

Influences explained and where to find out more.

Where to find out more



Chairman and CEO review



2017 Performance Summary



Business model and strategy



Our Stakeholders



Our Colleagues



Our Customers



Key economic indicators



Risk overview



Sustainable Banking pages on rbs.com

Key Influences	Definition	Selected highlights in 2017	Where to find out more
Critical considerations that support our ambition to be No.1 for customer service, trust and advocacy			
Customer service	Delivering excellent customer service is essential for the banking sector to build trust. Maintaining and growing a loyal and satisfied customer base requires an appropriate digital and physical presence and clear distribution strategy.	<ul style="list-style-type: none"> Approximately 5.5 million active users regularly benefit from the speed and convenience of our mobile banking app with +51 net promoter score. Closed Loop Feedback provides us real-time feedback from our customers which we are listening to, learning from and acting on every day. Rolled out a Service Excellence programme, to further improve our customer service. 	
Employee wellbeing & engagement	Employee engagement and satisfaction is highly correlated with overall performance. A key determinant of the bank's success will be ensuring all of its employees are clear on their roles and responsibilities, capable and feel motivated to do the best job possible.	<ul style="list-style-type: none"> Our View, the bank's annual employee feedback survey showed that engagement is up by seven percentage points to 83% compared with 2016, the highest level since 2002. Launched 'Building a great place to work' to support our commitment to giving our employees a fulfilling career, fair pay, relevant training and good leadership. Actively supported Mental Health Awareness Week, enabling employees to speak more openly about mental health and support each other. 	
Ethics, culture and integrity	Professional integrity is a key governance consideration in the banking sector. Services provided must satisfy the highest professional standards, avoid conflicts of interest, bias, or negligence, and ensure that all stakeholders, including employees, contractors and business partners, are treated fairly and equally.	<ul style="list-style-type: none"> Improved our position in the latest Banking Standards Board (BSB) survey, which seeks to promote high standards of behaviour and competence across the UK banking industry. RBS improved in all nine BSB survey categories compared with 2016 results and in quartile performance against its peer group. Employed the greatest number of UK employees with professional banking qualifications. RBS employs more bankers with a professional banking qualification from the Chartered Banker Institute than any other UK financial institution. Members are required to comply with the annual CPD requirements of the professional body. The Chartered Banker Institute is the UK's only and world's oldest professional body for banking. 'Speak Up', our whistleblowing service, received 289 reports compared to 213 reports in 2016. The service allows employees to raise concerns in a safe and supportive environment so that potential issues can be addressed quickly and effectively. 	
Operational competence	Delivering appropriate digital infrastructure is important to ensure a 'technically-able' bank that supports its long-term future. Cyber security is also a vital part of providing a safe and secure banking service. Banks need to proactively identify and manage risks and efficiencies in their operations and facilities.	<ul style="list-style-type: none"> RBS is a founding partner of 'Friends Against Scams', the National Trading Standards Scams Team's fraud and scams awareness initiative. More than 20,000 colleagues have completed the relevant training. Improved the in-branch digital experience with TechXperts in every branch to advise and support customers on how to have a secure online banking experience. The in-branch wi-fi capability has also been improved. There has been a sustained improvement in the number of customers impacted by fraud with a 26% reduction compared with 2016. Resilient, simple and efficient systems are critical to building the number one bank for customer service, trust and advocacy. Our systems are available 99.9% of the time. 	
Strength and stability	Banks need to demonstrate their ability to survive financial stress arising from economic turmoil, and potential large scale fines and legal cases resulting from historic events. They must also demonstrate they have sufficient capital, liquidity and resilience as well as the ability to generate sufficient returns.	<ul style="list-style-type: none"> The CET1 ratio increased by 250 basis points to 15.9% in 2017 despite absorbing significant additional legacy costs. RWAs reduced by £27 billion (12%), ending the year at £201 billion (from £228 billion in 2016). This reduction was driven by NatWest Markets, where RWAs fell by £16.8 billion due to the continued run-off of the legacy business and mitigation activities in the core business, together with active management of the lending book in Commercial Banking. A key milestone in our ring-fencing journey was achieved through the application to the Court of Session in Edinburgh to initiate a 'Ring-Fencing Transfer Scheme' so as to carry out a legal transfer of some of our business. 	

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Current Priority Considerations			
Banking regulation	Banks continue to operate in an environment where regulatory change is frequent and increasingly complex requiring significant time and resources.	<ul style="list-style-type: none"> RBS continues to deliver on its plan to build a strong, simple and fair bank for both customers and shareholders. To support this, and in preparation for the UK ring-fencing regime, the previously reported operating segments were realigned in Q4 2017 and a number of business transfers completed. Refer to the Report of the directors for further details. NatWest Markets aligned the majority of Functions and Services employees in 2017 in preparation for operating as a non-ring-fenced bank. RBS Group published a Tax Strategy. Regulatory changes that RBS worked on in 2017 included MiFID II / MiFIR, Open Banking and reform of capital and liquidity regulations. 	   
Conduct	Banks remain focused on putting in place measures to prevent issues related to conduct. At the same time, legacy conduct issues, such as RMBS, continue to have major financial and reputational impacts.	<ul style="list-style-type: none"> A settlement with the Federal Housing Finance Agency (FHFA) and the California State Attorney General in the US was reached. The 2008 rights issue shareholder litigation was resolved. 	   
Competition and Innovation	The banking sector is going through a period of rapid change with regulatory and technological trends converging to increase competition. Together with accelerating innovation, the UK implementation of the Open Banking Standards raises the potential for significant disruption of the traditional banking business model.	<ul style="list-style-type: none"> Partnered with FreeAgent, an Edinburgh-based Fintech that provides online accounting software, to help our small business customers track their finances and report their taxes digitally. Introduced a chat bot called 'Cora' that answers questions from customers 24/7, freeing up colleagues time so that they can help customers with more complex queries. Cora currently handles over 100,000 customer conversations per month across our web and online channels. Plans are in place for Open Banking, including customer education around security awareness. 	    
Diversity, equality & inclusion	The inclusion agenda is quickly moving up the corporate agenda and driving the need to foster corporate cultures that value diversity, teamwork, quality leadership and training.	<ul style="list-style-type: none"> Made progress against our 2020 targets on our four priorities: Lesbian, Gay, Bisexual, Transgender (LGBT), Gender Balanced, Disability Smart, Ethnically Diverse. Supported the International Day of Persons with Disability sharing stories across the bank and with customers. Recorded an increase in the total number of female leaders within our top three senior layers, including the appointment of two new female non-executive board directors. RBS was named a Times Top 50 employer for Women and rated as a Stonewall Top Global Employer. 	   
Health of the UK and global economy	The outlook for the UK and global economy remains uncertain due to a number of factors including: the UK's vote to leave in the EU referendum, wider political instability, an extended period of low interest rates, high debt levels and delays in normalising monetary policy.	<ul style="list-style-type: none"> The UK economy grew by 1.8% in 2017, down slightly from 1.9% in 2016, below the long-run average of more than 2%. The main development in 2017 was higher inflation. Along with weak wage growth it meant that households' incomes were squeezed. The eurozone economy was 2.7% larger in the final quarter of 2017 than in the same period of 2016, up from 1.8% in 2016. Unemployment fell but remained high at 8.7%. US growth accelerated to 2.3%. The job market remained buoyant with 1.8 million jobs added during the year and the unemployment rate falling to 4.1%. 	  
Political landscape	Political risks continue to evolve with the UK's vote to leave in the EU referendum creating significant economic, political and regulatory uncertainty. Heightened geopolitical tensions and rising populism in advanced economies have also contributed towards a rise in uncertainty.	<ul style="list-style-type: none"> In 2017 NatWest Markets announced its plan to repurpose the existing licence in the Netherlands in the event of loss of EU passporting as a result of the UK's departure from the EU. We engage the UK Government and opposition political parties to understand their priorities for the sector. 	  

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Privacy	As a bank our customers not only trust us with their finances but also with their information. It is therefore important that we deal with their information the right way. By doing the right thing in meeting the privacy expectations of our employees, customers and shareholders we build confidence, which in turn builds trust and therefore has a tangible influence on delivering the bank's ambition to be No.1 for customer service, trust and advocacy.	<ul style="list-style-type: none"> The bank takes privacy and the protection of customers and employee data very seriously, and has worked with other banks to make sure it is factored into the Open Banking architecture. The new General Data Protection Regulation (GDPR) comes into effect on 25 May 2018 and brings a new era in safeguarding personal data by businesses. The bank has been preparing for GDPR since April 2016. The GDPR grants new and enhanced rights for individuals in relation to their personal information and, as 25 May approaches, the bank will communicate more fully with customers and clients about these changes and how they can exercise their rights. 	 
Skills and capability of staff	Financial services companies face competition for skilled employees, in particular with specific skillsets (e.g. IT). As the industry transforms to more digital banking, the need for such skills may become more acute.	<ul style="list-style-type: none"> Delivered the Entrepreneurial Development Academy, a programme designed in partnership with E-Spark, specifically for RBS employees to develop an entrepreneurial mindset. Over 5,900 employees participated in the programme. Over 64,600 employees underwent training by the Chartered Banker Professional Standards Board (CB:PSB) with 94% of applicable staff achieving the CB:PSB Foundation Standard. Introduced a new tool to help our people learn and develop for example career development days and mobile learning. RBS was recognised as a Top 5 Apprentice UK Employer. 	   
Support for enterprise	A healthy economy needs a pipeline of new and growing businesses to spur innovation and growth. Entrepreneurs, start-ups and small businesses require particular support in terms of financing and building market share.	<ul style="list-style-type: none"> Rolled out ESME, a digital platform which offers SMEs the ability to digitally obtain loans quickly, potentially within an hour, on a 24/7 basis. Launched Pitch App to help entrepreneurs communicate with impact. Entrepreneurial Spark opened an accelerator hub in London, our 12 accelerators are now in every region of the UK. 	   
Trust in the banking sector	Trust in traditional large UK banks often lags behind smaller competitors and new market entrants. Rebuilding trust remains a key challenge.	<ul style="list-style-type: none"> Customer trust in NatWest in England & Wales has met its 2017 target of 57%, improving from 55% at Q4 2016 to 57% at Q4 2017. Trust in RBS in Scotland has increased strongly year on year (from 13% in Q4 2016 to 27% in Q4 2017) but remains behind its target of 38% for 2017. Our Board Sustainable Banking Committee hosted stakeholder engagement sessions and two retail shareholder events. 	    
Housing	Demand for housing in some parts of the UK and Republic of Ireland outstrips supply, reducing affordability and harming family disposable incomes.	<ul style="list-style-type: none"> Board Sustainable Banking Committee held a stakeholder engagement session on housing, inviting a variety of external stakeholder groups to share their perspectives with us. Your Mortgage Awards 2016 - 2017: Best First-Time Buyer Mortgage Lender, Best Bank. What Mortgage Awards 2017: Best National Bank, Best Lender Customer Service. Gross new mortgage lending of £33.9 billion in UK PBB, Ulster Bank RoI, Private Banking and RBSI. 	 
Long term and emerging considerations			
Changing customer needs	Customer needs are changing and different types of customer often have significantly different banking needs. In order to be attractive and useful, financial products and services need to fit in with customers' lives and be flexible to differing levels of digital and financial understanding.	<ul style="list-style-type: none"> 68% of our personal customers are active across our mobile and online banking platforms. Launched Strategic Account Opening meaning our personal customers can open an account in five minutes. Launched the UK's first ever paperless mortgage - customers can now apply for a completely digital mortgage which uses the latest technology to securely share and verify documents online. Our Home Insurance Quote and Buy system gives customers cover in less than fifteen minutes. One of the first large UK banks to launch robo-investment advice service through NatWest Invest. 	   

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Climate change	The Paris Agreement provides a framework by which the world will seek to prevent dangerous climate change but further challenges remain. Climate change presents both physical and transition risks. The transition to a low carbon economy is also presenting opportunities for low carbon sectors of the economy. There are also increasing regulatory and stakeholder expectations of banks to address climate change.	<ul style="list-style-type: none"> RBS has pledged its support to the Task Force on Climate-related Financial Disclosures (TCFD). Board Sustainable Banking Committee held a stakeholder engagement session on Climate risk, inviting a variety of external stakeholders groups to share their perspectives with us. We have been recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past six years (2012- 2017). Set a new carbon reduction target using a 'science-based' method, aligning our ambition with the Paris Climate Agreement. 	   
Executive pay	Shareholders, employees and the general public have shown increasing concerns about the inequality in pay in large companies between senior executives and the general workforce.	<ul style="list-style-type: none"> Bonus pools have fallen by around 75% since 2010, aligned with the restructuring that has taken place and the actions taken by Group Performance and Remuneration Committee. Remuneration is allocated over a multi year basis, with the ability to apply malus and clawback to encourage good behaviours and a long-term focus. Introduction of a new policy for Executive Directors in 2017, with significantly lower maximum award levels and with increased shareholding requirements. 	 
Financial capability	A customer's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty. It focuses on developing financial skills and knowledge, attitudes, and motivation, which can help customers avoid falling into financial difficulty and can improve their financial health and well being.	<ul style="list-style-type: none"> MoneySense, our financial education programme for 5 to 18 year olds, won Digital Information Product of the Year (PPA Digital Awards) in recognition of how it has adapted to the digital age with engaging and interactive content to support teachers and parents. Completed over one million Financial Health Checks in 2017. 	
Social inequality & financial exclusion	The increasing gap between rich and poor and the rising cost of living means many UK consumers find themselves in precarious financial situations and are struggling to manage their money day to day. This, with future economic uncertainty, may well lead to increased bad debt and over indebtedness. In addition millions do not have access to mainstream financial services such as free ATMs, credit, and banking products together with lack of digital footprint and skills and are forced to rely on high-cost products.	<ul style="list-style-type: none"> Helped over 680,000 customers in financial hardship find a solution to their debt problem. Provided over 27,500 customers with 'breathing space' and extra time for them to find support and to put in place a repayment arrangement. Innovative Citizens Advice partnership, where Citizens Advice colleagues are located within one of our Specialist Support teams providing independent advice to over 900 of our most vulnerable customers. In partnership with the Money Advice Trust, we developed industry leading Addictions Training for our colleagues and use across the sector. 	
UK infrastructure	The UK has a significant need for new infrastructure, such as energy, transport and project finance. Banks have an important role in supporting infrastructure investment across the UK.	<ul style="list-style-type: none"> Banks like RBS have a key role supporting this investment, through lending and sourcing global capital markets financing. 	 

Independent assurance

The Royal Bank of Scotland Group plc appointed Ernst & Young LLP to provide limited independent assurance over selected sustainability content within the Strategic Report ("the Report"), as at and for the period ended 31 December 2017. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

These procedures were designed to conclude on:

- The consistency of selected narrative claims on sustainability with underlying performance information, and;

- The accuracy and completeness of the sustainability performance indicators listed below:

- Value (£) of attempted fraud prevented in the UK
- Total gender balance in top 3 senior layers
- Total number of people supported through our enterprise programmes
- % personal customers who are digitally active
- Total number of Financial Health Checks
- Banking Standards Board survey results
- % of staff who received CB:PSB standards certification
- Total scope 1 and 2 location based CO₂e emissions and Scope 3 emissions from business travel.

An unqualified opinion was issued and is available on rbs.com, along with further details of the scope, respective responsibilities, work performed, limitations and conclusions.