wholesale businesses in light of the emergence of significant new pressures since the 2009 Strategic Plan was agreed. This restructure will increase our focus on our retail and commercial businesses in the UK, US and Ireland.

In the UK, we increased our business lending by 22% in 2011, exceeding our business lending targets as agreed under Project Merlin.

Approximately three quarters of Group profit and revenue to come from retail and commercial banking.

GBM operating profit fell by 54% in 2011 compared with 2010, with the year characterised by volatile and deteriorating, credit markets, as the European sovereign debt crisis worsened. GBM operating profit represented 26% of Core Group operating profit for 2011. The wholesale restructure announced in January 2012 seeks to prioritise our resources on those businesses where we are best placed with our customers and can operate most profitably for shareholders.

GBM third party assets, excluding derivatives, were down £35 billion compared with 31 December 2010 and are targeted to reduce by a further c.£60 billion to c.£300 billion over the implementation period of the restructure.

Markets to account for approximately one quarter of Group profit and revenue.

Run-down and disposals decreased Non-Core's funded balance sheet to £94 billion by the end of 2011, below the revised year end target of £96 billion and significantly ahead of the original strategic plan target of £118 billion. Non-Core's funded balance sheet is now less than 10% of the Group's funded balance sheet, compared with 21% when the division was created.

In 2011, Non-Core also focused on accelerating its de-risking programme and reducing capital exposures to help improve the financial resilience of the Group as a whole.

Run-down of the Non-Core Division.

In 2009, we announced clearly defined financial targets and in 2011 we re-visited these targets in light of significantly changed economic and regulatory environments. We remain committed to reducing risk and increasing sustainable returns in customer-driven businesses. Our quarterly reporting provides updates on our progress.

Performance against the Group's strategy, can be tracked at our [rbs.com](http://rbs.com) website.

We provide financial information to the market quarterly.

We continue to track customer satisfaction scores and market position metrics for each of our core businesses and target improvements. We believe we are making progress, but there is still much we need to achieve, and providing our customers consistently high quality service remains a key priority in our Strategic Plan.

All implemented in 2009 and ongoing.

During 2011, the Group appointed three new non-executive directors to the Board. Alison Davies and Baroness Noakes were appointed with effect from 1 August 2011 and are now members of the Group Remuneration Committee and Group Audit Committee respectively. Tony Di Iorio was appointed with effect from 1 September 2011 and is now a member of the Group Audit Committee and Board Risk Committee.

We are committed to restoring the Group to a sustainable and conservative risk profile. The RBS risk management framework, and our risk management teams, are clearly aligned with this Group priority. For an overview of how this is working in practice, see pages 17 and 18.

# Our business and our strategy

## The economic environment



Keep up with our latest economic research and analysis at

[www.rbs.com/economics](http://www.rbs.com/economics)

When economies are emerging from recessions rooted in high levels of debt and stresses in the financial system, growth is slower than in the typical recovery. That was the experience of our major markets in 2011. It is what we should expect in 2012 and beyond.

In the UK, growth weakened. Total economic activity, as measured by gross domestic product (GDP), grew by 0.8% compared with 2.1% in 2010. At the start of the year, expectations had been more positive, the consensus forecast for growth having been 2.1%. Yet the year ended with the economy contracting.

Unemployment rose sharply, from less than 8% in mid-year to 8.4% in December. Wage growth was subdued and inflation reduced the spending power of earnings.

In commercial property, values edged higher, finishing the year up 2%. Strong performance in prime markets, particularly central London was the main source of gains. Again, however, momentum slowed towards the end of the year.

Housing market activity remained subdued. Prices probably fell slightly although the different measures disagree on the extent of the change.

Against this backdrop, the Bank of England continued its ultra-loose monetary policy stance. Despite persistently above-target inflation, interest rates remained unchanged at a record low of 0.5%, the Bank judging elevated inflation to be the result of temporary factors. In fact, its greater concern was that the weak economy would cause inflation to be too low and in October, the Monetary Policy Committee announced that it would increase its asset purchase programme by £75 billion.

In the United States, GDP growth slowed to 1.7% compared with 3.0% in 2010. Unlike the UK, however, growth accelerated as the year progressed. Unemployment began to fall,

although at 8.5% in December it was high compared with previous recoveries.

Housing remained a drag anchor. Prices fell by around a further 4% and were almost a third below their peak level. Sales volumes were subdued and an overhang of properties on which borrowers had defaulted remained.

Judging that the pace of recovery was too slow to reduce unemployment sufficiently, the Federal Reserve tried to stimulate the economy in the third quarter with unconventional measures designed to push down medium to long-term interest rates. It also said it expected to keep the Fed Funds rate, its main policy rate, at its current low level at least until mid-2013.

Ireland emerged from three years of recession. The export sector led modest growth in the first half of the year, as it benefited from the boost to competitiveness delivered by falling wages, and stronger demand in some of Ireland's main markets. However, the economy appears to have shrunk again in the second half.

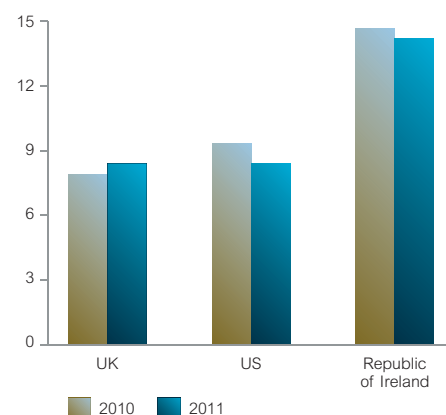
For Ireland, gross national product (GNP) is a better measure of people's material well-being. It reflects the income residents receive rather than the value of the incomes generated in the country, an important distinction when there is a large foreign-owned sector that remits profits overseas.

Unemployment averaged more than 14%. House prices dropped to a point where they were close to 50% below their peak level at the year's end.

Looming over 2011 and prospects for 2012 was the likelihood that some euro area governments will not be able to repay in full monies they have borrowed. Uncertainty about how this problem will be solved damaged confidence. The policy prescribed for highly indebted countries, fiscal austerity, made their growth prospects worse because there are no compensating interest or exchange rate gains in a currency union. By the end of the year, the euro area was in recession, exacerbating the debt problem.

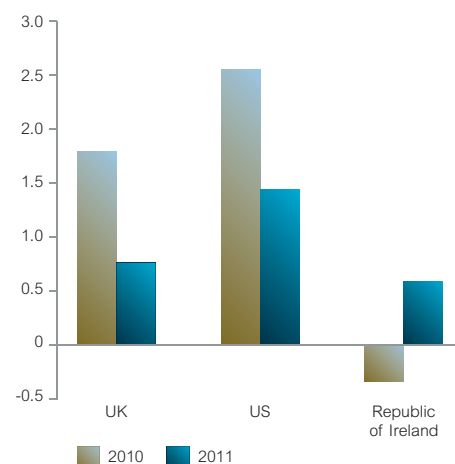
Europe's leaders avoided both a disorderly default and a break-up of the euro area.

Unemployment rates, %, December



Sources: National statistical agencies

Real GDP growth rates, %



Sources: National statistical agencies

Note: Republic of Ireland is first three quarters of 2011 versus first three quarters of 2010

However, it will take political will and public support to manage the immediate risk of defaults and to tackle the root causes of the acute challenges that have accumulated since the establishment of the single currency in 1999.

Absent the worst outcome for the euro area – a default that cannot be contained in one country and its banking system – growth in our main economies in 2012 will be slow as households and governments continue to labour under substantial debt burdens.

## Our business and our strategy

# Our approach to risk management

### An integral role for Risk Management

Risk Management is essential to making RBS safer and more sustainable. A stronger culture of risk management and control provides the foundation for this.

Financial strength and resilience are at the heart of our Strategic Plan. The plan targets a credit rating in line with those of our strongest peers, without government support.

In 2009, the Group Board set four strategic risk objectives aligned to the Strategic Plan. These are to:

- maintain capital adequacy;
- deliver stable earnings growth;
- ensure stable and efficient access to funding and liquidity; and
- maintain stakeholder confidence.

These strategic risk objectives link the Group's business strategy to the way we set risk appetite and manage risk in our business.

We set risk appetite at Group level. It expresses the maximum level of risk that we will accept as we deliver our business objectives. We cascade this to each of our divisions through two channels. Each division:

- has its own risk appetite statement, based on its own business plans but also aligned with those of the Group; and
- sets clear guidance on acceptable limits for all material types of risk, again aligned with Group targets.

By setting a clear risk appetite and embedding a strong risk culture throughout our businesses, we can identify, measure and control risk exposures, and respond effectively to shocks.

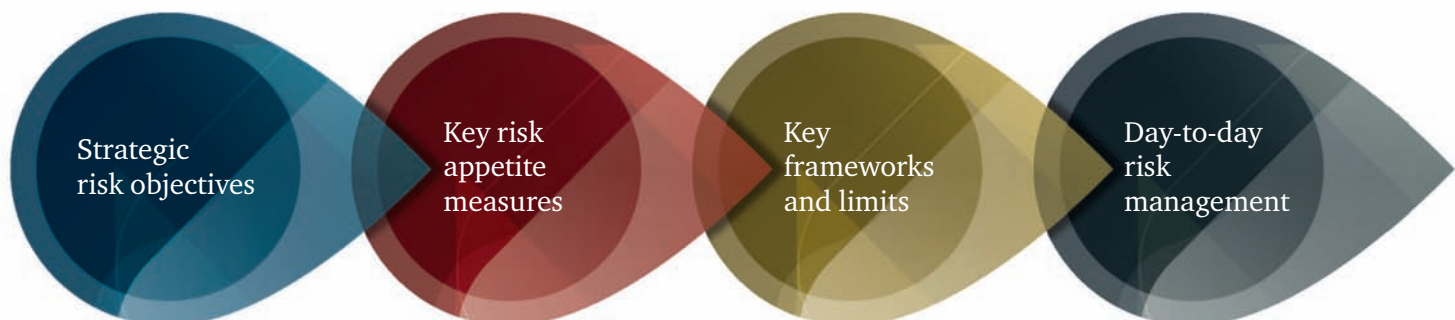
### Key developments in 2011

In 2011, we strengthened our approach to risk management amidst a challenging external environment. Areas of progress included:

- redefining the responsibilities of key risk committees to meet our future needs;
- refining our understanding of the risks we face and their scale;
- reducing our exposures in line with our objective of being safe and sustainable;
- enhancing our Group Policy Framework and continuing assurance;
- improving the quality of our data, including forward-looking measures; and
- improving our stress-testing capabilities and embedding them across the Bank.

In the table on the following page, we summarise the risks we face. We provide a more detailed discussion of developments in 2011 in the 'Risk and balance sheet management' section.

This is how we bring the Strategic Plan to life in our management of risk.



## Our business and our strategy

# Our approach to risk management *(continued)*

The main risk types facing the Group, which are covered by the risk appetite framework, are shown below

Risk type	Definition	Features
Capital, liquidity and funding risk	The risk that the Group has insufficient capital or is unable to meet its financial liabilities as they fall due.	<p>Potential to disrupt the business model and stop normal functions of the Group.</p> <p>Potential to cause the Group to fail to meet the supervisory requirements of regulators.</p> <p>Significantly driven by credit risk losses.</p>
Credit risk (including counterparty risk)	The risk that the Group will incur losses due to the failure of a customer to meet its obligation to settle outstanding amounts.	<p>Loss characteristics vary materially across portfolios.</p> <p>Significant link between losses and the macroeconomic environment.</p> <p>Can include concentration risk – the risk of loss due to the concentration of credit risk to a specific product/asset class, sector or counterparty.</p>
Country risk	The risk of material losses arising from significant country-specific events.	<p>Can arise from sovereign events, economic events, political events, natural disasters or conflicts.</p> <p>Potential to affect parts of the Group's credit portfolio that are directly or indirectly linked to the country in question.</p>
Market risk	The risk arising from changes in interest rates, exchange rates, credit spreads, equity prices and risk related factors such as market volatilities.	<p>Frequent small losses which are material in aggregate.</p> <p>Infrequent large material losses due to stress events.</p>
Insurance risk	The risk of financial loss through fluctuations in the timing, frequency and/or severity of insured events, relative to the expectations at the time of underwriting.	<p>Frequent small losses which are material in aggregate.</p> <p>Infrequent large material losses due to stress events.</p>
Operational risk	The risk of loss resulting from inadequate or failed processes or systems, from inappropriate human actions, or from external events.	<p>Frequent small losses.</p> <p>Infrequent material losses.</p>
Compliance risk	The risk arising from non-compliance with national and international laws, rules and regulations.	<p>Adverse impacts on strategy, capital, business models and operational effectiveness.</p> <p>Financial cost of adapting to changes in laws, rules and regulations or of penalties for non-compliance.</p>
Reputational risk	The risk of brand damage arising from financial and non-financial events due to failure to meet stakeholders' expectations of the Group's performance and behaviour.	<p>Potential to put the entire business at risk. Otherwise, could lead to negative publicity, loss of revenue, costly litigation or a decline in the customer base.</p> <p>Can arise from actions taken by the Group or a failure to take action.</p>
Business risk	The risk of lower-than-expected revenues and/or higher-than-expected operating costs.	Influenced by many factors such as pricing, sales volume, input costs, regulations and market and economic conditions.
Pension risk	The risk that the Group will have to make additional contributions to its defined benefit pension schemes.	Funding position can be volatile due to the uncertainty of future investment returns and the projected value of schemes' liabilities.

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## Divisional review

# UK Retail



**Brian Hartzler**  
Chief Executive,  
UK Retail,  
Wealth and Ulster Bank

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	2,779	2,532
Impairment losses (£m)	(788)	(1,160)
Operating profit (£m)	1,991	1,372
Return on equity (%)	26.4	18.0

## Serving customers well

In 2010, we made a public commitment to become the UK's most Helpful and Sustainable Bank. As part of this, we launched our Customer Charter – a set of specific commitments based on what our customers told us they wanted from their bank. We also pledged to be open and honest about our progress and to publish independently assessed reports along the way.

The results have confirmed that we continued to make strong progress in 2011, meeting 23 of the 25 goals we set ourselves.

- We served 88% of customers in our branches in less than five minutes.
- By November, we had more than 1,200 branches open on Saturdays.
- We met our commitment to stay open in all 168 locations where NatWest or RBS is the last bank in town.

Our commitment to Helpful Banking means we are working to make our customers' lives easier.

- Our Emergency Cash service provides customers who lose their debit card immediate access to up to £300, simply by phoning us.
- We launched a new iPhone banking app in May, followed by an iPad app in July, a BlackBerry app in September and an Android app in October.

While improvements to our service processes are important, we know that it is our people who deliver Helpful Banking. Helpful employees are professional, proactive and caring. Their job is to make things simple for their customers. As a result of changes we've

made in our hiring approach, we will now specifically recruit people who behave like this and reward them for being helpful. We looked closely at how we run our local branches and decided to restructure our business to give more power back to people in each local area. Our local CEOs can now make decisions that they believe are right for their customers and communities.

We had said that we would continue to serve more than 300 communities with our mobile banks. We beat our target. Our 19 mobile branches now serve more than 400 communities, and drove more than 7,000 miles each week to reach their customers.

In the Customer Charter, we said we will actively support the local communities in which we live and work. Through our Community Force programme, we awarded £3 million to over 470 local projects that our customers voted as worthy of support. In addition, we gave each of our retail banking employees a day of paid leave to support local projects, and our efforts totalled more than 16,000 volunteering days.

## Building a sustainable risk profile

We continued to focus on building secured lending. While overall loans and advances to customers increased by 2%, mortgage balances increased by 5% and unsecured lending contracted by 11%. We won a 10% share of gross mortgage lending, higher than our 8% share of the stock of outstanding mortgages. Customer deposits increased by 6%, outperforming market deposit growth of only 3%. Savings balances grew by 9%, with 1.5 million accounts opened. Our loan:deposit ratio was 106% compared with 110% in 2010.

Impairments fell by 32% to £788 million, in part because of improvements we had made to our risk profile.

## Building sustainable value

Despite the difficult economic climate and low interest rates, we delivered strong results. Operating profit increased by £619 million, 45%, to £1,991 million. Net interest income increased by 5%, driven by strong balance sheet growth. Non-interest income fell by 10%, primarily because of lower investment and protection income as a result of the dissolution of the UK Retail bancassurance joint venture.

Expenses declined by 6%. We began to benefit from a clear management focus on process re-engineering and operational efficiency. As a result, our cost:income ratio improved from 53% to 49%.





## Divisional review

# UK Corporate



**Chris Sullivan**  
Chief Executive,  
UK Corporate

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	2,199	2,224
Impairment losses (£m)	(785)	(761)
Operating profit (£m)	1,414	1,463
Return on equity (%)	12.4	12.1

### Serving customers well

Our customers are at the heart of what we do. We carried out over 5,000 hours of research, listening to what customers want so we can better deliver what they need.

In response to what they told us, we launched 'Ahead for Business'. It is our promise to small and medium-sized enterprises that "By doing business with us, our customers can be confident of realising their ambitions."

We will honour this promise by providing business expertise, sharing customers' ambitions and making banking simple, so they can focus on their business.

Our 'Working with You' initiative commits our Business and Commercial relationship managers, and their leaders, to spend at least two days each year working in our customers' businesses. That helps us to see customers' challenges through their eyes and understand their ambitions. We use that knowledge to tailor the support and expertise we provide. Between June and the end of the year, we carried out over 4,600 of these visits.

In April, we spoke at the British Chambers of Commerce conference. We promised them that, "RBS will put proper, qualified bankers back on the street." One way we are doing that is by investing in our people.

We launched our relationship manager accreditation programme, endorsed by the Chartered Banker Institute, to improve our people's knowledge and professionalism. By the end of 2011, most of our relationship managers had gained full accreditation under the initial phase of the programme.

### We helped more than 100,000 businesses to start-up, by:

- providing two years' free banking, business planning software and an online start-up course;
- answering more than 4,000 calls on our Start-up Hotline, offering free advice and a complementary business plan review service; and
- partnering with Capital Enterprise and the London Mayor's office to sponsor business boot camps, providing intensive support to budding entrepreneurs.

### For established businesses, we:

- made £100 million of new loans available through our Franchise Fund;
- gave businesses access to £1 billion in the fourth quarter through Lombard's UK Capital Expenditure Fund; and
- led the league tables in debt capital markets and loan markets in deals done for larger corporates.

In February 2010, we signed a lending agreement with the UK Government. Under Project Merlin, UK Corporate, GBM, Ulster Bank and Wealth contributed to the total gross new lending extended to UK businesses in 2011. We increased total gross new lending to businesses by 22% in 2011 compared with 2010, with lending to SME customers up by 4%, exceeding our Merlin intentions. RBS accounted for well over 40% of Merlin SME lending, above our market share.

### Building a sustainable risk profile

We redesigned our lending decision process, which will reduce risks while improving customer service and cutting costs. Expert Lender simplifies credit underwriting while

Auto Decisions uses external risk data to improve the quality and consistency of our decisions for smaller value transactions. We also reduced our real estate exposure.

Impairments grew by 3% to £785 million due mainly to increased specific impairments.

Deposits increased by 1% to £100.9 billion, helping our loan to deposit ratio to improve from 110% to 106%.

### Building sustainable value

Operating profit decreased by 3% to £1,414 million. Net interest income was broadly flat at £2,585 million and the net interest margin improved by seven basis points to 2.58%. Non-interest income fell by 4% because of lower GBM cross-sales and fee income, although that was partly offset by increased income from Invoice Finance and Lombard.

Our return on equity increased from 12.1% to 12.4%, due to slightly lower capital usage.



## Divisional review

# Wealth



**Rory Tapner**  
Chief Executive,  
Wealth

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	346	322
Impairment losses (£m)	(25)	(18)
Operating profit (£m)	321	304
Assets under management, excluding deposits (£bn)	30.9	33.9
Return on equity (%)	18.7	18.9

### Serving customers well

Our Wealth business is founded on good advice and high levels of service. That is what our clients want. We will be:

- Human – when our clients need advice or a service they should be able to speak to us, either in person or by telephone.
- Cosmopolitan – they will find us in many of the world's great cities, old and new.
- Connected – we operate across much of the globe and our increasingly sophisticated technology allows clients to reach us and us to serve them.

It might seem odd that a business that relies on personal service places so much emphasis on the role technology plays in what we do. However, our desire to provide exceptional service was in danger of being let down by systems that were past their best. That is why we invested in the Avaloq platform.

With Avaloq, we will have a single source of information about clients. That allows us to work more effectively as a team. More importantly, it should free resources so that we can devote more time to the personal service clients value.

In turbulent markets, many clients want to make sure they preserve their wealth. Coutts' managed portfolios are one of the most consistent in the industry. Part of the performance of our lower risk mandates reflected decisions we took. These included:

- a reduction in euro exposure; and
- diversification into gold and longer duration high quality bonds.

We know that many of tomorrow's clients will be entrepreneurs. That means we need to understand what makes them tick. And they need to know we are committed to them and celebrate their achievements.

- We turned the windows of our head office in The Strand into a giant billboard to mark successful entrepreneurs.
- We sponsored the Entrepreneur of the Year Award.
- Our report on the role of non-executive directors was another stage in our thought leadership activities.

Many of our clients are philanthropists. Coutts runs forums for philanthropy where clients can share ideas and experiences. These insights can help clients to plan a giving strategy that makes a real difference.

### Building a sustainable risk profile

We remained an important source of funds for the Group. Customer deposits grew by 3% to £38.2 billion in a competitive environment and our loan:deposit ratio declined modestly to 44%.

### Building sustainable value

We took a number of steps to prepare Wealth for the future.

- We began to implement our strategic plan, focusing on the Private Banking, Private Wealth and Private Office markets in the UK, Europe and the Middle East, and Asia.
- Coutts' refreshed brand expresses our very special way of working and thinking. It communicates the history and heritage of

Coutts, as well as our modernity and relevance.

- Our business relies on the quality of our people and we made a number of senior hires to strengthen our capabilities.

Operating profit increased by 6% on 2010 to £321 million, driven by an 11% growth in income, partially offset by increases in expenses and impairments. Income increased by £121 million with a 24 basis points improvement in lending margins, strong treasury income and increases in lending and deposit volumes. Non-interest income rose 3%, with investment income growing 2% despite turbulent market conditions.

Expenses increased by £97 million, largely driven by adverse foreign exchange movements and headcount growth to service the increased revenue base.

Assets under management declined 9%, with fund outflows contributing 3% of the decrease and market conditions making up the balance.



## Divisional review

# Global Transaction Services



**Scott Barton**  
Chief Executive,  
Global Transaction Services

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	909	1,097
Impairment losses (£m)	(166)	(9)
Operating profit (£m)	743	1,088
Return on equity (%)	30.4	42.8

## Serving customers well

Global Transaction Services (GTS) enables customers to make and receive payments, manage their cash and liquidity, and to trade internationally. We process around 4.3 billion worldwide payments per year and deliver 3,800 global trade transactions daily. Our global banking network is present in 36 countries.

We recognise the importance of international trade in a strong global economy and we are committed to helping our customers do more business overseas. In 2011, we agreed a new partnership with UK Trade & Investment (UKTI), the government body that supports exporting and inward investment. Together we have worked hard to encourage and support UK businesses to increase their exports.

An important part of serving our customers well lies in product innovation.

Bankline is our internet banking service for UK business customers. More than 110,000 customers use it, from small businesses to large corporations. Since we launched Bankline in 2006 we have upgraded it every year to make it easier to use it and more efficient, saving our customers time and money.

We launched a number of products to meet our customers' evolving needs:

- Capital Import Finance, launched in conjunction with our Lombard Asset Finance arm, supports UK companies that want to import capital equipment. It combines our strengths in trade finance and asset finance so that customers can take advantage of the lowest global prices.

- FI Global Account allows financial institutions to make payments in 132 currencies to 183 countries from a single base currency. This simplifies clients' transactions and can reduce the costs associated with maintaining individual accounts.
- Our Global Liquidity Solutions Portal helps Corporate Treasurers to manage their global cash positions. It gives our customers a view of their operational and investment balances and rates, enabling them to execute and redeem investments.

We won awards that show the breadth of our network, the quality of our service and the strength our solutions. They included:

- In Asia: 'Best Trade Financing Award' from CFO World, as well as 'Best Foreign Bank on Cash Management Bank' from Treasury China;
- In Europe: topping the survey for Domestic Cash Managers in the Netherlands and Best Bank for Liquidity Management in Western Europe from Euromoney; and
- In the UK: Global Finance magazine named us as Best Trade Finance Provider for the second year running.

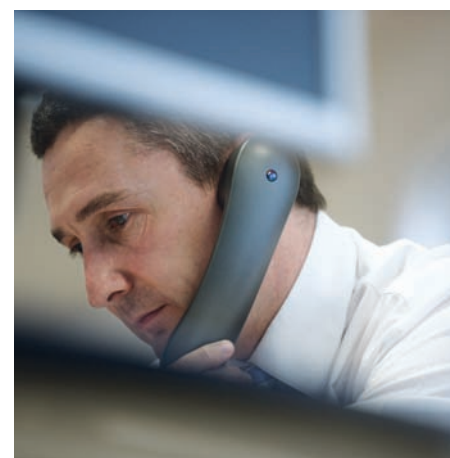
## Building a sustainable risk profile

One way in which GTS is playing its part in building a sustainable risk profile for the Group is by gathering customer deposits, which grew by 3% to £71.7 billion. Our loan:deposit ratio increased slightly but remained at a low 22%. Our success in boosting deposits reflected product innovations such as a 95-day deposit account; yield call deposit accounts; and growth deposit accounts for our corporate and financial institution clients.

## Building sustainable value

In January 2012, we reaffirmed our commitment to transaction banking. The international elements of the existing GTS business will form part of our International Banking unit. Domestic corporate customers, currently served by GTS, will be managed by our domestic corporate banking businesses in the UK, Ireland and the US.

Operating profit was down 32%, partly reflecting the sale of Global Merchant Services (GMS) on 30 November 2010. Adjusting for the disposal, operating profit decreased 16%, driven by provisions on a single name impairment. Excluding GMS, income was 7% higher driven by the success of deposit-gathering initiatives and expenses increased by 10%. Higher expenses reflected business improvement initiatives and investments in technology and support infrastructure.



## Divisional review

# Ulster Bank



**Jim Brown**  
Chief Executive,  
Ulster Bank

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	360	400
Impairment losses (£m)	(1,384)	(1,161)
Operating loss (£m)	(1,024)	(761)
Return on equity (%)	(26.1)	(21.0)

### Serving customers well

Economic conditions remained extremely challenging. In the Republic of Ireland, the economy faltered again in the second half of the year. Unemployment averaged more than 14%. Northern Ireland grew, although unemployment was still above the pre-recession rate and house prices fell.

I joined in April and I took time to talk to our customers and our employees. I am clear about two things. At all times, but especially in difficult times, we must do what we can to support customers and deliver on our Customer Commitments. Secondly, I believe that we have a strategy in place to ensure we are well-placed to compete effectively in the markets in which we operate. We've been serving our personal and business customers, now 1.9 million of them, for 176 years.

We developed our Customer Commitments to deliver a more helpful banking service and we measure how we perform against these.

- We supported 20,000 customers with revised repayment arrangements through Flex, our debt management service.
- We serve 90% of customers in branches within five minutes.
- 98% of customers are satisfied with the helpfulness of branch staff.

We developed new ways to help customers control their finances. Our enhanced iPhone app gives customers access to all the accounts they have on Anytime Banking, transfer funds between their accounts and find the nearest branch or ATM. 65,000 customers have downloaded the iPhone app to date. Our free text message alert service allows our customers to keep track of their money,

avoiding charges. More than 43,000 customers registered for the service and we sent over two million texts in 2011.

Customers and colleagues told us how to make it easier to open accounts. We made application forms simpler. A specialist account switching team makes it easier for people to move to Ulster Bank. We use texts to update customers on the progress of their switching application. 94% of customers who opened an account were satisfied with the process.

We continued to support businesses across the island of Ireland.

- Our share of new lending increased in Northern Ireland and the Republic of Ireland.
- Since we launched our Start Up and Early Stage proposition in September 2010, we have supported more than 6,000 new businesses.

### Building a sustainable risk profile

Customer deposit balances fell by 4% in constant currency terms largely driven by the outflow of wholesale customer balances due to rating downgrades. Our loan:deposit ratio improved from 152% to 143%.

Impairment losses increased by 19%. This largely reflects the deterioration in credit metrics on the mortgage portfolio driven by a combination of higher debt flow and further falls in asset prices.

Risk-weighted assets increased by 15% with the deterioration in credit risk metrics.

### Building sustainable value

Disappointingly, operating profit before impairment losses fell by £40 million. Income fell by 7% driven by a contracting performing loan book coupled with higher funding costs. Lower income was partly offset by a 5% fall in expenses, which reflected tight management of the cost base across the business. Loans and advances to customers decreased by 5% in constant currency terms during 2011.





## Divisional review

# US Retail & Commercial



**Ellen Alemany**  
Chief Executive,  
Citizens and  
Head of Americas

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	804	823
Impairment losses (£m)	(325)	(517)
Operating profit (£m)	479	306
Return on equity (%)	6.3	3.6

## Serving customers well

In 2011, we continued to position our company to help our customers, colleagues and communities prosper. We view that as our purpose for being in business, and our team has taken significant steps to help us achieve this goal.

We are intent on providing customers with a superior experience. That's why we introduced our Customer Commitments, built around feedback from our customers. Our four core commitments are:

- we listen and get to know you;
- we value your time and business;
- we put you in control; and
- we will earn your trust.

Our colleagues are bringing these commitments to life. YourPlace Banking brings the bank right to our customers and helps them manage their money. It provides financial education, financial reviews and planning tools. This smart, no-cost feature gives customers convenient access to banking where and how they want it.

We also took steps to become more effective and efficient. We formed a Consumer Banking division by combining our retail and consumer lending businesses. This new structure supports ongoing efforts to become our customers' primary bank.

These and other efforts have led to positive results in Consumer Banking.

- Citizens Financial Group grew demand deposits in 2011 while reducing higher-cost term deposits.
- We have increased the number of deposit customers who hold loan products for ten consecutive quarters.

- We increased the number of customers who bank with us online, a key driver of customer retention.
- Our retail customer satisfaction scores remain higher than the average of our peer group.

We have also built Citizens into a leading commercial bank. We want to meet the growing needs of our clients, and we want people to know us for our innovative thinking and global capabilities. Commercial Banking invested in and developed a number of specialty channels, including healthcare, technology, not-for-profits, franchise finance and sponsor finance, to help achieve these goals.

## Building a sustainable risk profile

The economic environment has been particularly challenging for the US banking industry and new regulations have had a negative impact on revenue. Through diligent execution of our strategic plan, we have worked to address these challenges and strengthen our financial position.

- As at 31 December 2011, Citizens Financial Group's Tier 1 Common Capital ratio of 13.85% ranked at the top of its peer group.
- Asset quality improved throughout the year, which resulted in a lower provision for loan losses.

Our progress was recognized by Standard and Poors, which upgraded our credit rating from A- to A in late November.

## Building sustainable value

Operating profit increased by 57% to £479 million. Net interest income fell by 1%. Net interest margin improved by 21 basis points to 3.06% reflecting changes in deposit mix,

continued discipline around deposit pricing and the positive impact from the balance sheet restructuring programme combined with strong commercial loan growth.

Non-interest income fell 2%. Higher gains on the sale of securities and higher account and transaction fees partially offset the impact of legislative changes on debit card and deposit fees. Total expenses were down 1%.

Our return on equity increased from 3.6% to 6.3%.

We plan to build on the progress we have made by focusing our efforts on five priorities.

- Employ a high performing and engaged workforce.
- Deliver a differentiated customer experience.
- Serve customers as their primary banking partner.
- Ensure a balanced and effective control environment.
- Deliver financial results consistent with a top-performing regional bank.

We believe this will position us to create even more value for our customers, colleagues and communities and live our brand, which emphasises that "good banking is good citizenship."



## Divisional review

# Global Banking & Markets



**John Hourican**  
Chief Executive,  
Global Banking & Markets

Performance highlights	2011	2010
Operating profit before impairment losses (£m)	1,610	3,515
Impairment losses (£m)	(49)	(151)
Operating profit (£m)	1,561	3,364
Return on equity (%)	7.7	16.6

## Serving customers well

Market conditions were difficult in 2011. We focused on giving our clients the solutions they needed. Sometimes we did that by changing how we work to best serve our clients and we also harnessed new technologies. We maintained leading positions in our chosen markets.

We worked closely with our clients to help them build their businesses and create value for their own customers.

The Housing Finance Corporation (HFC) makes loans to housing associations that provide affordable houses to tenants. We helped the HFC to take advantage of low borrowing costs through the sale of a 32-year bond. The HFC lent the money to seven housing associations so that they could fund affordable housing.

Heathrow is one of the world's busiest airports. With our help, BAA, its operator, raised US\$1 billion to invest in improvements. This was the first bond the company had sold in US dollars and the first secured UK corporate transaction in US dollars.

RBS closed a transaction of more than £2 billion for Bank of Ireland that assisted it in meeting its requirements under the Prudential Liquidity Assessment Review (PLAR) and was an important step in the normalisation of funding markets for the group. Subsequently, the bank successfully secured a significant external equity investment from a consortium of North American investors.

In China, we raised capital for our clients in the Hong Kong renminbi bond market and enhanced the products we offer in this

offshore currency so that we can take advantage of its increasing use. The Chinese weekly newspaper, The Economic Observer named us Best Offshore RMB House.

We used technology to provide new services to our clients. RBS Agile™ uses criteria that clients specify to undertake foreign exchange trades automatically on their behalf. That allows them to manage currency risks and strategy during difficult market conditions. The trading app we created for the Apple iPad gives people on the move access to our analysis, commentary and trading ideas.

Our customers valued the work we did for them and rewarded us accordingly. We were named Global Securitisation House of the Year and EMEA Loan House of the Year by the International Financing Review. We also achieved number one rankings in sterling denominated bonds (Dealogic), in global e-trading of high-frequency accounts (Euromoney FX Survey) and in US dollar/sterling foreign exchange options (Risk Interdealer).

Our European Structured Retail businesses were named the Quality Leader in Europe by a study of 164 third-party distributors carried out by Greenwich Associates. Our expertise in asset-backed securities (ABS) debt markets earned us the best bank for ABS and best bank for ABS research accolades from Credit Magazine.

## Building a sustainable risk profile

We reduced our reliance on unsecured funding. Third party assets fell from £396.7 billion in 2010 to £361.7 billion. The 3% increase in risk-weighted assets reflected the impact of regulatory changes, largely offset by risk management and efficient capital deployment.

## Building sustainable value

Operating profit fell by 54% to £1,561 million, driven by a 25% decline in revenue, much of this reflecting the deterioration in credit markets in the second half of the year as the European sovereign debt crisis intensified. Our return on equity was 7.7%, down from 16.6% in 2010.

In light of the changed market and regulatory environment, we have re-focused our strategic priorities for the longer term. We are combining our wholesale Banking business with the international arm of Global Transaction Services to create a Markets business and an International Banking unit. We will continue to offer world-class debt financing, transaction services and risk management, while seeking to reduce our use of wholesale funding and making our capital work harder to improve our return on equity.





## Divisional review

# RBS Insurance



**Paul Geddes**  
Chief Executive,  
RBS Insurance

Performance highlights	2011	2010
Net premium income (£m)	3,969	4,311
Net claims (£m)	(2,772)	(3,932)
Operating profit/(loss) (£m)	454	(295)
Combined operating ratio (%)	100	121
Return on equity (%)	10.3	(6.8)

### Serving customers well

Whether it's a major flooding event, a snow storm in winter, an earthquake or an erupting volcano, our combined efforts make us experts in dealing with crises. Last year we were on the ground in Tottenham just a few days after it was hit by the riots to share our expertise with those in need, and we made sure, via constituency MPs, that those affected in other areas knew the best way to submit their claims.

We are transforming how we handle customers' claims. We have a new claims system which will help to capture and process enhanced information about the claim, enabling a more pro-active process of management and settlement for customers. This multi-million pound investment will take place over three years. Already, we are processing all Churchill home claims, and motor claims for Direct Line, Churchill and Privilege on the new system.

We signed a five-year deal with Sainsbury's Finance, marking a significant new partnership for us, to provide underwriting, sales, service and claims management for their car insurance customers.

We also concluded a deal with Nationwide Building Society which will see our contract for the provision of home insurance expand to include post-sales service and claims management.

We launched Select from Direct Line, which is a new product for customers who need higher levels of cover for their home insurance. It was also our first product in the premium segment of the market. After the launch of Select from Direct Line, we also began providing premium home, motor and travel insurance for the clients of Coutts & Co.

NIG, our commercial broker business, increased its gross written premium by 4% compared with 2010. They also unveiled a new brand identity, which underpinned the work they have done to improve their product offering and service to brokers within their key segments. Direct Line for Business, our direct SME insurer, continued to perform well, achieving 100,000 policies for its residential property owners' product.

We also serve our customers by campaigning on important issues. During the year, we:

- continued our work with Brake, the road safety charity, and commissioned reports which we hope will reduce road deaths and injuries;
- sponsored Brake's Parliamentarian of the Year Award for MPs who campaign on road safety; and
- continued to campaign for higher fines for uninsured drivers.

### Building sustainable value

We remained the largest personal lines motor and home insurer in the UK, all built around strong brands such as Direct Line, Churchill and Privilege and we continued to provide support and reassurance to millions of UK motorists through our Green Flag breakdown recovery service. Direct Line Italy is also now the number one direct insurer in the country, partly assisted by the first full year of its sales agreements with FGA Capital, a joint venture between Fiat and Credit Agricole.

We continued to enhance our efficiency:

- combining our four legal underwriting identities into one;
- exiting seven more sites, bringing our total exited to 15 since 2010; and

- restructuring our Green Flag rescue service, enabling members to benefit from greater visibility of the Green Flag brand on UK roads.

Operating profit rose by £749 million in 2011, principally due to the non-repeat of the bodily injury reserve strengthening in 2010, de-risking of the motor book, exit of certain business segments and more benign weather in 2011. Gross written premium fell by 5% as we reduced volumes in unattractive markets. Our return on equity was 10.3% compared with a loss of 6.8% in 2010.

We continued to make good progress on plans to divest from the RBS Group, in line with the obligation to meet the European Commission's divestment deadline. This includes preparing the standalone systems and functions that will be required as a separate business.



## Divisional review

# Business Services and Central Functions



**Ron Teerlink**  
Chief Administrative  
Officer



**Bruce Van Saun**  
Group Finance  
Director



**Nathan Bostock**  
Head of Restructuring  
and Risk



**Elaine Arden**  
Group Human  
Resources Director

## Business Services

Business Services provides services that allow the rest of RBS to concentrate on serving our customers.

Our work with UK Retail in delivering the flagship NatWest branch in Westfield Mall, Stratford – the gateway to London's 2012 Olympic Park – was an emblem of what we do best.

It's the first branch with our new modular, sustainable design and includes helpful technology such as a 'Select A Service' system that directs customers to get the right solution first time, reducing waiting times and increasing satisfaction.

- Our property team helped to develop the new counter design.
- Our technology team introduced Select A Service, free WiFi and digital media services.
- Our legal teams made sure the branch was accessible to all customers.

What's more, we delivered the new branch from a blank shell in 11 weeks and under budget.

The feedback from customers and employees alike has been positive. The Westfield branch showcases a new approach to branch banking and it complements other things we are doing to work together, helping UK Retail to meet their Customer Charter promises.

### Building sustainable value

We helped the Group to reduce its costs.

- We exited more than 20 buildings that were no longer cost effective, saving over £20 million.
- Our new telephony system has already reduced costs by more than £86 million.
- LEAN initiatives have delivered savings of £55 million.

From property to technology and mobile banking to smarter ways of working in operations, Business Services looks to innovate continuously, finding solutions that improve the service our customers receive and helping the Group control its costs.

## Central Functions

### Finance

Finance is responsible for the external reporting of the Group's performance and financial position, including regulatory and central bank reporting. We have greatly improved the quality and transparency of RBS's external reporting.

The Treasury function drove the safety and soundness agenda with improvements in the Group's liquidity, funding and capital.

Our Strategy and Corporate Finance function focuses on Group strategy, capital allocation and disposals.

### Risk Management

Risk Management owns and develops the risk management frameworks and tools which the Group uses. It oversees the identification and management of risks. In 2011, the Group adopted its risk appetite framework and we began to embed Economic Capital and Stress Testing into our Annual Business Planning cycle.

### Human resources

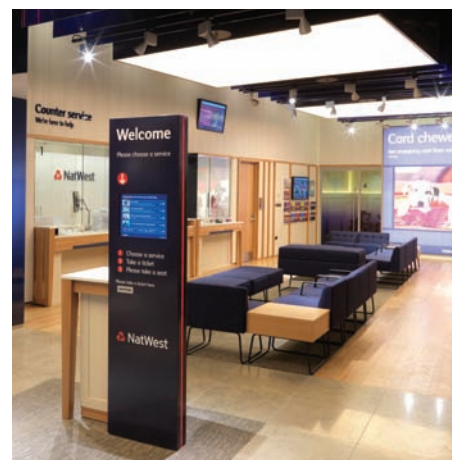
HR is responsible for creating performance through people and sets the strategic agenda for recruitment, development and remuneration. In 2011, we heard from 81% of our workforce through our global annual opinion survey, successfully hired hundreds of new graduates and delivered over 150 restructure projects globally across 39 jurisdictions.

### Legal, Secretariat and Group Regulatory Affairs

Our Legal, Secretariat and Group Regulatory Affairs functions help to set the framework within which the Group can deliver sustainable returns. They operate commercially but retain their independence and professional judgement so they can drive a culture of legal and regulatory compliance and good governance to protect the Group's franchise.

### Communications

Communications manages our relationships with external stakeholders and makes sure we keep our employees informed about developments in the business. RBS wants to be open to stakeholders and, during the year, Communications helped elected officials, commentators and others gain a better understanding of our business and our plans.



## Divisional review

# Non-Core Division



**Rory Cullinan**  
Head of  
Non-Core Division

Performance highlights	2011	2010
Operating loss before impairment losses (£m)	(284)	(29)
Impairment losses (£m)	(3,919)	(5,476)
Operating loss (£m)	(4,203)	(5,505)
Risk-weighted assets (£bn)	93.3	153.7

Non-Core Division is central to the Group's Strategic Plan. We are the primary vehicle for reducing risk and the size of the balance sheet. Non-Core allows the rest of RBS to focus on our strong customer franchises. Since we created the division in 2009 we have cut its assets by £164 billion.

When we cut the Group's assets, we reduce:

- the amount of capital the Group needs to hold. That can free-up capital to lend to other customers;
- the Group's reliance on short-term funding. That makes us more resilient; and
- the risks the Group faces. That makes us stronger.

We sold £22 billion of third party assets (TPAs) and negotiated the repayment of £22 billion of TPAs. This balance of asset sales and run-off means that we are not dependent on one way of reducing assets. That has been important in difficult market conditions.

We paid more attention to reducing the assets that most tie-up capital. These are mainly trading assets in our Non-Core Markets business. This has paid dividends. Our risk-weighted assets (RWA) fell by £60 billion. It also helped us to avoid having to find additional capital that we would have needed to meet new regulations.

We reduced our derivatives portfolio by £5 billion to £11 billion. It was £85 billion at the start of 2009.

We have reduced the Non-Core Real Estate portfolio by 49% since 2009 and in 2011 we:

- formed a partnership with Blackstone to manage a fund of £1.4 billion of UK loans;
- sold our Spanish portfolio to Perella Weinberg;
- sold hotels, including the remaining properties in our Hilton hotel portfolio; and
- agreed to sell our tenanted pub portfolio to Scottish & Newcastle.

We made good progress in our Portfolios & Banking business. We exited more than 130 individual loans. That reduced TPAs by more than £1 billion. We also agreed to sell a portfolio of leveraged loans totalling £500 million.

We have now signed or completed almost all of our individual business and country exits, with only a handful to go. In 2011, we completed the sales of our Argentinean business to Banco Comafi S.A. as well as the completion of the share sale of RBS Uzbekistan to Korea Development Bank.

Our impairments fell again. That reflected the reduction in assets as well as how we managed the remaining portfolio. Although we faced challenges in our real estate and Ulster Bank portfolios, impairments were down by £1.6 billion from 2010.

The performance of our ongoing businesses improved. We reduced our cost base from £2.3 billion last year to £1.3 billion in 2011, mainly because our headcount fell through country and business exits.

Our people continue to play a key part in the Non-Core asset reduction programme. The experience they have gained in the previous three years means we have built a strong knowledge base and skill-set. An important part of our success will be how well we manage our people as they come to the end of their journey with Non-Core. We have developed a bespoke programme of activities to support them and their managers as they begin to consider the next stage of their career, here in RBS or elsewhere.

Our operating loss of £4,203 million in 2011 was £1,302 million lower than the loss in 2010. The continued divestment of Non-Core businesses and portfolios has reduced revenue streams as well as the cost base. The improvement in other income reported for 2011 reflected fewer losses on disposal and lower downward valuation movements.



# Sustainability

We are rebuilding an RBS that is stronger and safer. The work we are doing on sustainability is an integral part of this, contributing to the long-term performance of the company and the return to ongoing profitability.

Within the Bank there is a robust governance framework in place for the management of sustainability. The Group Sustainability Committee (GSC) is a Board level committee, chaired by our Senior Independent Director, Sir Sandy Crombie. The GSC reviews sustainability strategy, values and policy.

The Committee is supported by the Group Sustainability Forum, a network of senior sustainability managers from across the organisation. This forum is responsible for driving actions agreed at the GSC.

Our stakeholder engagement programme allows us to understand the issues that matter most to those who have an interest in our business. The outcome of these engagements informs decision making across the Group. Treating customers fairly, supporting enterprise, being a good employer, keeping

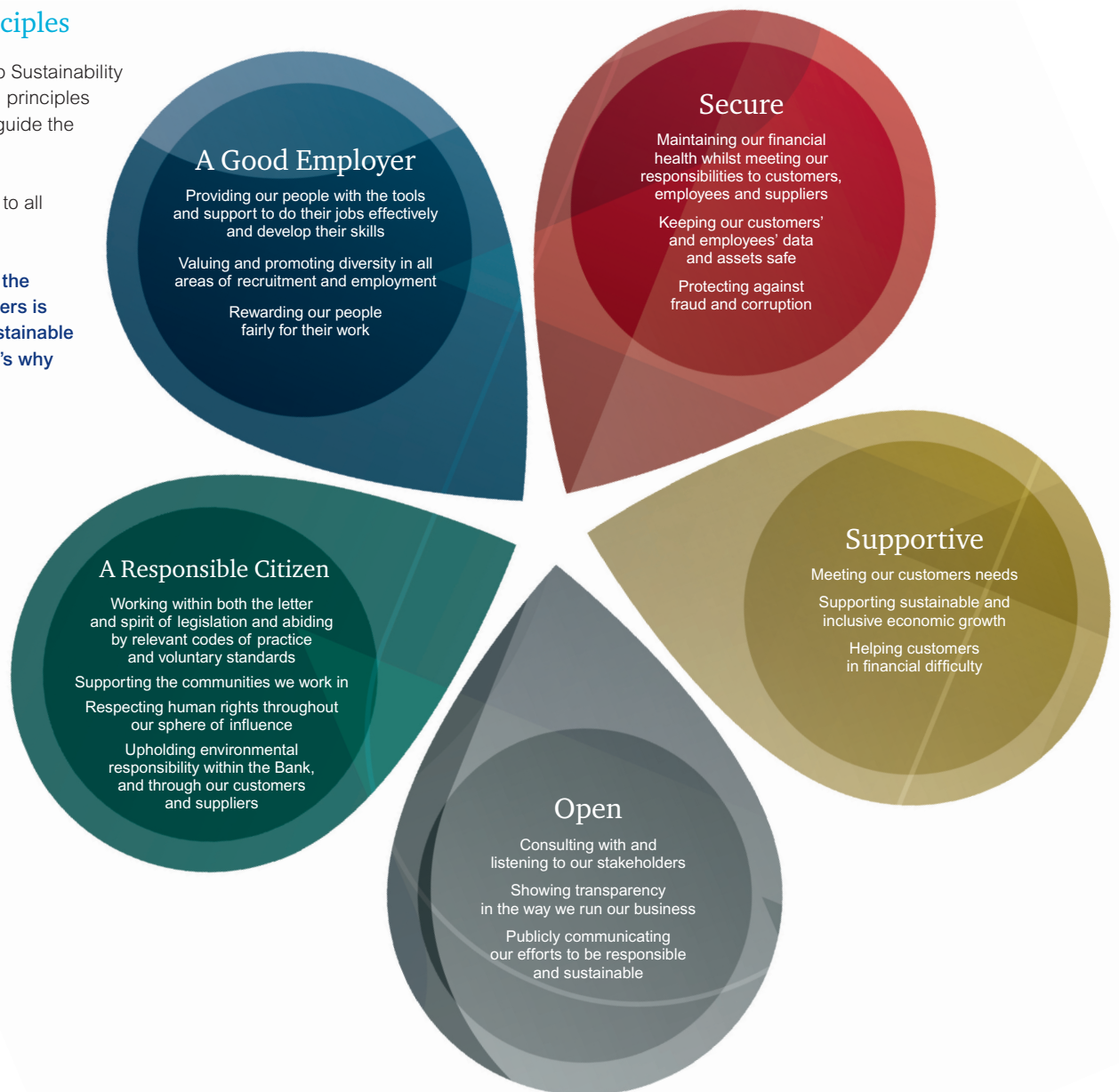
customer money and data safe, and managing our wider ethical, social and environmental impacts remain among the key concerns of our stakeholders. Through our ongoing opinion research we continue to measure the views of stakeholders including the general public, opinion formers (politicians, regulatory and industry bodies, journalists, media) and employees.

## Sustainability principles

In January 2012, the Group Sustainability Committee agreed a set of principles we are putting in place to guide the way we do business.

These principles will apply to all areas of the company.

**We believe that balancing the needs of all our stakeholders is the best way to deliver sustainable commercial success. That's why we're committed to being:**





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## Our five key themes

We focus our actions across five key themes within our business.

### Fair banking

We are working to provide a simple, accessible and innovative service for our customers in response to their requirements. Banking is central to the daily lives of almost everyone, and it's important that we understand their needs.

We met 23 out of the 25 goals in our UK customer charter and made good progress with our Ulster Bank and Citizens commitments. We have also taken steps to proactively identify people who may get into financial difficulty so we can work with customers to improve their situation. We have reviewed and simplified our charging structure and extended our mortgage offers as we aim to place customers at the heart of our business decisions.

### Supporting enterprise

Giving support to enterprise in the economies in which we operate is a cornerstone of our customer offering. The health of RBS is directly influenced by the health and success of the businesses it supports. Whether it's continuing to serve our existing clients in the best way possible or working to give start ups the help they need to become successful – we are here to support the growth of viable businesses. We provide advice and guidance to businesses through our relationship managers and in the form of business planning tools and online courses. We know it is a difficult time for some organisations and that's why we created a specialist team to provide support. In 2011, our Specialised Relationship Management teams supported over 5,000 businesses back to health.

### Employee engagement

Being a good employer is fundamental to our success as a business. Our employees are a diverse and talented group which we support and encourage through internal networks and training. We were included in The Times Top 50 Employers for Women in 2011 and received a Gold rating from Opportunity Now, an

external gender network. Our new Board has a range of skills and experience. Three of our board members are women, compared with one in 2010.

It has been another challenging year for some of our people as we continue to restructure the Group. We highly value our employees and seek to support them through this process with a range of tools and services to help them find other roles, either inside or outside of RBS. We also offer help with the emotional and practical challenges that they may experience.

### Safety and security

Managing the safety and security of our employees and customers is one of our fundamental responsibilities. We use intelligence to keep up with the challenging and changeable environment that we operate in, and continually review and innovate the way we work to respond to changes in the threats we face. In 2011, we invested around £3.5 million in branch security in the UK, Ireland and the US. We also invested in a new fraud profiling system to help us detect fraud more easily to minimise the losses for our customers. Internally, we also developed our global safety and health modules in 2011 and improved our internal service, Lifematters, which helps employees access the resource and support they need when they are experiencing difficulties at work or at home.

### Citizenship and environmental sustainability

As a large organisation we have a responsibility to manage our internal and external impacts. A core part of this is the way we govern our environmental, social and ethical risks, not only within our own operations, but also in relation to companies we lend to. In 2011, we implemented sector policies which clearly define our lending criteria in certain sensitive industries. 2012 will also see the launch of revised and more stretching targets to reduce our environmental footprint across our travel and energy, waste, water and paper use. These targets will drive forward the management of our own footprint, and allow our stakeholders to track our progress.

## RBS in the community

Being a good corporate citizen is also about supporting the communities in which we operate. Our Group community programmes are mainly focused around supporting enterprise, financial education and employee engagement.

We have worked with The Prince's Trust (PT) for over ten years to support the UK's next generation of entrepreneurs. Our partnership with PT won a number of awards last year, recognising the strength and depth of our relationship. In Scotland, we are strong supporters of The Prince's Scottish Youth Business Trust, where our sponsorship focuses on grants for small businesses and investment in entrepreneurs from disadvantaged backgrounds.

Our financial education programme MoneySense continues to be a success in the UK and Ireland. Our research into the habits of 40,000 young people in the UK told us that MoneySense is making children more aware of their financial responsibilities. Through our MoneySense programme we have a suite of products which help school children as well as adults and small businesses.

Helping our employees to support the causes that matter to them is a big part of what we do. We support the charitable contributions of our people, which meant in 2011 £6.6 million was given to 3,000 charities across the globe. As well as matching employee donations and fundraising, we also support employees to get involved. In 2011, over 50,000 employees volunteered a total of 236,600 hours to try and make a difference in this way.

There are also a number of programmes led by our business divisions. In total, in 2011, we invested £72 million in our communities through both cash and in-kind donations, as well as employee time.

For more information on sustainability and community initiatives, please visit [www.rbs.com/sustainability.html](http://www.rbs.com/sustainability.html)

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## Directors' report and summary financial statement

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## Our Board

### Chairman



#### **Philip Hampton (age 58)**

*Date of appointment:* appointed to the Board on 19 January 2009 and to the position of Chairman on 3 February 2009

Previously chairman of J Sainsbury plc and group finance director at Lloyds TSB Group, BT Group plc, BG Group plc, British Gas and British Steel plc, an executive director of Lazard's and a non-executive director of RMC Group plc and Belgacom SA. He is also a former chairman of UK Financial Investments Limited, which manages the UK Government's shareholdings in banks.

#### *External appointments*

- Non-executive director of Anglo American plc

#### *Board Committee membership*

- Group Nominations Committee (Chair)

### Executive directors

#### Group Chief Executive



#### **Stephen Hester (age 51)**

*Date of appointment:* appointed to the Board on 1 October 2008 and to the position of Group Chief Executive on 21 November 2008

Previously chief executive of The British Land Company PLC, chief operating officer of Abbey National plc and prior to that held positions with Credit Suisse First Boston including chief financial officer, head of fixed income and co-head of European investment banking. In 2008 he served as a non-executive director of Northern Rock plc.

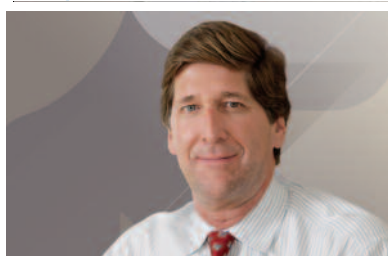
#### *External appointments*

- Trustee of The Foundation and Friends of the Royal Botanical Gardens, Kew

#### *Board Committee membership*

- Executive Committee

#### Group Finance Director



#### **Bruce Van Saun (age 54)**

*Date of appointment:* 1 October 2009

Over 25 years of financial services experience. From 1997 to 2008 he held a number of senior positions with Bank of New York and later Bank of New York Mellon, most recently as vice-chairman and chief financial officer and before that was responsible for Asset Management and Market Related businesses. Prior to that he held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. He has served on several corporate boards as a non-executive director and has been active in numerous community organisations.

#### *External appointments*

- ConvergEx Holdings, LLC

#### *Board Committee membership*

- Executive Committee

## Our Board *continued*

### Independent non-executive directors



**Sandy Crombie (age 63)**

Senior Independent Director

*Date of appointment:* 1 June 2009

Previously group chief executive of Standard Life plc. He was also previously a director of the Association of British Insurers, a member of the former Chancellor of the Exchequer's High Level Group on Financial Services and Chairman of the Edinburgh World City of Literature Trust. In 2007 he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland.

*External appointments*

- Chairman of Creative Scotland
- Member and vice-chairman of the Board of Governors of The Royal Conservatoire of Scotland
- President of the Cockburn Association

*Board Committee membership*

- Group Sustainability Committee (Chair)
- Board Risk Committee
- Group Nominations Committee
- Group Remuneration Committee



**Alison Davis (age 50)**

*Date of appointment:* 1 August 2011

Former director of First Data Corporation and chair of the board of LECG Corporation. She previously worked at McKinsey & Company, AT Kearney, as chief financial officer at Barclays Global Investors (now BlackRock) and managing partner of Belvedere Capital, a private equity firm focused on buy-outs in the financial services sector.

*External appointments*

- Member of the Advisory Board of City National Bank
- Non-executive director of Unisys Corporation
- Chair of the Governing Board of Women's Initiative for Self Employment

*Board Committee membership*

- Group Nominations Committee
- Group Remuneration Committee



**Tony Di Iorio (age 68)**

*Date of appointment:* 1 September 2011

Has worked for a variety of financial institutions starting with Peat Marwick (now KPMG) and then Goldman Sachs, ultimately as controller of the global firm. He was chief financial officer of the investment bank of NationsBank (now Bank of America) before joining Paine Webber and then Deutsche Bank where he became chief financial officer in 2006. After retiring in 2008 he served as senior adviser to Ernst & Young working with the firm's financial services partners in the UK, Europe, the Middle East and Africa.

*External appointments*

- None

*Board Committee membership*

- Board Risk Committee
- Group Audit Committee
- Group Nominations Committee



**Penny Hughes CBE (age 52)**

*Date of appointment:* 1 January 2010

Previously a director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB and a non-executive director of Home Retail Group plc and chairman of its Remuneration Committee. She spent the majority of her executive career at Coca-Cola where she held a number of leadership positions, latterly as President, Coca-Cola Great Britain and Ireland. Former non-executive directorships include Vodafone Group plc, Reuters Group PLC and The Gap Inc..

*External appointments*

- Senior independent director of Cable & Wireless Worldwide plc
- Non-executive director of Wm Morrison Supermarkets plc
- Trustee of the British Museum

*Board Committee membership*

- Group Remuneration Committee (Chair)
- Group Nominations Committee

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## Independent non-executive directors



### **Joe MacHale (age 60)**

*Date of appointment:* 1 September 2004

Held a number of senior executive positions with J.P. Morgan between 1979 and 2001 and was latterly chief executive of J P Morgan Europe, Middle East and Africa Region. Previously held non-executive roles at The Morgan Crucible Company plc and Brit Insurance Holdings plc. He is a fellow of the Institute of Chartered Accountants.

#### *External appointments*

- Trustee of MacMillan Cancer Support
- Chairman of Prytania Holdings LLP

#### *Board Committee membership*

- Board Risk Committee
- Group Nominations Committee



### **John McFarlane (age 64)**

*Date of appointment:* 1 October 2008

Former chief executive officer of Australia and New Zealand Banking Group Limited. Previously he was a group executive director of Standard Chartered and head of Citicorp/Citibank in the UK and Ireland. Former president of the International Monetary Conference and a former chairman of the Australian Bankers Association and has previously served as a director of the London Stock Exchange and a member of the Auditing Practices Board.

#### *External appointments*

- Non-executive director of Westfield Holdings Limited
- Deputy chairman and chairman designate of Aviva plc

#### *Board Committee membership*

- Group Nominations Committee
- Group Remuneration Committee



### **Brendan Nelson (age 62)**

*Date of appointment:* 1 April 2010

Former global chairman, financial services for KPMG. Previously held senior leadership roles within KPMG including as a member of the KPMG UK board from 1999 to 2006 and as vice chairman from 2006. Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008.

#### *External appointments*

- Non-executive director and chairman of the Audit Committee of BP plc
- Board member of Financial Skills Partnership
- Member of the Financial Reporting Review Panel
- Vice President of the Institute of Chartered Accountants of Scotland

#### *Board Committee membership*

- Group Audit Committee (Chair)
- Board Risk Committee
- Group Nominations Committee



### **Baroness Noakes, DBE (age 62)**

*Date of appointment:* 1 August 2011

An experienced director on UK listed company boards with extensive and varied political and public sector experience. A qualified chartered accountant, she previously headed KPMG's European and International Government practices and has been President of the Institute of Chartered Accountants in England and Wales. She was appointed to the House of Lords in 2000 and has served on the Conservative front bench in various roles including as shadow treasury minister between 2003 and May 2010. Previously held non-executive roles on the Court of the Bank of England, Hanson, ICI, John Laing and SThree.

#### *External appointments*

- Non-executive director and chairman of Audit Committee of Severn Trent plc
- Senior independent director and chairman of Audit and Nominations Committees of Carpetright plc
- Trustee of the Thomson Reuters Founders Share Company Ltd

#### *Board Committee membership*

- Group Audit Committee
- Group Nominations Committee

## Our Board *continued*

### Independent non-executive directors



**Arthur 'Art' Ryan (age 69)**

*Date of appointment:* 1 October 2008

Former chairman, chief executive officer and president of Prudential Financial Inc. Previously he held senior positions with Chase Manhattan Bank N.A. and was founding member of the Financial Services Forum. He is a non-executive director of Citizens Financial Group, Inc.

*External appointments*

- Non-executive director of Regeneron Pharmaceuticals Inc.
- Active member of numerous community boards

*Board Committee membership*

- Group Nominations Committee



**Philip Scott (age 58)**

*Date of appointment:* 1 November 2009

Wide-ranging experience of financial services and risk management, including previous responsibility for Aviva's continental European and International life and long-term savings businesses. He held a number of senior executive positions during his career at Aviva including his role as group finance director until January 2010. President Elect of the Institute and Faculty of Actuaries and Fellow of the Association of Certified Public Accountants.

*External appointments*

- Non-executive director and chairman of the Audit Committee of Diageo plc

*Board Committee membership*

- Board Risk Committee (Chair)
- Group Audit Committee
- Group Nominations Committee

### Group Secretary



**Aileen Taylor (age 39)**

*Date of appointment:* 1 May 2010

A qualified solicitor, joined RBS in 2000. She was appointed Deputy Group Secretary and Head of Group Secretariat in 2007, and prior to that held various legal, secretariat and risk roles including Head of External Risk, Retail, Head of Regulatory Risk, Retail Direct and Head of Legal and Compliance at Direct Line Financial Services.

She is a fellow of the Chartered Institute of Bankers in Scotland, a fellow of the Industry and Parliament Trust and a member of the European Corporate Governance Council.

## Executive Committee

Stephen Hester, Group Chief Executive

Bruce Van Saun, Group Finance Director

For biographies see page 33

**Ellen Alemany (age 56)**

**Chief Executive, Citizens and Head of Americas**

Ellen Alemany joined the RBS Group in June 2007 as Head of RBS Americas. She became Chief Executive Officer of Citizens Financial Group, Inc. in March 2008 and Chairman in March 2009. Prior to these appointments, Ellen was the chief executive officer for Global Transaction Services at Citigroup, one of Citi's 12 publicly reported product lines. Ellen joined Citibank in 1987 and held various positions including executive vice-president for Commercial Business Group, chairman and chief executive officer for Citibank International plc and Citibank's European bank. She also served on the Citibank, N.A., Board of Directors. Ellen was elected to serve on the Board of Directors of Automatic Data Processing, Inc., beginning in January 2012.

**Nathan Bostock (age 51)**

**Head of Restructuring & Risk**

Nathan Bostock joined the RBS Group in June 2009. He is Head of Restructuring and Risk with responsibility for Risk Management, Legal & Regulatory Affairs, Global Restructuring Group and the Asset Protection Scheme. Before joining RBS, Nathan spent eight years with Abbey National plc in several roles and was latterly the chief financial officer and main board director responsible for Products & Marketing, HR, Insurance and Cards. Before joining Abbey in 2001, Nathan spent ten years with RBS in a number of roles, including Chief Operating Officer of Treasury and Capital Markets and Group Risk Director. A Chartered Accountant, Nathan worked with Coopers & Lybrand, before starting his career in banking. He spent seven years in Chase Manhattan Bank in a variety of areas and functions. He also holds a BSc (Hons) in Mathematics.

**Paul Geddes (age 42)**

**Chief Executive, RBS Insurance**

Paul Geddes was appointed as Chief Executive of RBS Insurance in August 2009, and is leading a significant transformation of the business ahead of its planned divestment from the Group. Prior to his move to Insurance, Paul was CEO of RBS Group's UK retail banking business, having joined RBS Retail in 2004 as Managing Director with responsibility for products and marketing. Before financial services, Paul held a number of senior roles in multi-channel retailing in the GUS and Kingfisher groups. Paul started his career in Marketing with Procter & Gamble in UK and European roles. Paul read PPE at Oxford, graduating in 1990, and remains a supporter of his college through music scholarships. He is a Fellow of the Chartered Institute of Bankers in Scotland, a member of the ABI Board and a member of the FSA Practitioner Panel.

**Brian Hartzler (age 45)**

**Chief Executive, UK Retail, Wealth and Ulster Bank**

Brian Hartzler has been the Chief Executive Officer for Retail, Wealth and Ulster Bank since August 2009. He joined RBS from ANZ in Australia, where he was chief executive officer Australia, as well as global segment lead for retail and wealth. Brian joined ANZ in 1999 as managing director, consumer finance, and later ran ANZ's personal banking division.

Prior to joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco, and Melbourne. Brian is a graduate of Princeton University and holds joint US and Australian citizenship. Brian will leave the RBS Group in summer 2012.

**John Hourican (age 41)**

**Chief Executive, Markets & International Banking**

John Hourican was appointed Chief Executive, Markets & International Banking in January 2012 having served as Chief Executive of its predecessor, Global Banking & Markets, since October 2008. Prior to this John held a variety of positions across the RBS Group, including Chief Financial Officer of ABN AMRO Group, Head of Leveraged Finance and Chief Operating Officer of Global Banking & Markets. John received a degree in Economics and Sociology from the National University of Ireland and received a Postgraduate Diploma in Accounting from Dublin City University before starting his career at Price Waterhouse, where he worked in Dublin, London and Hong Kong. He is a fellow of the Institute of Chartered Accountants in Ireland.

**Chris Sullivan (age 54)**

**Chief Executive, UK Corporate**

Chris Sullivan was appointed Chief Executive of the UK Corporate Banking Division (including Global Transaction Services) in August 2009. His previous role was Chief Executive of RBS Insurance. Prior to this, Chris was Chief Executive of Retail and Deputy Chief Executive of Retail Markets. Chris is a member of the CBI President's Committee, vice-chairman of the Global Banking Alliance for Women, a governor of the IFS and a governor of Ashridge Management College. Chris is also chairman of the Interalpha group of banks. He spent five years as chief executive of Lombard Asset Finance and under his leadership it attained a leading position in the UK and Europe. Chris Sullivan earned his Fellowship of the Chartered Institute of Bankers in Scotland for his services to Scottish Banking.

**Ron Teerlink (age 51)**

**Chief Administrative Officer**

Ron Teerlink joined the RBS Group in April 2008 as Chief Executive of Business Services, becoming the Group Chief Administrative Officer in February 2009. At the same time he was re-appointed to the Managing Board of ABN AMRO to oversee the integration programme. Ron started his career with ABN Bank in 1986 as an IT/Systems analyst and held various functional positions before becoming Chief Operating Officer of the Wholesale Clients Business in 2002. He was appointed Chief Executive Officer of Group Shared Services in 2004 and joined ABN AMRO's Managing Board in January 2006, where he was responsible for Services and Market Infrastructure. Ron holds a Masters degree in Economics from Amsterdam's Vrije Universiteit.

### Management Committee

The Management Committee, comprising our major business and functional leaders, meets regularly, up to four times annually, as a vehicle for strategy and business performance review.

It comprises members of the Executive Committee plus a number of other senior executives. Full details of membership of the Management Committee can be found on the Group's website [www.rbs.com](http://www.rbs.com).



## Our approach to Governance

**“It is important to us that we demonstrate high standards of corporate governance in all of our activities.”**

Phillip Hampton, Chairman

### How does RBS comply with key corporate governance standards?

The company is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2011, the company has complied with all of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in May 2010 (the “Code”) except in relation to the provision (D.2.2) that the Group Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. The company considers that this is a matter which should rightly be reserved for the Board. No director is involved in decisions regarding his or her own remuneration.

The company has also implemented the recommendations arising from the review of governance in banks and financial institutions undertaken by Sir David Walker (the “Walker Review”).

The company has also complied in all material respects with the Financial Reporting Council Guidance on Audit Committees issued in December 2010.

Under the US Sarbanes-Oxley Act of 2002 (the “Act”), specific standards of corporate governance and business and financial disclosures apply to companies with securities registered in the US. The company complies with all applicable sections of the Act.

### How has the structure and composition of the Board changed?

The Board currently comprises the Chairman, two executive directors and ten independent non-executive directors, one of whom is the Senior Independent Director. The Board functions effectively and efficiently and is considered to be of an appropriate size.

Three new independent non-executive directors joined the Board in 2011; Alison Davis and Baroness Noakes were appointed on 1 August 2011 and Tony Di Iorio was appointed on 1 September 2011. These appointments have also strengthened the membership of a number of Board committees with Alison Davis joining the Group Remuneration Committee, Tony Di Iorio joining the Group Audit Committee and Board Risk Committee, and Baroness Noakes joining the Group Audit Committee. Colin Buchan retired as a director in August 2011 following nine years on the Board. John McFarlane will step down from the Board on 31 March 2012.

### Successful governance starts at the top

The Board is the main decision-making forum at Group level, setting the strategic direction of the Group and ensuring that the Group manages risk effectively.

The Board is collectively responsible for the long-term success of the company and is accountable to shareholders for financial and operational performance. The Board’s terms of reference includes key aspects of the company’s affairs reserved for the Board’s decision.

All directors participate in discussing strategy, performance and the financial and risk management of the company. Meetings of the Board are structured to allow sufficient time for consideration of all items and the Chairman encourages constructive challenge and debate.

The roles of Chairman and Group Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive and non-executive directors. The Group Chief Executive has responsibility for all Group businesses and acts in accordance with the authority delegated by the Board. There are a number of areas where the Board has delegated specific responsibility to management, including responsibility for the operational management of the Group’s businesses as well as reviewing strategic issues and risk matters in advance of these being considered by the Board and/or its Committees.

The directors provide the Board with the mix of knowledge, skills and experience required. The Board Committees comprise of directors with a variety of relevant skills and experience so that no undue reliance is placed on any individual.

The non-executive directors combine broad business and commercial experience with independent and objective judgement. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership and maintain the highest standards of integrity across the Group’s business activities.

### Is there a boardroom diversity policy?

The Group is supportive of Lord Davies’ recommendations on diversity and aspires to meet the target of 25 per cent female board representation in 2012. A boardroom diversity policy was established in December 2011 and the search for Board candidates will continue to be conducted with due regard to the benefits of diversity on the Board. However, all appointments to the Board are based on merit and the skills and experience an individual can bring to the Board.

### How often are directors re-elected?

All directors of the company stand for re-election annually. With the exception of John McFarlane, all directors will stand for election or re-election by shareholders at the 2012 Annual General Meeting.

### How often does the Board meet?

There were nine scheduled Board meetings during 2011. In advance of each Board meeting, the directors were supplied with comprehensive papers in hard copy and electronic form. At each Board meeting the Chairman provided a verbal update and the Group Chief Executive provided a written report on business activities. In addition to the scheduled meetings, 24 additional meetings of the Board and Committees of the Board were held.



## What is the role of the Board Committees?

**The Group Audit Committee** is comprised of at least three independent non-executive directors and assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's system and standards of internal controls, and monitors the Group's processes for internal audit and external audit and reviews the practices of the Divisional Risk and Audit Committees.

**The Board Risk Committee** is comprised of at least three independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and oversees the operation of the Group Policy Framework.

**The Group Remuneration Committee** is comprised of at least three independent non-executive directors and has oversight of the Group's policy on remuneration. It also considers senior executive remuneration and makes recommendations to the Board on remuneration of executive directors.

**The Group Nominations Committee** comprises all of the non-executive directors, and is chaired by the Chairman of the Group. It assists the Board in the selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board Committees.

**The Group Sustainability Committee** is chaired by the Senior Independent Director and is attended by the Chairman and members of the Group executive and senior management. It is responsible for reviewing the Group's overall sustainability strategy, values and policies and aligning the Group's approach to ethical, social and environmental issues.

**The Executive Committee** is responsible for managing Group-wide issues and those operational issues that affect the broader Group. It reviews strategic issues and initiatives, monitors financial performance and capital allocations and considers risk strategy, policy and risk management.

### How do the Committees interact?

The Chair of each Committee reports back to the Board on matters raised at Committee meetings to ensure that other Board members are kept apprised of the areas considered by each Committee. Additionally, agendas for Committee meetings are circulated to all directors for information.

### How do the directors get the information they need to fulfil their roles properly?

All directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Group Secretary who is responsible to the Board for ensuring that Board procedures are followed and for advising on all governance matters. In addition, all directors are able, if necessary, to obtain independent professional advice at the company's expense.

Members of the executive management team attend and make regular presentations at Board meetings to give the directors greater insight into business areas. Additionally, the Group Audit Committee and Board Risk Committee undertake an annual programme of visits to the Group's business and control functions. An invitation to attend is extended to all non-executive directors.

### Board induction and continuing professional development

In line with the recommendations of the Walker Review and the Code, the Group Secretary has reviewed the induction programme for new directors. Each new director receives a formal induction on joining the Board, including visits to the Group's major divisions and meetings with directors, senior management and key stakeholders. The induction is tailored to the director's specific requirements.

The Group Secretary also provides a comprehensive ongoing professional development programme for directors. Directors are advised of appropriate training and professional development opportunities and undertake the training and professional development they consider necessary to assist them to carry out their duties as a director.

### How does the Board review its performance?

The Board reviews its performance annually. An external evaluation of the Board takes place every three years with the last externally facilitated Board evaluation having taken place in 2009. In 2011, a formal and rigorous internal evaluation of the performance of the Board, key Board Committees and individual directors was conducted by the Group Secretary. A detailed framework of questions was used to structure individual meetings held with each director and regular meeting attendees. Amongst the areas reviewed were Board role and composition, Group strategy, risk management, Board meetings and processes, external relationships, Board Committees, directors' support and information, and continuing professional development.

The Board has considered and discussed reports on the outcomes of the evaluations and is satisfied with the way in which the evaluations have been conducted.

# Summary remuneration report

## Letter from Penny Hughes Chair of the Group Remuneration Committee



Dear Shareholder,

Remuneration in banks continues to be an important and sensitive topic and this is particularly true at RBS. And so it has been another eventful and challenging year for the Group Remuneration Committee.

It is worth reiterating that since 2008, there has been a complete change of the executive leadership team at RBS. Those who were responsible for the problems of the past have been replaced by a team charged with fixing them. On pay, we operate with a strong sense of restraint but it's important that our people believe that they'll be treated fairly and competitively. We consider that this is in the best interests of our shareholders and customers. We aim to set pay and incentives based on performance and market conditions, appropriate to the different markets in which our people operate, the objectives we set them and results we get from them, and a desire to minimise costs where consistent with our wider goals. We are a commercially run bank and that principle must apply to how we pay all of our employees. Overall, our pay is towards the lower end of market norms in aggregate.

My priority as Chair of the Group Remuneration Committee is to implement a remuneration policy that serves the long-term interests of our shareholders including, of course, the UK taxpayer. We recognise the duty of public accountability and therefore the need to be sensitive to the public's views on pay, particularly for senior people. It is a difficult balance that we are trying to achieve in reconciling the, at times, conflicting objectives of our various stakeholders.

### Financial Performance

A key factor in the Committee's deliberations is the financial performance of the Group. RBS is a unique recovery challenge and success must be measured by the progress we are making towards being a safer, stronger and more sustainable bank. Effectively we are asking our management team to do two jobs; to successfully compete with strong banking competitors across our ongoing businesses AND to recover RBS from its legacy risk profile, itself the largest corporate restructuring on record. In 2011 the Group put even greater priority on actions to strengthen its balance sheet and reduce risks in the face of difficult economic and financial market conditions, as it continued to work through the restructuring plan embarked upon in 2009. Key financial achievements for 2011 were:

- Core Bank Operating Profit of £6.1 billion represents a strong performance and compares well with other similar sized banks;

- Core Bank's Return on Equity (ROE) was 10.5%, with Retail & Commercial ROE at 11.3%, or 16.6% excluding Ulster Bank. Our investment bank's ROE was 7.7%, notwithstanding the challenging market conditions;
- The Group funded balance sheet decreased by £49 billion to £977 billion;
- The Core Tier 1 ratio of 10.6% and tangible net asset value per share of 50.1p were broadly stable over the year, in spite of de-risking costs and regulatory impacts;
- Group operating profit was £1.9 billion, up 11% after adjusting for the disposal of Global Merchant Services at the end of 2010;
- Group expenses were 7% lower in 2011 than in 2010 at £15.5 billion; with staff costs down 9%;
- Impairment losses totalled £7.4 billion, which is down 20% from 2010; and
- Targets for reducing Non-Core assets have been exceeded, reducing by £44 billion to £94 billion in 2011.

As well as the financial achievements above, the Committee takes into account the Group's performance against a range of broader strategic objectives, including support to personal and business customers in the communities in which it operates. In 2011 gross new lending to business increased by 22%, with lending to SMEs up 4%, exceeding the Group's Merlin targets. The Committee also considers the scale of the businesses our leadership team are managing. For example, during 2011, our 2,000 UK retail branches served 18 million customers; our corporate banking division accounted for almost half of all new lending to UK SMEs; and our investment bank operated in 38 countries and arranged €12 billion of loans and €10 billion of bonds for UK corporates.

Whilst there is still much to do to deliver an overall profitable business as we pay for the costs of repair, we are already much better positioned as a safer, stronger bank.

### Executive directors

Events at the start of 2012 put the difficulty of balancing our stakeholders' interests firmly into the public spotlight. The bonus for Stephen Hester in relation to the 2011 performance year attracted considerable attention from the media and politicians and I wanted to explain the reasons behind that decision.

We have been very clear over recent years that pay for performance, not failure, is at the heart of our remuneration policy. Under the leadership of the current executive directors, RBS has made significant progress in exceptionally difficult circumstances. In recognition of this, the Board believed, and still believe, that the award to its Group Chief Executive was justified in the context of the market and appropriate based on achievement against the performance objectives that had been set (see page 282 of the 2011 Report & Accounts for further details). The Board's decision was well-balanced and took into account all the circumstances, including the fall in share price over 2011, which was mirrored in most other banks. The award was offered on terms that are arguably amongst the most reformed in our industry and endorsed at the 2011 AGM by over 99% of our shareholders. The award would have been delivered entirely in shares, been deferred and subject to clawback.

Stephen Hester subsequently decided to waive his bonus because the attention it received had become a damaging distraction for him and the Group. Since this announcement, many of our major shareholders have expressed overwhelming support for all members of our leadership team and are supportive of the Group Remuneration Committee's efforts to ensure that these individuals are fairly rewarded as they continue to lead the turnaround of the Group. There is significant concern that the alternative - attempting to operate on a less-than-commercial basis - would be value destructive if RBS becomes an unattractive place to work.

I am convinced that the remuneration approach that we have developed will serve all our stakeholders well in the long term.

#### Group-wide remuneration arrangements

It is not only the executive directors' interests that the Committee considers. It is also tasked with recognising the work of all our employees, whilst maintaining a balance and showing restraint. Examples of where we have shown such restraint are as follows:

- More than 10,000 of the Group's most senior employees will not receive a pay increase for 2012;
- Average salary increases for 2012 will be less than 1%;
- 85% of employees eligible for a bonus will receive less than £10,000. The majority of employees eligible for a bonus will receive less than £2,000;
- The investment bank bonus pool is down by 58% over the last year. This follows a 33% reduction between 2009 and 2010; and
- There has been a 43% reduction at Group level in variable compensation. Details of our variable compensation can be found in Note 3 on page 332 of the 2011 Report & Accounts.

The Committee recognises the importance of driving cultural change, not just through pay, but in the wider sense. As Group Remuneration Committee Chair, I am actively involved in the Group's initiatives relating to diversity, graduate recruitment and management development. I'm impressed by the quality and depth of these initiatives around the Group, many of which have received award-winning recognition.

Another area of focus for the Group Remuneration Committee in 2011 has been how value is shared between investors and employees. Shareholders have rightly questioned whether banks, and in particular investment banks, have got this right in the past. We are working hard to get this right now and in the future. A balance is always required between minimising compensation costs, and so maximising profits in the year, and protecting the business from which future profits can flow.

We have sought to strike this balance fairly, while erring on the side of restraint, reflecting the nature of our ownership. In this context, I am pleased to report that the returns achieved in our investment bank, while below our targets, compare favourably to our competitors. Yet our compensation ratios are among the lowest and this has been the position for the last three years.

We do consider that pay at all investment banks became overheated during the exuberant period of growth pre-financial crisis. It is clear that the industry as a whole delivered results in 2011 below the cost of capital. This is an unsustainable position with further significant costs of regulation to come. We are committed to taking necessary action on pay alongside the other strategic business decisions we make around the reduced size and scope of our activities in order to build a sustainable business, capable of serving customers and delivering fair and adequate returns for shareholders and employees.

Our restrained approach to pay is not without risk. Employees at all levels of RBS have choices about where they work. If we allow a sizeable gap to open up between how we pay and how others pay, then it will affect our ability to attract and retain good, well-motivated people to work here. We do not believe that this would be in the interests of our shareholders, our customers, or the taxpayer.

We believe we are getting the balance right in difficult circumstances. Under the leadership of Stephen Hester and his team, RBS is a challenging but inspiring place to work. Employee engagement continues to improve, which demonstrates the pride our people have in helping to fix and recover from one of the biggest failures in corporate history. Whilst the road to recovery is proving more challenging than probably any of us envisaged, our people are working hard to help return the Group to financial strength and the Group Remuneration Committee remains committed to helping create an environment in which they can meet their ambitions.

The remuneration process undertaken by the Group Remuneration Committee is thorough and robust. This year's report contains more detail on the decision process to demonstrate to you how engaged and committed the Committee is to making the best decisions for the benefit of shareholders, employees and wider stakeholders.

Finally, let me thank my fellow Committee members for their extensive contributions and all those who supported the Committee to help us weigh up all the relevant factors and seek the right balance in our decision-making.

Penny Hughes  
Chair of the Group Remuneration Committee  
22 February 2012

## Summary remuneration report *continued*

### Executive directors

Summary of executive directors' remuneration policy for 2011 and 2012:

	Policy	2011 arrangements	2012 arrangements
Base salary	Base salaries are reviewed annually.	Stephen Hester: £1,200,000 Bruce Van Saun: £750,000 (from 1 April 2011)	No increase to executive directors' base salary.
Annual Incentive	Executive directors have a normal maximum incentive opportunity of 200% of salary (with an exceptional maximum of 250% of salary).	For the 2011 performance year, the annual incentive was delivered as an allocation to Share Bank.  <b>Stephen Hester:</b> Provisional maximum allocation of 6.0 million shares to Share Bank. Final allocation based on performance: 3.6 million shares. Stephen Hester has waived this award.  <b>Bruce Van Saun:</b> Provisional maximum allocation of 3.75 million shares to Share Bank. Final allocation based on performance: 3.0 million shares.  The shares will vest in two equal tranches on the first and second anniversaries of the date of grant. Prior to vesting, shares will be subject to clawback and shares must be held for a further six months post vesting.	Both Stephen Hester and Bruce Van Saun will have a maximum incentive opportunity of 200% of salary (with an exceptional maximum of 250% of salary).  Incentives will be awarded entirely in shares which will vest in two equal tranches on the first and second anniversaries of the date of grant. Prior to vesting, shares will be subject to clawback and shares must be held for a further six months post vesting.
LTIP	Awards to executive directors have a normal maximum limit of 400% of salary.  All awards are subject to performance conditions, deferral and clawback.	Both Stephen Hester and Bruce Van Saun received share awards capped at 375% of basic salary.  The awards will vest in 2014 in an amount based on the achievement of performance conditions. These will each have the ability to deliver a number of shares worth up to 100% of salary; however, the number of shares that vest will be subject to an overall cap in value of 375% of salary (based on salary and share price at the time the award was made).  An additional six month holding period after vesting will apply.	Stephen Hester and Bruce Van Saun will be granted long term share awards which will ultimately vest in a range between zero and a cap of 300% of basic salary depending on performance over the next three years. These share awards have a notional value at grant assessed at £1.62 million and £1.01 million respectively.  The awards will vest in 2015 in an amount based on the achievement of performance conditions (see description on page 44). These will each have the ability to deliver a number of shares worth up to 100% of salary; however, the number of shares that vest will be subject to an overall cap in value of 300% of salary (based on salary and share price at the time the award was made). The notional value of these awards would be 45% of face value, which is 135% of salary.  An additional six month holding period after vesting will apply.
Benefits (including Pension)	Benefits are available from a flexible account on a similar basis to other employees.  None of the current executive directors are members of the Group's defined benefit pension plans. Current executive directors receive an allowance in lieu of pension contributions.	Benefits provided in line with Group policy.  35% (of base salary) pension allowance.	Benefits provided in line with Group policy.  35% (of base salary) pension allowance.

### Shareholding guidelines

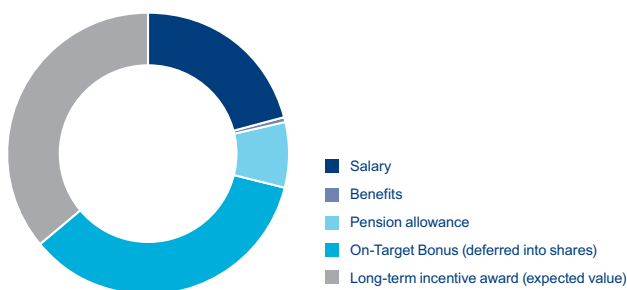
The Group operates shareholding guidelines for executive directors. The target shareholding level for the Group Chief Executive is 200% of gross

annual salary and 100% of gross annual salary for executive directors. A period of five years is allowed in which to build up shareholdings to meet the guideline levels.

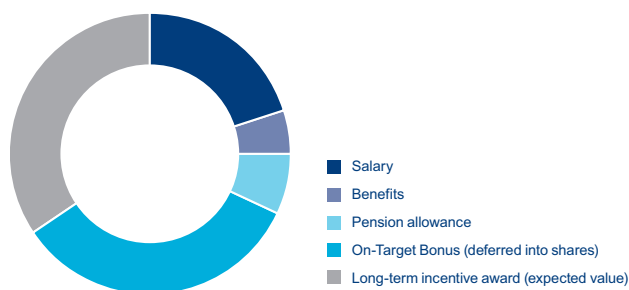
### The mix of executive directors' remuneration

The charts below show the composition of remuneration opportunity for on-target annual performance, with the long term incentive awards shown at the expected value. Short term incentive payments earned in relation to 2012 performance will be deferred and will vest, subject to satisfactory performance. The actual value of the long term incentive awards will depend on performance over the period 2012 to 2014 and the share price at the time the awards vest.

#### Group Chief Executive - Stephen Hester



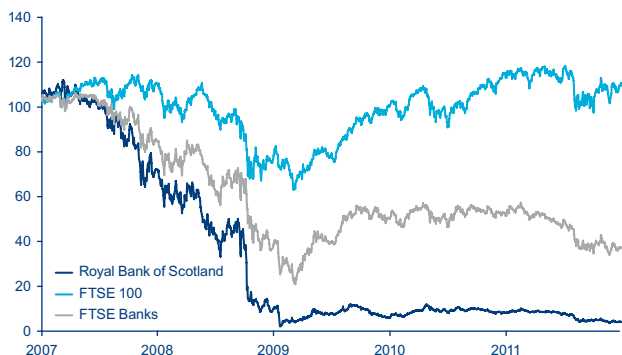
#### Group Finance Director - Bruce Van Saun



### Total Shareholder Return performance

The first graph below shows the performance of the company over the past five years in terms of TSR compared with that of the companies comprising the FTSE 100 Index. This index has been selected because it represents a cross-section of leading UK companies. The TSR for FTSE banks for the same period has been added for comparison.

The TSR for the company and the indices have been rebased to 100 for 2006. The second graph shows the same performance of the company during 2011.



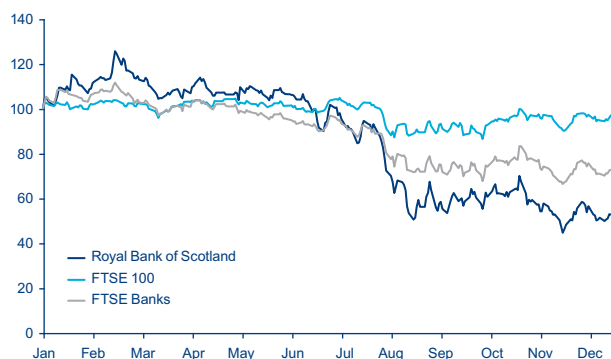
Implementation of the Group's recovery plan started in January 2009 with the publication of the preliminary 2008 losses. The share price reached a low point of just under 10p per share on the news.

Since that date to 22 February 2012, the day before the Group's 2011 results announcement, the Group's share price has risen 265% which compares to 164% and 145% respectively for the FTSE banks index and the FTSE 100 index as a whole.

### Total shareholder return - one year

Financial shares outperformed the market for most of the first half of the year. However, focus shifted to the fiscal positions of peripheral Eurozone economies, particularly Greece and Italy, in the summer. This prompted investor concerns about the implications for banks exposed to these countries and caused stresses in European bank funding markets. The RBS share price was impacted broadly in line with other domestic UK banks and European peers, underperforming the market in the second half. Accompanying this was a reduction in the consensus outlook for bank earnings, driven by a weaker outlook for growth in the global economy.

In addition, the weight of new regulation on European banks raised concerns about banks' ability to generate attractive returns. Specifically in the UK, the publication of the ICB report in September recommending the ring-fencing of retail banking operations was perceived as detrimental for RBS and its UK domestic peers, although details of the regulations are yet to be finalised.



## Summary remuneration report *continued*

### Setting performance for 2012

The executive directors' annual performance objectives are approved by the Group Remuneration Committee. The risk objectives are reviewed by the Board Risk Committee.

Core objectives	Stephen Hester	Bruce Van Saun
Strategic progress	Revise original Strategic Plan to respond to significant changes in the macro environment and outlook for wholesale banking. Deliver execution of revised strategy.	Monitor and improve the Group and Divisional Strategic Plans. Drive effective design and implementation of revised plan. Work with CEO on Group Strategy/M&A/APS.
Business delivery and financial performance	Lead delivery of overall performance, including measures relating to ROE, cost management, Core Tier 1 capital ratio, funding and risk profile, lending, EU mandated disposals and restructuring of the wholesale business.	Ensure statutory, regulatory and management reporting is compliant with all external and internal standards. Continue to improve 'best in class' external reporting. Provide strong CFO role to the business through strategic planning, budgeting, forecasting and reporting. Ensure a robust capital and funding planning framework. Drive efficiency. Successful completion of EU mandated disposals.
Risk and control	Continue culture change across the Group including delivery of measures relating to wholesale funding reliance and liquidity reserves and leverage ratio. Deliver against agreed APS objectives.	Implementation of effective regulatory changes impacting capital, funding, liquidity. Improve quality of risk and financial data. Continue development of Internal Audit function. Deliver against agreed APS objectives.
Stakeholder management	Achievement of customer franchise measures, maintain strong and effective relationships with external stakeholders and continue progress on TCF actions.	Continue to develop effective external relationships, including investors, rating agencies and regulators.
People management	Ensure each division/function has high quality leadership teams, build out performance management, talent management and succession planning across the Group. Maintain effective employee engagement.	Lead upgraded team and build positive culture. Contribute to overall Group management.

The Group Remuneration Committee will determine the actual value of the award by reference to the extent to which executive directors have met the performance targets. Awards will be paid entirely in shares and will vest in two equal tranches on the first and second anniversaries of the date of grant. Clawback provisions will apply prior to the vesting of the shares.

### Long-term incentive plan (LTIP)

2012 Awards have four performance categories, each with equal weighting.

#### Core bank economic profit (25%)

As the value of the Group will be determined by the Core Bank's ability to generate enduring returns for shareholders, the Economic Profit measure is focused on the Core Bank to ensure that performance reflects enduring earnings for the bank. Economic Profit, being a risk-adjusted financial measure, is consistent with the FSA Code and also provides a balance between measuring growth and the cost of capital employed in delivering that growth.

Core bank Economic Profit is defined as return attributable to shareholders less equity multiplied by the cost of equity, where:

*Return attributable to shareholders* is Core Operating Profit reported in the financial statements, excluding movements in the fair value of own debt and APS, taxed at a standard tax rate.

*Equity* is defined as tangible equity allocated to the Core businesses, with adjustments to strip out distorting impacts arising from movements in the fair value of own debt, available-for-sale reserves and cash flow hedging reserve.

*Current cost of equity* is 12%, which is subject to review at least annually.

At the end of the performance period for the 2012 awards, the Group Remuneration Committee will assess economic profit performance against plan in light of targets set by it at the start of the performance period. Details of the actual targets, and performance against these, will be disclosed retrospectively once the awards vest.



### Relative Total Shareholder Return (TSR) (25%)

The relative TSR measure provides a direct connection between executive directors' awards and relative performance delivered to shareholders. The measure compares the Group's performance against a group of comparator banks from the UK and overseas, weighted towards those companies most similar to the Group. Performance is measured over a three year performance period. The Remuneration Committee reviewed the weightings within the TSR peer group, and made a small number of adjustments to reflect emerging regulatory influences, the future geographic and business focus of RBS, and consequent future relevance of peer companies. This has resulted in reducing the weightings of a small number of banks in the peer group for 2012 LTIP awards.

#### Relative TSR Comparator Group

	Weighting
1 Barclays	200%
2 Lloyds Banking Group	
3 HSBC	150%
4 Standard Chartered	
5 Bank of America	50%
6 BBVA	
7 BNP Paribas	
8 Citigroup	
9 Credit Agricole	
10 Credit Suisse Group	
11 Deutsche Bank	
12 JP Morgan Chase	
13 National Australia Bank Limited	
14 Royal Bank of Canada	
15 Santander	
16 Societe Generale	
17 The Toronto-Dominion Bank Group	
18 UBS	
19 Unicredito	
20 Wells Fargo & Company	

To receive any of the LTIP awards subject to this performance measure the Group's performance must be at least as good as the median of the comparator companies, with vesting as follows (with a pro-rata proportion of the award vesting in between these points):

- 20% of the award will vest if the Group's TSR is at the median of the companies in the comparator group.
- 100% of the award will vest if the Group's TSR is at the upper quartile of the companies in the comparator group.

### Balance Sheet & Risk (25%)

The Balance Sheet & Risk measures have a particular focus on risk reduction, the resolution of the Non-Core business and the building of a sustainable and responsible franchise for the Group.

### Strategic Scorecard (25%)

The balanced Strategic Scorecard rewards management for delivering a robust basis for future growth in terms of the strength of our franchise, efficiency, reputation, and the strength and engagement of employees.

#### Performance measures

Balance Sheet and Risk measures and targets	Non-Core assets
	Cumulative Non-Core loss
	Core Tier 1 Capital
	Wholesale funding
	Liquidity reserves
	Leverage ratio
Strategic Scorecard measures and targets	Loan:deposit ratio
	Earnings volatility
	Customer franchise
	Cost:income ratio in core bank
	Lending targets
	Sustainability performance
	Progress in people issues

Both quantitative and qualitative strategic measures are used, including measures relating to reputation, customer excellence, organisational capability and sustainability, given that these will support the long term goals of the business. Targets for each measure are set at the start of the performance period and where applicable, are aligned with the Group's strategic plan targets. At the end of the period each measure will be assessed against the target, and vesting will be based on the proportion of targets fully met (see below), qualified by the Group Remuneration Committee's discretion, taking other relevant factors into account.

Commentary will be provided on an annual basis in relation to progress against the targets, where these are not commercially sensitive.

Vesting point		Indicative performance
Does not meet	0%	Over half of objectives not met
Partially meets	25%	Half of objectives met
Significantly meets	62.5%	Two-thirds of objectives met
Fully meets	100%	Objectives met or exceeded in all material respects

Qualified by Group Remuneration Committee discretion taking into account changes in circumstances over the performance period, the relative importance of the measures, the margin by which individual targets have been missed or exceeded, and any other relevant factors.

## Summary remuneration report *continued*

### Risk underpin and clawback

The Group Remuneration Committee will also review financial and operational performance against the Strategic Plan and risk performance prior to agreeing vesting of awards. In assessing this, the Committee will be advised independently by the Board Risk Committee. If the Group Remuneration Committee considers that the vesting outcome calibrated in line with the performance conditions outlined above does not reflect the Group's underlying financial results or if the Committee considers that the financial results have been achieved with excessive risk, then the terms of the awards allow for an underpin to be used to reduce vesting of an award, or to allow the award to lapse in its entirety. All awards are subject to clawback.

### Service contracts

The company's policy in relation to the duration of contracts with directors is that executive directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement. The notice period under the service contracts of executive directors will not normally exceed twelve months. In relation to newly recruited executive directors, subject to the prior approval of the Group Remuneration Committee, the notice period may be extended beyond twelve months if there is a clear case for this. Where a longer period of notice is initially approved on appointment, it will normally be structured such that it will automatically reduce to twelve months in due course. All new service contracts for executive directors are subject to approval by the Group Remuneration Committee. Those contracts normally include standard clauses covering the performance review process, the company's normal disciplinary procedure, and terms for dismissal in the event of failure to perform or in situations involving actions in breach of the Group's policies and standards. Any compensation payment made in connection with the departure of an executive director will be subject to approval by the Group Remuneration Committee, having regard to the terms of the service contract and the reasons for termination.

Information regarding the executive directors' service contracts is shown below:

	Date of current contract	Notice period - from the company	Notice period - from executive
Stephen Hester	4 November 2008	12 months	12 months
Bruce Van Saun	8 September 2009	12 months	12 months

Except as noted below, in the event of severance where any contractual notice period is not worked, the employing company may pay a sum to the executive in lieu of the notice period. In the event of situations involving breach of the employing company's policies resulting in dismissal, reduced or no payments may be made to the executive. Depending on the circumstances of the termination of employment, the executive may be entitled, or the Group Remuneration Committee may allow, outstanding awards under long-term incentive arrangements to vest, subject to the rules of the relevant plan.

### Stephen Hester

In the event of his personal underperformance, the company is entitled, after giving reasonable opportunity to remedy any failure, to terminate Stephen Hester's contract by giving written notice with immediate effect and without making any payment in lieu thereof and Stephen Hester will forfeit any unvested stock awards. In the event that Stephen Hester's employment is terminated by the company (other than by reason of his personal underperformance), he will be entitled to receive a payment in lieu of notice to the value of base salary, bonus and benefits (including pension contributions). If he resigns voluntarily and the company does not require him to work out his notice period, Stephen Hester may receive a payment in lieu of notice based on salary only (i.e. no bonus or benefits). In both cases the treatment of any other unvested stock awards will be determined at the discretion of the Group Remuneration Committee.

### Bruce Van Saun

In the event that Bruce Van Saun's employment is terminated by reason of his personal underperformance, the company is entitled, after giving reasonable opportunity to remedy any failure, to terminate by giving written notice with immediate effect and without making any payment in lieu of notice. Any payment in lieu of notice that may be made to Bruce Van Saun would be based on salary only (i.e. no bonus or benefits). The company has agreed that, provided certain conditions are met, on leaving employment, Bruce Van Saun will not forfeit awards under the rules of the Group's share plans.

## Remuneration in detail

The tables and explanatory notes below detail the remuneration of each director for the year ended 31 December 2011 and have been audited by the company's auditors, Deloitte LLP.

### Directors' remuneration

	Salary/ fees £000	Benefits £000	2011 Total £000	2010 Total £000
<b>Chairman</b>				
Philip Hampton	750	—	750	750
<b>Executive directors</b>				
Stephen Hester (1)	1,200	26	1,226	3,267
Bruce Van Saun (1,2)	744	132	876	2,298

#### Notes:

- (1) Stephen Hester waived his award of 3.6 million shares which was approved by the Group Board and which was due to be awarded in March 2012. Bruce Van Saun will receive an award of 3.0 million shares in respect of 2011 performance, which will be delivered into Share Bank in March 2012 and will vest in March 2013 and 2014. For subsequent reporting years, the 3.0 million shares awarded to Bruce Van Saun will be detailed in the Deferred Awards table (see page 292 of the 2011 Report & Accounts). Further details of the performance assessment of the executive directors in 2011 is outlined on pages 282 and 283 of the 2011 Report & Accounts. Amounts disclosed as performance bonus under the remuneration table in the 2010 Report & Accounts represent the cash value that was subsequently converted to shares at the date of award in March 2011. The awards are shown as deferred awards granted in 2011 as set out on page 292 of the 2011 Report & Accounts.
- (2) Bruce Van Saun is director of ConvergEx Holdings LLC and retains the fee paid to him in this respect. For 2011, he received a fee of \$75,000.

### Non-executive directors

The level of remuneration for non-executive directors reflects their responsibility and time commitment and the level of fees paid to non-executive directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan. Non-executive directors fees are reviewed regularly. No changes were made in relation to non-executive director fees during 2011.

	Board fees £000	Board Committee fees £000	2011 Total £000	2010 Total £000
<b>Non-executive directors</b>				
Sandy Crombie	150	—	150	150
Alison Davis (1)	30	13	43	—
Tony Di Iorio (2)	24	19	43	—
Penny Hughes (3)	150	—	150	130
Joe MacHale (4)	73	60	133	141
John McFarlane	73	30	103	103
Brendan Nelson (5)	150	—	150	111
Baroness Noakes (6)	30	13	43	—
Art Ryan	73	22	95	103
Philip Scott	150	—	150	150
<b>Former non-executive director</b>				
Colin Buchan (7)	44	33	77	150

#### Notes:

- (1) Appointed on 1 August 2011.
- (2) Appointed on 1 September 2011.
- (3) Fee has not increased in 2011. Lower fee in 2010 reflects appointment as Chair of Group Remuneration Committee with effect from 1 June 2010.
- (4) Board Committee fee includes membership of the Asset Protection Scheme Senior Oversight Committee.
- (5) Fee has not increased in 2011. Lower fee in 2010 reflects appointment to the Board from 1 April 2010 and as Chairman of the Group Audit Committee from 28 April 2010.
- (6) Appointed on 1 August 2011.
- (7) Retired from the Board with effect from 5 August 2011.

## Financial results

### Summary financial statement

#### Important note

This summary financial statement is a summary of information in the 2011 Report and Accounts (the "R&A"). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company and of its policies and arrangements concerning directors' remuneration. The Group's results and financial condition could be adversely affected by certain risks and uncertainties, including the outcome of litigation and investigations. For further information, the 2011 R&A, the Auditor's report on those accounts and the Report of the directors should be consulted.

You can obtain a copy of the R&A and may also elect to receive all future R&As, free of charge, by contacting our Registrar, details of which can be found on page 57. A copy can be viewed on the Group's website [www.rbs.com](http://www.rbs.com).

### Summary directors' report

#### Activities and business review

A review of the activities and business of the Group for the year ended 31 December 2011, of recent events and of likely future developments is contained on pages 2 to 31.

#### Going concern

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group and the company will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group and of the company have been prepared on a going concern basis.

#### Directors

The names and brief biographical details of the directors are shown on pages 33 to 36.

#### Report of the auditor

The auditor's report on the full accounts and the auditable part of the Directors' remuneration report for the year ended 31 December 2011 was unqualified and did not include an emphasis of matter or a statement under sections 498(2) (inadequate accounting records or returns or accounts or Directors' remuneration report not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The auditor's statement under section 496 (whether the information in the Report of the directors' was consistent with the accounts) was unqualified.

#### Additional information

Where not provided elsewhere, the following additional information is required to be disclosed by Part 14 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

### Share capital

Details of the ordinary and preference share capital as at 31 December 2011 are provided below.

<u>Allotted, called up and fully paid</u>	<u>£m</u>	<u>Number of shares - thousands</u>
Ordinary shares of 25p	14,807	59,228,412
B shares of £0.01	510	51,000,000
Dividend access share of £0.01 <sup>(1)</sup>	—	—
Non-cumulative preference shares of US\$0.01	1	209,609
Non-cumulative convertible preference shares of US\$0.01	—	65
Non-cumulative preference shares of €0.01	—	2,044
Non-cumulative convertible preference shares of €0.01	—	15
Non-cumulative preference shares of £1	—	54
Cumulative preference shares of £1	1	900

Note:

(1) One Dividend Access Share in issue.

The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or from the Group's website ([www.rbs.com](http://www.rbs.com)).

On a show of hands at a general meeting of the company every holder of ordinary shares and cumulative preference shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote for every share held. On a poll, holders of cumulative preference shares present in person or by proxy and entitled to vote shall have four votes for every share held. The voting rights of holders of non-cumulative preference shares are set out on page 49. The notices of Annual General Meetings and General Meetings specify the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

The cumulative preference shares represent less than 0.01% and the non-cumulative preference shares represent less than 0.73% of the total voting rights of the company respectively, the remainder being represented by the ordinary shares.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). Pursuant to the Listing Rules of the Financial Services Authority, certain employees of the company require the approval of the company to deal in the company's shares.

The rules governing the powers of directors, including in relation to issuing or buying back shares and their appointment are set out in the company's Articles of Association. It will be proposed at the 2012 Annual General Meeting that the directors be granted authorities to allot shares under the Companies Act 2006. The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

A number of the company's share plans include restrictions on transfers of shares while shares are subject to the plans or the terms under which the shares were awarded.

Except in relation to the Dividend Access Share, the company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. There are no persons holding securities carrying special rights with regard to control of the company.

Under the rules of certain employee share plans, eligible employees are entitled to acquire shares in the company and shares are held in trust for participants by The Royal Bank and Ulster Bank Dublin Trust Company as Trustees. Voting rights are exercised by the Trustees on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee, no vote is registered.

The Royal Bank of Scotland plc 1992 Employee Share Trust, The Royal Bank of Scotland Group plc 2001 Employee Share Trust and The Royal Bank of Scotland Group plc 2007 US Employee Share Trust hold shares on behalf of the Group's employee share plans. The voting rights are exercisable by the Trustees, however, in accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation.

Awards granted under the company's employee share plans may be met through a combination of newly issued shares and shares acquired in the market by the company's employee benefits trust.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

#### Non-cumulative preference shares

Non-cumulative preference shares entitle the holders thereof (subject to the terms of issue) to receive periodic non-cumulative cash dividends at specified fixed rates for each Series payable out of distributable profits of the company.

The non-cumulative preference shares are redeemable at the option of the company, in whole or in part from time to time at the rates detailed below plus dividends otherwise payable for the then current dividend period accrued to the date of redemption.

Class of preference share	Number of shares in issue	Interest rate	Redemption date on or after	Redemption price per share	Debt/equity (1)
Non-cumulative preference shares of US\$0.01					
Series F	6.3 million	7.65%	31 March 2007	US\$25	Debt
Series H	9.7 million	7.25%	31 March 2004	US\$25	Debt
Series L	30.0 million	5.75%	30 September 2009	US\$25	Debt
Series M	23.1 million	6.4%	30 September 2009	US\$25	Equity
Series N	22.1 million	6.35%	30 June 2010	US\$25	Equity
Series P	9.9 million	6.25%	31 December 2010	US\$25	Equity
Series Q	20.6 million	6.75%	30 June 2011	US\$25	Equity
Series R	10.2 million	6.125%	30 December 2011	US\$25	Equity
Series S	26.4 million	6.6%	30 June 2012	US\$25	Equity
Series T	51.2 million	7.25%	31 December 2012	US\$25	Equity
Series U	10,130	7.64%	29 September 2017	US\$100,000	Equity
Non-cumulative convertible preference shares of US\$0.01					
Series 1	64,772	9.118%	31 March 2010	US\$1,000	Debt
Non-cumulative preference shares of €0.01					
Series 1	1.25 million	5.5%	31 December 2009	€1,000	Equity
Series 2	784,989	5.25%	30 June 2010	€1,000	Equity
Series 3	9,429	7.0916%	29 September 2017	€50,000	Equity
Non-cumulative convertible preference shares of £0.01					
Series 1	14,866	7.387%	31 December 2010	£1,000	Debt
Non-cumulative preference shares of £1					
Series 1	54,442	8.162%	5 October 2012	£1,000	Equity

Note:

(1) Those preference shares where the Group has an obligation to pay dividends are classified as debt; those where distributions are discretionary are classified as equity. The conversion rights attaching to the convertible preference shares may result in the Group delivering a variable number of equity shares to preference shareholders; these convertible preference shares are treated as debt.



## Financial results *continued*

In the event that the non-cumulative convertible preference shares are not redeemed on or before the redemption date, the holder may convert them into ordinary shares in the company at the prevailing market price.

Under existing arrangements, no redemption or purchase of any non-cumulative preference shares may be made by the company without the prior consent of the UK Financial Services Authority.

On a winding-up or liquidation of the company, the holders of the non-cumulative preference shares will be entitled to receive out of any surplus assets available for distribution to the company's shareholders (after payment of arrears of dividends on the cumulative preference shares up to the date of repayment) *pari passu* with the cumulative preference shares and all other shares of the company ranking *pari passu* with the non-cumulative preference shares as regards participation in the surplus assets of the company, a liquidation distribution per share equal to the applicable redemption price detailed in the table above, together with an amount equal to dividends for the then current dividend period accrued to the date of payment, before any distribution or payment may be made to holders of the ordinary shares as regards participation in the surplus assets of the company.

Except as described above, the holders of the non-cumulative preference shares have no right to participate in the surplus assets of the company.

Holders of the non-cumulative preference shares are not entitled to receive notice of or attend general meetings of the company except if any resolution is proposed for adoption by the shareholders of the company to vary or abrogate any of the rights attaching to the non-cumulative preference shares or proposing the winding-up or liquidation of the company. In any such case, they are entitled to receive notice of and to attend the general meeting of shareholders at which such resolution is to be proposed and are entitled to speak and vote on such resolution (but not on any other resolution). In addition, in the event that, prior to any general meeting of shareholders, the company has failed to pay in full the three most recent quarterly dividend payments due on the non-cumulative dollar preference shares (other than Series U), the two most recent semi-annual dividend payments due on the non-cumulative

convertible dollar preference shares and the most recent dividend payments due on the non-cumulative euro preference shares, the non-cumulative sterling preference shares, the Series U non-cumulative dollar preference shares and the non-cumulative convertible sterling preference shares, the holders shall be entitled to receive notice of, attend, speak and vote at such meeting on all matters together with the holders of the ordinary shares. In these circumstances only, the rights of the holders of the non-cumulative preference shares so to vote shall continue until the company shall have resumed the payment in full of the dividends in arrears.

The Group has undertaken that, unless otherwise agreed with the European Commission, neither the company nor any of its direct or indirect subsidiaries (excluding companies in the RBS Holdings N.V. Group, which are subject to different restrictions) will pay external investors any dividends or coupons on existing hybrid capital instruments (including preference shares, B shares and upper and lower tier 2 instruments) from 30 April 2010 for a period of two years thereafter ("the Deferral Period"), or exercise any call rights in relation to these capital instruments between 24 November 2009 and the end of the Deferral Period, unless there is a legal obligation to do so. Hybrid capital instruments issued after 24 November 2009 will generally not be subject to the restriction on dividend or coupon payments or call options.

### Shareholdings

The table below shows shareholders that have notified the Group that they hold more than 3% of the total voting rights of the company at 31 December 2011.

Solicitor For The Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury	Number of shares	% of share class held	% of total voting rights held
Ordinary shares	39,644,835,194	66.9	66.4
B shares (non-voting)	51,000,000,000	100.0	—

The Group has not been notified of any changes to the above interests between 31 December 2011 and 22 February 2012.

### Independent auditor's statement to the members of The Royal Bank of Scotland Group plc

We have examined the summary financial statement for the year ended 31 December 2011 which comprises the summary consolidated income statement, the summary consolidated statement of comprehensive income, the summary consolidated balance sheet, the summary directors' report and the summary remuneration report.

This report is made solely to the company's members, as a body, in accordance with section 428 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

The directors are responsible for preparing the Annual Review and Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Review and Summary Financial Statement with the full annual accounts, the Report of the directors and the Directors' remuneration report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

### Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Group's full annual accounts describes the basis of our audit opinion on those accounts, the Directors' remuneration report and the Report of the directors.

### Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the Report of the directors and the Directors' remuneration report of The Royal Bank of Scotland Group plc for the year ended 31 December 2011 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
22 February 2012

## Financial results *continued*

### Summary consolidated income statement for the year ended 31 December 2011

	2011 £m	2010 £m
Net interest income	12,679	14,209
Non-interest income (excluding insurance premium income)	12,002	12,531
Insurance net premium income	4,256	5,128
Non-interest income	16,258	17,659
Total income	28,937	31,868
Administrative expenses	(16,151)	(16,078)
Depreciation and amortisation	(1,875)	(2,150)
Operating expenses*	(18,026)	(18,228)
Profit before insurance net claims and impairment losses	10,911	13,640
Insurance net claims	(2,968)	(4,783)
Impairment losses	(8,709)	(9,256)
Operating loss before tax	(766)	(399)
Tax	(1,250)	(634)
Loss from continuing operations	(2,016)	(1,033)
Profit/(loss) from discontinued operations, net of tax	47	(633)
Loss for the year	(1,969)	(1,666)
Loss attributable to:		
Non-controlling interests	28	(665)
Preference shareholders	—	105
Paid-in equity holders	—	19
Ordinary and B shareholders	(1,997)	(1,125)
	(1,969)	(1,666)
Basic loss per ordinary and B share (1)	(1.8p)	(0.5p)
Diluted loss per ordinary and B share (1)	(1.8p)	(0.5p)

\* Integration and restructuring costs included in operating expenses comprise:

	2011 £m	2010 £m
Administrative expenses	1,048	1,012
Depreciation and amortisation	11	20
	1,059	1,032

Note:

(1) B shares rank pari-passu with ordinary shares.

## Summary consolidated statement of comprehensive income for the year ended 31 December 2011

	2011 £m	2010 £m
Loss for the year	(1,969)	(1,666)
<b>Other comprehensive income</b>		
Available-for-sale financial assets	2,258	(389)
Cash flow hedges	1,424	1,454
Currency translation	(440)	81
Actuarial (losses)/gains on defined benefit plans	(581)	158
<b>Other comprehensive income before tax</b>	2,661	1,304
<b>Tax</b>	(1,472)	(309)
<b>Other comprehensive income after tax</b>	1,189	995
<b>Total comprehensive loss for the year</b>	<b>(780)</b>	<b>(671)</b>

### Total comprehensive loss is attributable to:

Non-controlling interests	(24)	(197)
Preference shareholders	—	105
Paid-in equity holders	—	19
Ordinary and B shareholders	(756)	(598)
	<b>(780)</b>	<b>(671)</b>

### Directors' remuneration

	2011 £000	2010 £000
Non-executive directors emoluments	1,137	1,093
Chairman and executive directors		
- emoluments	4,671	5,243
- contributions and allowances in respect of defined contribution pension schemes	403	321
	6,211	6,657
- amounts receivable under long-term incentive plans	1,594	1,097
	<b>7,805</b>	<b>7,754</b>

No directors are accruing benefits under defined benefit schemes (2010 - nil). One director is accruing benefits under a defined contribution arrangement (2010 - one).

## Financial results *continued*

### Summary consolidated balance sheet as at 31 December 2011

	2011 £m	2010 £m
<b>Assets</b>		
Cash and balances at central banks	79,269	57,014
Loans and advances to banks	83,310	100,518
Loans and advances to customers	515,606	555,260
Debt securities	209,080	217,480
Equity shares	15,183	22,198
Settlement balances	7,771	11,605
Derivatives	529,618	427,077
Intangible assets	14,858	14,448
Property, plant and equipment	11,868	16,543
Deferred tax	3,878	6,373
Prepayments, accrued income and other assets	10,976	12,576
Assets of disposal groups	25,450	12,484
<b>Total assets</b>	<b>1,506,867</b>	<b>1,453,576</b>
<b>Liabilities</b>		
Deposits by banks	108,804	98,790
Customer accounts	502,955	510,693
Debt securities in issue	162,621	218,372
Settlement balances	7,477	10,991
Short positions	41,039	43,118
Derivatives	523,983	423,967
Accruals, deferred income and other liabilities	23,125	23,089
Retirement benefit liabilities	2,239	2,288
Deferred tax	1,945	2,142
Insurance liabilities	6,312	6,794
Subordinated liabilities	26,319	27,053
Liabilities of disposal groups	23,995	9,428
<b>Total liabilities</b>	<b>1,430,814</b>	<b>1,376,725</b>
Non-controlling interests	1,234	1,719
Owners' equity	74,819	75,132
<b>Total equity</b>	<b>76,053</b>	<b>76,851</b>
<b>Total liabilities and equity</b>	<b>1,506,867</b>	<b>1,453,576</b>
<b>Memorandum items</b>		
Contingent liabilities and commitments	278,819	314,331

At 31 December 2011, provisions for loan impairment amounted to £19,883 million (2010 - £18,182 million).

The summary financial statement on pages 48 to 54 was approved by the Board of directors on 22 February 2012.

Philip Hampton  
Chairman

Stephen Hester  
Group Chief Executive

Bruce Van Saun  
Group Finance Director



## Shareholder information

### Analyses of ordinary shareholders

At 31 December 2011	Shareholdings	Number of shares - millions	%
Individuals	214,369	1,350.6	2.3
Banks and nominee companies	14,835	57,265.1	96.7
Investment trusts	144	38.5	0.1
Insurance companies	171	6.0	—
Other companies	1,351	109.5	0.2
Pension trusts	36	23.5	—
Other corporate bodies	94	435.2	0.7
	<b>231,000</b>	<b>59,228.4</b>	<b>100.0</b>
Range of shareholdings:			
1 - 1,000	74,654	32.1	0.1
1,001 - 10,000	125,097	466.2	0.8
10,001 - 100,000	29,372	677.1	1.1
100,001 - 1,000,000	1,212	332.7	0.5
1,000,001 - 10,000,000	448	1,528.1	2.6
10,000,001 and over	217	56,192.2	94.9
	<b>231,000</b>	<b>59,228.4</b>	<b>100.0</b>

### Financial calendar

<b>Annual General Meeting</b>	30 May 2012 RBS Conference Centre RBS Gogarburn Edinburgh EH12 1HQ
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<b>Interim results</b>	3 August 2012
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### Dividends

#### Payment dates

Cumulative preference shares	31 May and 31 December 2012
Non-cumulative preference shares	30 March, 29 June, 28 September and 31 December 2012

#### Ex-dividend date

Cumulative preference shares	2 May 2012
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#### Record date

Cumulative preference shares	4 May 2012
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For further information on the payment of dividends, see page 50.

## Shareholder information *continued*

### Shareholder enquiries

Shareholdings in the company may be checked by visiting the 'Shareholder information' section of our website [www.rbs.com/shareholder](http://www.rbs.com/shareholder). You can also manage your shareholding online via the Investor Centre at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). You will need the shareholder reference number printed on your share certificate or tax voucher to gain access to this information.

Alternatively you may check your shareholding by contacting our Registrar, Computershare via the contact details provided on page 57.

### Investor Relations

Shareholders can access updated information on RBS via our website [www.rbs.com/ir](http://www.rbs.com/ir)

### Annual Sustainability Report

If you wish to obtain a copy please contact:

Group Sustainability  
The Royal Bank of Scotland Group plc  
PO Box 1000  
Gogarburn  
Edinburgh EH12 1HQ

It is also available on our website [www.rbs.com/sustainability](http://www.rbs.com/sustainability)

### Braille and audio Annual Review and Summary Financial Statement

Shareholders requiring a Braille or audio version of the Annual Review and Summary Financial Statement should contact the Registrar on +44 (0)870 702 0135.

### ShareGift

The company is aware that shareholders who hold a small number of shares may be retaining these shares because dealing costs make it uneconomical to dispose of them. ShareGift, the charity share donation scheme, is a free service operated by The Orr Mackintosh Foundation (registered charity 1052686) to enable shareholders to donate shares to charity.

Donating your shares in this way will not give rise to either a gain or a loss for UK capital gains tax purposes and you may be able to reclaim UK income tax on gifted shares. Further information can be obtained from HM Revenue & Customs.

Should you wish to donate your shares to charity in this way you should contact ShareGift for further information:

ShareGift, The Orr Mackintosh Foundation  
17 Carlton House Terrace, London SW1Y 5AH  
Telephone: +44 (0) 20 7930 3737  
[www.sharegift.org](http://www.sharegift.org)

### Share Fraud Warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. The Financial Services Authority (FSA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

### Protect yourself

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money;

- get the name of the person and organisation contacting you;
- check the FSA Register at [www.fsa.gov.uk/fsaregister](http://www.fsa.gov.uk/fsaregister) to ensure they are authorised;
- use the details on the FSA Register to contact the firm;
- call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date;
- search our list of unauthorised firms and individuals to avoid doing business with; and
- remember if it sounds too good to be true, it probably is.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

### Report a scam

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at [www.fsa.gov.uk/scams](http://www.fsa.gov.uk/scams), where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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## Important addresses

### Registrar

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZZ  
Telephone: +44 (0)870 702 0135  
Facsimile: +44 (0)870 703 6009  
Website: [www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

### ADR Depository Bank

BNY Mellon Shareowner Services  
PO Box 358516  
Pittsburgh, PA 15252-8516  
Telephone: +1 888 269 2377 (US callers)  
Telephone: +1 201 680 6825 (International)  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

### RBS Secretariat

The Royal Bank of Scotland Group plc  
PO Box 1000  
Gogarburn Edinburgh EH12 1HQ  
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Facsimile: +44 (0)131 626 3081

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