

## Sustainability Report 2008

“ We recognise that we are in a privileged position to be able to restructure our company with the support of the UK Government behind us. We only enjoy that support because of our central role in the economy & society. With that support and role come responsibilities large and small. Our intention is to fulfil them in full while working to restore the company to standalone strength.”

**Stephen Hester**  
Group Chief Executive, RBS Group



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**Joanna Davidson**  
1958-2008

This report is dedicated to the memory of Joanna Davidson, who set up the Corporate Responsibility function in RBS and led it with distinction before her untimely passing in 2008.



RBS Group is a globally important bank, serving over 40 million customers across 54 countries. Key highlights from around the world include:

## Ireland

The award winning MoneySense for Schools extended to Ireland.



## UK

We serve 1.2 million SME customers in the UK. Over 1 in 4 UK SMEs bank with us.



## Spain

Mandated lead arranger to the World's largest solar photovoltaic power plant.

## United States

12% reduction in deposit fraud following the implementation of a new fraud review.

Launched GreenSense, financially rewarding customers for reducing paper-based payment transactions.

## Dubai

First bank in the Middle East to receive a GOLD level certification for Leadership in Energy and Environmental Design (LEED).



## Hong Kong

Launched innovative equity structured product linked to RBS' water index.

## India

£91 million in enterprise loans lent to over 566,000 disadvantaged rural households.



## Malaysia

Awarded Best Islamic Product for the Al-Sayf Structured Islamic Deposit.

■ RBS group presence  
■ No presence

## Chairman's introduction



I am pleased to introduce our sixth annual report on our approach to responsible business, under the new name of the RBS Sustainability Report.

Why 'sustainability'? Because we believe that this better represents our renewed ambitions; it sits at the heart of how we are changing the business we do and the way we do business. Sustainability is not just about the many responsibilities and obligations that we have as a company, but about specific issues which we need to address to ensure that we have a healthy and respected business operating on a sustainable basis, in every sense of the word. This is the starting point for both the new management's strategic plan for RBS and our approach to 'sustainability'.

This report sets out our work in 2008 on a number of important themes which we know from regular consultation to be of continuing interest to stakeholders: consumer issues, supporting enterprise, employees, financial crime and data protection, the environment and community partnerships. Away from the headlines on the banking crisis, we have been making good progress in important areas such as customer service, where we have a leading position in our sector, and financial education, where our MoneySense programme has been setting the standard. In the UK our lending to small businesses actually increased by 10% in 2008. Whilst we face challenges on many fronts, this report helps to highlight some of the qualities in RBS which the crisis has obscured, which I have increasingly become aware of since joining the company.

However, given the financial crisis of 2008, the legacy of which will continue for many years, it is essential to place this material in context: our work on these individual aspects of responsible business is undermined when we get things wrong with the overall strategy and management of the company.

### **2008: Our most difficult year**

2008 was the most difficult year and our worst performance in RBS' long history. It was a year in which we posted our largest ever trading loss and had to obtain the support of the UK government to ensure we could continue in business. As our Chief Executive Stephen Hester makes clear in the quote on the front cover of this report, we are immensely grateful for this and recognise it is a privilege to be able to restructure our business with such support behind us.

We understand that this privilege exists because of our important role in the economy and society and we know that it brings special responsibilities which we mean to fulfil. There is no doubt that we are in the midst of an unprecedented global financial crisis to which RBS has been heavily exposed. While decisions were taken in good faith and based on the information available at the time, with hindsight we have identified three reasons for RBS' difficulties:

- As we entered the crisis our capital base was too low for the size of our balance sheet and we were overly dependent on the wholesale capital markets.
- The acquisition of ABN AMRO compounded this. It has been proven to be a key strategic error; without this acquisition RBS would still have made an operating profit in 2008 despite our other challenges.
- Our risk management processes, like many banks, did not anticipate the global banking crisis.

In short, while RBS had performed very well in strong markets, through years of growth, it was not sufficiently well prepared for when these markets turned, as they did, with a rapidity and severity that few, if any, predicted. This has hurt a great many people given the size and reach of our business, in particular our shareholders and staff. My predecessor apologised for this sincerely on behalf of the Board and I do so again now. Responsibility for what happened at RBS has been allocated and accepted and we now have a new senior management team leading the company and a restructured board in place overseeing it.

### **Steps to recovery**

We know that the first step in repairing our reputation is to give people the confidence that we understand what went wrong and to show that we have a plan to fix it. We understand that our reputation will only be restored step by step and by deed rather than by intention alone.

One example of this is remuneration. We reached an early conclusion that the remuneration practices adopted by some parts of the financial services sector across the world, particularly in the field of investment banking, were not sufficiently aligned to long term shareholder interests. We acted quickly in our reforms. This is not a job yet done but it is a very difficult issue upon which we have made good initial progress.

The Group's new leadership is now firmly focused on returning the Group to standalone strength over the next 3 to 5 years. On his appointment as CEO in October 2008, Stephen Hester initiated a strategic review of the Group's businesses. This was based on a series of transparent tests which include better risk management and reduced leverage. The full findings of the strategic review will be reported to the market at the time of our interim results in August 2009, but early actions include:

- Identifying our core businesses and creating a non-core division for business areas which will be wound down or sold, with the proceeds reducing Group debt and reducing the size of Group's balance sheet by around 20%.
- Continuing to strengthen our capital reserves. We are working closely with HM Treasury on the details of the Asset Protection Scheme, which will improve protection against the risk of extreme loss in the next few years.
- Reducing our underlying cost base by £2.5 billion within the next three years. Unfortunately, but inevitably, this will result in a number of job losses, a subject I will return to.
- Supporting our customers through the economic downturn by committing to making £9 billion available for new UK mortgage lending and £16 billion available for new UK SME and corporate lending in 2009 and a range of other measures.

The decision to retain and re-structure each of our major business divisions underscores the fact that there is enduring quality, strength and potential within the core businesses of RBS. While we anticipate that 2009 and 2010 will be very challenging years for RBS, we have a strong base from which to rebuild. We believe that changing what we do and how we do it will help us to regain the trust of our stakeholders. This, in turn, will help us to repay the support of the UK Government.

#### **Treating our employees fairly**

One of the most difficult parts of this restructuring is the inevitable impact on our employees. Our cost reduction programme will, regrettably but inevitably, carry a human cost.

We owe our employees a fair process in making these decisions, and a commitment to work through these difficult times as responsibly as possible. We will do all we can to keep compulsory redundancies to an absolute minimum, offering the chance to be redeployed to a new job or voluntary redundancy wherever possible. From the employees I have met in RBS since becoming

Chairman, I know that while most are very disappointed with what has happened the vast majority are determined to help put it right and, as we complete our restructuring, to make RBS an engaging and rewarding place to work.

#### **The way we will do business in the future**

Building the sustainability of our Group is foremost in our minds as we restructure the company. It's no coincidence that many of the issues of most concern to our stakeholders, such as consumer issues and our support for enterprise are central to our restructuring plans.

We have already announced additional protection to homeowners and small businesses in the UK and have extended our programme of money advice. First and foremost, the rebuilding of our reputation will be led by customer satisfaction with our everyday products and service, and our first quarter results of 2009 show we are doing a good job of retaining and growing our customer base.

Equally, we have made early and purposeful progress on issues such as transparency, risk management, governance and remuneration demonstrating that we are, step by step, addressing the issues faced by our wider industry. A new Executive Sustainability Committee is being established, that will set a strategic direction for our approach to sustainability, challenging our businesses to set ambitious targets and reviewing their progress against those targets.

As well as these core business goals of sound governance and delivering for our customers, which are the bedrock of any claim to be a responsible corporate citizen, we will support society with the challenges where we can have a meaningful impact through the business we do and through our community programmes; areas such as support for new enterprise, the transition to a low carbon economy, financial education, and support for the charity and social enterprise sectors. We will continue to support and promote important responsible business initiatives such as the UN Global Compact and the Equator Principles.

This report complements our Annual Report and Accounts and quarterly Interim Management Statements where we have sought to report on our performance with openness and transparency. This is an approach we mean to continue, and it is notable that this report is one of the first globally to be accredited with the new AA1000 (2008) assurance standard. Through these channels, and by engaging with our stakeholders we hope to demonstrate that we are making progress in building a sustainable business for the long term. We would welcome any feedback you may have on this report and the priorities that we have set out for the year ahead via the contact details provided.

**Philip Hampton**  
Group Chairman

# Governance and risk management

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The RBS Board and Executive management team are committed to high standards of corporate governance, business integrity and professionalism in all of the Group's activities.

## Board of Directors

In response to the financial crisis at RBS we have made fundamental changes to the leadership of the Company. The Board of Directors is the principal decision-making forum for the business, approving Group Strategy and monitoring performance. The new Group Chairman Philip Hampton, appointed in February 2009, has announced his intention to restructure the Board to a smaller and more focussed group with a greater proportion of Non-Executive Directors to strengthen our Corporate Governance. Twelve Board members have left the Group since October 2008 and Arthur Ryan and John McFarlane have joined the Board as Non-Executive Directors with Sir Sandy Crombie recently joining as Senior Independent Director. A further two new independent Non-Executive Directors will be appointed to the Group Board.

The membership of the Board Committees established by the Board to provide effective oversight and leadership is being reviewed in light of these changes. The terms of reference of the main Board Committees are available at [rbs.com](http://rbs.com).

## Remuneration

In recognition of the crisis in global financial services and the unprecedented losses incurred by the Group in 2008, there was an obvious need for significant change to compensation policy across the industry. We reached an early conclusion that the remuneration practices adopted by some parts of the sector were not sufficiently aligned to long term shareholder interests.

The Group Remuneration Committee is undertaking a comprehensive review of its remuneration policy, in conjunction with the Board and independent advisers, and in consultation with shareholders. This review will be completed during 2009, with details available in our next Annual Report and Accounts. In the interim, the Remuneration Committee agreed that:

- No bonuses or pay increases would be made to staff associated with the major losses suffered in 2008.
- Board Executive Directors would receive no bonus for 2008 performance and no pay increase in 2009.
- Directors and Executives in the Group worldwide, and most staff in the US and the Global Banking & Markets division would receive no pay increase in 2009, and on average, other staff would receive below inflation pay rises.

- No discretionary cash bonuses would be paid in 2009 for performance in 2008. Only legally binding guaranteed bonuses will be paid. Total cash bonus payments for 2009 will amount to £175m. Therefore total cash spend overall will have been reduced by more than 90%.
- Bonuses paid as deferred awards would be released in three equal annual instalments beginning June 2010 and payable in sub-ordinated debt of RBS (i.e. not in cash) and would be subject to 'clawback'.

In addition, our new Chief Executive has, at his own insistence, a clause in his contract ensuring that he will receive no reward if he leaves the company for reasons of his own failure.

Taken together, the principles of the way we assess and reward performance are changing to make remuneration more related to long-term performance and therefore aligned to shareholders' interests over a number of years. The quantum of remuneration has to reflect the commercial reality of the labour market and the commercial interests of the Group. Securing the interests of our shareholders is, and must be, the primary objective.

Further information on the above changes is provided in the letter from the Chairman of the Remuneration Committee published on page 159 of the 2008 Annual Report and Accounts.

## Risk and Capital Management

The Group is undertaking a comprehensive review of our Risk and Capital Management policies and processes. Further details of this review will be provided in our next Annual Report and Accounts. The Group's risk and capital management strategy is owned and set by the Board of Directors and implemented by executive management led by the Group Chief Executive. There are a number of committees and executives that support the execution of the business plan and strategy.

## Group Sustainability Committee

In addition to the above structures, a new Sustainability Committee is being established with representation from our key business areas. This will meet at least twice a year and will set the strategy and approach for the management of this important area of our business, focusing on the type of issues covered in this report. To support this Committee and ensure that the agreed sustainability strategy is put into practice, a Sustainability Forum comprised of senior management from across the business will meet quarterly. The Forum will also provide an opportunity to raise awareness of emerging issues highlighted by our ongoing research into stakeholder concerns and propose new initiatives for consideration by the Sustainability Committee.

# Global stakeholder engagement and issues management

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

We recognise the importance of regularly listening to our stakeholders, responding to their feedback and addressing their issues of concern. The current financial crisis intensifies the need to identify, engage with and respond to our key stakeholders, across all of our business areas. This provides the foundation to understand and manage our responsibilities as a business, to anticipate and address emerging issues and, where feasible, to closely align the interests of our different stakeholders.

Our approach to stakeholder engagement encompasses three main steps:

- **Identifying our key stakeholders**

Our key stakeholders are categorised into ten main groups, in accordance with their main interaction with our business activities. The categories are not mutually exclusive, with some individuals or groups potentially having interests across a number of the category areas. Some areas, such as customers and employees, are all-inclusive; others, such as NGOs, require a degree of prioritisation to identify the most relevant groups to engage with.

- **Employing effective and appropriate engagement with each of the key stakeholders**

We have several established mechanisms in place to gather stakeholder views, ranging from large scale quantitative opinion surveys to small, local sessions on particular issues. This includes regular dialogue with representatives from the media and NGOs, as well as consultations with consumer groups and contributions to industry-wide discussions. We continually look to increase the effectiveness of the mechanisms for engagement with each of our key stakeholder groups. For example, in light of changes in the structure and ownership of RBS group, the channels of engagement with governments and regulators have been enhanced and widened.



- **Identifying and managing the issues raised by stakeholders**

The engagement process provides regular updates on both the current and emerging issues that are of concern for stakeholders. Issues management procedures (comprising monitoring, media relations and risk management functions) are established across the different business areas of RBS to assess the relevance and urgency of issues specific to each business area and to assess any response that is required. In addition, a separate function exists within central Group functions to identify and respond to any separate Group-wide issues, and to help co-ordinate and communicate the issues identified within the individual business areas. The issues management procedures are designed to address issues over their life-cycle from early identification to follow-up actions over time. Priority issues are reported to senior management on a regular basis.

The types of engagement with, and key issues for, each stakeholder group are shown in the table overleaf. Separately, as part of the ABN AMRO integration process, a review was undertaken by PricewaterhouseCoopers LLP in Q4 2008 of the environmental, social and ethical risk procedures across the enlarged RBS group. Part of this review involved a scan of the key issues facing the Group, as well as those that are relevant to wider stakeholders, but not currently significant for RBS. The review identified the following high profile issues, categorised according to:

- Business Practices: Customer Service, Financial Crime and Data Protection, Financial Inclusion, Selling and Lending Practices, Supporting Customers through the Economic Cycle.
- Sector Lending: Defence, Energy, Metals & Mining.
- Cross-Sectoral Issues: Climate Change, Human Rights.
- Wider Stakeholder Issues: Fuel Poverty, Water Management, Sustainable Palm Oil.

These issues will be used to inform and guide the engagement dialogue with stakeholders in 2009, building upon the engagement and issue management procedures already in place.



## Global stakeholder engagement and issues management *continued*

Stakeholder group	Types of engagement	Key issues
Customers	<p><b>One-to-One:</b> Our comprehensive network of branches provides a key service link with customers, supported by our customer call centres and web-based services. Our branch and other customer relations staff are available to respond to customer queries and concerns, in accordance with published guidelines and timescales.</p> <p><b>Research:</b> We conduct regular and comprehensive Customer Opinion Surveys, and participate in industry-wide customer based surveys.</p>	<ul style="list-style-type: none"> <li>– Customer service</li> <li>– Financial crime</li> <li>– Selling / lending practices</li> <li>– Financial education</li> </ul>
Employees	<p><b>Survey:</b> We conduct a comprehensive annual Employee Opinion Survey as well as more frequent, smaller-scale pulse surveys.</p> <p><b>Internal communications:</b> Key issues are communicated regularly across the Group with mechanisms for feedback.</p> <p><b>Employee involvement:</b> We support our employees in their volunteering and giving to charities and community organisations. In association with this, we have partnerships with key charities.</p>	<ul style="list-style-type: none"> <li>– Employee practices</li> <li>– Financial strength and stability</li> <li>– Employment outlook</li> <li>– Community investment</li> <li>– Remuneration</li> </ul>
Governments and regulators	<p><b>Direct:</b> The UKFI (UK Financial Investments Limited) oversees the UK government's shareholding in RBS group. Meetings and correspondence between UKFI and RBS are undertaken on a regular basis. We also meet regularly with the FSA and with the relevant financial regulators in other jurisdictions in which we operate.</p> <p><b>Indirect:</b> We contribute to consultations and working groups established by governments and regulators to assess key financial sector issues that have been identified for wider policy consultation.</p>	<ul style="list-style-type: none"> <li>– Financial strength and stability</li> <li>– Responsible lending</li> <li>– Supporting customers</li> <li>– Financial education</li> <li>– Financial inclusion</li> </ul>
Investors	<p><b>Investor relations:</b> Our investor relations team meets investors, including Socially Responsible Investors (SRIs), as part of a regular and two-way communication process following key financial and other announcements.</p>	<ul style="list-style-type: none"> <li>– Operating performance</li> <li>– Corporate governance</li> <li>– Responsible lending</li> </ul>
Public representatives	<p><b>Public affairs:</b> Our public affairs team engages in regular dialogue with parliamentarians and other public representatives to discuss issues and share information on the company's position.</p>	<ul style="list-style-type: none"> <li>– Financial strength and stability</li> <li>– Responsible lending</li> <li>– Supporting customers</li> </ul>

Stakeholder group	Types of engagement	Key issues
Suppliers	<p><b>Supply-chain initiatives:</b> We support initiatives that help to improve sustainability within the supply chain.</p> <p><b>Code of conduct:</b> We apply a code of conduct for our suppliers to follow, helping to identify any potentially problematic issues and to address any concerns on either side as part of contractual arrangements.</p>	<ul style="list-style-type: none"> <li>– Financial strength and stability</li> <li>– Environmental impact/ climate change</li> </ul>
Wider banking industry	<p><b>Forums and working groups:</b> We contribute to industry-wide discussions and follow the British Bankers Association (BBA) codes of practice.</p>	<ul style="list-style-type: none"> <li>– Financial strength and stability</li> <li>– Responsible lending</li> <li>– Environmental impact/ climate change</li> </ul>
Consumer groups	<p><b>Forums:</b> We hold regular consultation meetings with major UK consumer associations, and monitor and respond to issues raised by these groups through other forums. We are closely involved in working groups established to address issues identified as key concerns for consumers.</p>	<ul style="list-style-type: none"> <li>– Selling/lending practices</li> <li>– Responsible lending</li> <li>– Financial education</li> </ul>
NGOs	<p><b>Meetings:</b> We meet with several major NGOs with regard to developing a common understanding on key issues of concern, or in response to specific concerns raised through campaigns. We monitor and respond to issues raised by these and other groups through other forums.</p> <p><b>Correspondence:</b> We respond in a timely manner to correspondence received from NGOs, engaging in further discussions where appropriate.</p>	<ul style="list-style-type: none"> <li>– Environmental impact/ climate change</li> <li>– Sector lending and project finance</li> <li>– Human rights</li> </ul>
Media	<p><b>Media relations:</b> Our media relations teams respond on a daily basis to enquiries and requests for our views on issues highlighted in the media in all of the countries in which we operate.</p>	<ul style="list-style-type: none"> <li>– Financial strength and stability</li> <li>– Responsible lending</li> <li>– Supporting customers</li> </ul>

# Government support and our commitment to customers

## How the UK Government has helped us

- **Capital:** In October 2008, the UK Government underwrote the placing of £15 billion of ordinary shares and subsequently took up 22.85 billion (99.8%) of these shares at 65.5 pence each. In addition, it subscribed to £5 billion of preference shares. In April 2009, the £5 billion of preference shares were converted into new issued ordinary shares, of which the UK Government took up 16.8 billion (99.3%) at 31.75 pence each. As at May 2009, the UK Government holds 70.3% of the enlarged issued ordinary share capital of the RBS group.
- **Funding:** Since October 2008 the UK Government's Credit Guarantee Scheme has allowed RBS and other UK banks to offer some investors an additional guarantee on new borrowing for a period of 3 to 5 years.
- **Liquidity:** In April 2008 the Bank of England introduced a Special Liquidity Scheme (SLS), allowing UK banks to temporarily swap mortgage-backed and other securities for UK Treasury Bills. The scheme closed on 30 January 2009.
- **Asset Protection Scheme (APS):** In February 2009 RBS announced its intention to place assets with a par value of £325 billion into the UK Government's APS. The APS has also been made available to other UK banks. In return for a fee, the APS provides insurance against the risk of future losses on the asset portfolio, whilst freeing up capital for increased lending. As part of the planned participation by RBS, an additional £13 billion of capital will be raised, along with a £6.5 billion participation fee, through the issue of new ordinary 'B' shares underwritten by the UK government, with an option to raise a further £6 billion of capital in the future.

## What the UK Government receives in return

We recognise the privilege we have in restructuring the company with the support of the UK government behind us. Our mission is to repay that support.

- **Dividends and share values:** On the conversion of the £5 billion of preference shares into ordinary shares, the UK Government received £270 million in accrued dividends, redemption premiums and commissions. As the holder of 70.3% of issued ordinary share capital, the UK government stands to receive ordinary share dividends, once payments are resumed. As at May 2009, it stands to make a positive gain on its ordinary share capital from an RBS share price of 50.4 pence and above, with every 1 pence gain in the share price increasing the value of the government's investment by almost £400 million.
- **APS participation fee:** As part of the planned participation by RBS in the APS, RBS will pay a participation fee of £6.5 billion to HM Treasury in our ordinary 'B' shares.
- **Financial services compensation scheme:** RBS paid £150 million in 2008 to the FSA's scheme, designed to protect customers in the event of a failure by a participating financial services company.

## Commitments made to UK customers

- **Increased lending:** In conjunction with the APS, RBS has committed to make an additional £25 billion available, on commercial terms, to UK borrowers in 2009. Provisionally a further £25 billion will also be made available in 2010. The additional funding for 2009 will be split between £16 billion for businesses and £9 billion for mortgages.
- **Support for mortgage customers:** RBS and NatWest mortgage customers will be given a six-month moratorium, as well as support and advice, before any repossession proceedings are started. This is double the government's recommendation of a three-month period. We are also actively contributing to the Homeowner Mortgage Support Scheme and are increasing support for shared equity/shared ownership schemes to help people struggling with mortgage payments to stay in their homes.
- **Financial advice:** RBS and NatWest are the first high street banks to offer free, impartial financial guidance to anyone who wants it and 1,100 MoneySense Advisers have been introduced into our UK branches.
- **Regional business support:** We will increase lending availability to SMEs by at least £3 billion in the year to end February 2010 through the launch of 12 regional SME funds of £250 million each. The regional SME funds, which are managed locally, provide a range of funding options for SMEs, including debt finance, asset finance and invoice finance.
- **Support for SMEs:** With effect from December 2008, up to 1 million small businesses will benefit from a commitment not to increase overdraft pricing for 12 months and to continue providing committed overdrafts to small businesses with a turnover of less than £1 million. We have worked closely with the Government on the launch of the Enterprise Finance Guarantee (EFG) and are the leading lender to small businesses through the scheme.
- **Supporting customers through the downturn:** RBS and NatWest have launched a dedicated helpline, Business Lifeline, to support businesses with queries and concerns they face in the current economic climate. A practical advice guide for business customers, Trading through the Economic Downturn, has been produced, and a series of specialist seminars launched.



# Reporting principles

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Our approach to managing corporate sustainability focuses on identifying and responding to the issues that matter most to our stakeholders and to our business. This report provides a review of our activities in 2008 and details our future commitments and goals.

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We have adopted the AA1000 AccountAbility Principles Standard (AA1000 APS) which is a principles-based framework for managing and reporting sustainability performance. The AA1000 APS defines three principles that an organisation should adopt as a framework for sustainable development (or CR) management and reporting. These three principles are inclusivity, materiality and responsiveness. We outline further our application of each of these principles below. In compiling our report we have also considered the Global Reporting Initiative (GRI) G3 guidelines and sought to cover the principles of the UN Global Compact.

## **Inclusivity – knowing who our stakeholders are and who our business impacts**

We consider our stakeholders to be those who have a direct interest in our business because it significantly affects them. These stakeholders include employees, customers, shareholders, suppliers, investors and the UK Government. We also include those who have an interest in how we manage our business because of the wider impact of our actions. These stakeholders include governments, regulators, consumer groups, non-governmental organisations (NGOs) and the media. There are also others whose actions have an impact on RBS, such as our suppliers, who are included in our approach to inclusivity.

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

## **Materiality – determining what issues are important to RBS and our stakeholders**

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

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

This means that the material issues can be complex stakeholder requirements which conflict. We endeavour to manage this in a transparent and fair way. This often involves consultation with our stakeholders and we explain this further in our Stakeholder Engagement section on page 7. A detailed list of stakeholders and the specific issues that concern them is included on pages 8-9.

## **Responsiveness – responding to material issues and being transparent about our performance.**

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

Our response to some issues such as combating financial crime and promoting financial education are well established and embedded into our business practices. As new issues emerge as material to stakeholders, RBS is committed to researching and reviewing our position, in relation to the issue, and developing an appropriate response. We remain committed to responding to material issues identified through stakeholder engagement.



# Consumer issues

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Having 40 million customers in many regions of the world shows we are committed to developing customer relationships that last. In this section, we highlight important areas of focus, as identified by our customers, and illustrate what we are doing against those issues.

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## **Selling and lending practices**

Worsening economic conditions and the lack of funds available from wholesale financial institutions means that the focus of this issue now includes the availability as well as the affordability of credit.

Our lending decisions take into consideration the amount the customer wants to borrow and their ability to repay. Getting the balance right between offering credit and ensuring the debt is affordable to the customer is the crux of responsible lending. It also involves ensuring that the products we offer are fair and easy to understand and covers the level of support extended to customers who get into financial difficulty.

## **Affordability**

We have enhanced the way we assess a customer's ability to repay and, consequently, the credit limits we set. Where appropriate we verify both income and commitments, together with an assessment of both current and future financial needs. In this way, we keep customers' needs at the centre of our business and support them in the management of their finances.

We participate in industry initiatives to share data that helps to indicate when a customer is at risk of over-indebtedness. The APACS Credit Cards Behavioural Data Sharing initiative was launched in December 2008, and RBS has been participating in this from the beginning of 2009.

We have also taken into account the current economic climate and adjusted the factors that we take into consideration before granting new loans and mortgages.



## **Availability**

The withdrawal of a number of lenders from the market in 2008 resulted in both a lack of funding and an increase in the cost of lending. During this period RBS lent over 10% more in personal mortgages than in 2007. In addition, RBS has committed to maintain margins on overdrafts for 12 months for existing business customers where there is no change to their risk profile. This commitment gives peace of mind to many of our customers regarding the cost of borrowing.

## **Responsible marketing**

All marketing procedures for developing campaigns and customer communications were reviewed against Treating Customers Fairly principles during 2008 and enhanced, where appropriate, to ensure the right customer focus is maintained. Further information on this requirement is included in the Customer Service section of this report. Customer research is carried out to assess marketing and communications against TCF principles and our desire to always be clear, fair and not misleading.

## **Transparency of pricing**

Providing consumer products that are transparent and fair remains a firm objective. We have further improved the summary box on credit card statements and marketing material to make our pricing clearer for customers. In addition, during 2008 RBS signed up to the credit card industry 'Pricing Principles'. These include preventing card providers from raising risk-based interest rates for at least a year after a new borrower has signed up to a new contract and giving customers at least 30 days' notice of any rate changes.

We are participating in the Transparency Working Group established by the OFT as part of its response to the issues raised by the OFT market study into current accounts in the UK. We are also a party to the test case that aims to provide legal certainty over the issue of the fairness of charges for unarranged overdrafts.



### Helping customers in difficulty in the UK and Ireland

People are concerned for their jobs and household budgets. We continue to improve our methods of identifying those in trouble to ensure that we engage with those customers while there is time to rectify their financial difficulties.

We consider a range of options to rearrange customers' outstanding debt and only commence recovery proceedings as a last resort. In the UK and Ireland, we have made a public commitment not to commence repossession action within six months of the customer falling behind with repayments.

In the UK, when a customer is receiving Income Support for Mortgage Interest (ISMI), we will allow a mortgage repayment holiday of at least three months, so long as any other borrowing commitments are being met. We have also made a commitment not to progress collections of credit card arrears for up to two months when customers are working with a debt advice charity.

We offer an Assisted Voluntary Sale (AVS) scheme, that helps customers who are in arrears and want to sell their property to avoid repossession. In these cases we pay agent sale fees and legal fees where there is a shortfall after selling the property.

### Helping customers in difficulty in the US

In the US, we strive to work with our customers who are experiencing difficulty in order to ascertain their circumstances and design, where applicable, appropriate payment arrangements. We consolidated the retail and small business collection and recovery departments into one centre of excellence and increased the staffing levels by 40%. This allowed us to provide additional support for customers as many of them remain in challenging circumstances. Early performance results indicate that this has had a positive impact, with "promises to pay" increasing significantly and in greater proportion than our increases in delinquent accounts.

In our mortgage business we increased our loan modification activities, from 25 per month to more than 250 per month, providing our customers with significantly increased opportunities to remain in their homes. In addition to the existing "hardship" and "forbearance" programmes that comply with regulatory guidelines and offer customers temporary relief from outstanding debt, we voluntarily participated in foreclosure moratoriums through the holiday season as well as in the first quarter of 2009.

## Selling and lending practices – priorities and progress

### Priorities in 2008

- Enhance our service to customers who get into financial difficulty by investing in additional resources and technology
- Develop flexible offering to allow increase or decrease of customer credit limits to suit individual needs
- Continue to optimise the use of internal and external data with our credit systems

### Progress in 2008

- Continued to evolve our methods of identifying customers experiencing financial difficulty and enhanced support through our branch network, central teams and the internet
- Pilot was successfully completed with a low opt-out rate of 3% with the first stage of the offering to launch in 2009
- Introduced industry data on customer spending into assessment of customer affordability and indebtedness, looking to incorporate additional insight from a second credit reference agency in 2009

### Priorities in 2009

- Make an additional £12.2 billion in England and Wales and £1.7 billion in Scotland of residential mortgage lending available.
- Actively and constructively participate in the Consumer Finance Forum and extend breathing space commitment to cover all unsecured credit products
- Support and participate in the Citizens Advice Bureaus Self Help working group to develop a toolkit for those customers in financial difficulty who wish to manage their financial affairs themselves

### **Customer service**

Providing a high standard of customer service is integral to the way we do business. It builds customers' confidence in our products and services and helps to build lasting relationships.

Our stakeholder research shows that customers value advice on appropriate products and services that suit their individual needs and they expect banks to provide this as part of the service offering.

#### **Providing free, impartial financial guidance**

In 2008, we introduced MoneySense Advisers in 100 RBS and 1,000 NatWest branches across the UK network offering free face-to-face, impartial financial guidance. The advisers' training has been accredited by the Consumer Credit Counselling Service. We offer customers and non-customers alike guidance on budgeting and financial management issues.

#### **Listening to our customers**

We sent out over five million surveys to our UK retail branch customers and received around 700,000 responses with detailed views. This has allowed us to draw up a tailored Service Improvement Plan for each branch from the feedback of their own customers. We have a Customer Satisfaction Index (CSI) which tracks our progress on meeting expectations of customers. The CSI score for December 2008 was 88.6 out of 100 for RBS, and 84.8 for NatWest. These scores are slightly higher than the same period in 2007.

We also collect the views of our small business customers in the UK and conduct regular customer surveys in Ulster Bank and Citizens Financial Group.

In RBS Insurance we introduced a pilot using an internet survey to capture customer feedback for the approved motor repairer network. The feedback from this allowed the identification of repairers who had a high proportion of dissatisfied customers, resulting in remedial steps being taken as quickly as possible.

#### **Responding to customer feedback**

The delay in transferring funds from one account to another has long been a concern of many financial services customers. The industry has responded to this with the introduction in 2008 of the Faster Payment service by APACS, the UK payments association. RBS group was one of the first banks to introduce Faster Payments to their customers with the benefit that electronic payments, typically made via the internet or phone, are now processed in hours rather than days.

Extending Saturday branch opening over recent years has been a popular initiative in the UK, and we have continued the programme so that 34% of the RBS network and 43% of the NatWest network are now open on Saturdays.

Reducing waiting time in branches is a continual challenge and is closely monitored. We have introduced Cash Recycler machines for tellers to reduce waiting times and increase accuracy. In the Republic of Ireland, Ulster Bank introduced Service Coordinators in the larger branches to help manage queuing times.

A small but important issue for customers was that errors often occurred when making changes to their address or personal details because of poor handwriting or inaccurate updating. Online forms were introduced internally to remove the need for customers and staff to complete forms by hand. This means that 98% of changes are now right first time, compared with 76% for RBS and 91% for NatWest on the manual system. This was followed up in July 2008 with on-line forms for CHAPS, Foreign Payments and Account Closures. A success rate of 98% right first time was also achieved here.

#### **Responding to customer complaints**

We encourage our customers to tell us when they have a problem. We take all complaints very seriously and recognise that only by putting matters right and learning from our mistakes, can we improve service to all our customers. We recorded over 1.6 million complaints last year, from our UK personal customers, of which 93% were resolved without any need to escalate further. We know that customers want a swift response to their complaints so 80% were resolved within two days. Where we needed to undertake further investigation, then 96% of complaints were still settled within two weeks. We continue to look at ways to provide a speedier response to our customers, whilst ensuring that their concerns are properly investigated.

Of course, we recognise that some clients might not agree with our actions and 2,279 UK personal customers had their complaints referred to the Financial Ombudsman Service last year – 0.14% of total complaints. We work closely with the Ombudsman to ensure our customers get a fair resolution to their complaint. On average, the Ombudsman finds in our customer's favour in one out of four cases.

We review the root causes of complaints systematically and have improved over 50 processes in the last year, as a direct result of complaints to our executives.



During 2008, a large proportion of our customer complaints were related to the sales of Payment Protection Insurance (PPI). In December 2008 we ceased the selling of single premium loans.

We are looking to apply the learnings from the UK customer complaints system abroad and will report on this in future years.

#### Meeting our business customers' needs

We recognise that our business customers have specific needs, and we strive to meet these. We opened three dedicated NatWest Business Branches in 2008 and introduced the concept of Business Zones in 12 RBS and 11 NatWest branches. The Business Zones are dedicated areas within branches with a business focus. In particular, our people working in the Business Zones are given specialist training so that they can understand the needs of our business customers better. New intranet training also gives branch colleagues information on products and services available to business customers. In addition, 205 people attended NatWest 'Talking Business' courses designed to equip them with the skills needed to help our business customers.

#### Improvements in RBS Insurance

There are 87 initiatives in Claims Operations to improve the customer experience. These include:

- a new 'total loss settlement' process to speed up the time it takes for customers to receive settlement of motor claims. We removed the two stage 'total loss' process by giving external engineers the authority to discuss the valuation directly with the customer.
- a pilot to offer the customer the option of a cheque or like-for-like replacement vehicle to fulfil their claim.

- UK Assistance Accident Repair Centres embarked on a series of improvement activities, resulting in RBS Insurance obtaining the first 'PAS 125' accreditation by a UK insurer. This accreditation sets the industry standard for vehicle body repairs. Over 66% of our 200 authorised repairers also hold 'PAS 125' accreditation, helping to ensure better service for customers.

We have introduced an appointment process in our Home Accident Validation Unit, that has improved contact with customers. This is part of the Home Insurance strategy review, that aims to establish an optimum claims fulfilment process balancing cost management with good customer service.

#### Treating customers fairly

The Financial Services Authority (FSA) set a deadline of December 2008 by which all financial services firms had to be able to demonstrate that they are consistently treating customers fairly and delivering against the six specific consumer outcomes of this initiative. More information on this approach can be found at [fsa.gov.uk](http://fsa.gov.uk).

The principles of TCF have been a longstanding part of our business objectives, and we apply them in our day-to-day roles. They reflect the way we want to do business with our customers: putting them at the forefront of everything that we do and delivering on our promises. This means the product, information and advice that we provide meets the needs of our customers based on their individual circumstances. All levels of management monitor performance against our TCF objectives and steps are taken to rectify any shortcomings.

A video of our approach to TCF can be viewed at [rbs.com/sustainability](http://rbs.com/sustainability)

## Customer service – priorities and progress

### Priorities in 2008

- Increase numbers of Customer Advisers in branches
- Introduce an online forms system to improve accuracy and efficiency around change of address and personal details
- Open further RBS and NatWest branches in the UK and extend Saturday opening

### Progress in 2008

- Increased the number of Customer Advisers by 200 in NatWest and by 1,000 in RBS
- Successfully introduced – 98% of changes are now right first time
- A further two RBS and two NatWest branches opened. Saturday opening extended to 34% of RBS and 43% of NatWest branches

### Priorities in 2009

- Enhance the capacity of the MoneySense programme by training more advisers to provide free, impartial money guidance to both customers and non-customers
- Deliver training so Customer Adviser teams better understand the new customer commitments
- Roll out MoneyManager, an innovativenew product that helps customers manage their finances by setting up 'pots' for saving, bills and spending.

### Financial education

Understanding and confidently managing money are crucial life skills. RBS has a long-standing commitment to financial education, and we significantly increased our investment in our MoneySense programme in 2008 in response to the current economic downturn.

We are supportive of industry initiatives that enhance financial capability amongst consumers, and we actively participated in the Thoresen Review of Generic Financial Advice. We contributed to the British Bankers Association (BBA) response to the review and had a series of bilateral meetings with the Financial Services Authority (FSA) to share our experiences in the field of financial capability.

### Investing in financial education

The Group's financial education activities are built around our MoneySense programme, which has been running for more than 15 years. It provides free, impartial advice and information about money and financial services. It is the largest financial education programme of its kind. MoneySense aims to ensure that an ever-increasing number of people, children and adults alike are able to make informed decisions based on a solid understanding of their money and how financial products and services work.

### MoneySense for schools

MoneySense for Schools delivers lessons in financial skills to young people in their classrooms. The programme takes pupils on a financial journey, from the decision to open a bank account to managing their money when living independently away from home. MoneySense for Schools is accredited by the Personal Finance Education Group (pfeg), an independent charity that helps schools to plan and teach personal finance education. Every year, more than 500 RBS and NatWest employees visit

schools in their local communities, supporting teachers in the delivery of the programme. Since 2004 alone, more than 2 million MoneySense lessons have been delivered to pupils, with the figure for 2008 exceeding 337,000.

MoneySense for Schools was extended to Ireland in 2008, with online resources available to schools in both Northern Ireland and the Republic of Ireland, and plans are currently in progress to introduce MoneySense to the US through Citizens Bank. The programme's 'Bank on it' module has also been translated into Welsh.

In 2008 we made significant steps in highlighting examples of best practice in Personal Finance Education – beyond our own MoneySense programme – by hosting the first annual Personal Finance Education Awards. These awards recognise and reward secondary schools and teachers across the UK who are creating and delivering excellence in personal finance education.

School Money has been running since 2006 and offers young people in primary and secondary schools the opportunity to adopt the habit of saving, while also developing their enterprise skills. School Money is essentially a school bank run by pupils, for pupils. By setting up their own school bank, young people can put into practice the skills they have learned through MoneySense for Schools. In 2008 we opened the 100th inner city school bank, bringing our total number of school banks to 332.

Our resources won the silver 'e-learning' award for Excellence in the Production of Learning Content Development in 2008, and they were also nominated for the Children and Young People's Services Awards for Financial Capability.



### Offering financial education to adults

In 2008, we extended the reach of our MoneySense for Adults programme to incorporate a series of initiatives that offer face-to-face money guidance to our customers and the wider community. Our work here coincides with, and complements, a wider drive by Government to increase the availability of free and impartial face-to-face money guidance across the UK.

Following a number of years of offering advice through leaflets and information in branches and on the Internet, we have taken the significant step of increasing investment in the provision of financial advice. In December 2008, an additional 1,100 MoneySense Advisers, who had been trained by the Consumer Credit Counselling Service (CCCS), were introduced to RBS and NatWest branches. Their job is to focus on helpful guidance, not selling products, and this makes RBS the first bank to offer free impartial guidance to everyone, including customers and non-customers alike.

During 2008, RBS ran a series of evening money management seminars in selected branches. The sessions were supported by the FSA and CCCS and delivered in partnership with the MoneySense team. Topics ranged from general money management to the financial implications of starting a family. An evaluation of this initiative showed that attendees found the advice very useful and were better informed as a result.

In the US, Citizens Financial Group has also implemented, and continues to expand, a number of financial literacy programmes in low-income and inner-city communities where we operate. These sessions include lessons on homebuyer education, small business technical assistance and college planning. They also warn against the dangers of trying to secure credit outside of the mainstream financial services system, often at punishing rates.

### MoneySense for employees

A communications plan was created and implemented to ensure that 120,000 UK-based RBS group staff are aware of our activities and how MoneySense can assist them. We have partnered with the FSA to deliver a series of hour-long seminars across the country, that will take our employees through the basics of understanding and managing their money effectively.

For further information about the Group's MoneySense programme please visit [rbs.com/financialeducation](http://rbs.com/financialeducation) where you will also be able to download a copy of the MoneySense Report.

## Financial education – priorities and progress

### Priorities in 2008

- Deliver a programme of activity to support teachers in the delivery of MoneySense for Schools
- Continue to grow the School Bank programme
- Increase awareness of the MoneySense website and introduce new interactive content

### Progress in 2008

- 110 teachers attended the first RBS Personal Finance Training Day – the event was supported by the FSA and the Qualifications and Curriculum Authority
- 130 School Banks were opened in 2008 – 393 in total were active
- Visits to website doubled to 120,000 following the December national media campaign

### Priorities in 2009

- Increase the number of employees delivering the MoneySense for Schools programme
- Extend the MoneySense for Adults programme and strategic partnerships which target financial capability across vulnerable groups
- Invest to promote financial capability across adults and young people, above and beyond the MoneySense programme

### **Financial inclusion**

Access to financial services, including standard products and affordable credit is an issue that has been brought to the forefront during the current financial climate. We understand how financial exclusion puts individuals at a huge disadvantage, and we are working hard to understand and address this issue.

### **Extending access**

Direct access to our advisers and branches is always high on our customers' list of priorities.

In 2008, we extended our UK branch network by a further two RBS and three NatWest branches. Ulster Bank opened a further five branches and RBS Bank Romania another three. In the US, Citizens extended its network by 18 branches to a total of over 1,600 and added a further 100 new ATMs.

In the UK, the Group operates 16 RBS and four NatWest mobile branches. Ulster Bank also operates five mobile branches throughout Ireland. This direct way of reaching customers is appreciated in communities with limited access to banking and allows us to provide some innovative solutions.

The Group also looks to extend access through new and improved products. In 2008, RBS won 'Best Islamic Product' at the Finance Asia Structured Products Awards. The Al-Sayf Structured Islamic Deposit is a market-neutral product which is not just compliant with Islamic principles but is also completely Shariah based.

### **Offering access to bank accounts**

Basic bank accounts can offer a lifeline to those who have difficulty entering the banking system. These accounts are specifically designed to help customers on low incomes and those with a poor financial history to manage their finances without the fear of getting into debt.



The RBS group is one of the UK's largest providers of basic bank accounts accessible through the Post Office – and is responsible for more than one million accounts, an approximate 29% market share. In 2008 alone we opened over 170,000 basic bank accounts.

The Group has continued to support Scotcash, the groundbreaking Community Development Finance Institution in which RBS is a leading partner. We have worked with Scotcash to develop its business model and its employees' skills, as well as maintaining our loan funding commitment. Scotcash also participates in our 'Trusted Partners' programme, undertaking much of the RBS Basic Bank Account opening process on its own premises. Since December 2007, 400 accounts have been opened through the programme.

In Ireland, Ulster Bank provides the Step Account, a free current account available to anyone over the age of 16 and last year launched the Adapt Account, specifically designed for 11-18 year olds. This offers banking with no transaction fees and no overdraft facility to avoid any unforeseen charges. Adapt launched in October 2008, and over 1,400 customers have taken advantage of this offering to date. Across the US, Citizens opened 487,000 basic checking accounts in 2008.

### **Helping avoid exclusion in Ireland**

Ulster Bank launched an innovative mortgage product 'Momentum Mortgage' in August 2008 to help the first time buyer market in Northern Ireland. Our product helps to address consumer concern that house prices may decrease further, and the fact that the current economic climate has made it more difficult for first time buyers to find the deposit to get onto the first rung of the property ladder.

The Momentum Mortgage was developed in conjunction with leading property developers from across Northern Ireland.



First time buyers, Alan and Rebecca Sherrard, pictured here with daughter Sarah and Derek Wilson from Ulster Bank, took advantage of our new mortgage product 'Momentum Mortgage'.

First time buyers can gain access to the housing market without having to find an initial deposit – the developer contributes a 5% deposit, repayable by the buyer only in the event of the property price rising by 5% or more after five years. The buyer will also be safeguarded by up to an additional 10% against any fall in property value over that five year period. Therefore first time buyers will be safeguarded against up to 15% of potential decline in the value of their property.

The Momentum Mortgage was endorsed by the Northern Irish Executive and there are plans to launch in the Republic of Ireland in 2009.

### Working in partnership

We recognise that other organisations are also well positioned to provide support to those at risk of being excluded from the financial system. The RBS group is the largest corporate supporter of Transact, the UK's national forum for financial inclusion. Transact works with more than 1,000 member organisations comprising, among others, local authorities, housing associations, advice agencies and credit agencies.

Administered by Transact, the RBS Innovate fund supports innovative projects to promote financial inclusion. In 2008 it funded six housing organisations to expand financial inclusion initiatives. Talking Money is a joint project between ARC

Scotland and ENABLE Scotland, and was funded by RBS Innovate during 2008. It aims to make it easier for people with learning disabilities to access banking services and for them to be financially included in society. The project provides local networks in four rural areas of Scotland: the Highlands, Borders, Aberdeenshire, and Dumfries and Galloway and provides free training for support staff in each of these areas. Talking Money also provides information about banking issues, resources and money advice via the Talking Money web section of the ENABLE Scotland website: [enable.org.uk](http://enable.org.uk)

The continuing partnership between RBS and the Money Advice Trust (MAT) has ensured the delivery of professional and high quality money advice training. During 2008, 5,000 advisers have been trained, and it is estimated that around 400,000 people have benefited from advice delivered as a result of this project. The RBS group sits on the Partnership Board, that acts as an advisory group to MAT's activities. We are the leading private sector contributor to the Trust's work and have pledged £2.15 million to support MAT's three year strategy to expand their debt advice services.

## Financial inclusion – priorities and progress

### Priorities in 2008

- Work with community organisations to explore the Bank's role in providing affordable credit
- Simplify the process for converting basic bank accounts to full current accounts
- Engage consumer groups to improve the advice we give to customers

### Progress in 2008

- Committed to support Third Sector Affordable Credit including actions to develop new provision in 25 high priority areas
- Successfully delivered a refined process, allowing customers to convert accounts whilst keeping existing account details
- MoneySense Advisers have undergone money guidance training through the Consumer Credit Counselling Service

### Priorities in 2009

- Work with Government to identify new opportunities to improve the supply of affordable credit by supporting the Third Sector, backed by a £5 million funding commitment
- Work with the Financial Inclusion Task Force's regional Financial Inclusion Champions to develop local solutions
- Commit to providing the Government's Saving Gateway programme by ensuring that appropriate systems are in place to facilitate roll-out of the service in 2010

## Supporting enterprise

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Enterprise is key to the economies of the countries in which we operate, and each year we help many thousands of people to start new businesses, and support many more who want to see their businesses grow. In challenging economic circumstances this assistance is even more vital.

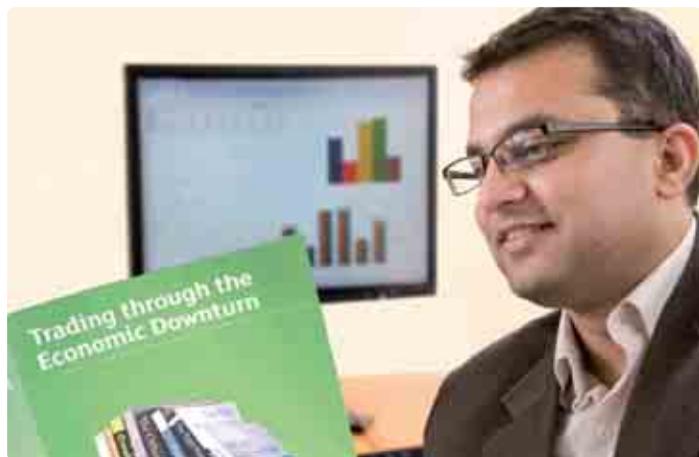
### Small business support

In response to the deteriorating economic conditions in the UK, the Group announced a number of measures to help small businesses in the UK. There will be no increased pricing on our small business customers' overdrafts until at least the end of 2009, unless the risks associated with lending to them have increased. In addition, the Group has also pledged to continue to provide committed overdrafts to small business customers with turnover of less than £1 million. What this means is that our overdrafts are not repayable on demand and so our customers' facilities stay firmly in place for 12 months from the date they are agreed.

*"This is a very welcome initiative from NatWest and RBS. Small businesses are concerned about the availability and pricing of their overdrafts and we are pleased that the Bank has listened to its customers and takes this action to support them."*

**Stephen Alambritis**, Federation of Small Business

In the current difficult economic conditions, we have focused on matching our most experienced managers with the businesses that need most help. To help achieve this we have created 500 specialist Relationship Managers to work with our customers who have been impacted most by the economic downturn. In addition,



we launched a telephone based 'Business Lifeline' staffed by experienced lending managers to provide further advice and support to customers.

In terms of small business lending, we increased our lending 10% in 2008. As part of our lending commitments to Government, we will increase lending to SMEs by £3 billion in the year to end February 2010 through the launch of 12 Regional SME funds of £250 million each. The Regional SME funds, which are managed locally, provide a range of funding options for SMEs including debt finance, asset finance and invoice finance.

Our lending in the 5% most deprived wards in the UK also increased. We have £561 million in term loans and £61 million in overdrafts, giving us a 34% market share.

### Widening access to business banking

In June 2008, the Group launched the Foundation Account targeting start-ups and existing small business customers that have an impaired, incomplete or non-existent credit history.

The Foundation Account is a fully functional current account that does not permit any borrowing. The account allows our small business customers to build up a positive track record in the name of their business, helping them meet the requirements for borrowing in the future.

This has been well received by Enterprise Agencies, The Prince's Trust and BERR, and was commended in the Most Innovative New Business Banking Product category in the MoneyFacts 2008 Awards. Despite the difficult trading conditions, this account has helped the Group grow its start-up market share by 5% in 2008, and we remain number one for start-ups in the market.

Ulster Bank's Business Start-Up Package remains one of the best deals for start-ups in the Republic of Ireland, and at the end of 2008 Ulster Bank held 25% of the 'New Start-Ups' market. The offer includes fee free banking for up to three years and a market-leading loan rate. Ulster's offering is a clear differentiator in the start-up market and was instrumental in Ulster Bank winning the KPMG Business Bank of the Year award in 2008, for the fourth consecutive year.

### Providing extra support

When economic conditions deteriorate, small businesses are usually the most vulnerable. They tend to have fewer resources, less capital and reserves and typically rely on a smaller number of customers than larger businesses. In 2008, the Group produced and distributed 730,000 'Trading through the Economic Downturn' guides to customers. The guide provides advice and insights from experienced members of staff, as well as outside experts, to offer support and help to customers who may be struggling to cope with the recession.

We believe it is important for small businesses to understand how creditworthy their own business customers and suppliers are so that they can avoid the risk of late payment or bad debt.

In late 2008, RBS launched a new information service, Business Status Alerts. This product allows customers to access credit checks and reports, and an alert system informs customers via email of key changes that could affect their receipt of payments and services from third parties.

'Business Debtline' is a proven help for UK businesses with their website receiving over 100,000 hits per month. RBS remains the leading private sector funder of Business Debtline with a donation of £77,000 in 2008 through our continued work with the Money Advice Trust. With this secured funding, Business Debtline helped over 15,000 businesses during 2008 with a larger team including 11 advisers.

### Investing in social enterprise

Our commitment to supporting the future success of social enterprises is evidenced by the provision of 100 locally based Community Managers throughout the UK, whose remit includes servicing the needs of social enterprises.

At RBS we have played an active part in making and supporting the social enterprise market. As well as being socially responsible, it makes commercial sense, and creates new opportunities for the Group.

The Group first started the Enterprising Solutions Awards in 1999 and remain the lead sponsors today in partnership with the Office of the Third Sector in the Cabinet Office. A separate two-day event was set up and launched in 2008 to enable social enterprise and private sector leaders and founders to learn from each other. Sponsored by RBS, Wavelength 100 attracted over 100 people from the UK and overseas from companies such as Apple, Nike and the Big Issue.

### Helping small businesses get started

Through the ABN AMRO acquisition, the Group now operates a significant Microfinance programme in India. This focuses on deepening and widening financial access in rural areas through Microfinance Institutions (MFIs) that work with self-employed women. The Group has made loans totalling an estimated INR 7.3 billion (GBP 91 million) to over 566,000 disadvantaged rural households and, through the RBS India Foundation, delivers a technical assistance programme to 21 nascent MFIs in the underserved states of India, with a focus on sustainability.

### Stepping in to help

When larger companies get into financial difficulties, there may be underlying causes – such as management or strategic issues. And when economic conditions are challenging, problems and inefficiencies can quickly turn into defaults and debts.

RBS Global Restructuring Group (GRG) is on hand to help in such circumstances. First set up in the 90s, GRG today provides specialist advice through multi-disciplinary teams comprising bankers and a wide range of professionals who are also experts in business turn-around. These teams – some 650 professionals in total – are based in locations that follow the bank's footprint, working with companies to pinpoint problems and engineer solutions.

It is an approach that has served our domestic and international large corporate customers well through more than one recession and early intervention pays off. The good news is that the majority of companies moved to GRG do solve their problems and return to financial strength.

## Supporting enterprise – priorities and progress

### Priorities in 2008

- Enhance our Women in Business strategy as outlined in the 2007 CR Report
- Invest further in staff training around specific needs of business customers
- Work with Department for Business, Enterprise & Regulatory Reform on the relaunch of the Small Firms Loan Guarantee funding scheme

### Progress in 2008

- Team has grown to approx 150 ambassadors and industry leading external partnerships have been formed
- Delivered significant training to Relationship Managers to help better support our customers through the economic downturn
- Continued growth of number one market share of lending through the Small Firms Loan Guarantee Scheme

### Priorities in 2009

- Continue support for businesses in the UK by increasing lending by £16bn in year to end Feb 2010, of which £3bn is specifically to support SMEs through our Regional SME funds
- Provide SME customers access to Government lending schemes including Enterprise Finance Guarantee, Capital for Enterprise Fund and European Investment Bank
- Increase advice to customers through delivery of 50 SME seminars across the UK and publication of advisory reports based on independent research

# Employee practices

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2008 was an unprecedented and difficult year for employees. Our people have felt uncertainty over jobs, shared in the disappointment of poor results and have suffered financial losses in personal investments.

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This has had an understandable impact on employee opinion scores. However, with the recent change of management and strategic direction, we are confident that our employees will respond with the same hardworking resilience that has been a hallmark of the RBS employee in the past. As we look to rebuild from what has been a turbulent year, our people once again have an important role to play.

*“Many of our employees are shareholders, and our people are, of course, the heart of our Group. They deserve better from their top management, and they do not deserve to share the worst of criticisms being laid at the door of their employer and their industry.”*

**Philip Hampton**, Group Chairman  
AGM, 3 April 2009

At the end of 2008, the RBS group employed over 174,000 people in over 50 countries, up from 140,000 in 2007. This expansion of the Group, both geographically and in terms of numbers of employees, was primarily as a result of the ABN AMRO acquisition.

## Integrating employees

To support those employees who joined the Group from ABN AMRO, a new online Group Orientation e-Learning module was launched in 2008. In addition to this, in March the Group held the first ABN AMRO Orientation programme. Delivered by senior leaders, the programme was designed to share with participants how the Group makes decisions, its strategy and to deliver a clear understanding of Group structure and brand. The RBS Business School has managed over 600 delegates through 15 programmes and a teaching pack has been developed, drawing on the content of the programme, to help support orientation on a wider scale.

## Redeployment and redundancies

Our strategic review and cost cutting plans require swift and decisive action to be made and unfortunately this includes job losses. We are committed to conducting the process of change in the best possible way and to consult in full with staff and their representatives, including the Unite trade union in the UK, as we

proceed. We strive to keep any compulsory redundancies to an absolute minimum, and we have deliberately not set an overall Group number for reductions in headcount, setting financial targets instead.

We are committed to retaining skills and experience within the Group and helping employees at risk of redundancy to identify and secure their next career move, either internally or externally. Redeployment is the process that provides support for relevant employees to help them find a new role within the RBS group. Redeployment and Outplacement support is provided by the RBS group for all employees. This support includes CV writing assistance, letter writing support and interview preparation. In 2007 redeployment within the UK had a 4% placement rate, after the launch of the new policy and process, within five months in 2008, the placement rate for redeployment had risen to 15.4%.

## Rewarding our people

In early 2009, the Group reached an agreement with the UK government as majority shareholder (through UK Financial Investments) on its approach to Pay and Reward for 2008/09.

Among the changes being implemented, the Group Board will receive no salary increases during 2009. This will also apply to all Group Executives and most employees in our Global Banking and Markets division. In relation to bonuses, no discretionary cash bonuses will be paid in 2009 for performance in 2008. The RBS Board understands the considerable task ahead, however, and have highlighted the importance of employees in returning RBS to standalone strength. We will engage our people with a new employment proposition that provides initiatives rewarding them for delivering sustained and sustainable success. High performers will not be rewarded through cash incentives as before, but through deferred awards, which will be released during 2010, 2011 and 2012. Where possible, employees are being offered the facility for a cash advance against the value of any deferred award.

*“Our over-arching aim is to restore the standalone health of the Group as soon as is practical. In doing so, we need to retain the trust of our customers, shareholders and the wider public while delivering the best possible commercial performance. We need to retain, motivate and attract talented people to restore the fortunes of the company. We will try to do that whilst being among those banks leading the industry in changing the way we operate.”*

**Philip Hampton**, Group Chairman  
Remuneration announcement, 17 Feb 2009

The Group understands that for a large proportion of employees the closure of the 10% profit sharing scheme will have come as a huge disappointment. Therefore an agreement has been reached with Unite in the UK for the staff they represent below managerial grades. An equivalent payment will be made as part of the existing monthly award beginning in 2009. The average salary for this group is £18,979.

RBS*elect* is an additional element of the Group's Reward strategy. Employees can individually tailor their reward package to suit their lifestyle, electing from a wide range of benefits such as childcare vouchers, discounted shopping vouchers and health care cash plans. During 2008, RBS*elect* was extended to employees in Hong Kong, Singapore, Greece, India, Malaysia, the Netherlands and Australia, and this rollout will continue across the Group's international operations in 2009.

A number of features and benefit options within RBS*elect* are specifically designed to be environmentally friendly and to encourage employees to focus on their own lifestyle and environmental footprint. There was an increase in the number of employees electing these options, and currently 3,990 employees have chosen to purchase tax-free bikes, 1,828 benefit from the tax-free annual bus ticket scheme and 3,149 have elected to take a health and wellbeing assessment. In 2008, 5,115 employees elected to receive all of their RBS*elect* communications by email or text message resulting in over 200,000 sheets of paper being removed from the annual process.

### Supporting diversity

We are committed to valuing and promoting diversity in all areas of recruitment and employment, and believe that employees can develop their full potential, irrespective of their gender, ethnicity, disability, age, religion, belief or sexual orientation. We do not tolerate discrimination of any kind.

We recognise the importance of a holistic and long-term commitment to diversity. Our objectives range from diversity training and supporting employee networks through to flexible employment policies that recognise and support our employees' individual needs and requirements.



Our approach to diversity in the workplace has won us various awards and accolades. In the UK these include Gold Standard Awards from 'Opportunity Now' and 'Race for Opportunity'. RBS group was also included in 'The Times Top 50 Where Women Want to Work' list and the Stonewall Workplace Equality Index Top 100. Neil Roden, Group Director of Human Resources, sits on the President's Group of the Employer's Forum on Disability. RBS is a founding member of Race for Opportunity and we participate on the Board.

### Supporting employee training and development

We attach a great deal of importance to identifying and developing talent at all levels throughout all of our divisions. To help employees choose the right development options, each individual has a personal development plan in place that is regularly reviewed, and which they own and drive forward.

Resources available are tailored to specific business and individual needs, and include a range of interventions from online learning platforms to mentoring, coaching and divisional development programmes. The RBS group also encourages the professional development of employees and will consider providing financial support where the qualification is directly relevant to the role, and the individual can demonstrate benefit to the business. For employees aspiring to become a successful leader, a Group Leadership 'Journey' is in place. This provides an end-to-end roadmap of the Group-wide approach to best practice in leadership development and clearly sets out what success looks like at the different stages of the journey.

### Listening to employees

Monitoring our employees' opinions and levels of satisfaction has always been an important annual benchmarking exercise for the Group. In 2008 the RBS Employee Opinion Survey was extended to more countries in more languages to incorporate our new colleagues from ABN AMRO.



## Employee practices continued

The most recent survey was conducted in autumn 2008 coinciding with a difficult period for the Group and the world economy in general. Unsurprisingly, in some categories, the survey results show that we have fallen back on the results of 2007. In particular, there are understandable areas for concern within the 'Employment Security' and 'RBS Group Leadership' categories. It should be remembered that this survey was carried out before the full impact of the Group's situation was felt, and we expect this to be reflected in next year's results. However, we now have a new leadership and strategic direction in place, and our focus will be on working together on the actions necessary to restore and rebuild confidence in the Group.

### Ensuring employee wellbeing

At RBS, we recognise the importance of our employees' health and wellbeing in both their personal and professional life. RBS Retail was placed in the Sunday Times '20 Best Big Companies to Work For' list for the third year running in 2008. In addition to this, the Group received a special award from the Sunday Times for 'Work Home Balance.' This recognises the Group's commitment to ensuring that our people are encouraged to maintain a balance between the demands of their work and those of their personal lives.

Our free and confidential 24-hour employee advice service, Lifematters, was extended to cover all Group employees internationally in 2008. The Group saw the benefit of this global rollout in our ability to offer immediate and effective support to our 11,000 colleagues in India after the Mumbai terrorist incident in November 2008. All Group employees, and their immediate families, are now able to access telephone and face-to-face counselling and consulting, in addition to being able to download a full range of publications and tip sheets from the Lifematters Online self service module.

When stress has a chance to develop, it is detrimental not only to the health of people but also to productivity and job performance. We strive to recognise and resolve stress related issues at as early a stage as possible. Using our Employee Opinion Survey responses, workplace causes of stress were identified. From these, stress risk assessments and action plans have been developed for each of our businesses and work is underway to implement the actions.



### 2008 group EOS results vs financial services norm (%)

Category	2007	2008 Group	2008 vs Norm
Communications	72	73	+7
Cooperation & Working Relationships	80	81	+5
Customer Focus	81	82	+2
Division Leadership	70	66	+3
Efficiency	62	64	+4
Employment Security	78	58	-16
Image & Competitive Positions	69	65	+5
Innovation	75	69	+4
Job Satisfaction & Engagement	71	73	-1
Managing People & Change	74	74	+5
Performance Management Management	67	63	+4
RBS Group Leadership	76	66	-3
Recognition & Reward	68	64	+4
Respect & Diversity	78	80	+6
Workload & Worklife Balance	67	61	+9



Some of our call centre staff have reported feeling stressed in the past at work. In 2007 and 2008, we held a series of focus groups with representatives from each employee group within call centres to concentrate on identifying any potential workplace causes of stress. Action plans have been developed to address the issues identified and a number of these have already been implemented including specific work plans for Absence, Retention and Engagement.

Stress related absence across the Group decreased in 2008. We continue to work with the UK Health and Safety Executive (HSE), and in 2008 we participated in a research consortium on Preventing Stress: promoting positive manager behaviour.

The number of reportable incidents for employees in the UK and Ireland fell from 240 in 2007 to 184 in 2008, an overall reduction of 23%. This also represents a reduction of 25% in the injury rate per 100,000 employees from 236 to 176.4. The HSE Business and Finance sector injury rate was 173.6 in 2008. There were a total of 201 RIDDOR reports made in 2008 compared to 254 in 2007. The number of all incidents also decreased 7% to 2,401 in 2008. Further information is available in the 2008 Safety, Health and Wellbeing Report available at [rbs.com/sustainability](http://rbs.com/sustainability).

We work hard to monitor and reduce the levels of absenteeism, and the overall absence rate for the Group decreased in 2008 from 3.38% to 3.05%.

#### Age profile %

	Under 30	30-39	40-49	50-59	Over 60
2008	34	30	23	11	2
2007	33	29	24	12	2

#### Years of service %

	Under 2	2-5 yrs	6-15 yrs	16-25 yrs	26-40 yrs
2008	28	29	25	10	8
2007	26	28	24	13	9

#### Gender profile %

	2008		2007	
	Female	Male	Female	Male
Total staff	55	45	58	42
Clerical & appointed	61	39	64	36
Managerial	32	68	29	71

#### RBS group % of black and ethnic (BME) employees in the UK

	RBS group BME employee %	BME working age population %
2008	10.4	8.3
2007	10.3	8.3

## Employee practices – priorities and progress

### Priorities in 2008

- Extend our cross-cultural training programme 'Working Successfully in an International Business Environment' across all businesses and geographic areas
- Extend our employment policy framework and implement global standards
- Rollout askHRDirect service proposition into Europe and Asia

### Progress in 2008

- Programme made available to all divisions and regions via intranet link to the supplier
- The Global Employing Framework and Policy Standards launched in May 2008, and the Policy Standards are now being implemented through country plans
- Successfully implemented proposition into Europe and Asia

### Priorities in 2009

- Ensure the Group's approach to pay and benefits continues to strike a reasonable balance across the conflicting interests of repaying the Government, re-earning shareholder trust and the need to retain, motivate and attract talented people to help restore the company's health
- Implement the global Safety and Health Policy and Policy Standards
- Ensure commitment to conducting the process of change in the best possible way, keeping any compulsory redundancies to an absolute minimum, and consult in full with employees and their representatives as we proceed

# Financial crime

Combating financial crime remains an important priority for our stakeholders, especially during this time of economic uncertainty. It features in the top three priorities for both customers and employees.

The RBS group has established a reputation as an authority in this field, and we share our expertise with government, police and industry bodies. For example, RBS played a leading part in The Bank of England's consultation process for the development of minimum standards for cash centre security by sharing our industry-leading security design model, and we were the first bank to load fraud data onto the APACS Fraud Intelligence Sharing System (FISS).

RBS Insurance invested in new software designed to enhance the detection of sophisticated networks of fraudulent claims. Information uncovered by this software is provided to the Insurance Fraud Bureau and assists in the detection of industry-wide fraudulent activity.

It is often the case that the proceeds of fraud are used to finance organised crime and terrorism. We see our contribution to industry and government efforts to counter this as part of our wider social responsibility to the communities we serve.

### Commander's Commendation

Richard Fradgley, Lead Investigations Manager, Group Security & Fraud has received a 'Commander's Commendation' from the Commissioner of the City of London Police (CoLP) for initiating and supporting the CoLP investigation into the opening of fraudulent accounts, with many major UK banks, by a gang using forged passports, false identities and bogus companies.



### Combating money laundering

Our new Anti Money Laundering (AML) monitoring system has allowed us to increase the accurate detection of suspicious transactions. In 2008, one in every five alerted transactions was correctly identified as suspect – a five-fold improvement on 2007.

### Preventing fraud

ATMs remain vulnerable to card skimming attacks. We have continued to install anti skimming solutions to our more vulnerable cash machines and, since these solutions were fitted, no new attacks have been successful. Despite an increase in physical attacks on ATMs across the industry, RBS has seen a fall in loss levels and attempted incidents against our measures. This is as a result of installation of enhanced security measures together with increased vigilance and investment.

Further new controls, together with fraud measures associated with the recent Faster Payments Service, have resulted in a dramatic reduction in average monthly losses. In the US, deposit fraud has dropped by 12% following the implementation of a new fraud review of all accounts opened.

Our dedicated investigations unit works on complex cases to profile criminal behaviours. In 2008, the unit prevented £22.6 million in potential fraud through this proactive approach.

Our fraud prevention and AML processes rely on our being able to accurately identify our customers. New monitoring has been implemented in the US to combat identity fraud. We have significantly enhanced our controls to validate new accounts and requests to modify accounts to ensure that they are legitimate.

### Helping our customers

During 2008, we launched a Security Centre website that provides information on security and fraud issues to our customers and helps them to take measures to protect themselves. In the six months since the launch, the site has received an average of 65,000 customer visits per month. The site can be found at: [rbs.co.uk/global/f/security.ashx](http://rbs.co.uk/global/f/security.ashx)

We accelerated the rollout of our card reader devices that authenticate online transactions and give added protection to our online banking customers. Three million customers



are now benefiting from this enhanced online security, and losses from phishing attacks have reduced significantly within online banking. We work hard to take down bogus sites as quickly as possible, and have achieved an 83% success rate in taking down all such sites within 48 hours.

Being a victim of fraud is a common concern of our customers. We conduct customer feedback surveys with victims of fraud to understand their experience and to learn how our service could be improved. The latest survey showed a customer satisfaction rate of 84% with the service received.

From this feedback we know that our customers are concerned about reinstating their credit rating following identity fraud and also welcome regular communication about the progress of their claim. In 2008 we introduced a text messaging method of keeping our customers informed of progress on the recovery of their funds. Since the text service launch in June, almost 17,000 customers have been contacted in this way.

We also have a specialist team who will fully restore a customer's credit files in relation to any adverse data resulting from a fraud on an account held with us.

#### Know your customer

Know Your Customer (KYC) is a process that ensures the Group secures evidence from a prospective customer that verifies their identity and address prior to any transaction taking place. During 2008 Group Security & Fraud, in the UK and Ireland, has successfully piloted a new identity document scanning tool in a small number of branches. The tool is designed to identify counterfeit documents which may be used to authenticate potentially fraudulent customers. An extended

deployment of this solution will be rolled out in 2009 in the UK and America regions.

#### Data security

Data security controls continued to be a key focus for the Group in 2008, following a breach of data security by one of our third parties. This risk has been significantly reduced by cataloguing all electronic data transfers to third parties and implementing solutions to ensure data protection. Our suppliers will be subject to deeper information security assurance reviews to ensure they have appropriate controls to protect our data.

In addition, we reviewed the FSA and Information Commissioner's Office reports on concerns over insufficient security controls for customer data in the financial services industry. As a result, awareness and controls have been reinforced to ensure the use of secure modes of transfer and encryption, including the security of back-up media.

#### Physical security

We take the security of our staff very seriously and make every effort to minimise the risk of personal attacks. Training for employees on how to react to hostage or kidnap situations has been provided in the UK and Ireland, and the accompanying video received a Communicators in Business (CiB) Award for Excellence.

Our Cash & Coin centres require further security measures to protect our people and assets, and we have taken a number of additional measures in 2008. RBS group's approach to physical security helped to shape the new Bank of England industry standards, and RBS also sits on the Physical Security Standards committee for APACS.

## Financial crime – priorities and progress

### Priorities in 2008

- Invest over £2 million in the UK to enhance the physical security surrounding our Retail and ATM networks
- Establish use of technologies such as SMS text to keep customers updated on the progress of their fraud case
- Delivery of the Victims of Fraud Service initiative supported by APACS to improve the customer experience

### Progress in 2008

- Installed approximately 4,000 anti-skimming solutions on our ATMs in the last 24 months and achieved a further reduction in attacks against our branch network by 48% on 2007
- Utilised text messaging to update customers upon receipt of completed declarations and when a refund is passed
- RBS fully supports this initiative with direct interaction with our own Identity Theft customer support team

### Priorities in 2009

- Increase assurance over the controls that protect our customer information
- Enhance our ability to profile transactions for unusual activity as well as identify connected fraudulent activity
- Introduce technology across the Group that protects customers, using online banking from eCrime, including phishing and Trojans. Enhance the way we detect when genuine customers are banking with us

# Environmental impact

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We are committed to conducting our business in an environmentally sustainable manner and recognise the significant global threat posed by climate change and other environmental issues.

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We are determined to play our part in the global shift to a more efficient, innovative and equitable use of resources and support the UK government's leadership on climate change. We understand the importance of immediate, effective and coordinated global action to develop and implement a framework for mitigating environmental impacts and reducing greenhouse gas emissions.

Our approach to environmental issues is coordinated through our Group Environment Programme, which is overseen by our Environment Working Group. There are four key areas of focus:

- Customers, products and services
- Environmental risk
- Operational impacts
- Employee engagement.

## Customers, products and services

As a bank, our primary means of promoting environmental sustainability is through the provision of financial services that promote sustainable development whilst meeting the objectives of our customers. In 2008, RBS was one of the world's leading global arrangers of finance to renewable energy projects – predominantly onshore wind, solar and hydro projects. We were also a major arranger of finance to fossil fuel projects – a position which drew some criticism from a number of campaign groups. In total, our project financing to renewable energy projects represented around 24% of our total energy financing. By way of comparison, in 2006 around 13% of the world's total primary energy supply came from renewable sources (mainly biomass and hydro power) with wind, solar and geothermal contributing approximately 1% in total.

In the coming years and decades, we expect renewable and low-carbon technologies (and associated support mechanisms) to reach a point where conventional fossil fuel use can be substantially reduced, although this era has not yet been reached. There are, however, a number of areas of technological innovation such as carbon capture and storage and next-generation solar power that will help to accelerate this transition. Through the provision of targeted financial services, we aim to support the development of these technologies alongside the energy efficiency and infrastructure improvements that will help to further reduce greenhouse gas emissions. Over the course of 2008 we have sought to share our experience in environmental finance with other organisations and in other forums. In June, we hosted the UK Low Carbon Economy

Summit in partnership with the UK government; this provided a platform for an informed debate on the intellectual business and regulatory action needed to support and promote investment in low carbon solutions. We are also working to implement our commitments under the Clinton Climate Initiative, providing finance to local and central government to install energy efficiency improvements.

For our personal and small business customers, we have created products and services that make further contributions to environmental sustainability. In the UK we have promoted our 'go paperless' facility that enables online banking customers to opt out of receiving paper statements. In 2008 more than 1.6 million accounts switched to this facility, giving annual savings of around 240 tonnes of paper (or enough statements to stretch for nearly 6,000 miles). In October, Citizens Bank in the US launched its GreenSense account, that pays customers 10 cents for each payment they make electronically instead of using paper. Customers can earn up to \$120 a year from this benefit and also take advantage of automatic paperless billing and green tips and advice. For our personal investors, we have launched some successful savings and investment products that are linked to our environment-themed indices such as the RBS Green Index and Water Strategy Index. Our 'Combi-Saver Green Edition' product and its 'EcoGrowth' counterpart for RBS International customers took more than £500 million of investment from around 5,000 customers in 2008.

Our Insurance division has maintained its close involvement in the ClimateWise Initiative, to which we were founding signatories in September 2007. ClimateWise gives us the opportunity to work alongside our peers to anticipate and mitigate the risks posed by climate change. One of the main areas of work for RBS Insurance in 2008 has been to roll out a recycling programme to 195 independent repair centres. We are aiming to ensure that at least 80% of the total waste produced by these centres (such as metals, plastics, tyres, batteries etc.) is recycled or recovered for reuse.

## Environmental risk analysis

We have a responsibility to all our stakeholders to ensure we manage environmental, social and ethical (ESE) risks that emerge as a result of the business and transactions that we do. In 2008 we further developed our processes and procedures to assess ESE risks in our lending. For transactions that require project finance, we follow the Equator Principles guidelines for assessing environmental and social risks. Our classification of 2008 projects is included in the table opposite. Our adherence to the Equator Principles can lead us to decline a request for funding of projects where we believe sufficient safeguards have not been put in place. In 2008, environmental and social issues were a significant factor in our decision not to participate in the funding syndicate for several projects.

### Direct operational impacts

In comparison with other sectors, our direct environmental impacts are relatively small in relation to our total number of employees and turnover. Nonetheless, our size means we do have significant direct impacts, that are concentrated in six key impact areas: energy, water, waste, paper, business travel and the resultant CO<sub>2</sub> emissions. Through the course of 2008 we have continued to implement a number of initiatives that aim to reduce these impacts and make our operations more resource-efficient.

We procure 92.2% of our contracted electricity in the UK and Ireland from renewable sources. In addition, we completed a programme of environmental upgrades to a number of buildings in 2008, including the installation of heat reclamation systems, high efficiency boilers, intelligent lighting systems and automatic metering to improve efficiency. We also received Platinum LEED accreditation for our branch office in Ahmedabad, India, that employs many innovative energy-saving measures.

Paper use remains a focus for us. We use 80% recycled paper as our default plain A4 paper for printing and photocopying in all our UK and Ireland offices. Over half of our paper marketing communications in the UK, Ireland and the USA are now printed on either recycled paper or paper carrying the FSC or PEFC logo. We are also adding improved printing facilities to offices that allow more efficient use of paper.

To minimise water use, we have invested in rainwater harvesting systems at several of our main buildings, in Scotland, the USA and Dubai.

### Employee engagement

Environmental issues are important to our employees, and we rely on our people to help the Group achieve its environmental targets. We use a variety of communication channels to raise awareness of environmental issues, and employees know how they can make a difference at work and at home. We also hold regular events and awareness campaigns across the Group, including our celebrations for World Environment Day on 5th June, when over 5,700 employees took part in environmental events such as beach cleaning and attending lectures by a variety of environmental experts.

### Measuring our performance

One of the biggest challenges to measuring our environmental performance in 2008 was the ongoing integration of ABN AMRO into the RBS Group. This integration exercise has significantly changed the size of our overall footprint and the number of countries we operate in. To address this, we are developing a new system for capturing environmental data that will be completed in 2009.

In 2008 we continued to be highly rated in the main external indices that measure environmental and social performance. In the Carbon Disclosure Project, we were included in the Leadership Index for the second year running, and were awarded a score of 94% for our approach to managing climate change related risks and opportunities. In the Dow Jones Sustainability Index, we achieved our highest ever score of 77% and were included in the DJ Sustainability World Index. We also maintained our inclusion in the FTSE4Good Index and fulfilled our commitments under the UN Global Compact.

### 2008 project finance deals

Equator Principle Category	A	B	C	Total
<b>Status of PF deals first logged in 2008</b>				
Deals approved with environmental and social conditions	0	29	9	38
Deals declined	4	44	15	63
<b>Total number of deals</b>	<b>4</b>	<b>73</b>	<b>24</b>	<b>101</b>
<b>PF deals first logged in 2008 by industry sector</b>				
Infrastructure	0	30	4	34
Power & utilities, renewables	1	13	12	26
Oil & gas	0	10	2	12
Mining & metals	3	6	2	11
Other	0	14	4	18
<b>Total number of deals</b>	<b>4</b>	<b>73</b>	<b>24</b>	<b>101</b>

## Environmental impact continued

### Key environmental data<sup>1</sup>

	2008 UK and Ireland	2008 USA	2008 Group Total
<b>Energy</b>			
Total energy consumption (GWh)	960.8	275.7	1507.3
Renewable electricity use (% of total energy consumption)	92.2%	7.7%	59.1%
<b>Waste</b>			
Total confidential waste (Ktonnes)	17.6	5.0	27.6
<b>Water</b>			
Property-based water use (million m <sup>3</sup> )	1.74	1.23	3.62
<b>Business travel (million km)</b>			
Total business travel	376.2	101.5	582.3
Air (centrally booked)	190.6	62.4	308.3
Road	160.7	37.9	242.2
Rail (centrally booked)	24.9	1.2	31.8
<b>Paper (Ktonnes)</b>			
Total paper	39.7	7.1	57.0
<b>Estimated CO<sub>2</sub> emissions (Ktonnes)</b>			
CO <sub>2</sub> emissions from property based energy use	418.8	120.9	657.9
CO <sub>2</sub> emissions from business travel	55.1	20.3	91.9

<sup>1</sup> This table does not include ABN AMRO data

## Renovalia Solar II Photovoltaic Power Plant, Spain



In 2008, RBS was mandated lead arranger to the world's largest solar photovoltaic power plant in Spain. This 47.6 MW facility was the sixth major solar project financed by RBS, demonstrating our strong expertise in financing large-scale renewable power projects.

## Environmental impact – priorities and progress

### Priorities in 2008

- Implement second phase of £55 million energy efficiency investment programme
- Enhance the environmental component of our credit risk policies
- Encourage more customers to switch to paperless statements

### Progress in 2008

- Ongoing investment into building upgrades and maintenance programme continues
- Review of environmental, social and ethical risk processes completed, with policy changes in progress
- Over 1.6 million UK accounts switched to paperless in 2008

### Priorities in 2009

- Establish a revised Group Environment Programme and associated governance structure
- Implement our new system for capturing and measuring environmental data (energy, waste, water, paper, travel and CO<sub>2</sub>) across the Group and develop associated improved targets
- Identify and pursue additional environmental business opportunities to assist personal, SME and corporate customers to meet their environmental objectives

# Supporting our communities

## Community investment

Community Investment will play a crucial role as the Group works to rebuild its reputation and deliver value to the communities in which we serve. But our Community Investment activities have, and will continue to, come under intense scrutiny as the Group strives to rebuild shareholder value.

The challenge for our Community Investment programmes is sizeable. We are undertaking a strategic review of our activities, a review that will set out a blueprint of what those activities should deliver, cost and the issues that they should address going forward. What has not changed is our commitment to, and investment in, the communities that we serve. What has changed is the absolute necessity with which we need to recognise our responsibilities as a financial institution and act on them.

Key developments and progress within Community Investment in 2008 are set out below. These demonstrate our ongoing commitment to the communities in which we operate, where we have invested over £66 million in funding and time. Many of the activities of last year will continue into 2009. As we refine the strategic direction of our programmes, however, the activities that we report on next year will undoubtedly change. The main areas of changes are also highlighted below.

### MoneySense

This is our longstanding financial capability and inclusion programme. It is the largest free and impartial financial education programme in the UK, providing resources to some 60% of secondary schools in England, Scotland and Wales and having delivered over 2 million lessons to school pupils since 2004. The programme encompasses a range of initiatives including MoneySense for Schools, MoneySense for Adults, MoneySense for Employees, School Money and a number of external partnerships. Full details of this programme can be in the MoneySense Report 2008 available on our website.

In 2009, we will be seeking to extend the reach and impact of MoneySense, supported by our commitment of an additional £4 million funding to the programme as part of our recapitalisation agreement made last autumn. Additionally, Ulster Bank will launch the MoneySense for Adults & MoneySense for Schools initiatives in Ireland. We will also be seeking to improve evaluation and governance of the programme. The Group has also committed an additional £5million to address the issue of third sector affordable credit.

## Supporting enterprise

We have a number of strong Community Investment initiatives underway that are designed to support enterprise amongst those people who lack the skills, confidence and means to start their own business or to participate in the economy. These activities complement the initiatives and work already underway across the Group to support small businesses. Our programme to support enterprise currently centres around two main initiatives, which are also detailed in page 21. We provide funding to the Prince's Trust Business Programme which offers young entrepreneurs loan funding, advice and the support of a business mentor. Since 1983, the Business Programme has helped over 70,000 disadvantaged young people to set up in business. After one year on the programme a young person is twice as likely to be self-employed and four times more likely to be in employment than a young person from a similar background without support. The second initiative is our microfinance programme delivered through our RBS Foundation India. This has allowed over 560,000 poor households access to credit to set up an enterprise and helped to alleviate poverty.

### Community Investment by type

Cash support	£39.5m	Time value	£3.9m
In kind	£20.7m	Management	£2.2m
<b>Total</b>			<b>£66.3m</b>

### The Chairman's Awards for Community Excellence

Team SEHER from Group Manufacturing, India were the overall winners of our annual Chairman's Awards for Community Excellence, which recognises the significant contribution made by colleagues around the Group through fundraising, volunteering and offering their skills. The winning team, picked from over 1,600 nominations, worked tirelessly to generate awareness for many local causes and to persuade many people to pledge their support. Group Chairman, Philip Hampton, presented Vijay Sharma (SEHER team leader) with their trophy and a £4,000 prize charity donation.



In 2009, we will be looking to do more to support access to affordable credit for enterprises and individuals in the UK and our other core markets. Our efforts will focus upon working with partners such as Community Development Finance Institutions where we already have strong relationships. We will also be seeking to identify and address any other gaps in the support currently offered to start-up and small enterprises.

### Supporting our employees and communities

We currently support the efforts of our employees as volunteers, fundraisers and payroll givers through our charity partnerships, Community Cashback Awards and Give As You Earn scheme. Through these activities, the Group and its employees currently give over £10 million to 3,800 charitable causes. More than 30,000 of our employees donated skills, time and money to make a difference in their communities, and the Group gave employees 194,000 hours off work to participate in charitable activities. Through our Community Cashback scheme over 8,600 cash awards were granted to the good causes that our employees gave their time to.

In 2008, key developments included extending the Give As You Earn Scheme – where the Group matches the payroll giving of our employees – to 85% of our employees across our main bases in the UK, Ireland, India and the US. Our Community Cashback scheme, previously available in 23 countries, was also extended to employees Group-wide. Through our charity

partnerships with The Prince's Trust, Fairbridge, BTCV, Barnardo's and Macmillan, we were able to offer a range of volunteering opportunities for our employees. With Macmillan, some 600 employees engaged in a range of activities that helped to raise over £180,000 for people affected by cancer. Our other volunteering programme, Supergrounds, transformed the grounds of 151 primary schools across the UK and our other core markets. Through Champions in Action, our signature community programme in the US, more than \$4 million and thousands of volunteer hours were directed to worthy smaller organisations that support local causes. As of 2008, the number of non-profits supported through this programme rose to 160.

In 2009, we will continue to invest in backing the time and money given by our employees in a personal capacity to the charities and good causes of their choosing, in recognition of the value that they are delivering to our communities. Our efforts within this programme will centre more, however, on engaging employees in a professional capacity alongside their communities across a range of volunteering and fundraising opportunities. By delivering a more structured and scaleable engagement programme we hope that we can deliver even more value to the communities that we serve and have been supported by, and that we can help to drive engagement levels with employees and our communities, both vital stakeholders in our future success.

## Community investment – priorities and progress

Priorities in 2008	Progress in 2008	Priorities in 2009
<ul style="list-style-type: none"> <li>• Increase the share of our Supergrounds programme invested in countries outside the UK</li> <li>• Increase our overall contribution to communities across the world</li> <li>• Extend access to our matched giving and employee volunteering programmes to our employees across the world</li> </ul>	<ul style="list-style-type: none"> <li>• Of the 150 Supergrounds Awards made in 2008, 12 were outside the UK, with schools in India, Australia and Ireland all benefiting</li> <li>• In 2008, the Group invested over £66.4 million in the communities where our employees live and work</li> <li>• Community Cashback was extended to all staff in 53 countries at the end of December 2008, and Give As You Earn was extended to 85% of staff throughout the Group</li> </ul>	<ul style="list-style-type: none"> <li>• Extend the reach and impact of MoneySense to adults and other key stakeholder groups, through our commitment of an additional £4 million to this programme</li> <li>• Target employee engagement through our new volunteering programme, recognising the important role that our employees can play in rebuilding our reputation</li> <li>• Seek out and address further opportunities to support enterprise in the UK including working in partnership with Community Development Finance Institutions</li> </ul>

# Independent assurance statement

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Independent assurance statement by Deloitte LLP ('Deloitte') to The Royal Bank of Scotland Group plc ('RBS') on the 2008 Sustainability Report ('Sustainability Report') for the financial year ended 31 December 2008.

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## Our conclusions

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

1. RBS have implemented processes and procedures, as described on page 11, that adhere with the principles of inclusivity, materiality and responsiveness as set out in the AA1000 AccountAbility Principles Standard 2008 ('AA1000APS'); and
2. Nothing has come to our attention that causes us to believe that the performance data, referenced below, is materially misstated.

## Our observations and recommendations

RBS has made the following key improvements in managing and reporting its sustainability performance during 2008:

- RBS have improved the governance structure for managing sustainability issues, which has included the establishment of an Executive Sustainability Committee.
- Introduced a new information gathering system used by subject matter owners to report on stakeholder engagement, issue management and other key performance data throughout the year.

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

### Inclusivity:

- The acquisition of parts of ABN AMRO has presented a number of new sustainability challenges for RBS. It is important that RBS maintains sufficient focus and resources to fully understand the impact of this integration and increase the engagement of new stakeholders across its global footprint.

### Materiality:

- The Sustainability Report identifies the environmental, social and ethical risks associated with financial transactions as a material issue and reports on project finance activities in response to this issue. With the ongoing focus on responsible lending and risk management, RBS should consider reporting in further detail on other forms of financing (e.g. debt finance, asset finance and structured finance) and the management of risk within these other

areas. Additionally we would look to see RBS developing a Global Lending Policy to support consistent management of this material issue across the Group.

- RBS has made progress in more closely defining its 'Priorities' for future sustainability activities, however, management should continue to set performance targets for all material issues that are quantitative, focused and relevant.

### Responsiveness:

- In light of the changing financial landscape RBS should consider defining metrics to report publicly on key economic factors such as consumer lending, support for small business customers and availability of finance for larger organisations.
- Significant restructuring of RBS during 2008 contributed to some negative results in the annual employee survey, compared to previous years. We would look to see RBS responding to employee issues and concerns on an ongoing basis and to report their activities in this area in more detail in the 2009 Sustainability Report.

The above selected observations will be raised in a report to RBS management. The observations and recommendations have been taken into account in making our conclusions on the Sustainability Report as set out in this statement.

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

RBS's Corporate Sustainability team engaged us to:

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

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

#### 2. Provide limited assurance on the following selected key performance indicators in accordance with ISAE 3000:

- Annual employee opinion survey results (Globally), page 24;
- Employee diversity gender, age and ethnic profile (Global coverage excluding ethnic profile which is UK only), page 25;
- Total number of reportable accidents and injury rate (UK and Ireland), page 25;
- Total energy consumption (GWh) and CO<sub>2</sub> emissions (ktonnes) from property based energy use (UK, Ireland and USA), page 30;
- Renewable electricity used (% of total consumption) (UK, Ireland and USA), page 30;
- Confidential waste (tonnes) (UK, Ireland and USA), page 30;
- Water (million m<sup>3</sup>) (UK, Ireland and USA), page 30;

- Paper (ktonnes) (UK, Ireland and USA), page 30;
- CO<sub>2</sub> emissions (ktonnes) from business travel (UK, Ireland and USA), page 30;
- Number of project finance deals approved with conditions and deals declined per Equator Principle Category (Globally), page 29;
- Number of project finance deals per industry sector (Globally), page 29;
- Total community spend in £ (Globally), page 32; and
- Spend by type including cash donations, gifts in-kind, management costs and employee time in £ (Globally), page 32.

We carried out Type 1 limited (i.e. moderate) assurance in accordance with AA1000AS. A Type 1 engagement requires us to report on the nature and extent of adherence to AA1000 APS. To achieve moderate-level assurance we have used the criteria in AA1000AS to evaluate adherence to AA1000APS in combination with our robust evidence-based and quality-assured approach to professional, independent assurance. We carried out limited assurance on the selected key performance indicators in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000). To achieve limited assurance the ISAE 3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. This is designed to give a similar level of assurance to that obtained in the review of interim financial information. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls.

#### **Our key assurance procedures**

To form our conclusions, we undertook the following procedures:

- Analysed and tested on a sample basis the processes related to stakeholder identification and engagement, including review of a sample of engagements and the outcomes of engagement;
- Reviewed the process that RBS used to identify and determine material issues to be included within the Sustainability Report. This included a review of external media coverage and peer reporting on corporate sustainability in 2008 to corroborate issues identified by RBS;
- Interviewed a selection of RBS executives and senior management who have operational responsibility for sustainability issues, including the RBS Sustainability team to understand the governance structures used for managing sustainability, engagement with stakeholders on sustainability issues, as well as implementation of sustainability related policies and initiatives in 2008 and the monitoring of these activities;
- Analysed and reviewed on a sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;

- Reviewed information and reasoning about the reports' assertions regarding sustainability performance in 2008; and
- Reviewed the content of the Sustainability Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

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

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

#### **Roles and responsibilities**

- The Directors have prepared the Sustainability Report for the intended audience as outlined in the 'Reporting principles' section on page 11, and in the Basis of Reporting at [rbs.com/sustainability](http://rbs.com/sustainability). They are responsible for the preparation of the Sustainability Report and for the information and statements contained within it. They are also responsible for determining the Sustainability targets and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
- Our responsibility is to independently express conclusions on the subject matters as defined within the scope of work above to Royal Bank of Scotland Group plc in accordance with our letter of engagement. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Royal Bank of Scotland Group plc for our work, for this report, or for the conclusions we have formed.

**Deloitte LLP** Chartered Accountants  
Edinburgh, United Kingdom, 9 July 2009



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



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